

Risk management

The benefits of good planning

(includes GRI standard disclosure 4.11)

Good management of risk is essential to a company's success and resilience. ABB has made considerable efforts in recent years to strengthen proactive management of sustainability risks, including health and safety, environmental, social, human rights and security challenges.

We know that failure to understand and manage such risk at an early stage can lead to negative impacts to society and the environment, potential additional costs to the company, and damage to reputation.

There were a number of examples in 2012 of how training and preparatory work pays off. In the United States, for example, security and crisis training programs helped ABB prepare for Hurricane Sandy at our offices and manufacturing sites on the east coast before the devastating hurricane struck.

ABB was able to maintain business continuity, and in addition contributed to our customers' business resilience through a specially-organized emergency recovery task force led by Power Products division, front-end sales and manufacturing teams. The team helped to assess hurricane damage to electrical infrastructure, rushed emergency equipment to where it was needed, and supported utilities in their efforts to get the lights back on as soon as possible.

ABB carries out dozens of security and crisis response training sessions around the world every year to ensure that managers are as prepared as they can be for the different types of emergencies that may occur. Nearly 40 sessions were held in different countries in 2012, tailored to local needs and likely threats. These were complemented by travel security briefings and general security awareness training sessions.

As a company with global operations, the security of our employees and contractors is paramount. By the end of the year, more than 1,200 managers in nearly all of the countries where ABB has operations had received training on crisis management, and a new three-year training cycle began in 2013. This training was put to good use in 2012 amid ongoing instability in parts of the Middle East and North Africa when it became necessary to adapt to fast-changing circumstances and temporarily re-deploy staff in a few locations with minimal disruption to our business.

Proactive risk management training is ongoing in a number of other sustainability areas. Health and safety training continued throughout the company in 2012 to try to ensure that employees and contractors can recognize potential dangers and follow the rules in high-risk areas such as working with electricity, working at height and road travel.

A global human rights training program, launched in 2010, was extended in 2012 to improve understanding of potential risks in the business of complicity in human rights abuses, and to build greater capacity among sustainability professionals within the company.

As part of our efforts to ensure sustainability risk management in the business, we have integrated Group-wide sustainability criteria into our risk assessment process for projects, our supplier selection guidelines and processes, and into the due diligence performed on potential acquisitions. Sustainability experts work in the supply chain teams and mergers and acquisitions processes.

Sustainability due diligence can take many forms: in 2012, environmental specialists were involved in company acquisitions, as well as project assessments; health, safety and security specialists helped to assess our own and customer sites and processes; and human rights specialists in the company reviewed a number of issues and dilemmas before making recommendations to the business.

Overall, ABB has a global integrated and Group-wide risk management process which received an international award for excellence in 2012. The Enterprise Risk Management (ERM) process won the 2012 Risk Management award for innovation and excellence from Treasury Management International magazine.

Under the ERM, the executive management and the Board of Directors perform a risk assessment once a year, in accordance with the company's risk management processes and take appropriate actions where necessary.

We take a comprehensive top-down and bottom-up approach to ERM. The process directly involves all ABB group functions, regions, divisions and the majority of our country organizations and global business units.

The ERM is supported by a common ABB risk catalogue and training sessions for the participating entities. The number of participating entities increased in 2012 to more than 100.

The common risk catalogue specifically includes consideration of external, strategic and operational risks, including the legislative environment and topics related to climate change.

Participating entities are expected to organize ERM round tables where top risks are identified, assessed and reported along with a detailed risk description, the likelihood of such risks occurring, the potential impact on profitability, and mitigation plans. Participating entities also report key performance indicators that they will use to measure their progress on mitigating the risk and reflect on their risk profile in 12 months (residual risks).

The risk management approaches of Group ERM and Internal Audit are aligned. The raw and residual risks are consolidated and analyzed at a Group level by the Group ERM team and discussed at the Group ERM round table which involves senior managers from different parts of the Group, including the sustainability function.

The ongoing instability around the world and emergence of different types of challenges underline the value of good risk management in contributing to an agile and resilient organization. We will maintain our focus on identifying, managing and mitigating risk in all its forms.