

Enterprise Risk Management (ERM) and Manufacturing Sector

By CA Hersh Shah, SIRM

*Technical specialist in Risk Management
elected by Institute of Risk Management (IRM)*

Uncertain world

Firstpost

China's power cuts may foreshadow shortages of global goods as factories forced to shut down

The disruption to China's vast manufacturing industries during one of their ... factories to shut down and left some households in the dark.

2 weeks ago



Times of India

Companies shut plants, cut output to cope with fall in demand

Companies that have announced closures include Toyota, Maruti Suzuki, Hero Moto and Honda Motorcycles and Scooter India (HMSI), while those that...

30-Apr-2021



CNBC

Companies scramble to shift manufacturing out of Covid-crushed Vietnam in time for holidays

A rising number of Covid infections and low vaccination rates have prompted the Vietnamese government to shut down a number of factories...

3 weeks ago



Mint

Chemical company's shares plunge on Gujarat pollution board's order to close manufacturing plant

Chemical company's shares plunge on Gujarat pollution board's order to close manufacturing plant. Chemcon Speciality Chemicals is a manufacturer...

1 month ago



Talk Business & Politics

Supply chain crunch will likely persist for one to two more years

Ladd, a business consultant to retailers and logistics companies, ... back to 2020 when much of the world shut down because of COVID-19.

1 day ago



The Financial Express

GM prepares to shut down Pune plant: No nod for deal with Great Wall Motors

The car-manufacturing unit of General Motors (GM) at Talegaon in Pune is preparing for a shutdown on December 24. The company announced the...

23-Dec-2020



Understanding risk and risk management

Risk = effect + uncertainty + objectives

ISO 31000 definition

Risk = the combination of the probability of an event and its consequence. Consequences can range from positive to negative

IRM definition

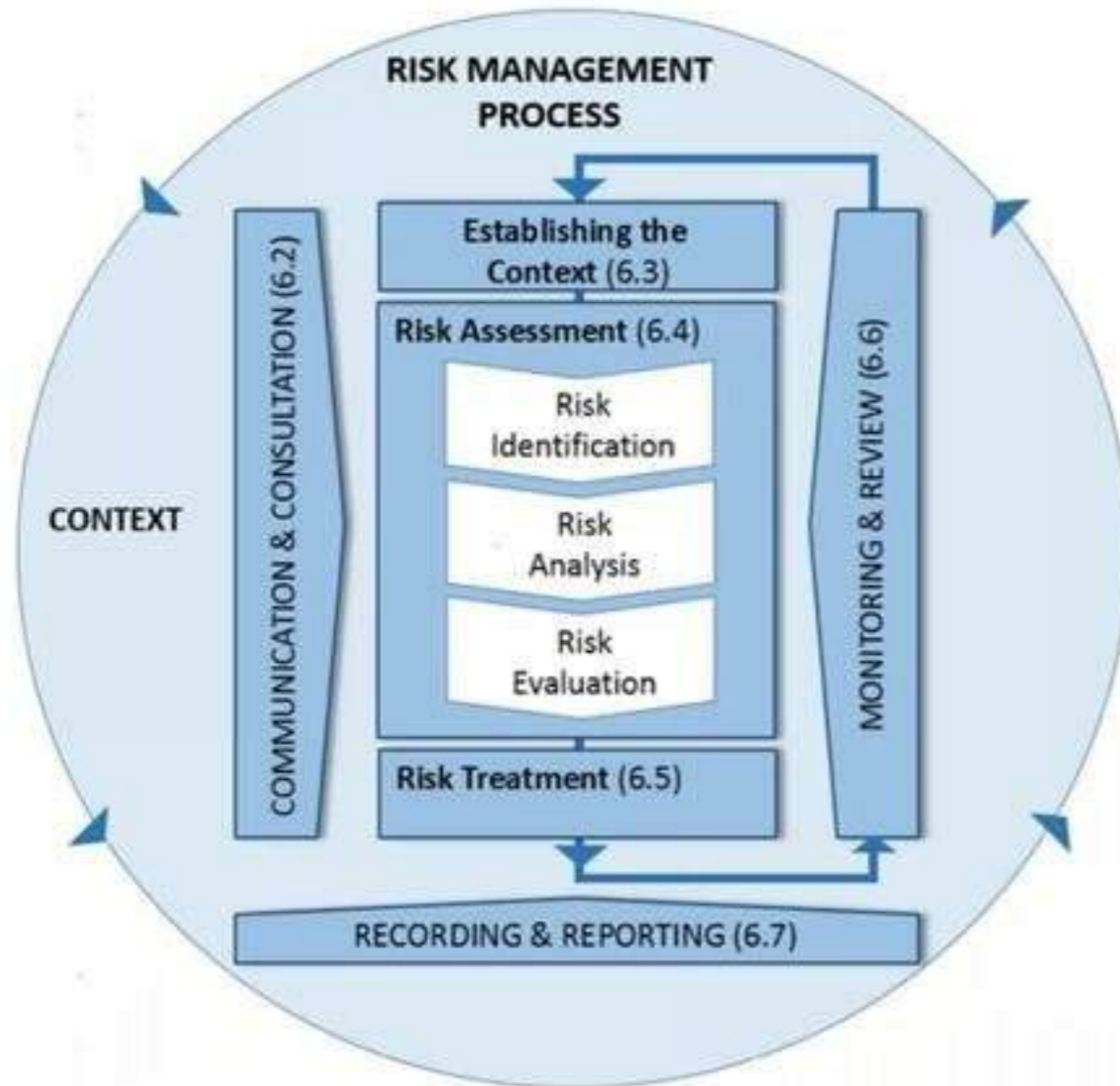
Risk Management = Process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure

IRM definition

Enterprise Risk Management = Process effected by board, management and other personnel applied in strategy setting and across the enterprise designed to identify potential events that may affect the entity and manage risks within its risk appetite

COSO definition

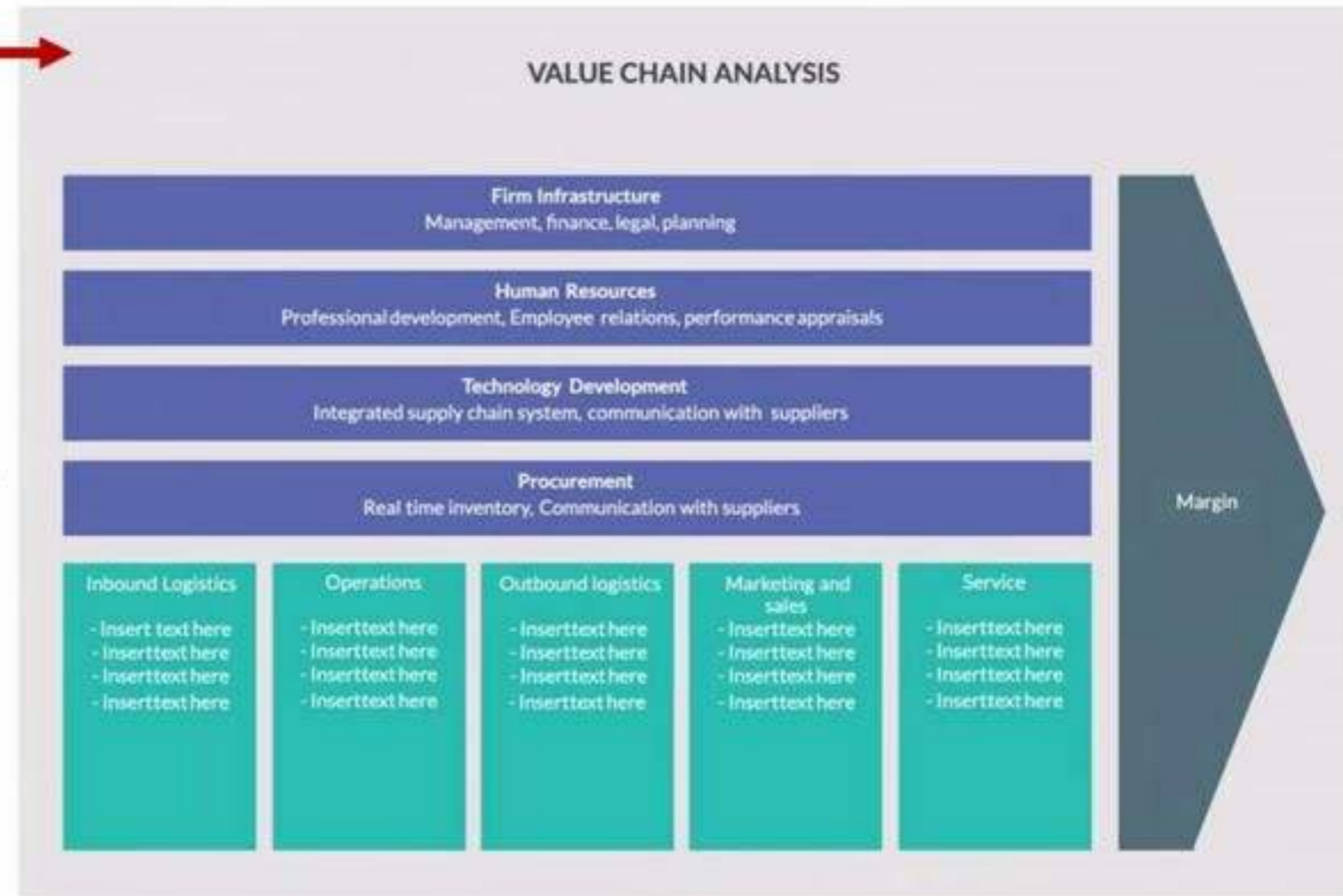
Ideal ERM process



- Improve quality
- Reduce costs
- Increase workplace safety
- Improve supply chain efficiency
- Increase sustainability

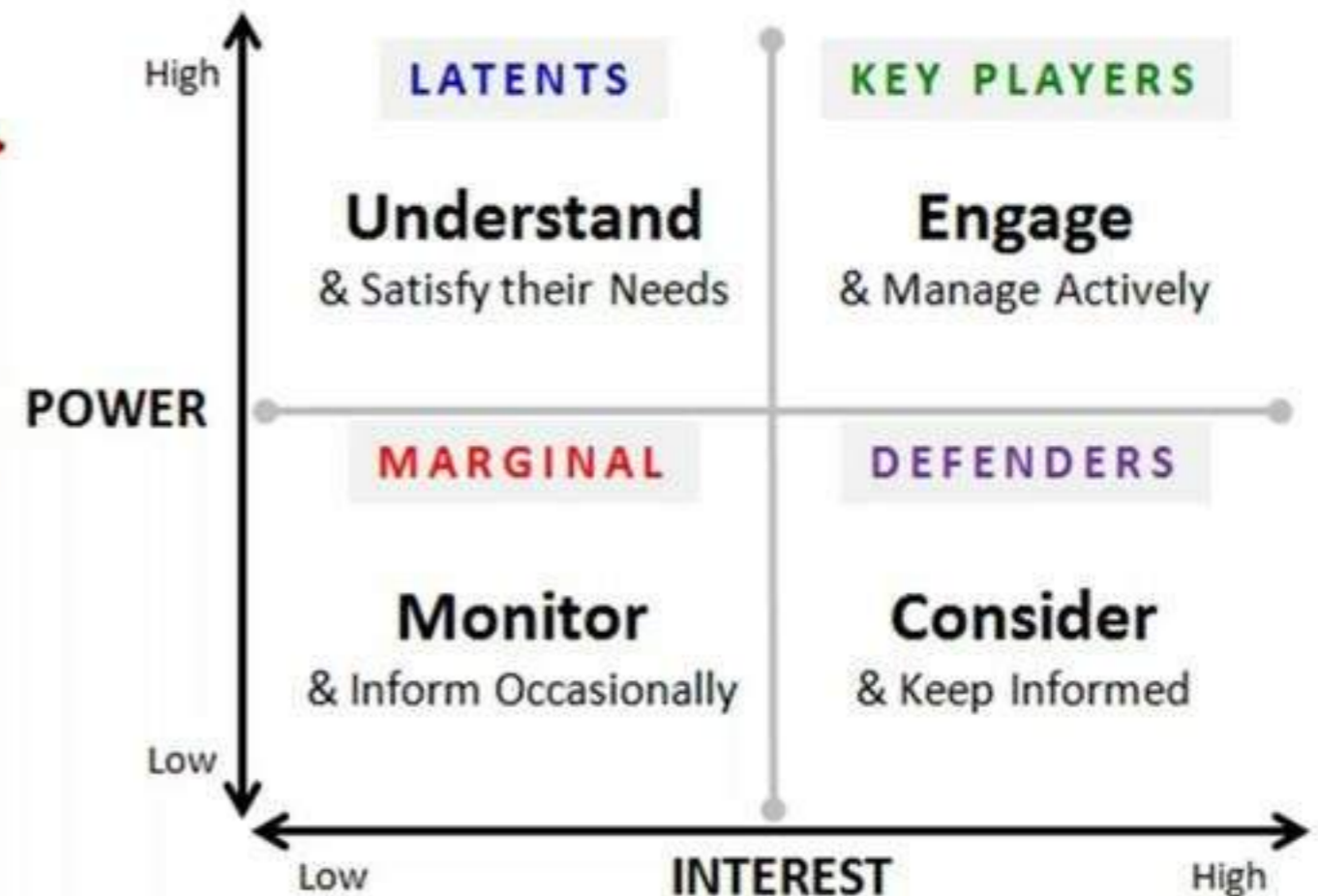
Risk identification

- Process level risk identification →
- Stakeholder analysis
- External event analysis
- Risk brainstorming and interview
- Competitor analysis
- SWOT analysis



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- Risk brainstorming and interviews → Brainstorming includes independent interviews of key stakeholders to assess how they view risks through surveys and questionnaires
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Understanding loss events and risks faced by competitors, negative news in the past, financials of competitors, operating cost models of competitors

Risk analysis and evaluation

- Compile all risks identified in a risk register
- Rate the risks as per impact and likelihood
- Prioritise the risks based on risk rating

Impact	Catastrophic 5	5	10	15	20	25
	Significant 4	4	8	12	16	20
	Moderate 3	3	6	9	12	15
	low 2	2	4	6	8	10
	Negligible 1	1	2	3	4	5
		1	2	3	4	5
		Improbable	Remote	Occasional	Probable	Frequent
		Likelihood				

Catastrophic	Stop
Unacceptable	Urgent Action
Undesirable	Action
Acceptable	Monitor
Desirable	No Action

Four Types of Risk Mitigation



Industry Practices (publicly available data)

We have a comprehensive and structured approach for risk management at GCPL. Across our geographies, we have integrated our risk management practices into the operating framework and reporting channels of our business. From Board level oversight to a dedicated Risk Committee, as a cross-functional team within GCPL, we routinely assess risks across our company and geographies.

While there is a range of risks that are routinely managed in the course of regular operations, the third-party materiality assessment carried out in 2019 highlighted a few risks related to primary material aspects of our business. These, along with the opportunities and mitigation plan, have been described in the subsequent section.

- Potential disruption of operations due to geo-medical risks
- Labour-intensive product portfolios in some geographies
- Inadequate planning in procuring raw material
- Inability to deliver material to the customer as per agreed delivery dates
- Environmental risks and dependence on natural resources
- Dependency on a few product categories to drive sales
- Product pricing strategy
- Greater aggression by competitors
- Competitive market conditions and new entrants
- New online, offline and omni-channel go-to-market models and channels
- Nimble e-commerce/digital-first brands
- Political instability
- Macroeconomic risks
- Exchange rate volatility
- Devaluation of local currency
- Inflation
- Impact of economic environments on consumer behaviour
- Shortages due to industrial disputes and attrition of key staff
- Health and safety-related risks in manufacturing operations and frontline distribution teams
- Community unrest
- Repercussions of natural and man-made disasters
- Compliance, regulatory changes, and emerging regulations

GCPL operates several manufacturing facilities in India spread over seven locations and grouped into four operating clusters at Malanpur (Madhya Pradesh), Guwahati (Assam), Baddi- Thana (Himachal Pradesh), Baddi- Katha (Himachal Pradesh), Pondicherry, Chennai and Sikkim.



Industry Practices

(publicly available data)

RISK MANAGEMENT

Your Company has established a robust Enterprise Risk Management (ERM) framework embodying the principles of COSO ERM, 2017 framework and ISO 31000 standard that fosters a sound risk management culture to facilitate informed decision making.

The ERM process is overseen by the Risk Management Committee of the Board, which is responsible to ensure that the Company has an appropriate and effective framework for managing and reporting significant enterprise risks.

An internal Risk Steering Committee, comprising of key members of Senior Leadership and core Business vertical heads is responsible for the risk management process including risk identification, impact assessment, effective implementation of risk mitigation plans, and risk reporting.

The details of risk management as practised by the Company are provided as a part of the Management Discussion and Analysis Report which is attached as **Annexure E** to this report.

OPPORTUNITIES AND THREATS

As the country recovers from the pandemic, CV sales are expected to grow and inch closer to reaching pre-pandemic levels in FY22. It is also expected that as economic activities picks up, there will be greater demand for robust supply chain networks across the country, which would increase the demand for trucks. The announcement of a voluntary vehicle scrapping policy which is aimed at phasing out old vehicles, is expected to translate into a marginal demand for new CVs in the short term. In the long run, it would help in creating a mindset about the life of vehicles which will help the sector to generate additional sales volumes. ₹ 18,000 crore scheme for augmentation of public bus transport services in urban cities through PPP model should help in creating incremental demand for buses over short to medium term. Increased allocation for FAME scheme should help encourage investments in EVs and help in its faster adoption. The infrastructure segment is expected robustly through execution of projects in the National Infrastructure pipeline. This will have a positive impact on the sales of commercial vehicles, especially the tipper and haulage segments. The growth in the E-commerce sector has led to growth in the overall heavy commercial vehicles segment, and this trend is also set to continue in the coming years, in a much more pronounced manner. E-commerce sector is projected to have more positive impact on the sales of LCVs & ICVs. The changing landscape of road logistics industry, with the proliferation of hub-n-spoke model has resulted in increasing demand for commercial vehicles having higher tonnage and multi-axle vehicles. Reforms carried out by the Government in several sectors including coal mining are expected to play a role in driving sales of HCVs especially Tippers and haulage trucks segment. Commercialization of coal mining, introduction of seamless composite exploration, mining, and production regime for minerals is likely to drive this segment.

The commissioning of the Western & Eastern dedicated freight corridors is expected to shift the transportation of goods to rail from road and hence could have a negative impact on the sales of MHCVs in certain application. The announcement of increased axle load norms in the previous years has resulted in increased load carrying capacity of trucks. The impact of this is expected in the upcoming year as well but in a marginal manner.



ASHOK LEYLAND

Some reference publications

