

Minet Insurance Brokers

1st Breakfast Meeting on Risk Management

Theme: Building Resilient Businesses: Understanding how the smallest and most negligible risks can become the biggest organizational disaster”.

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Friday 30th August 2019
Imperial Royale Hotel

Building Resilient Businesses: Understanding how the smallest and most negligible risks can become the biggest organizational disaster

A presentation by Mustapha B Mugisa, Mr. Strategy.

BOOM!

A loud bang went off. A huge fire suddenly started. That Thursday morning, March 2017, at 10 a.m. brought total misery.

The Top Management Team, who were still in the morning meeting, looked out into the window and saw staff running past the main block, shouting: Fire. Fire. Fire.

Factory on fire. Fire. Fire.

The Chairman, also the owner of the business, a tall man with dark skin, could not believe his ears. He rushed out of the meeting. And ran towards the plant.

And there it was in a huge flame of fire.

He placed his hands on the knees like a goalkeeper does when trying to stop a spot-kick.

A friend came and held him tight.

They looked helpless as the fire burned everything.

He was trembling and overwhelmed.

All that remained was a dark smoke hovering on top where the factory once stood.

By the time Fire Brigade arrived, it was all ashes.

Our Guest of Honor,

Invited Guests,

Ladies and Gentlemen

When you ignore risk management, you get surprises.

By the time you get out of here this morning, you will have known more about risk management in 1 hour which takes others over 3 years to grasp.

Study carefully the Picture 1. What do you see? What do you think could have caused the incident?



*Picture 1: Ali Enterprises Factory. Pakistan's worst industrial accident occurred on September 11, 2012, when a fire tore through a textile factory complex in Karachi. Barred windows and locked exits trapped workers in the four-story building. The fire was caused by short circuits in the equipment. **Damage:** More than 300 workers were killed.*

I have consulted for many owners of medium scale businesses.

I will use a fictional case study about Enjoy Porridge Manufacturers Ltd, to help you appreciate the importance of risk management in your business.

Enjoy Porridge Manufactures Ltd:

The upcoming Ugandan manufacture with big dreams.

Alex (not real names) started as a casual laborer in a Jinja factory in 1993. After three years, he proved to be a loyal staff and was promoted to a Manager position of a production line 3. This position gave him enough money to enroll in an evening degree program.

In early 1999, the factory upgraded one of its production lines and Alex was the key coordinator with the vendors came along to effect the upgrade. Towards the end of the project, one of the experts hinted to him that he had the skills to start his own manufacturing business if he so wished. They exchanged contacts.

In mid-2000, the CEO of the factory he worked, retired. Alex could not fit in the new leadership structure, he requested to distribute the products instead of working on the factory floor. It was a great move. Given his contacts, he got good credit terms and took over existing distribution trucks and channels. Business boomed.

In 2005, he followed up on his earlier contacts and got a break-through. They sent him a quote for a small plant that could process soya, millet, and sorghum into flour, porridge and fresh drinks in different packages. The first line came at a cost of US \$500,000. He had made enough money to afford over 80% of the cost. He got the rest from the bank which was more than willing to come in.

The factory setup

Alex traveled with his wife to India on the exploration tour. After about four months of negotiations, he bought a production line in early 2006.

Unfortunately, the equipment spent about seven months in a store before being made operational. The production flow processes had not yet been

designed by the time the equipment was delivered. The factory building also had to be remodeled to fit the production processes flow. And most critical, one of the equipment components to automate the sorting and cleaning of the raw materials had not been part of the price.

To this end, Alex hired more casual staff to perform the process of cleaning the grains manually before input. This manual process made the production line slow and inefficient. A plant with a production capacity of say 1,000 cartons per day, operated at just 400 cartons due to the manual processes that were inefficient. In addition, the material cleaning was poorly done leading to poor quality end-products and increasing abnormal losses. This was a huge production bottleneck.

But the entrepreneur wanted daily output. “We need to sweat the plant to recover the costs”, he used to tell his production team. “Make the plant sweat.” This earned him the nickname “Mr. Sweat.” Some staff started cutting corners by processing raw materials not yet ‘well dried or ready for processing.’ This started causing frequent break-downs and therefore the need for spare parts.

Five years in manufacturing is a short period. And without long, the factory started experiencing setbacks. A key spare part like a gear or drive would fail. Raw materials not to the processing standards caused higher wear and tear of the equipment leading to massive downtime and loss of revenue. Despite having used small debt finance, paying interest rates started becoming a problem.

More operational challenges

The production equipment required servicing at regular intervals - weekly. A machine is like a human being, once it is in place, you must look after it for

better results. Else it fails and could injure people. I once witnessed a machine cut off someone's hand just like that for failure to follow procedures.

The operations manual of the production line provided for weekly checking of the electrical components to make sure they were functioning properly and not damaged. E.g. electrical cables turn red when they are overloaded or you could easily see signs of burning. In case of the sudden change in the operating parameters, the power could go off automatically. However, Alexi's equipment did not have a sensor for details like that.

As pressure piled on the production team, they started relaxing on the weekly checking. When the electrical component got damaged, no one noticed. Because the damage happened slowly, they found out when it is too late.

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Many fires in factories are a result of electrical short circuits due to the people factor.

Failure to check created the opportunity for equipment to catch fire. Because someone did NOT do the correct operations procedure, the factory went ablaze.

Unfortunately, negligence was an exclusion in the insurance contract. Having not used a broker, Alex went for a cheaper option. And when he needed recovery faster, he found out that he had a cover that was restrictive.

Without the factory, raw material orders in stores started rotting. Employees sued. And finally, the factory closed.

It should not have come to this. Risk management is the process of finding 'friends and foes' and optimizing both for your success.

Discussion

1. *Examine the risk management issues present in the case study.*
2. *If you were Alex, with hindsight, what risk management processes would you put in place?*

Risk management issues present

Risk is the impact of uncertainty on organizational objectives.

The stated objectives are achieving 100% daily production capacity, in a sustainable manner for business growth. Any event, that disrupts business continuity, must be proactively identified and managed.

In the case of Enjoy Porridge, there are several risk management issues to take note.

At the strategic level.

1. Which type of plant to invest in? which technology? How will future manufacturing technology changes affect changeover and growth? What is the on-going cost of maintenance of both plant and software, if any?
2. What is the factory setup? Which processes are required? How are they inter-related? Who will do what? Do we have internal expertise in Uganda to operate the plant well? Is the factory layout optimizing the plant?
3. How to finance the equipment? To get a loan or lease or outright purchase? What is the guarantee period?
4. What is the business case? How long will the plant take to recover the initial investment?
5. What is the plant's daily production capacity? What are the dependent processes to achieve this capacity? Do we already have ready raw material supplies? Are the materials to the desired level for input into the plant?
6. Where will the plant be located? Is it strategic and easy for long-term logistics efficiency and expansion?

At the start or before any capex investment, the investor must consider the above risk factors, else they will find it too expensive to break-even and continuously have challenges of scale and growth.

At processes and operational level

1. Are the plant processes clearly set up? Are they documented? Do the operators understand and follow them?
2. What are the safety instructions? Are they clearly documented?
3. What are the maintenance procedures? Are they clearly documented and understood by all? Do we have clear accountability mechanisms in case of failure to follow the procedures?
4. What are top 10 standard operating procedures? Who checks to make sure they are followed? Do our procedures explain why they must be followed?
5. What is the normal loss? What happens when we get an abnormal loss?
6. How is responsible for on-going process reviews for innovative and risk management? What is a bottleneck? How are bottlenecks identified and proactively addressed?

At logistics and supply chain level

Consider linkage between finance, procurement, production, and technical engineering to ensure over 80% plant utilization. Risk management is good governance. All problems manufacturers face stem from poor risk management across the board.

At People Level

Which kind of people - skills and experience do you need?

Data level

Which kind of information systems do you need? Which data must you capture?

For Part B

Use a *risk register*

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Risk Id	Objective at risk	Risk event (root cause)	Risk description	Risk category	Impact (1-5)	Likelihood (1-5)	Initial Risk score	Mitigation (existing or new)	Residual Impact	Residual Likelihood	New Risk Score	Response strategy	Risk response description	Risk Owner
EnPLO 01	Optimize production capacity >80% per week	Plant downtime due to power or spare part failure	Lack of production due to plant downtime	Operational	5	5	25	Ongoing monitoring and maintenance	3	5	15	Treat	In-house storage of common spare parts & staff training	Productions Department

To get detailed guidance, share your username and password.

Thanks a lot.