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GRC, A Strategy Tool

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Business Strategy historical background

The birth of business strategy dates back in the early 1960's. The purpose of strategy and strategic management is to ensure the efficient management of an organisation's resources in order to successfully achieve its goals and objectives.

Strategy is additionally involved with providing an overall direction and guidance and developing the plans and policies organisations require to operate. At the same time, it provides organisations with a long term rather than a short-term view on their goals and objectives which in turn allows them to better manage challenges, risks and opportunities.

Since then, the importance and applicability of strategy, lead to the development of a tremendously large number of strategy tools and frameworks that leaders can utilise. Some notable Strategy Tools and Frameworks that surfaced throughout the years are listed below:

1962: Scenario Planning
1965: Gap Analysis
1967: PEST
1969: SWOT Analysis
1974: PIMS (Profit Impact of Market Strategies)
1976: Real Options
1979: Porter's 5 Forces
1980: 4 Phases of Strategy

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1982: 3Cs
1982: 7s
1982: Diversification Strategy and Profitability
1982: TQM
1986: Six Sigma
1987: Mintzberg's 5 Ps
1989: Benchmarking
1989: Core Competencies
1990: Re-Engineering
1991: Transformational Change
1993: Ecosystem Strategy
1995: Disruptive innovation
1998: Value Chain
1999: Delta Model
1999: Digital Strategy
2000: Tipping point
2001: Bottom of the Pyramid
2003: Open Innovation
2004: Strategy Maps
2006: Shared Value
2008: Distinctive capabilities
2009: Business Model Innovation
2011: Competitive Strategy: Options and Games
2013: Algorithmic Strategy

Source: Harvard Business Review: Navigating the Dozens of Different Strategy Options

Of the above strategy tools, we shall briefly elaborate on Porter's 5 Forces as it widely considered to have had the greatest influence on any industry. References to the theories of Professors Hamel, Prahalad and Mintzberg are also made.

Named after Harvard Business School professor, Michael E. Porter, Porter's Five Forces model identifies and analyses five competitive forces that shape every industry and helps in determining the industry's weaknesses and strengths. It is frequently used in identifying an industry's structure in order to determine the appropriate corporate strategy to penetrate the market.

Analysing the Five Forces proposed by Porter is beneficial and essential to organizations of all sizes.

Porter's Five Forces are:

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i. Competition in the Industry,
ii. Potential of new entrants into the industry,
iii. Power of suppliers,
iv. Power of customers,
v. Threat of substitute products.

a) Competition in the Industry:

This refers to the number of competitors and their ability to undercut a company. As a rule of thumb, the larger the number of competitors the lesser the power of a company. A company's competition is often sought out by suppliers and buyers in their attempt for a better deal or lower price. If competition in the industry is not intense, the company has the enhanced power to charge higher prices.

b) Potential of new entrants in the industry:

A company's power is also affected by the force of new entrants into its market. If for a perspective competitor the time and money cost to enter the market is low, then the established company's position is weakened. An industry with strong barriers to entry is ideal for an incumbent company as it will allow it to charge higher prices.

c) Power of Suppliers:

This refers to how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch to another supplier. The fewer suppliers to an industry, the more a company would depend on a supplier and as a result the supplier would have more power to drive up input costs. The opposite is true in the case when there are many suppliers or low switching costs between rival suppliers and hence the company can keep its input costs lower.

d) Power of Customers:

This is the ability the customers have to drive prices lower. A smaller and more powerful customer base means that each customer has more power to negotiate for lower prices and better deals. A company that has many, smaller, independent customers will be more easily able to charge higher prices and increase profitability.

e) Threat of substitutes:

Substitute goods or services that can be used in place of a company's products or services pose a threat. If there are no close substitutes to the products or services then the company will have more power to charge higher prices. When close substitutes are available, customers have multiple options and hence the company's pricing power is weakened.

Source: https://www.investopedia.com/terms/p/porter.asp

The need to change and transform

Change and its disruptive effects on our businesses, economies, societies and lives has been tantalizing humanity for ages. The ancient Greek philosopher Heraclitus gave humanity an early warning by defining change as our only constant, *"The Only Constant in Life Is Change."*, while Benjamin Franklin, one of the leading American founding fathers, added to the equation the importance of our ability to adapt to changes in order to be successful in life, *"Change is the only constant in life. Ones ability to adapt to those changes will determine your success in life"*.

According to global statistics the odds are often against those who don't properly plan and prepare their transformation initiatives.

As pointed out by the global consulting firm Mckinsey, 70% of transformations fail, while the factors sighted are usually common, and include insufficiently high aspirations, lack of engagement within the organization and insufficient investment in building the capabilities required across the organization in order to sustain the change (https://www.mckinsey.com/business-functions/transformation/our-insights/why-do-most-transformations-fail-a-conversation-with-harry-robinson).

In "Demystifying Change Management", Deloitte makes things even more worrisome by pointing out that the 60-70% failure rate statistic for organisational change projects has been constant from the 1970s to the present (https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/human-capital/lu_demystifying-change-management_FGI.pdf).

In today's business environment, the above are more relevant than ever before. In today's constantly changing competitive landscape the forces of technology and globalisation do not only create opportunities, improve our well-being and increase prosperity, they also intensify competition and multiply risks and challenges. The consequence is accepting that *Volatility, Uncertainty, Complexity and Ambiguity* (VUCA), is not simply another fancy acronym used by business school professors and graduate students but the new normal, requiring a totally new mind-set and operating model.

At the same time, while the spread of digital technologies has been pivotal in increasing productivity, revolutionising how companies interact with their partners, suppliers and customers and affecting, for many improving, all aspects of human lives, it has additionally added an extra layer of complexity and uncertainty.

Organisations of all sizes operate and compete in an environment where they are being asked to manage multiple stakeholders (internal and external), a plethora of risks, conflicting deadlines, fierce competition from ambitious start-ups or larger incumbents and regulations that constantly change the rules of the game, in an effort by regulators to safeguard the interests of the public. In addition to the above, the efforts required

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by organisations to keep their customers satisfied and maintain and increase their market share in order to remain sustainable, are as always incessant and critical.

It is also important to note that disruption and disruptive innovation is no longer the process originally described by the late Clayton M. Christensen, where a small company, usually with fewer resources, successfully challenges established incumbents who focus on improving their products and services for specific high income or high profitability customer segments disregarding the needs of others. Today's competitive landscape is totally different as on the one hand we still have ambitious start-ups and innovators claiming market share, frequently with the financial backing of large investment and venture capital funds and incumbents embracing the practices of start-ups in their efforts to remain agile and competitive and grasp the benefits of innovation.

Under the above circumstances change can no longer be a once in a year project aiming to optimize operational processes, improve the quality of products and services or change corporate culture. Change must be embraced at all levels and become part of the corporate DNA in order to allow organisations to effectively assess and manage risks and challenges while at the same monitor business trends and capitalise and not miss out on the opportunities.

Consequently, in order to respond to the requirements of today's extremely complex competitive landscape, organisations are expected to develop a unique set of skills and competences that will enable them to constantly change, transform and improve.

Adapting one of the many change management models such as professor Kotter's popular 8-step process model focused in reducing resistance to change or Lewin's 3-step "Unfreeze – Change (or Transition) – Freeze (or Refreeze)" model is merely enough. In today's environment, creating a sense of urgency, forming coalitions, creating and communicating a vision, empowering others to act on the vision and the rest of the steps described by Kotter in order to successfully implement change initiatives can no longer exist on a per project basis. In addition to their inherent complexity change projects must nowadays add elements like efficiency, effectiveness, risk, compliance, competitiveness, profitability, agility, resilience in the equation if they want to be successful and add value to organisations.

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What is GRC

The Open Compliance and Ethics Group – OCEG (www.oceg.org), defines GRC as *"the integrated collection of capabilities that enable an organisation to reliably achieve objectives, address uncertainty and act with integrity"*.

By providing clarity to what needs to be achieved and why, with what organisational resources, by whom and by assessing all types of risks, **Governance, Risk and Compliance (GRC)** can support organisations of all sizes navigate through today's volatile business environment, which is abundant of risks and challenges, as well as opportunities for those who are well prepared and properly organised.

The proper application of the principles related to GRC can enable organisations operate efficiently and effectively, ensure that risks and opportunities are assessed in a structured manner and that compliance with applicable laws and regulations is continuous and non-negotiable. Achieving this *modus operandi* will additionally enable organisations to meet and exceed the expectations of internal and external stakeholders.

Combining the disciplines of governance, risk and compliance, the so called GRC, can ultimately enable organisations of all sizes to become efficient, effective and sustainable.

Essentially, GRC can be seen as the set of processes, policies and where applicable supporting systems that can enable companies to develop an efficient framework that will allow the management of the critical issues related to corporate governance, risk management and regulatory compliance.

By looking at each discipline into some more detail, we can understand why the combined effect of GRC can add strategic value to organisations and support them to only survive but to thrive:

- Corporate governance can be defined as the system of rules, policies, and practices that define how an organisation's board of directors or senior leadership manages and oversees its operations. It touches the areas of leadership and how the company is steered to achieve its business purpose and meet its vision, it aligns the operating model and structure with strategic goals and objectives, it defines the capabilities required at all hierarchical levels, it promotes accountability, performance measurement and ethical performance and it ensures that the organisation is working for the long-term benefit of its stakeholders. Balancing the interests of all stakeholders and promoting a system of checks and balances are also among the priorities of a well-designed corporate governance framework.
- Risk management relates to constantly assessing and mitigating anything that could potentially have a negative impact in any aspect of the organisation and compromise its position and competitive standing. Organisations should constantly assess all potential risk areas including financial or credit risk, market risk, operational risk, reputational risk and natural disaster risk. The rise of digital technologies has augmented the need to effectively manage an organisation's information security and technology risk, as well as the risks related to personal data protection and the European General Data Protection

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Regulation (GDPR). When pursuing and achieving their corporate objectives organisations should not lose focus from the associated risks.

- Regulatory compliance is involved with the activities related to aligning the organisation's operations with their applicable laws and regulations. These could include anything, from a simple regulation related to importing a company's product, to stricter laws related to privacy, environmental or labour laws. It is further noted that compliance should exist in all areas, for example a software development company must ensure that the systems it develops and sells to its customers adhere to the applicable privacy, data protection and intellectual property laws while a construction company must ensure that the environmental laws are followed. A large corporate will pay special attention to labour laws while a solopreneur or a company with two partners will not have to bother with it. Regardless of a company's size and sector, compliance with applicable laws and regulations should be an ongoing and non-negotiable requirement.

A well designed GRC framework can bring all the elements required in order for an organisation to be properly managed and become efficient, effective and resilient. The vision, values, mission and long-term objectives are available to all staff members, duties, responsibilities and expectations are properly documented, the decision-making process is streamlined, accountability is promoted at all hierarchical levels, projects and business opportunities are identified taking into consideration the interests of all stakeholders and risk management and regulatory compliance are ongoing.

It is also important to note that GRC can bring benefits and positively influence both the leadership as well as the operation and execution levels. While there is a long debate on what is more important, strategy or execution, most small companies do not have the luxury to distinguish between the two and need to excel in both areas.

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GRC as a Strategy Tool

In deciding whether GRC can be used as a strategy tool, we must first better articulate what is strategy and how it can support organisations achieve their objectives.

In one of the influential works on strategy, "The Art of war", written over 2.500 years ago by the Chinese general Sun Tzu, we are reminded that strategy is as much of an art as it is a science. In today's business language, the high-level vision, mission and purpose is equally important and directly linked to execution and operational capability.

From an academic perspective there are many different views and theories, sometimes conflicting, on what is and what is not strategy. Looking at some of them may help us shed some light on the role GRC can play to support organisations with their strategy.

In his seminal article, "What is strategy", Michael E. Porter highlights that while operational effectiveness, which in many cases may even lead to superior performance, is necessary and essential, it cannot be considered as an organisation's strategy. According to Porter, the essence of strategy exists in performing activities in a unique way, or different than rivals and in creating a unique and valuable position for the organisation's customers. Strategy additionally requires organisations choosing what *not to do* and combining activities that fit together and can reinforce each other.

In "The core competence of the corporation" Professors Hamel and Prahalad emphasize the ability of managers to identify and evaluate their company's unique skills and where applicable the technologies that distinguish them from their competition and how well they can coordinate these, as crucial in defining a company's competitive strength and how quickly it can adapt to new challenges and managing to stay ahead of the competition.

In "The Fall and Rise of Strategic Planning," Henry Mintzberg provides his views on the strategic planning process and points out that strategic planning is actually not the same with strategic thinking. Mintzberg further emphasizes that the most successful strategies are visions not plans and points out that planners shouldn't create strategies and should instead feed managers with data to help them think strategically and program the vision.

Consequently, strategy is an extremely complex process and requires the right combination of activities that will allow organisations to develop their vision and mission, identify growth areas, optimise their operations and focus the use of their resources on high impact projects. At the same time, they must ensure that their activities will not compromise the company's profitability, reputation and sustainability.

GRC brings together all the elements required in order for organisations to operate efficiently and effectively at all hierarchical levels and achieve the desired level of performance.

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On the side of corporate governance, it can support organisations to plan strategically while at the same time achieve operational excellence. It ensures the alignment of the interests of all stakeholders, it promotes accountability and performance management, the right balance of power, proper decision-making practices, values and ethics.

On the side of risk management, it can enable organisations to identify, assess, and control all types of risks related to their operations and business endeavours. In today's volatile, uncertain, complex and ambiguous business environment, adding the risk perspective to all business endeavours is critical for all organisations.

On the side of regulatory compliance, it can enable organisations to comply with the constantly changing regulatory and legal framework which must be considered as not only mandatory but non-negotiable.

Conclusively, GRC is an organisational wide process that can be considered as a valued strategy tool for organisations of all sizes. GRC can support organisations to identify, pursue and achieve the right strategic objectives and what OCEG defines as "principled performance".

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