

Risk management

CONTROLLING RISK

The Group seeks to identify and control risks, which are categorised as strategic risks, operational risks or hazards.



The Group carries out a formal annual process of identifying and assessing business risks. Throughout the year changes are made to reflect new risks or changed circumstances. Mitigating actions are developed for all identified risks, which are then quantified and prioritised. Identified risks are then considered in the development and execution of the programme of work carried out by the Group's Internal Audit Department. Highlighted below are some of the principal risks to the implementation of the Group's strategy or achievement of desired performance levels. These risks are categorised into strategic risks, operational risks and hazards. Financial risk exposures are described in the Finance Director's review on pages 16 to 19.

Strategic risks arise principally from external events over which the Group has limited influence, and in response to which our focus tends to be on measures to limit or control losses. These risks include the following:

- A significant economic slowdown could expose the Group to materially reduced discretionary spend on IT, particularly within the financial services sector. In the short term, as some of the Group's cost base is variable, the impact on project-based resources would be minimised. However, a substantial portion of the indirect cost base is fixed in the short to medium term. Various actions would be taken to mitigate the impact of such a slowdown, including re-focusing resource on the more buoyant business sectors and promoting business offerings, such as outsourcing the management of IT infrastructure, that reduce costs for customers.
- A small number of key vendors with considerable scale and market strength supply products which generate a significant proportion of the Group's revenues. The risks of deteriorating vendor terms and revenue loss due to these vendors selling direct, are partially mitigated through the Group's maintenance of a vendor independent product portfolio and through delivering incremental value to customers across the range of services, in order to ensure that customers continue to purchase from the Group.
- The Group's profits continue to be exposed to erosion of IT equipment unit prices. This risk is mitigated by a robust focus

on internal cost control and through directing the selling activity to higher margin earning contracts.

- The Group's contractual services offerings are exposed to a market trend towards shorter term engagements and the demand for quantified cost reductions, or tangible savings, at an early stage of the engagement. By continuously developing higher value service offerings and through widening the customer base, such as by investing in the mid-market sector, the Group seeks to minimise the potential impact of these risks.

Operational risks arise from failures in internal processes, people and systems (in general includes risks such as IT systems or security failures, human error and failure to execute project or process changes effectively). Proactive intervention can reduce the likelihood or severity of such risks and included within this category of risks are:

- Profit erosion resulting from a failure to understand the full commercial consequences of unfamiliar and complex end-to-end service contracts, which arise through the competitive and dynamic nature of the industry. Bid review and an escalation process for non-standard proposals aim to mitigate this exposure.
- Failure to attract and retain key staff, which can impact adversely on operational efficiency. The Group constantly seeks to identify talent for development and succession, and to limit attrition levels through appropriate bonus and share incentive schemes.

Hazards constitute perils such as fire, flood and viral attack of pandemic proportions. Hazards are managed through prevention, mitigation, continuity planning and risk transfer through the purchase of insurance. The loss of an entire facility of the Group has been assessed through internal inspections and surveys by an external expert and found to be extremely unlikely, largely due to enhanced control measures implemented during recent years. However, the Group's ability to deliver services and products would be impacted through the loss of an entire major facility and in mitigation of this risk, a comprehensive continuity planning and scheduled testing programme is maintained.