RISK MANAGEMENT PERSPECTIVES OF GLOBAL CORPORATIONS

UNIVERSITY OF CAMBRIDGE
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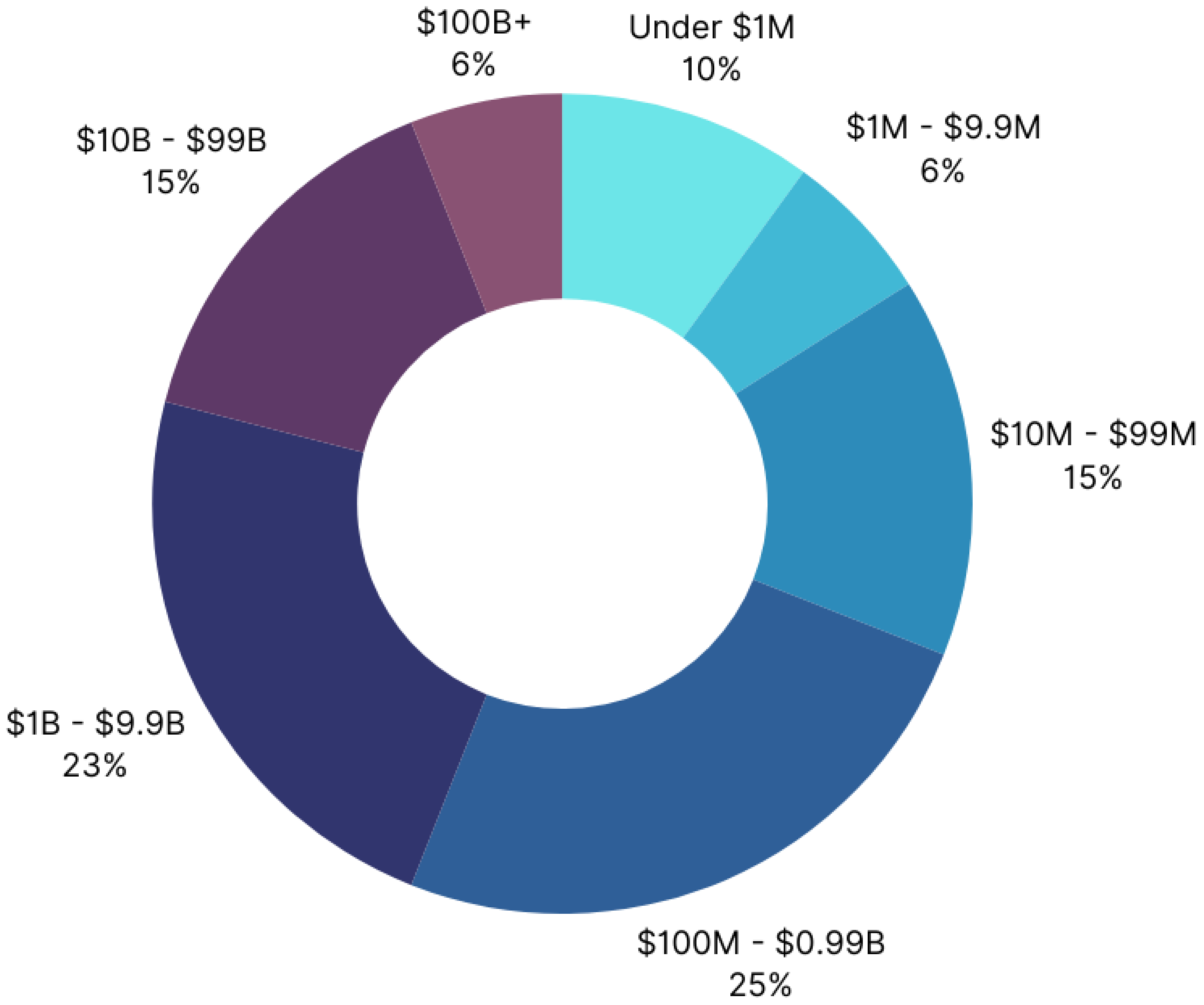
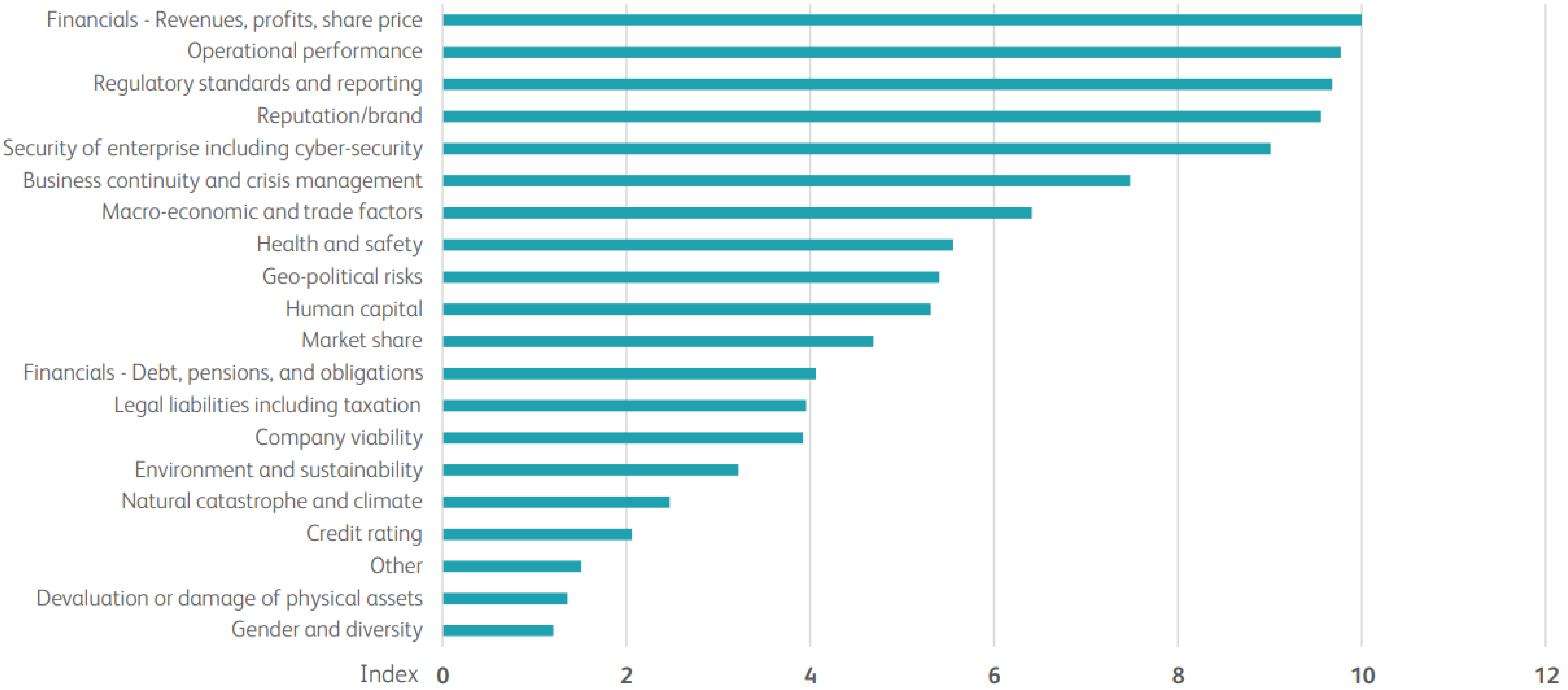


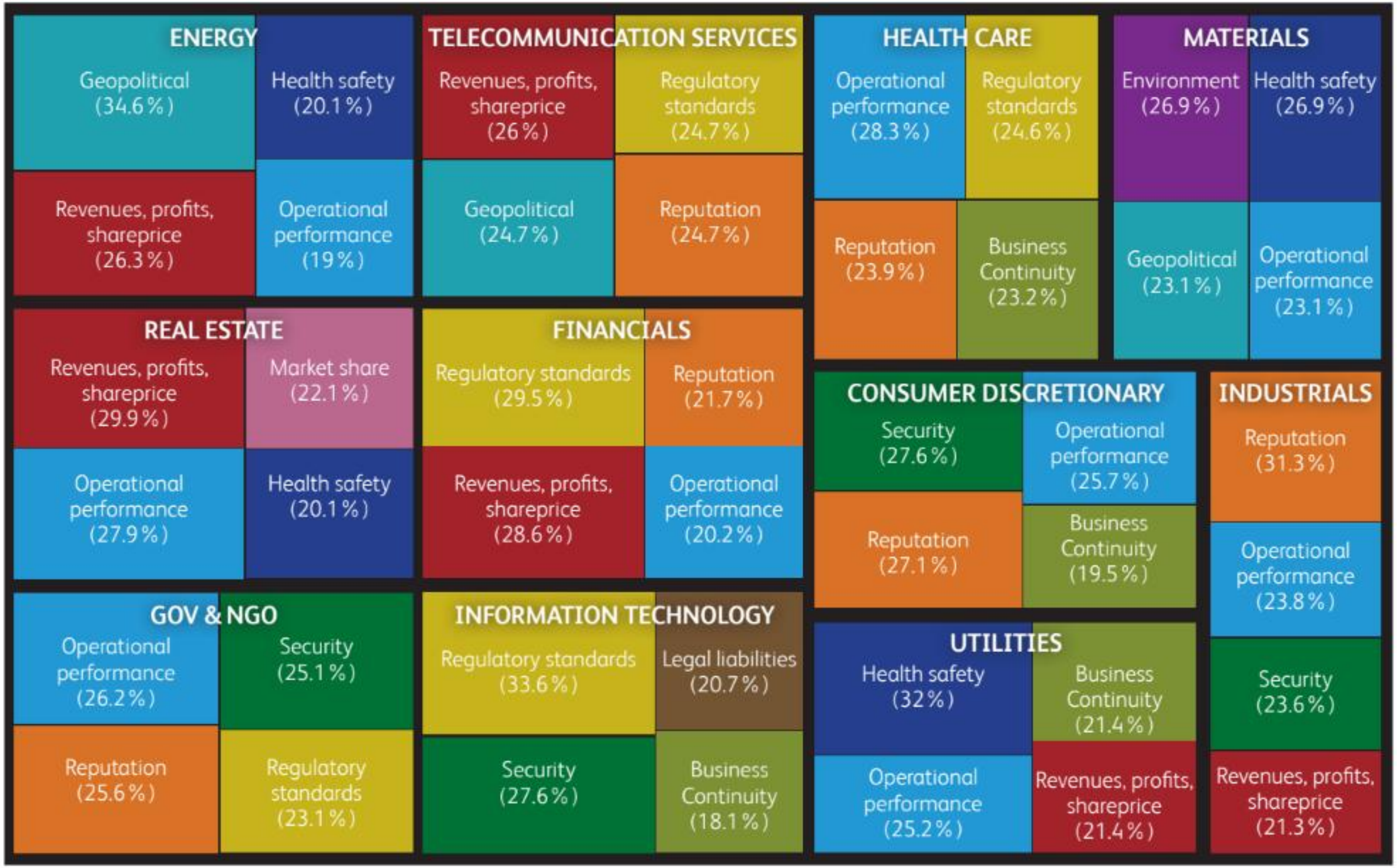
Source: Cambridge Centre for Risk Studies 2018 ERM Survey

Survey respondents also reported their top five counries of responsibility. The most represented counries include US, UK, Germany and China. These are followed by Africa and Europe, excluding Germany.

Top Enterprise Risks of Potential Concern for Companies in the Next 12 Months.



Sector View of Top Enterprise Risks for Companies.



The Present State of Global Corporations

Figure 1: Exports and Imports as a Percentage of Gross Domestic Product for 17 Industrialised National

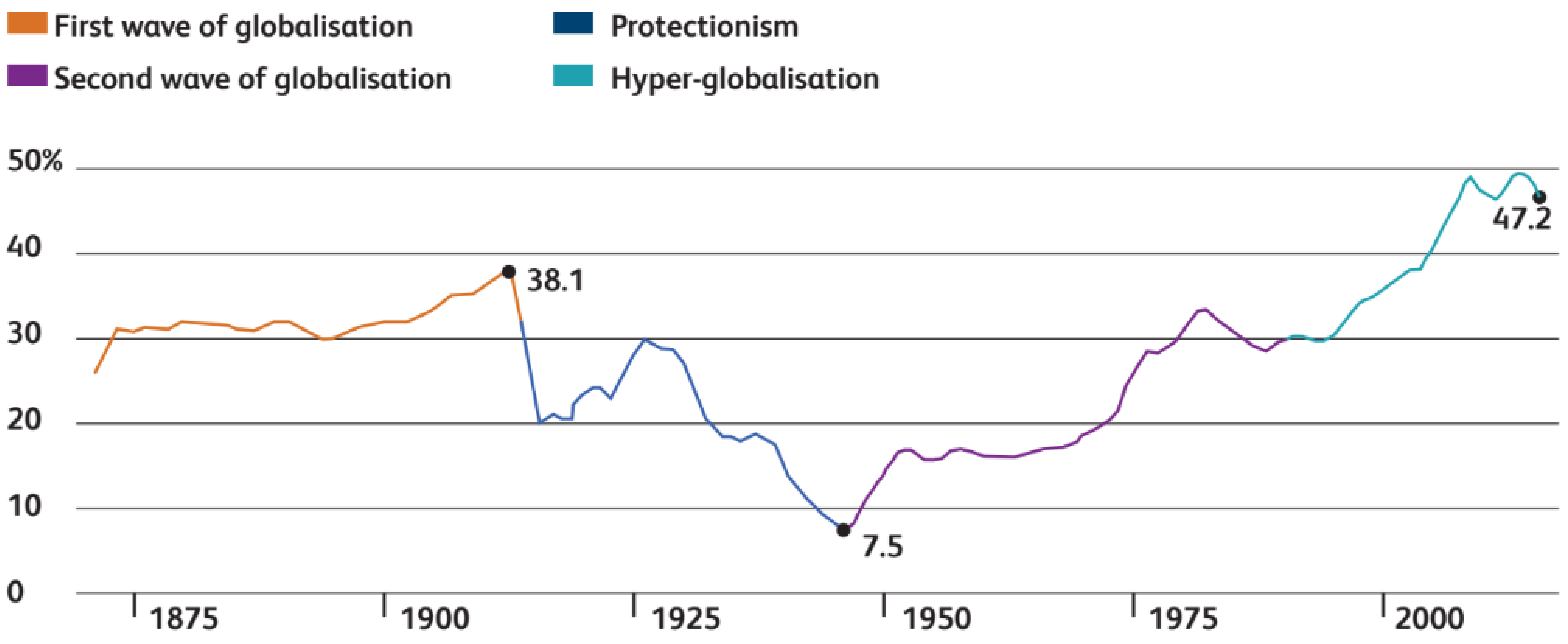
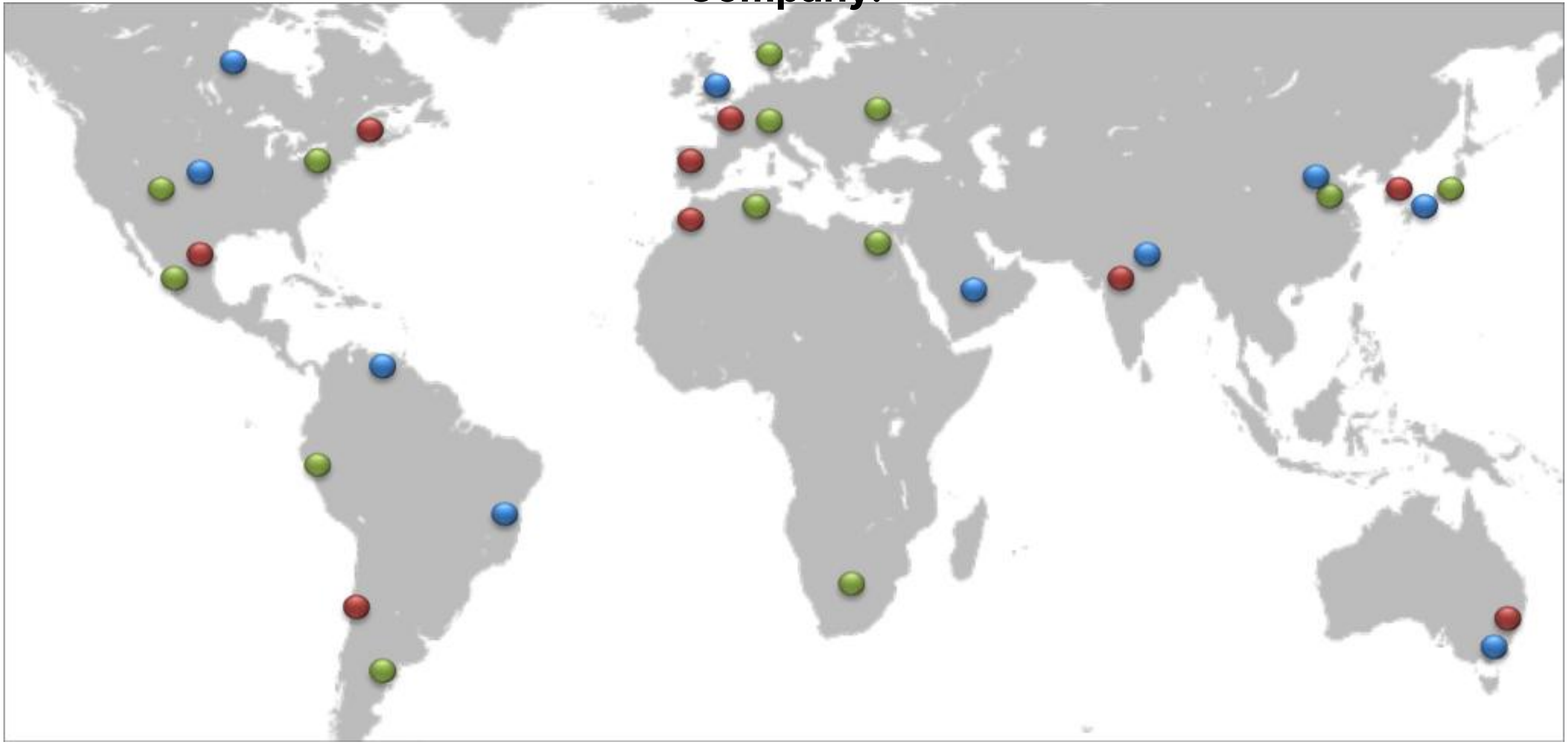


Figure 2: National Geographical Footprint of Pharmaceutical Company.



Top Risk #1 - Financials: Revenues, Profits, Share Price

- Financial health is critical, impacting all facets of a corporation, including revenues, costs, share price, and profitability.

- Complex corporations face interconnected financial risks, where a single issue can affect the entire company or industry.

- Financial distress (e.g., debt defaults) is a major threat, leading to delistings and bankruptcies, especially in vulnerable sectors like retail and oil & gas.

- Structured, proactive risk management is essential to address and mitigate financial risks, with a focus on debt management and forward-looking solutions.

Top Risk #2 – Operational Performance

Definition of Operational Risks:

Operational risks arise from failures in key business processes, which can include machinery breakdowns, accidents, natural disasters, or external disruptions like power outages.

Examples of Operational Risks:

Events such as the 2001 Bangkok floods demonstrated how business disruptions can have a larger financial impact than physical damage, especially in global supply chains.

Impact on Supply Chains:

Supply chain disruptions can cause over 40% losses in annual operating income, often leading to significant stock market impacts.

Mitigation Strategies:

Approaches like inventory management, dual sourcing, and standardization across industries help reduce operational risks, ensuring better resilience to disruptions.

Top Risk #3 – Regulatory, Standards, and Reporting

Global Complexity:

- Corporations operating across multiple regions face diverse and constantly changing regulations (e.g., GDPR in Europe, trade changes due to Brexit).

Mitigation:

- Companies must continuously monitor the regulatory landscape and adapt proactively to ensure compliance.

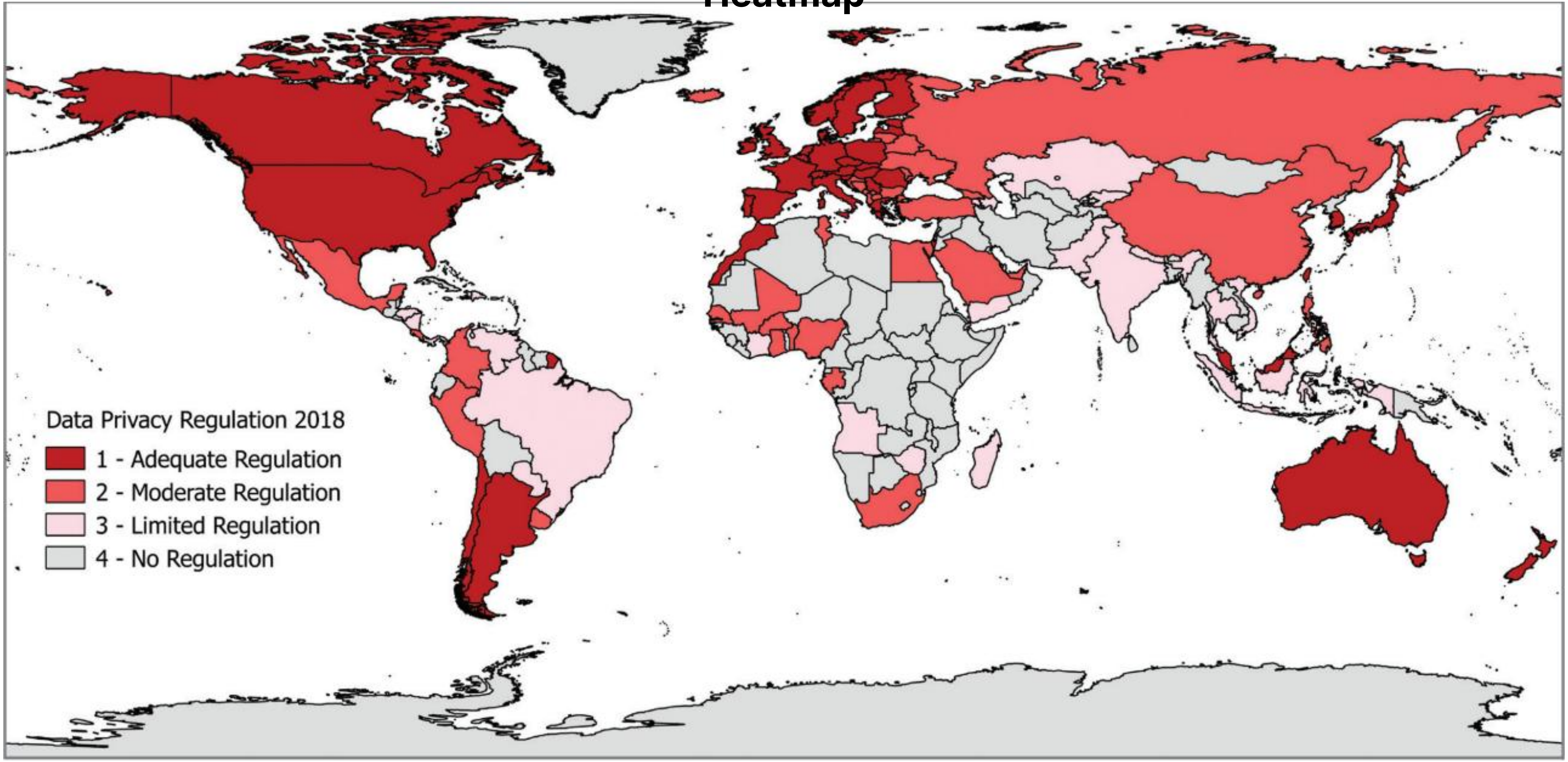
Definition:

- Regulatory risk refers to policies, laws, and industry standards that directly impact a company's financial performance.

Uncertainty:

- Political changes like Brexit create uncertainty for businesses, as they navigate new trade agreements and legal requirements.

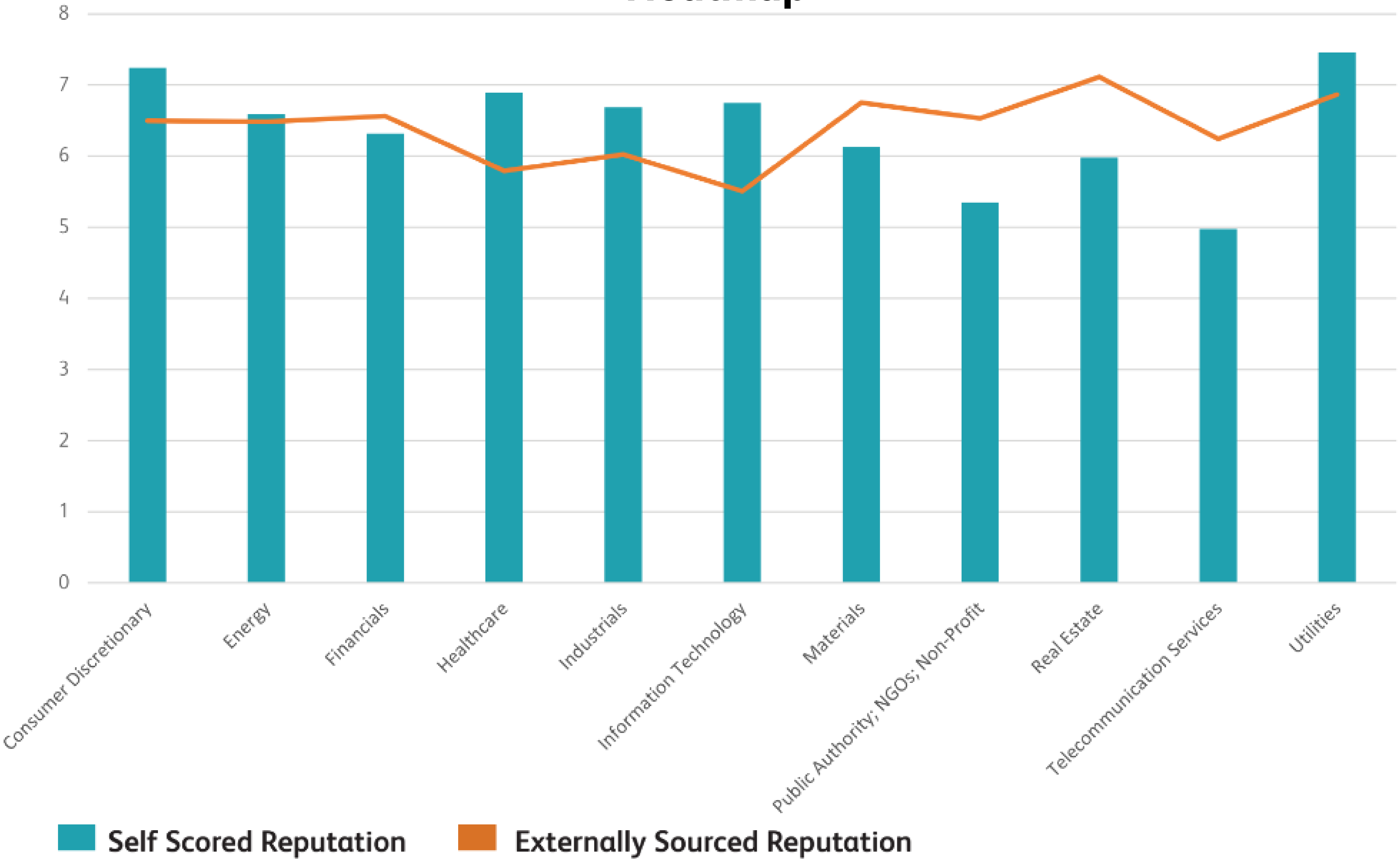
Figure 4: Data Privacy Regulation Heatmap



Top Risk #4 – Reputation/Brand

Reputation and brand risks are critical for global corporations, as they directly affect consumer trust and market perception. A damaged reputation can lead to significant financial losses, reduced sales, and even a drop in share prices. The rise of social media has amplified the speed at which negative news spreads, making it essential for companies to respond quickly to crises. Managing these risks requires consistent communication, transparency, and maintaining brand values.

Figure 5: Data Privacy Regulation Heatmap



Top Risk #5 - Security of Enterprise Including Cyber Security

- Enterprise security covers both physical and information security, with cybersecurity being critical in today's digital environment.

- Cyber threats are growing rapidly, including hacking, data theft, and disabling of critical business processes.

- Cyberattacks result in significant financial and reputational losses, including legal penalties and operational downtime.

- Human error is a key vulnerability; training employees on cybersecurity best practices is essential.

- Companies need a multi-layered defense strategy, including encryption, data backups, threat monitoring, and employee education.

Top Risk #6 - Business Continuity and Crisis Management

Business continuity risk refers to potential disruptions in business operations due to unforeseen events like natural disasters, cyberattacks, or supply chain failures. Crisis management involves strategic planning to mitigate these risks and ensure quick recovery. Companies must have disaster recovery plans, communication protocols, and trained teams to handle emergencies efficiently. A well-prepared business continuity strategy minimizes financial losses and ensures operational resilience.

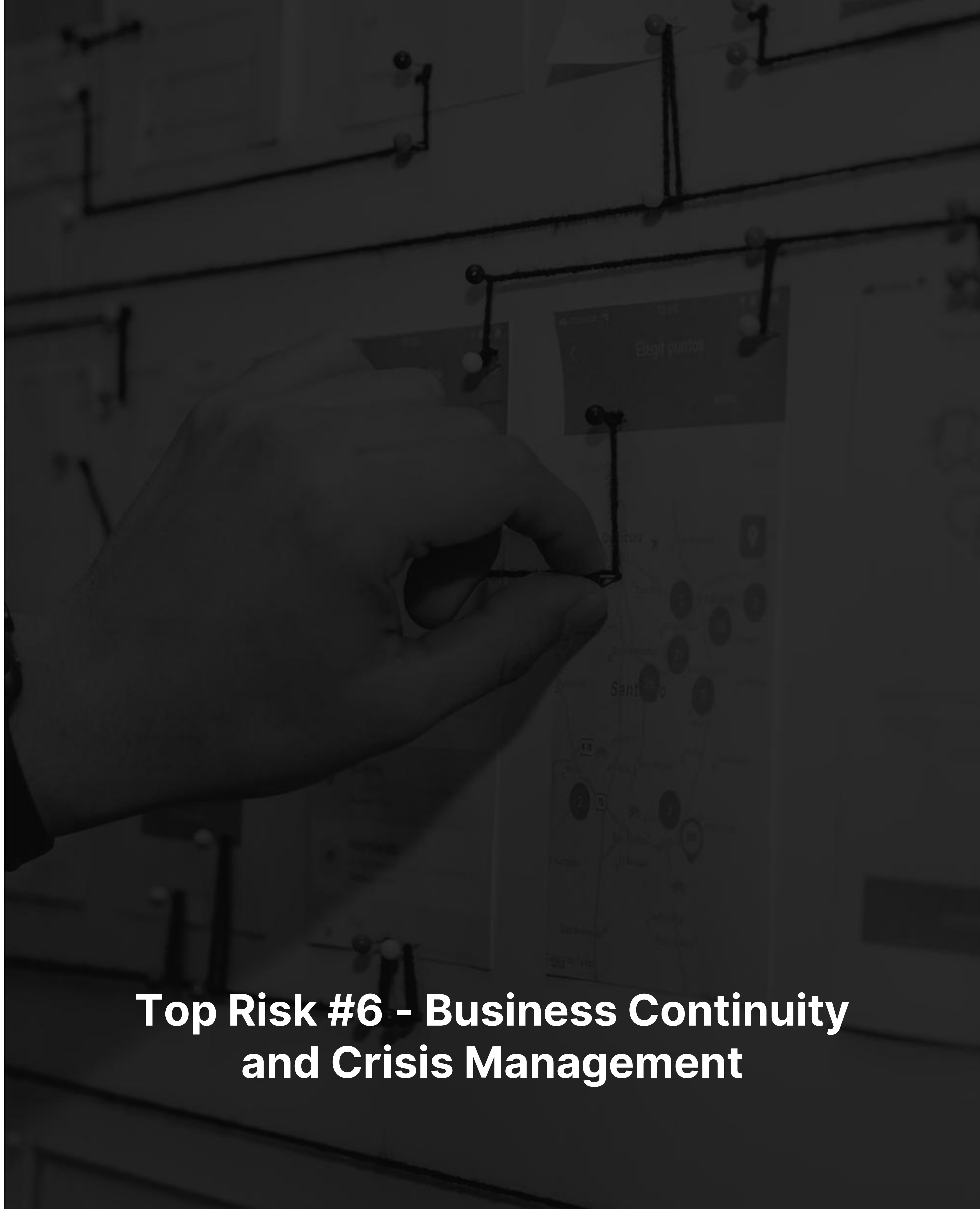
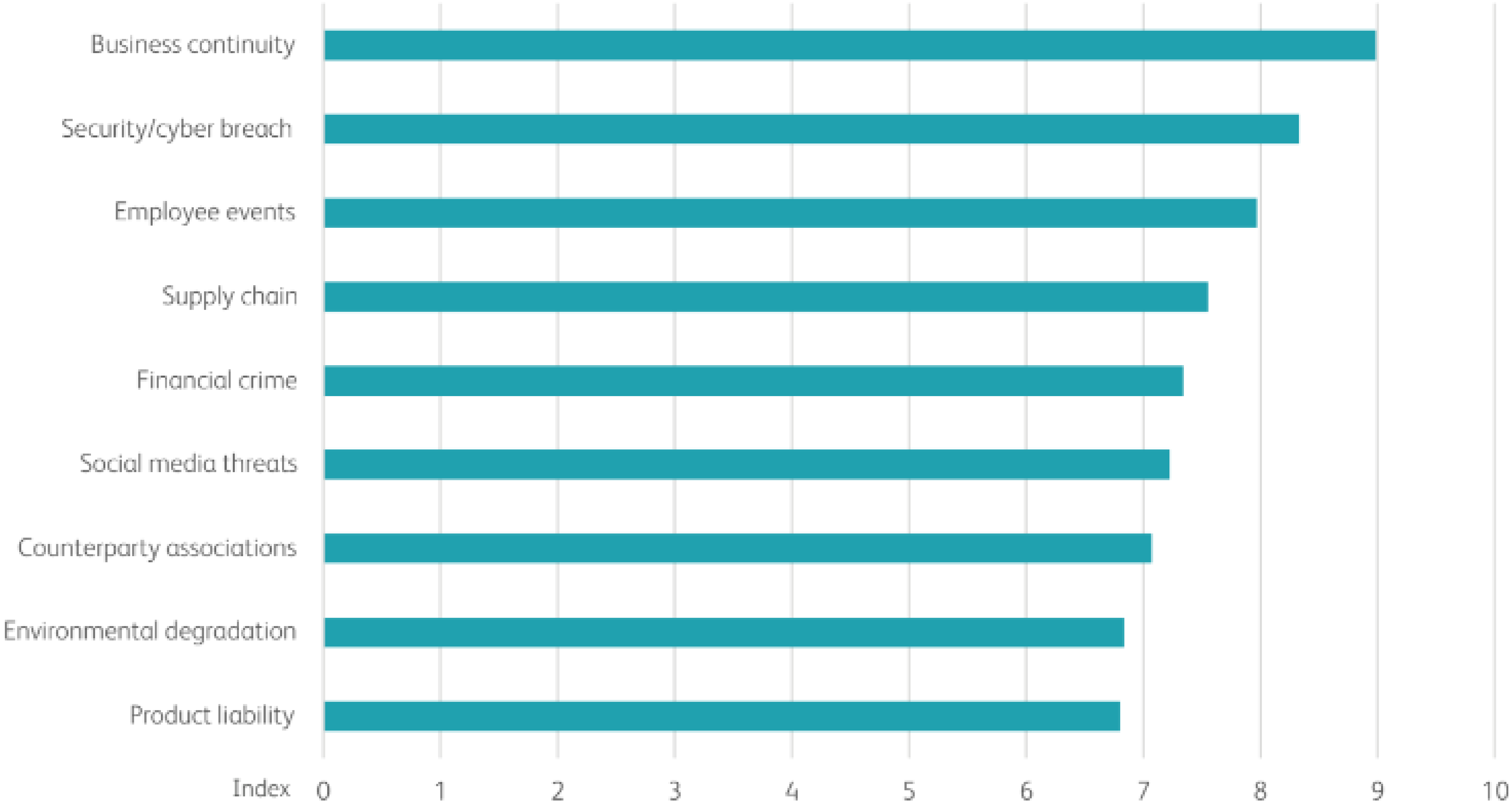
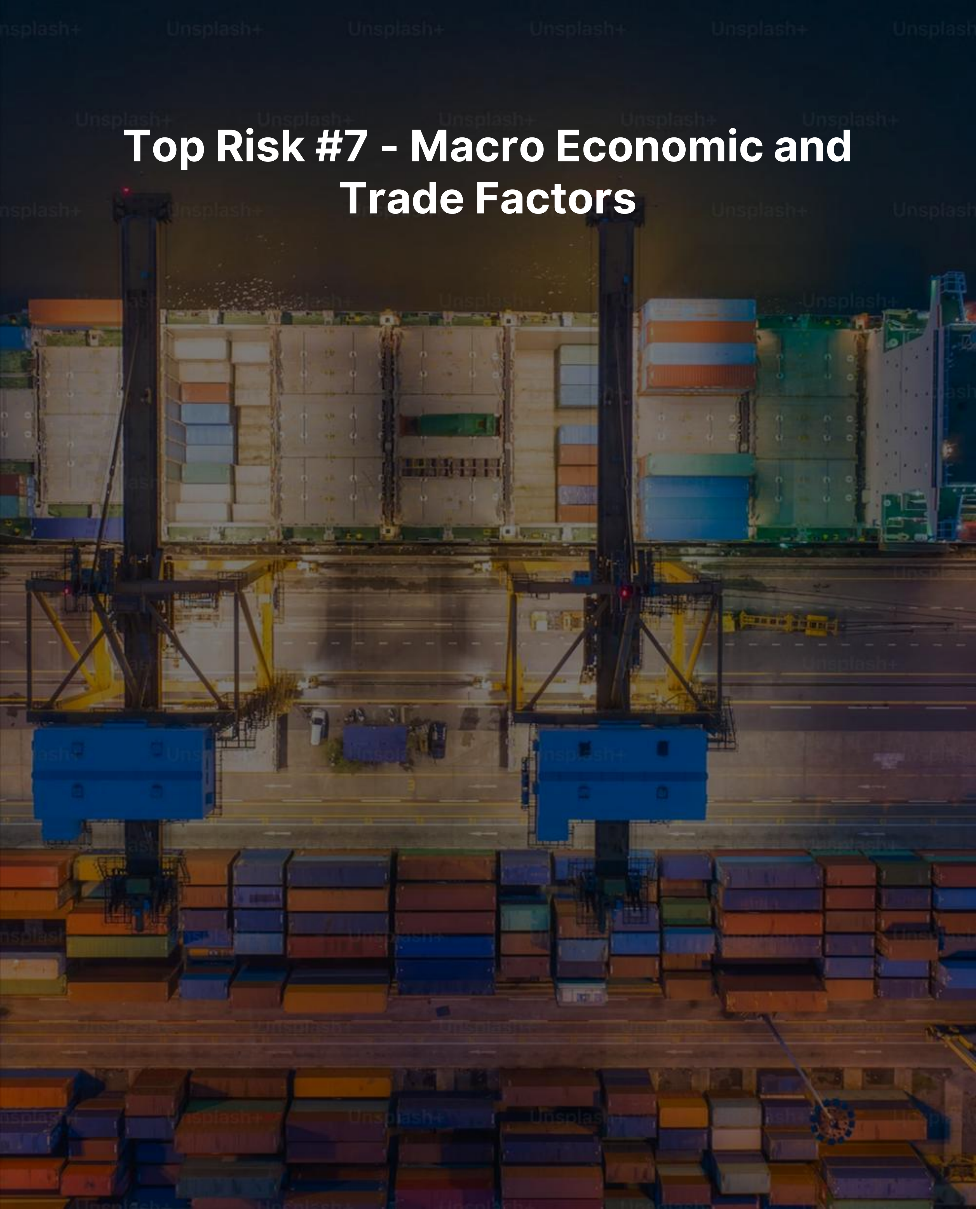


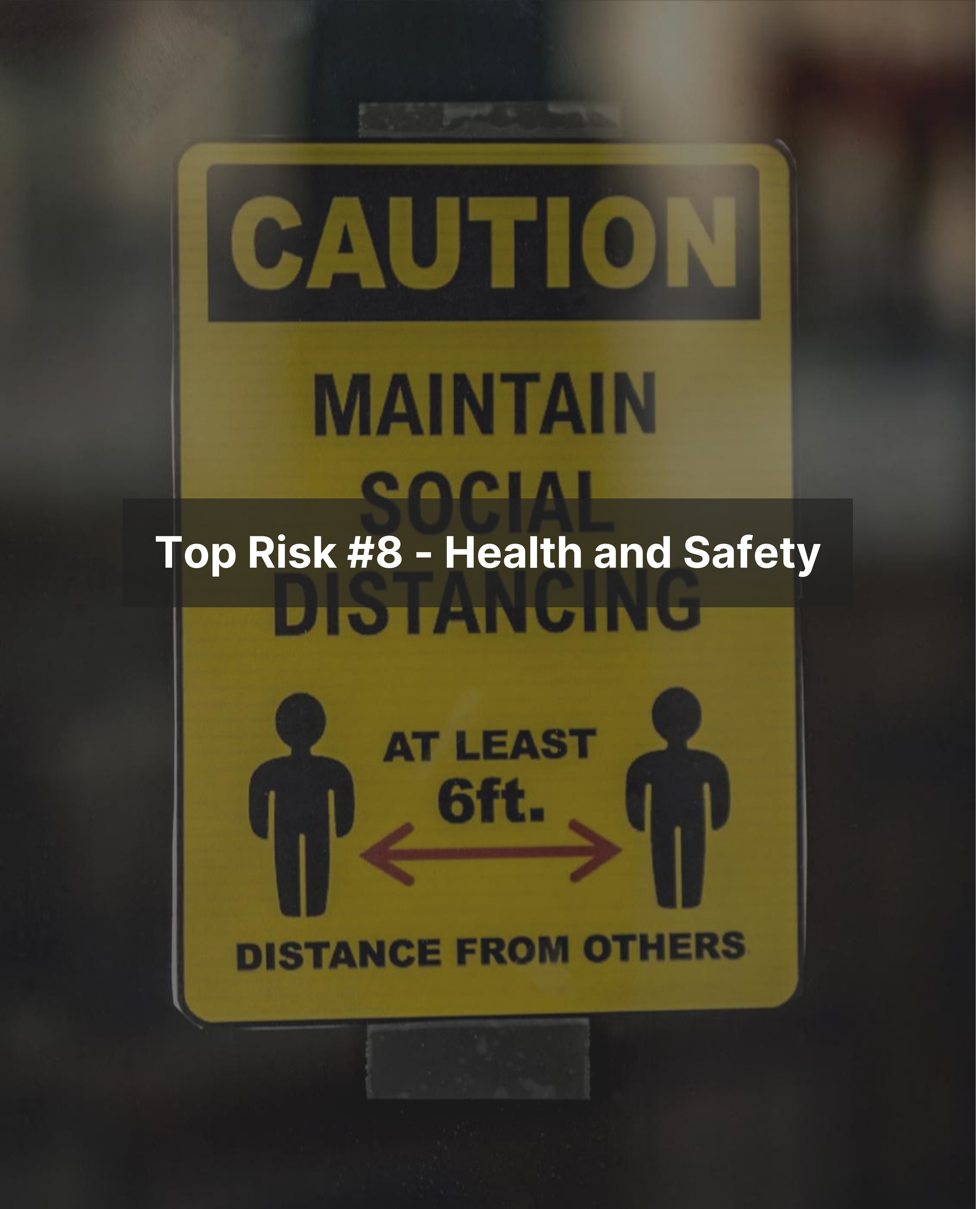
Figure 6: Risks Addressed in Crisis Management Plan



Top Risk #7 - Macro Economic and Trade Factors



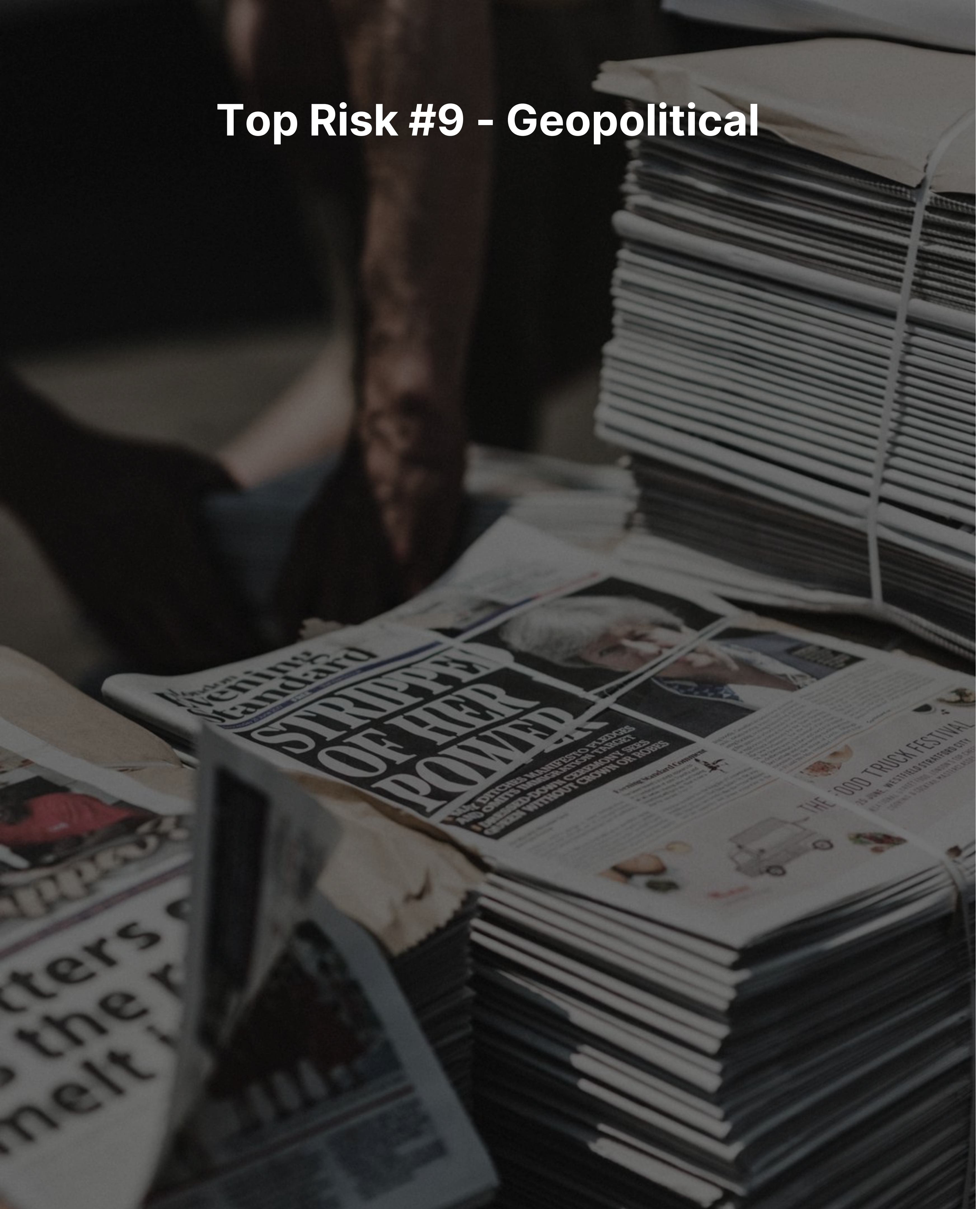
Macro-economic and trade risks arise from factors like economic downturns, inflation, currency fluctuations, or trade restrictions. These risks can significantly impact global corporations, affecting their profitability, supply chains, and market access. Effective risk management strategies include diversifying markets, hedging currency risks, and staying informed about global economic trends to adapt operations proactively.



Top Risk #8 - Health and Safety

Health and safety risks refer to potential hazards in the workplace that can affect employee well-being and operational continuity. These risks include workplace accidents, exposure to hazardous materials, and mental health challenges. Companies must implement comprehensive health and safety policies, conduct regular training, and create a culture of safety to protect employees. Effective management of health and safety risks not only complies with regulations but also enhances productivity and employee morale.

Top Risk #9 - Geopolitical

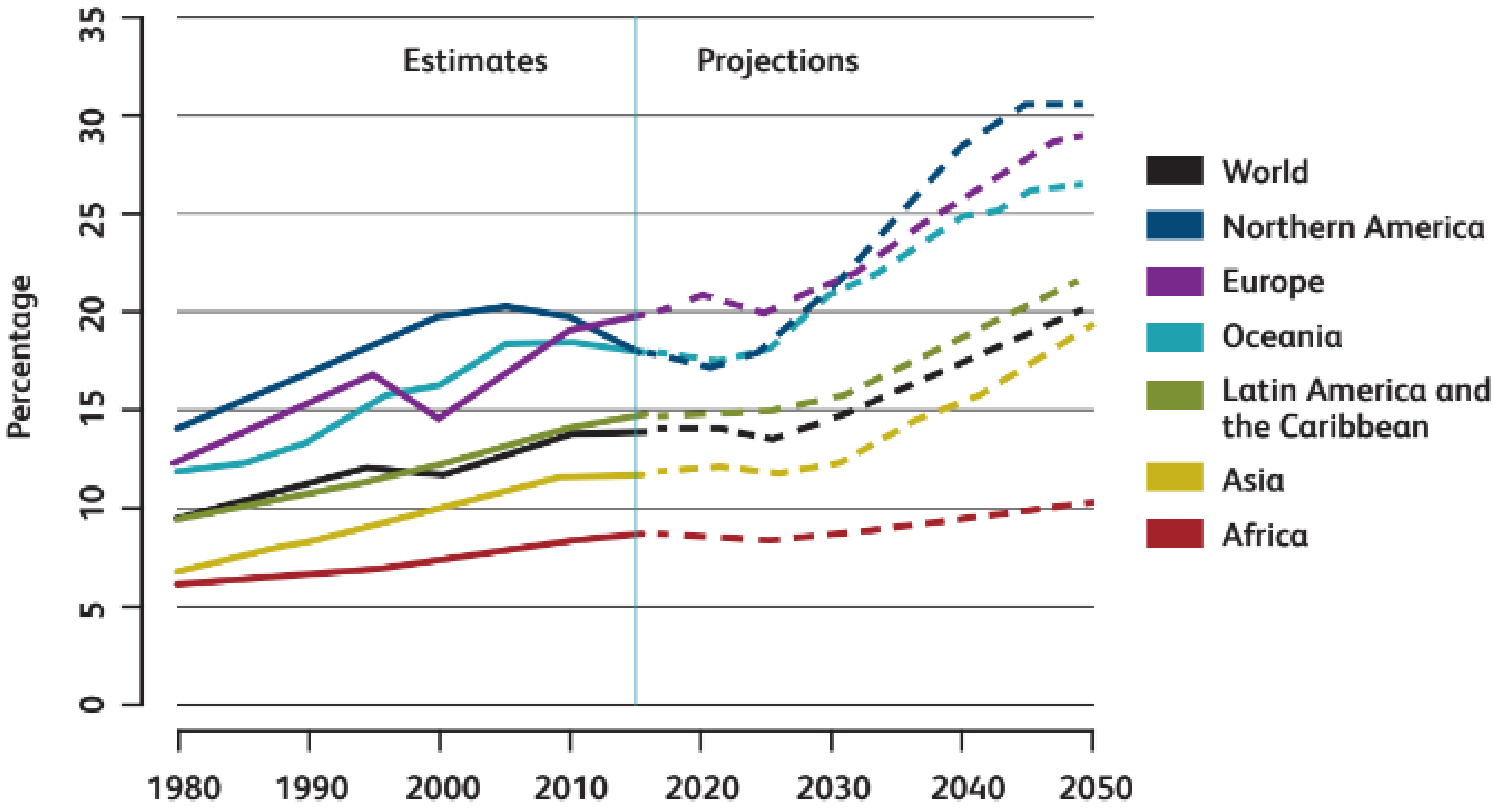


Geopolitical risks challenge global companies with complex and interconnected threats. These include terrorism, civil conflict, populism, and trade tensions. As these risks evolve unpredictably, companies must use scenario analysis to integrate geopolitical concerns into their business strategies. Industries like marine transport are especially vulnerable to geopolitical shocks due to global interdependencies.

Top Risk #10 - Human Capital

Human capital risk includes issues related to talent acquisition, retention, and workforce development. Companies face challenges such as aging workforce, skill gaps, and increasing competition for talent. Effective management involves investing in employee training, improving workplace culture, and ensuring diversity and inclusion. Companies must prioritize talent development to remain competitive and innovative.

Figure 7: Percentage Aged 80 years or Over Among the Population Aged 60 Years or Over for the World and Regions, 1908-2050.



Data Source: United Nations (2017). World Population Prospects: The 2017 revision

Budget Priorities for Risk Management

- Companies allocate resources to risk monitoring technologies and management systems.
- A significant part of the budget goes to employee training to minimize human error, crucial for preventing potential incidents.
- Investments in cybersecurity solutions and insurance are essential to mitigate risks, especially concerning data breaches and cyberattacks.
- Balancing costs between traditional insurance and self-insurance models is increasingly common, as companies seek flexibility and cost-effectiveness.

The Role of Insurance in Risk Management

- Insurance is a key tool, but many companies find traditional insurance products insufficient for large-scale global operations.

- Companies are turning to self-insurance or creating internal reserves to cover potential losses, which can offer more flexibility.

- The rise of insurtech (insurance technology) is revolutionizing risk management, offering tailored, digital solutions that better address specific corporate needs.

- Insurance combined with innovative risk management strategies allows businesses to respond faster to changes in their risk profiles.

Conclusions

- Global corporations face increasing complexities in risk management.
- Preparation for external shocks, such as geopolitical instability, is crucial.
- Integrating Enterprise Risk Management (ERM) tools into strategic decision-making enhances resilience.
- Adaptability and preparedness are essential for future challenges.

Recommendations

- Improve integration between risk management and strategic departments.
- Utilize advanced technologies for risk monitoring and analysis.
- Consider macroeconomic and geopolitical factors in risk strategies.
- Conduct scenario analysis and stress tests regularly.
- Invest in employee training to enhance risk awareness and response.

Thank you!

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