

GRC Return on Investment

Presented by:

Jonathan Crisp

Director

BarnOwl GRC Solutions

The world we live in

Threats



There are approximately R5 million tax payers in South Africa of a population of close to 60 million. 4% of tax payers contribute 22% of South Africa's personal income tax. 16.6% of the tax payers contribute 47.3% of the South Africa's personal income tax. <https://businesstech.co.za/news/finance/363120/these-3-graphs-show-whos-paying-south-africas-income-tax/>

Close to 18 million people are reliant on social grants supported by successful businesses and individuals paying their taxes. <https://www.statista.com/statistics/1116081/population-receiving-social-grants-in-south-africa-by-province/>

In addition, as at 2017, out of 54 African countries, South Africa ranks 7th in GDP (gross domestic product) per capita and ranks 89 in the world. [https://en.wikipedia.org/wiki/List_of_African_countries_by_GDP_\(PPP\)_per_capita](https://en.wikipedia.org/wiki/List_of_African_countries_by_GDP_(PPP)_per_capita)

Impacts

Service
Delivery
Challenges

Rocketing
Care
Costs

Youth
Unemployment

Poverty &
Inequality

Conflict &
Unrest

Disease &
Malnutrition

Resource
Consumption

Food
Insecurity

World Economic Forum 2021 Report



Risk categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Top Risks by likelihood

by likelihood

- Extreme weather
- Climate action failure
- Human environmental damage
- Infectious diseases
- Biodiversity loss
- Natural resource crises
- Digital power concentration
- Digital inequality
- Interstate relations fracture
- Cybersecurity failure
- Livelihood crises

Top Risks by impact

by impact

- Infectious diseases
- Climate action failure
- Weapons of mass destruction
- Biodiversity loss
- Natural resource crises
- Human environmental damage
- Livelihood crises
- Extreme weather
- Debt crises
- IT infrastructure breakdown

South

Lombard Insurance engages SA authorities after data breach

Life Healthcare reveals damage caused by data breach



By **SAMUEL MUNGADZE**, Senior news journalist
Published on 21 June 2020

“As previously communicated, the group’s southern African business was a victim of a malicious cyber attack by criminals. The manual backup processes, brought into effect as a result of the attack, impacted the ability of the southern African operations during the month of June and part of July 2020 to complete patient billing, submit claims to medical aids, process supplier invoices and produce financial results,” says Life Healthcare.



Personal data of 24 million South Africans and over 700 thousand businesses was breached and leaked on several public websites.



2020

Malice, Misses, Mistakes



Malice – deeply entrenched and systemic fraud and corrupt actors – biggest challenge for a CRO



WOOLWORTHS

DAVID JONES

Misses - Impaired 55% of the acquisition price of R20bn -

XEROX.



Mistakes – Xerox gave away “Apple” to Apple – missed risk in strategy

Tiger Brands



Mistakes - 100% shareholder value destruction of \$190m



Misses – Strategy not risk assessed. BlackBerry paid the price for only considering risk in execution







ANGLO AMERICAN



Misses – not proper enviro scan - Cost of the project exceeded \$8bn (3x original estimate), impaired \$4bn



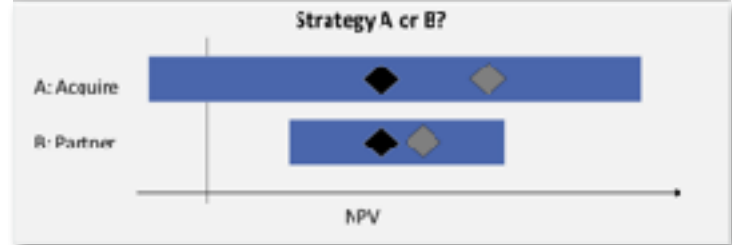
“M&A is a mug’s game, in which typically 70%–90% of acquisitions are abysmal failures” [HBR, 2016]

Stuttafords missed the boat?

	What happened ...	What could have been ...
<p>O u t c o m e</p>	<p>Doors closed in 2017 for business after 159 years</p> <p><i>“Stuttafords is South Africa’s Kodak”</i> Pavlo Phitidis*</p> 	 <p>Profitability restored through renewed customer relevance</p>
<p>Pr oc es s</p>	<p>Clicks</p>  <p><i>“They created a wonderful experience. But things have changed”*</i></p>	<p>A different lens ...</p> 

Source: * The Money Show’s Bruce Whitfield interviewed Aurik Business Accelerator founder Pavlo Phitidis. <https://ewn.co.za/2017/06/23/stuttafords-dies-on-1-august-the-159-year-old-icon-failed-to-evolve-lessons-for-small-businesses>

Tiger Brands – DFM was a series of mistakes

	What happened ...		What could have been ...
O u t c o m e	<p>Bought: \$190m (2012)</p>  <p>Sold: \$1 (2015)</p> <p>Stated total write-down was R1.8bn</p>	<p>3 ERRORS</p> <p>Buying: inadequate strategic analysis</p> <p>Operating: management talent issue</p> <p>Selling: waited too long</p>	 <p>A smaller, more reasonably priced and profitable slice</p>
P r o c e s s	<p><i>"Did they really do their homework on this one?"</i></p> <p>David Shapiro, Sasfin Securities</p> <p><i>"We should have had a couple of people arguing the 'no' side of the evaluation"</i> William Smithburg, CEO of Quaker Oats</p>		 <p>With context awareness, consider the uncertainty prospects of alternatives</p>

Source: <https://www.biznews.com/briefs/2014/11/19/david-shapiro-analyses-market-movers-tiger-brands-redefine-arcelormittal>; http://www.engineeringnews.co.za/article/tiger-brands-underestimated-the-challenge-of-operating-in-nigeria-2014-05-21/rep_id:4136; Decisive, Chip & Dan Heath; Series of interviews with various senior industry players, past and present

South African scandals over the past decade

Steinhoff

We still don't know exactly what the company refuses to release its report into wrongdoing. But it has inflated its profits and assets

Sasol

Sasol's share price lost a third of its value in 2019 as the full scale of the investors react to the delays and cost overruns at Sasol's Lake Charles Chemicals Project (LCCP) in the US.

An independent investigation into the LCCP found inappropriate conduct and incompetence in the LCCP project management team.

It also found "an improper tone at the top of the LCCP", and that managers didn't provide accurate cost and schedule estimation to executives. Sasol's joint CEOs, Bongani Nqwababa and Stephen Cornell agreed to resign

It is now expected that the project will cost between \$12.6 billion and \$12.9 billion (R180 billion at current exchange rates) – almost double the original budgeted amount.

biggest sugar producer, the 127-
that "certain past practices" do
performance accurately.

of the business after
its has been overstated by
Analysts believe its property
An external report has
ding ex-CEO Peter Staude,
decade.

<https://www.businessinsider.co.za/the-top-south-african-business-scandals-the-past-decade-2020-1>

Projects – planning fallacy

9 of 10 mega-projects are delivered behind schedule

9 out of 10 mega-projects cost more than planned

9 of 10 mega-projects deliver less benefits than planned

- Bent Flyvberg, Professor at Oxford Saïd Business School

IT projects

	2011	2012	2013	2014
SUCCESSFUL	19%	27%	31%	28%
CHALLENGED	48%	50%	50%	50%
FAILED	33%	17%	19%	17%

Classic cost overruns

Sasol

Sasol's share price lost a third of its value in 2019 as the full scale of the investors react to the delays and cost overruns at Sasol's Lake Charles Chemicals Project (LCCP) in the US.

An Independent Investigation into the LCCP found inappropriate conduct and incompetence in the LCCP project management team.

It also found "an improper tone at the top of the LCCP", and that managers didn't provide accurate cost and schedule estimation to executives. Sasol's joint CEOs, Bongani Nqwababa and Stephen Cornell agreed to resign

It is now expected that the project will cost between \$12.6 billion and \$12.9 billion (R180 billion at current exchange rates) - almost double the original budgeted amount.

Planning fallacy:

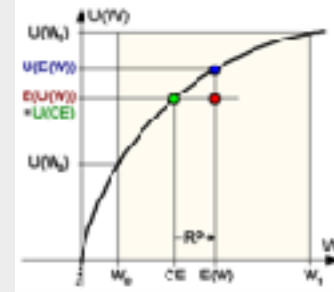
Plans and forecasts that are unrealistically close to best-case scenarios and that could be improved by consulting the statistics of similar cases

Why do decision makers get it wrong



Reliant on heuristics and intuition

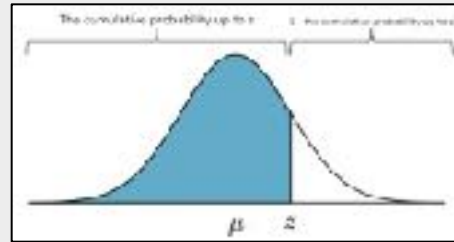
Risk averse



Limited in imagination



Cognitively lazy

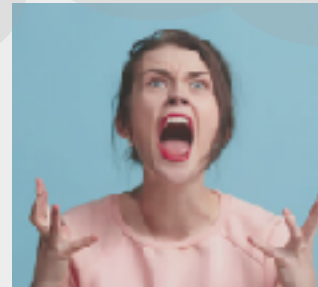


Probability innumerate



Future blind

Socially influenced



Hangry ...



Greedy, fearful, corrupt

Social forces

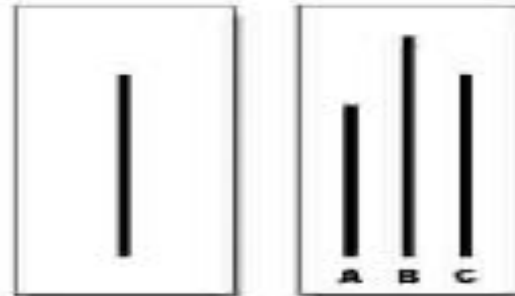
Groupthink



Authority pressure



Peer pressure



Role pressure



Social forces:

Social forces distort our decision making more than we realise

Strategy! Getting it wrong at forecasting

"It will be years - not in my time - before a woman will become Prime Minister."

Margaret Thatcher, 1974

"I think there is a world market for maybe five computers."

Thomas Watson, chairman of IBM, 1943

"Whatever happens, the U.S. Navy is not going to be caught napping."

Secretary of the Navy Frank Knox made a statement on Dec. 4, 1941; the attack on Pearl Harbour occurred three days later

"I cannot conceive of any vital disaster happening to this vessel. Modern shipbuilding has gone beyond that."

Captain of the Titanic

"Remote shopping, while entirely feasible, will flop - because women like to get out of the house, like to handle merchandise, like to be able to change their minds."

Time Magazine, 1966

"iPhone has 'no chance' of gaining significant market share"

Steve Ballmer, 2007

"Atomic energy might be as good as our present-day explosives, but it is unlikely to produce anything very much more dangerous."

Winston Churchill, 1939

"Who the hell wants to hear actors talk?"

H. M. Warner, Warner Brothers, 1927

Confidence does not imply competence

Why do organisations fail?

Extensive research has established that the majority of causal factors that drive business failures are internal. Reasons include:

- ▶ Ineffective Boards
- ▶ Business Complexity
- ▶ Risk Blindness
- ▶ Ineffective Management Information
- ▶ Unhealthy Corporate Culture
- ▶ Poor Communication
- ▶ Insufficient Working Capital
- ▶ Inferior Decision-Making Processes

Any one of these factors will lead to sub-optimal performance, two or more of these factors could, if not managed, cause your company to fail

Why risk management fails

- ▶ 07. Accepting the lack of transparency in High-Risk areas
 - ▶ Dysfunctional, excessive risk taking is fostered by an inability to see the full picture
 - ▶ Important for management to create risk awareness and an open and positive risk culture
- ▶ 08. Not integrating Risk Management with Strategy-Setting and Performance Management
 - ▶ Risk is often an afterthought to the formulation of strategy resulting in strategic objectives that may be unrealistic and risk management becoming an appendage to performance management
- ▶ 09. Ignoring the Dysfunctionalities and “Blind Spots” of the Organisations Culture
 - ▶ An organisations culture has a huge impact on its ability to prevent the occurrence of unacceptable risk events and identify new and emerging risks in a changing operating environment
- ▶ 10. Not involving the Board timeously
 - ▶ Management informs the Board after significant risks are taken
 - ▶ Board not fully knowledgeable of priority business risks facing the organisation
 - ▶ Risk profile is rarely discussed at board -level

The top 10 biggest companies in South Africa by market capitalisation?

- 10 Vodacom Group Ltd (R213 bn)
- 9 Standard Bank Group Ltd (R306 bn)
- 8 FirstRand Limited (R367 bn)
- 7 Anglo American Plc (R530 bn)
- 6 Compagnie Financiere Richemont SA (R610 bn)
- 5 Glencore Plc (R676 bn)
- 4 The BHP Group Plc (R730 bn)
- 3 British American Tobacco Plc (R1245 bn)
- 2 Naspers Limited (R1519 bn)
- 1 Anheuser Busch Inbev (R2117 bn)

<https://www.ig.com/za/trading-strategies/10-largest-listed-companies-in-south-africa-190725>

GRC Return on Investment

Qualitative benefits:

- ▶ Integrated strategy, performance and sustainability (identify and monitor key strategic value creation objectives and potential value erosion objectives)
- ▶ Optimise the level of risk being taken to best achieve the organisation's objectives whilst still operating within the risk appetite of the organisation
- ▶ Enhanced organisational resilience (avoid surprises, calculated risk taking, avoid penalties)
- ▶ Management of reputational risk
- ▶ Enhanced client satisfaction and confidence
- ▶ Enhanced investor confidence (higher market value)
- ▶ Enhanced access to capital and financial markets
- ▶ Better organisational performance
- ▶ Enhanced social and environmental standing
- ▶ Ability to operate in a global business environment

GRC System: Return on Investment

Quantitative benefits (enabled by a system / software):

- ▶ Embed GRC throughout the organisation and drive ownership and accountability for risk management and performance
- ▶ Simplify and standardised GRC methodology across the organisation
- ▶ Process and control rationalisation with standardised risk and control libraries across business units
- ▶ Improved quality and consistency of data captured
- ▶ Up to date dashboard of your risk universe with automated follow-up
- ▶ Risk intelligent reporting: consolidated, drill down, up-to-date, one version of the truth reporting
- ▶ Vastly reduced time and effort spent on reporting
- ▶ Optimised issue and findings tracking and resolution
- ▶ Maintain an up-to-date regulatory universe
- ▶ Increased audit coverage, reduced audit time and cost
- ▶ Compliance with regulations and standards (IPPF (International Professional Practice Framework), ISO31000, COSO, GACP (Generally Accepted Compliance Practice Framework)).

What as a risk practitioner can we do to embed risk management within our organisation and make it a success?

- ▶ Be an enabler for the “tone at the top” to filter down
- ▶ Build relationships across the organisation
- ▶ Know the business – be a trusted advisor adding value
- ▶ Identify the right risks at all levels of the organisation
- ▶ Deliver meaningful business decision reporting

Why Risk Management !

“Risk evaluation and management skills are now central to the long-term viability of any organisation”. Moreover, risk management now constitutes a premier discipline that no organisation can do without. You only have to look at the high-profile and costly examples of companies that recently were devastated by some expensive flaw in their business model being exposed to public scrutiny. What they would have given to have perceived the full extent of the problem in advance and acted on it”

Clem Sunter - 2016 IRMSA Risk Report

“A mature RM program is a safety net. It protects boards and senior leadership from accusations of negligence by demonstrating a clear dedication to uncovering risk. It also provides transparency and assurance of on-time and on-budget achievement of corporate performance objectives.”

Steve Minsky – Co-author RIMS Risk Maturity Model

“If risk management is properly embedded within an organization and a strong risk management culture adopted, we will see more organizations being able to maintain stability during times of difficulty and seize the opportunities that come their way to prosper”

Christopher Palm – IRMSA Chief Risk Advisor 2018 IRMSA Risk Report

Why Risk Management !

“... misconception that the power is in the board room. The power really lies with the new millennials and the power of social media and the smart phone. Millennials don’t believe a thing you say. You have to demonstrate the outcomes. People who understand King embrace it. It is not about ticking the boxes to comply”

Michael Judin- Partner, JUDIN COMBRINCK INC

“Three salient points regarding business judgment: 1. If you are conflicted you don’t decide whether you are conflicted, the other party decides. 2. We live in a knowledge world; you cannot act if you are not properly informed; you need to stress test and check your info. You need to know enough and question with an understanding mind. How did you come to your decision? If you don’t know say so. Be true to yourself, I don’t know, be honest, go and learn. 3. Need to operate in the best interests of the organisation (a lawful organisation).”

Michael Judin- Partner, JUDIN COMBRINCK INC

Food for thought!

“You can’t easily blame a board member for not knowing something. But you can blame a board member for creating a culture where he doesn’t know something.”

Gerry Grimstone – Chairman of Standard Life and Barclays Bank plc

“The consummate leader cultivates the moral law, and strictly adheres to method and discipline; thus it is in his power to control success.”

Sun Tzu, Art of war

“You never let a serious crisis go to waste. And what I mean by that it’s an opportunity to do things you think you could not do before”.

Rahm Emanuel, the former Mayor of Chicago

“Honesty is the soul of business”

Old Dutch proverb

“It is not power that corrupts but fear. Fear of losing power corrupts those who wield it and fear of the scourge of power corrupts those who are subject to it...”

Aung San Suu Kyi – Freedom from Fear

“To expect the unexpected shows a thoroughly modern intellect”

Oscar Wilde – Irish Poet and Playwright

“There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don’t know. But there are also unknown unknowns. These are things we don’t know we don’t know.”

Donald Rumsfeld

ROI in summary

BUSINESS OBJECTIVES / OUTCOMES



More effective strategic and operational planning; alignment of objectives and risks across the organisation



Greater confidence in decision making; proactive achievement of operational and strategic objectives



Early warning system (visibility and reporting of significant risks); Avoid surprises



Proactive management of risk and opportunity; long-term sustainability



Cost effective internal controls and control strategy; systematic and consistent approach



Evidence of a structured/ formalised approach in decision making resulting in confidence and business resilience



Regulatory compliance; license to trade and director protection



Greater stakeholder confidence; Reputation management, & capability

ALIGNING PEOPLE, PROCESSES AND SYSTEMS FOR EFFECTIVE RISK MANAGEMENT

PEOPLE



Buy-in, tone from the top, commitment to effective GRC

PROCESSES



Best practice GRC process (e.g. COSO, ISO31000)

SYSTEMS



User friendly, non intrusive, accurate and real time reporting, better decision making

References

- The Institute of Risk Management South Africa (IRMSA) – Christopher Palm, Chief Risk Advisor
- [Integrated BCM and risk explained](#) - Steve Simmonds, Director, SynergyGRC
- [Why risk management fails](#) - Mira Butler, Managing Director, Mira Consulting
- [Why King IV is not another layer of regulation but creates add-on value](#) - Michael Judin, Partner, JUDIN COMBRINCK INC
- King IV (Copyright Institute of Directors South Africa)
- Compliance Institute of South Africa handbook
- [Helicys Solutions Ltd](#)
- <https://www.barnowl.co.za/insights/demystifying-risk-management/>
- <https://www.barnowl.co.za/the-essential-risk-management-guide/>
- <http://www.barnowl.co.za/selling-enterprise-risk-management-erm-to-the-board-and-the-executive/>
- <http://www.barnowl.co.za/insights/6-ways-risk-based-auditing-adds-value-to-your-organisation/>
- [Reputational risk \(video clip\)](#) – Warren Buffet, Chairman & CEO, Salomon Brothers ING (1991)

Thank You

Jonathan Crisp –Director
BarnOwl GRC Solutions
jonathan@barnowl.co.za
+27 83 260 1653 (mobile)
+27 11 540 9100 (office)
www.barnowl.co.za



BARNOWL