

Strategy, Leadership and Risk Management Newsletter



Harvey B. Lermack & Associates

Strategy and Risk Management Leadership 1

Leadership and Enterprise Risk Management

Inside this issue

- In order to help implement the organization's strategic initiatives, leaders throughout the organization must understand their role in the process. P. 1
- Integrating risk adjusted decision making must be a goal throughout your organization. In helping your leaders to do that, be sure to explain to them about the requirements of all of your stakeholders. P. 1.
- A new survey of best leadership practices in global corporate citizenship was recently published by PriceWaterhouseCoopers. P. 2

In the next issue

- Strategy, Leadership and ERM — Integrating ERM into the strategic management process.

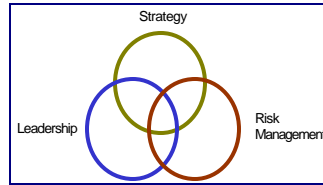
In the last issue we discussed how, by exploiting the links between strategy, leadership and Enterprise Risk Management (ERM), your organization can enhance its potential to gain a sustainable competitive advantage.

In this issue, I want to elaborate on the role of leadership in successfully implementing an Enterprise Risk Management (ERM) program.

Many companies try to approach ERM from a top down approach, assuming that by identifying and insuring against the key risk-related issues, they can avoid the financial consequences.

This approach begs three key points.

First, in order to implement any strategic initiative such as ERM, it must be integrated



into all of the operations—from top to bottom.

Second, to accomplish ERM, we must rely on the leaders throughout the organization to identify and assess the key risks inherent in their everyday activities, and to make risk-adjusted decisions that implement the strategic plans and objectives.

Third, one key strength of ERM is that it helps to identify opportunities as well as threats—a key reason to involve those people who are closest to the possible opportunities, and can best identify and analyze

the risk/reward tradeoffs.

In order to accomplish this, you must provide all of those leaders—supervisors, foremen and managers—with sufficient insight and information to make appropriate risk-adjusted decisions.

Over the past several years, we have been researching the linkage between effective leadership and effective ERM implementation.

We remain convinced that effective preparation and training of all of an organization's leaders is key to successful ERM implementation; and that their risk-adjusted decisions must take into consideration not only the shareholders, but the objectives of all of the organization's stakeholders (see below).

Strategy and Risk Management Leadership 2

Help Leaders to Consider All Your Stakeholders When Making Risk Adjusted Decisions

You must teach every leader in your organization how to make risk adjusted decisions that consider not only the concerns of shareholders, but those of the full gamut of stakeholders as well.

These include employees, customers, suppliers, partners, special interest groups, government, and the communities served by your organization.

Too often, supervisors and managers make decisions based on short-term economic or productivity consequences, without fully understanding the long term impact those decisions might have on the other constituencies (and eventually on the company's competitive advantage.)

Concerns they must consider include:

Concerns of Shareholders

Economic

- Profitability (Revenues, Costs)
- Economic Value Added (EVA)
- Share Price / Earnings (P/E)

Non-Economic

- Transparency
- Governance
- Strategic Direction

Concerns of Other Stakeholders

- Governance
- Citizenship
- Reputation
- Partnership
- Values and Trust
- Environment
- Health and Safety
- Well Being of Citizens

Of course, the specific concerns of your constituents depend on your specific business activities.

However, one question will arise regardless of your business activity—how can you expect managers and supervisors to make appropriate risk-adjusted decisions unless they understand the strategic direction of your organization, as well as the requirements of your various constituents?

Surprisingly, our research and experience indicates that in many cases, managers and supervisors understand neither.

Obviously, the requirements of all of your constituents should be an integral part of your leadership training initiatives.

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For more information, or for copies of recent publications or handouts which describe our products, services and projects in more detail, send me an electronic mail message. Include your electronic and business address, and phone number.

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.

Strategy and Risk Management Leadership 3

Sixth Annual PriceWaterhouseCoopers Global CEO Survey

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 their Sixth Annual Global CEO Survey, titled "Leadership, Responsibility, and Growth in Uncertain Times", PriceWaterhouseCoopers surveyed 1,000 Chief Executive Officers from 43 countries.

Among the findings, the survey reflects a growing concern with Enterprise Risk Management (ERM) among the world's corporate leaders.

Indeed, over 60% of the respondents indicated that they have improved their risk management procedures, in reaction to the public's declining trust in business and economic institutions.

Some of the report's findings:

- On a whole, CEO's are more confident about the presence of new opportunities for their businesses
- They are very wary of the risks of over-regulation, terrorism and war, oil prices, and deflation
- They feel the most significant key "business levers" that will help them to exploit the business opportunities are innovation, CEO leadership and vision, and high quality employees
- Many feel that their government is out of touch with their business needs, and that political leaders have become less responsive
- Most feel that trust in their own companies has not suffered; however, they do think that in general, trust has eroded in other companies, in capital markets, in independent auditors, and in independent stock analysts—no surprise in light of recent scandals
- More CEO's feel that *sustainability*—that is, adding economic, environmental, and social value through a company's core business functions (what we have previously termed as *corporate citizenship*)—is more of a key to profitability than ever before
- Most indicate they are willing to consider sacri-

ficing short-term profitability in exchange for long-term value

The survey goes into some detail about the steps and procedures that companies plan to put in place in response to the sustainability challenge

In addition, the full report includes in-depth interviews with several business and academic leaders:

- Prof. Warren G. Bennis, a well known management author
- Dr. Victor K. Fung, Chairman of Li and Fung LTD in Hong Kong
- Anne M. Mulcahy, Chairman and CEO of Xerox
- Dr. Daniel Vasella, Chairman and CEO of Novartis

You can download a complete copy of the report from the PriceWaterhouseCoopers web site at:

[Http://www.pwc.com](http://www.pwc.com)