

GRC² - a theoretical and conceptual analysis of possible organizational, cultural, and instrumental interdependencies

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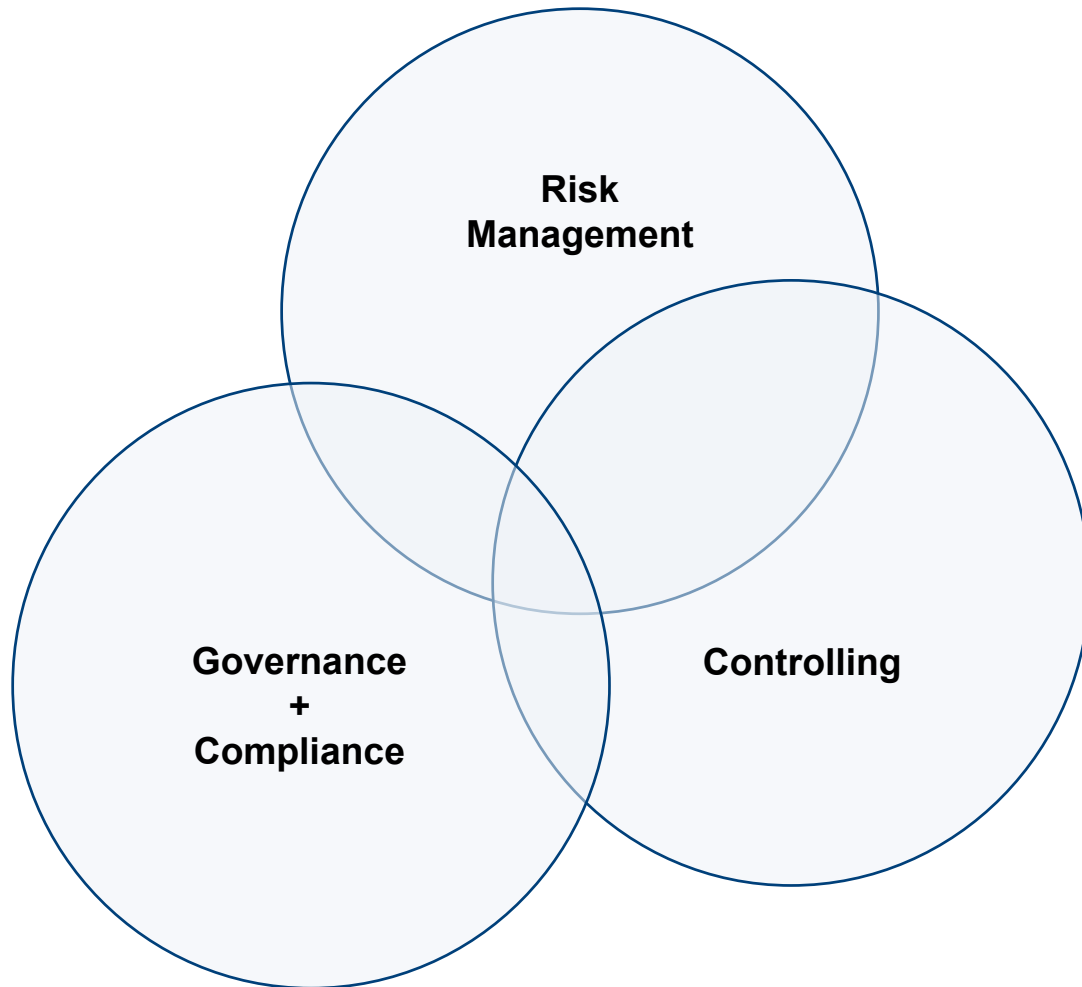
Questions and suggestions

References

Problem statement

- In previous literature, the topics of governance, risk and compliance on the one hand and controlling on the other are largely **considered separately** (Gleißner 2020).
- This is remarkable in that all four functions basically deal with **similar problems** in the context of corporate management and monitoring (Ulrich 2011).
- At least for GRC, some **overarching frameworks** have been discussed in recent years, which discuss the topics organizationally, functionally and instrumentally together (Gleißner 2019, Gleißner 2020, McShane 2017, Hunziker 2018).
- The necessity of linking controlling and risk management also arises from the goal of processing risk management in a way that supports business decisions, especially in the case of value-based risk management (Gleißner 2019, Gleißner 2020, Gleißner/Stein/Wiedemann 2021).
- We postulate that **combining the four topics under the acronym GRC²** offers both efficiency and effectiveness enhancement potentials in theory and practice. In addition, we assume that risk management and controlling are closer to each other than, for example, governance and compliance (GC) and risk management. This is in line with the "integrative" understanding of risk management, or the concept of risk covenants.

Basic Idea



Organizational aspects	From 1 = few similarities to 5 = multiple interdependencies
Risk + Controlling	
GC + Controlling	
GC + Risk	
Cultural aspects	From 1 = few similarities to 5 = multiple interdependencies
Risk + Controlling	
GC + Controlling	
GC + Risk	
Instrumental aspects	From 1 = few similarities to 5 = multiple interdependencies
Risk + Controlling	
GC + Controlling	
GC + Risk	

Underlying assumptions

- **Key dimensions** picked up in the survey are addressed below. To characterize the orientation of compliance (G and C) 2. risk management and 3. controlling, questions are asked on three aspects for characterization purposes, namely a) cultural aspects b) instrumental aspects c) organizational aspects.
- On the basis of **3 - 5 dimensions**, to which questions are assigned in the survey, the following should be determined a) how the orientation and positioning of (1) compliance, (2) risk management and (3) controlling in the company of the respective respondent is to be assessed (according to his assessment) and b) what the respondent's fundamental understanding of these aspects is with regard to (1) compliance, (2) risk management and (3) controlling.
- This creates the prerequisites for examining how **risk management** is assessed by the respondents in relation to the "neighboring" management systems, compliance and controlling. A proximity in terms of this profile between two of the three management systems is seen as an indication of easier integration. Seriously differing perceptions are indications of barriers to integration (see the hypotheses).

Examples for theses

How would you rate the interaction between governance+compliance, risk management and controlling in your company? Please give your answers to the following questions on a 5-point scale from "completely agree" to "completely disagree".

1. There is no formalized risk management system in our company.
2. there is no independent risk management system in our company because risk-related issues are dealt with in Controlling in particular
3. the company follows the GRC approach and has thus integrated the functions for governance, risk and compliance.
4. risk management and controlling are linked organizationally.
5. 5) Risk analyses are carried out in the company and the main risks are summarized in the prioritized risk inventory.
6. 6) Risk management is linked to both compliance and controlling.
7. 7. the company is able to identify potential "developments that could endanger the existence of the company" (§1 StaRUG/§91 AktG) as a result of possible combination effects of individual risks through risk aggregation (Monte Carlo simulation).
8. when preparing "entrepreneurial decisions", a risk analysis is used to show what effects the decision will have on the future scope of risk.

Cultural aspects

Understanding of risk

- In the context of compliance, risk is usually understood as the possibility of violating regulations and, in particular, laws. In controlling, on the other hand, risk is more commonly understood as the possibility of a deviation from plan, which includes the possibility of both positive and negative deviations from plan (opportunities and threats).

Risk and error

- In the area of compliance, suitable measures are to be taken to reduce the extent of risks or even to avoid risks completely. In compliance, the existence of a significant risk is interpreted as an error. Instead of reducing or even minimizing risks, controlling aims to achieve an optimal risk-return profile with regard to the company's objectives - specifically the company value. From this point of view, an increase in the scope of risk is appropriate if it is accompanied by an adequate increase in earnings (value-oriented controlling). In corporate risk management, both the compliance and the controlling viewpoints can be found here.

Exemplary "thesis"

- "It is seen as the task of risk management to reduce the scope of risk through risk management measures".

Outlook

- This paper postulates an **integrated view** of governance, risk, compliance and controlling.
- Here, the greatest emphasis is placed on **potential cultural differences** and interdependencies.
- The theses developed are currently being tested in a **quantitative online survey**.

Questions and suggestions



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