

ERM Forum

Brexit - Disruption to the Business Model

10th November 2016

Presented by
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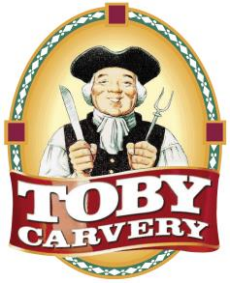
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John Ludlow



Restaurant
General Manager
75 Restaurants



UK
Head of Risk
4000 Pubs



EMEA
Head of Risk
600 Hotels

Global
Head of Risk
5000 Hotels
+ Corporate



Risk Advisory
&
Board Director



15 years regional operations in branded hospitality
15 years developing and leading risk teams
5 years board directorships

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By the end of the session you will be able to

- Better manage the risk of Business Model Disruption
 - Raise awareness in your business
 - Run workshops at all levels of the business
 - Actively listen and capture issues and opportunities
 - Develop relevant risk management strategies
 - Prepare for crises

Two perspectives

Risk is about uncertainty – opportunity and threats

Embrace Change and Seek Opportunity



Make dust or eat dust

Political landscape

Political context

- Domestically, there is still little clarity on the government's negotiating position for leaving the EU but the Prime Minister has made clear she will be seeking to gain migration control and the best possible deal on trade. The CBI has called for the government to explicitly rule-out relying on trading under WTO rules – with the return of tariffs – as a backstop and highlighted the importance of avoiding a regulatory cliff-edge.
- Further uncertainty has now been added by the recent High Court ruling that government does not have the power to trigger Article 50 without a parliamentary vote. The government is appealing to the Supreme Court and this hearing is expected to take place on 7th December.
- At the EU level, national governments are increasingly of the view that Brexit should be treated as a political question rather than an economic one. EU Member States have been consistent in not negotiating with the UK before Article 50 is triggered and in saying that the four Single Market freedoms – goods, services, capital and labour – go together.

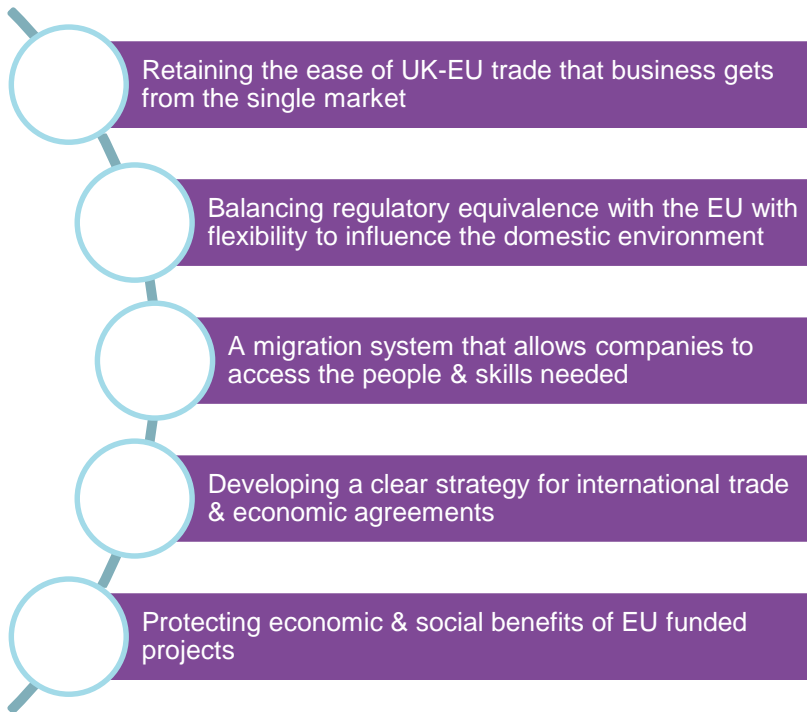
Political landscape

Recent announcements

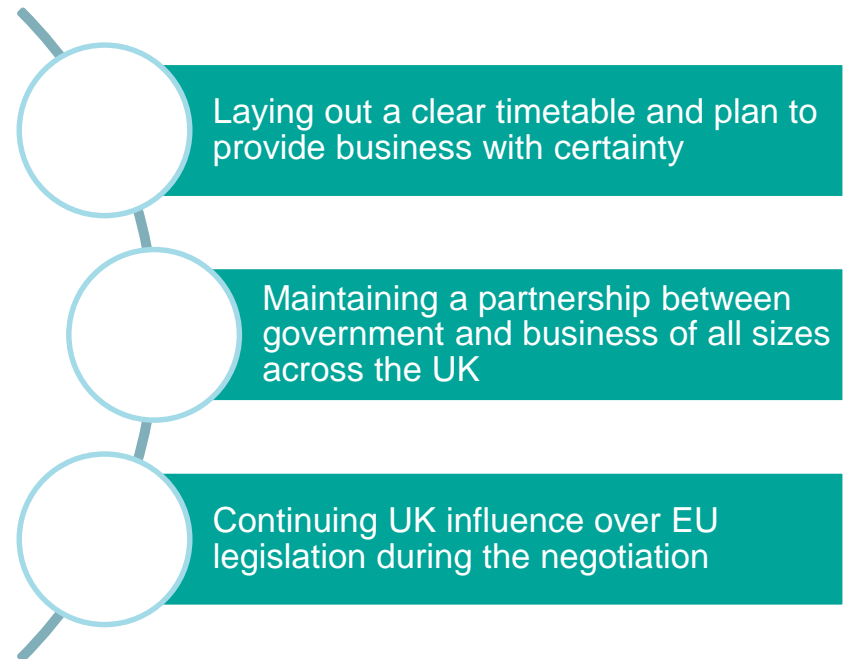
- **Timing:** At the Conservative Party Conference, Theresa May announced that Article 50 will be triggered by the end of March 2017, which means Britain will have exited the European Union by March 2019. While the clarity on timings is welcome, this means the pressure is now on to find answers to some important questions, including
- **The Great Repeal Bill:** This will overturn the 1972 European Communities Act and in effect take the UK out of EU jurisdiction. The UK will then be able to introduce new rules domestically. It was announced that in the first instance all EU rules will be transposed into national law.
- Government is still working towards a timeline that will see Article 50 being triggered in Q1 next year. Several government departments have said that business must feed in key messages before Christmas in order to influence the UK's official negotiating position.

Key issues for business

Key business principles to underpin the EU negotiations



Government's approach must follow a clearly defined strategy



Board perspective - revised FRC requirements

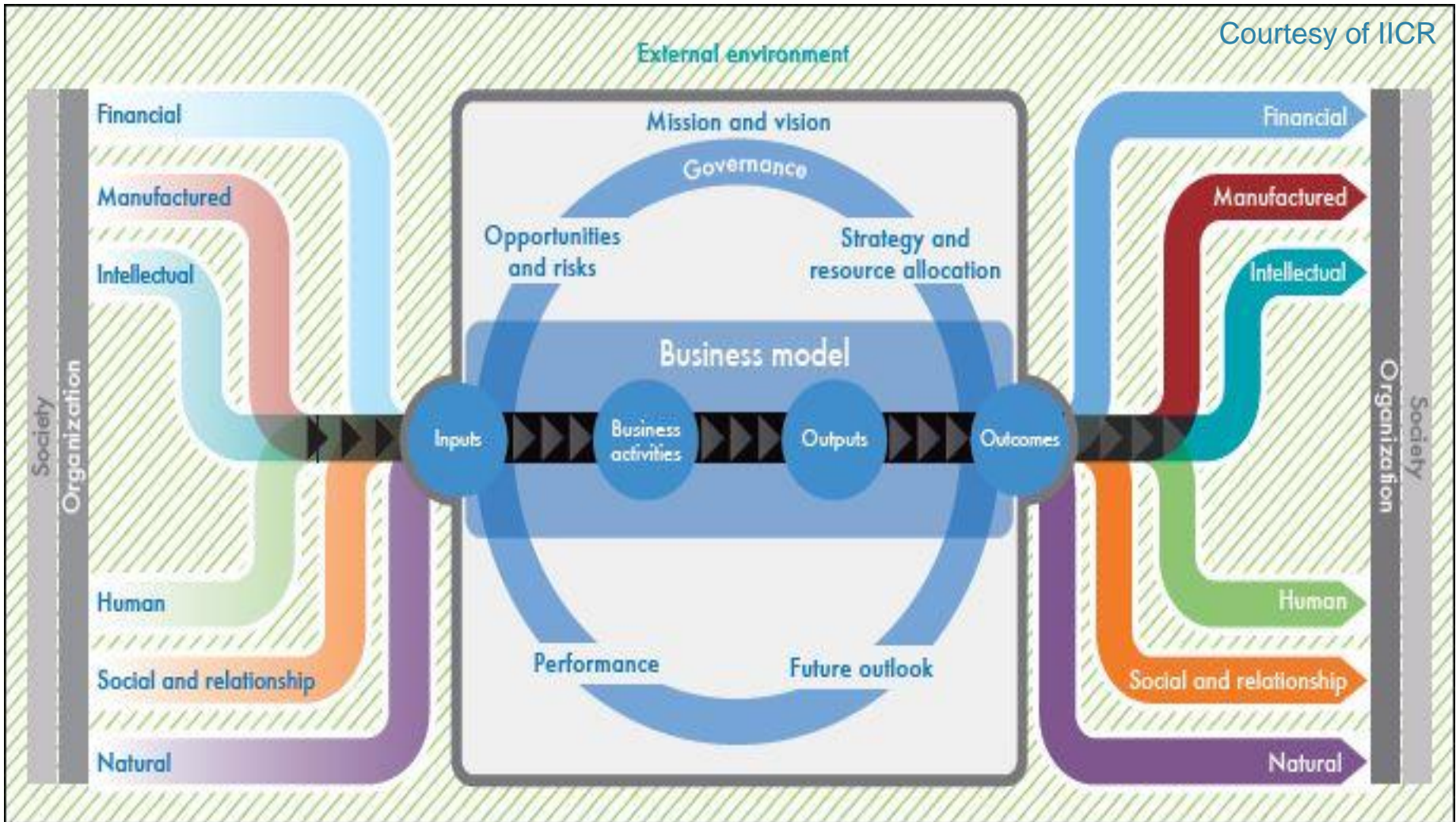
From tick box to full engagement

The revised Code applicable to reporting periods after Oct 2014 remains high level, documenting principles-based guidance specifically requiring Boards to:

- Confirm that a robust system of risk management has been developed and is fully integrated with business strategy and planning
- Define and articulate their appetite for risk in key areas
- Describe their principal risks and how they are being managed
- Confirm the identification and assessment of all principal risks
- Review and confirm the continuous effectiveness of key operational, financial and compliance controls
- Define and embed behaviours that create a strong risk and control environment
- Measure and confirm the existence of an appropriate culture, which supports risk management across the organisation
- Consider how much assurance they need over the risk management process

Combined Reporting Business Model Disruption

Courtesy of IICR



Six Capitals

Value added across: Inputs, Activities, Outputs to Outcomes

Capitals	Definition
Financial	The pool of funds that is available to an organisation for use in the production of goods or the provision of services obtained through financing or generated through operations and investments.
Manufactured	Manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services. This includes buildings, equipment and infrastructure.
Intellectual	Organisational knowledge-based intangibles including intellectual property and “organisational capital” such as tacit knowledge, systems, procedures and protocols.
Human	People’s competencies, capabilities and experience, and their motivations to innovate.
Social and relational	The institutions and relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.
Natural	All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current and future prosperity of an organisation.

Exercise!!

Business model disruption

- In groups of 5 or 10
- 1. CFO
- 2. Operations
- 3. Sales and Marketing
- 4. HR
- 5. CEO

What are the **opportunities** and **threats** to the **assets** across the **value chain**?

- Financial
 - Manufactured
 - Intellectual
 - Human
 - Social and Relational
 - Natural
- Inputs
Activities
Outputs
Outcomes

CEO to feedback:

What are the transformations required to adapt your business to make it agile and resilient?

Worksheet for the Directors

What are the **opportunities** and **threats** to the **assets** across the **value chain**?

	Inputs	Activities	Outputs	Outcomes
Financial				
Manufactured				
Intellectual				
Human				
Social and relational				
Natural				

Worksheet for the CEO

What transformations are required to adapt your business to make it agile and resilient?

	Inputs	Activities	Outputs	Outcomes
Financial				
Manufactured				
Intellectual				
Human				
Social and relational				
Natural				

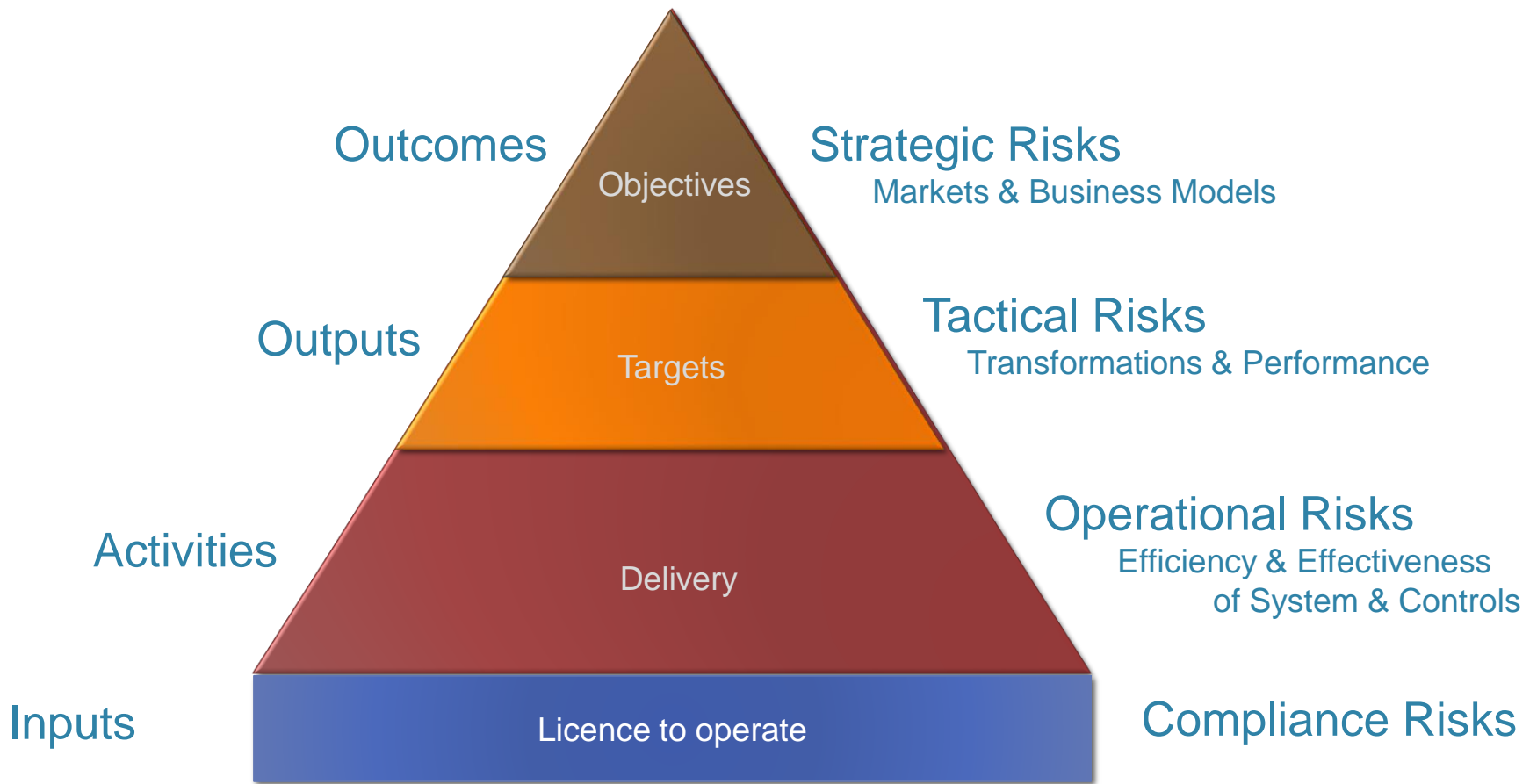
Levels of Disruption

- Low impact
 - Alters the model for everyone, short-term pain, minor change
- Medium impact
 - Alters the competitiveness in some markets, longer term effects, adapt to survive
- High impact
 - Makes the model redundant in key markets, radical innovation needed



Risk Impact - Disruption

Threats and opportunities become consequences

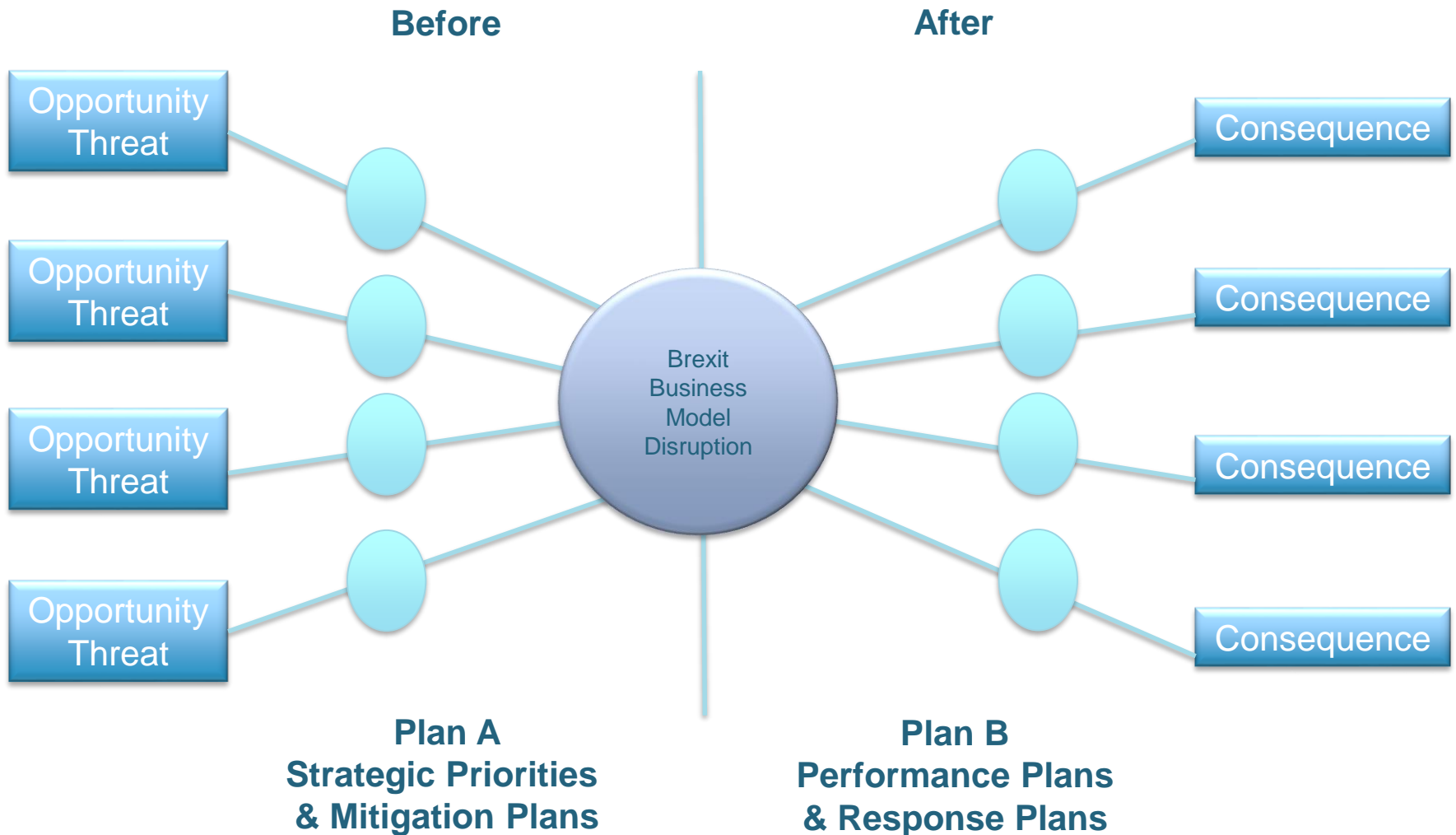


Risks and Crises

Two distinct opportunities to protect and create value from threats



Risk Analysis of High Impact Change



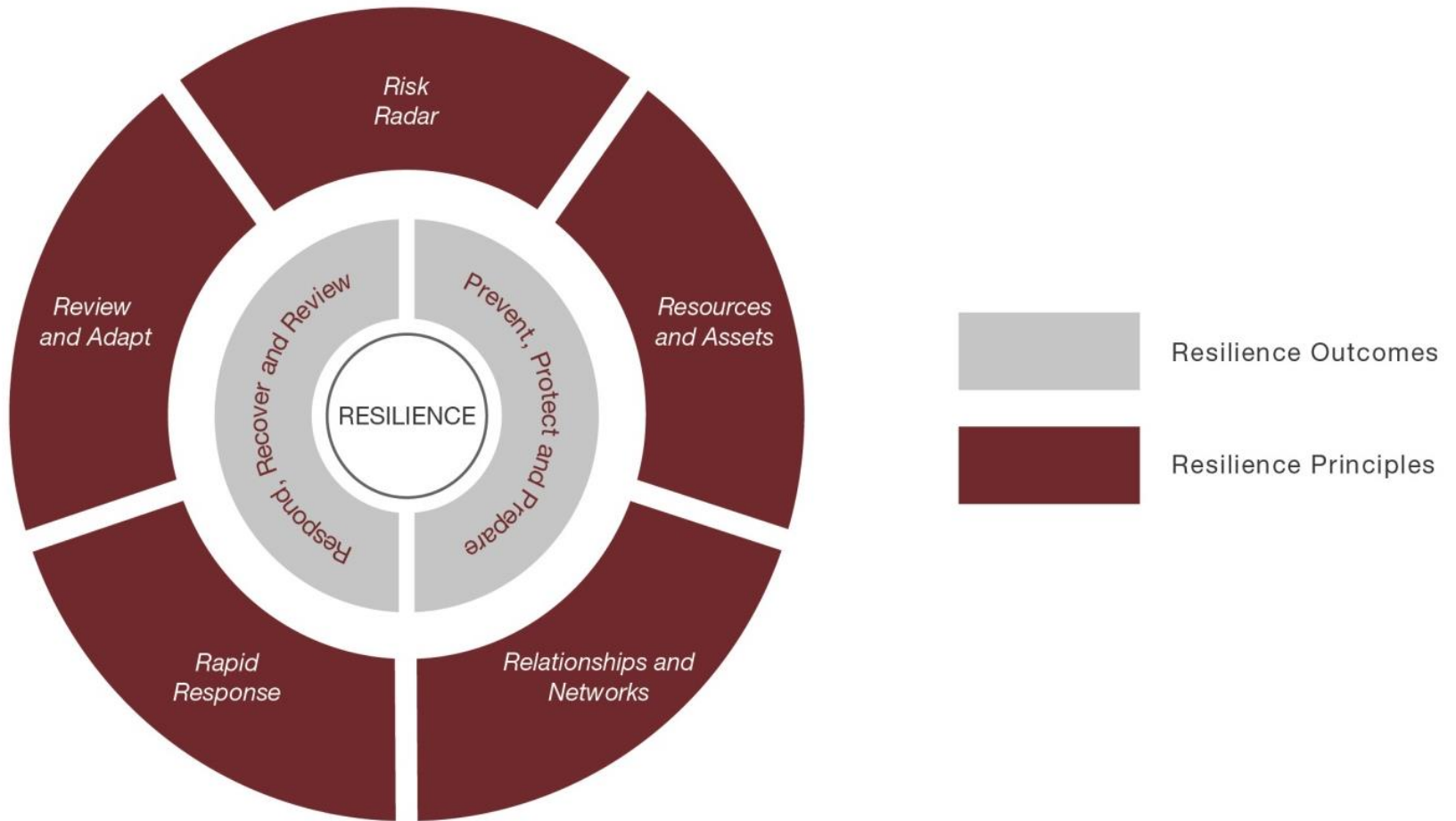
Things to do

- Raise awareness in your business
 - Work with Strategy
- Run workshops at all levels of the business
 - Start an informed debate by developing and using scenarios to illustrate high impact threats and opportunities
- Actively listen and capture issues and opportunities
 - Develop bow tie models for high impact changes
- Develop risk management strategies
 - Embed them in wider business strategies and plans
- Prepare for crises
 - High impact scenarios

Roads to Resilience – resilience principles

1. Resilient companies have exceptional risk radar to detect changes in the external and internal situation
2. Resilient companies have diversified resources and assets to facilitate alternative approaches
3. Resilient companies build strong relationships and networks, both internally and externally
4. Resilient companies have the ability to respond rapidly and decisively to an emerging crisis
5. Resilient companies review and adapt based on experience and changing circumstances

Roads to Resilience – resilience circle

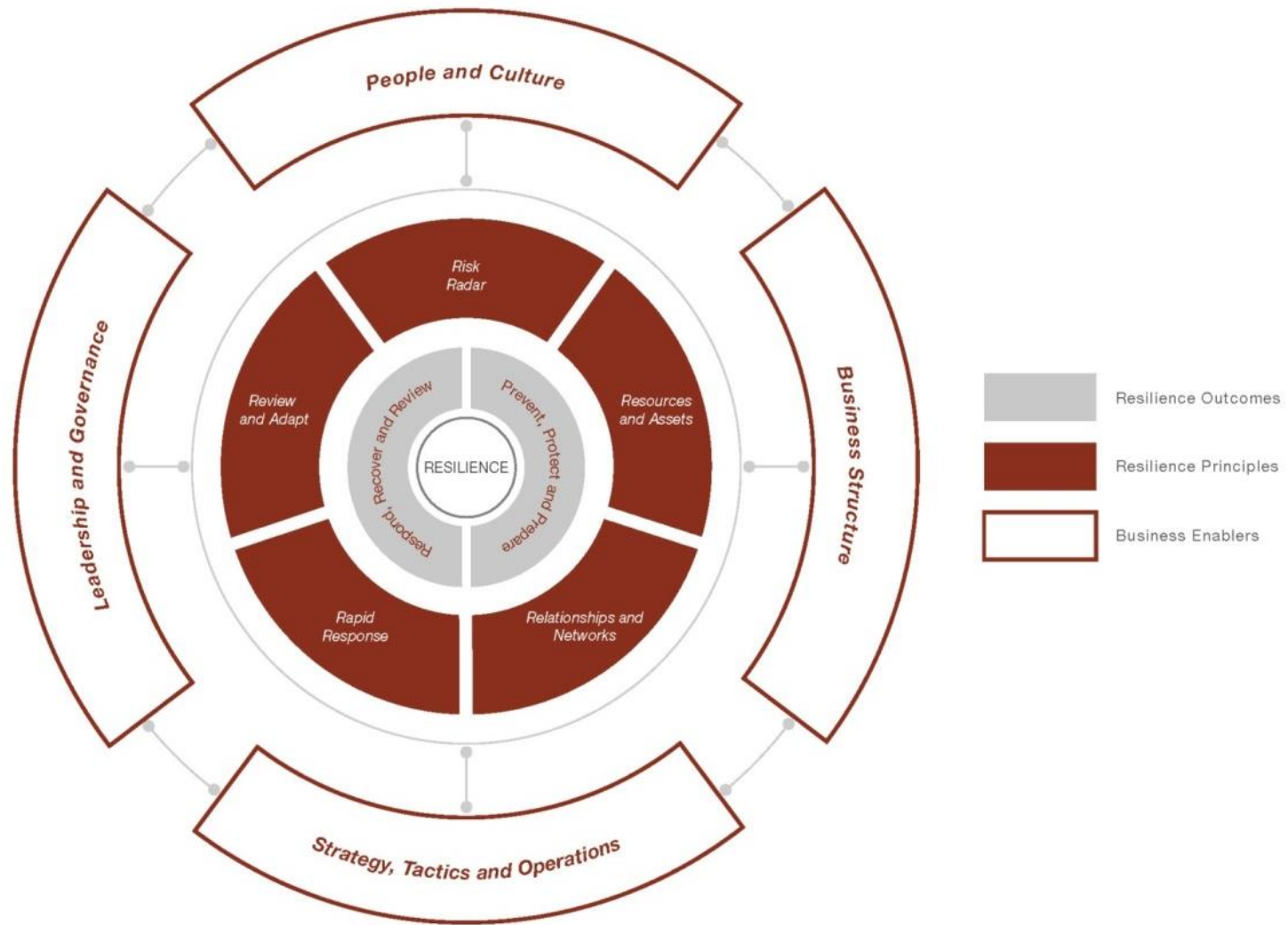


Roads to Resilience – resilience enablers

Although these companies operate in very different business environments and take very different approaches to ensuring their ongoing relevance and success, it was discovered that four inter-dependent and dynamic ‘business enablers’ facilitated risk management processes and underpinned company success:

1. People and culture
2. Business structure
3. Strategy, tactics and operations
4. Leadership and governance

Roads to Resilience – resilience model



Get your ducks in a row!



Thank you!!