Risk Policy

Introduction

Crown Paints Kenya Plc (CPKL) understands that value is maximized when management sets strategy and objectives that strike an optimal balance between growth-return goals vis a vis risks. Risk lies at the core of every decision making, from day-to- day operational issues to the fundamental trade-offs in the boardroom. It is the basis by which efficient and effective deployment of resources in pursuit of strategic and tactical objectives is achieved.

CPKL's Risk Policy (CRP) emphasizes effective response to change, including agile decision-making, the ability to respond in a cohesive manner, and the adaptive capacity to pivot and reposition while maintaining high levels of trust among stakeholders.

The policy provides a clear link and insight into strategy, risk, and performance and in particular;

i. connects risk management with stakeholder expectations.

ii. positions risk in the context of CPKL's performance, rather than as the subject of an isolated exercise

iii. enables CPKL entities to better anticipate risk so they can get ahead of it, with an understanding that change creates opportunities, not simply the potential for crisis.

Risk Appetite

The company calibrates an appropriate Risk response to every opportunity. Management and the Board understands that not every situation is the same and that the operating environment is fluid with fluctuating risk-reward trade-offs. As such there is constant review and adjustment of exposure levels and limits balanced against expected rewards depending on the size of opportunity and the market forces at play.

Management's Role in Risk Management

Management holds overall responsibility for managing risk at the entity level and enhances conversation with the board and stakeholders about using the company's risk management practices to gain a competitive advantage. That process starts by deploying risk management capabilities as part of selecting and refining business strategy.

Management has understanding of how the explicit consideration of risk impact the choice of strategy. There is added perspective to the strengths and weaknesses of a strategy as conditions change, and to how well a strategy fits with the company's mission and vision. Through this process, there is increased confidence on alternative strategies under consideration and the input of staff in strategy implementation.

This creates trust and instils confidence in all stakeholders.

The Board's Role in Risk Management

The company's board plays an oversight role, helping to uphold and enhance value creation. The company's Risk Policy communicates important considerations for the board in defining and addressing its oversight responsibilities. These considerations cover governance and culture; strategy and objective-setting; performance; information, communications and reporting; and the review and revision of practices to enhance the Company's performance.

The board's risk oversight role include;

i. Reviewing, challenging, and concurring with management on:

- ✓ Proposed strategy and risk appetite.
- ✓ Alignment of strategy and business objectives with CPKL's stated mission, vision, and core values
- ✓ Significant business decisions including mergers acquisitions, capital allocations, funding, and dividend-related decisions
- ✓ Response to significant fluctuations in subsidiaries' and related entities' performance or the portfolio view of risk.
- ✓ Responses to instances of deviation from core values.

ii. Approving management incentives and remuneration.

iii. Participating in investor and stakeholder relations.

Through this, CPKL's resilience - the ability to anticipate and respond to change – is enhanced over the long term as the company is able to identify factors that represent not just risk, but change, and how that change could impact performance and necessitate a shift in strategy. For example, should it defensively pull back or invest in a new business or change its product portfolio?

Realized Benefits

CRP ensures CPKL sets and periodically adjusts strategy in light of ever-changing opportunities for creating value and the challenges that occur in pursuit of value. The following benefits accrue out of this proactive approach;

•***Increased range of opportunities:*** By considering all possibilities—both positive and negative aspects of risk— management not only identify new opportunities, but also unique challenges associated with current opportunities.

•***entity-wide risk identification and management:*** Every CPKL entity faces myriad risks that can affect many parts of their operation. Sometimes a risk can originate in one part of the entity but impact a different part. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.

•***Increasing positive outcomes and advantage while reducing negative surprises*:** CPKL entities improve their ability to identify risks and establish appropriate responses, reducing surprises and related costs or losses, while profiting from advantageous developments.

•***Reducing performance variability***: In certain instances, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of schedule and expectations. CRP allows CPKL to anticipate the risks that would affect performance and enable them to put in place the actions needed to minimize disruption and maximize opportunity.

•***Improving resource deployment*****:** By defining robust information on risk, CRP allows management, in the face of finite resources, to assess overall resource needs, prioritize resource deployment and enhance resource allocation.

•***Enhancing business units' resilience*****:** It becomes increasingly important as the pace of change accelerates and business complexity increases that CPKL entities increase resiliency by anticipating and responding to change. This enhances business units' medium and long term viability.

These benefits reiterate that the change that underlies risk and the organizational responses to risk give rise to strategic opportunities and key differentiating capabilities that define CPKL success into the future.

Risk & Strategy Selection

Risk is a consideration in strategy-setting processes and is evaluated in relation especially to its potential effect on an already-determined CPKL strategy.

The business asks critical questions;

Q - *Have we modeled customer demand accurately?*
Q - *Will our supply chain deliver on time and on budget?*
Q - *Will new competitors emerge? Is our technology infrastructure up to the task?*

However, the risk to the chosen strategy is only one aspect to consider. Two additional aspects

i. possibility of the strategy not aligning, and
ii. the implications from the strategy chosen,

Both which have direct implication on enterprise value are also key considerations.

CPKL mission, vision, and core values matter when it comes to managing risk and remaining resilient during periods of change. A chosen strategy must support CPKL's mission and vision. A misaligned strategy increases the possibility that the company may not realize its mission and vision, or may compromise its values, even if a strategy is successfully carried out.

On the second aspect, when management develops a strategy and works through alternatives with the board, they make decisions on the trade-offs inherent in the strategy. Each alternative strategy has its own risk profile—these are the implications arising from the strategy. The board of directors and management need to determine if the strategy works in tandem with the CPKL's risk appetite, and how it will help drive the company to set objectives and ultimately allocate resources efficiently.

CPKL Risk Policy is as much about understanding the implications from the strategy and the possibility of strategy not aligning as it is about managing risks to set objectives. The Policy recognizes that the most significant causes of value destruction are embedded in the possibility of the strategy not supporting the company's mission and vision, and the implications from the strategy on these. The CRP as such plays a crucial role in not only strategy selection but also operational management. Decision making is structured to ensure proper analysis of risk and alignment of resources with the mission and vision of the company.

Risk Management Pillars

The Risk Policy clarifies the importance of the company's risk management in strategic planning and embedding it throughout the organization. This interrelationship is depicted below in the context of mission, vision, core values, and as a driver of CPKL's overall direction and performance, showing five reinforcing pillars that uphold the Risk Management Framework.

The Company's Risk Management Architecture

The underlying pillars of Governance and Culture, Strategy & Objective setting, Performance, Reviews and Revisions and Information, Communication and Reporting are integral in reinforcing the risk policy framework.

1.***Governance and Culture:*** Governance sets the tone, reinforcing the importance of, and establishing oversight responsibilities for, companywide risk management. Culture pertains to ethical values, desired behaviours, and understanding of risk in the various business units and divisions of the company.

2.*Strategy and Objective-Setting:* The company's risk management, strategy, and objective-setting work together in the strategic-planning process. A risk appetite is established and aligned with strategy; business objectives put strategy into practice while serving as a basis for identifying, assessing, and responding to risk.

3.*Performance:* Risks that may impact the achievement of strategy and business objectives are identified and assessed. Risks are prioritized by severity in the context of risk appetite. The company then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders.

4.*Review and Revision:* By reviewing performance, the company considers how well the risk management components are functioning over time and in light of substantial changes, and what revisions are needed.

5.*Information, Communication, and Reporting:* there is a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organization.

Risk Management Principles

The five pillars are themselves supported by a set of principles. These principles cover everything from governance to monitoring and provide management and the board with reasonable expectation that the company understands and strives to manage the risks associated with its strategy and business objectives.

The principles under the respective pillars are depicted below.

These principles are buttressed by underlying practices across the organization. These Practices are expounded below..

Embedded Risk Practices

Pillars	Principles	Practices
	Exercises Board Risk Oversight	1.The board provides oversight of the strategy and carries out governance responsibilities to support management in driving strategy and business objectives.
	Establishes Operating Structures	2.The company establishes operating structures in pursuit of strategy and business objectives.
Governance & Culture	Defines Desired Culture	3.The company defines the desired behaviors that characterize desired culture.
	Demonstrates Commitment to Core Values	4.The organization demonstrates a commitment to its core values.
	Attracts, Develops, and Retains Capable Individuals	5.The organization is committed to building human capital in alignment with strategy and business objectives.
	Analyzes Business Context	6.The organization considers potential effects of business context on risk profile.
	Defines Risk Appetite	7.The organization defines risk appetite in the context of creating, preserving, and realizing value.
Strategy & Objective Setting	Evaluates Alternative Strategies	8.The organization evaluates alternative strategies and potential impact on risk profile.
	Formulates Business Objectives	9.The organization considers risk while establishing the business objectives at various levels that align and support

		strategy.
Performance	Identifies Risk	10.The organization identifies risk that impacts the performance of strategy and business objectives.
	Assesses Severity of Risk	11.Assesses Severity of Risk—The organization assesses the severity of risk.
	Prioritizes Risks	12.Prioritizes Risks—The organization prioritizes risks as a basis for selecting responses to risks.
	Implements Risk Responses	13. The organization identifies and selects risk responses.
	Develops Portfolio View	14.The organization develops and evaluates a portfolio view of risk.
Review & Revision	Assesses Substantial Change	15.The organization identifies and assesses changes that may substantially affect strategy and business objectives.
	Reviews Risk and Performance	16.The organization reviews entity performance and considers risk.
	Pursues Improvement in Enterprise Risk Management	17.The organization pursues improvement of enterprise risk management.
Information, Communication & Reporting	Leverages Information Systems	18.The organization leverages the entity's information and technology systems to support enterprise risk management.
	Communicates Risk Information	19.The organization uses communication channels to support enterprise risk management.
	Reports on Risk, Culture, and Performance	20.The organization reports on risk, culture, and performance at multiple levels and across the entity.

Together the **Pillars, Principles** and **Practices (3Ps)** complete a 360 degree render of CRP that ensures the process is not only entrenched but is self-reinforcing in every decision making process in the company.

Conclusion – An Emerging perspective

As the company becomes better at integrating risk management with strategy and performance, opportunity to strengthen resilience will present. By knowing the risks that will have the greatest impact on the company, management will continue to use this policy to help put in place capabilities that allow them to act proactively.

In the long term, this pragmatic approach will remain at the core of management and governance practice, be integral to the way the company sets and achieves its strategic milestones, guide how it interprets new opportunities and help sustain and deliver value to all stakeholders.