

INTERVIEW

Surviving the financial crisis: Four steps to good 'risk thinking' Willem Verhoog in conversation with prof. Didier Cossin

The impact of the financial crisis is being felt all over the world and has rarely been out of the news in recent months. But what is the impact for you and what steps can your company take to ride the storm? IMD Professor Didier Cossin offers four steps to good risk thinking...

In October my colleagues and I discussed the global financial meltdown in an IMD Webcast. Eight weeks on and I am struck by just how many companies, industries and countries have been hit by the crisis - even the booming Middle East is feeling the affects of this economic downturn.

I have also been struck by how people are reacting to the situation. Some are in denial, some are panicking and some are being ultra-conservative – none of which is the best approach in a time of crisis.

So how can you prepare for the future when the future is so uncertain? How do you get the best out of the worst of times and manage this financial crisis? These are questions I am frequently asked at the moment and something I have been helping boards and CEOs with over the last few months.

Strategy and tactics

Looking to the future, you need to consider your strategic direction and in the shorter term, your tactics.

In terms of strategy, my advice is for companies to return to what they do well, to differentiate themselves and make the most of their competitive advantage. For example, it is well known that, in recent years, some quality-driven companies have compromised on quality in the pursuit of growth and easy profits. Now is the time for them to come back to their core, even if it means a short-term hit on assets or earnings.

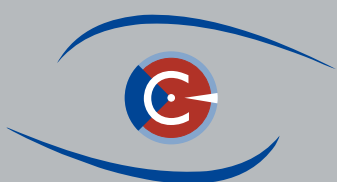
Similarly, in a company driven mostly by people, it is more important than ever to look at the quality of people you are recruiting and ensure you are hiring the best – the people who will make a difference and help develop the business.

While you cannot predict what the markets will do or how you or your competitors will be affected, you can be aware of the potential risks and plan for them. This brings me to my four steps for good risk thinking:

1. Risk identification
2. Risk assessment
3. Risk management
4. Risk sharing or structuring

Risk identification

Risk identification may sound easy but it requires a strategic view. You have to understand the competition, the forces of the economic environment and social responsibility. In today's climate, good risk identification should be done at top management level.



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