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Resilience: Creating competitive advantage for business

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Resilience and advantage

Gaining competitive advantage through resilience

This roundtable was held to discuss the link between supply chain resilience and competitive advantage

As businesses evolve and innovate, they must keep ahead of the curve of emerging risks and identify their key anchors of resilience. But how? What can organisations learn from the past and what and where are the insights into globally accelerating risk? When it comes to operating in new markets, how can businesses evaluate risks and ensure that they have the right knowledge to protect their businesses' share price, reputation and operations? How can tools such as FM Global's Resilience Index help businesses achieve this understanding? In this roundtable debate, we look at what characterises successful thinking in well risk-managed operations.

ME How exactly do you factor in risk in the event of an acquisition? How do you create an understanding in terms of risks of something you have not done before?

MS The first step would be to try to gain an understanding of the business or activity that you're undertaking – which sectors you're working in, what resources you need, what dependencies you have.

BP I think it depends on why you're going into an area, whether you're looking for some way to establish a global operations hub or maybe there are particular incentives in a particular country or a niche in a particular country that you want to fill. Clearly if you're scouting around globally for where to place yourself, you're going to need to have a much more holistic view of risk.

PI There are many territories now that people naturally want to expand into like some of the parts of Asia or the Middle East, where you can't 'just go'; you need to partner with a local company, there might be a legal requirement about majority stakes. And while that makes it more complicated, it is also an advantage as you've now got an established partner and you can sense and check their appetite for risk, which makes it easier than starting from scratch. So it can be about partner selection.

XM It's also a matter of what else happens globally and how risks are likely to evolve. Risks change; some very stable areas can become highly unstable very quickly. Risks must be assessed at the time of the acquisition and also risks must be monitored in the long term. Using a local partner is also an advantage to understand how risks can evolve.

MS Don't forget that you go into a new venture because there's opportunity. You've identified a gap in the market, you know your objectives in terms of financials and timeframes. You look at the opportunity before you start to look at the threats to not achieving that vision.

XM The same applies to companies investing a lot in R&D to develop new products or new solutions bringing value to customers. To assess the potential of a new business opportunity, you must also consider the associated risks of taking a completely new product to the market. Risk assessment must be embedded in the business case for any new product.

PI Yes, often the business will want to know what the risk is of a new product, and how much it's going to cost us to transfer some of the risk. Equally, how much risk are we going to retain? It all has to be embedded in the business case.

JA I think the question should be: how to we protect our reputation, market share and operations? And I think you need to play your strengths, know in advance of going in that your issues management system has already identified all the running issues that a company of your kind might hit in that sort of environment. If you haven't, you're opening yourself up to vulnerability. There are a potential myriad considerations – and you need to find out what they are – be they economic considerations, ethical, or around sustainability. And it doesn't stop there.

MS Only a certain level of preparation will make it work – and you don't make a move unless you know your assessment gives you that warm feeling that it's the right thing to do.

PI That said, companies like Apple have had supply chain issues that they still haven't got around. Nike had the same issue. So, while I think you're dead right, we don't do it enough and somewhere along the line there's a business judgement made.

WB It's especially interesting because Apple themselves have got a lot of the other things exactly right.

CL I think what you're all talking about is risk culture. Do you have a business environment that would want you to know what the risks are first before moving to a new territory or moving to a new product diversification? I think attitudes towards risk culture are easy to spot if you know what to look for.

Attendees:

Chairman: Mark Evans	Mark Evans	**CIR Magazine**
Jon Arthur	Occupational Psychologist	
Will Boxall	Stations & Crossrail Risk Manager	**Transport for London**
Cedric Lenoire	Senior Business Development Executive	**FM Global Chemical Operation**
Xavier Mutzig	Group Insurance Manager	**Johnson Matthey Plc**
Mark Singleton	Programme Risk Manager	**Worley Parsons**
Jerry Slater	Business Development Executive	**FM Global**
James Stevenson	Business Continuity Senior Manager	**Rolls-Royce**
BP	Global banking professional	
PI	Global industry professional	

WB Having a risk culture in place is very important, and that starts with having good risk leadership – from the top.

ME And what is top of your mind in terms of supply chain risk?

JS-RR Ebola's the latest, but there are numerous others. Recently the business has suffered due to trade restrictions with Russia and previously we've had localised incidents with weather and natural catastrophes. Going back a few years some of our suppliers struggled with financial difficulties and now, we're pushing forward and asking suppliers to gear up, some are facing cash flow challenges. At the same time, some of the specialty goods suppliers have consolidated during the recession, and it's more challenging to maintain a very resilient, efficient supply chain.

BP Location risk data information. Linking infrastructure fragility and natural hazards risk map data with people and business location information identified strategic risks that were unlikely to have been identified without the use of professional risk data analytics.

JA I think there's a globalisation issue and there is the associated morality. Now the regulators are passing laws that say that you must demonstrate that there is no bribery, no facilitation payments going on and you now have a duty of care to demonstrate that, but the further away you get from London the greater the difficulty you will have in doing that. That itself though has failed to recognise the difference between bribery and extortion. Wrestling with that is actually pretty important and at least if you're not going to actually get to naming the behaviours that will get you in trouble, then at least take a rear guard position and build the communications infrastructure that means you can cope when it's suddenly alerted to you that a series of quite dark practices are happening in your supply chain.

WB I think the challenges we have with the London Underground network is that it's a very, very old system so there's lots of old technology in there and it's very demanding for supply chain participants to come in and actually do the work. What keeps you safe in that situation is the skill and awareness and the understanding of risk perception in the first place. It's extremely tough to ensure that risk is uppermost in everyone's minds.

CL Also I think the access to risk information sometimes can be a bit of a challenge if you're looking at vastly extended supply chains.

ME How do you know which risks are associated with which suppliers?

BP Actually it's really hard, so it would be useful if you could have an indication of it and when something is going downwards, either at a specific rate, or past a specific point, at which point it would trigger an action.

JA I examined a couple of these types of tools when I was in Unilever and of course metric data's nice because it gives you a classic good/bad/medium score, which is about the most that a board can take sometimes when there's so much data to be managed. But what would be useful if the data could show you how volatile a certain thing is, and the potential of its disruptive effect.

MS I agree. You've got to have the level of complexity that's aligned with the business that you're undertaking.

JA And you have to have an appetite for complexity from the off – I think one of the things that's missing in a lot of businesses when they design resilience is they design it as an end point; they design it as one more thing that gets measured rather than a thing that dictates the appetite for risk.

WB You need to take the output from tools like the Resilience Index and combine that with expertise, judgment, and other human characteristics that go into making the decision.

JS-RR I think the Resilience Index is useful because it gives you a quick view of the risks that you don't need to worry about in different geographies – whether it's sprinklers for fire risk management, or dealing with earthquake risk, or political risk. Thinning out the long list of possible issues at an early stage means that the management team can focus on the risks that really matter.

PI So there's a tool, there are tables, metrics, data we can use. But let's face it, there are multiple strategies available when you go into something. One is where you do the best you can, where you to take a risk and set out to do something amazing. Another is to try to do something really well but not take as much risk and stick with that. The unconventional sometimes can pay off as well and I think that we forget that sometimes. It was interesting to watch what happened after Fukushima with Toyota, which was almost dealt a death blow in terms of how much local Japanese semi-conductor integration they required. When they actually lost those sites they dropped their global production by 50% for nearly 18 months. That would have killed other companies. This also comes down to psychology and the culture of the organisation which has to decide how it wants to react to information and data – and there's more than one way of reacting.

BP It also depends on what kind of organisations are feeding your supply chain. From a financial service perspective; it can be pretty quick in terms of things moving through whether it's outsourced or suppliers doing things, part of the operation however, sort of links together but when you look at how it does all fit together there is a lot of issues, risks and other things that are of a geographical nature so the location of your operation centres with those of your suppliers as well.

JA It's fascinating when you start profiling your suppliers beyond their financial credibility. I built a dashboard at Unilever to model a different appetite for risk against various different suppliers. Something we learned as part of that was that knowledge is culpability. The minute you know that something in particular has gone on, suddenly it's not their problem; you can't blame them, it's your problem because you didn't have the governance in place. So what do you do when one or a group of your suppliers blows up in a way that isn't just simply about infrastructure or natural disaster, but in a way that still hits the licence to operate, the reputational issue at risk? I think it's about how you embed risk – you have to embed risk both above the red line and below it. There's always a certain way to communicate with the board. The board needs to be given what the board needs to be given. Of course if they have a major crisis, suddenly they're alert and are collecting scalps; they want to understand who's at fault and they want to protect their promotion prospects. That's how that works, and that's okay so there's a bit above the red line that requires a very simplified appetite that requires a very non-complex set of ideas but you must make sure those ideas have got something much more concrete behind them.

CL Do you not think this has evolved? I would have agreed with what you've described probably ten to fifteen years ago but, I've got the impression that things are moving the right way that actually a lot of directors or senior managers understand the importance of having the right risk management structure in place. I'm not saying that it's true everywhere but certainly in a growing number of companies.

MS The frequency of major public events over the last couple of years, particularly within the oil and gas industry, has certainly made boards become more risk averse. They're very acutely aware of the implications financially, reputationally and operationally – of all of the consequences of getting it wrong.

PI I think Deepwater Horizon, among other events, has really driven a culture where the old defence is no longer really tolerated as much as it used to be.

MS And I think there is a risk management community developing that can be tough, objective and be brave enough to tell the board what it does not necessarily want to hear, which is as it should be.

JA But that toughness also has to be about how the organisation can foresee itself being more competitive in a crisis and here the models we have are too conservative. If you define the crises that you are most susceptible to, then you must also define competitive outcomes within them and this is not very common. Resilience is also about being better than the competition when something, predicted or otherwise, does actually happen – whatever that may be. The revolution in Egypt brought us some key learning. If you'd sat our operatives around the risk assessment table using current business continuity techniques and said to them, "overnight there's going to be bullets in the streets in Egypt and we've got a serious business here, what do you think would happen?" They would have been able to articulate the impacts, but wholly unable to predict what actually did happen. Although the revolution clearly did destabilise our people, our assets and our business for a significant period, the net result is a different story. Unilever's business went on to grow and, partly, this had to do with Unilever's ability to respond to the aftermath of the crisis when compared with key competitors. The inability of current risk tools to predict this sort of resilience effect is a weakness. A smart company who had experiences like this would examine the underlying factors for success in adversity. That way they could draw out generic upstream resilience principles for similar geographies.

PI The Toyota situation was interesting. They had had a particular reputational issue in the States the year before which was all over the news in the US and included a congressional investigation. After Fukushima, I was particularly fascinated by how that organisation reacted because they responded in such an honourable way, not cutting manufacturing sites or dropping suppliers *en masse* – even though they produced 50% volume compared to the previous year. They did of course recover and now they are pretty much where they were before.

XM I think supply chain issues can be mitigated through vertical integration, and in turn that creates a competitive advantage.

ME In what other ways can risk management create competitive advantage?

CL I know of a number of organisations in our client base who actually promote business continuity and business resilience as a commercial leverage. And when they go in to pitch to a client, they emphasise that, whatever happens, they can continue to provide their services. It is very much a part of the commercial promotion. Some of them go as far as to take business continuity programmes with them so they can be scrutinised.

XM That's all good and well on paper though, isn't it. Personally, I think it takes years to build a reputation of reliability with your customers. It's not always good enough to just tell them that you have a business continuity plan in place. Brand and company reputation delivers a much stronger message because this reputation has been built over several years or decades and it has often been tested. In order to get a true competitive advantage you have a build a strong reputation with customers and stakeholders.

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JA The business continuity planning argument is good argument but it still has its limitations. It doesn't deliver competence. It doesn't deliver behaviours. It does, however, deliver reassurance, but that's different where there is a culture of reassurance. You've got to reassure people who want to be reassured. I noticed at Unilever that people who were working in management with two, three jobs; two, three hats, they work far longer and far harder, so when someone comes to them and says "I need this", the automatic question is, "what's the minimum you need?" And if, upon being told they need proof that the individual concerned is doing business continuity, said individual gives them a copy of the plan, then you instantly cut across the psychological intelligence of the business because in reality what people are doing is they're brokering in reassurance. Reassurance is a fundamental part of risk but that doesn't dictate behaviour. It has to be more about whether the behaviour is focused on control and that's a very different set of measurements, and much more costly to put in place. It also has to be about whether or not you're managing upside risk. Are you using the risk fundamentally as a preventative model?

CL It's more about the culture and even within the business model itself, the way they manufacture the plans such that they are all identical globally, about everywhere in the world they have supply chain risk management. So it's not just about showing your business continuity plan, it's about embedding the resilience at every single level within the organisation, which can affect the entire way the organisation is configured.

JS-RR I'd support that. My day job is within business continuity, and that role has evolved, and the industry along with it. Five, ten years ago, it was all about the plan and now I think it's moved on to the capability. It is changing from focusing on business continuity and flipping towards resilience now and the business continuity community is lining up underneath that. That's quite a fundamental change. It's going to mean that the business continuity community will be able to do much more. It does blur the lines between business continuity and risk management, but it means we can get a bit more proactive rather than reactive.

JA The ghost at the feast is that there has to be a business case. I've never seen a business continuity plan with the cost associated with it and that's kind of ridiculous and so if you put cost and business rationality at the front of this argument and you say, "Yes we're going to make you more resilient but it's going to cost you £2.5 million per annum to maintain that capability. Are you comfortable with that?" and they say, "Well no", it's then a case of, through having the dialogue, signing off a greater risk appetite. You're not comfortable with investing in true resilience that modifies the behaviour of the organisation, slows down some of your lead times, diversifies your supply chain a little bit, increases your complexity; you're not comfortable with that, that's okay. What are you comfortable with?" and if you're only willing to invest zero, you will get what you pay.

ME We've spoken about competitive advantage arising from business continuity plans but how does that transfer to the public transport world, in terms of professional advantage?

WB There is an expectation that we won't

have any gaps in our service. We'll all leave here and we'll go down to the Tube station and expect the service to be running. So, behind the scenes there's a knowledge that it's entirely unacceptable to disrupt anything, but at the same time we're doing more and more complex work. So the challenge really is to reach out to our staff and suppliers and help them see how risky it is, and to avoid any sort of complacency creeping into it and that's very challenging. As you know, there's such a diversity of components that make up the system – and it is an old network of ageing assets.

JA When you talk about influencing, what does that look like? When you say, "we want to ensure our suppliers understand our risk and respond to it", does that take a form?

WB There's a huge amount of material out there already around standards, procedures and other controlled ways of working, and they give you strong, leading practice. I think there are skilled professionals available too and I think that helps as well, but I think that only takes you so far. Ultimately, we do employ strong professionals, but they repeat tasks over a number of years... the obvious thing to then guard against is complacency (underestimation of risk). So the things we're using at the moment to try to simulate that professional focus is to get them assessing risks using databases themselves, learning from previous projects and previous bits of work and appealing to their sense of being professionals in their own right.

KEY TAKEAWAYS

MS Organisations need to understand what they are dependent upon before they make a move on any business decision. Resilience will give you the flexibility not just to continue operations, but also to move forward in new directions and with new ventures.

BP When looking for a new market, there's a very different focus and a very different set of needs to those associated with a very established operation. In terms of the information you share, it is key to find out what the unknowns are.

XM It is clear that there are some very good tools out there to help us ensure that we have the business resilience required and I can't wait to take a closer look at this Resilience Index tool. Business resilience is very complex; there are lots of different factors and risks to take into account. Everyone around this table today works in very different business sectors, but what is common to all of us is that business resilience can create a strong competitive advantage in all our sectors.

JS-FM I like the idea of being able to grab the board's attention, which is obviously essential to managing supply chain resilience.

WB I think you've got to ask why it is that certain types of risk issues generate more buy in within the organisation. I suspect it is those that ultimately help people in their jobs; professionals want to be effective, they want to be good leaders, they want to work within successful companies… so I think the more you can position risk management as being an enabler of these goals, the better. That is as opposed to communicating negativity, which will only generate resistance.

JA I have learned from a number of topics we've tackled today. Number one is about questioning the kind of risk that you're dealing with; is it a tangible, measurable and therefore real risk or is it some nonsense in a colour chart? Two, are your methods coherent and interconnected; are you talking human rights, or are you talking issues management? Are you talking corporate risk, regulatory risk, reputation management, or public affairs? Are you folding all these into a common currency where you get that competitive, resilient end point? Three, are you actually planning counter measures? Are you doing something or are you just planning to be reassured that you feel that you've assessed the risks? Four, are you costs sensitive? Is this a business case or not? Five is about competence, because highly competent managers think about resilience as part of their DNA – it's in every decision they make. That's what's going to drive it for you and that's what's going to flag up your real vulnerabilities. Finally, there is the question of whether or not you have a competitive end point in the first place? So I think risk managers should take a long hard look in the mirror and answer those six questions to find out if you've actually created an infrastructure that makes you more resilient or if you are merely brokering in reassurance.

PI I take a different perspective. I think it's a human system and, and despite the fact that I work closely with technology, it's not the technology that matters in this domain. There's a book from about 10 years ago written about the Big Three US automakers (Ford, Chrysler and General Motors), it asked a question about who was going to come out on top. The book proposed that, whoever embraced the hard choices of change and reform and still survived would win because they would learn the hard lessons and emerge stronger. That's why I think it is more about a human system. Senior decision makers don't get to where they are by being passive or by being risk experts or by being anything but extremely good at what they do. And that's normally financial management or sales.

JS-RR I think we're all saying in different ways that creating a resilient, efficient business isn't easy. We all start from a different place and naturally the way we all go about managing risks and building resilience is different. Then there are the metrics for risk and resilience and how we interpret them. Establishing a combination of metrics that work for each individual and organisation seems to be an important and growing area. Finally, there's a lot to be said for sharing these experiences and stories, and considering how we can use the combination of good metrics and stories to help our organisations become more resilient.

CL From what I have heard around this table today, business resilience is becoming part of the strategy culture. It's no longer just about having the plans or the procedures in place or ticking the box. Now it has to be embedded within strategy culture and strategy objectives. And it's increasingly becoming very much part of the DNA of successful organisations, and this is a long way away from where we were ten or fifteen years ago.