

Leverage your risk tolerance

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Who am I

- 35 years of broad LEGO experience
 - 2 years in IT
 - 13 years in Supply Chain
 - 4 years in Product Development
 - 6 years in Finance
 - 10 years in Strategic Risk Management
- Started **AKTUS** risk consulting April 2017
 - AKTUS = Aktiv Usikkerhed
 - Uncertainties are facts of life – you may as well learn to manage these to your benefit
 - In a volatile world, manoeuvrability is a competitive advantage



I will challenge the way you think about risk management

You need to know the basic risk management concepts to discuss these

You should abandon Risk Management ... and replace it with Intelligent Risk Taking

Now ... take the steps needed to get there, and lead your executives to do so as well

The **risk universe** encompasses everything imaginable ... and as such, it is slightly academic and never “measured”

Potential upsides

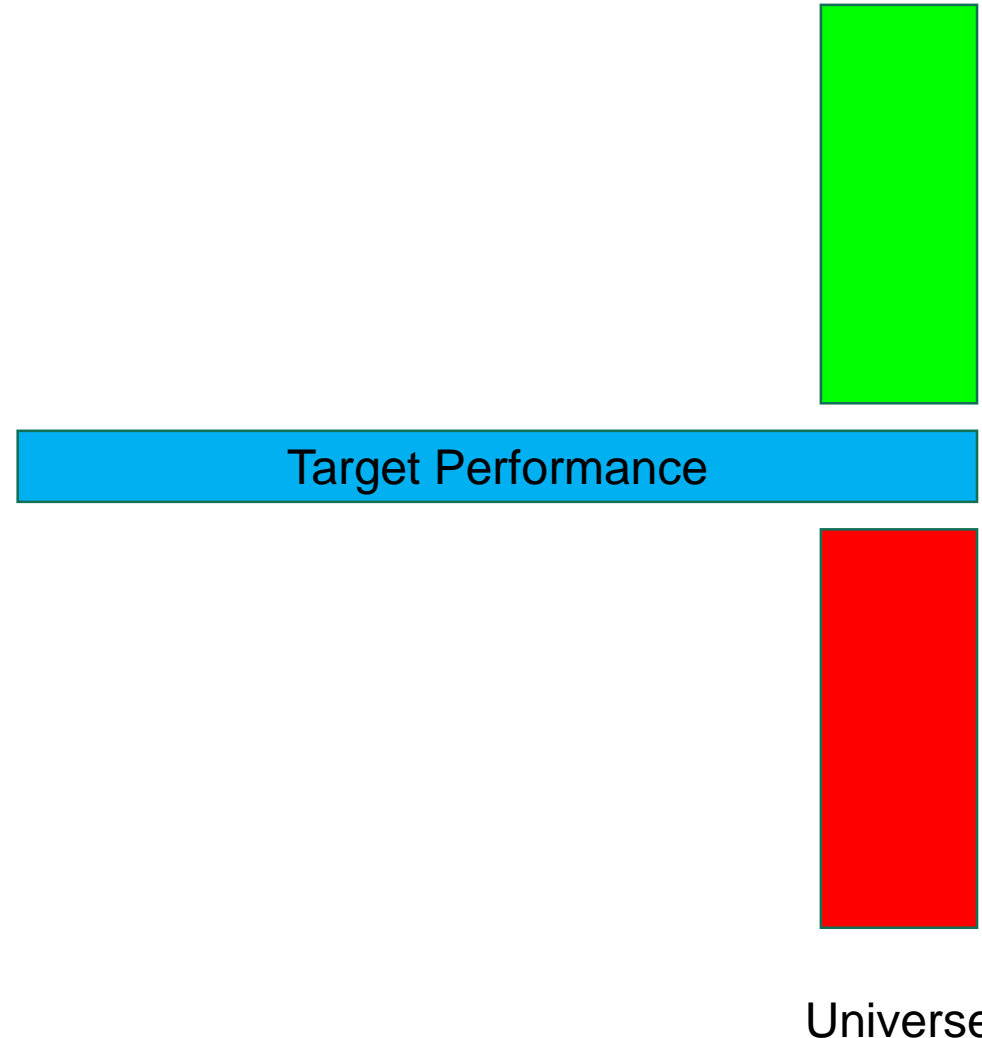
- Your key competitors are victims of a systemic risk and both are bankrupt
- Your key product becomes a “must have” item in China

in the same year

Potential Downsides

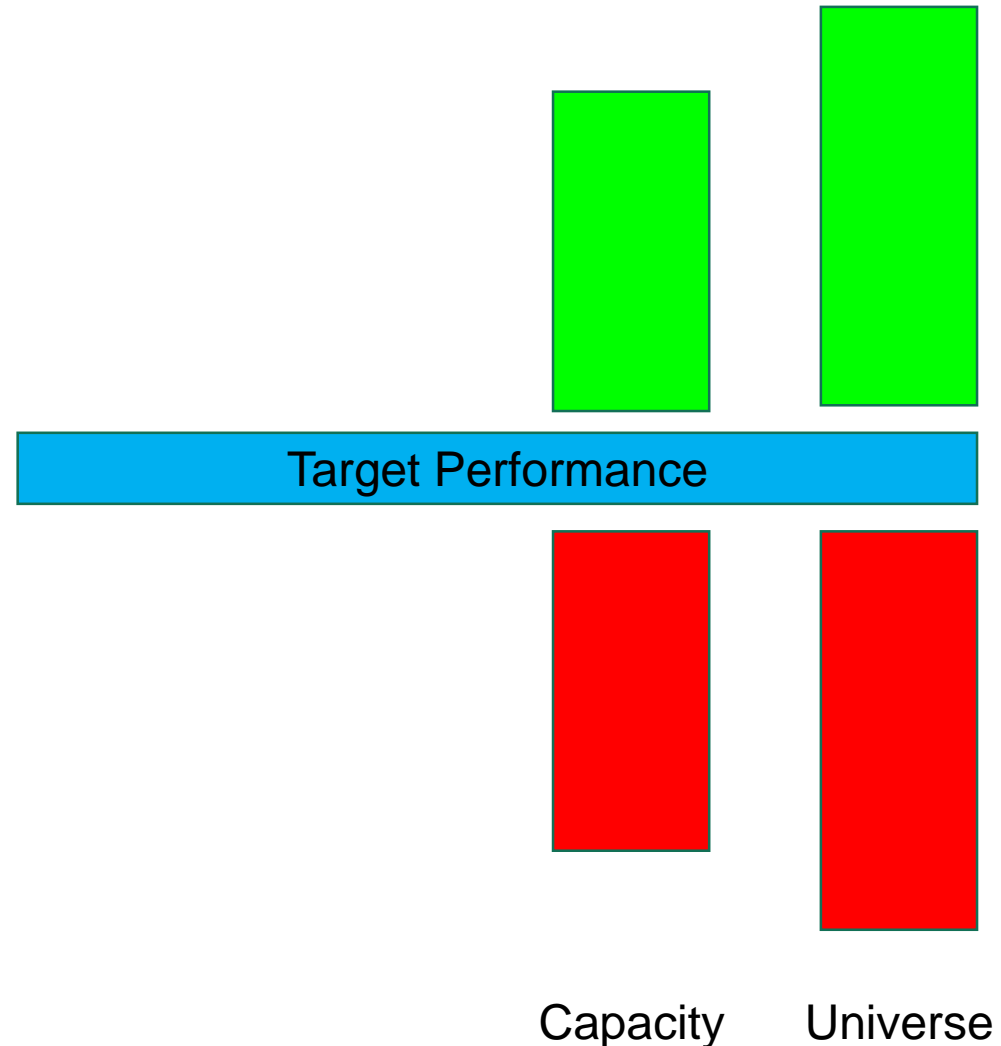
- Your key product is made obsolete by a new invention
- Your business practices are deemed illegal and you are fined severely

in the same year



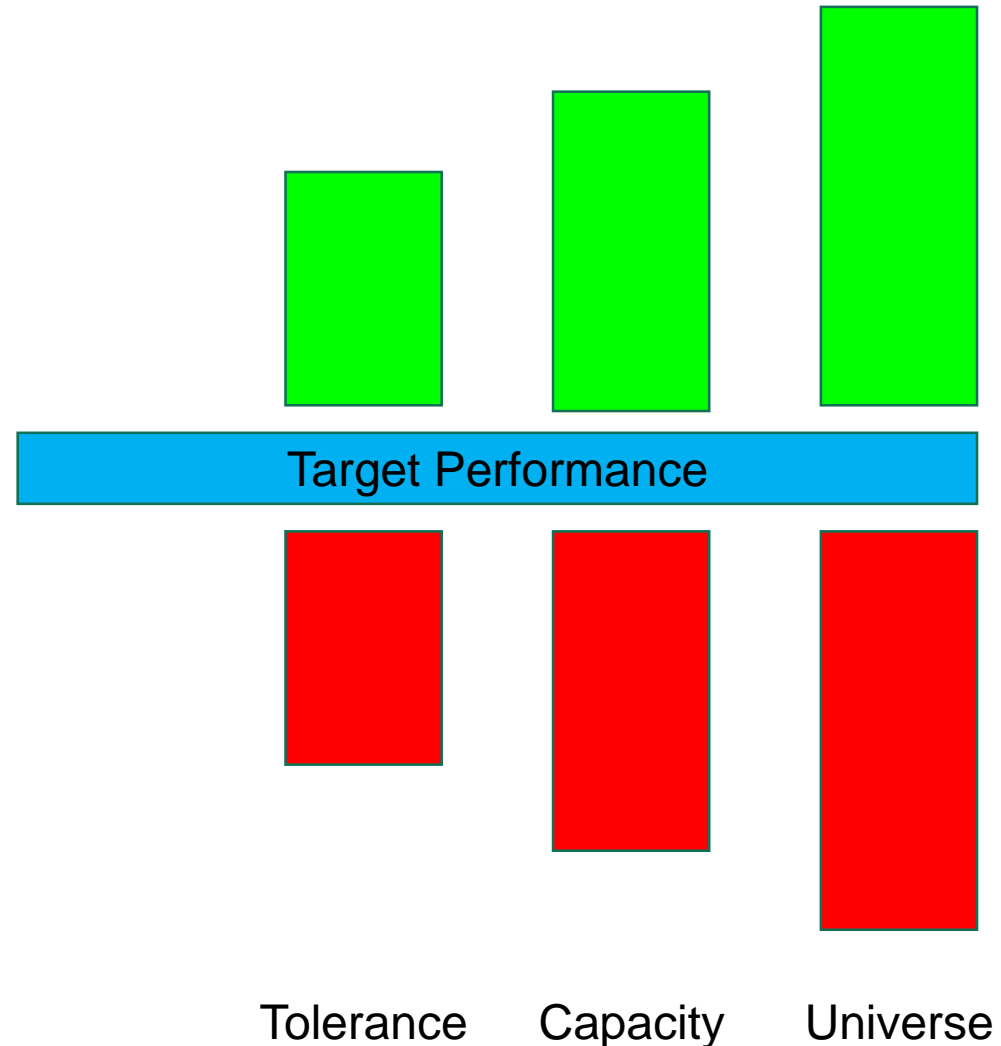
The **risk capacity** limits the peak of what you can possibly do as well as the limit of what may kill you

- Your new product is a success beyond your wildest dreams, but you are able to deliver the added volume
- You cannot afford to invest to enable a volume beyond that
- Your new technology drives costs down on a key process. You cannot invest to expand the scope of this
- Your key cost component see a massive price increase, which you cannot relay on to the customers, and your profitability is “gone”
- A huge key order is not paid, and your liquidity is at the brink of collapse



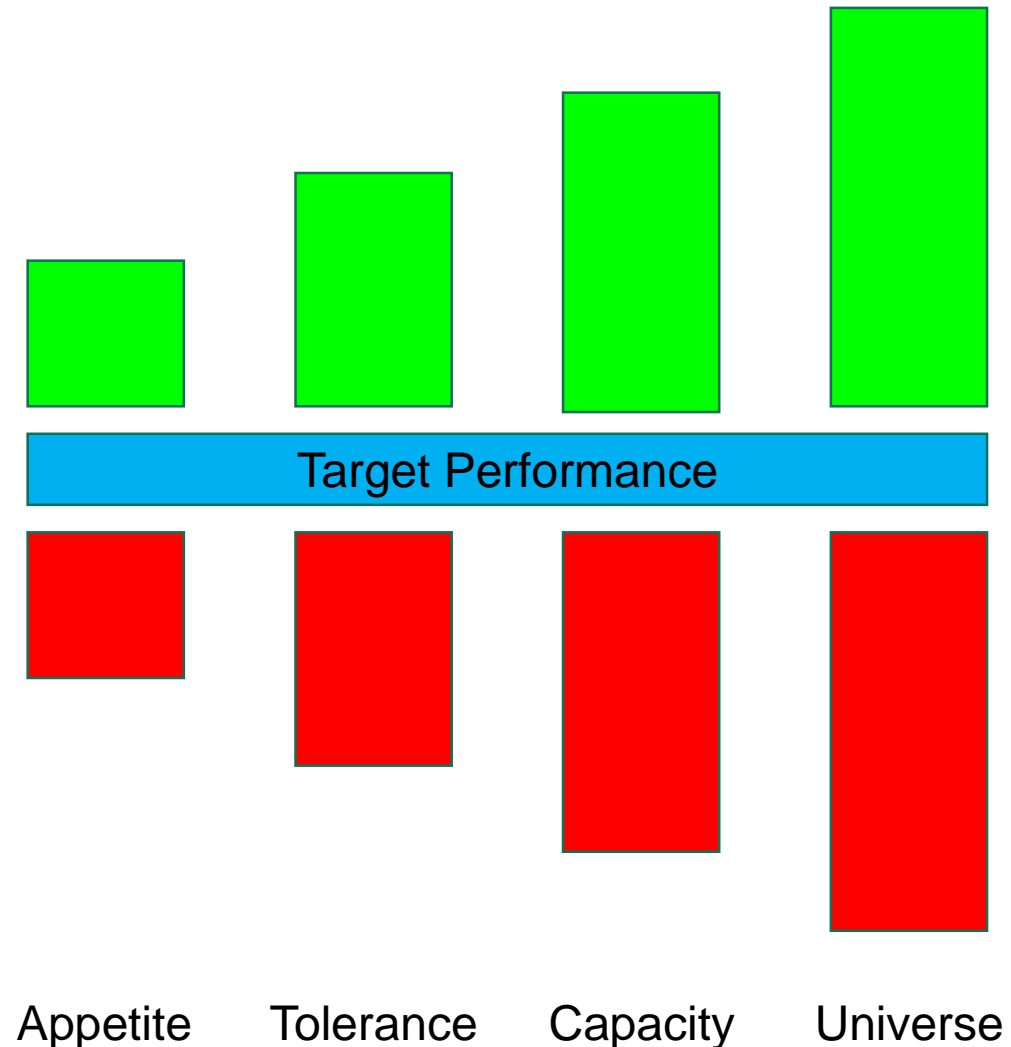
The **risk tolerance** is the level of risk you are prepared to accept if need be to meet your aspirations

- You plan the sales of a new product, and invest to ensure you are able to deliver that much more if demand call for it
- Your new technology is successful, and you have prepared yourself to roll-out this faster than planned
- A key customer is at risk and while monitoring the development, you are can take the loss incurred
- Your IT systems are “down”, yet your core operations can run on less advanced back-up systems
- You are facing a price pressure, and decide to lower prices and accept the lower profitability

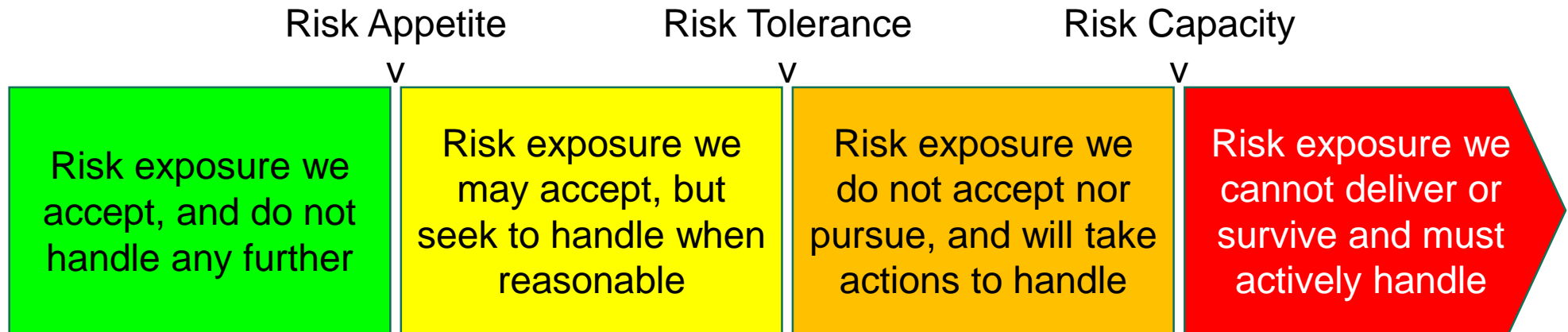


The **risk appetite** is the level tyou are willing to take ... and hence will not bother to handle any further

- Your market entry in a new country is successful, and you drive up deliveries to this, still small, market
- A commodity becomes cheaper due to market conditions, you capture the profit
- A new IT system provides above target profitability, and you capture the value
- You face a strike at a plant, and move production to other plants to the extent needed
- A truck load of your products have been stoles on the highway. You do not have an insurance, but accept the loss



These concepts constitutes a guide to your risk management



It is important, that you and your executives ...

- Adequately understand these concepts
- Are aware of the risk capacity of the company
- Define the risk tolerance level
- Define the risk appetite level

With the risk management concepts in place ... let us utilize these as the tools they are

**Your risk appetite and
your risk tolerance
guides your risk
management**

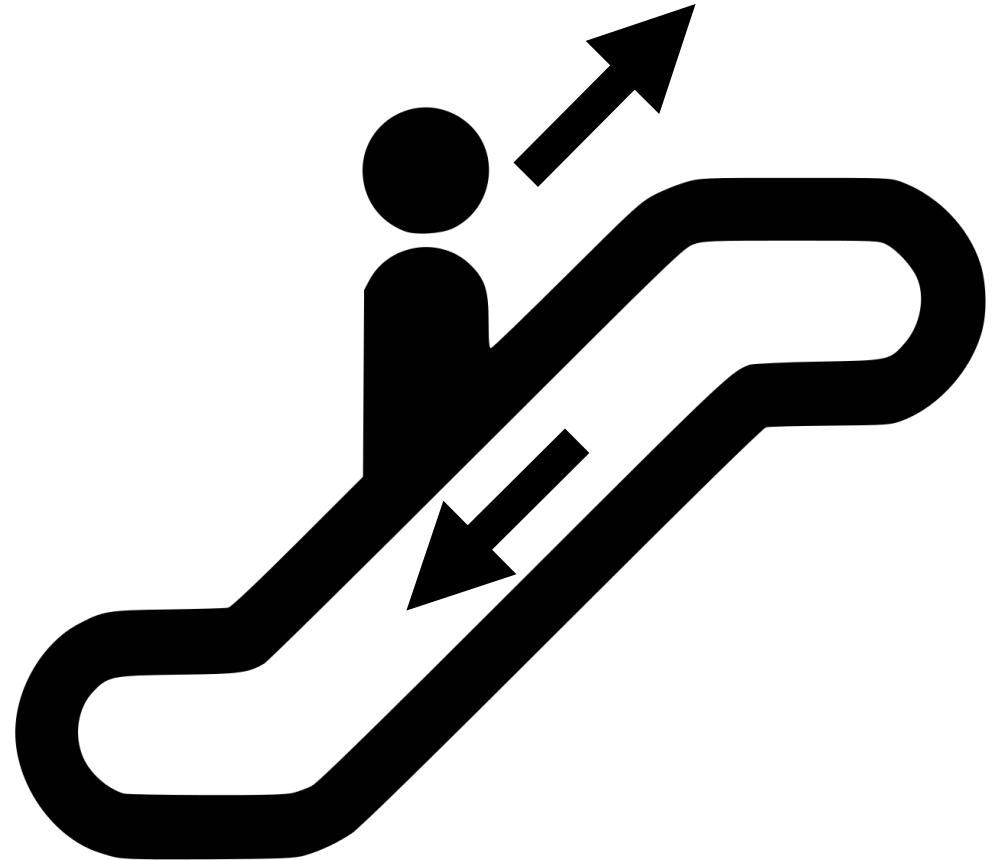
**You should abandon
Risk Management
... and replace it with
Intelligent Risk Taking**

**Now ... take the steps
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lead your executives to
do so as well**

Be aware ...

Business development is like walking up a down-escalator

- You have to move faster than the escalator to get anywhere
- It is truly an up-hill battle
- It never really stops
- The moment you become too slow, or stop ... you will be moving in the wrong direction
- The speed of the escalator changes with business conditions
 - New inventions
 - Competitor moves and successes
 - Regulations
 - Consumer preferences
- ...



Businesses prosper by taking risks ...

New products seeing the light of day – are based on someone taking the risk of launching these without knowing the demand or value of what they were doing ...

- The Roman empire introducing bureaucracy to manage the vast area
- Ford *“If I asked people what they wanted, they would have said faster horses”*
- IKEA changing the furniture industry
- Apple introducing the iPod and iTunes

... whereas others missed the “boat” by not taking the chances ahead of them

- GM investing to develop a small family vehicle, and losing to Honda
- Decca rejecting the Beatles stating *“guitar groups are on the way out”*
- Nokia missing the smartphone concept
- Kodak missing digital photography

... and manage the risks they are taking ...

Some companies have shown great risk management

- Fidel Castro being able to fight off friends and enemies alike for 5 decades
- Kennedy's handling of the Cuban missile crises ... although that was a VERY close call
- NASA handling the potential disaster of Apollo 13
- The Swedish handling of the global financial crises

Whereas others have failed miserably

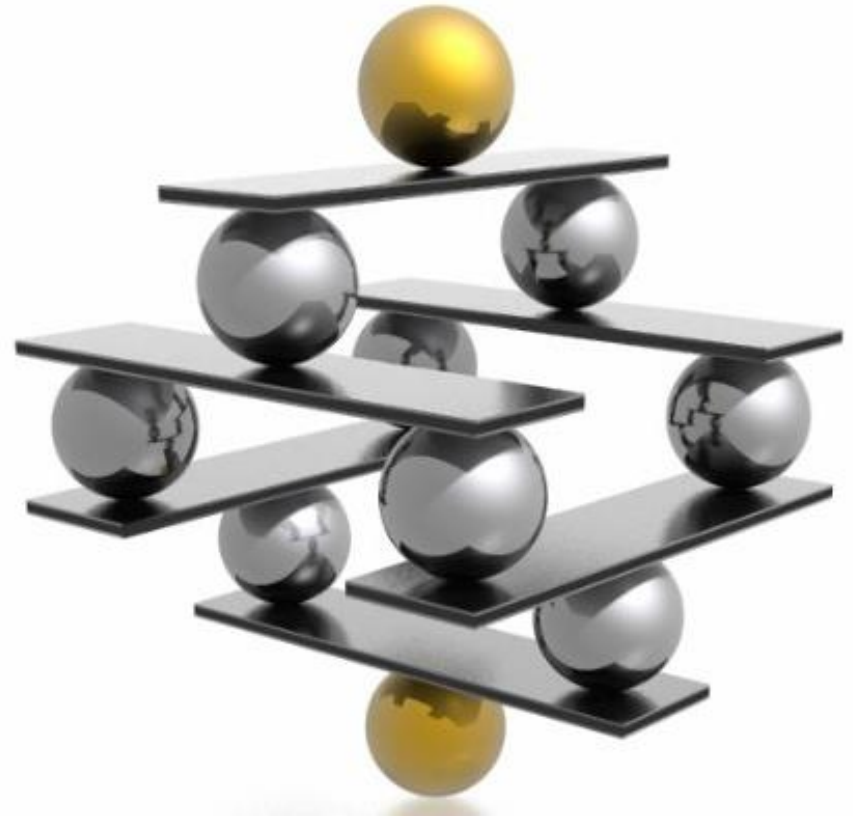
- Union Carbide's handling of the Bhopal accident
- BP's actual handling of the Deep Water horizon
- The continuing story of the new airport in Berlin
- The European Union facing a migrant crises

... on a variety of parameters – simultaneously. This can be a delicate balancing act

Any company will have a range of risk categories to manage in unison ...

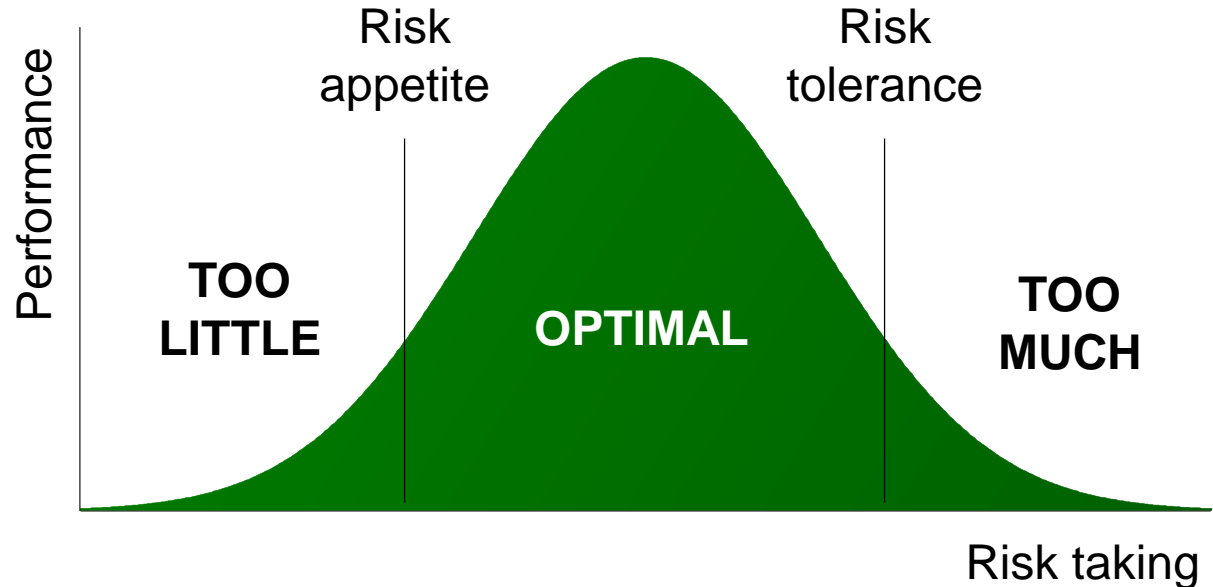
- Financial performance
- Liquidity
- Reputational
- Product safety
- Environmental
- Legal
- People/Staffing
- IT based

... as well those emerging from their strategic aspirations



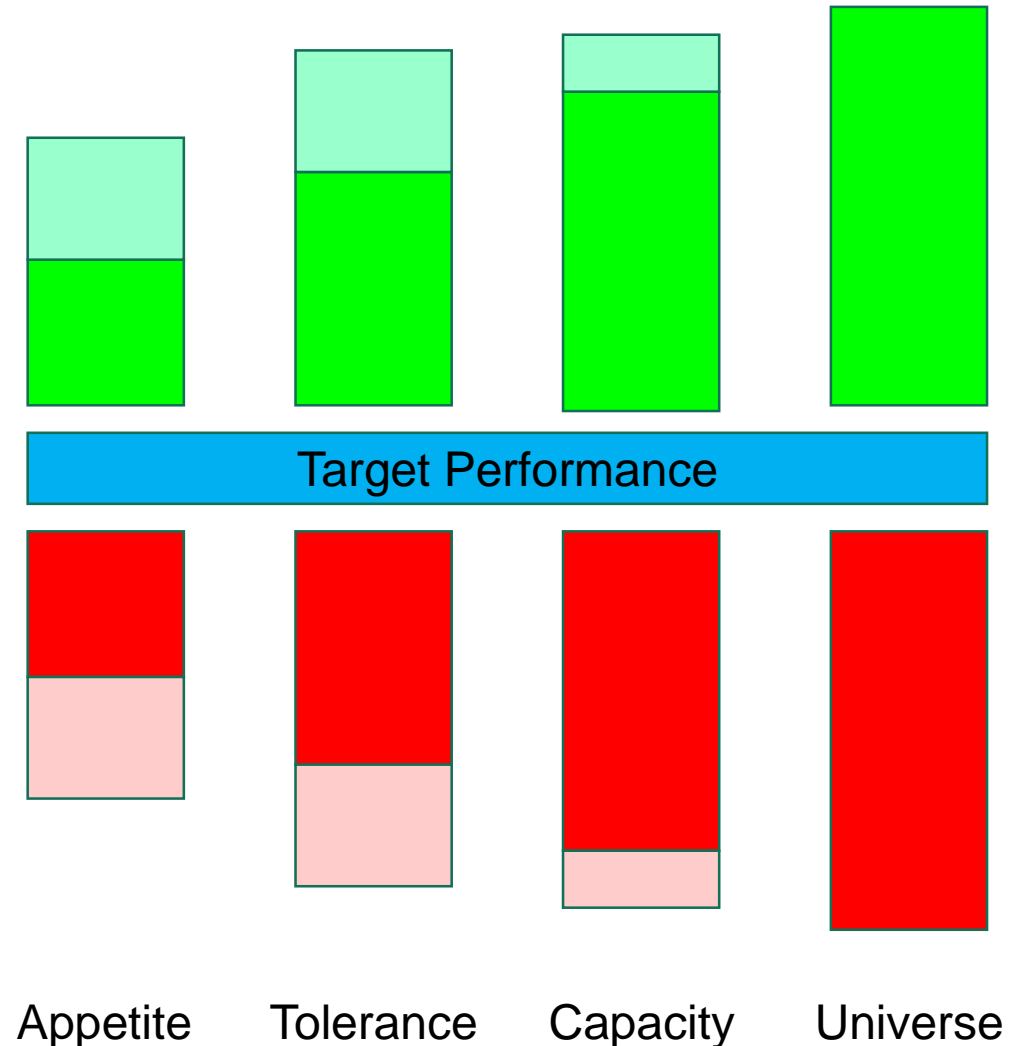
Intelligent risk taking means ensuring your risk taking is between your risk tolerance and your risk appetite ...

- Taking too little risk is like moving too slowly on the down escalator ...
... your performance will be less than optimal
- If/when you manage risks below your risk appetite, you are wasting efforts
- If you take more risks than your tolerance, your performance deteriorates as you fail too big too often
- This is ... presuming your risk tolerance and risk appetite are defined well and aligned with your organisational capabilities
 - You are not really hampered by risks materialising below the risk appetite
 - You have the capacity to handle risks up to the tolerance level ... and no further



... and then enhance your risk capacity to enable an even higher risk tolerance

- Your key constraint may be liquidity ... what will it take to enhance this and enable higher investments and generate faster growth
- Your financial performance is very volatile ... what will it take to stabilise this
 - New technology/processes
 - Re-organising
 - Outsourcing/Off-shoring
- You may be environmentally vulnerable and enhance your risk management to be able to act faster and more effectively should a disaster strike



Enabling this is a journey ... start travelling before your competitor

**Your risk appetite and
your risk tolerance
guides your risk
management ...**

**... to a level, where
Intelligent Risk Taking
means leveraging and
enhancing your risk
tolerance**

**Now ... take the steps
needed to get there, and
lead your executives to
do so as well**

Step one is getting the foundation right

... knowing your risk tolerance and -appetite

As risk manager you need to change your focus. Manage the risks, yes ... but also:

- Develop training and communication material on risk concept
- Draft risk tolerance and risk appetite for managerial discussions
- “Sell” the value and need of knowing these as tools of prioritisation
- Carefully take your leaders “by the hand” and have them see the value

This is no little step ... and it will take time

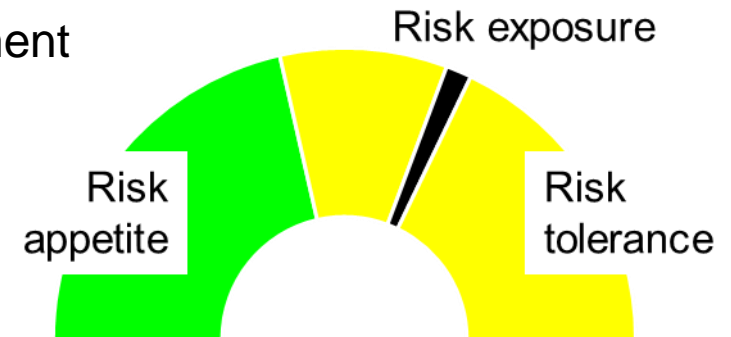
- Identify and start with the “champions”, those most likely to “buy in”
- Support these to enhanced success
- Request leverage their advocacy
- Expand gradually to wider parts of the organisation

Step two is knowing where you are

... what is your current risk profile vs. the risk tolerance

Getting the facts right

- Implement or enhance your Enterprise Risk Management
- Drive a consolidated risk metric (can be money)
- Monte Carlo simulate your risk exposure, and compare this with your risk tolerance



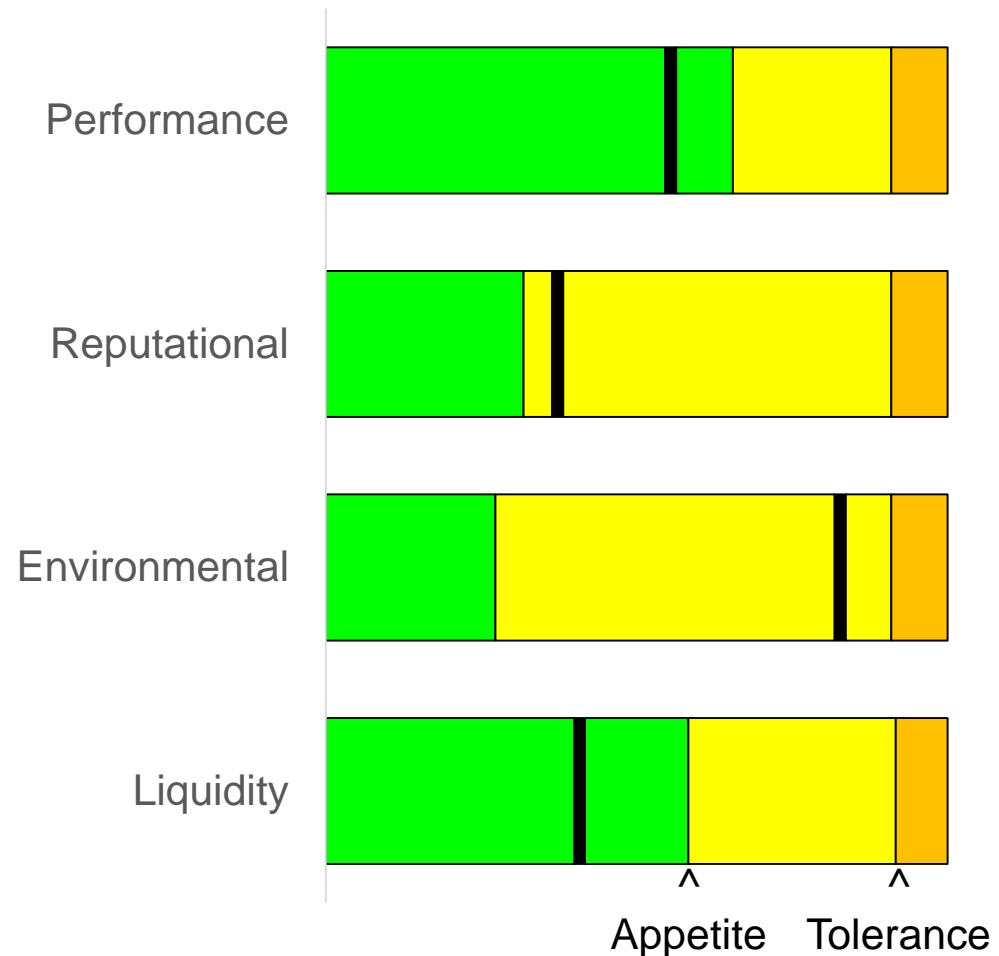
Communicate and train

- Define reporting and communication which intuitively explains
 - What is the exposure vs. the tolerance
 - Where and why is it too high – and drive this is being dealt with
 - Where is the risk tolerance not exploited
- Again – start with the champions
- Leverage internal marketing as well as champion advocacy

Step three is to leverage the opportunities where more risks can be taken

- This company is monitoring on four parameters
- Their Environmental risk taking is very close to the risk tolerance
- There is ample liquidity and the financial performance is also “safer” than it needs to be
- The reputation is good – and can be brought into play as well
- Which initiative can the company start, which will improve their environmental position ... leveraging the money available

Risk Profile Overview



Step four is internalising a culture, where opportunities are actively sought and created ... and risks are deliberately taken

Driving a culture – champion by champion

- Actively support the projects and initiatives of those who “buy in” and see the value of doing this well
- Communicate their successes
- Leverage internal marketing of intelligent risk taking
- Let the champions advocate your efforts and value add

Then, with the support of management as board

- Adjust remuneration structures and status to favour those who to risk management well
- Promote intelligent risk taking
- Challenge with new opportunities
- Teach your organisation to **“Prepare to dare”**

Intelligent risk taking can be a competitive strategic advantage ... getting there are no easy or quick fix endeavour

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guides your risk
management ...**

**... to a level, where
Intelligent Risk Taking
means leveraging and
enhancing your risk
tolerance**

**Go beyond being safe,
and get the ability, and
the courage to be the
one rocking the boat**

Thank you



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