



All Talk, No Action Makes for **RISKY BUSINESS**

Companies are increasingly seeking protection through Enterprise Risk Management

ENTERPRISE RISK MANAGEMENT (ERM) has been much talked about internally by company boards and senior management, and externally in annual reports. This is largely in response to the requirements of upgraded auditing and accounting principles, increased corporate governance (Sarbanes Oxley) and the increased expectations of regulators and debt-rating agencies. As well, recent high-profile product recall and financial mismanagement situations have many boards and stakeholders questioning CEOs and CFOs about the status of risk management within their companies, and about the plans in place to offset and manage unexpected losses that may threaten the financial stability of their firms.

ERM is basically a process designed to keep companies out of trouble and to maximize opportunities without imperiling their assets and future. It typically involves identifying particular events or circumstances relevant to the organization's objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy and monitoring progress. By identifying and proactively addressing risks and opportunities, business enterprises protect and create value for their stakeholders, including owners, employees, customers and regulators.

The speed of business and the hazards

facing companies dictate that they should be vigilant in order to effectively respond to unexpected attacks or losses. While many losses may be financed by insurance policies, some risks are simply economically uninsurable and require risk retention or avoidance. If company management is not actively identifying, managing and mitigating risk, the consequences will be, at best, costly and disruptive and, at worst, catastrophic.

While many companies have established risk management positions and departments, others rely on CFOs and CEOs with little time available and/or knowledge of risk management. Many organizations are struggling with justifying risk positions and even understanding the role and importance of risk management. Even if organizations are embracing the concept, few manage to effectively deploy programs, with many getting lost in the minutiae of detailed risk assessments. The decision for many firms is to look for external help.

An external risk advisor can greatly assist CFOs and CEOs tasked with the responsibility to implement and manage an ERM program. Initially the focus is on "What keeps you up at night?" or the worry factor. Then the process should move to promoting action and workable solutions. Ultimately clients are supported in demystifying ERM, prioritizing initiatives and monitoring the

results across their organization. A little planning goes a long way in situations where you must simply respond, both correctly and quickly in order to minimize the negative impact to your company. Nobody plans to fail, but you can definitely fail to plan.

The two consistent traits to successful and meaningful ERM programs are holistic and tailored application, as well as continuous evolution. First, while there are basic components to all ERM programs, ERM should be unique to and touch all aspects of an organization. ERM is doomed to fail in a "silo" organizational structure. Second, ERM has to be a critical component of the organization's strategic planning process. ERM is not a "say no" discipline; rather it empowers management by consistently providing an organized and proactive framework for better understanding the risks associated with decisions. It thereby provides greater confidence and clarity for proceeding, or not, with an initiative.

An ERM program does not have to be just talk. Companies should be marshalling their internal resources and external advisors and implementing a program that is customized for their firms. Remember, there is simply no time for damage control when you are controlling the damage. For more information, visit www.jbrisk.ca.