

10 RISK MANAGEMENT MISTAKES COMMONLY MADE BY CORPORATIONS

Act with confidence.



GlobalOptions
Group

The concept of Enterprise Risk Management is gaining traction in the boardroom and the executive suite. At GlobalOptions Group, we have long advised clients to take a holistic approach to risk, and offered a range of operational risk and compliance services that can help companies achieve ERM goals.

Our experience has shown that, even with the best of intentions, most corporations fall prey to one or more common mistakes in their risk management efforts. Any of these errors in action or judgment can leave a company unnecessarily vulnerable to risk on a variety of levels.

We hope you find this list of ten common mistakes helpful in your efforts to take an enterprise-wide approach to managing the risks faced by your organization.

MISTAKE NUMBER

1

**THINKING
THE AUDIT COMMITTEE
HAS IT COVERED**

The audit committee is concerned with financial risk. Period.

Non-financial risk is arguably an even greater threat. Yet it's often relegated to a few boardroom stories about hacked technology systems, worker problems at an overseas facility, suspected industrial espionage, and the like.

So, if the audit committee doesn't have all of those risks covered, who does?

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

2

**LEAVING IT
UP TO THE
SUBDIVISIONS**

If each piece of the company is tending to its own risk management program, the logic goes, then the entire company is protected. Unfortunately, this doesn't take into account the risk interdependencies between different parts of the enterprise, to which no one is tending. Or the efficiencies and superior results that can be realized with a standardized, best-practice approach to various risk challenges.

At best, a piecemeal approach to risk will only lead to well-protected pieces. If you want to protect your company, you need a company-wide perspective.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

3

**TAKING
AN INFORMAL
APPROACH**

Migrating to Enterprise Risk Management is a massive undertaking. It can result in substantial rewards, but it simply cannot happen without formal processes and procedures and a robust framework to guide your efforts. Make sure you have the necessary available resources to adequately handle the project scope.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has developed a comprehensive ERM framework that can be purchased at www.coso.org. An executive summary is also available, free of charge.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

4

PLAYING THE ODDS

For most companies, the chances of a hurricane, terrorist attack, calamitous database event or serious executive car crash are fairly slim. For that matter, so are the odds of a single event, financial or otherwise, triggering a “perfect storm” of emergencies in other parts of the company.

To which we can only say that the current economic crisis was considered a practical impossibility by most experts. Nor did anyone think three major hurricanes could hit the Gulf Coast in succession as they did in 2005.

Do not dismiss low-probability, high-consequence events. They do happen. Be ready.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

5

TRUSTING MANAGEMENT

The board believes what the CEO says about risk management capabilities. The CEO believes what the CFO, the COO and the CRO said. In turn, they all believe what the executives in charge of the business units said, and so on and so on.

What if someone is lying, or simply doesn't know the real truth? What if different people are using different definitions of risk, and have very different ideas of what is adequate to manage it?

Our advice: find an objective party, and conduct regular risk audits and risk management assessments throughout the company.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

6

EXEMPTING THE SUPERSTARS

Within many organizations, there is a department, division or subunit that consistently delivers better than average results. It's only natural to take more of a hands-off approach to it than you normally would. After all, why ruin a good thing?

In terms of risk management, it's because the good thing may be endangering itself and quite possibly the rest of your company. Tell the superstars to get with the program. There's too much at stake.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

7

**FLYING
BLIND**

From our experience, the majority of corporate executives have no current information when it comes to risk and risk management in their own companies. If this was true of financials, production or any other key information, heads would roll, and rightly so.

Timely, accurate information is essential to effective management. That includes risk management. Whether through formal reports, risk ratings, dashboards, heat maps or any other form, put processes in place to make sure you're informed.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

8

**IGNORING
THE HANDWRITING
ON THE WALL**

“It was an accident waiting to happen.”
How many times have you heard that line applied to a disastrous situation? The fact that it’s used so often should send you a message: it’s very easy to overlook the obvious.

If your operational center is located in a flood plain, make sure you have a comprehensive flood emergency plan. If you want to keep proprietary information from competitors, conduct background checks on potential new hires and beef up your cyber security.

The greatest risks can be the ones you see every day and just don’t notice.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

9

**BELIEVING
ONE CONSULTANT CAN
DO IT ALL**

Any consultant making such a claim should be quickly shown the door. Enterprise Risk Management is a wide-ranging and momentous endeavor, covering every part of your company and nearly every aspect of its operations. There is simply no single consultancy capable of handling it all.

ERM is a team effort. A combination of specialist consultants and internal personnel are necessary to make it work. Any consultant worth his or her salt understands that, and so should you and the rest of senior management.

Is your company making this common mistake?

No

Yes

MISTAKE NUMBER

10

**ASSUMING
THAT ERM IS RIGHT
FOR YOU**

The majority of small to mid-sized corporations simply don't need ERM, and the resources they would spend on a full-fledged program would not return adequate value.

However, they still need protection, control and informed decision making where risk is concerned. They still need to see the larger picture of risk across the enterprise. But they likely don't have the size and complexity to warrant an ERM investment.

On the other hand, assuming that ERM is not right for you isn't the answer, either. A comprehensive assessment by a qualified consultant is the best way find out what your company needs.

Is your company making this common mistake?

No

Yes

**JUST ONE
'YES'
CAN MEAN YOU'RE
EXPOSED**

If you answered 'No' to all of the questions in the preceding pages, congratulations. It's likely you have an effective risk management strategy in place and are executing it.

However, if you answered 'Yes' to even one question, we suggest you contact us at GlobalOptions Group. It's likely your risk management efforts are not as effective or complete as they should be. We can help with an assessment of your current programs and suggest ways to improve and integrate them for greater results.

Please see the next page for contact information. We look forward to hearing from you.

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