

# DECISION

BUSINESS MAGAZINE

## Risk: assessed

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# To win without risk is to triumph without glory.

Certainly the French dramatist Pierre Corneille was a touch flamboyant in tone compared to the textbook definition of assessing risk, namely “identifying the quantifiable likelihood of loss or less-than-expected returns.”

Maybe the Prussian general Helmuth von Moltke had it about right when he suggested “first weigh the considerations, then take the risks” as the best way forward.

In this report compiled with Coutts & Co,  
the private bank, directors assess their position on the subject.

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**R**isk assessment should make companies less risk averse, not more,” says Malcolm Young, CEO, of commercial property developers, Wilky Group. “But I think the success of a business is more dependant on economic circumstances than the leader’s willingness to take a risk. It’s more a case of - can a company adapt to change?

“That said, the ability to manage risk is a primary necessity in a successful business. I started life as a liquidator’s agent, selling assets for a fraction of their previous value, so I was seeing the results of risk not being managed well, of people not thinking enough about risk before taking a particular course of action.”

Young believes that it is possible to move a business forwards without taking a significant risk. “When I developed factory outlet retail schemes, for example, I found a partner in BAA to limit the risk,” he explains. “Someone once said to me: ‘Developing is not about taking



Malcolm Young, CEO of commercial property developers, Wilky Group

a risk, it’s about limiting it.’ You can always see the profit, but you must also see where you can make a loss. The process is to see the profit first, the opportunity, then identify whether you can limit the risks. Some people only see the risk and not the profit. You can never eliminate risk, so at the end of the day, it’s a judgement call.

“Of course, some risks are actually unmanageable in terms of assessment; changes in law and taxation, unpredictable world events. All you can do is to ensure that you are never so

exposed that one transaction could be the downfall of the whole business.

“Risk has always been there; it’s just been given a name now. As the organisation grows, so do the risks because my role has changed from being the guy who does everything to the chap who has directors. This company has sixty years of trading under its belt; I’m the guardian of that, and it’s a responsibility I take very seriously, so I’m even more alert to potential risk.”

Nigel Atkinson, non-exec director of Fuller Smith & Turner plc, of marine propulsion company Yellowfin, and chairman of Premier Pub Estate, believes risk falls into four categories: “Firstly, strategic - are you actually taking the company in the right direction? Secondly, financial - taking on debt, the credit terms you offer to win new business and the margin you’re prepared to accept. Thirdly, pro-active identification of hazards - by

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that I mean compliance issues. And finally, operational - both internal such as what happens if your IT system goes down, and external, which could be changes in foreign exchange rates.

“As a board,” he says, “you need to grade risk in terms of importance, but you have to be careful that you don’t spend too much time looking at the downside, or you’ll never do anything - and doing nothing in business means going backwards. I’ve always taken the ‘cup half full’ view, but I’m a great believer in sticking to your areas of expertise. If the company doesn’t have the skills in the area you’re thinking of moving into, then you are increasing the risk and maybe by too much.

“In a public company you can’t take risks with shareholders’ money, and in a start-up business you need to make shareholders aware of the risks involved if they are going to continue to be supportive later on



Nigel Atkinson, non-exec director of Fuller Smith & Turner plc, of marine propulsion company Yellowfin, and chairman of Premier Pub Estate

when you might need them to be.

“Risk is more of an issue because of corporate governance, but I

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think the number of company failures has also caused it to climb the agenda. Risk assessment may have been done informally before, but now it has to be a process.

“Having said all that, if you look at most business success stories, they’re about passion and gut-feel rather than assessment of risk.”

Andrew Lowe, MD Architecture plb, designers of public and private buildings points out there’s a difference between risk taking and gambling. “It’s about judgement,” he says. “If you understand the dynamics of the situation you’re in, you’re better able to assess the risk.

“We recognised for example, that as a result of the government’s private finance initiative, small projects would be bundled together into larger ones, which would then go to the bigger firms. So we had to grow in order to compete. We had the knowledge but not the capacity. Our strategy was to minimise

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the risk of quick expansion by forming a loose consortium with some other firms, and position ourselves in that particular marketplace as an alliance. It removed the risk of taking on debt, and worked very well for about three to four years. It was a case of having to change quickly though, or the risk was that the work simply wouldn't have come our way.

“For us, there are two types of risk: Regulatory issues and compliance are just a fact of life and you get on with it. The less easy to define area would be the potential risks to the business which might not be tangible as yet, such as markets being closed off to you, or things that could affect our standard of work and reputation, such as being set a stupidly early deadline.

“As you get older, they are the kind of concerns you worry about more - because you're more aware of the consequences of taking a more gung-ho attitude.’

“Strategic risk, whether a decision will

over-stretch the company's resources, and operation risk, what would happen if the IT back-up failed, are different issues,” suggests Paul Bennett, MD of Skyline Advertising, a design and advertising agency known for their work in increasing brand relevance.

“Working to develop a long-term relationship with clients is the best way to reduce risk, but it takes time,” he says. “It's about building trust. So for us, not delivering for the client would be the worst possible risk. I think success can often breed a degree of compacency, which is a kind of risk in itself.”

Bennett also believes that specialisation reduces risk, but only if it can be applied to more than one market sector. “Otherwise it can have the opposite effect if there's a downturn in the only area you happen to be working in,” he says.

“Rather than talk about risk as a subject on its own, we'll sit down to discuss how we are going to provide our services and

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Paul Bennett, MD of Skyline Advertising

what could get in the way of us being able to do that. We look at the best way to meet customer requirements, and what needs to be organised or overcome to make sure we do. Everything is focused on making sure we deliver. You can't let risk be a problem. You have to assess it and then you have to crack on.”

It's a point taken up by Sue Stedman, MD of Sue Stedman Ltd, the corporate clothing and uniform designers and suppliers. “Whether you want to tick-over or expand your business, there

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Sue Stedman, MD of Sue Stedman Ltd

are going to be risks involved,” she suggests. “In 1989 I decided it was time to start my own business. I took a huge personal risk by going to the bank to ask for £50,000. They would only do it if I put my house on the line – and that was the risk I had to take at the time.

“You can do your homework and look very closely at a client-company you’re going to be working with, but you don’t really, truly know how viable they are; and because you are hoping to do business with them, you can’t really say, ‘can I see your current management

accounts?’ Alders went bust owing me a six-figure sum. Fortunately we were strong enough to ride it, and I managed to make the most of it by talking about it in magazine interviews, so people could see we were strong enough to survive it. But now we minimise that kind of risk initially through a more carefully structured contract. You are at risk just by the nature of how you do business.

“I talk to students who want to start their own business, and I always say to them: ‘Make your first mistakes on someone else’s time and money!’ Then when you go it alone, you’ve already reduced the risk of failure.

“Right as we speak, we are about to make a big leap. We are obliged to jump into production in China in order to ensure we are competitive. You could argue that the risk would be not to do it. But it’s not a choice; we’ve been forced into it, and there are some additional risks we will

have to address as a consequence.

“Usually I would go to the factory where we’re producing, wherever it is, and get to know the people there – but now I’m going to have to rely on an agent. Working on a global scale means it’s harder to keep your hands on what’s happening in your business. If something were to go wrong in China, I can’t get there at the drop of a hat, and that feels riskier to me.

“We have been growing steadily, and moving production to China could, if I’m not careful, make the business much bigger very quickly. But I don’t want that to happen because I like my lifestyle.”

Everything seemed possible when Barry Sampson started his first property development business in the eighties. “We went off like a rocket, and just got on with it,” he recalls. “Yes there was risk, but it’s like being on a date; you are only thinking about the outcome! The one thing we had was energy,

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which we were convinced would carry us through. Today it's called passion."

"We live and work in a much more regulated world now. Regulation forces you to address risk, but arguably it also adds to risk because it increases the cost to business. That must be especially the case in highly competitive markets if the regulatory bodies in other countries aren't applying the rules so rigorously.

"Risk assessment and management have become an industry in their own right, but I think there is a line which can be drawn. Most people are in business because they enjoy what they do. We know it's risky, there are dangers, but the pleasure of the experience outweighs the downside. If you did a business-style risk assessment of going out on a yacht it probably wouldn't make good reading, but people still sail!"

Today, Seaward Properties are known for commercial schemes such as Chichester Business Park, Langstone Gate in Havant, and have

built more than 1500 houses.

"As you get older," says Sampson, "risk makes more of an appearance on your personal agenda. What I have learnt is that with experience, you know how to manage risk better and get it right."

"I think a company goes through different stages of risk," suggests Bernie Boyce, managing director of Eurotech Computer Services, specialising first in the oil and gas industry, and then moving into the broadcasting, healthcare, and defence sectors. "The first," he says, "and probably the biggest, is when you decide to go off on your own and start a business. Everything then comes down to money and what you are prepared to risk personally. It's pressure, but I knew right away that I'd made the right decision.

"My next risk was buying out my partner's share, because it meant I had a risk period of re-investing to purchase his interest. The next risk for an established company is deciding

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Bernie Boyce, managing director of Eurotech Computer Services

whether to grow organically, to make an acquisition, to merge or sell.

"Eurotech has been in business for fifteen years, and I think risk, and how companies are managed, has changed in that time. I re-invest profit for growth and stability, and my interest is always to make a profit to de-risk the future; it isn't about turnover. I have a firm grounding and my risks are well controlled. I think that's very different to many companies today. This business could have been significantly bigger if

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I'd taken more risks to increase sales, but I want it to be in existence in fifteen years time as well. So we've never had a loan, and never run on an overdraft.

"For me, the biggest risk is if we might not get paid for an order. Of course what will have an impact on that will be the risks that your customers take on.

"Risk assessment is climbing the agenda because the culture is changing. In the past directors would have used their common sense to sort things out, but they can't now - in a more regulated business environment they have to follow procedures."

And that's something which concerns Professor Khalid Aziz, chairman of The Aziz Corporation, the leadership development and coaching business established over twenty-five years ago. "I'm not thinking about risk, I'm thinking about safety," he explains. "When I started back in 1983, risk was all to do with the business aspects of running a



Julian Morison, MD of Wynnwith

company, such as is there a market for what we are doing? Now companies have got to deal with government-imposed risk. Fire regulations were the responsibility of the fire service for example, which issued the necessary certificate for your premises – but now all the onus is on me as the employer.

"The government is piling more and more responsibility on to business. It's impossible to run a business today without running the risk of being non-compliant. The real problem is that it's

anti-competitive – it stops you getting on with your business, and that's not happening in some other countries.

"I think it's resulting in companies becoming more risk averse. The danger is that they will analyse and risk assess to death and meanwhile the market will have moved on.

"The entrepreneur's approach to risk certainly changes as their business develops. It's to do with age and comfort. Why would they put it all on zero now when they've worked hard to achieve the lifestyle they enjoy? I believe in the skyrocket principle – what goes up quickly can come down just as fast and you're left with a stick. Nothing is forever and you have to plan for that eventuality."

Julian Morison came out of a quoted company to buy into a private business, Wynnwith, the global technical staffing agency. "Working for the quoted company, we made short term decisions, and by comparison took no risks at all,"

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he recalls. “In a private company, we can take more of a calculated risk if it has the potential to allow us to grow in the long term. We can sacrifice profitability to do certain things, for example.

“To be frank, this business had got to a £40 million turnover by being run intuitively – it just happened. But when it acquired another company, it couldn’t be done that way anymore. We had to bring in a new board and closed operations that weren’t core to the business.

“I think you can make huge changes to a business without huge risk. If a company takes on bigger offices and a heftier lease, that shouldn’t be described as a risk if the numbers are right - it’s a planned business decision.

“I’m not being flippant, but I also think that when you do something every day, it doesn’t feel like a risk even though to someone outside the business it might seem to be. I know it’s an overused phrase, but sometimes



Tom Parker, MD of Quest Associates

you’ve got to be ballsy to make things happen. Just as Pierce Brosnan sold everything just to get a ticket to America to be an actor – he said you have to believe in what you’re doing.

“The things that keep me awake at night are firstly uncertainty in the markets and secondly cash, because we are growing and that eats it. Of course if we didn’t have a strategy to define the parameters for growth and its implementation, then there would be much more

risk associated with expansion.”

Stuart Waring, chairman, Strand Harbour Developments, who specialise in office and industrial building and project management, wouldn’t take issue with that. “When I was in my twenties,” he explains, “a large percentage of proprietors or chief executives would have come up through the profession in which they were trading and so, as a result, had an intuitive feel for risk because of their training and experience. Modern managers have a very different skill set. There’s a lot of chief executives now who are financially-orientated rather than sector specific.

“I think you can increase a business organically but for an entrepreneur it’s a bit boring, and takes a long time. Business is fun and if you’re entrepreneurial you want to take a risk.

“The risks I took myself were to diversify a family-owned, almost totally civil engineering company

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into commercial building, changing not just the type of work we did but the size of contracts.

“Companies are more aware of risk assessment now, and that’s a good thing, as long as it doesn’t destroy their entrepreneurial flair. For example, health and safety legislation wasn’t synonymous with construction when I started, and now it is. Today, health and safety is one of the first things to be discussed in a bidding situation because of the risk implications.

“Risk assessment has increased, but not risk. In fact, I think there was more risk before, or it could be that things were more risky. Now there is more of a regulatory framework which companies have to work within, and they have more tools to evaluate risk now – there’s such a wealth of information out there. Before it was more intuitive, more seat of the pants.

“As you get older, your attitude to risk also changes; you have more to lose.

There comes a time when there’s a very big pile of chips in front of you, and I’d rather just take out a chunk of it and play with the winnings. It’s a natural phenomenon, and comes with age.”

But Tom Parker, MD, Quest Associates, providers of IT solutions to the property industry, demonstrates that risk assessment and the application of common sense can still be synonymous. And he provides a telling example.

“We didn’t know if Home Information Packs were going to be as big as predicted,” he recalls, “so instead of devoting all our energies to it, we started to look at other avenues as well. Because we did that, we found that what stood out, ironically, was risk – so we launched a system called Qguard that assesses risk for lenders.

“I’d come from a family bakery that went bust after I left, and my cautious approach not to bet the business on one project probably stems from that. But

you need to have a leap of faith at some point though – you can’t always take what might appear to be the safe option because ‘safe’ might be out of date next week, especially in this business. So I would say that consciously assessing risk means you can take bigger leaps, but take them with a parachute!

“I don’t think it’s a contradiction to say that risk assessment is now an unconscious thing for us – we don’t talk about it in those terms because whenever we look at a project we make sure we identify the risks. Directors themselves can contribute to the risk if they assume they know all the answers.

“But I think the biggest risk is when a business is doing well and stops looking long and hard at the obvious – such as overheads. And when there’s a downturn, a company can take ages to cut back which can only put the business at greater risk.”

Observes Peter Burke, senior

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private banker, Coutts & Co: “If risk assessment becomes a stand-alone management procedure instead of an intrinsic part of every-day business practise then it could be said that compliance with regulation has taken the place of being able to apply common sense appropriate to the situation.

“I don’t think it’s any surprise that the nature of an entrepreneur is to give it a go. Entrepreneurs certainly have a positive perception of the opportunities that other people don’t see, but they also have a clear vision of aligning the product and the customer, and a more long-term view of business.

“But arguably successful companies have always assessed risk, although they probably described it as weighing up the options - and then decided whether on balance something was worth doing.”

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