



New England Chapter

September 9, 2008 Session  
Highlights of the Presentation  
“Risk Management”

## Risk Management

At the September 2008 breakfast meeting of the New England Chapter of the National Association of Corporate Directors (NACD), the topic was a timely and important one: risk management. Two expert panelists shared their insights on the subject with the audience. The panel consisted of Maureen J. Miskovic, Executive Vice President and Chief Risk Officer for State Street Corporation and Michael Andrew Barry, Vice President of Internal Audit at Iron Mountain. Bruce R. Magid, the dean of Brandeis International Business School and the Martin and Ahuva Gross Chair in Financial Markets and Institutions at the school, served as moderator of the event.

### **Michael Barry, Iron Mountain**

Barry began by explaining the background of Iron Mountain’s Enterprise Risk Management (ERM) program. Iron Mountain grew primarily by acquisition between 1995 and 2005 and, during that time, there was also “very profound change” in the regulatory climate, Barry said. And the company had an event where it lost a tape belonging to a customer, Barry indicated. “We really needed to understand our risk profile” and ask ourselves if we had prepared for the risks in our business, he explained.

In response, Iron Mountain pulled together a program that used the COSO framework and delivered an Enterprise Risk Assessment, Barry said. [Note: COSO is the Committee of Sponsoring Organizations of the Treadway Commission, [www.coso.org](http://www.coso.org).] The initial process involved first interviewing 80 senior managers across the country to get an inventory of risks that the company faced and understood. From those and other interviews, the company identified six key risks in its business. Senior management supported the Enterprise Risk Assessment, Barry said, and a significant investment was made in the company’s audit department. The board, he said, asked us to audit to the risk; for example, if our risk is losing a customer’s data, then chain of custody is very important, and we need to understand every step of the process and audit to that, Barry explained. We had to audit frequently, he added, because data around risk management needs to be fresh.

In an ERM initiative, the role of the board of directors is an advisory and supervisory one, Barry observed. The CEO and the senior executive team set the risk appetite for the company, he said, and they are the ones we need to get the information to quickly.

### **Maureen Miskovic, State Street**

“Every company will go about risk management in a somewhat different way,” Miskovic observed. She added that one of the questions that she is very frequently asked is “Where should risk management reside?” But, Miskovic explained, there is no one-size-fits-all approach. Some companies have a Risk Committee reporting to the board, while at others, the Audit Committee has primary responsibility for risk management but can delegate it. It’s a question, she said, of what fits a company.

Miskovic also discussed the role of the Chief Risk Officer. She said that she has been Chief Risk Officer at three different companies, and at State Street, she sits as part of the management committee. In order to grow, you need to take some risks, Miskovic observed; the things that CROs are supposed to do is identify, manage and report on risk. As a board, you are on the receiving end of reports on risk management, she noted. As board

members, think carefully about the type of information that's being presented to you by the company, Miskovic urged. "Be questioning," she advised – and be careful that you don't tune out during the beautifully rehearsed PowerPoint presentations. Instead, she said, get to the meat of it. One question she raised: What is it that I'm not seeing -- that's underneath the PowerPoint -- that I need to know?

When something looks a little bit different and it doesn't quite make sense, it probably doesn't, Miskovic suggested. In her presentation, she included a quote from G.K. Chesterton that notes that "life...looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait." Make sure that you know how much risk the company is prepared to take, Miskovic said. Think about what else can go wrong, and about low-probability, high-impact events – such as a pandemic flu in part of the world where you have manufacturing – which would mean suddenly you can't get in and out of the country. What's your back-up plan?

### **Dean Bruce R. Magid, Brandeis International Business School**

In MBA programs, Magid observed, risk management used to be an elective course or two. But that's changed. "It's no longer an additional tool in the toolbox," he explained. "It's a core competency." In thinking about risk management in the context of an MBA program, Magid said, we need to think about environmental, social and governmental issues, on a cross-border basis. Business schools, he indicated, need to create an out-of-classroom framework that promotes risk management and corporate success. A challenge for Brandeis, according to Magid, is that the school has students from 60 countries and, when operating globally, what's acceptable in one country may not be acceptable in another. So the school, which is in the process of launching a new MBA concentration in Socially Responsible Business, seeks to create a common framework and models that transcend borders and cultures.

### **From the Question and Answer Session**

**Q. I'm worried about the risks that haven't been identified by the company. How do you respond to unexpected events?**

**A.** As part of day-to-day risk management, you have to monitor and report on everything you know about, Miskovic noted. Beyond that, she said, think about low-probability, high-risk events, identify mission-critical elements and have management go through a tabletop exercise about how they would respond. The most important thing, Miskovic said, is that management works through the exercise. It gives you a pattern for how to respond to the uncertainty when it happens, she explained.

**Q. How can a small company get started with risk management?**

**A.** Miskovic described how an 80-person company she was part of conducted risk management: In the company's weekly management meetings, management discussed the risks the company was running. Then, as the company needed it, it brought in outside expertise, such as accounting, legal or business continuity experts. "I think the smaller the company, the more practical you have to be," she said.

"You must have that conversation" about risk, Barry said. He noted that a benefit of a smaller company is that you can see the front and the back of the boat, so to speak. But, on the other hand, there's a danger people will think alike in a small company.

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For more information about the New England Chapter of NACD, please contact [info@nacdne.org](mailto:info@nacdne.org).

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