

## A Solution For Every Organization

Business risk management is something that most managers will say they do on a daily basis as part of their job. When probed to explain the process, however, the answers get less specific. While most other areas of business have seen the need to establish mature, sustainable and measurable processes, business risk management tends to still be done on an intuitive level, with no real data to support or validate its effectiveness. The advance of technology, the accelerating pace of business, globalization, regulation, increasing financial sophistication and the uncertainty of the economy all contribute to the growing number and complexity of risks. To say these are managed intuitively without structure, reporting and measurement can no longer be the best way to approach understanding and managing these risks. The curve balls and surprises that seem to be prevalent on a daily basis require elevating risk management to become a sustainable process that produces actionable information to allow proactive management of business risks. It is important for organizations to recognize the importance of managing all risks and their relationships to each other as well as to internal and external forces, not just the familiar intuitive risks, or the ones that are easy to quantify. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage.

### *ERM- The Solution:*

The solution that will address all the questions and issues raised above is enterprise risk management (ERM).

ERM is the discipline by which an organization in any industry assesses, controls, exploits, and monitors risks from all sources for the purpose of increasing the organization's short and long term value to its stakeholders. ERM provides the structure and processes to help management identify the risks in order to make decisions proactively about whether to accept, transfer, avoid, mitigate or exploit the risk.

It is important to see the entire risk profile in order to have the chance to exploit risks, or look at certain risks as opportunities. This helps management move away from the defensive posture and see the opportunistic side that helps create value. With better information available about the risks faced by the company, management will be able to better evaluate risk and return trade-offs. Risk is not and should not be completely avoidable in business; however through ERM management can understand their risk position at any point in time and will be better-able to convert the risks into opportunities by informed risk-taking and thereby increase competitive advantage.

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*ERM- A Scalable Approach:*

Many organizations are interested in ERM, but have not taken the first step due to fear of a large, costly project that is nebulous in terms of the ROI. The key is to start small. Use a scalable, repeatable approach where the value can be seen early after minimal investment. The process can then be replicated throughout the organization as the culture becomes more ready and accepting of the value. The key is to drive a process that is executed throughout the organization by management and staff alike through the normal course of their jobs. ERM cannot be owned and executed by “ERM people”, it must be ingrained in the existing management processes. A critical element is to ensure an appropriate structure is created from the beginning, and that the Corporate culture adapts to include acceptance and embracing of the ERM process. Once the benefits of ERM begin to be realized, the champions come out of the woodwork.

*Benefits of ERM:*

Benefits of ERM include both long-term and short-term elements.

- Supporting the board of directors' in executing their responsibilities in areas such as oversight of the effectiveness of management and being informed regarding risks undertaken by the Company
- Allowing the management team to have assurance that risks are identified, measured, understood and managed in a sustainable, structured manner
- Improving communication and collaboration within the organization
- Providing the ability to make intelligent decisions with the perspective of the level of risk being undertaken
- Lowering the costs of audits
- Lowering the costs of insurance
- Improving bond ratings
- Becoming good at managing risk so that the company can grow faster

Regardless of whether that company is a R&D startup or a Fortune 500 organization, ERM is a structured, sustainable part of a company's management process (not a project) that facilitates managing risk effectively to gain a competitive advantage.

For more information on enterprise risk management, email [Paul Kiley](#), Vice President, Caturano and Company, or call 617.241.1287.