Grant Thornton
An instinct for growth™

Corporate risk frameworks

Driving business strategy with effective risk frameworks

Integrating risk management with business strategy

Each year, a board begins its planning period with a set of strategic options balanced against a wallet of finite resources. Each of these options carries with it a profile of varying risks. A robust risk framework, tailored to a firm's needs, is designed to assist boards with the pragmatic assessment of these competing risk profiles and the associated consequences.

While in today's business environment the need for effective risk management is a forgone conclusion, and most organisations have put some form of risk management system in place, the heightened focus on risk management in recent years is a reflection of the increasingly complex operational and regulatory environment facing all corporations.

In light of these increasing complexities, a streamlined risk framework can enable firms to realise their objectives by providing:

- a technical sounding board
- an independent view
- an advisory partner.

Tailored to a firm's needs, a risk framework can reduce uncertainty and improve organisational learning and resilience. Most importantly, by acting as a facilitator, a well designed risk function can help drive business outcomes and support organisations in achieving their firm-wide objectives.

The ISO 31000 provides a comprehensive list of core principles that should guide a firm's risk management process. Acknowledging and incorporating these core principles into a robust risk framework is a move towards academic best practice.

Risk is the 'effect of uncertainty on objectives'. This effect can either be a positive or negative deviation from what is expected (ISO 31000).

Risk management refers to a 'coordinated application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities' (ISO 31000).

A risk framework

- converts a set of ideas into strategic options for the board's consideration
- outlines the risks undertaken in relation to the firm's risk capacity
- sets out the firm's risk profile in implementing the firm's strategy
- provides the board with a complementary horizon scanning capability
- acts as a toolkit for monitoring risk taking.

ISO 31000 core principles

Risk management:

- creates value
- is an integral part of organisational processes
- is part of decision making
- explicitly addresses uncertainty
- is systematic, structured and timely
- is based on the best available information
- is tailored
- takes human and cultural factors into account
- is transparent and inclusive
- is dynamic, iterative and responsive to change
- facilitates continual improvement and enhancement of the organisation

Sources of risk

A large part of risk management is cognisance of potential risks and the design of mitigation and contingency plans in place to address threats, if and when they arise. An enterprise-wide approach to risk management through a comprehensive and robust risk framework enables an organisation to understand the potential impact of all types of risks on all processes, activities, stakeholders, products and services. Below is a selection of corporate risks:

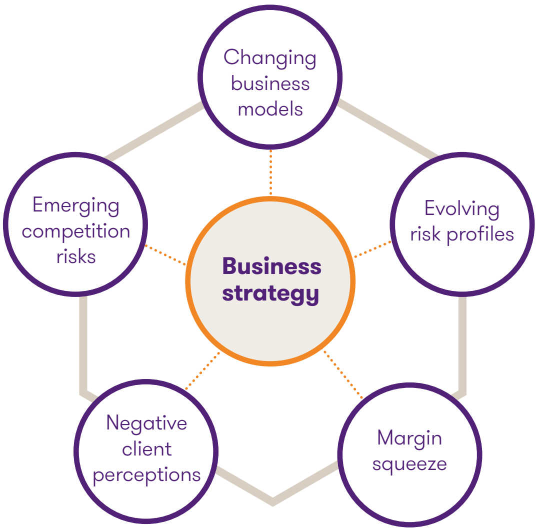
"Measured risk-taking is at the centre of all commercial activity. It then follows that effective risk management through good corporate governance underpins commercial success."

Common causes of business failure:

While each sector has its own recipe for disaster, common causes of corporate collapse include:

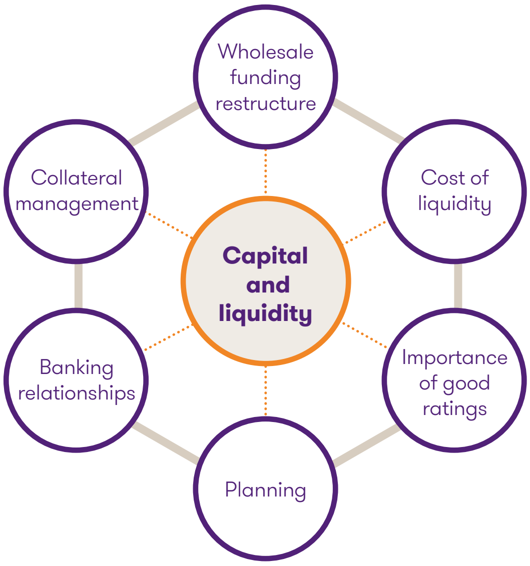
- Ineffective risk assessment strategy
- Managerial inefficiency and ineffectiveness
- Strategy over-reach and resource inadequacy
- Deficient metric performance
- Ineffective 1st line capacity
- Cost-benefit biases
- Poor financial management
- Socio-cultural factors
- Political risk
- Cultural confusion/conflict
- Bottom line focus overriding corporate policies
- Lack of pertinent information

Real life examples



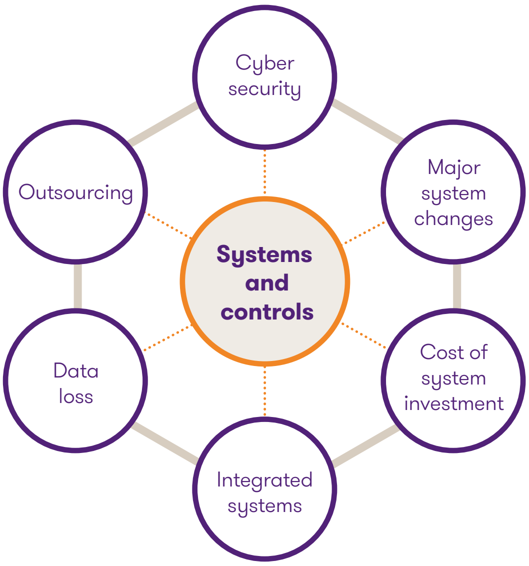
Emerging competition

The UK grocery industry has fallen victim to supermarket price wars in recent years. The rapid rise of unforeseen competitors in the sector whose strategy has been to offer lower base prices has created significant pricing pressure on UK supermarkets.



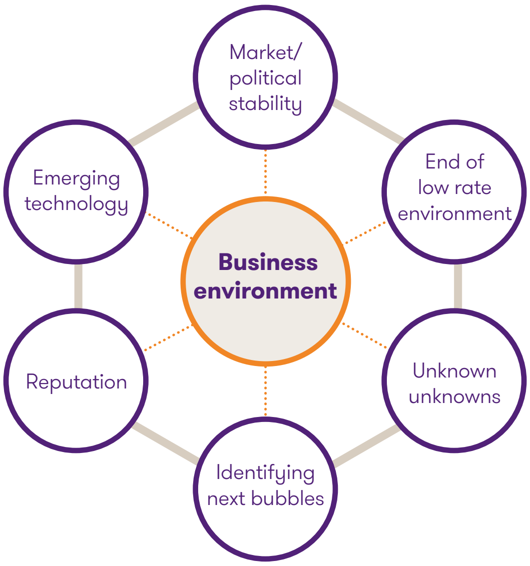
Cost of liquidity

Following the credit crisis, this large retail operation was not only making substantial losses from a drop in sales, its working capital was also impacted because of the withdrawal of credit insurance. Despite putting forward a restructuring proposal to safeguard jobs, the firm moved into liquidation due to its debt levels exceeding its risk capacity. Its collapse resulted in almost 30,000 job losses.



Cyber security

A multinational e-commerce company suffered a significant data breach which exposed the records of millions of its customers, including names, email addresses, physical addresses, phone numbers and birthdates. This failure resulted from the inadequacy of the firm's systems and controls for data protection.

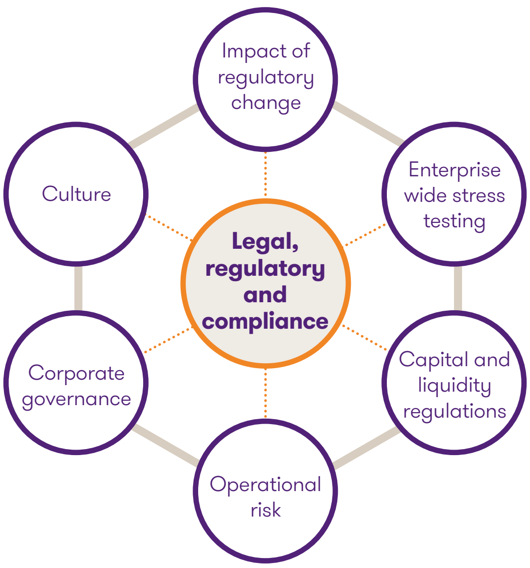


Emerging technology

The 300 largest global oil and gas companies have suffered massive losses in their stock market value in recent years due to the slump in crude oil prices. In addition, the rapid rise of shale technology has increased the risk of defaults as the gap between supply and demand has widened. Emerging technologies present business risks and opportunities for all sectors.

Competency

An investigation into this corporation's oil spill concluded that a last line of defence procedure had multiple failures and had not been tested properly. While employees knew of these failures, they had not reported them. A provision enabling employees with the freedom to raise concerns to management regarding safety procedure overrides may have avoided the self-inflicted disaster.

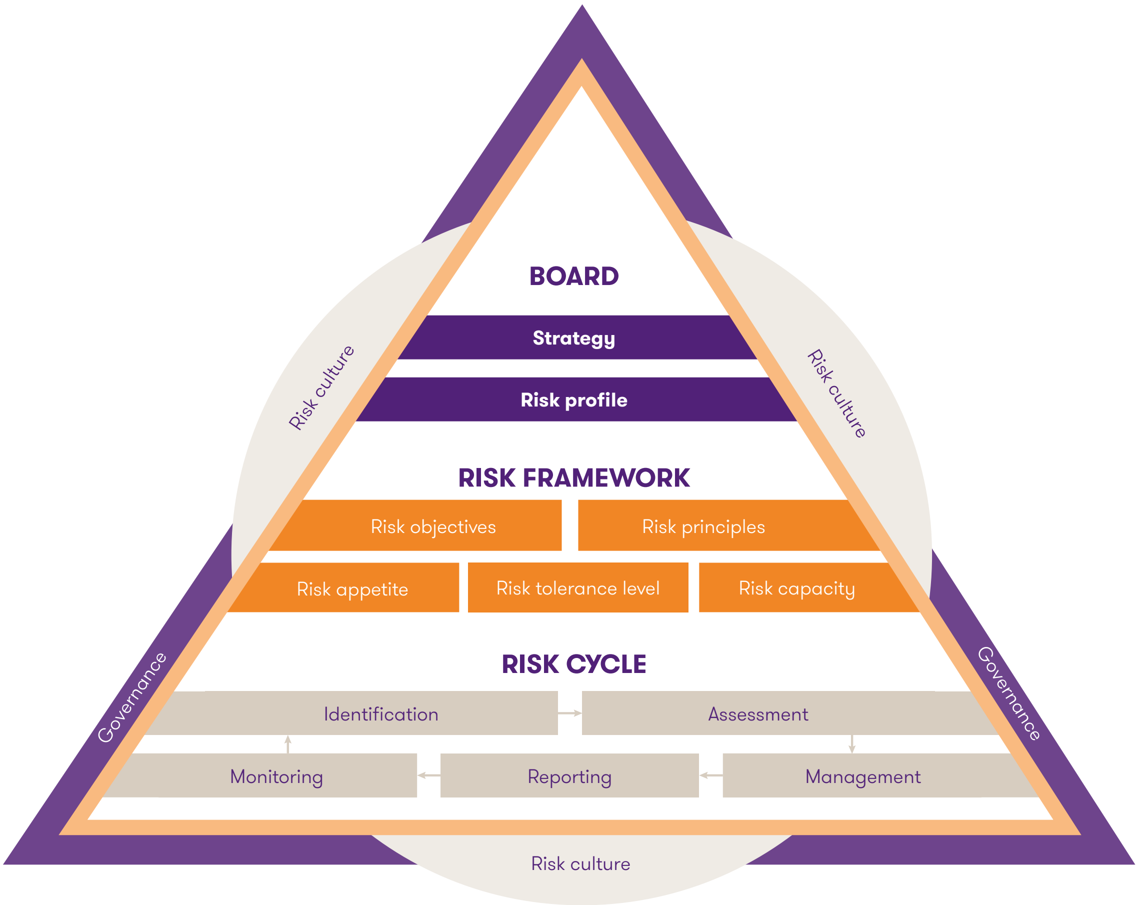


Corporate governance

In 2001 an international commodities, energy and services corporation filed for bankruptcy after being caught for corporate malfeasance. Shareholders lost billions, thousands of employees and investors lost their retirement accounts, not to mention the fact that employees lost their livelihoods. Nearly twenty years on, this remains one of the best examples of failures of corporate governance.

Risk frameworks

In the current climate of uncertainty surrounding Brexit, a robust risk framework has never been so important. With so many unpredictable factors, including foreign exchange volatility, firms must ensure their risk framework can effectively identify, manage and mitigate risk.



An effective and well implemented risk framework will:

- increase the likelihood of achieving firm objectives
- improve the identification of opportunities and threats
- improve mandatory and voluntary reporting as well as overall governance
- comply with relevant legal and regulatory requirements
- effectively allocate and use resources for risk treatment
- maximise sustainable value
- enhance health and safety performance, as well as environmental protection
- improve organisational learning and resilience
- improve loss prevention and incident management
- establish a reliable basis for decision making and planning
- improve stakeholder confidence and trust

Integrating risk culture within your organisation

A risk framework built upon a foundation of poor risk culture will produce conflicting messages within the organisation. A company with a strong risk culture that incorporates shared values, on the other hand, provides clear guidelines and a platform to facilitate the achievement of common business objectives. An effective risk culture, therefore, is one that enables and rewards individuals and groups for taking the right risks for the organisation, its customers and shareholders.

Risk culture is the set of acceptable behaviours, discussions, decisions and attitudes toward taking and managing risk, encouraged by the tone from the top.

Such attitudes and behaviours comprise but are not limited to timely, transparent and honest communication, a common purpose, values and ethics and the active promotion of learning and continuous development.

The board has a responsibility to establish, communicate and put into effect a risk culture that aligns with the strategy and objectives of the business and thereby supports the embedding of its risk management frameworks and processes.

To achieve an effective risk culture, the board must ask the following questions:

- What is the current risk culture in our organisation?
- How do we want to change our risk culture?
- How are we able to improve risk management within that culture?
- How do we realise that desired change?

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Delivering real added value

We will work with you to ensure your risk management framework complements your firm's strategy. By setting meaningful metrics, constructing effective reporting infrastructure and improving information flows, we will ensure a consistent approach is applied to risk management. By identifying, managing and mitigating risks today, a coordinated risk management framework can increase risk capacity and enhance horizon scanning capabilities.

Board Committees

Senior Management

First line of defence

- Setting firm strategy
- Implementing regulations
- Defining risk capacity
- Articulating internal controls
- Raising risk awareness

Second line of defence

- Building a risk register
- Reporting
- Risk advisory
- Stress testing
- Setting limits and triggers
- Monitoring adherence to limits
- Risk mitigation techniques

Third line of defence

- Providing assurance that governance and 1st and 2nd lines of defence are operating effectively

A coordinated and efficient risk management framework

Our experience

Our Business Risk Services team comprises subject matter experts with backgrounds in senior positions in a number of high profile organisations. They have advised businesses of all sizes across a variety of sectors and are able to draw on deep, varied industry and product knowledge. Examples of successful engagements include:

Case study 1

Nature of the work

- We were asked to review the progress of, and provide assurance on, the company's Enterprise Risk Framework (ERM) against industry best practice

What we did

- We provided assurance that the design of the ERM framework included all the elements of good practice
- We reviewed individual risk registers, and evaluated business processes for identifying, measuring, monitoring and managing risks
- We assessed the degree to which risk management was embedded throughout the organisation, with board approved risk appetite being understood across all business activities, and the tools for managing risks within that appetite being effectively utilised by managers and staff

Value we added

- Based on the expertise provided by our risk subject matter experts, we made recommendations for improved and consistent implementation of ERM principles within the business' operating divisions
- We advised on best practice for Group oversight and direction of risk management processes
- We suggested practical steps to drive improved visibility and better focus on the identification and tracking of risk mitigations which, in turn, provides the foundation for formalising key risk indicators and related assurance activity

Case study 2

Nature of the work

- We were asked to support the business with the development, roll out and embedding of a successful risk management framework

What we did

- This engagement comprised developing a risk appetite, risk strategy and enterprise risk framework tailored to the business' strategy and requirements
- We prioritised risks and controls and, where possible, quantified risks
- We drafted and oversaw the roll out of the risk management framework's policies and procedures
- We conducted training of senior management in risk management and the recruitment of a new CRO for the Group

Value we added

- Through a comprehensive understanding of their requirements, we provided a hands on service and brought industry best practice to the business in a phased approach
- We brought a fresh perspective and robust thinking to develop and embed a successful risk management framework, tailored specifically to the client's needs
- In addition, our wider industry knowledge enabled us to highlight particular areas of good practice, as benchmarked against sector peers, providing management with insight not usually available from purely internal sources

Why Grant Thornton?

Regardless of the sector or the size of the firm, Grant Thornton can offer tailored best-in-class advisory and assurance services to facilitate the effective operation of your risk framework. Whether you require assurance concerning your existing risk framework or, rather, the design and implementation of a new robust enterprise-wide risk model, we can provide seasoned professionals and practitioners to meet your needs.

Grant Thornton's Business Risk Services team can assist in a number of ways, including:

- supporting the design and implementation of enterprise-wide risk management frameworks in line with industry best practice
- identifying meaningful metrics and constructing monitoring and reporting infrastructure
- strengthening enterprise-wide regulatory compliance programmes
- improving governance processes and control frameworks
- assessing capital and liquidity adequacy and allocation
- supporting improvement of business and strategic risk, reputational risk, operational and financial risk, and people risk
- improving information flows across finance and risk frameworks
- assessing the IT framework used to manage your Finance and Risk functions (including design, control framework, project management, change management etc.).

"Recognising the need for all businesses, big or small, to take risks in order to remain competitive, we believe robust risk frameworks that enable organisations to effectively manage and, where possible, mitigate risks, are the bedrock of corporate success."

Notes

Contact us

Sandy Kumar
Chair of Financial Services Group
Head of Business Risk Services UK
T +44 (0)20 7865 2193
E sandy.kumar@uk.gt.com

Eddie Best
Partner
Large Corporate
T +44 (0)20 7728 2849
E eddie.j.best@uk.gt.com

Martin Gardner
Partner
Large Corporate
T +44 (0)20 7728 2847
E martin.n.gardner@uk.gt.com

Paul Young
Managing Director
Business Risk Services
T +44 (0)20 7865 2781
E paul.l.young@uk.gt.com

Richard Royston
Associate Director
Business Risk Services
T +44 (0)20 7865 2753
E richard.s.royston@uk.gt.com

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grantthornton.co.uk

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