

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

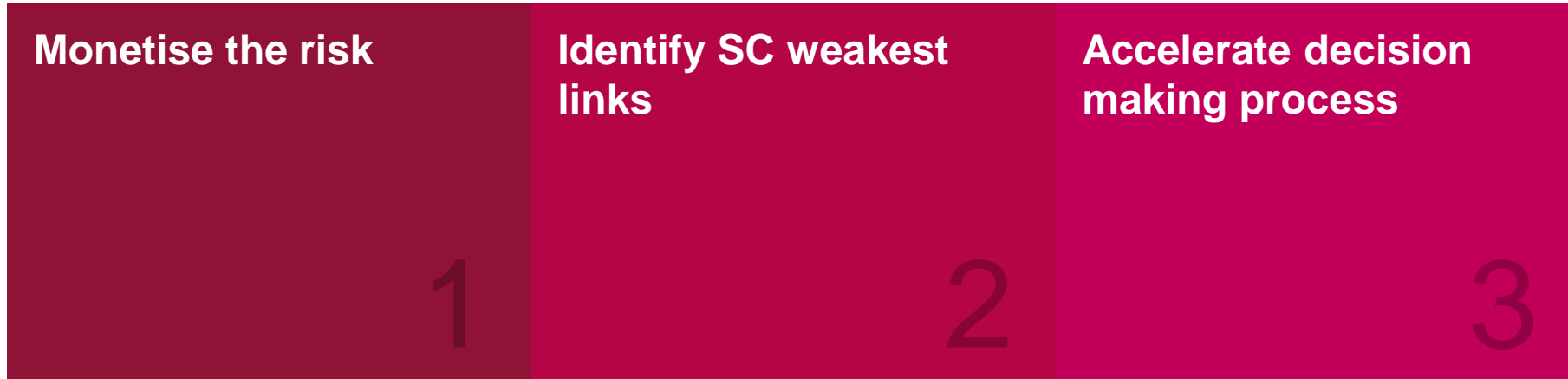
Lean and inflexible, not agile and adaptable



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

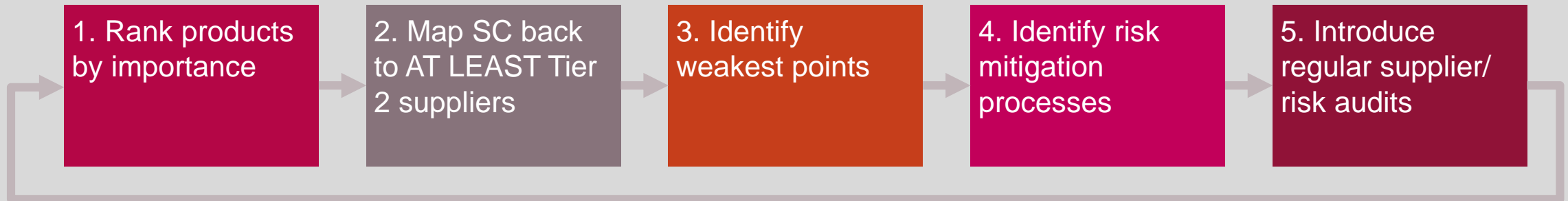
The 'weakest link' can be:

- ▶ 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

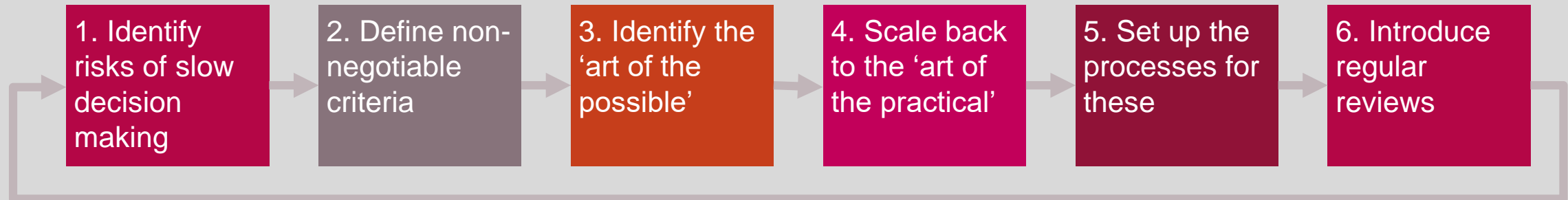
Accept there will be some “wasted” investment

Develop non-negotiable stage-gate approach

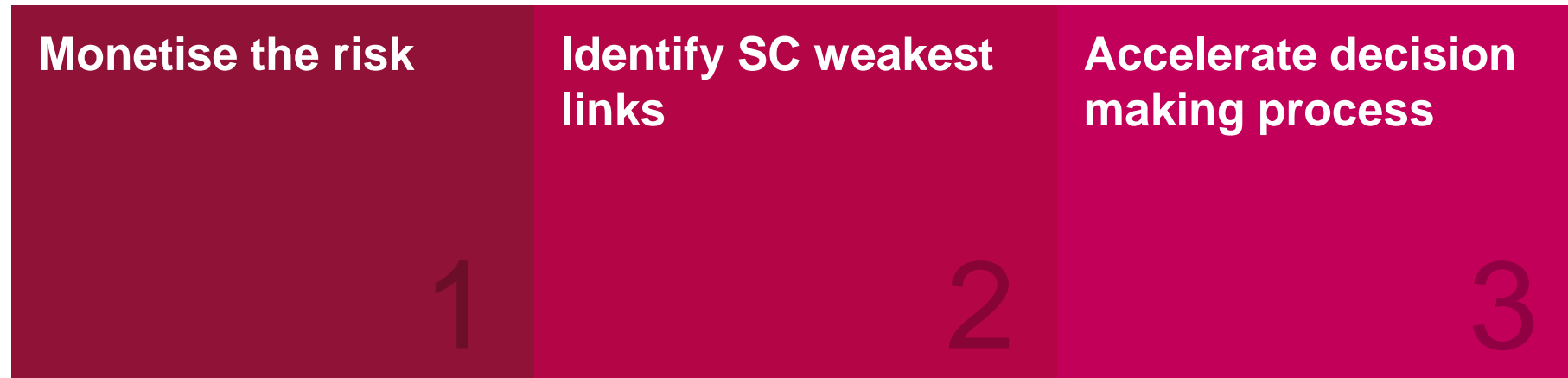
Review process effectiveness and measure cost of failure

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