

# Strategy, Leadership and Risk Management Newsletter



## Harvey B. Lermack & Associates

### Inside this issue

- Risk managers should take the opportunity to help implement their organizations' strategic initiatives during the economic expansion. Consider the opportunity at the intersection of strategy, leadership and risk management. P. 1
- A new survey of best leadership practices in global corporate citizenship. P. 1
- A review of the book "The New Financial Order," which advances creative risk management solutions to some enduring social issues. P. 2

### In the next issue

- More about the linkages between Enterprise Risk Management, Strategy and Leadership.

*Gain a sustainable advantage by working on the linkages between ...*

## Strategy, Leadership and Enterprise Risk Management

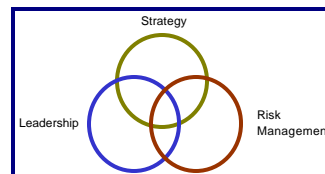
During 2003, we finally resumed the economic recovery for which we had been waiting for 3 years. It appears at this writing that the recovery should continue well into 2004 and, hopefully beyond - barring any unforeseen or drastic situations.

Of course, many organizations will shift their focus and corporate initiatives to take advantage of the resuming prosperity—that is, *from* strategies of retrenchment and cost reduction, *to* strategies of expansion such as mergers and acquisitions, product and market development, and vertical integration.

Further, many of these organizational initiatives will focus on international expansion, alone or through strategic alliances.

The new external environment opens up not only opportunities, but also substantial threats to the success of these new strategic initiatives. The role of Enterprise Risk Management is to provide guidance to strategists to:

- Identify and assess the key threats to proposed strategic alternatives
- Help select the appropriate strategies to enhance shareholder value by minimizing threats and optimizing opportunities



This is a rare opportunity for risk managers to take a leadership role in helping to realistically identify the key risks and their potential positive or negative impacts on proposed strategies. Further, this is also a rare opportunity to help senior management to negotiate the land mine of threats that come with implementation of selected strategies.

In short, now is the time for risk managers to address the challenges at the intersection of strategy, leadership and risk management to enhance their organization's chance for success.

In future issues, I will discuss this relationship, and offer some thoughts on how this linkage can be exploited to maximum effectiveness.

### Strategy and Leadership

## Responding to the Leadership Challenges of Global Corporate Citizenship

During 2002, 46 senior company leaders from 16 countries signed a joint statement on Global Corporate Citizenship. In it, they established a recommended framework for organizations to step up to the interrelated challenges of:

- Corporate competitiveness
- Corporate governance, and
- Corporate citizenship

The framework focused specifically on the leadership roles of CEO's and boards.

Subsequently, the World Economic Forum surveyed those CEO's to identify specific steps they are taking to implement the

framework. I think the messages from the survey provide a rich source of ideas for how risk managers and strategists can improve the performance of their companies.

The ten key messages discussed in detail in the report are:

1. The power of personal leadership
2. Strength in collective action
3. A growing link between corporate governance, and social and economic performance
4. A challenge for companies everywhere
5. Making the "business case" for corporate citizenship
6. Employees and governments as key

drivers

7. Critical issues on the agenda
8. A major emphasis on internal processes, including communications and measures
9. Engagement with external stakeholders
10. Reporting publicly with verification

This report should be required reading for every business strategy student, business leader and risk manager. Access the full report at:

[Http://www.weforum.org/pdf/GCCI/Findings\\_of\\_CEO\\_survey\\_on\\_GCCI.pdf](http://www.weforum.org/pdf/GCCI/Findings_of_CEO_survey_on_GCCI.pdf)

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Harvey B. Lermack & Associates is a professional education, training and consulting firm. Our mission is:

- To help organizations improve risk management, environmental, health and safety performance through innovative training and education programs. The key result—your employees know how to identify, assess, and manage the risks at their workplace, reducing incidents and costs and improving productivity.
- To help organizations develop leaders at every level by delivering effective professional development training. The key result—leaders who bring a strategic focus to their daily and long-term activities.
- To ensure the success of these and other training and development efforts by utilizing innovative performance management techniques, working with individuals and small groups to ensure changed behaviors. The key results—safer operations, better performance, and reduced costs.

My associates and I bring extensive industrial, academic, training and consulting experience to this unique mission.

### Risk Management

## The New Financial Order: Risk in the 21st Century

### Harvey B. Lermack & Associates

#### Training and Consulting Services

Enterprise Risk Management and Risk Management Leadership  
Behavioral Safety  
Environmental, Health & Safety  
Strategic Planning and Management Skills  
Leadership Skills for the 21st Century  
Managing Change  
Performance Management  
Effective Networking & Alliances  
Cultivating Influence  
Coaching and Counseling Skills  
Facilitation Skills  
Developing & Delivering Effective Presentations and Training Programs  
Personal Skills Development

In the book *The New Financial Order: Risk in the 21st Century*, Robert J. Shiller advances some creative ideas to apply risk management techniques to solve some of society's most significant economic and social problems.

If his name sounds familiar, it's because Shiller, in his previous book *Irrational Exuberance*, was one of the few people who sounded an alarm about the threat of the overvalued stock market during the mid-1990's.

Of course, the bursting of the "bubble" in 1999 took a significant proportion of value from the stock market, and from our personal and retirement funds as well.

In his previous book, Shiller also admonished that "our infatuation with the stock market distracts us from more durable economic prospects." In his current work, he sets out to correct that.

In *The New Financial Order*, Shiller argues that technology and science provide new opportunities to address substantive social issues through risk management. He advances the following six (admittedly far-reaching) ideas:

1. Develop "Livelihood Insurance" to protect individuals from potential declines in income or loss of employment. This could help indi-

viduals to make more rational career decisions, and in the long run more substantially fill society's need for specialized skills such as high-risk research.

2. Establish "Macro Markets" to permit trading of securities tied to overall economic indicators, such as the GDP of an entire country. This would permit trading of enormous risks that have not been traded before. (Note: I suggest you brush up on your economic theory before tackling this chapter.)
3. Tie the interest rates on long term loans to the income changes of individuals or organizations, or to related indexes, thereby reducing the levels of hardship and bankruptcy resulting from current fixed rate loans structures.
4. Develop "Inequality Insurance," a tax system to protect the distribution of income among citizens, and to stem the increasing tide of income inequality among individuals in our society.
5. Develop "Intergenerational Social Security," to share risk between the current, previous and future working generations. In one scenario, the entire "bucket" of

funds being paid into the system by current workers would be split among retirees proportional to the amounts they paid into the system—according to the author a fairer and more rational calculation than the current system.

6. Establish "International Agreements" among individual countries to share long term risks to their economic well-being between them.

In order to implement these ideas, Shiller proposes establishment of "global risk information databases," that would keep track of the new instruments and measure their application.

Admittedly, this book advances some very ambitious and controversial ideas. But I think its value is not only in the content, but also in the author's willingness to stretch the application of traditional risk management instruments to tackle some of society's stickiest, and potentially most threatening, problems.

Before you write him off, remember that he a respected Yale professor who was among the first to sound the alarm about the stock market bubble of the late 1990's. I for one wish that I had listened more carefully to him then. Perhaps he's worth listening to now as well.