

September 2021

Associated British Foods

ABF has evaluated its approach to risk management and subsequently provided increased assurance to investors and increased its communication on the topic. EOS has engaged with the company on risk oversight since 2013 and continues its dialogue on other ESG issues.

Background and company overview

Associated British Foods plc (ABF) is a diversified food, ingredients and retail company that operates in 53 countries. The group is organised into five business segments: sugar, grocery, agriculture, ingredients and retail, which include well-known brands such as Silver Spoon (sugar), Twinings (tea) and Primark (high street fashion). As a diversified group, the different businesses have a high degree of autonomy in the running of their operations. Furthermore, the company has a bottom-up risk reporting structure which relies on divisional managers raising issues with the group executive team, which in turn delivers reports to the board. EOS at Federated Hermes was concerned as to whether this approach was effective and had robust risk controls across the group to identify and mitigate risks.

Our engagement

The Rana Plaza building containing five clothing factories which collapsed in Dhaka, Bangladesh in 2013 and killed more than 1,000 workers, focused investors' attention on risk in the international garment industry. At least 28 major retail brands were sourcing garments from the factories based in the Rana Plaza building including Primark, whose supplier, New Wave Bottoms, was based on the second floor of the eight-storey building.

In 2019, one of our interactions with the company was a meeting with the chair of the board at our office in London and we reiterated concerns over the proper functioning of ABF's risk management structure.

Engagement objectives:



Strategy, risk and communication:

Risk oversight



In addition to our ESG Investor Briefings, our ongoing dialogue with EOS has deepened our engagement with investors, enabling us to better communicate our approach to risk management and ESG, outlining the long-term sustainability of our company.

– Paul Lister, Director of Legal Services and Company Secretary, Associated British Foods

Following the building's collapse, we first raised our concerns with ABF's bottom-up risk reporting structure which relies heavily on divisional managers raising issues, in an initial meeting with the audit chair in 2013. We then met with the chair in 2014 to better understand the board's approach to risk management and followed up in writing in 2015, inquiring about the processes in place for high-risk products. We requested a further meeting with the audit chair to understand oversight of key risks in a meeting in 2016, this came to fruition in 2018 when we met with the subsequent audit chair. In this meeting, we were able to gain a better understanding that the risk reporting structure in this decentralised business focusses on continuous communication between the group and its divisions.

In 2019, one of our interactions with the company was a meeting with the chair of the board at our office in London and we reiterated concerns over the proper functioning of ABF's risk management structure. In the meeting, the chair provided us with further insight into the company's "eyes-on hands-off" approach, stressing that understanding and managing risk is central to ABF's corporate culture. At the same time, we met with the company secretary of ABF and the ethical trade and environmental sustainability director of Primark, to gain the perspective from one of the businesses.

We highlighted the key personnel risk inherent in ABF's approach, to which the company provided a strong response based on developing people and fostering a web of relationships with different business functions.

In May 2020, we met with the finance director (FD) amid the coronavirus crisis. We used this opportunity to have a candid discussion on the diverse types of risks ABF faces and how these are aggregated at the group level. The FD acknowledged our concern of possible blind spots due to the long tenure of executives and stressed the valuable input of newer board members. We highlighted the key personnel risk inherent in ABF's approach, to which the company provided a strong response based on developing people and fostering a web of relationships with different business functions. We were assured by the FD's ability to demonstrate a personal connection at the operating level. The FD also mentioned that the company would include 'reverse stress tests', identifying impact of businesses in different scenarios, in its risk management going forward and undertake an external board evaluation in 2021. We highlighted that the company's approach was not well communicated to investors.

After a meeting with the ABF company secretary and head of ethical trade of Primark in June, we also spoke to the chief people and performance officer at the end of 2020, to gain insights into the relationship between the group and divisional levels, and the human capital management underpinning this. Echoing our previous conversation with the FD, she stressed that the risk management process was underpinned by strong personal relationships. Furthermore, she was able to share her approach to talent management and some new appointments to alleviate some concerns we had with regard to long tenure and key personnel risk.

Changes at the company

The aim of our continuous engagement was to gain sufficient assurance that the risk management approach of ABF is robust and to encourage the company to effectively demonstrate this to investors. Since we started engaging on this topic in 2013, the company has made significant improvements to its reporting on risk management. The renewed focus on recruiting and retaining talent, highlighted by the people and performance officer, who had joined the company in 2019, showed that ABF is self-aware of the benefits and potential challenges of its people-focussed approach to risk management.

In March 2021, the CEO and FD spent time explaining the company's risk management framework in its first ESG event. They explained in detail how ABF's devolved model enables people to manage risk effectively at each business, while being overseen by the head office. The board demonstrated that external board perspectives and a strong connection to well-trained personnel at the operating level provide sufficient risk oversight at the group level. The CEO stressed that ABF's approach goes beyond processes and focusses on values and strong relationships. This significant improvement to communicating risk management, eases the concerns we had articulated and is aligned with our dialogue with different executives and the chair over the past.

Next steps

We continue to engage with ABF on board composition and diversity, as well as on the environmental impact of fast fashion in our dialogue with the company.



Lisa Lange
Engagement
EOS



This case study has been fact-checked by ABF to ensure a fair representation of EOS work carried out and changes made at the company.

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