ENTERPRISE RISK ASSESSMENT, MEASUREMENT, & MANAGEMENT FOR INFORMATION PROFESSIONALS

CASE WORKSHEET FORMAT: UNITED GRAIN GROWERS CORP.

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| **STUDENT NAME: Rutwik Ghag** | **CASE NAME: United Grain Growers Corp.** |

Fill this out BEFORE trying to complete the assessment. These cases present information throughout the chapter. If you try to answer questions as you read, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. The discussion forum may be helpful.

1. **After reading the case, what do you feel are the *most important facts about* this company’s business, markets, and/or history that influenced UGG’s “risk culture”? WHY do you feel these are important to understanding the organization’s approach to enterprise risk management?**

UGG is the country's third-largest grain handler and agricultural input distributor. It was founded in 1906 and is an important part of the "seed-to-supermarket" food system. They work for the Canadian Wheat Board. In 1993, they were listed on the stock exchange. Their goal was to create a network grain-handling system that was both efficient and cost-effective. When it comes to risk management, UGG were adaptable and sought to establish a realistic strategy. The firm is likewise susceptible to harsh and unpredictable weather circumstances because it is in the agriculture sector in Canada. UGG's revenues fell during the protracted prairie-wide drought.

The corporation recognized the need of staying current with market circumstances and the ever-changing needs of its clients. By becoming year 2000 compatible, the adoption of client-server architecture over mainframes. For the first time, they hired a CEO from a non-farming experience. This demonstrates that UGG has always been quick to adapt to changes, evolve technologically, and become more cognizant of developments through time

1. **Why did United Grain Growers Corp. feel they needed to change to an Enterprise-wide Risk Management approach? How did they manage the change?**

i.e., who championed and/or initiated this change?

UGG realized in the mid 1990 that it was the age of corporate governance. Their existing procedure for handling risk included:

* Treasury group: They were responsible for managing foreign exchange and interest rates.
* Grain marketing group: Their key responsibility included managing commodity price and basis risk
* Insurance Management Group: They were conducting exposure reviews and analyses for each business sector. However, their focus was on the traditional aspects such as insurance and property rather than having a holistic approach.

The concerns with this approach were as follows: internal communication, accountability and understanding of the cost of its principal risk. The groups reported to different senior managers and there was no common methodology to develop position limits. Furthermore, UGG also wanted a risk management system that enabled it to respond to risks that posed a greater threat in terms of frequency or severity.

1. **Describe the ERM governance structure at UGG. Why do you think United Grain Growers Corp. structured their ERM governance the way they did? It is quite different from that used by Unocal, Chase Manhattan, and Microsoft. Would any of the other structures used by the firms in the other cases have worked for UGG? Why or why not?**

UGG divided their approach in 4 parts:

* Growing awareness at policy-making level.
* Increasing Risk measurement precision.
* Bringing consistencies while approaching different risks.
* Detailed articulation of risk tolerance or acceptance.

UGG assembled a team of 20 Team Composition: CEO, CFO, and employees from diverse backgrounds with understanding of different aspects of the company. The risk management committee included the CEO, CFO, corporate audit, compliance manager, treasurer, manager of corporate audit, compliance manager and divisional, managing directors. The risk management committee was headed by the board of directors. They oversaw the Strategic Risk Management Project. The committee was responsible for formal reporting to the audit committee. The risk management committee was mandated by the board of directors to oversee the Strategic Risk Management Project. They were hired consultants on the following grounds:

* They should have a good understanding of UGG’s business.
* Leading-edge risk management expertise.
* They should have a pragmatic approach leading to formulation of practical solutions.
* Good quantitative skills to provide the best possible measures for risk mitigation.
* They should have tools such as software, models etc. to help with risk analysis.

I believe that UGG were more inclusive when it came to the risk management committee. They even hired consultants for expert advice. This structure was well suited for UGG as they wanted to assess each risk and encompass all the business areas. Therefore, the diversity in the risk management committee would help them achieve this objective.

1. **What were some of the company’s biggest challenges in making the transition from their old approach to dealing with risk to the new focus on ERM? Do you think these challenges are unique to UGG, or would these challenges likely be faced by many organizations? Why or why not?**

The challenges faced by UGG were:

There was a growing awareness at the policy-making level that UGG needed a more comprehensive view of risk management.

The company had to consider the cost of the sophisticated tools that were being used to measure the probable cost of risks.

UGG discovered some inconsistencies in its approach to different risks. They realized that they were not adopting the same level of risk tolerance throughout the company when it came to implementing the enterprise-wide risk management.

They faced challenges in the articulation of a clear risk.

They also needed to consider the risk tolerance of its stakeholders specifically that even though farmer-owned cooperative businesses were subject to adverse weather conditions, public shareholders might not be as forbearing.

I believe that these challenges are faced by most of the organizations in one way or the other. To lay the structure of an enterprise-wide risk management, there are several implications that require consideration. Technical upgrades require costs, stakeholder related risks are always present and prioritizing and laying down the risks clearly are few challenges that organizations in various backgrounds face.

1. **Using the Risk/Measurement/Management table from the worksheet, identify five risks that United Grain Growers identifies, including how these risks are defined, measured, monitored, and managed. Be specific.**

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| **Risk (with Example and Definition)** | **Measurement Strategies** | **Management Strategies** |
| Weather | Grain-handling volume | Grain handling volume is being bundled into non-correlated property and casualty risks to obtain insurance. |
| Financial Earning per Share EPS | Plotting EPS with and without the influence of the risk’s losses | If the danger is not zero, determine the lowest likely limit. |
| Financial Losses due to Commodity Pricing | Value at risk | Response as per frequency and severity |
| Property | Value at risk | Financing for risk |
| Technology | Not quantified | Installed a Client-Server framework that is Year 2000 compatible. |
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1. **The United Grain Growers Case provides a great example of an organization that had to follow a process to learn *how* to *identify and measure* their risks. How did this help them better *manage* their risks?**

UGG's use of quantitative methodology allowed them to determine VAR for each exposure. The quantitative study aided UGG by demonstrating that prairie-wide droughts occur once every 12 years and can result in a 20% income loss. It also demonstrated how other, less regular, and less severe dangers can have an impact on the volume of grain handled. It also shown that it was unrelated to the covered risks. The advisors at UGG proposed that the corporation look for an insurance option to shift the risk. By shifting a portion of a previously kept risk to a third party, they might lower the long-term cost of risk from the portfolio effect, reduce profits volatility, and improve leverage capacity.

1. **How does UGG use management strategies of risk mitigation versus risk transfer or sharing?**

UGG employs a detailed and exact quantitative analytical technique to detect and manage risks. The dangers' severity and frequency are then verified based on their urgency and importance. ERM was utilized to lower the risk factors. They selected the dangers and classified them together in the order of most likely to occur first and inflict the greatest harm, as well as the priority. They engaged experts with strong mathematical abilities to estimate the risks and transmit the data to the data team. They also included higher management for them to be aware of the dangers and the efforts taken to reduce them. Management's risk-transfer or risk-sharing strategy was for the corporation to seek an "insurance" solution to transfer this risk. This might result in lower profits volatility, lower long-term risk costs, and more leverage capacity by shifting a portion of previously held risk to a third party.

1. **How does United Grain Growers use ERM to help them with their contingency strategies and disaster recovery planning?**

United Grain Growers benefits from ERM in the following ways:

* UGG now has a better knowledge of its main risk. They have concentrated on verifying a list of hazards and analyzing them quantitatively.
* They are now able to prevent critical dangers that were previously thought to be inescapable.
* Enterprise-wide risk management has also enhanced decision-making inside the firm.
* Better knowledge on risk-adjusted returns has also resulted in more efficient capital allocation.
* They have also been able to combine risks that were previously distributed over several insurance policies or were not insured at all into a single insurance program. As a result, they have reaped the benefits of the savings. This has helped them realize the significance of integration in achieving the right combination of risk management measures.
* ERM has also improved the suitability of several of its risk-control strategies.
* As a result, ERM has assisted UGG in lowering the cost of risk, protecting the firm from excessive downside risk, reducing earnings volatility, increasing leverage capacity, and lowering the cost of capital. All these elements contribute to an increase in a company's SVA.

1. **What does the company feel are the main benefits of ERM for their firm? Do you agree?**

The key advantages of ERM attained by UGG were as follows:

* UGG was the first company to create a client server system from the ground up, and they received the Smithsonian prize for creative use of client server technology in 1995.
* UGG desired that the board of directors and upper management be fully aware of ERM and its execution to stay up with the market's rapid shift.
* Internal communication, responsibility, focus, and awareness of the consequences of its primary risks all improved (including non-traditionally insurable business risks).
* They used a value at risk technique that enhanced quantification and validated position limitations, as well as more structured regulations and exposure restrictions.
* A risk committee was created, which provided a more detailed scenario and analysis of each risk discovered. This information got more useful.
* The research and risk quantification approach indicated that UGG's main business risk was grain-handling volume. Weather, especially the impact of drought on the crop, was first considered as UGG's most serious threat.
* As a result of the risk management process at UGG, the risk management infrastructure has been improved. New software tools have been introduced to this infrastructure, allowing UGG to better identify risks and do alternative scenario studies. Another enhancement to the infrastructure was a shift in methodology.

1. **What do you think is the *most important lesson*(s) to be learned from this firm’s experiences with Enterprise Risk Management? What surprised you most about this case? Why? Be SPECIFIC in your responses.**

This firm's Enterprise Risk Management experience was the importance placed on assessing each risk. Their main goal was to identify each dangerous company by business. The most remarkable aspect of this scenario was UGG's ability to jointly identify 47 dangers. They cut them down even further, from 47 to 24 to 18. These 18 dangers were separated into three groups of six each. UGG then investigated the six most important hazards. They chose these six because they are very measurable. The primary business risk was represented by these six hazards. Identifying, categorizing, and prioritizing risks in an organization becomes difficult due to the numerous variables and viewpoints that must be considered. When it came to hazards that required urgent attention, UGG did a fantastic job of carefully narrowing them down and having an action plan in place. This method was incredibly successful and well-organized in my opinion.