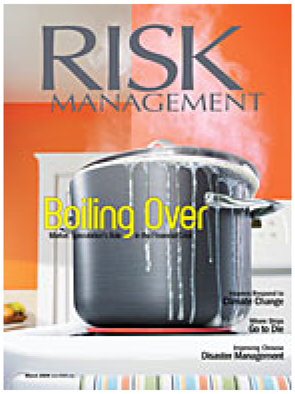

The Upside of Risk

by John Bugalla and Dan Kugler

Enterprise risk management (ERM) has been around for years, but its traction has been mainly in the financial services, energy and utilities sectors. Now, with a push from the major credit rating agencies coupled with risk management making headlines since last year's financial meltdown, more U.S. companies will no doubt be practicing ERM. But what kind of ERM will they be practicing?

ERM has always had an upside component because risk itself has an upside. Several ERM practitioners have discovered that by exploring the upside of risk and including the concept of build, expand and exploit in their approaches, they can add measurable value to their organizations' bottom lines. These practitioners know that ERM goes beyond preserving assets, protecting people and complying with regulations. This upside approach to ERM can be thought of as "entrepreneurial risk management."

The objective of entrepreneurial risk management is to add value to the organization by aligning risk management with the business strategy and operations of the organization. It means growing the business by selling more products or services to more customers and improving the customer experience.

An example of managing the upside of risk occurred several years ago at the Canadian grain company, United Grain Growers (UGG). It received a great deal of attention when it announced a ground-breaking risk program that combined its grain volume risk with an assortment of its traditional corporate insurance.

UGG's management was focused on its strategic goal: creating new value by reducing earnings volatility, thereby changing the risk profile of the company. Management also wanted to strengthen relationships with its existing customers and bring new ones in the door. To this end, the CEO and CFO deployed an integrated risk program and a unique credit financing program for its agribusiness customers. UGG was well served by the success of both programs and continued to expand its internal ERM efforts to add more value.

Another example of a company practicing entrepreneurial risk management is Snap-on, a Kenosha, Wisconsin-based tool company [where author Dan Kugler works as assistant treasurer of risk management]. The Snap-on risk management group utilizes an ERM approach with an entrepreneurial bent to identify both threats and opportunities to the organization. As a result, risk management has become a recognized partner in fulfilling the business unit's strategic plans.

Case in point: Snap-on has developed insurance and benefit programs for its tool franchisees. These programs not only address the franchisees' contractual obligations but also attract new franchisees, help the company mitigate risks and create an additional income stream.

In the process, the risk management group's internal partnership approach has established credibility on both the upside and downside of business risks, which has helped increase the visibility and understanding of the ERM process among senior management. And all this has helped to further promote ERM implementation.

Entrepreneurial risk management does not spring up out of corporate fairy dust-it takes an on-going collaborative effort in a supportive environment. It is a direct approach to risk management that requires risk managers to build active and positive relationships with their organizations' corporate staff functions, operating business units and senior management.

Consider the value that could be added to an organization by assisting senior management open new overseas markets or reducing a new product's time to market. The opportunities exist in many organizations, but it takes a cross-functional team working together to find and exploit them.

Enterprise risk management will be common practice in a few years thanks to the push from the credit rating agencies. By exploring the upside of risk and integrating risk management with an organization's business objectives, however, risk managers can take the next step to help build value and begin practicing entrepreneurial risk management.

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