Accenture Risk Management

Industry Report

Consumer Goods and Services

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Risk management as a source of competitive advantage and high performance in the consumer goods and services industry

Risk management that enables long-term competitive advantage

One of the largest risk management executive surveys of its kind, the Accenture 2011 Global Risk Management Study has found that senior executives across all industries are making risk management a top priority. Companies are investing at greater levels and are more likely to have in place C-level executive oversight to ensure that risk is being managed in an enterprise-wide fashion. In short, risk management capabilities are not only prevalent and a target of investments—they are also more aligned with growth strategies and they are helping companies achieve their most important business priorities.

Beyond the immediate pressures of global markets, more demanding customers and dramatic industry change is a growing recognition that companies have an opportunity to drive competitive advantage from their risk management capabilities, enabling long-term profitable growth and sustained future profitability.

This means that risk management at the top-performing companies in our study is now more closely integrated with strategic planning and is conducted proactively, with an eye on how risk management capabilities can help a company be successful in new markets faster or pursue other evolving business expansion opportunities to enable growth.

Nine percent of the respondents in our Global Risk Management Study were executives from leading consumer goods and services (CG&S) companies who have responsibility within the risk management function. This report augments the global, cross industry study (for a summary, see over) with some of the compelling detailed perspectives from CG&S survey participants.

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Summary findings: The Accenture 2011 Global Risk Management Study

The Accenture 2011 Global Risk Management Study is based on a quantitative survey of executives from 397 companies across ten industries. All respondents were C-level executives involved in risk management decisions at their companies; organizations were split primarily among Europe, North America, Latin America and Asia Pacific. In addition to the quantitative survey, additional in-depth interviews were conducted with a number of executives whose views are also represented in the survey findings.

Key risk insights

Results from the study support the following key insights related to the heightened importance of risk management capabilities in meeting today's business challenges and opportunities:

1. Increasing volatility and growing complexity make risk management central and strategic to all industries.
More than 80 percent of companies surveyed, across all industries, consider their risk management function to be a key capability that helps them deal with marketplace volatility and organizational complexity.

2. Executives see their risk management capabilities as important to future profitability and long-term growth.
Beyond its traditional role in areas like compliance, risk management is now seen as a driver of more strategic business objectives. More than 90 percent of executives see the risk management function as important or critical to growth and profitability.

3. Companies are implementing comprehensive enterprise risk management programs.
Companies are making smart investments in risk management capabilities. More than 80 percent of survey respondents overall have an enterprise risk management (ERM) program in place or plan to have one in the next two years.

4. **Companies are establishing C-level oversight of the risk management function.**
About two-thirds of all survey respondents (64 percent) have a Chief Risk Officer operating with that title. Another 20 percent have an executive in the role fulfilling those responsibilities. Thus the criticality of risk management is being recognized by the way the function is staffed and led.

5. **Executives expect their investments in risk management to increase over the next two years.**
Eighty-three percent of respondents see risk management investments increasing in the next two years. Of those, 21 percent foresee a significant increase (more than 20 percent) while 62 percent foresee an increase of less than 20 percent.

Challenges ahead

Survey findings and Accenture analysis point to a number of challenges ahead for companies when it comes to managing complex risks more effectively:

• The types and magnitude of risks are increasing. Companies have growing concerns about a broader spectrum of risks, including those related to the supply chain, operations, regulation and reputation.

• Despite major investments to develop risk capabilities, critical exposures persist, especially in the measurement of key risks.

• Organizational silos and outdated information systems are preventing effective integration of risk management structures and responsibilities.

• Companies experience performance gaps between expectations for risk management and what is achieved. For example, 93 percent of respondents indicate that the risk organization is important as a driver for sustained future profitability, but only 76 percent say their risk organization has achieved that goal.

• Cost reduction and alignment of risk management with overall business strategy are ongoing executive concerns.

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Achieving risk mastery

The large sample size of the Accenture 2011 Global Risk Management Study enabled the identification, with statistical validity, of a subset of companies deemed to be "Risk Masters"—companies whose practices and capabilities set them apart from their peers. Based on analysis of these companies, the following are key risk management capabilities that can help guide other companies toward mastery:

• **Look to create shareholder value from risk management.**
Risk Masters are especially adept at creating processes and mechanisms that link risk to business performance.

• **Involve the risk organization in key decision-making processes.**
The risk management organization needs to be included in activities such as strategic planning, objective setting and incentives, financing decisions and performance management processes.

• **Improve the sophistication of measurement, modeling and analytics to anticipate risks in an increasingly complex environment.**
Risk Masters are more likely to measure a fuller spectrum of risk types, and they have a higher commitment to analytics and risk modeling.

• **Go beyond a compliance mindset of risk management to deliver more complete business solutions that drive competitive differentiation.**
Top-performing companies are better at managing regulation and compliance in a way that also delivers better business performance. Risk Masters are also better at developing relationships with regulatory agencies.

• **Integrate risk management capabilities across business units and organizational structures.**
Much higher percentages of Risk Masters excel at the integration required for effective risk management, something that requires a commitment to evolving organizational capabilities over a multi-year program of change.

• **Establish a dedicated, C-level risk executive with oversight and visibility across the business.**
Top performers separate themselves from the pack by having in place a dedicated risk executive with sufficient visibility and leverage to influence risk management capabilities across the entire organization.

• **Infuse risk awareness across the organizational culture.**
It is vital to have in place the mechanism to create and distribute more broadly across the organization an awareness of risk exposure, detailed training and the means to mitigate risks.

• **Invest in continuous improvement.**
Risk management is an ongoing, evolving capability. The world changes rapidly and companies must be nimble in terms of staying ahead of the curve when it comes to meeting the risks and challenges ahead.

To access the complete Accenture 2011 Global Risk Management Study, please go to www.accenture.com/GlobalRiskManagementResearch2011.

Key findings

Although CG&S executives affirm the growing importance of risk management to the success of their industry, such companies are less likely than organizations from other industries to have a comprehensive, integrated risk management program in place. Such a program, along with smart investments in measurement and analytics, can help to make risk management more of a competitive differentiator, especially at a time when reputational and supply chain risks are increasing across the industry.

Detailed findings for the CG&S industry based on survey data and analysis include the following:

Risk management is increasing in importance

The distinguishing characteristics of the consumer goods and services industry are intense competition, narrow margins, and relentless pressure to innovate through new product development. Continuing global economic volatility has led to huge swings in commodity prices, including basic raw materials such as wheat and cotton, as well as packaging and transportation costs.

When wheat prices spiked dramatically in 2008, many food companies had to scramble for supplies, and had to make difficult decisions as to whether to pass increased prices on to customers and, if so, by how much. Similarly, consumer goods and services companies must deal with numerous product quality and safety issues, all complicated by the proliferation of suppliers and materials sources.

Not surprisingly, therefore, CG&S companies report that risk management has increased in importance over the last two years. Executives are also fairly confident in the ability of their risk management programs to address both operational and supply chain risks. Eighty percent of respondents said that their risk management program addresses operational risks as effectively as financial risks, and the same percentage of respondents said that supply chain risks were adequately addressed within the risk management program.

In addition to the consideration of supply chain, credit and market risk, technology risk is something which could be a concern. CG&S companies often spend massive amounts on brand and marketing, so any outages can have significant effects on reputation as well. This underscores the importance of crisis management in the industry, something increasingly desired as the types and magnitude of risks increase.

Another important area of concern is financial fraud and crime. The financial and reputational risks from fraud have increased at a time when organizations' focus on driving costs down have cut resources available for fraud prevention and detection.

More comprehensive, integrated enterprise risk management is needed

More than 80 percent of global survey respondents overall have an enterprise risk management (ERM) program in place or plan to have one in the next two years. An even higher percentage of Risk Masters (90 percent) have such capabilities. By contrast, only 57 percent of CG&S companies have an existing ERM program. Risk governance and risk management processes also tend to be slightly less mature than in other industries studied, and CG&S companies are less likely to be focused on regulatory compliance and on influencing the development of regulations than other non-financial industries.

A more comprehensive, integrated, approach to risk management can benefit companies in the CG&S industry. As one of the Chief Risk Officers from our study put it, "An integrated vision of risks is absolutely necessary, not only in terms of consolidation of risks at the entity level, but also across entities, per business line."

Companies are considering emerging markets risk relatively effectively

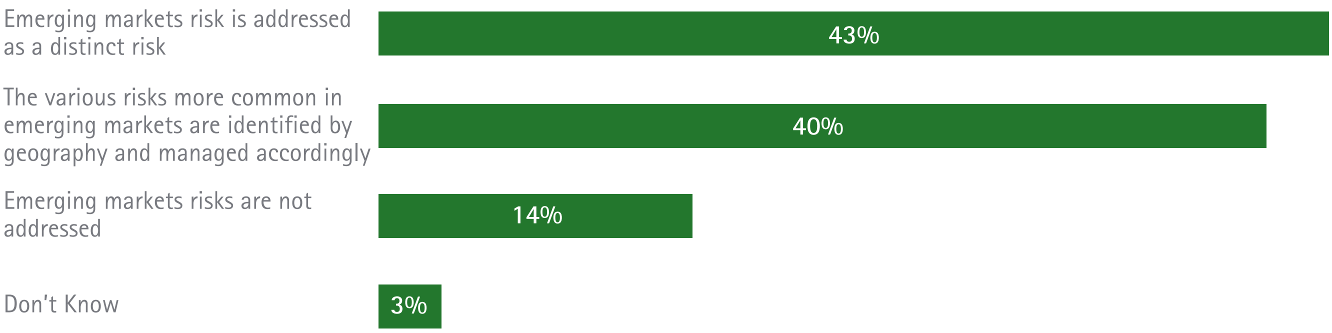
A high percentage of CG&S respondents say that risks related to emerging markets are addressed within their companies' risk management programs. Among respondents, 43 percent say that emerging-markets risk is addressed as a distinct factor, and 40 percent say that the various risks more common in emerging markets are identified by geography and managed accordingly. Only 14 percent of respondents say emerging markets risks are not addressed. (See Figure 1.)

Risk management as a differentiator is still on the horizon

CG&S was one of the industries in the survey least likely to see their risk function as a source of competitive advantage and, at least at this point, companies are investing at lower levels. (See Figure 2.)

Figure 1
CG&S companies are addressing emerging markets risks

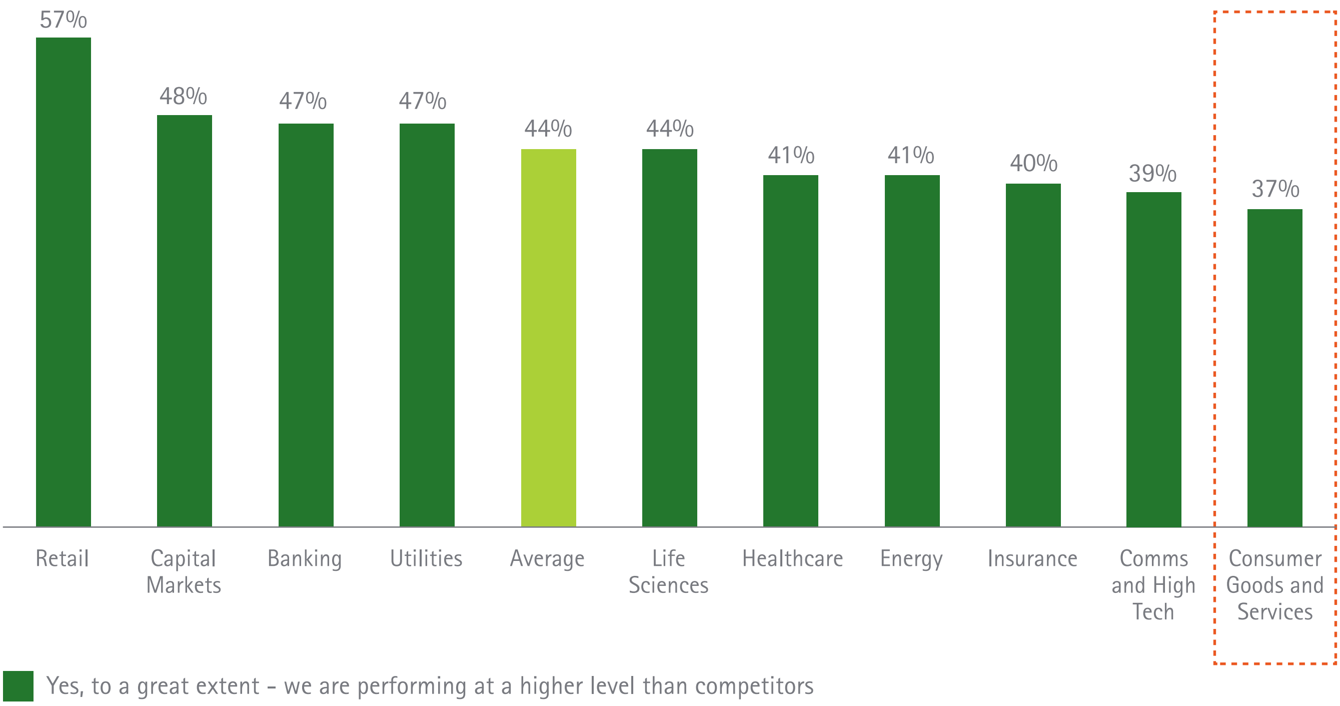
How are the risks related to emerging markets addressed within your risk management program?



Sample: CG&S respondents

Figure 2
CG&S companies don't see their risk function as a competitive advantage

Is your risk function a source of competitive advantage, and therefore a source of higher performance relative to competitors?



Our research found, however, that companies that desire to attain risk mastery are more likely to identify risk as a higher priority. For example, across the global study, 67 percent of Risk Masters believe that the risk management function drives sustained future profitability while only 46 percent of peers hold this to be so. CG&S companies can make progress toward risk mastery by putting in place the processes and mechanisms whereby risk is linked to business performance.

CG&S companies believe that the key factor for transforming risk management into a competitive differentiator is adapting to industry and geographic regulations (80 percent). While respondents rank their companies highly in terms of driving compliance with regulations (94 percent) and sustaining future profits (97 percent), they are somewhat less likely than other companies to believe that their activities reduce operational, credit or market losses (80 percent versus 89 percent overall).

Risk leadership tends to be decentralized

CG&S companies are less likely than other companies (26 percent versus a 45 percent overall average) to have a Chief Risk Officer own the risk management process, and only 40 percent of CG&S companies have a centralized risk function. CG&S companies typically rely upon a combination of risk functions at corporate and business unit levels.

Companies should closely consider our research finding that one way Risk Masters are separating themselves from the pack is by having a risk executive highly placed in the company—one with broad oversight but also with broad visibility and influence and backed by a dedicated risk management organization. This can ensure that risk and performance management are being conducted in a more strategic manner. This risk executive should be closely connected to the top leadership of the company, ensuring that risk investments are strategic and that a more proactive risk management culture is created and sustained.

Future improvements are expected to focus on improved measurement and analytics

CG&S companies are most likely to measure strategic, operational, business and market risks and less likely than other companies to measure liquidity, credit, political and reputation risks. However, CG&S companies are not yet pursuing advanced capabilities in risk analytics, measurement and modeling, ranking lower than other industries in these areas. These are distinct gaps relative to the future needs of the industry, and therefore an area for attention and investment.

Across our global survey, Risk Masters have a significantly higher commitment to analytics and risk modeling. Sixty-four percent of Masters are undertaking analytics and modeling programs to enhance their risk organization, compared with just 47 percent of non-Masters. Masters are also distinguished in the area of measurement. Much higher proportions of Masters are currently measuring the fuller spectrum of risk types. For example, 90 percent of Masters measure strategic risks, compared with just 63 percent of peers.

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Taking action: achieving risk mastery

As they work to advance toward risk mastery, companies in the consumer goods and services industry should consider the following strategies as they make ongoing investments in their risk management programs:

1. Extend capabilities in the management of emerging markets risks.
Think about risk in connection with planned growth initiatives. Rapid expansion into new markets can be accompanied by financial, political and reputational risks that may not be measured as part of existing risk management programs. Similarly, extending the supply chain into new geographies may create interdependencies and choke points that can only be identified at the enterprise level.

2. Update crisis management plans.
A plan suitable for a company operating in two or three countries and with half a dozen key suppliers may not work at all for a company that has transformed itself through rapid growth or major acquisitions. Plans should include board and top management buy-in with detailed communications down to every level of operations.

3. Increase the security of the supply chain.
Companies are changing their supply chains by sourcing on a global level and by expanding into markets in new regions. These aspects increase the complexity and risks in the supply chain. It is important to focus on the strategic changes, operational improvements and enabling technologies that help accommodate the regulatory and trading partner requirements of a secure supply chain. Higher levels of granularity are needed in quality management systems; companies need to move beyond lot-level tracking to focus on pallets, cases and individual items.

4. Re-evaluate current risk governance and risk management processes, including risk analytics.
Capabilities in these areas are less mature in CG&S than in other industries, but they are also the foundation of a strong risk management function. Plans should be developed that facilitate implementation of standardized risk assessment and risk analytics that are integrated into key business activities.
Companies that are able to master a range of integrated elements—involving risk management in key decision-making processes, putting in place leadership with board-level visibility, and infusing risk awareness across the organization—are creating the means to differentiate themselves from the competition. The Risk Masters have set a very high bar: they are looking beyond reactive, compliance-oriented mindsets and are seeking, through their risk management investments, to create shareholder value and achieve high performance.

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About Accenture Risk Management

Accenture Risk Management consulting services works with clients to create and implement integrated risk management capabilities designed to gain higher economic returns, improve shareholder value and increase stakeholder confidence.

About Accenture

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