Accenture Risk Management

Industry Report

Life Sciences

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Risk management as a source of competitive advantage and high performance in the life sciences industry

Risk management that enables long-term competitive advantage

One of the largest risk management executive surveys of its kind, the Accenture 2011 Global Risk Management Study has found that senior executives across all industries are making risk management a top priority. Companies are investing at greater levels and are more likely to have in place C-level executive oversight to ensure that risk is being managed in an enterprise-wide fashion. In short, risk management capabilities are not only prevalent and a target of investments—they are also more aligned with growth strategies and they are helping companies achieve their most important business priorities.

Beyond the immediate pressures of global markets, more demanding customers and dramatic industry change is a growing recognition that companies have an opportunity to drive competitive advantage from their risk management capabilities, enabling long-term profitable growth and sustained future profitability.

This means that risk management at the top-performing companies in our study is now more closely integrated with strategic planning and is conducted proactively, with an eye on how risk management capabilities can help a company be successful in new markets faster or pursue other evolving business expansion opportunities to enable growth.

Eight percent of the respondents in our Global Risk Management Study were executives from leading life sciences companies who have responsibility within the risk management function. This report augments the global, cross industry study (for a summary, see over) with some of the compelling detailed perspectives from life sciences survey participants.

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Summary findings: The Accenture 2011 Global Risk Management Study

The Accenture 2011 Global Risk Management Study is based on a quantitative survey of executives from 397 companies across ten industries. All respondents were C-level executives involved in risk management decisions at their companies; organizations were split primarily among Europe, North America, Latin America and Asia Pacific. In addition to the quantitative survey, additional in-depth interviews were conducted with a number of executives whose views are also represented in the survey findings.

Key risk insights

Results from the study support the following key insights related to the heightened importance of risk management capabilities in meeting today's business challenges and opportunities:

1. Increasing volatility and growing complexity make risk management central and strategic to all industries.
More than 80 percent of companies surveyed, across all industries, consider their risk management function to be a key capability that helps them deal with marketplace volatility and organizational complexity.

2. Executives see their risk management capabilities as important to future profitability and long-term growth.
Beyond its traditional role in areas like compliance, risk management is now seen as a driver of more strategic business objectives. More than 90 percent of executives see the risk management function as important or critical to growth and profitability.

3. Companies are implementing comprehensive enterprise risk management programs.
Companies are making smart investments in risk management capabilities. More than 80 percent of survey respondents overall have an enterprise risk management (ERM) program in place or plan to have one in the next two years.

4. **Companies are establishing C-level oversight of the risk management function.**
About two-thirds of all survey respondents (64 percent) have a Chief Risk Officer operating with that title. Another 20 percent have an executive in the role fulfilling those responsibilities. Thus the criticality of risk management is being recognized by the way the function is staffed and led.

5. **Executives expect their investments in risk management to increase over the next two years.**
Eighty-three percent of respondents see risk management investments increasing in the next two years. Of those, 21 percent foresee a significant increase (more than 20 percent) while 62 percent foresee an increase of less than 20 percent.

Challenges ahead

Survey findings and Accenture analysis point to a number of challenges ahead for companies when it comes to managing complex risks more effectively:

• The types and magnitude of risks are increasing. Companies have growing concerns about a broader spectrum of risks, including those related to the supply chain, operations, regulation and reputation.

• Despite major investments to develop risk capabilities, critical exposures persist, especially in the measurement of key risks.

• Organizational silos and outdated information systems are preventing effective integration of risk management structures and responsibilities.

• Companies experience performance gaps between expectations for risk management and what is achieved. For example, 93 percent of respondents indicate that the risk organization is important as a driver for sustained future profitability, but only 76 percent say their risk organization has achieved that goal.

• Cost reduction and alignment of risk management with overall business strategy are ongoing executive concerns.

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Achieving risk mastery

The large sample size of the Accenture 2011 Global Risk Management Study enabled the identification, with statistical validity, of a subset of companies deemed to be "Risk Masters"—companies whose practices and capabilities set them apart from their peers. Based on analysis of these companies, the following are key risk management capabilities that can help guide other companies toward mastery:

• Look to create shareholder value from risk management.
Risk Masters are especially adept at creating processes and mechanisms that link risk to business performance.

• Involve the risk organization in key decision-making processes.
The risk management organization needs to be included in activities such as strategic planning, objective setting and incentives, financing decisions and performance management processes.

• Improve the sophistication of measurement, modeling and analytics to anticipate risks in an increasingly complex environment.
Risk Masters are more likely to measure a fuller spectrum of risk types, and they have a higher commitment to analytics and risk modeling.

• Go beyond a compliance mindset of risk management to deliver more complete business solutions that drive competitive differentiation.
Top-performing companies are better at managing regulation and compliance in a way that also delivers better business performance. Risk Masters are also better at developing relationships with regulatory agencies.

• Integrate risk management capabilities across business units and organizational structures.
Much higher percentages of Risk Masters excel at the integration required for effective risk management, something that requires a commitment to evolving organizational capabilities over a multi-year program of change.

• Establish a dedicated, C-level risk executive with oversight and visibility across the business.
Top performers separate themselves from the pack by having in place a dedicated risk executive with sufficient visibility and leverage to influence risk management capabilities across the entire organization.

• Infuse risk awareness across the organizational culture.
It is vital to have in place the mechanism to create and distribute more broadly across the organization an awareness of risk exposure, detailed training and the means to mitigate risks.

• Invest in continuous improvement.
Risk management is an ongoing, evolving capability. The world changes rapidly and companies must be nimble in terms of staying ahead of the curve when it comes to meeting the risks and challenges ahead.

To access the complete Accenture 2011 Global Risk Management Study, please go to **www.accenture.com/GlobalRiskManagementResearch2011.**

Key findings

The life sciences industry—comprising pharmaceutical, biotechnology and medical device companies—has a risk profile that is different not only from other non-financial industries, but from other companies in the broader healthcare industry. Regulatory issues have always been a major concern for life sciences companies and they are among the most active in working with regulators to shape risk-related regulation. The life sciences industry also faces a broad spectrum of risks related to healthcare reform and pricing, including pricing controls in some jurisdictions.

In light of increased global competition, pricing restrictions and other concerns, life sciences companies are paying greater attention to manufacturing and distribution. While joint marketing agreements have become relatively common, vendor agreements including third-party sourcing add a layer of complexity and risk to what had previously been a more or less entirely in-house process of discovery, development and manufacturing.

Detailed findings for the life sciences industry based on survey data and analysis include the following:

Risk management is a constant in the life sciences industry

Pharmaceutical companies drive value from discovering and patenting new drugs, a process that inherently involves managing a broad spectrum of business, market and operational risks. Only 41 percent of life science company respondents said that risk management is more important for their companies than it was two years ago–significantly below the overall average of 60 percent and far below, for example, the 74 percent of banking industry respondents who said risk management is more important than it was two years ago. (See Figure 1.)

Although the nature of the risks confronting the life sciences industry is changing—with healthcare reform leading to changes in pricing, new threats from counterfeiting and fraudulent drugs and regulatory concerns about product safety and quality—industry responses indicate that risk management is already built into their businesses. In fact, life sciences companies are planning lower than average levels of investment to improve risk processes and are average in developing supporting risk analytics.

Their traditional strengths in assessing markets, evaluating investments and determining when to stop or sell in the product lifecycle helps explain these companies' attitudes toward the importance of risk management and the relative maturity of their risk programs, including their risk governance and assessment processes.

More integrated, comprehensive enterprise risk management is needed

Although survey responses indicate a high level of confidence by risk executives in the life sciences industry, these companies are more likely than others (30 percent versus 18 percent) to take a non-integrated or "siloed" approach to assessing business risks, often due to the great diversity of products produced and services provided to customers. Although risk management programs in the life sciences address operational risks, they do so less frequently than in other industries. For example, life sciences companies most often address pricing issues as a point of discussion among executives and the board of directors (53 percent).

Our global research findings show that integration is a key to achieving risk mastery, so the findings related to life sciences should spark discussion about

Figure 1
Because risk management is a constant presence in the life sciences industry, executives do not feel it is a higher priority today than it has been

Is risk management a higher priority for your company now than it was two years ago?

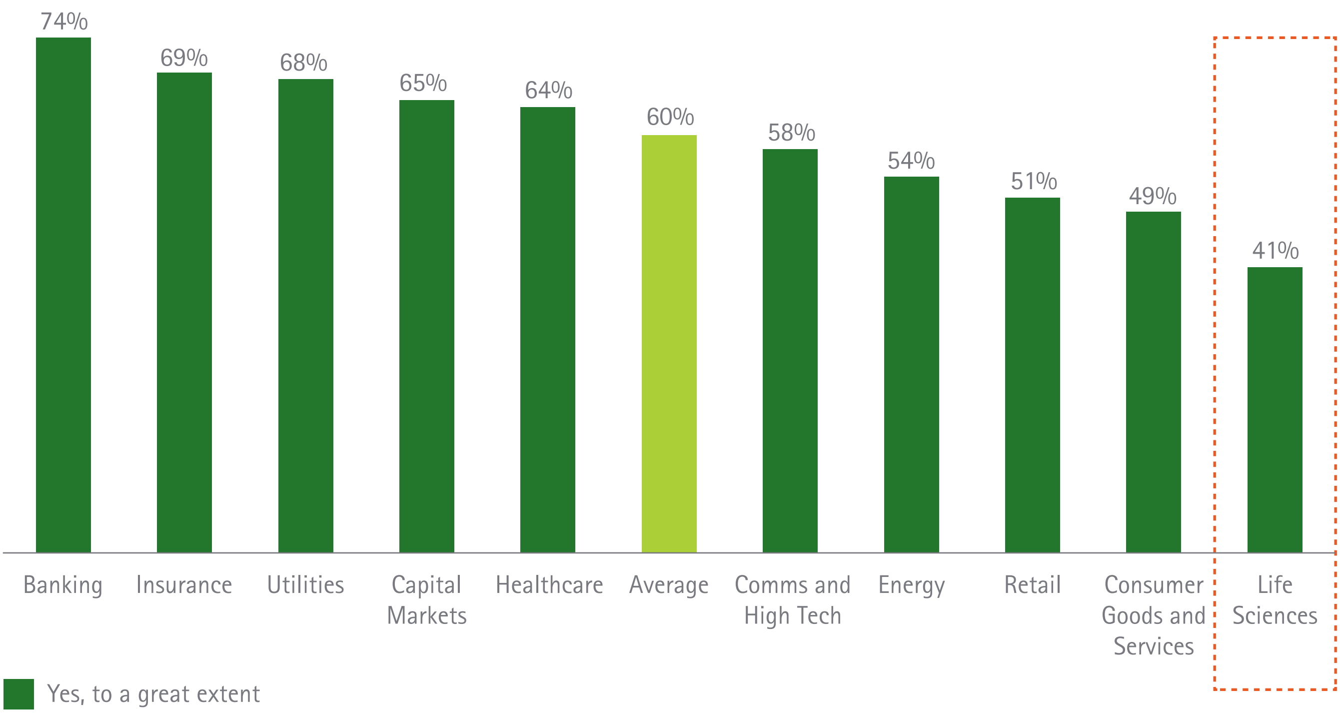
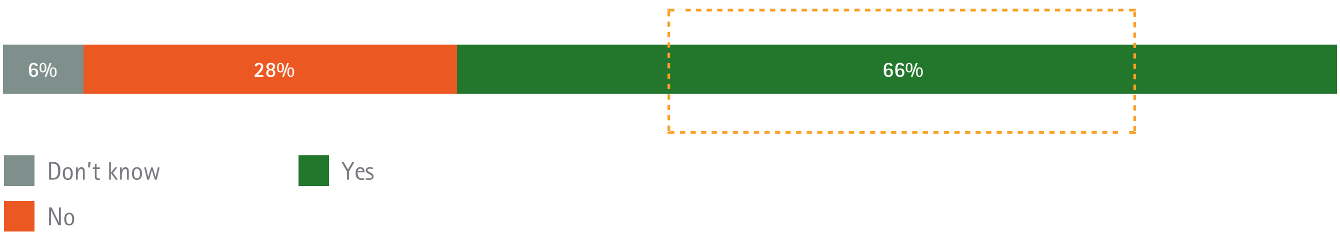


Figure 2
Life sciences risk executives are mostly confident that they address both operational and financial risks

Does your risk management program address operational risks as effectively as financial risks?



Sample: Life Sciences respondents

how to invest in more comprehensive enterprise risk management. The level of risk integration is higher among the Risk Masters, who are far more likely to describe numerous risk categories as "highly integrated." For example, 64 percent of Risk Masters describe business risks as being highly integrated, compared with only 37 percent of non-Risk Masters.

A large majority (78 percent) of life sciences companies address both legal and intellectual capital risks within their risk management programs. Even though operational risks are addressed less frequently than other industries, nearly two-thirds (66 percent) of life sciences companies believe that their risk management companies address operational risks as effectively as financial risks, and a large majority say they address supply chain risks within their risk management programs. (See Figure 2.)

Greater visibility for risk management leadership is needed

Eighty-five percent of life sciences companies have an executive performing the role of Chief Risk Officer (CRO) but are less likely than other companies to have an executive with a formal CRO title (53 percent versus the survey average of 64 percent). They are more likely than other non-financial companies to have a centralized risk function (59 percent versus 44 percent) but at a level below executive.

Our research has found that one way Risk Masters are separating themselves from the pack is by having a risk executive highly placed in the company—one with broad oversight but also with broad visibility and influence and backed by a dedicated risk management organization. This can ensure that risk and performance management are being conducted in a more strategic manner. This risk executive should be closely connected to the top leadership of the company, ensuring that risk investments are strategic and that a more proactive risk management culture is created and sustained.

Risk Masters are more likely to have risk management owned by a Chief Risk Officer—55 percent compared to 43 percent among other participants. Risk Masters are also more likely to have a risk executive with the CRO title (81 percent versus 62 percent). This may indicate that Risk Masters more readily acknowledge the importance of centralized leadership, with a C-level executive as an influential part of top management

Increases in regulatory risk are expected

Across all industries, 89 percent of respondents indicated that their company's regulatory risk will increase in the next two years, with over one-third saying it is increasing significantly. An even higher percentage of life sciences respondents (94 percent) expect an increase in regulatory risk over the next two years. However, only 28 percent of respondents recognized healthcare reform as a driver of other risks such as pricing. Most companies address healthcare reform as a management discussion item (50 percent) and as a topic to be reported by risk management (50 percent).

One of the specific related tactics at which Risk Masters excel is in improving relationships with regulatory agencies. Over half of the total number of survey respondents (54 percent) noted that it is very important to develop relationships with regulatory agencies for future reform. In addition, 68 percent are actively establishing direction for reform. Among Risk Masters, however, that number rises to 88 percent.

Financial fraud and crime are growing concerns

Ninety-three percent of survey respondents indicate that financial crime and fraud are more challenging to address than two years ago, and 57 percent say this is true "to a great extent." Life science respondents also report increased concern in fraud and counterfeit products, where companies have experienced greater numbers of fraudulent drugs, product losses due to theft and regulatory scrutiny related to both issues.

Companies are pursuing a wide range of initiatives to address these risks, including prevention training, improving technology and improving data analytics. A greater share of Risk Masters also have ongoing measures to address more sophisticated financial crime. In addition to preventive measures, companies are also performing root-cause analyses to prevent future instances of fraud and crime from occurring.

Risk measurement is relatively mature, though risks in emerging markets need more attention

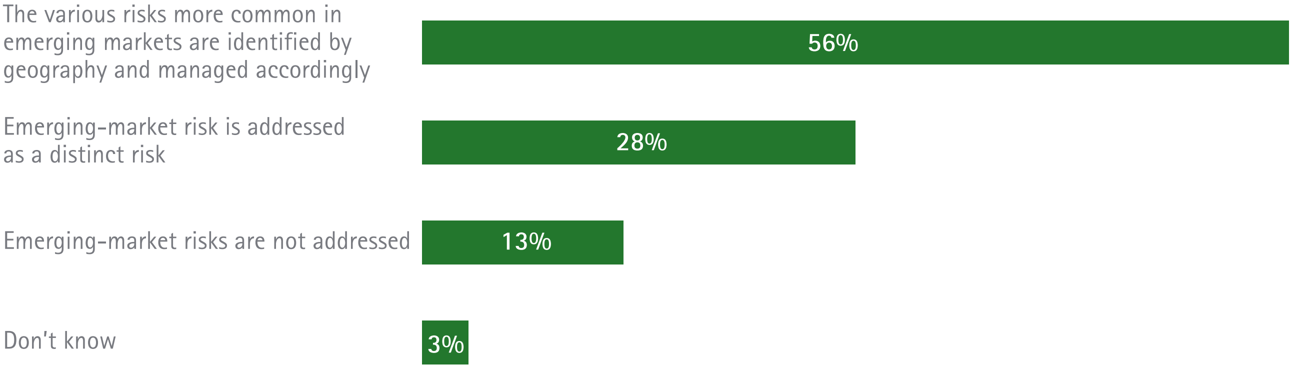
Among non-financial services and non-resources organizations, life sciences companies are most likely to currently measure operational, credit, political and reputational risks and least likely to measure legal risks. Emerging-market risks are typically identified by geography and are addressed accordingly. (See Figure 3.)

Life science companies are also prone to emerging risks. A recent Accenture report on emerging risk—"Confronting the Unknown: How Financial Institutions Can Manage Emerging Risk"—details the kinds of planning and preparation needed to handle new types of risks, which are often not well measured or well understood. Some of these risks are those without historical precedent, such as a terrorist attack. Another type takes the form of a recognized risk that exceeds commonly anticipated "worst case" scenarios, such as the price of oil reaching US$200 per barrel. Such risks, when they materialize, can damage organizations' finances, reputations, strategies and operations.

Due to the systemic nature of emerging risk, and the severe potential impact of such events, life science companies with slight advantages in detecting and managing emerging risks can obtain significant competitive opportunities.

Figure 3
Relatively few companies are addressing emerging-market risk in a distinct fashion

How are the risks related to emerging markets addressed within your risk management program?



Sample: Life Sciences respondents

Accenture holds that it is vital for emerging risks to be integrated into a company's existing enterprise risk management framework. To do so, these risks should be considered as part of the strategic planning process, with a direct link to top-down risk appetite.

Companies are well positioned to turn risk management into a competitive differentiator

Our research has found that Risk Masters are more likely to see the risk function as a driver of competitive advantage. Almost two-thirds of Risk Masters (64 percent) indicate that their risk management capabilities provide competitive advantage to "a great extent," compared with only 42 percent of the peer set. Risk Masters are also more likely to identify risk as a higher priority.

Life sciences survey respondents said that the key factors for transforming risk management into a competitive differentiator in their industry include regularly and proactively identifying new risks (91 percent) and ensuring a balance of risk and return (88 percent). Life sciences companies are more likely than other companies to enhance the risk organization by focusing on organization development and process re-engineering.

Within life sciences companies, the risk function is somewhat less likely than the overall industry average to be involved in the performance management process (72 percent versus 89 percent). Life sciences companies believe that the two most important challenges in risk management over the next two years are aligning with the overall business strategy (56 percent) and reducing overall costs (50 percent).

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Taking action: achieving risk mastery

Our analysis of survey responses and our experience with global life sciences firms point to several actions companies can take to enhance their risk management capabilities and create competitive advantage.

1. Focus sufficient attention and resources on operational risks.
Due to the nature of the life sciences industry, a flaw in the manufacturing process can cause serious damage to regulatory compliance, safety and reputation—and, ultimately, to revenues.

2. Expand awareness of supply chain risk.
Life sciences companies are increasingly dependent upon vendors, and, in turn, on those vendors' own vendors. It is more important than ever to be able to map out weak spots in the supply chain and to develop responses if problems emerge anywhere in that chain.

3. Manage risk holistically and in a more integrated fashion.
Instead of managing the risks of procurement, logistics, distribution and manufacturing separately, companies should take a more network-wide view. This can enable them to see how a decision in one functional or operating area may affect the entire organization.

4. Explore leading analytics and measurement tools.
Companies in the life sciences industry act quickly and spend readily to improve the clinical trial process or to comply with new regulations. Readily available tools such as advanced analytics and scenario planning, however, can help life sciences companies anticipate and respond to events that are well outside their normal range of experience.

Life sciences companies that are able to master a range of integrated elements—involving risk management in key decision-making processes, putting in place leadership with board-level visibility and infusing risk awareness across the organization—are creating the means to differentiate themselves from the competition. The Risk Masters have set a very high bar: they are looking beyond reactive, compliance-oriented mindsets and are seeking, through their risk management investments, to create shareholder value and achieve high performance.

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About Accenture Risk Management

Accenture Risk Management consulting services works with clients to create and implement integrated risk management capabilities designed to gain higher economic returns, improve shareholder value and increase stakeholder confidence.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 223,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$21.6 billion for the fiscal year ended August 31, 2010. Its home page is www.accenture.com

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