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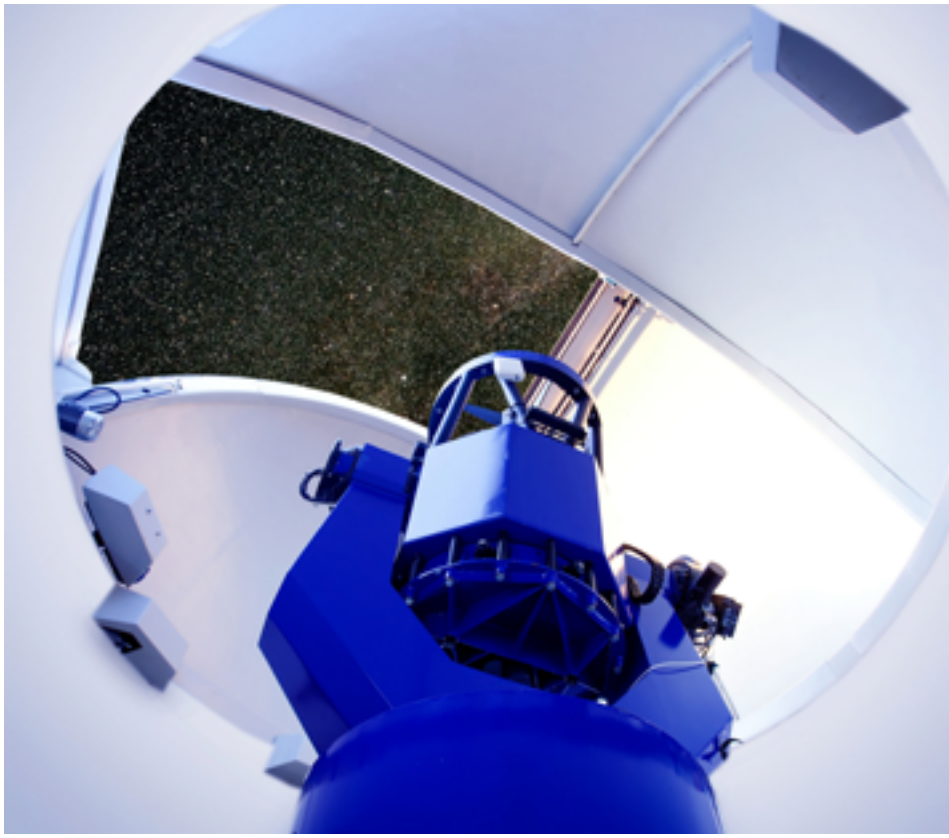

Exploring Strategic Risk - A South African context

Top executives say their view of strategic risk is changing

Contents

The findings in this report are based on a global survey of over 234 respondents from South Africa and over 300 respondents from the Americas (33%), Europe/Middle East/Africa (33%), and Asia/Pacific (34%). 47% of South African respondents were C-level executives or specialised risk executives (21). Surveyed companies came from all five major industry sectors (consumer/industrial products (C&IP), life sciences/health care (LS&HC), technology/media/telecommunications (TMT), energy/resources (E&R) and financial services (FS).

Additional detailed insights were obtained from key executives from four leading organisations, with a balanced mix of representation from major industries.
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Executive summary

Business executives around the world say their understanding of the universe of strategic risk is changing. Here's how.

Managing risk effectively has always been a touchstone of the most successful companies. But in today's risk-filled business environment, it can be hard for executives to have confidence that their plans and strategies will play out as expected. A big reason is that strategic risks – those that either affect or are created by business strategy decisions – can strike more quickly than ever before, hastened along by rapid-fire business trends and technological innovations such as social media, mobile and big data. Companies that fall behind on the innovation curve may quickly fall prey to innovation's evil twin – disruption. That is just one of the reasons managing strategic risk has become a high priority for many executives.

"It used to be that if certain risks were to happen, a company could have up to a news cycle to respond," says Phil Maxwell, Director Enterprise Risk Management, The Coca-Cola Company.

"The speed of risks is so much greater now, and as a result you have to be more prepared – faster to respond than you were in the past. That's one of the biggest differences today versus even three or four years ago."

In a recent study, we uncovered significant evidence that many other businesses around the world are also adopting a new view of the risk universe. The study, conducted in the spring of 2013 by Forbes Insights, on behalf of Deloitte, was a global survey of strategic risk management practices at more than 300 major companies around the world. In the survey, Deloitte wanted to better understand how businesses can manage strategic risk more effectively – both now and in the future.

In this local publication, global insights have been further enhanced by a South African led survey that received insights from a further 230 respondents.

"The future belongs to those organisations that can seamlessly integrate strategic management, risk management, enterprise performance management, and integrated reporting. The first is about choosing relevant goals to achieve and inculcating a common understanding of what they are. The second is about anticipating and preventing what threatens achievement of those goals as well as the threats the goals themselves introduce. The third is about measuring how well the goals were achieved and how well various resources have contributed to their achievement so they can be appropriately rewarded and incentivised. And the fourth is about transparently informing broad stakeholders how the organisation goes about achieving its valid goals on a sustainable basis. Get them all right and you own the future. No wonder that integrating these disciplines is becoming the essence of true strategic risk management."

Andre Bezuidenhout, Head: Risk Management and Compliance Department, SA Reserve Bank (SARB)

The survey explored a wide range of issues and questions, including:

- To what extent are companies considering and addressing risks when developing and evaluating their business strategies?
- What new risks do their strategies create? Which strategic risks are critical to avoid – or essential to take?
- What is the strategic impact of new technologies?
- Which investments are essential to managing risks and exploiting new opportunities?
- If a company's strategy is executed flawlessly, what other risks could undermine the business?

Focus areas of the survey included the alignment of strategy and risk, monitoring strategic investments, and emerging views of strategic risk management.
While some findings reinforced what many already believe, there were also some surprises. Here are a few of our key findings:

- Strategic risk has become a major focus, with 81% of surveyed companies now explicitly managing strategic risk – rather than limiting their focus to traditional risk areas such as operational, financial and compliance risk. Also, many companies are taking a broad view of strategic risk that doesn't just focus on challenges that might cause a particular strategy to fail, but on any major risks that could affect a company's long-term positioning and performance.
- Most companies are not just making strategic risk management a higher priority; they are changing how they do it. In fact, nearly all respondents (94% globally and **88% in South Africa**) have changed their approach to strategic risk management over the past three years. The numbers were slightly higher in Asia/Pacific (96%) and in Europe/Middle East/Africa (EMEA) (91%) compared to **South Africa (88%)**.

- A key improvement is that more and more companies are integrating strategic risk analysis into their overall business strategy and planning processes – and the integration seems to be working. Among the global companies surveyed, 61% now believe their risk management programs are performing at least adequately in supporting the development and execution of business strategy. In the **South African context this figure is 50%** which is encouraging, but leaves room for improvement, when compared to the global picture.
- Strategic risk management is a CEO and board-level priority. Two thirds (67% globally and **64% locally**) of the surveyed companies say the CEO, board or board risk committee has oversight when it comes to managing strategic risk.
- Reputation risk is the biggest risk concern globally and also prominent in the number one spot in South Africa, due in large measure to the rise of social media, which enables instantaneous global communications that make it harder for companies to control how they are perceived in the marketplace.
- Additionally, in South Africa, risks related to economic trends, brand, talent acquisition/retention, political legislation trends, business model, energy & service costs and supply, and labour relations/union activity are highlighted as having the highest impact, providing a stark reflection on some of the local strategic challenges faced by South African companies. These risks have the real potential of diverting attention away from responding to strategic opportunities.
- Emerging technologies are also having a major impact on the business and risk landscape. The majority of surveyed companies (53% globally and **56% locally**) believe technology enablers and disrupters such as social, mobile, and big data could threaten their established business models, and 91% (**81% in South Africa**) have changed their business strategies since those technologies began to emerge. The technologies have had their biggest impact in three sectors: E&R (84,8%), FSI (83.8%) and TMT (79.4%). Regionally, the biggest impact was in Asia/Pacific, where 98% of respondents report having changed their business strategies.
- Globally three years from now, human capital and the innovation pipeline are expected to be the top strategic assets that businesses will need to invest in. South African respondents are aligned to this thinking and cite human capital, innovation: collaboration and innovation: pipeline as the top three strategic assets going forward.
- We have witnessed an information explosion in the past decade – what Tom Friedman of The New York Times recently called "the Great Inflection"1 – a hyper-connected world grounded in social media, cloud computing, 4G wireless, ultra-high-speed bandwidth, system-on-a-chip (SOC) circuits, mobile devices, tablets, etc. Managing risk, and specifically interconnected risk, in this arena, is a growing necessity.

Four types of risk

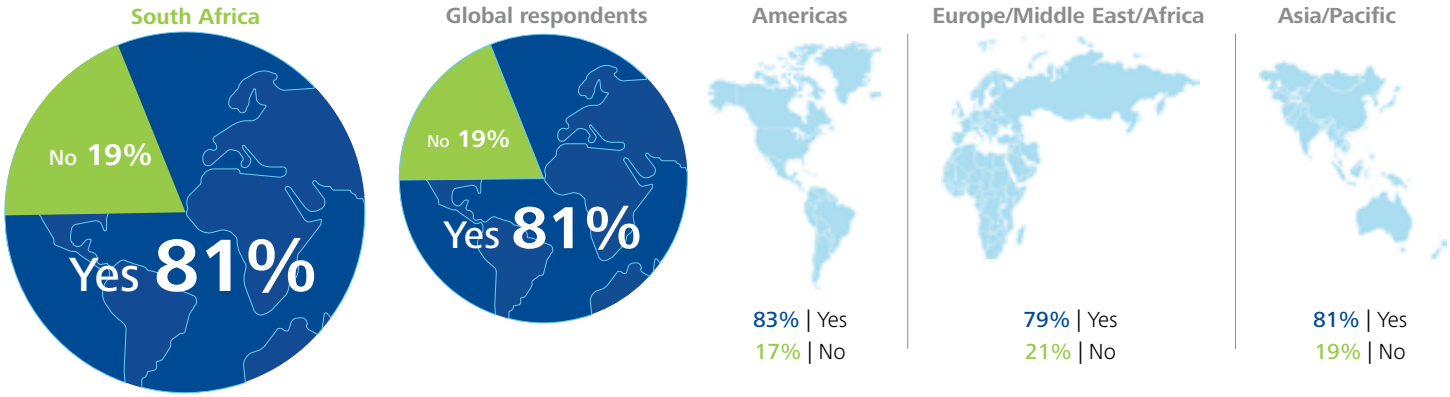
In our experience, there are generally four main categories of risk that are consistent with how many companies think about risk.

- Strategic risks are risks that affect or are created by an organisation's business strategy and strategic objectives.
- Operational risks are major risks that affect an organisation's ability to execute its strategic plan.
- Financial risks include areas such as financial reporting, valuation, market, liquidity, and credit risks.
- Compliance risks relate to legal and regulatory compliance.

Strategic risk emerges as a key focus for businesses around the world

The survey shows that the vast majority of companies (81% both in globally and in South Africa) are now explicitly and actively managing strategic risks – and the results were quite consistent across all regions and industries. What's more, many companies are taking a broader view that doesn't just focus on the risks that might cause a particular strategy to fail, but on whatever key risks could affect a company's long-term positioning and performance.

Q. Does your organisation have an explicit focus on managing strategic risks?



While companies have traditionally focussed on strategic risks, there is a greater awareness of impact of strategic risk and organisations are taking the steps necessary to ensure strategic risk is at the centre of decision making in organisations, and ensuring risk is embedded in the organisational culture.

"Risk is at the forefront of everybody's thinking," says Reto J. Kohler, Managing Director, Head of Strategy, Corporate & Investment Banking, Barclays. "When we develop a strategy we think about the risks associated with it, but also what [business] risks are minimised by following that particular strategy."

"When you are dealing with risks, Corporate Management should proactively focus on strategic and transversal risks and Business Units are responsible for managing the risks they own," says Elisabeth Pacaud, Associate Vice President, Group Risk Management at Sanofi. "A strategic risk is one that directly impacts the company's identified strategic goals whether they are diversification, innovation, or emerging countries."

Managing strategic risks effectively can do more than just protect value by avoiding potential downsides; it can actually help create value by taking advantage of uncertainty and volatility to maximise gains and improve competitive positioning.

"Risk is uncertainty," says Sandra G. Carson, VP, Enterprise Risk Management and Compliance, Sysco Corporation. "But we have to take risks to get to our goals, especially during changing times. So strategic risk is not just the negative impact of risk but also the sub optimisation of gain. I think companies that figure out both the value protection and value creation part of risk are going to set themselves up for success."

"The financial services industry and the financial markets, in particular, present a complex operating arena with a high degree of 'inter-connectedness'– our ability to identify, understand and manage the strategic risks that we face is an imperative if we are to fulfil the mandate that we have as a trusted financial market infrastructure."

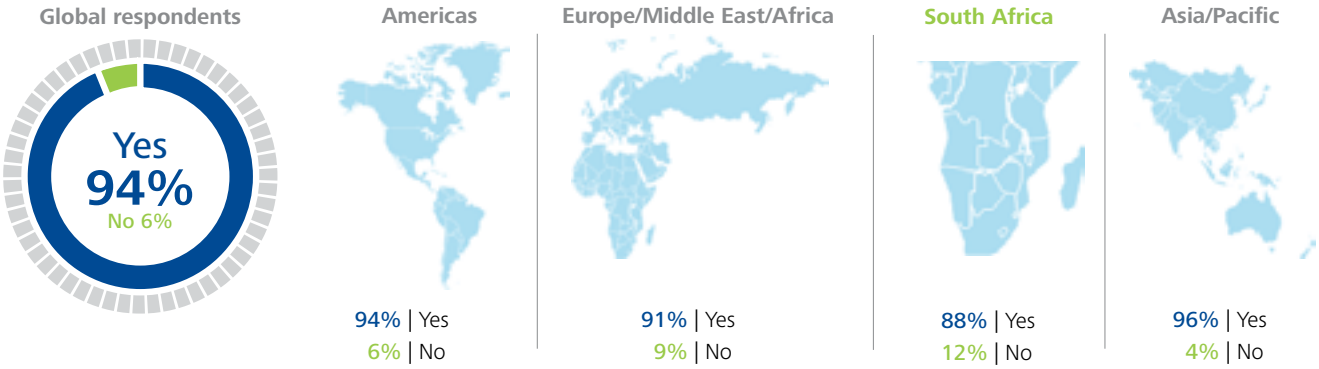
Monica Singer, CEO, Strate Ltd

Companies changing how they manage strategic risks

Companies aren't just increasing their focus on managing strategic risks; they are changing how they do it. In fact, nearly all respondents (94%) have changed their approach to strategic risk management over the past three years. The numbers were slightly lower in EMEA (91%) and slightly higher in Asia/Pacific (96%). In South African 88% of respondents indicated that their approach has changed significantly or to some degree.

In South Africa we have seen that, whilst in the past many organisations have focussed on embedding the process of strategic risk identification, it is increasingly more about how to change business strategy and both manage and take advantage of strategic risk.

Q. Has your approach to managing strategic risks changed in the last three years?



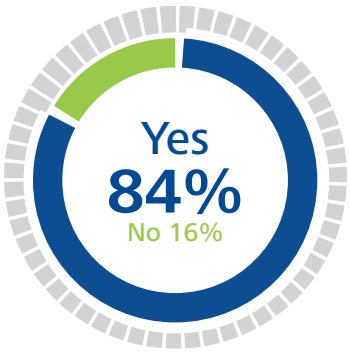
Strategic risk management is "not about doing it the way we've always done it," says Jennifer Evans, Chief Risk Officer Australia, ANZ, "but to have creative and innovative thinking around defining what the strategic risks are."

"In former times, we were very much focused on quantifiable risks and had the tendency to quantify risks in order to report them as part of our enterprise risk management," says Dr. Georg Klein, Chief Risk & Internal Control Officer, Corporate Finance and Controlling, Siemens AG. "However, we found that some of the most relevant risks might only have a financial implication after a couple of years or it might even be quite hard to have a sensible estimate on the financial impact of these risks.

So we decided to consciously expand from a pure quantification approach of risks to a more qualitative approach that allows integration of soft data for issues such as regulation, media or reputation. This provides a more comprehensive picture of the challenges that are in front of the company."

A critical component in managing strategic risk is an understanding of those external risks facing an organisation. It is pleasing to note that the majority of South African respondents scan the external environment and consider emerging risks. In our view more effort needs to be focused on external scanning to ensure an organisation's business strategy remains relevant in the market where it operates.

Q. Are you currently monitoring the external environment for emerging risks?



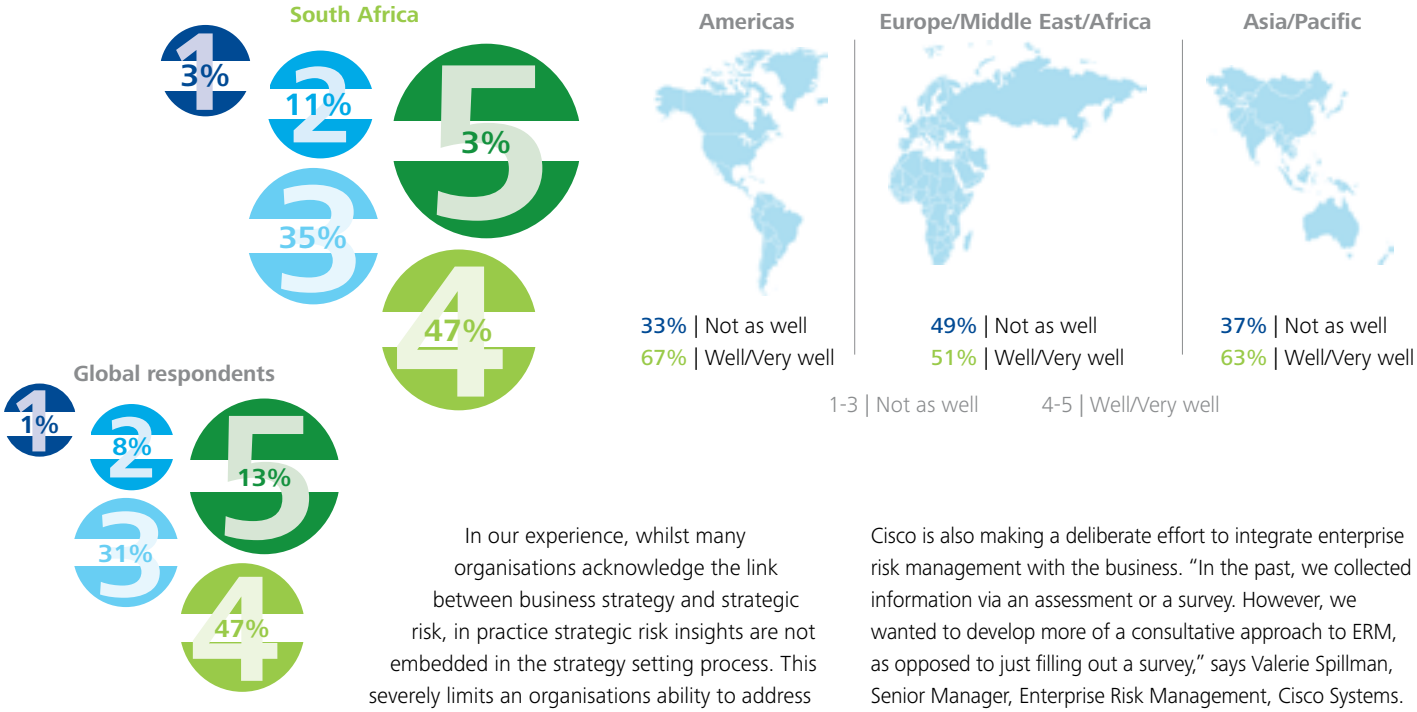
South Africa and EMEA lagging with Risk and Strategy Integration

Perhaps the biggest change is that more companies are integrating strategic risk analysis into their overall business strategy and planning processes. And their efforts seem to be paying off.

It is encouraging to note that more companies are integrating strategic risk analysis into their overall business strategy and planning process. The survey results show that more than half of respondents indicated their risk management programme is performing at least reasonably well in supporting the development and execution of business strategy. **A notable difference in these statistics is that in comparison to global results (61% indicating at least reasonably well alignment), EMEA (51%) and South Africa (50%) are lagging behind.**

Also of concern are the South African results which reflect that on the same scale, 57% of respondents believe that the business strategy has been well/very well communicated, whilst only 43% believe that it is well/very well understood. Given these statistics, the challenge in managing an organisations strategic risk is an even greater challenge. These are deemed to be two significant areas for improvement in aligning risk management and organisational performance.

Q. On a scale of 1 to 5, how well do you think your risk management programme supports your ability to develop and execute your business strategy? (5 indicates very well)



In our experience, whilst many organisations acknowledge the link between business strategy and strategic risk, in practice strategic risk insights are not embedded in the strategy setting process. This severely limits an organisations ability to address both the risks of and to the strategy – is the strategy right for the organisation and consideration of the risks in not achieving the business strategy. We see closer alignment between strategy and risk functions in the organisations we engage with, but continuous, real time integration is not always happening in practice.

Cisco is also making a deliberate effort to integrate enterprise risk management with the business. "In the past, we collected information via an assessment or a survey. However, we wanted to develop more of a consultative approach to ERM, as opposed to just filling out a survey," says Valerie Spillman, Senior Manager, Enterprise Risk Management, Cisco Systems.

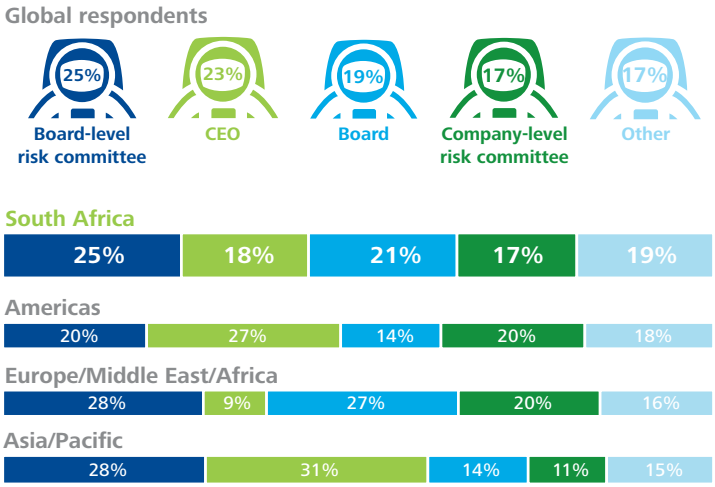
"We are working towards a closed-loop approach with the business where we collect information but also prove to be an enabler and value-add function. ERM is currently performing a deeper dive on enterprise risks to further validate quantifying the risk and determining what action plans, if any, are in place or need to be in place to better manage the risk."

Boards and CEOs driving strategic risk management

Globally two thirds (67%) of the surveyed companies say the CEO, board or board risk committee has oversight over strategic risk, compared to 64% in South Africa. Across EMEA, CEO direction is much lower than average and board direction is higher. Top-level oversight is particularly common at consumer companies, followed by companies in financial services and TMT.

Whilst risk management practice in South Africa is still reaching maturity, the advent of sound practices advocated by King has provided a solid platform in driving sound practice over the past 10 years. In our experience, there is still room for improvement in focusing on leveraging of risk practices to drive decision making and support the achievement of business strategy, beyond the implementation of risk processes. Whilst many organisations can testify to having risk management functions and processes in place, the extent to which these directly support business varies greatly.

Q. Who primarily determines your company's approach to managing strategic risk?



"We have heavy involvement from the executives, the senior leadership team, and the board," says Sandra G. Carson of Sysco. "When I talk about enterprise risk, that's really top-down for us."

Today's high level of CEO and board involvement is a clear indicator of the growing importance of strategic risk management.

Reputation cited as #1 risk

Globally and in South Africa, reputation is currently rated as the highest impact risk area – not just overall, but for most individual sectors as well. Three years ago, reputation was already the top risk area in financial services – and remains so today. However, in the energy sector, for example, reputation risk wasn't even in the top five three years ago, but today is number one – perhaps fueled by headlines about fracking and oil spills.

According to the companies interviewed, social technologies are one of the main factors driving rising concerns about reputation. Given the speed and global reach of social media, companies today are at much greater risk of losing control over how they are perceived in the marketplace.

In South Africa, the results reflect a significant focus on local challenges, with the top strategic risks focussed on local challenges including economic trends, brand, talent acquisition/retention, political/legislative trends, business model, energy & service cost and supply as well as labour relations/union activity.

"Reputational risk is one of the more challenging risks to manage as it generally is a consequence of inadequately managing other risks. Threats to companies' reputation and brand can be damaging to the point of sometimes being irreversible especially in the age of the global reach and use of social media. One poor customer experience at a branch or a repudiated claim on a legitimate basis can trend nationally, even, across borders with little regard for facts in the latter. Therefore, the enterprise wide management of strategic risks and its resultant impact on reputational risk becomes increasingly more relevant in this new age."

Elvin de Kock, Chief Risk Officer, Zurich Insurance Company SA

These key local strategic risks are reflective of the significant challenges faced in South Africa and have the risk of continuing to reinforce the lack of competitiveness of South African companies against global organisations. South African companies have recognised the opportunity for geographic expansion and many are considering opportunities to expand into Africa and globally.

"Business Strategy integrates the environmental changes. The emergence of new communication models such as mobile, social networks is one of these key changes which might impact reputation in different and faster modes than before," says Sanofi's Elisabeth Pacaud. "Therefore, as other companies we have had to adapt our vigilance on risks impacting reputation to ensure they are accurately anticipated and proactive controlled."

"One of the big changes in recent years is speed to market," says ANZ's Jennifer Evans. "As a consequence of social media, reputations built up over decades can be challenged in an instant. Customers are able to make decisions on an organisation based on social media comment, potentially well before your ability to be able to defend or articulate a response."

Q. Which of the following risk areas have the most impact on your business strategy (three years ago, today, and three years from now)?*

Global respondents

2010	Today	2016
Brand	Reputation	Economic trends
Economic trends	Business model	Business model
Reputation	Economic trends | Competition	Reputation | Competition

South Africa

2010	Today	2016
Customer/market concentration	Reputation | Economic trends	Leadership shortage & succession
Competition	Brand | Talent acquisition/retention | Political legislative trends	Technology innovation / disruption / post digital
Mergers & acquisitions	Business model	Strategic alliances / Counterparty relationships

*Respondents could choose more than one answer; the top three are shown above.

Emerging technologies have increasing ability to threaten business models

The majority of surveyed companies (53% globally and 56% in South Africa) believe technology enablers and disrupters are emerging that won't just affect their business results but could actually threaten their established business models. In fact, as shown on the previous page, respondents globally rated business model risks the #2 impact area in both 2013 and 2016.

Q. Do you see technology enablers and/or disrupters on the horizon that may threaten your business model?

Global respondents

South Africa

Americas

56% | Yes
33% | No
11% | I don't know

Europe/Middle East/Africa

43% | Yes
44% | No
13% | I don't know

Asia/Pacific

59% | Yes
34% | No
7% | I don't know

Global industry trends

C&IP
55% | 37% | 8%

E&R
45% | 45% | 10%

FS
75% | 11% | 14%

LS&HC
45% | 45% | 9%

TMT
58% | 33% | 8%

Companies in Asia/Pacific – where the highest percentage of respondents have already changed their business models – seem to be more aware of this threat (59%) than those in other regions. The number was significantly lower in EMEA (43%). Unsurprisingly both the financial service and TMT industries have seen the need to adjust their strategy to technology disruptors. This is evident in the emergence of mobile payment mechanisms and the use of social media in engaging with customers in the financial services industry.

The top five technology rated threats globally are:

1. Social media
2. Data mining and analytics
3. Mobile applications
4. Cloud computing
5. Cyber attacks.

In South Africa...data mining analytics, social media, cyber attacks...

In South Africa, in comparison, respondents rated the following as top threats:

1. **Data mining and analytics**
2. **Social media**
3. **Cyber attacks**
4. **Cloud computing**
5. **Mobile applications.**

In the Americas, data mining and analytics is viewed as the top technology enabler/disrupter, while in EMEA the top focus is on social media. In Asia, social media and mobile applications tie for the top spot.

We have already noted the huge impact that social media is having on reputational risk – and on the speed and global reach of risks in general. Other technologies such as data mining and analytics, mobile and cybersecurity are also having a major impact.

"Strategic risk would be a challenge to manage even if it was a simple linear process. Unfortunately there is always the possibility of a confluence of seemingly unrelated disruptive events, which makes it downright impossible."

Andre Bezuidenhout, Head: Risk Management and Compliance Department, SA Reserve Bank (SARB)

Q. Which of the following technology enablers and/or disruptors do you believe may threaten your business model?*

Global respondents

- Social media
- Data mining and analytics
- Mobile applications
- Cloud computing
- Cyber attacks

South Africa

- Data mining and analytics
- Social media
- Cyber attacks
- Cloud computing
- Mobile applications

Americas

56% | Data mining and analytics
40% | Social media
39% | Cloud computing
37% | Mobile applications
33% | Cyber attacks

Europe/Middle East/Africa

50% | Social media
39% | Cyber attacks
34% | Cloud computing
27% | Mobile applications
25% | Data mining and analytics

Asia/Pacific

51% | Social media
51% | Mobile applications
46% | Data mining and analytics
39% | Cloud computing
36% | Cyber attacks

*Respondents could choose more than one answer; the top five are shown above.

Big data and data analytics can help companies make sense of the vast information – and disinformation – that they now have available both internally and on the internet (including social media). Activities include monitoring news, tips, and rumors about competitors as well as following or influencing the changing tastes and demands of consumers. Consumer preferences are being shaped by an ever wider set of influences and trends that can originate anywhere that companies do business. Of course, not all data is pertinent or valuable to assessing strategic risk. So the challenge of data analytics is to sift through the data, determine the most important risks and risk indicators, and then establish a model to follow and appraise the data while also updating the strategic risk profile on an ongoing basis.

At Coca-Cola, data mining and analytics are a significant focus. In particular, the company is currently engaged in discussions about big data and how to manage and monitor information. "If you think about risk management, a key activity is to prioritise where you should invest your resources," says Coca Cola's Phil Maxwell. "Being able to harness data could increase confidence that you're looking at the right types of data and risks. Big data could be a tool to help you understand more of the emerging risks, but I think what people find is it's very difficult to figure out how to put your arms around that. The key question is how to parse through the data to find something that's actually meaningful and relevant for your organisation."

Given Cisco is a trusted leader in the hi-tech industry, one of the biggest risk issues is cyber security as this relates to the company's core business. "Because we're in the IT industry and we're managing data, I think the protection of information – cybersecurity, or any kind of IT security, information and asset protection – is a very important risk to us," says Cisco's Valerie Spillman. "The problem is hackers are always one step ahead, so protecting data is always going to be on top of the list."

Siemens also acknowledges the major impact of new technologies but doesn't necessarily view them as an extraordinary threat – but rather as a standard part of managing risk. "Mobile, social, and big data issues definitely have an impact; but they are analysed as part of our strategy process," says the company's Georg Klein. "It depends on the maturity of your strategy. If your strategy is relying on a set of static assumptions, then when there are disruptive changes, let's say in IT technology or some other market parameters, these changes would negatively impact your business model. But if you are dynamic, in the face of disruptive change, you might only need to modify your approach incrementally."

New technologies drive new business strategies

The emerging technology enablers and disrupters are prompting many companies to rethink their business strategies. In fact, 91% globally and 81% of South African companies surveyed say they have changed their business strategies since the emergence of mobile, social, big data and various other major technology innovations.

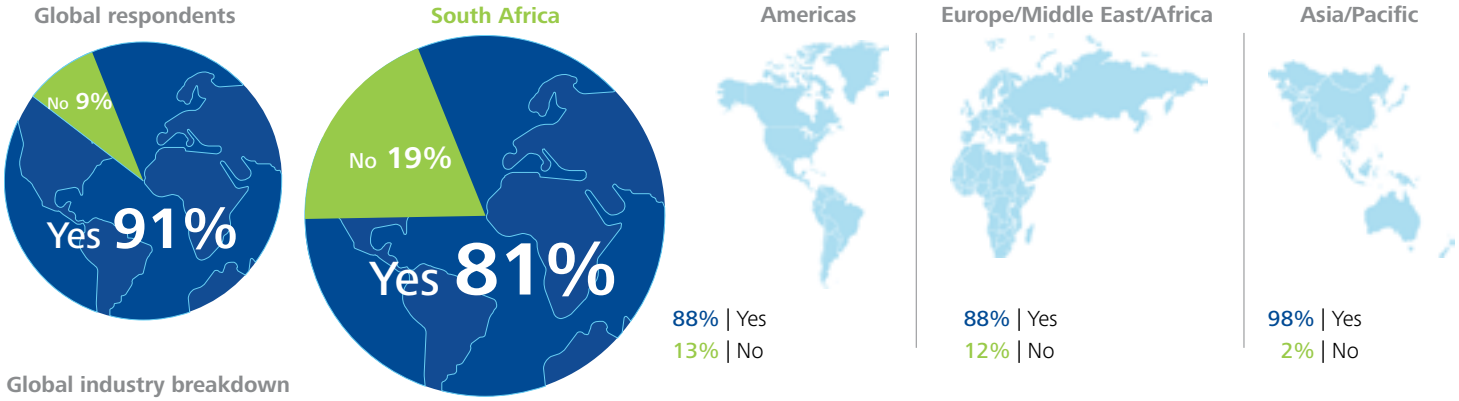
In our experience many South African companies see both the threat and the opportunity in technology disruptors on their future business, particularly given the insight that geographic expansion is a top strategic initiative going forward.

According to the survey data, these new technologies are having an impact on companies in every region and industry; however, some areas are being more affected than others. For example, the biggest impact is being felt in three sectors: TMT (97%), C&IP (96%), and Life Sciences (94%). Regionally, the biggest impact is in Asia Pacific, where 98% of respondents report having changed their business strategies.

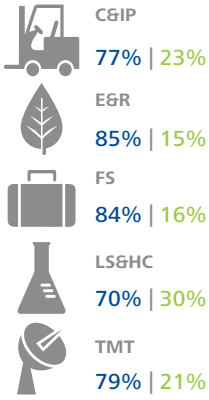
Results reflect that there is a universal acceptance of the change to business strategy as a result of technology disruptors.

> "The ability to capture, analyse, interpret and importantly utilise big data has always been a major focus area for Discovery; it provides us a platform to provide better, integrated and more relevant products to our customers."
>
> **Adrian Gore, CEO, Discovery Holdings**

Q. Has your business strategy changed since the emergence of mobile, social, digital, big data, and other innovative technologies?*



Global industry breakdown



"Being able to harness data could increase confidence that you're looking at the right types of data and risks." Phil Maxwell, Director Enterprise Risk Management, The Coca-Cola Company

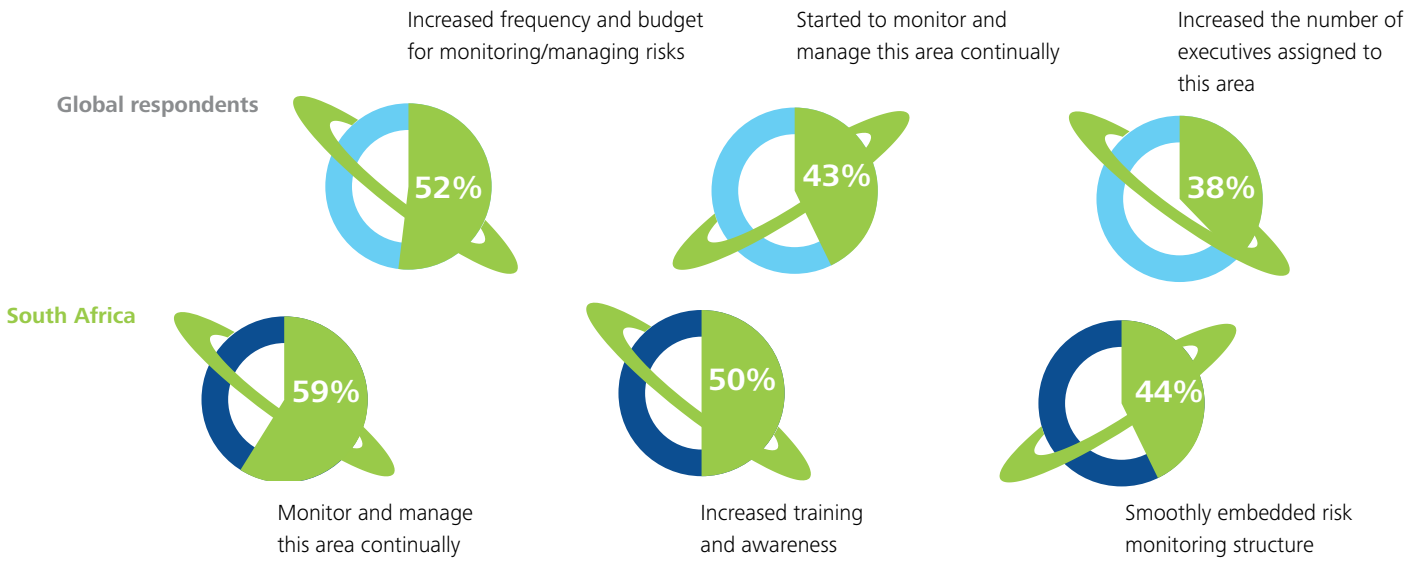
* Percentages throughout may not add up to 100% due to rounding.

Companies make specific improvements to strategic risk management

As global companies strive to improve their strategic risk management capabilities and performance, there are three specific areas they are focusing on: increasing the frequency and budget for monitoring and managing strategic risks (52%), continuous monitoring of strategic risks (43%), and increased executive staffing assigned to managing strategic risks (38%).

In comparison, in South Africa identified continuous monitoring and management (59%), training and awareness (50%) and embedded risk monitoring structures throughout the whole organisation (43%) as the top three areas of focus. Interestingly, the increase of budgets only rates fourth in South Africa compared to number one globally.

Q. How has your approach changed?*



"When we develop a strategy we think about the risks associated with it, but also what {business} risks are minimized by following that particular strategy." Reto J. Kohler, Managing Director, Head of Strategy, Corporate & Investment Banking, Barclays

"It all comes back to funding, whether it's resource allocation or funding to do a project," says Cisco's Valerie Spillman. "In the era of scarce resources where there are more priorities than available funds, our job is to help Cisco's leadership team make decisions as informed as possible. These include risk tolerance trade-offs as well as competing priorities."

*Respondents could choose more than one answer; the top three are shown above.

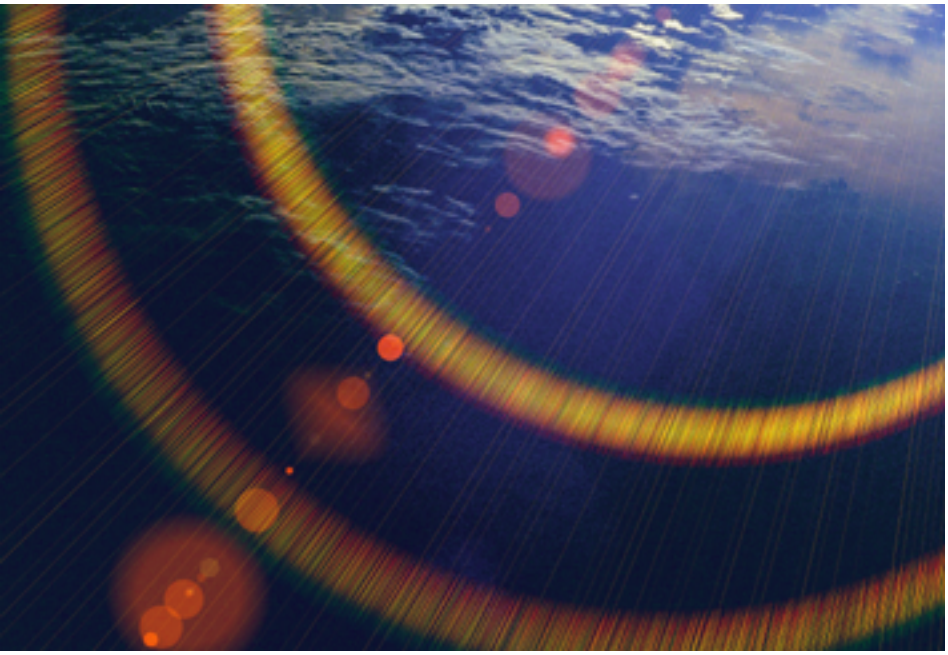
Many companies are also working to hone their definition of strategic risk. According to the survey, 66% of companies globally and only 54% in South Africa have established a common definition of strategic risk, with three industries leading the pack: TMT (74%), E&R (74%) and FSI (72%). Regionally, the numbers were fairly consistent, with EMEA somewhat lower than average (62%) and Asia/Pacific somewhat higher (71%).

South African respondents identified most with strategic risk as that which enhances enterprise value and competitive position, and secondly as the risk of execution of strategy. Only 24% of respondents associated strategic risk with having the wrong strategy due to flawed assumptions.

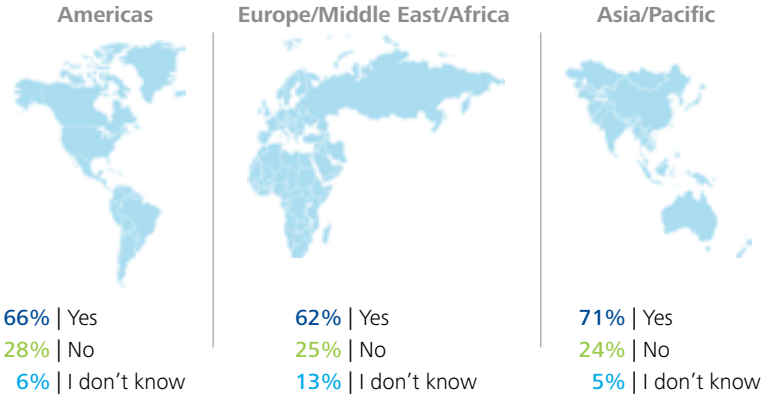
The clear definition of strategic risk is essential in assisting management to focus on the risks critical to business success.

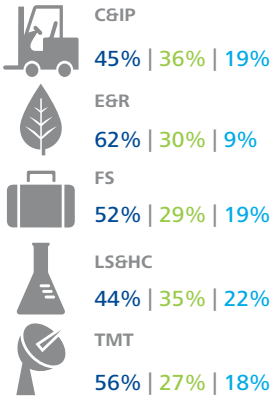
What's more, over half of respondents state the definition includes risks associated with competitive position and enterprise value, with consumer companies leading the way in adopting this expanded view of strategic risk.

Siemens in Germany might have the broadest definition of all. According to the company's Dr. Georg Klein, Siemens AG defines strategic risk as "everything, every obstacle, every issue that has the potential to materially affect the achievement of our strategic objectives."



Q. Does your company have a common definition for the term "strategic risk"?





"In identifying and mitigating strategic risks, it helps to think not only in terms of what can go wrong to threaten achievement of a particular goal, but also what all needs to go right in order to achieve that goal."
Andre Bezuidenhout, Head: Risk Management and Compliance Department, SA Reserve Bank (SARB)

Organisations tackle social media risks both internally and externally

Half of our survey respondents state that they are active or extremely active users of social media for personal and business reasons; 63% globally and 39% in South Africa say that confidentiality concerns are the top risk of using social media networks and other digital tactics to achieve the organisation's strategic goals; 55% globally and 24% in locally cite security concerns.

In South Africa this is particularly pertinent given the recent enactment of the Protection of Private Information Act and given global corporate experience, organisations will need to carefully guard the data they receive from customers and other stakeholders or face hefty fines.

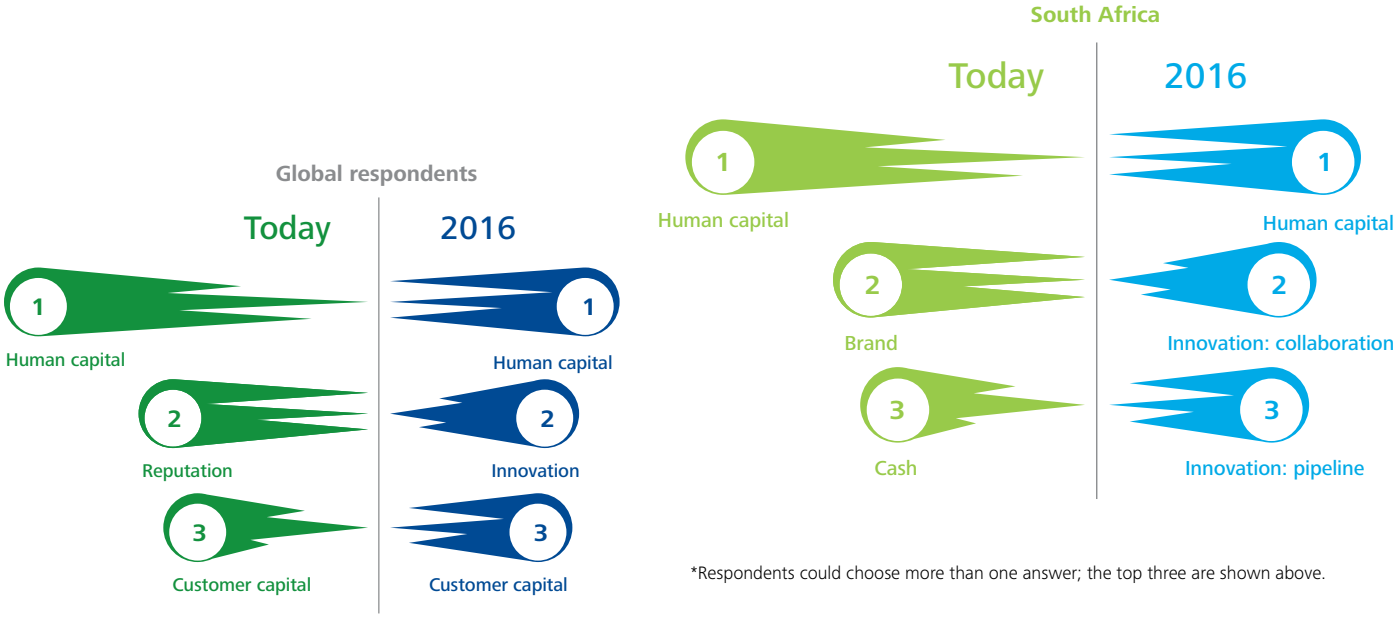
"Some of the brands of Pola Orbis Holdings use social media to effectively communicate with customers and no trouble has been identified for both corporate and personal use," says the company's Akira Fujii. "The issue with social media is the large amount of information available and speed of dissemination, which creates the risk of accidental circulation of negative rumors. Our Media head restricts [internal use of] social media outlets and regularly monitors for appropriate usage of information. We have also set policy for social media for personal use and provide sessions to educate [employees] about risks."

"We have a two-level approach to social media," says Charles Wilson, Vice President, Corporate Communications, Sysco Corporation. "We have a policy, and then we have some guidelines that we provide to our employees to ensure that in the event that they, even in their personal time, participate in the social media space on behalf of the company, they are aware of what is at stake"

Companies invest in strategic assets to reduce risk

Globally and in South Africa respondents view human capital – which includes employees, partners, and contractors – as the top strategic asset that is worth investing in today and going forward. The innovation pipeline is another strategic asset closely related to human capital that many respondents view as worthy of investment.

Q. Which assets have and will have the most strategic value to your organisation?*



*Respondents could choose more than one answer; the top three are shown above.

It is interesting to note that today South African companies view Human Capital, Brand and Cash as the top three strategic assets, reflective of the resource driven environment locally. As mentioned earlier, in order to drive global competitiveness, innovation needs to be a key strategic driver if South African companies are going to continue to compete in the global market. This is even more relevant given that globally and in South Africa, innovation is rated as the number two strategic asset going forward.

"Innovation and the ability to be a step ahead of the competitive market is a key strategic risk for all organisations, whether they be banking or pharmaceuticals," says Jennifer Evans of ANZ. "I think the truly differentiated organisations, are those that can deal with strategic risk issues, whether they exist now or in the future, with talented people who are clearly on the innovative curve. You have a human capital or a people capability risk if you do not have depth in your organisation. If you have enough depth in the organisation, you can manage your environment. But if you've got a key person dependency, then you've got human capital risk."

Cisco has a similar view about the crucial link between human capital and innovation. "Particularly for IT, innovation is huge and one of the biggest – if not the biggest – priority areas," says the company's Valerie Spillman. "How do you keep up innovation? You need the human capital side – the right skill set and expertise. You need to make the right investments all the way down from the leadership."

Of course, human capital risk often comes down to human behavior. "What we're trying to do is get to a point where we can control our conduct and reputational risk in a similar way to how we manage other principal risks such as credit and market risk," says Reto Kohler of Barclays. "I think that's the big difference to the way we acted before. And when I say 'we' I mean the industry as a whole. At Barclays, we're implementing a conduct risk framework that we didn't have before. Also, we have a huge programme of values training; every single employee of the bank globally – all 140,000 people – had to attend values training in person this year."

South African respondents have indicated that a key challenge with regard to the measurement and reporting of strategic investments is "budgetary constraints".

Hurtling forward

In an era when risk can become reality in the blink of an eye, companies should seek new capabilities and approaches for managing strategic risk. In particular, they should now consider a much broader set of risks and strategic assets – including people, intellectual property, customers, marketing efforts, and even "the crowd." These risks and assets are much more difficult to measure, capitalise on, and hedge against – and thus demand a much more systematic and sustained approach to monitoring and managing risk.

To address the risk challenges of tomorrow today, companies should look outside of their traditional corporate structures – adopting more of an "outside-in" perspective when assessing their strengths, challenges, and opportunities. This will require a new focus on gathering data and appreciating external perspectives from "outside" sources, including customers, bloggers, information trend setters, and marketplace and security analysts. It will also require learning from other companies and industries.

"I'd welcome the opportunity to hear from different industries as well as fellow ERM leaders," says Cisco's Valerie Spillman. "I think it's great hearing from the tech industry from an information protection standpoint (cybersecurity), but I also like to hear from the financial sector to see how they are identifying certain risks and how they are performing a risk assessment."
Reto Kohler of Barclays shares a similar sentiment. "I think there are lessons that we could have, for example, from the pharmaceutical industry. I think the pharmaceutical and investment banking industries have quite a lot of similarities in terms of regulatory scrutiny, the importance of human capital, and how both have been suffering from a bad image in the press and the public, etc. I sometimes think the pharmaceutical industry has been dealing with some of those issues for longer than we have and we can learn something from that experience."

Although companies around the world have made significant strides to shore up their strategic risk management capabilities, most recognise they still have room for improvement. Given the increasing speed and global impact of risk (and the growing importance of innovation) organisations must be open to any ideas that could enhance how they manage strategic risk – even if those ideas originate elsewhere. To operate with confidence in an expanding universe of strategic risk, companies need to explore every possible advantage.

For South African organisations this is even more critical given the increasing impact of global risks on local strategy and the increasing need to compete in an open global marketplace.

Looking ahead, it is not going to be an easy road with perceived future risk challenges in the areas of leadership, technology and strategic alliances.

South African respondents do however see the future investment potential in human capital, innovation through collaboration and networks with other organisations innovation pipeline, which if driven as core components of business strategy will ensure greater competitive advantage in the global market.

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Talk to us

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