

MEDIA RELEASE

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## **Ignoring and Hoping Not an Option - Risk Management Now an Essential Management Tool in NZ**

Ignoring risk and hoping for the best is not accepted business strategy anymore says Mike Wood, the chairman-elect of the New Zealand Society for Risk Management, who believes there is a direct correlation between business success and good risk management in New Zealand.

“Even in these unpredictable times, there are rafts of risk management options that can help organisations cope with the most unpredictable events and minimise financial loss. Risk management also deals with the opportunities associated with uncertainty, not just the downside”.

Wood should know. Based in Wellington, he has had more than 30 years at the sharp end of business change especially in the telecommunications industry and is an international consultant on managing business and infrastructure risk.

He says New Zealand is at the forefront of the growing interest in seeing that enhanced risk management techniques are as relevant to government policy making as they are to investment decisions and to protecting the personal well being of individuals.

“When central and local governments make new laws or investment decisions (or decide against doing so), they inevitably change the risks for organisations and individuals, both short and long term. Transport, electricity and water are examples of infrastructure that have huge impacts on economic success and quality of living.

“At the organisational level, directors and senior managers are becoming increasingly aware that the risks typically covered by insurance are only a very small fraction of the risks that can strongly influence their financial results and long term success. The effects of competition and rapid technology change are two examples, but so too is the change in consumer needs.

Wood says the key message that New Zealand organisations need to take on board is that “change” and “risk” go hand in hand. To stay on top of, and take advantage from risk, organisations need to be constantly assessing their risks, comparing these with their risk appetite and adjusting the risk if it is too large.

He says the joint New Zealand and Australian standard on risk management, AS/NZS 4360, has become a global benchmark for the discipline.

“The risk management Standard provides guidance on how to manage risk effectively. To understand risk, it must be evaluated in the context of the goals of the organisation. This usually begins with putting a dimension on each of the risks faced by assessing the size of the possible effects on those goals, and the likelihood of each of them occurring. But organisations also need to continually monitor and review external change as this can both create new risks and also opportunities.”

For example,

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The New Zealand Society for Risk Management has more than 400 members and over 60 associate organisations, and further information is available from [www.risksociety.org.nz](http://www.risksociety.org.nz).

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**Further information:**

Mike Wood (027) 442 1874 or

Gerry Morris (027) 442 8217

*Pic of Mike Wood attached.*

### Change-out paras:

In Northland, Wood believes the importance of agriculture, horticulture, forestry and tourism indicates that changing weather patterns are a key risk, which may provide new opportunities as well as risk for the local economy.

In Auckland, Wood believes ongoing population growth means that risks arising from inadequate infrastructure are gaining greater prominence, which long term will certainly have tangible market access effects and financial costs if they are not adequately addressed.

In Waikato, Wood believes organisations that are heavily reliant on the intensive dairy based economy are becoming more adaptive to the roller coaster ride associated with world dairy markets following Fonterra's lead in spreading its manufacturing risk with ventures in South America, China and Australia.

In Taranaki, Wood believes companies associated with both the dairy and the oil and gas industries view themselves as having global risk exposure rather than just a domestic focus, which can be a good model for New Zealand in spite of not having much control over global market forces.

In Wellington, Wood believes organisations have in the back of their minds a belief that a major earthquake will strike at some time, but the collective level of risk planning for such an event remains poor.

In Hawkes Bay, Wood believes companies reliant on the ever expanding wine industry are placing their complete faith in New Zealand remaining a long term niche, top end player in the global wine market. Returns in the partially commodity based Australian industry have fallen drastically in recent years, including vine removal incentives in some states, a risk not foreseen 10 years ago.

In Canterbury, Wood believes the water supply issues faced by some of the larger rural based enterprises will magnify, possibly leading to stringent allocation regimes as seen in the dryer states of Australia, causing severe production constraints. Companies need to be managing the potential impact of these risks now.

In Otago and Southland, Wood believes the intensive conversion to dairying across the rural landscape over the last decade will have a long term impact on water tables. This, combined with changing climate patterns, will see more water conservation initiatives on-farm in order to meet the water usage requirements of the dairy industry. Managing the risks associated with a dwindling resource is a reality for farmers.