

# Challenging attitudes to risk

Warwick Manufacturing Group

9th Sept 2020

# Struggling to cope: short term thinking versus managing risk

## *Issues in the crisis*

Complex and international supply chains

Poor visibility

Concentrated, not diversified

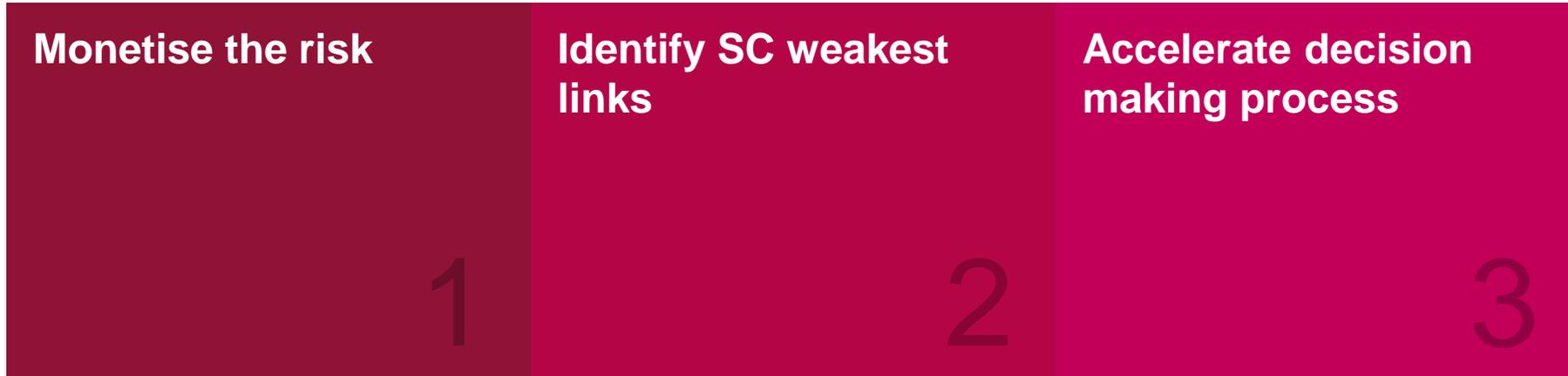
Lean and inflexible, not agile and adaptable



Short-term thinking, with a narrow focus on immediate targets and driven by bonuses...

... inhibits risk management, making it a tick-box governance exercise, rather than a meaningful and practical tool

# Challenging attitudes to risk management needs a holistic set of approaches



- ▶ Turning risk management from a tick-box exercise into a meaningful tool requires a combinations of all 3 approaches
- ▶ What has happened during COVID-19 could happen again for a variety of reasons
- ▶ Not every eventuality can be catered for, but risk management can be supported by designing mitigation into the Supply Chain

# Monetise the risk

The focus on short term is about optimising return to maximise bonuses; shareholders are looking for ongoing benefit, stretching beyond the life of the current management team

Understanding the financial scale of the risk enables the short v long term trade off to be understood

## *Key considerations in assessing the value of risk*

Customer reaction to failure

Cost of rectifying failure

Long term missed opportunity

Cost /benefit assessment of “sensible” risk mitigation policies

## Key steps:

1. Identify key risk areas

2. Assess outcome of failure

3. Estimate financial impact of failure

4. Identify cost of addressing risk

5. Trade off analysis – cost v risk

# Identify SC weakest links

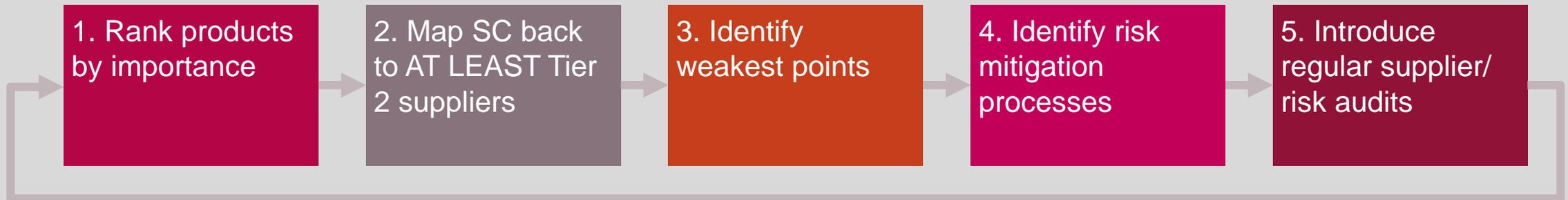
The 'weakest link' can be:

- ▶ Raw material/packaging sources
- ▶ Transport links
- ▶ Single sourcing
- ▶ Labour shortages
- ▶ Customer ability to access product
- ▶ Lack of proper operational BCPs

Potential solutions

- ▶ Sourcing strategy
- ▶ Off-shoring v On-shoring
- ▶ Make v buy strategy
- ▶ Routes to market
- ▶ Use of robots and automation
- ▶ Adaptable facilities

Key steps:



# Accelerate decision making process

COVID 19 demonstrated how in a crisis companies were able to move with agility and streamline decision making processes without adversely impacting quality.

## Key lessons in accelerating decision making process

Ensure quality is safeguarded

Learn from industries facing the same challenges

Identify pre-requisites to achieve optimum speed

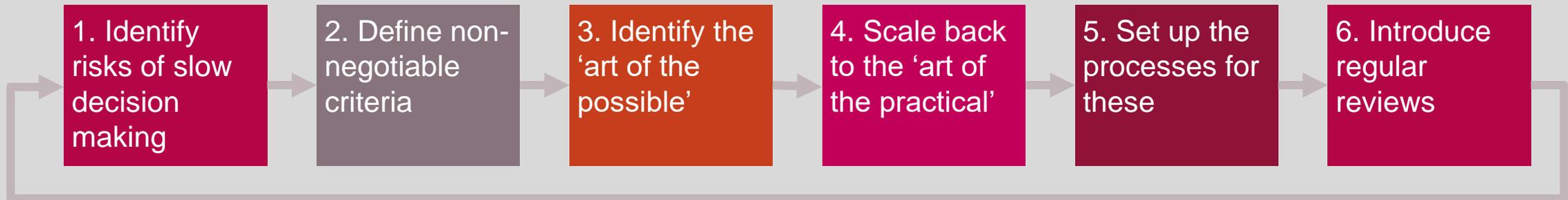
Accept there will be some “wasted” investment

Develop non-negotiable stage-gate approach

Review process effectiveness and measure cost of failure

Success requires a cross-functional cultural change

## Key steps:



# The shock of COVID-19 is an opportunity to change the mind-set



Key success factors include:

- ▶ Accepting long term security requires short term cost
- ▶ Recognising not all risks can be covered, but covering the key ones
- ▶ Cultural change from top to bottom