KPMG

cutting through complexity

Value of Governance and Governance Best Practice for outsourcing

April 2012

What challenges are organisations facing today?

The mounting pressure…

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Thoughts from the Executive and Board?

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What do they care about?

Can my current Target Operating Model (TOM) cater for our future growth?

Where can I reduce COGS?

How do I manage the increased supply chain volatility and uncertainty?

What are the priority of our current / future projects?

How do I embed regulatory changes to the organisation's operations?

How do I get my products to the market quicker?

How can I leverage on talent pool in the emerging market? How can I increase productivity of my staff?

With the issues in Europe and US, where can I reach new markets?

How do global organisations manage risks across the end-to-end supply chain?

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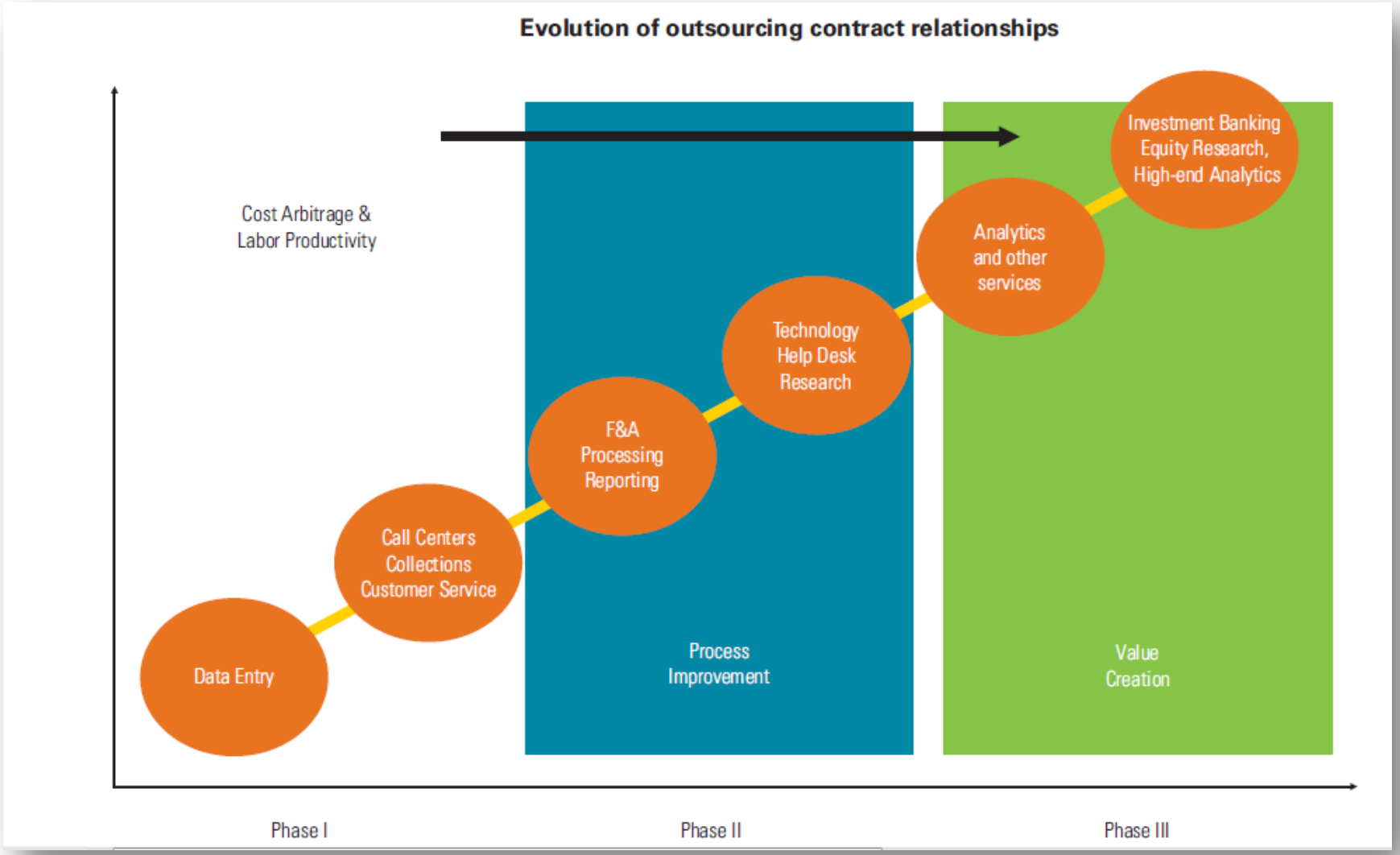
Changing landscape in outsourcing contracts



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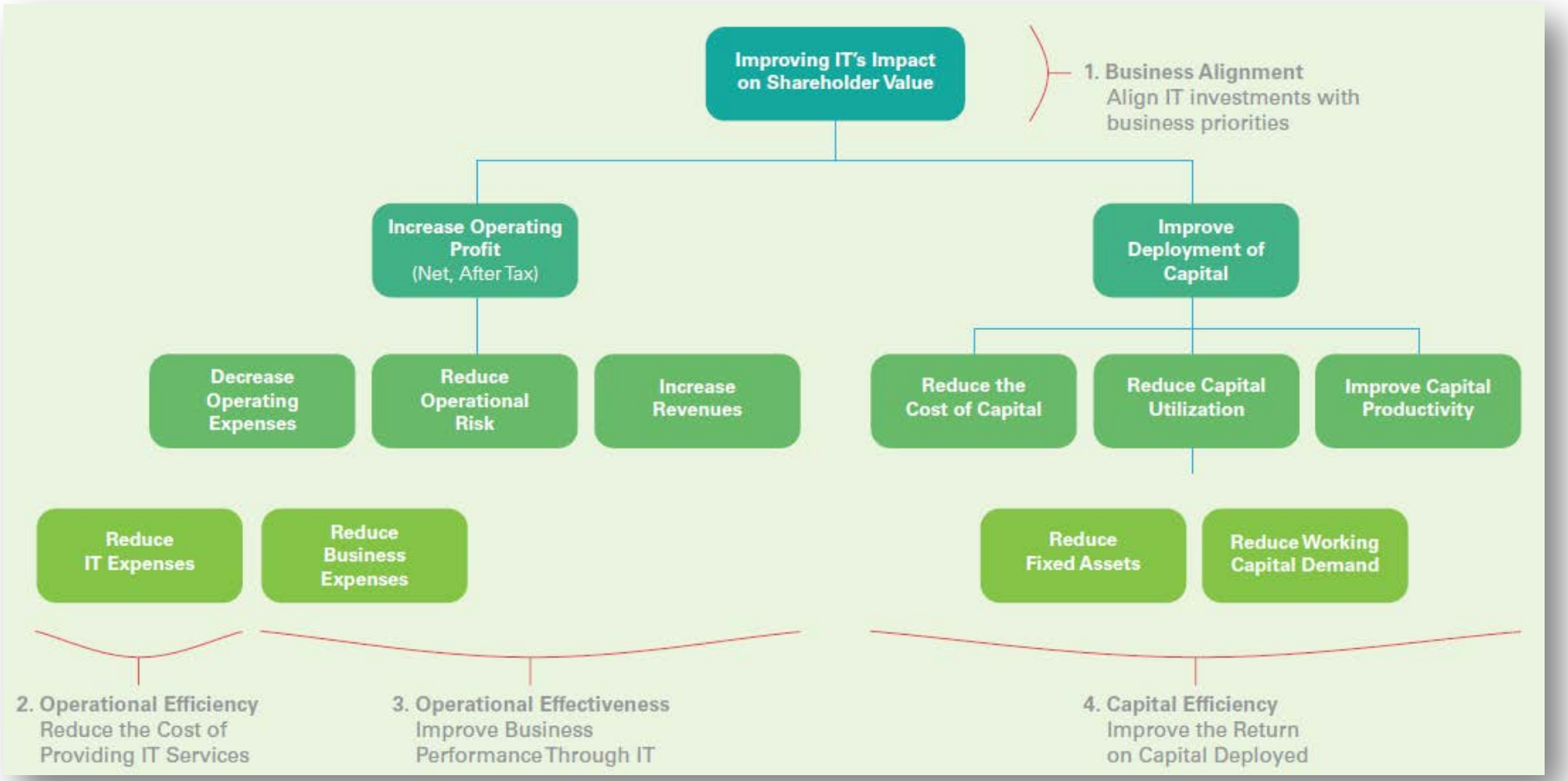
What are people looking at today…Profit and Loss and Balance sheet…



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Do organisations understand governance…

- The emergence of **governance and risk management** is a response to the increasing complexity of large, global organizations. However, it has failed to deliver the expected results.
- In the past decade, **we saw a number of corporate scandals** and the recent collapse of the banking sector.
- Many **Governments and regulators were forced to intervene** by enacting new laws to improve corporate governance and tighten risk management.
- In order to prevent business failure and non-compliance, **companies have expanded their governance, risk, and compliance (GRC)** departments.
- This has resulted in **a web of often uncoordinated structures**, policies, committees, and reports.
- Consequently, **Governance, Risk and Compliance** no longer serves its core objective of improving business performance and efficiency, and achieving compliance.

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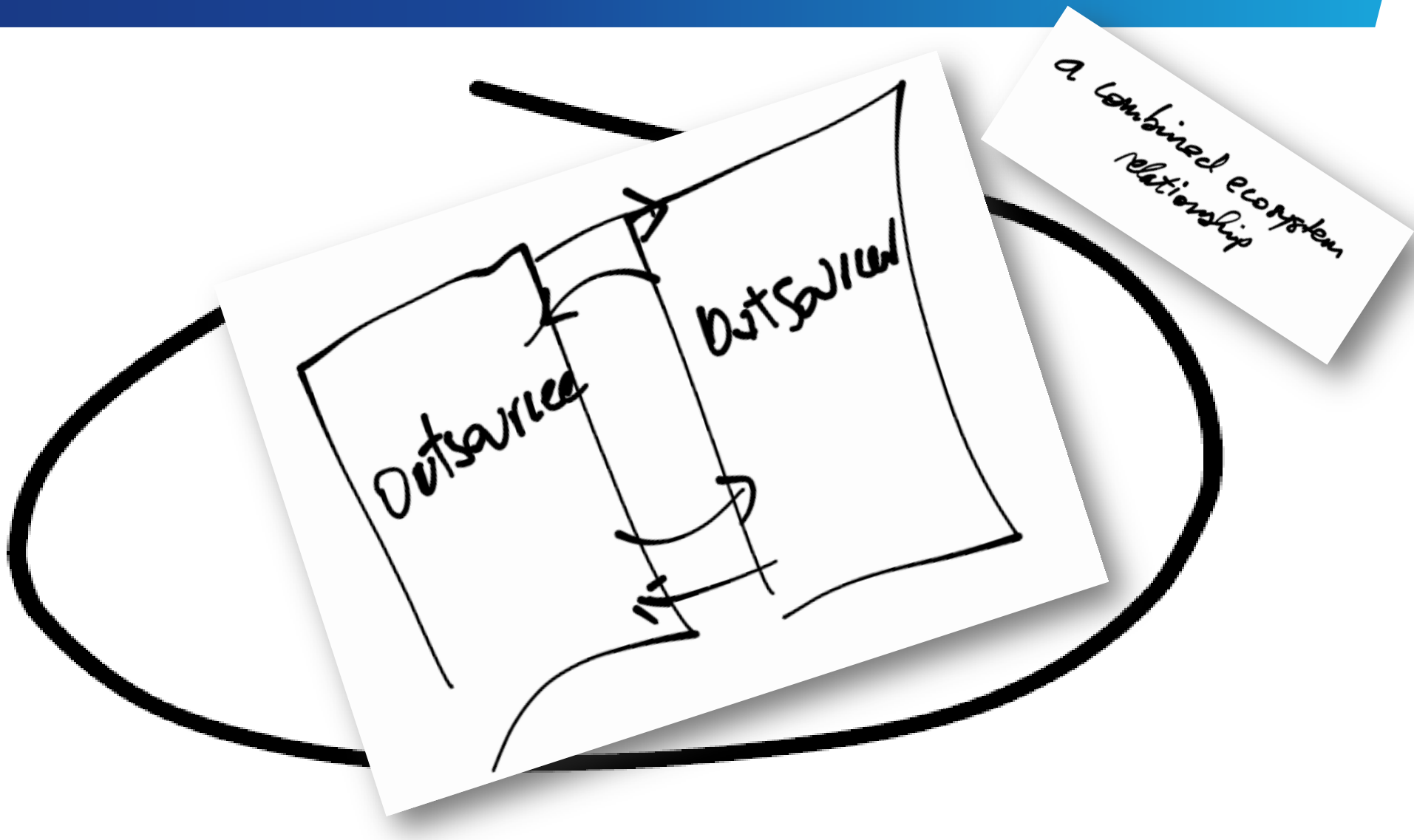
The combined ecosystem of Outsourcer and Outsourcee



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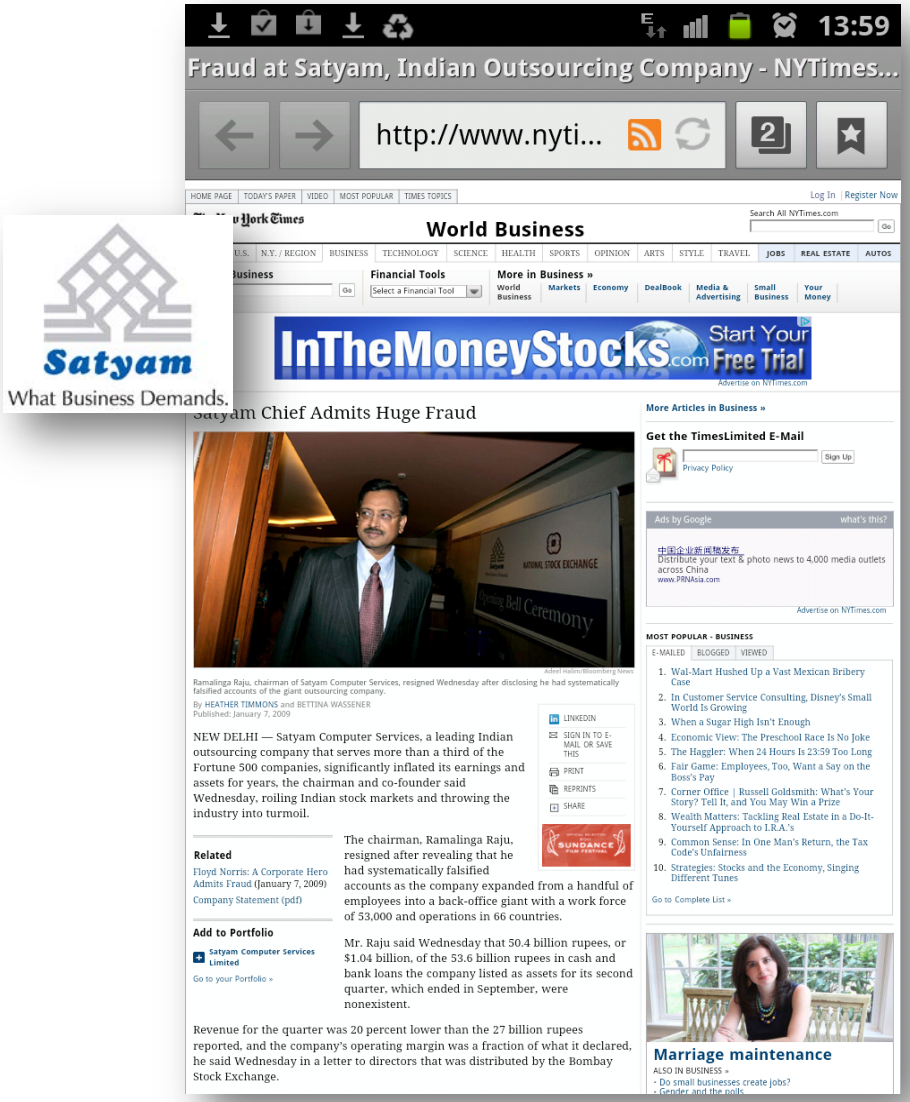
The impact of failure…



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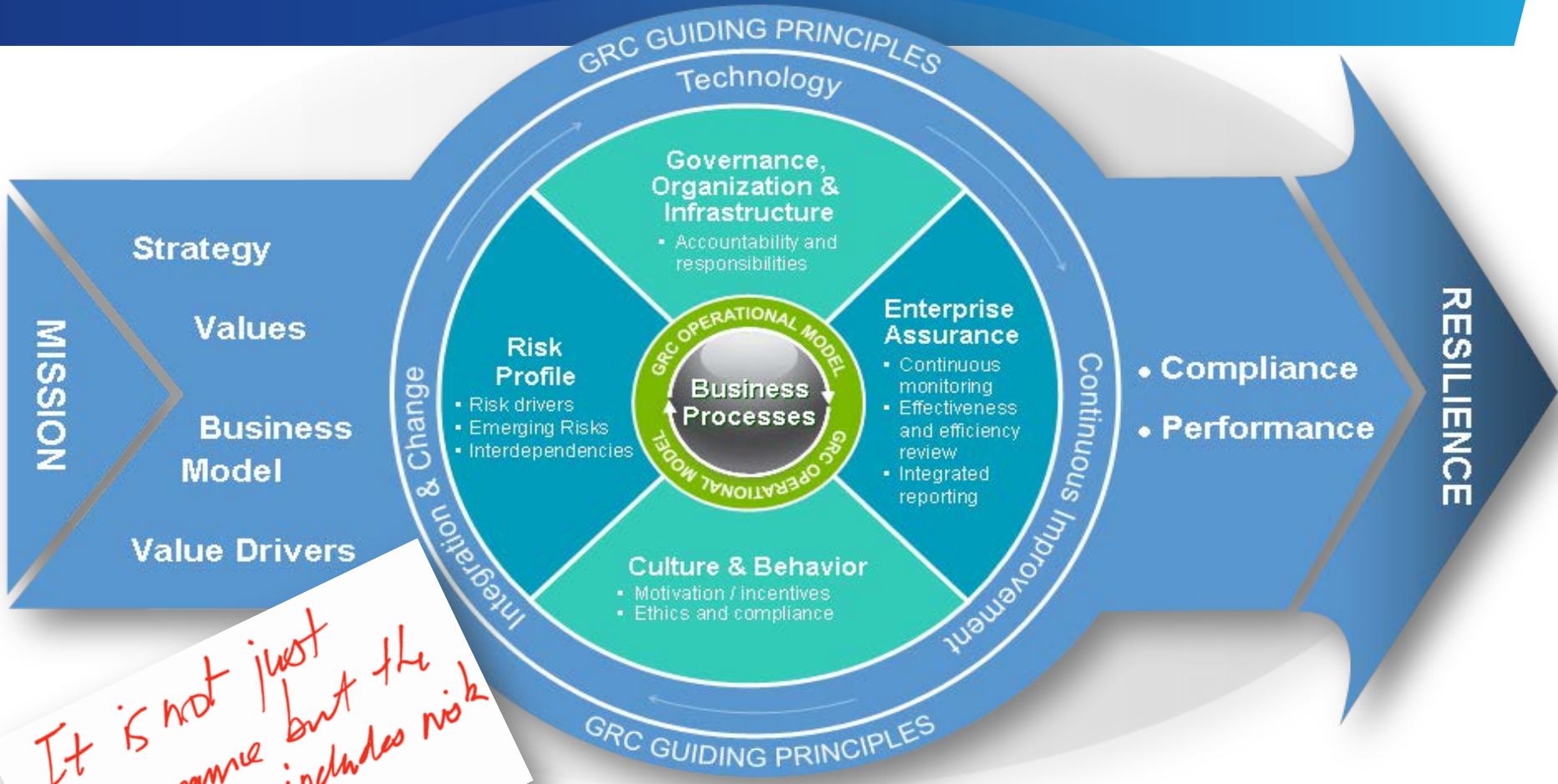
What is governance?

Do organisations understand governance…



It is not just Governance but the convergence includes risk and compliance.

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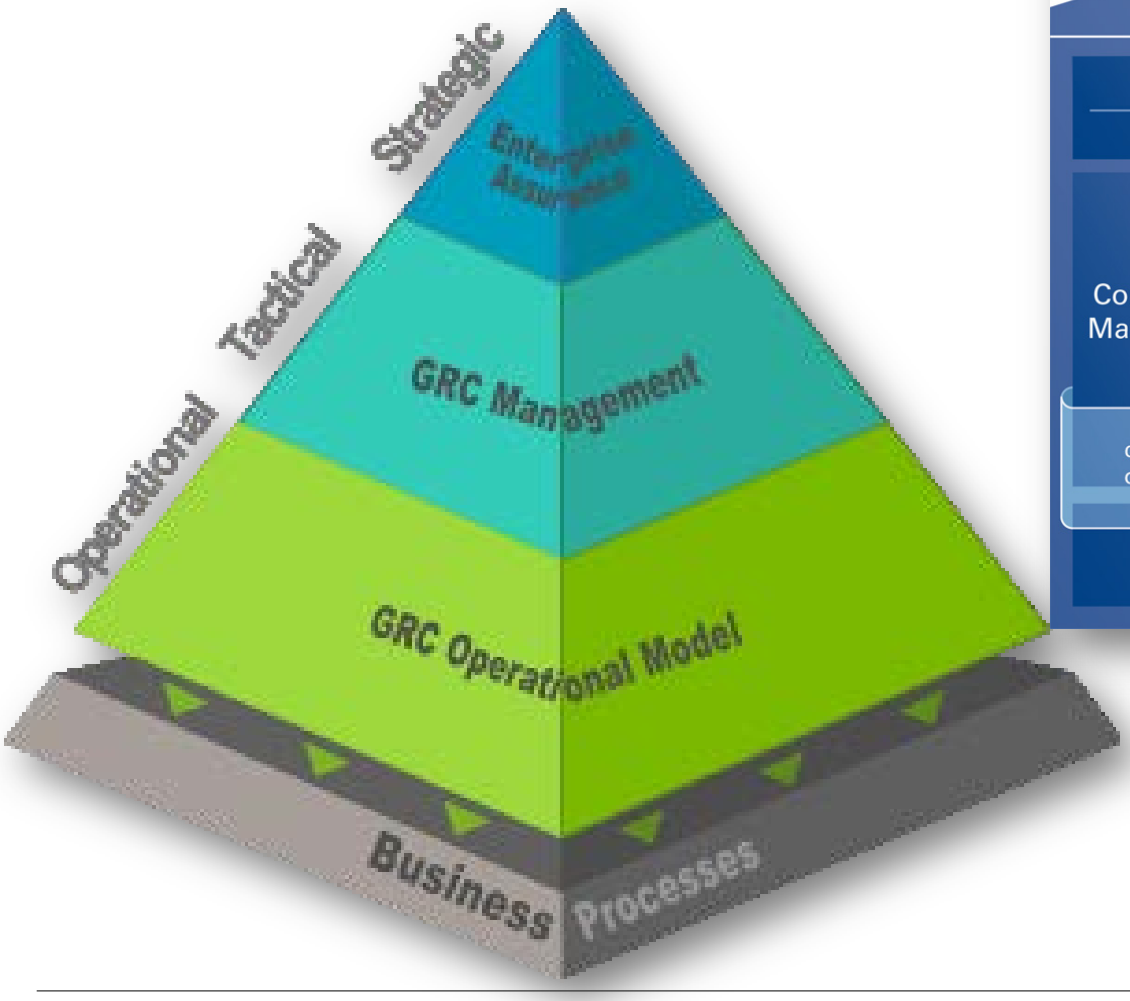
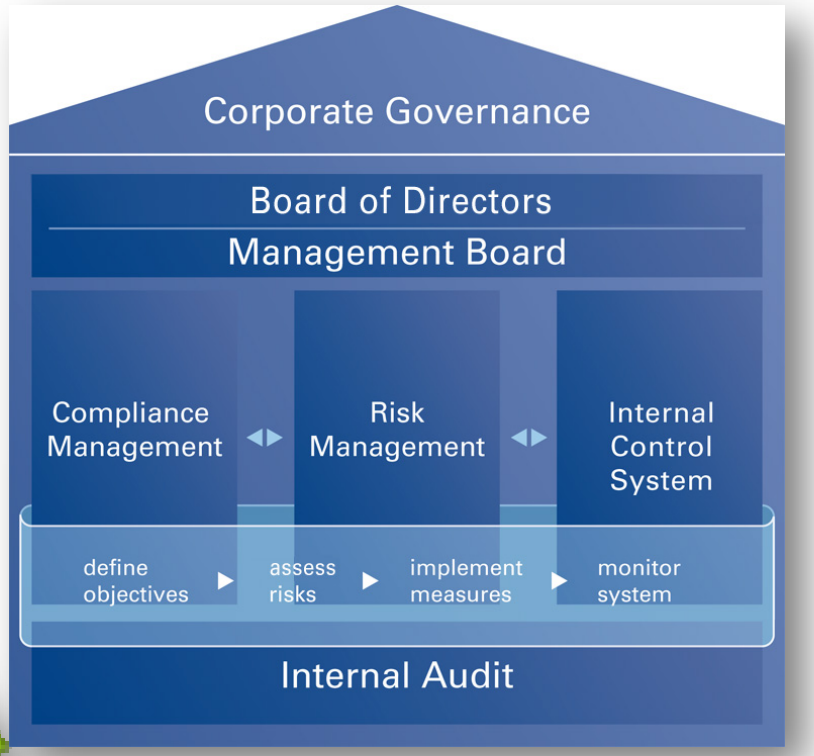
It is critical…it is an integrated approach…





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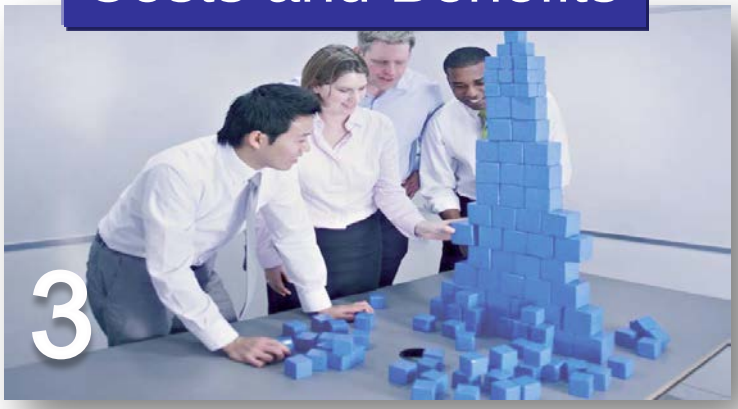
What is happening?

There is a lot going on…

Changing Landscape

Internal and External Influences

Costs and Benefits



Long Road to Convergence

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Changing Landscape

- Companies are **increasingly concerned about the risks they face**, and the effectiveness and adequacy of the controls they have in place to manage those risks.
- Fuelled by a desire for greater certainty along with a fear of non-compliance, many companies as well as external regulators are **devising tighter rules and procedures** for running their organisations.
- Executives are saying their organization **will create a new initiative for each new regulatory challenge.**
- IT departments **often find themselves swamped** with requests for new regulatory compliance systems and risk management systems.
- There is often an **overlap between these systems**, and senior managers have attempted to rationalize these projects under the banner of GRC.

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Changing Landscape – how to address the challenge

- GRC convergence is a way to **rationalize risk management and controls, providing management the information they need** to improve business performance and achieve compliance.
- Compliance should preferably be **a natural consequence of a well-governed company** that has a common approach to managing risk.
- GRC convergence seeks to **bring together complex and disparate risk and compliance activities** and directs these efforts more efficiently, in alignment with corporate strategy and supported by organizational culture.
- Such a **holistic approach** can give leaders the intelligence and insight they need to build greater business resilience and to be better prepared for the ongoing change.

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Internal and External Influences

- Recent economic events have **rekindled interest in corporate governance and operational risk management** among regulators, ratings agencies, politicians, the media, and the public.
- Executive management and regulators **are the main driving forces** behind GRC convergence across publicly listed companies as well as state-owned and not-for-profit organizations.
- The **Regulators are increasingly** interested in how companies manage governance, risk, and compliance — and not just in the outcomes.
- **Executive management and regulators** are among the main influences behind GRC convergence.

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17

Costs and Benefits

- Governance, risk management, and compliance are **proving to be a costly matter** for many companies.
- Many organizations are stating **it may be costing them as much as 5% of the annual revenue** and a fifth estimated **it could even stretch to 10%.**
- When questioned further, however, a sizeable proportion were **unable to put a precise figure on this outlay**.
- Regardless of their inability to pin down a number, a large majority expected to **see costs mirror recent trends** and **rise further over the next two years**.
- This expectation was even more pronounced in heavily regulated industries, such as financial services and energy**, where about 4 out of 10 think GRC investment will grow "significantly" by 2011**.

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18

Costs and Benefits

- The substantial and growing investment suggests that companies are taking GRC very seriously - **yet many appear to be uncertain about what they are getting in return.**
- Few organisations believe that expenditure on **GRC represents an investment rather than an expense.**
- About a large number are stating to build **a business case** for greater convergence.
- When asked to list the benefits of convergence**, the ability to identify and manage risks more quickly was a key advantage**.
- However, there **is less confidence in the wider benefits of integrating GRC** - only a relatively few believed it can improve corporate performance and only 26% felt it will help reduce the costs of duplication.
- Even **fewer believe that it will help them support business units** more effectively.

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Costs and Benefits

Benefits of Effective GRC

Effective GRC is likely to be seen more and more as a pre-requisite for business success.

With greater visibility and control over risk, organizations can realize a number of benefits.

- Competitive Edge
- Inbuilt Resilience
- Informed Decision Making
- Defined Risk Appetite

An effective, sustainable risk and compliance framework should be looked on favorably by rating agencies, as well as speeding up the ability to successfully fulfill due diligence criteria.

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20

Long Road to Convergence

- While many companies **are clearly showing an increased appetite** for a converged GRC approach, there is a long way to go before such practices are fully implemented and operational.
- Only 1 out of 10 executives could boast of **full integration across oversight functions**, geographies, business units, or strategies.
- **Geographical convergence in particular appears to be a challenge** – few organisations stated they have made little or no headway in this respect.
- The GRC convergence is not an attempt to create a single, monolithic GRC structure with one reporting line leading to the top. Rather, **it is a common approach** to eradicate duplicated effort, complexity, and cost. Integration is about communication and cooperation.

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21

Long Road to Convergence

Any major transformation program encounters opposition, and GRC convergence is no exception.

- Many organisations acknowledged ***"resistance to change"*** as the main barrier.
- Many organisations considered ***complexity*** to be the number one barrier.
- Convergence is more difficult in organizations with ***poor communication*** **between functions and the business**.
- Few organisations said that ***inadequate technology*** was a barrier to successful convergence.
- Any move toward GRC convergence **is likely to be a lengthy process** that requires an accompanying shift in corporate culture.

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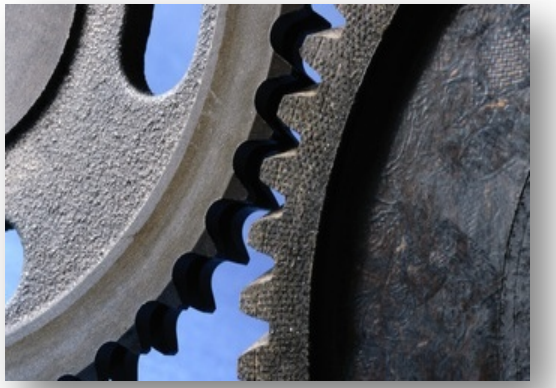
It does work…

How do you get there?

Defined Approach



GRC Management Philosophy

Guiding Principles

Policies and Procedures

Clear Mandates

Defined Risk Coverage

+

Right Resources

Core Competencies

Positioning

Capacity

Objectivity

IT Leverage

=

Efficiencies

- Oversight functions possess the right competencies and are properly aligned to manage assigned risks and compliance issues
- Approaches are coordinated horizontally between oversight functions and vertically with business and executive management

Effectiveness

- GRC portfolio is current and relevant
- Proper degree and depth of coverage is attained
- Oversight function's mandate is relevantly set and executed

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Moving forward with Governance…

1. **Secure** buy-in and endorsement from the executive leadership team.
2. **Build** a governing structure and develop a steering group comprised of leaders from each of the oversight functions included in the convergence efforts, headed by a senior-level leader.
3. **Consider** all key internal stakeholders and regulatory regimes in the convergence effort and identify all requirements to be accommodated at the outset.
4. **Establish** guiding principles to ensure alignment with strategic objectives, cross-company buy-in, and consistent progress.
5. **Begin** with well-defined risk assessment processes.
6. **Establish** a clear change management plan and implement it throughout the program.
7. **Take** a holistic view across the organization to identify opportunities beyond converging control and compliance to other organizational and process changes that may benefit the organization.
8. **Think** people, process, and data: don't let a tool or technology alone drive the convergence process.

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Egidio Zarrella

Clients and Innovation Partner
KPMG

Work +852 2522 6022
Mobile +852 6393 0458

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