

Identifying, mitigating, and managing risks is central to our culture. Our enterprise risk management process is also used to identify business opportunities, to improve our services for clients and associates, and to increase the value of the Adecco Group.

# Enterprise risk management

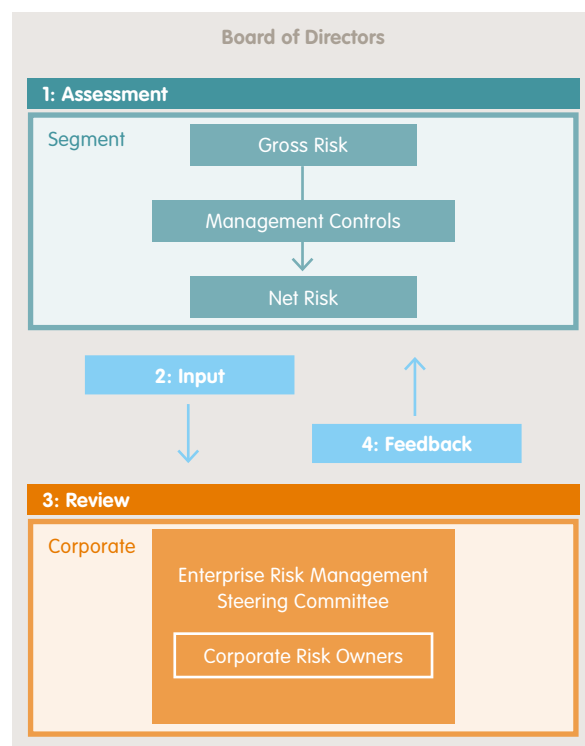
An objective, quantitative, and integrated approach

## The process

The enterprise risk management process at the Adecco Group has strategic and operational dimensions. Whilst the focus is on analysing, managing, and mitigating risks, we also aim to identify opportunities for business development. The process is overseen and approved by the Board of Directors. The enterprise risk management process comprises two interacting and integrated levels: segment and corporate. On a regular basis, all segments perform risk assessments on the risk categories that can have a significant impact on their operations, quantifying both Gross Risk and Net Risk. Gross Risk is an estimate of the likelihood of risk occurrence and the potential impact on the financial results in the worst-case scenario. Net Risk is an estimate of the likelihood of risk occurrence and the potential impact on the financial results taking into account the risk mitigation effect of Management Controls. If these controls do not reduce risk to an acceptable level, action plans are established and implemented.

The segment assessments are reported to Group Management and discussed with the Corporate Risk Owner for each risk category. The Enterprise Risk Management Steering Committee (made up of all Corporate Risk Owners) then determines whether the segment assessments are plausible from a Group perspective. The Steering Committee also assesses risk interactions, taking into account both mutually amplifying risks and the presence of natural hedges.

This hybrid top-down and bottom-up approach achieves consistency and comprehensive coverage while embedding accountability and leveraging the expertise of the people in the organisation close to the risk. Risks identified at segment and corporate level are treated as opportunities for improvement.



In this sense, the enterprise risk management process is a vital part of daily activities within the organisation. The Group's financial risk management activities are also covered on page 103 in the Financial Review. This section focuses on describing where the key risks could arise and the actions Adecco takes to manage and mitigate these risks.

## Key business risks

### **Economic environment**

Demand for HR services is highly correlated to changes in economic activity. When the economy accelerates, demand for temporary staffing and permanent placement services increases; when the economy decelerates, so does demand. On the other hand, career transition is counter-cyclical in nature: demand for these services rises during economic downturns and decreases during upturns. Staffing companies must adjust their capacity to fluctuations in demand, which can occur rapidly and over which they have limited visibility. Failure to anticipate and respond to changes in economic conditions can adversely impact financial performance.

### **How do we handle changes in the economic environment?**

Adecco has leading positions in most major geographical markets and HR service lines, with clients across many different industries. The diversity of our exposures provides some natural hedge to the risk of changing economic conditions. Nonetheless, we place a high priority on closely monitoring economic developments, how these influence our clients' demand, and their impact on our financial results. Supported by an active dialogue between corporate and regional management, this allows us to stay abreast of any business developments and swiftly adjust our capacity levels.

### **Client attraction and retention**

Adecco's results and prospects depend on attracting and retaining clients. Client satisfaction, as a result of our services rendered, is a key indicator for client retention and therefore needs to be monitored closely.

**How do we ensure client attraction and retention?** We emphasise the importance of acting as a partner to clients to help them satisfy their HR needs. On a regular basis we conduct a client Global Satisfaction Survey. The results are used to train and support sales teams, to draft and execute sales action plans, and to further enhance the services delivered. At the same time, we continuously strive to improve our delivery channels and to optimise sales processes, leading to enhanced client attraction.

### **Associate attraction and retention**

We depend on our ability to attract and retain associates who possess the skills and experience to meet clients' needs. With talent shortages in some highly qualified skill sets, providing suitably qualified associates can be a challenge.

### **How do we address associate attraction and retention?**

Candidates are attracted through a variety of channels, from the traditional physical branch to ever more on-line technologies. Key to retention is the ability to offer associates consecutive assignments with training to improve their skills and at attractive wages. Our Global Satisfaction Survey, which also addresses associates, is designed to help us identify and listen to their needs.

### **Employee attraction and retention**

The success of our operations depends on the talent and motivation of key corporate personnel, local managers, and field staff. Hiring and retaining the right people in the right job can significantly influence Adecco's business prospects. The loss of key personnel, with valuable operational experience in the global HR services industry or with strong customer relationships, may cause significant disruption to our business.

**How do we ensure employee satisfaction?** A clear strategy from Management, with frequent, honest, and transparent communication, is essential in ensuring employee satisfaction. We actively promote a way of working that is open, fair, efficient, and collaborative. Compensation packages are competitive, closely aligned with Company targets, and consistent with the Economic Value Added methodology. We invest in mentoring and talent development, including comprehensive performance and development review processes. The annual Great Place to Work® survey gauges employees' satisfaction with their workplace.

### **Information Technology**

IT plays a pivotal role in today's business operations. Key business processes, such as client and candidate management, and search and match between roles and candidates, are dependent on IT systems and infrastructures. Among others, a significant system interruption, loss, or leakage of confidential business information could result in material disruptions to our business.

### **What mitigating measures do we take to address IT risks?**

We undertake ongoing assessments of our global security and IT infrastructure and continue to improve our existing IT process risk management, including monitoring, security, and compliance. We have country-by-country contingency plans that would be implemented in the event of a severe IT disruption. A review of agreements with IT service providers and enhancement of service-level and contract management are embedded in the IT processes as is the steady improvement of user security awareness. Continuous investments in our IT platform and a centralised organisation further increase the efficiency, consistency, and quality of our services.

### **Change in regulatory/legal and political environment**

The private employment services industry requires appropriate regulation with the ultimate goal of enhanced quality standards to the benefit of societies, workers, private employment agencies, and their clients. A changing political environment might lead to inappropriate or unbalanced regulation, potentially impacting our business model.

**What can Adecco do to avoid inappropriate or unbalanced regulation?** Adecco is a founding member of Ciett, the International Confederation of Private Employment Agencies, and of several national associations, which comprise the primary bodies for participation in current public debates. Adecco monitors and evaluates, at regional and local level, the changes in the regulatory and legal environment, promoting actions and initiatives directed at improving working and employability conditions, whilst ensuring the competitiveness and growth of economies.

### **Compliance with laws**

The Company is exposed to various legal risks, including possible breaches of the law in the areas of employment and discrimination, competition, and bribery. The Company holds information on a large number of candidates and associates, bringing additional risks in the rapidly developing area of data privacy laws.

### **How do you ensure adequate compliance with laws?**

Employees must comply with all applicable legislation and internal policies. In particular, Adecco requires all employees to adhere to our Code of Conduct. Training courses are in place as part of the Adecco Compliance and Ethics (ACE) programme to create awareness among employees on the risks of non-compliance with laws and regulations. Continuous legal updates as well as periodical audits of branches and local operations are among our preventive measures. Any issue or concern regarding compliance with laws, regulations, or Company policies can be reported confidentially through the ACE website or 24-hour telephone hotline.

### **Disruptive technologies**

Developments in technology are driving the emergence of new analytical tools and communication and delivery channels. This creates the risk that some of Adecco's services could in the future be offered differently and/or by new competitors. Over the longer term, these disruptive technologies could present a threat to the Company's market share and profitability.

**How do you anticipate developments in technology in order to benefit from opportunities but also to protect against disruptive threats?** Adecco continuously monitors current and potential changes to the HR industry resulting from new technologies. Continuous investment in our IT platform allows us to increase our efficiency and effectiveness and provides the infrastructure for a comprehensive and coordinated response to the emergence of new technologies. Within Adecco, a dedicated innovation team works on exploring how we can harness technology in new ways to deliver the Group's services to our clients, associates, and candidates.