

Risk management by FIAT in the relocation of production plants

1. Introduction

Most business risks are often perceived by organizations as a distant, unlikely event. We could define it as the "attitude of the farmer", convinced that hail will not arrive on its own land and that it is decided to stipulate an insurance contract only when, inevitably, it also passes on its plot. An alternative approach, but with the same outcome, is what we would call "the engineer". Which is aware of harmful events, but which considers them unpredictable. This person, accustomed to considering only what is quantifiable in an exact way, is not equipped to consider and protect himself from a random phenomenon, thus ending up not preventing harmful events, but to suffer them, unaware that not foreseeing implies a certainly greater error than to foresee with mistake.

This approach in the best cases is far from an excellent economic result, while in the worst cases it can even turn out to be disastrous, also and above all when the risks come from outside and, by their very nature, are less visible, manageable, and controllable.

"Risk management is the set of activities within an organization undertaken to deliver the most favourable outcome and reduce the volatility or variability of that outcome".

The definition of risk management provided by Hopkin (2018) fits the FIAT case study.

Some definition of taking risks will only have negative outcomes. I disagree with this definition, risks can have positive outcomes and for this reason, companies want to take risks.

four categories of risk identifies by Hopkin (2018):

- Opportunity risks: these are the types of risks that an organization should face to get a positive return
- Control risks: Control risks are risks that cause doubt about the ability to achieve the organization's mission. Internal financial control protocols are a good example of a response to a control risk
- Hazard risks: these risk events can only result in negative outcomes and they should be mitigated
- Compliance risks: these are mandatory risks that should be minimized.

Though risks can be classified in different ways, the one adopted by the author fits this case study.

2. Case definition

FIAT, one of the most important Italian automobile manufacturers, want to delocalise the production to Romanian, in order to Investing abroad and due to rising costs. Is fundamental to establish a risk management project to secure a successful outcome of this delicate task.

FIAT adopts the definition proposed by Hopkin (2018): “An event with the ability to impact (inhibit, enhance or cause doubt about) the effectiveness and efficiency of the core processes of an organization.”

3. Risk management process

The risk management approach chosen by the organization is the ISO 31000: this approach provides guidelines, principles, framework and a process for managing risk. It is very adaptable because can be used by any organization regardless of its size, activity or sector. For this reason, FIAT has decided to adopt this approach.

Using ISO 31000 can help FIAT increase the likelihood of achieving objectives, threats and effectively allocate and use resources for risk treatment and improve the identification of opportunities.

However, ISO 31000 cannot be used for certification purposes, but is very helpful because organizations using it can compare their risk management practices with an internationally recognised benchmark, providing sound principles for effective management and corporate governance.

“ISO 31000 places particular emphasis on context and states that consideration should be given to the internal context, external context and risk management context when undertaking risk management activities.” (Hopkin, 2018).

In the following figure we can see the ISO 31000 that FIAT decided to adopt.

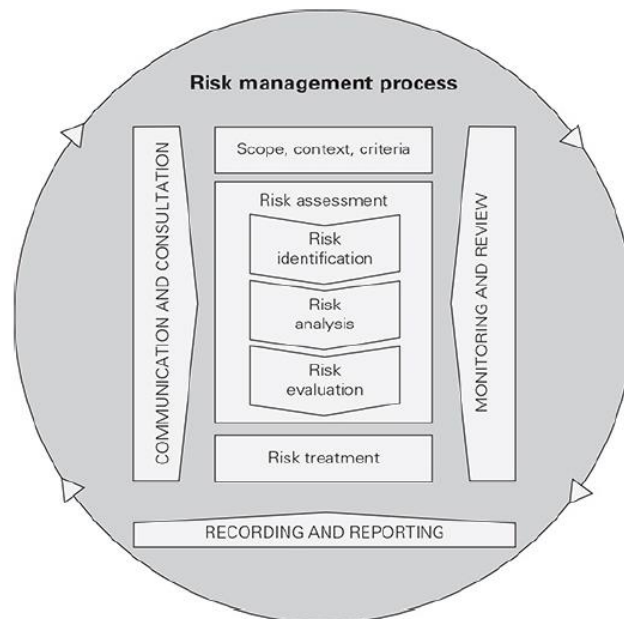


Figure 1 - Risk Management Process

4. Establishing the context

According to Hopkins, ISO 31000 includes different phases in the risk management process. The first one is to establish the scope, context and criteria.

There are three levels of context:

- Risk management context: FIAT decides to use the RASP: “The RASP of an organization defines the structure of the risk management context and how the components of that context are implemented to achieve the desired benefits from the enterprise risk management initiative.” (Hopkin, 2018).

- Internal context: Labour and plant suppliers represent the internal context of the examined company. The main objective is to successfully enter and operate in the new market. It will be very important to avoid accidents at work and we will need to invest in training new workers.

- External context: One of the most important external threats is represented by Italian trade unions, this is a sensitive field because concerns hundreds of workers.

Moreover, the FIAT has to follow the State law guidelines about the contract, occupational safety etc.

Another external figure that FIAT should take into account is the damaged reputation of the brand in Italy caused by relocation of establishments in another State. A correlated topic is the public opinion.

Last, but not least, concerns the political stability of the new State.

Moreover, there are different external threats that can be regarded as opportunity, like the brand-recognition in other states.

In the figure below we can see the relationship between the three contexts.

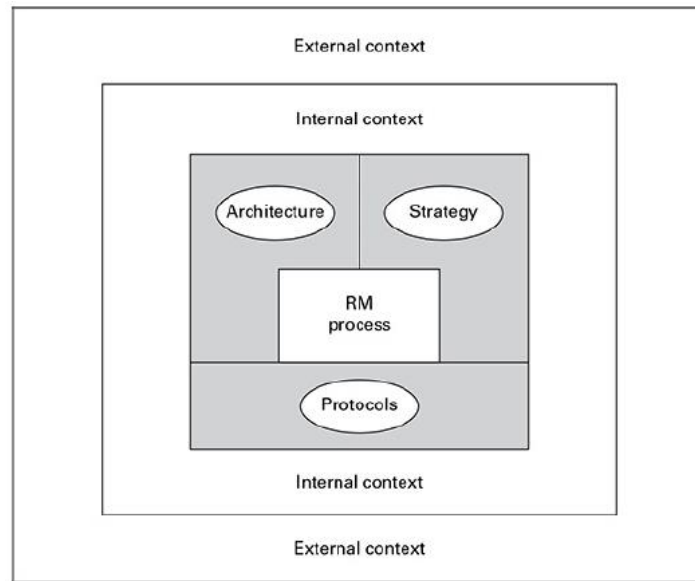


Figure 2 - relationship between the three contexts

5. Risk assessment

Risk identification and analysis

According to Hopkin, there is no 'right' or 'wrong' subdivision of risks.

In the next phase we are going to classify the risks according to the category: compliance, hazard, opportunity, control.

Table 1 - Risk identification and analysis

ID	Risk	Type	Analysis
1	Low quality of labour	Compliance	The company must invest in training new workers as initially the level of knowledge will be very low
2	Work safety and contract law	Compliance	The company must comply with this law in order to avoid legal issues
3	Trade unions protests	Control	Transferring an establishment abroad means removing jobs in the city where the plant was previously located. This will lead to trade union protests that will have to be managed through negotiations.
4	Image damage	Control	Transferring an establishment abroad would lead to damage to known image, as it would be done only to

			cut costs, the quality of the product would not be like the previous one and would cause obvious damage to the dismissed workers.
5	Uncertainty of political stability	Hazard	Relocating to politically unstable states is a risk. In the (rare) case of an economic collapse, it would cause enormous damage to the company
6	Fire in the plant	Hazard	It is important to take all precautions, if a fire should break out inside the plant, which could cause victims but also an important economic loss
7	Worker injuries	Hazard	It is important to ensure that workers work safely. Deaths or accidents at work would cause severe image and economic damage.
8	Collaborations with foreign companies	Opportunity	Moving production abroad would open roads towards collaborations with competitors or simply with suppliers, bringing new opportunities.
9	Recognition of its brand abroad	Opportunity	Moving production abroad also means making the brand known out of its native state, which could lead to an increase in sales / collections.

Risk evaluation

In order to assess the risk, FIAT has decided to rely on 2 measures: Likelihood and magnitude and to plot a risk matrix, visible below.

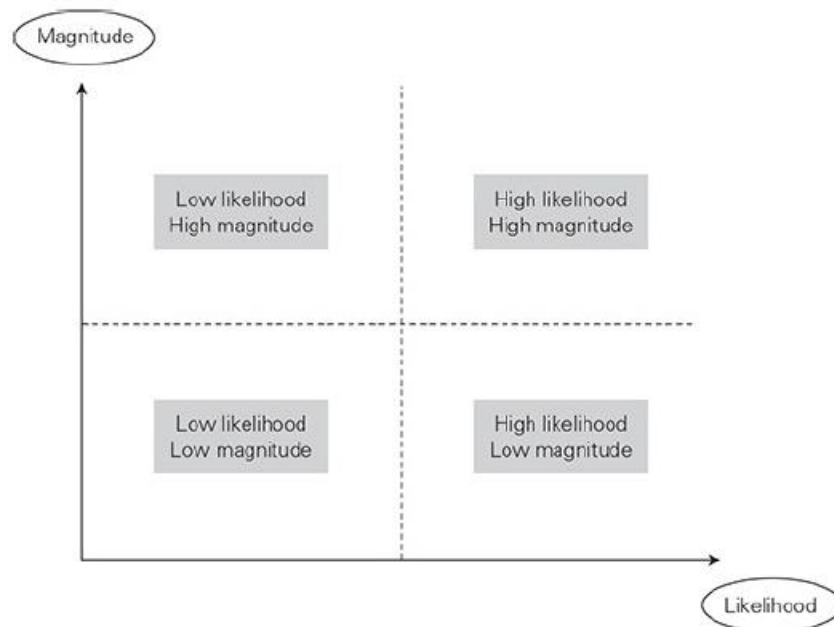


Figure 3 - risk matrix

“Likelihood: is used rather than frequency, because the word frequency implies that events will definitely occur and the risk matrix is registering how often these events take place. Likelihood is a broader word that includes frequency, but also refers to the chances of an unlikely event happening.

Magnitude: is used rather than severity, so that the same style of risk matrix can be used to illustrate compliance, hazard, control and opportunity risks. Severity implies that the event is undesirable and is, therefore, related to compliance and hazard risks.”

Hopkin (2018)

Table 2 - Likelihood and magnitude

ID	Risk	Likelihood	Magnitude
1	Low quality of labour	Medium	Medium
2	work safety and contract law	Low	Low
3	Trade unions protests	High	Medium
4	Image damage	High	Medium
5	Uncertainty of political stability	Low	High
6	Fire in the plant	Low	High
7	Worker injuries	Medium	High
8	Collaborations with foreign companies	High	Medium
9	Recognition of its brand abroad	High	High

Risk treatment and Treatment

The last phase that the company must face concerns in the 'risk treatment and Treatment', doing prevention and evaluating possible moves should the risk factors occur. this to avoid falling into the "attitude of the farmer" or " attitude of the engineer".

Table 3 - Prevention and treatment

ID	Risk	Prevention and Treatment
1	Low quality of labour	The company should try to better train its workers before placing them in the new production chain. It would be very useful to back up them alongside colleagues in establishments that have been under way for a long time, so that they can learn quickly.
3	Trade unions protests	It would be important to deal with the unions before outsourcing the plant, in order to avoid protests and slowdowns, which would lead to costs in terms of time, money and efforts.
4	Image damage	One way to avoid/minimize the image damage would be to focus from the advertising in saying that the company is entering a new job market, increasing the importance of the brand.
5	Uncertainty of political stability	It is obviously important to assess the stability of a state before investing in it. In the rare case where the state should fall into default, it is important to plan an exit plan for that market or take out insurance.
6	Fire in the plant	The company should install security systems in order to limit the damage of the fire and follow all the rules to secure the building. To take out insurance, the organization can limit the impact of these events.
7	Worker injuries	The company should ensure that its workers are forced to work in order to prevent accidents at work. It is important to take out insurance if this should happen

Conclusion:

This paper highlights how organizations such as FIAT, which operate in complex environments, must manage the risk of delocalise to prevent certain events from having an unresolvable impact on the company's economy.

References:

-Hopkin P., 2017. Fundamentals of Risks Management, Understanding, evaluating and implementing effective risk management. 4th ed., London, Kogan Page Limited.