

# Boardroom blitz

While many companies are coming around to the idea of risk management, few appreciate the potential opportunities it offers. But the real winners will be those who manage to turn strategic risk into strategic advantage. GlaxoSmithKline's **Nick Hirons**, Dalkia plc CFO **Martin Holt** and economist **Simon Wallace** tell Mark Stuart how it's done.

## Five keys to strategic risk management

1. Make sure you have effective escalation procedures in place.
2. Create an environment where bad news can be reported upwards without repercussions.
3. Work more closely with government agencies to make risk contingency more effective and easy to implement for all stakeholders.
4. Make sure that risk strategies are bottom up as well as top down; involve all parts of the business in identifying significant risks.
5. Keep insurance policies up to date, relevant and comprehensive.

Risk management is an essential part of any company's strategy, but it can deliver even greater benefits than simply surviving a disaster. Companies with robust plans in place can derive significant advantage from being the first to resume operations, as customers move to the surviving businesses. At the same time, proving that you can recover rapidly encourages consumer confidence, giving you additional competitive edge.

According to Simon Wallace, an economist at the Centre for Economic and Business Research (CEBR), the main advantage of a sound strategic risk management programme is that: 'You don't get caught out. Basically, global or unexpected risks aren't everyday occurrences – but they do

happen. A lot of companies wouldn't be prepared if something like the Buncefield explosion happened nearby.'

However, an effective risk strategy can offer a significant competitive advantage. For example, Wallace adds: 'In the service industry everything is 24-7 and customers are not particularly loyal. If you lose a day or some crucial data, there will always be someone to take your place. If you've got a contingency plan in place and you're back online before anyone else, you will suddenly gain lots of new customers who are then likely to stay with you because they will be impressed with how you coped in a crisis.'

Nick Hirons, VP, GIA and Global Risk Officer for GlaxoSmithKline, agrees: 'It might



sound callous, but saying "how can I gain competitive advantage from situation X" does two useful things: it demonstrates leadership and it gives you a tool for focusing on a scenario that's very broad and abstract.'

'For example,' adds Wallace, 'if you are weak on data security or whatever, you will quickly be usurped by another company. You can turn that on its head and make your weaknesses into strengths by taking simple precautionary measures, such as preventing sensitive data from leaving the office.'

### Turning risks into rewards

To move beyond simply mitigating risk and actually turn such situations to your advantage involves approaching risk management from a wider and more constructive perspective.

For Martin Holt, CFO at Dalkia plc, there are four key areas that companies should look at when aiming to deliver competitive advantage: environmental concerns, resource acquisition in the external marketplace, IT

and disaster recovery, and the increasingly burdensome legislative framework.

Simon Wallace believes infrastructure problems and IT and telecoms risks are the biggest issues, 'both in terms of technical breakdowns and crimes such as hacking and corporate ID theft'.

He explains: 'While catastrophes such as Hurricane Katrina are probably too large and unpredictable to plan for effectively, data security concerns are very real threats faced by companies every day. And these can be looked at in terms of opportunity because they're actually quite easy to solve if you're thinking in the right way.'

Hirons adds: 'Looking at what could disrupt business continuity should be the starting point. The severest risks offer the greatest opportunities if you address them in the right way. Take pandemic flu. That would have a massive impact on every aspect of business life, not just in terms of the number of employees off sick. A company's ability to continue operations will also depend on the preparedness of its suppliers and customers.'

Being prepared to deal with major business interruptions, such as natural disasters or terrorism, will certainly put you ahead of the competition, but such unpredictable events can be difficult to plan for. However, Wallace points out that: 'You can have systems in place. Above all, don't keep all your data or infrastructure in one place – if you can diversify your physical location, then in the event of a disaster you can carry on at minimal capacity elsewhere.'

### Sustainable thinking

One way companies can turn risk to reward is by promoting their ethical credentials. Holt says: 'As directors, we have to take a strong ethical line on conservation of energy and corporate responsibility. I don't mean just paying lip service – look into funding sustainable activities and take a proactive approach. The WEEE Directive, for instance, offers competitive opportunities.'

A company that communicates carbon neutral status, sources products locally and uses responsible business practices is more likely to gain consumer confidence. That will

### Avian flu: what are the risks?

**Simon Wallace:** 'I think the media has overstated the risk. If it happens, those people who have prepared will be grateful, but it's not worth putting in the kind of investment you would for terrorism or crime. The media gets great headlines from avian flu, but companies aren't convinced. Outside of the agricultural sector, not many companies are thinking, "should we put strategies in place for absences?"'

**Martin Holt:** 'The problem is, it's a risk that can't be quantified. We have a "top down-bottom up" approach. The CEO is in regular contact with the risk director; at the same time, there are signs in all buildings encouraging people to wash their hands. That might sound trite, but it's exactly the kind of practical, easily implementable solution that significantly reduces risk. In addition, we do have a contingency plan through a stockpile of facemasks and a crisis centre.'

**Nick Hirons:** 'I'm not a scientist, but all the evidence I've looked at indicates that a pandemic is almost a certainty. It's likely to break out in less developed countries, where there are fewer preventative measures in place, but it will affect us because, with our globalised transport networks, it will spread very quickly. It is worth developing continuity plans for avian flu by analysing all areas of your business and seeing what the impact would be in each one.'

be of increasing competitive advantage as more people identify with the sustainable agenda and demand a strong line on issues such as climate change.

Wallace says the tangible risks of climate change are relatively easy to manage. 'You could make obvious decisions such as avoiding coastal locations or flood-prone areas.' However, he adds: 'Few companies are preparing for climate change as much as they are for systems failure, and in terms of gaining advantage I think that's right.'



From his utilities perspective at Dalkia plc, Holt sees global warming as a long-term competitive issue. 'If you have any requirement for energy or water, they are both going to be subject to volatility.' Even something as basic as running a fleet of vehicles could suddenly become a complex issue, so discussing contingencies with your suppliers now could become a competitive advantage later on.'

### Managing risk

With such a range of unknown variables, what is the best way to seek opportunity from global risk? Should you insure for every eventuality or adopt a risk retention strategy and keep plenty of money in the bank for unforeseen problems?

**'If you have any requirement for energy or water, they are both going to be subject to volatility.'**



Martin Holt

### Simon Wallace

Simon Wallace is an Economist at the Centre for Economic and Business Research (CEBR). As part of his duties, he has modelled the economic impact of a proposed smoking ban in Dubai; prepared economic appraisals of proposed transport initiatives in Manchester, Birmingham, the Tees Valley and London; carried out socio-economic forecasting to support major railway franchise bids; assessed the London commercial property market and the impact of socio-economic change on rental yields; and created an economic impact assessment of highly skilled migrants for the Home Office to guide policy options. Wallace is a senior member of CEBR's macroeconomic forecast team and produces two of the company's international and UK publications.

Holt says: 'Insurance is a given, but it depends on the nature of the business. It's difficult from an accounting point of view to keep contingency finances in place for a catastrophic event like Hurricane Katrina. What you can do is make sure that you have a strong balance sheet so you're not at a disadvantage and that your insurance policies are up to date.'

He advises adopting a balanced approach. 'We have crisis management centres in different parts of the country, so if there's a catastrophe and, for example, the south of England is devastated, we can isolate the problem.' The key is to ensure that if other companies are losing customers due to an unforeseen event, you're ahead of the game.

'We take a common sense approach to contingency. There's a risk in being overly "counter-risk" – by being too cautious, you add costs you'll never see any benefit from. The flipside of that is not to worry at all and

then you end up with a problem you could otherwise have managed.'

### All change

Everyone agrees that directors could work more closely with government agencies to increase competitive edge. 'Take the pharmaceutical industry, for example,' says GlaxoSmithKline's Hiron. 'In respect to animal rights extremists, it has worked very closely with the UK government to shape and influence laws created to protect companies, shareholders and employees, as well as the wider economy. We needed to be robust about that if we weren't to lose out to foreign products.'

Wallace takes a similar line: 'In terms of IT theft, senior management could work more closely with police bodies to minimise potential and update laws so that cyber-crime is seen as a broader criminal offence with tougher penalties. It's a globalised marketplace now and if the home country isn't adequately protected, you'll lose out to competition from abroad.' Companies can be proactive in ensuring governments see the private interests of firms as being important to the national economy.

At present, Wallace believes this cooperation could be improved: 'There is a fair amount of business-government interaction, but, judging by my experience at CEBR, there could be a lot more. And when things change, directors need to see where priorities lie and amend the relationships. It needs to be an evolving, ongoing process.'

All three are quick to identify areas where UK businesses need to wake up and change their attitude. 'Avian flu is top of the list



Simon Wallace

**'If you've got a contingency plan in place and you're back online before anyone else, you will suddenly gain lots of new customers.'**

## Martin Holt

Martin Holt FCCA has been CFO at Dalkia plc, which operates in the energy management sector, since 2005. He has 17 years of sector experience in a variety of financial and operational roles. Prior to this, he worked for Caradon Trend Ltd, working his way up to General Manager. He holds an MBA from Surrey University European Management School.

for me,' says Hiron. 'UK businesses seem to have an "if it happens, it'll be as bad for everyone else" mentality. Good continuity plans will give companies an edge if and when it does strike.'

'Banks losing laptops with thousands of customer details on them is pretty sloppy,' says Wallace. 'That's the kind of thing the media pounces on and can really torpedo your brand. Yet we keep seeing it happening. Businesses also keep rolling out online services without considering how easily they can be hacked.'

Wallace sees this as a key competitive issue. It's easy to put systems in place – but very few companies do. And in areas like banking, where companies struggle to differentiate their offering from someone else's, it could be a vital selling point.

### Are boardrooms thinking the right way?

The panel is divided on the question of whether risk management is overlooked at director level. Holt doesn't think so, arguing that it is a core element of board strategy and 'much higher on the agenda for CFOs in particular than it was five or six years ago. We live in a riskier world since 9/11, and boards have responded to that.'

For Wallace, however, it depends on the size of company. 'A lot of large corporates are fully prepared, with comprehensive insurance policies and monthly updates on growing risks and how to respond in particular situations. Smaller companies simply don't have the resources to do that, and risk strategy is not a high priority. In some ways, smaller companies are gambling on nothing happening, because risk is perceived as something they can't afford.'

'Smaller companies do not consider risk as much as they could – and should. However, there is enough competition in the insurance market these days to get risk advice from

large insurance firms, who will weigh up the potential risks for your sector. Get an insurance broker in. You'll get a fair price and a better understanding of what you need, and then the director can make his or her judgement based on how risk-averse you are.'

Many companies will, for example, ensure audit trails are clearly marked and transparent, and address the potential for fraud. But focusing on a more robust enterprise risk management solution changes the mindset from 'prevention' to 'opportunity', and that could persuade directors of the value of taking a more proactive approach to risk.



Nick Hiron

## Nick Hiron

Nick Hiron started his career with British Gas as a CIMA Finance Trainee. After obtaining his CIMA qualification, he held various positions in both management and financial accounting. In 1994 he joined the newly formed internal audit department of Glaxo as an International Auditor in London and after three years took a secondment to its US Operations in North Carolina, later becoming Finance Director. After the Glaxo Wellcome and SmithKline Beecham merger, he moved back into internal audit to head up the Americas and Asia Pacific team, also taking on the role of Global Risk Officer in 2007.

Hiron feels the problem is not so much that boards don't consider risk. 'It's more a case of working out the best way to pass on important information to them, and getting them to realise how competitively

significant risk is. There is an enormous amount of data, and directors have a limited amount of time. You need to give them the right information so they are knowledgeable enough to endorse action further down or step in themselves. Many large companies use their audit committee to facilitate this process. Boards need to know what the biggest risks are and how well they are being managed.'

There are numerous things that could be done differently in the boardroom to identify and offset strategic risk. For a start, you should 'set aside time in meetings to assess the risk within each sector,' says

**'UK businesses seem to have an "if it happens, it'll be as bad for everyone else" mentality. Good continuity plans will give companies an edge if and when it does strike.'**

Wallace. 'Make managers aware that the risk in each sector is important and flag it up as early as possible.'

For Holt: 'The planning is more important than the plan itself.'

Hiron believes that the escalation framework is the key: 'Whenever there is a major disaster, there are usually mitigation procedures in place, but the right information isn't escalated to the top to allow something to be done in time.' And the focus of that information needs to be on how you can turn this to your advantage.

The impetus for change is there, but will UK boardrooms rise to the challenge? Some will learn their lesson the hard way, but the smart money is on those who can establish a clear escalation framework and take decisive action. The opportunities are there for the taking, and are not as difficult as they might seem – it's just a question of seizing the initiative. ■