
Weathering a Perfect Storm with ERM

By *L. Ware Preston and Bruce B. Thomas*

Meteorological forces sometimes converge without warning to create a “perfect storm” from which mariners cannot escape. The same can be said of the forces that affect businesses. Except that perfect storms, in a business sense, are occurring with much greater frequency, and recent history is rife with examples of companies who have lost nearly all of their value over a short period. Nevertheless, there are many companies that are adept at weathering these events and turning adversity into advantage. These successful companies share a number of important characteristics.

➔ **Value** - They understand where value is stored, both tangibly and intangibly, and how value will be created in the future. Value is what is *at* risk.

➔ **Risk Identification** - Successful companies think of themselves as being participants in dynamic environmental systems, and they constantly monitor the business environments that they operate in for signs of change. They are constantly looking ahead and seeking ways to mitigate potential problems and capitalize on opportunities.

➔ **Assessment and Monitoring** – These companies assess risk issues in terms of the financial and operating dimensions that permit them to store and generate value. Monitoring these issues over time is an explicit activity.

➔ **Coordination** - Successful companies coordinate organizational, operational, and financial risk management initiatives. They “connect the dots” before their competitors learn the hard way about the need to.

➔ **Best Practices vs. Judgement** - These companies differentiate between risks that are routine, where “best practices” make sense, and risks that are out of the ordinary, where judgement is required.

➔ **Game Theoretical Approach** – Successful companies realize that complicated issues must be understood and managed in multiple dimensions.

The attributes of successful companies may be developed by informal means, such as by rotating key managers so they understand the importance of making decisions in the context of the entire organization, or by fostering an atmosphere that encourages employees to raise and resolve important issues. Alternatively, these characteristics may be developed more formally by implementing Enterprise Risk Management (ERM). Marsh Risk Consulting helps organizations implement an ERM process using a three-step approach.

Assessment – Until managers have a common understanding of “risk” and “risk management,” it is impossible for them to formulate comprehensive risk management initiatives. Marsh Risk Consulting helps companies assess how their managers think about risk and risk management, identify important risk issues, and ascertain the greatest opportunities for improving risk management.

Shared Knowledge – To work together well, managers must share a common understanding of the major issues facing their companies, and Marsh Risk Consulting helps them develop a shared knowledge of the major risk drivers that affect their businesses.

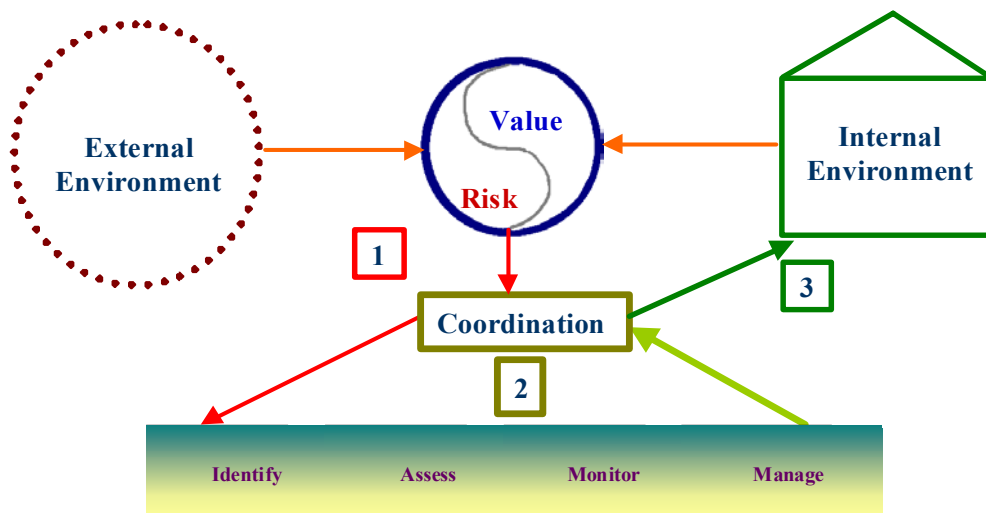
Facilitated Implementation – Having agreed upon a set of guiding principles, Marsh Risk Consulting helps senior managers develop action plans that institutionalize these concepts.

Over the last year, Marsh Risk Consulting’s ERM approach has been used successfully by companies in a variety of industries. Whether it was industry consolidation, being spun-off from a financially secure parent, entering new businesses, or geographic expansion, each of these companies was made aware of the need for enterprise risk

management by a fundamental change in their business environments. Despite their differing circumstances, all of these organizations felt that Marsh had the best approach to help them cope with change and weather a perfect storm.

Ultimately, ERM provides the context for making important decisions in an enterprise-wide context. This aids companies in understanding where they need additional help in structuring their insurance purchases, implementing “best practices” and in resolving intractable risk issues.

ERM Process Map



1. Identify risk issues by understanding the relationship between the internal and external environments.
2. Create and populate portfolio structures to coordinate the management of risk.
3. Implement best practices by understanding where they are appropriate and meaningful.

Authors’ Note: This article was published by Marsh Enterprise Risk Consulting in July 2002.