

# Risk appetite for general motors

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Risk appetite is the level of risk that GM is willing to accept at the strategic level. The following factors could be used to determine the level of risk appetite of GM; - Products being manufactured; GM will take higher risk in this area as there is high level of market competition. The likely wood that GM will have product failure in some product will be high and the impact of this failure will be high, therefore GM should limit its risk appetite on manufacturing of new products.

- The need to increase sale; GM will have a high risk appetite towards increase sale as it's expand globally to gain more market share for its products. - The background of the board; some board members in GM may accept increase risk personally and this may be reflected in the way they manage the company. - Amount of change in the market; the marketplace with significant change may increase the level of risk the board is prepared to accept.

GM would be prepared to accept high level of risk due to the constant change in the nature of it business. - Reputation of the company; if the company have a good reputation, then the board will take less risk, as they will not like to lose that good reputation. This is contrary to GM level of risk appetite. Despite the good reputation of GM in the auto manufacturing industry, the board would still involve in taking high risk to meet up technology and market changes.

Risk Identification: This is the first part of any risk control system and is very important for organization existing in turbulent environment (e. g. current market environment). With no exception, GM may face a range of potential risk (in particular economic recession risk) that is related to the current

economic situation. The following identified risks facing GM in the economic recession are; (A) Foreign exchange rate risk: GM is exposed to the risk of buying, selling and financing in foreign currencies.

(B) Interest rate risk: GM is exposed to interest rate risk due to financing activities. (C) Commodity price risk: changes in price of commodities used in the business such as non-ferrous and precious metals for automotive components and energy used in the overall manufacturing process. Assessing the risks; Once potential risks are identified, the next major task is to assess them by using two variables; the probability (or likelihood) of the risk being realized and the impact or hazard (what would happen if the risk was realized).

These two intersecting continua can be used to create a probability/impact grid on to which individual risks could be theoretically plotted (Campbell, 2009) High Impact Low Likelihood High Fig. Risk Grid These risks are assessed by GM's risk management committee (RMC), who reviews the risk and where appropriate, approved recommendations on the level of exposure and the strategies to be pursued to mitigate these risks.

With the present economic recession, the likelihood of these risks occurring will be high although the impact might low or moderate. The risk management control system is utilized to monitor the strategies, risk and related hedge positions in accordance with the policies and procedures approved by the RMC. Risk response; This is the final stage of the risk management process. It involves making risk strategies of transfer (or share), avoid, reduce and accept. The risk strategy is based on likelihood and impact relationship of the identified risk.

For instance, management would always want to avoid risk with high probability and high impact (Campbell, 2009; ACCA Text, 2007/08) GM respond to foreign exchange rate risks by using derivative instruments, such as foreign currency forwards, swaps and options to hedge these risks. For interest rate risk, this was managed mainly with interest rate swaps, and for commodity price risk, GM responded by entering into various derivatives, such as commodity swaps and options to offset their commodity price exposures. The economic recession risk cannot be avoided by GM.

This risk has affected their business in such a way that GM is considering shutting down some of its manufacturing plant due to huge inventory laying in stock (www. cbn. com/news) . It crucial to understand that risk come and goes with the changing nature of business activity and with continual change in organizational environment (Campbell, 2009) Control Activity for GM: Decisions need to be taken by the board as to the above identified risks. In situations where the risks need to be reduced, the board should identify control activities that can be used to effectively reduce the identified risk.

The Committee of Sponsoring Organizations (COSO) identifies the components of a sound system of internal control as being a control environment within which all operations occur, control activities to ensure operations occur in an acceptable way, information and communication to integrate and facilitate effective operations and finally the existence of monitoring services to evaluate the effectiveness of control (ACCA Text, 2008/09) Control environment; the control environment sets the tone of an organization, influencing the control consciousness of its people.

It is the foundation for all other components of internal control, providing discipline and structure. Factors include the integrity, ethical values and competence of the entities people. Control activities; control activities are the policies and procedures that help ensure management directives and strategies are carried out. They help ensure that necessary actions are taken to address risk to achievement of the entities objectives. They occur throughout the organization and in all functions.

Information and communication; important information may be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Monitoring; internal control system needs to be monitored. This is achieving through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. Reference: ACCA Text (2008/09): Professional Accountant (PA). Kaplan publishing; Berkshire Camphell, D. (March 2009): Risk and Environmental Auditing. Student Accountant, ACCA Magazine for trainees, pp. 46-48

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