Ask the 'dukes of hazard'

Risk management consultants can tell companies how to avoid many varieties of corporate peril

BY ADAM WORCESTER
CONTRIBUTING WRITER

With thousands of daily visitors streaming through the doors to check out hundreds of exhibits — some of them priceless — much could potentially go awry for operators of the Oregon Museum of Science and Industry.

Just how much, Paul Carlson didn't realize until Durham and Bates Agencies Inc. performed a risk management analysis for the venerable Portland institution.

"There were some things they brought forward that you might not think of in day-to-day operations," said Carlson, OMSI's vice president for strategic projects.

Like a submarine, for instance.

Because OMSI has a submarine on exhibit, some of its roughly 300 employees are classified as federal marine workers rather than state employees. In case of a dispute, museum executives need to know which regulations apply to whom.

Parsing such distinctions is the hallmark of enterprise risk management, said Jeremy Andersen, a director at Durham and Bates.

"Every business deals with risk. If they didn't, there would be no upside," Andersen said.

Traditionally, companies transfer the largest risks — personnel injuries, damaged merchandise, building destruction — to insurance companies. But there are other risks that typical insurance does not cover.

That's where enterprise risk management, or ERM, kicks in.

ERM, in its broadest sense, is a holistic risk-based approach to managing a business. It involves identifying potential risks, assessing their likelihood and impact, determining a response, and monitoring progress made in addressing the risks. An effective

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ERM system enables a company to analyze the total costs and benefits of various business scenarios and management choices and to translate the results into quantifiable shareholder value.

"It expands out the scope of risks identified to include risks that are not transferable to insurance companies," Andersen said. "It weighs risks against strategic objectives."

Businesses are still adopting ERM programs. In survey findings released by Deloitte in March, 79 percent of responding financial institutions worldwide reported having an ERM program or equivalent in place or in progress, an increase from 59 percent in 2008.

In a North Carolina State University 2011 survey of senior business executives, 51 percent of respondents had no formal enterprise-wide approach to risk oversight, an improvement over 57 percent in the 2010 survey and 62 percent in the 2009 survey.

Some of the riskiest areas for business are regulatory compliance, managing workers, protecting company reputation and safeguarding proprietary information. Risk analyses help companies identify potential pitfalls and set up plans to avoid the risk or minimize its consequences.

One common risk factor for small and mid-size companies is what Andersen calls "single points of failure." These are instances in which only one employee knows how to perform a key function or is the only one with knowledge of proprietary information, like a secret formula.

Another is the transfer of knowledge involved in transitioning the workforce from older to younger employees.

"We identify the most pertinent, immediate risks," Andersen said. "Often, it's not an insurance solution. The solution exists within the organization. There's a small change that needs to be made."

For large public companies, interest in ERM surged after Congress passed the 2002 Sarbanes-Oxley Act, which set new financial accountability standards and enhanced old ones in the wake of scandals at businesses such as Enron and WorldCom.

However, even much smaller companies — which comprise the vast majority of businesses in Oregon and southwest Washington — shoulder a healthy burden of risk.

Golsan Scruggs, a Portland-based insurance company, has compiled a list of 35 regulatory acts a company of any size, public or private, might have to contend with. Acronyms range from ADA (Americans with Disabilities Act) to WARN (Worker Adjustment and Retraining Notification Act).

"From our standpoint, risk management is addressing high-risk areas before they become high cost," said Pete Scruggs, a company principal.

Large insurance and consulting companies charge for ERM services, but both Golsan Scruggs and Bates and Durham integrate ERM analysis into their basic insurance plans.

"For us it's a long-term, embedded process. It's how we work," Scruggs said.

"We see it as a way to elevate our role with our customers," said Andersen. "The nature of this process is that it never ends. You have to monitor it throughout the year. We want to bring the highest level of support and knowledge that we can."

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Pete Scruggs, a principal of Golsan Scruggs, says that helping organizations minimize risk is an ongoing process.

RANKING RISKS

Top 10 risks affecting organizations

1. Economic slowdown.
2. Regulatory/legislative changes.
3. Increasing competition.
4. Damage to reputation/brand.
5. Business interruption.
6. Failure to innovate/meet customer needs.
7. Failure to attract or retain top talent.
8. Commodity price risk.
9. Technology failure/system failure.
10. Cash flow/liquidity risk.

Source: 2011 survey by Aon Risk Solutions.