Corporate Value of ENTERPRISE RISK MANAGEMENT: The Next Step in Business Management

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Corporate Value of Enterprise Risk Management
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IN MY FORMER ROLE leading Standard & Poor’s ERM evaluations, I visited with hundreds of executives from companies all over the world and in all types of businesses, and discussed their ERM programs. I watched these ERM programs evolve, and witnessed their successes, and sometimes their colossal failures. Much more often than not, firms struggled both with having a clear objective for their ERM efforts and with the day-to-day problems of implementation. This perspective tells me that there is a tremendous need for clear thinking and clear exposition of the actions needed to practice ERM. The value-based approach that Segal developed, and introduces for the first time in this important book, definitely provides that clarity. Many other ERM books merely outline the problem and leave the readers to figure out how to implement a solution on their own. Here you will find each and every step of ERM implementation clearly laid out for the practitioner to follow along. In addition, Segal’s approach to ERM:

- Is robust, yet highly practical
- Is able to quantify strategic and operational risks (this alone makes this book a worthwhile read)
- Takes the mystery out of risk appetite, one of the most elusive ERM topics (two-thirds of those believing that defining risk appetite is critical to their ERM programs have not yet done so)
- Supports better decision making

This book is also highly accessible to every business leader. Segal’s writing style is smooth and in plain language. He offers crisp insights that can benefit everyone interested in ERM, from the ERM-savvy to the ERM novice.
Finally, this book offers a very credible business case for adopting ERM. I have read nearly every book related to this topic, and I heartily recommend this one. This could well be the only ERM book you will ever need.

—Dave Ingram, CERA
Senior Vice President, Willis Re
Former leader of Standard & Poor’s insurance ERM evaluations
Adoption of enterprise risk management (ERM) programs is a strong and growing global trend. However, while ERM programs have a lot of potential, traditional approaches to ERM often struggle to generate sufficient buy-in from internal stakeholders, such as business decision-makers. The primary reason for this is that traditional ERM approaches lack a business case for their adoption. In response to this difficulty, I developed the value-based ERM approach, and this book is its first in-depth presentation.

The value-based ERM approach is designed to have a built-in business case for its adoption. At its core, it is a synthesis of ERM and value-based management. This synthesis provides the missing link between risk and return. It is this connection that transforms ERM into a strategic management approach that enhances strategic planning and other business decision making. As a result, the value-based ERM approach is seen by internal stakeholders—business segment leaders, senior management, and the board—as a way to help them achieve their goals of profitably growing the business and increasing company value.

The value-based ERM approach has several other advantages as well. It works equally well in all industry sectors. I have used this approach to help implement ERM programs for corporate entities in a wide range of sectors, such as manufacturing, energy, entertainment, technology, services, telecommunications, banking, and insurance, as well as for non-corporate entities, such as professional associations. The value-based ERM approach also works equally well regardless of geography or accounting system. In addition, the value-based ERM approach is an advanced yet practical approach to ERM. I have used this approach exclusively in my work as an ERM consultant, helping organizations to quickly, fully, and successfully implement their ERM programs.
Finally, the value-based ERM approach also overcomes the three core challenges that prevent traditional ERM programs from achieving their full potential:

1. An inability to quantify strategic and operational risks
2. An unclear definition of risk appetite
3. A lack of integration into business decision making

The value-based approach quantifies all types of risk: strategic, operational, and financial. This is often referred to as the “holy grail” of ERM. I am unaware of any other ERM approach that can fully quantify strategic and operational risks. In addition, the value-based ERM approach provides a clear, quantitative definition of risk appetite that can be used in the risk governance process. Finally, the value-based ERM approach, due to its linkage between risk and return as well as its sheer practicality, fully integrates ERM information into decision making at all levels, from strategic planning to tactical decision making to transactions.

I often am encouraged when I read introductions to allegedly new ERM information in articles, books, and seminars that tout an ERM approach that “adds value” to the business, only to end up disappointed when I find the same old traditional ERM approaches, which have no direct connection to value. In sharp contrast, this book presents an ERM approach that is centrally focused on measuring, protecting, and increasing company value.

INTENDED AUDIENCE

The primary audience for this book is corporate stakeholders, including:

- Heads of ERM programs, such as chief risk officers (CROs) and their staff
- Heads of internal audit
- Heads of compliance
- Senior executives, such as CEOs and CFOs
- Management, such as business segment leaders
- Heads of strategic planning
- Heads of human resources
- Boards of directors, including chairs of audit committees and chairs of risk committees
- Shareholders
Other audiences for this book include the following:

- Stakeholders of non-profit organizations, such as charitable organizations and professional associations
- Heads of government bodies
- Financial planners and their customers
- Professors of MBA/EMBA programs in Finance, and their students

**Corporate Audiences**

Heads of ERM programs, such as chief risk officers (CROs) and their staff, will learn an advanced yet practical approach for either implementing an ERM program for the first time, or for enhancing an existing ERM program. They will learn an ERM approach that offers several advantages, such as:

- Builds buy-in among the business segments, senior management, and the board
- Satisfies all 10 key ERM criteria (which also serve as benchmarking criteria for any ERM program)
- Avoids the five common mistakes of risk identification
- Overcomes the three core challenges of traditional ERM programs by:
  - Quantifying strategic and operational risks in a consistent manner with financial risks
  - Clearly defining risk appetite in a way that it can be used in the risk governance process
  - Integrating ERM into key decision-making processes, including strategic planning, strategic and tactical decisions, and transactions
- Satisfies rating agency ERM requirements
- Satisfies regulatory risk disclosure requirements

Heads of internal audit and heads of compliance will learn how to quantify the value that they bring to the company, in terms of its direct impact on company value. They will also learn their ERM roles and responsibilities.

Senior executives, such as CEOs and CFOs, will learn an ERM approach that can offer them the following advantages: