THE BOARD'S 'GPS' FOR BETTER CORPORATE GOVERNANCE: THE VALUE OF ERM

How Enterprise Risk Management (ERM) Can Help

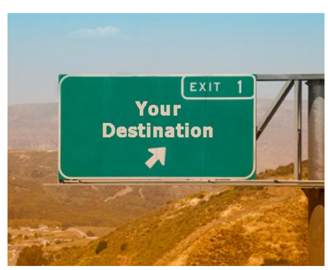
YOU FIND YOURSELF in a foreign city wandering around aimlessly looking for a particular location. You have no paper map and the rushing fear of feeling lost is slowly coming over you. Does this scenario sound familiar? I trust that even the most prepared travelers have encountered this uneasy feeling at least once in their lifetime. Today, I suspect the automatic reaction would be to reach into one's pocket, pull out a smartphone and either pull up a map online or access a GPS application. In mere minutes, you can refer to a treasure trove of data that will help in guiding you to your destination by safely navigating through the network of unknown streets. Now, imagine yourself at the helm of a company (be it a private or publically traded company). What do you do when you find yourself in a situation that is unfamiliar, foreign to you on so many levels? Do you charge ahead blindly?

This is the fundamental question that I want to explore in the ongoing debate of the value of strategic planning and the role of enterprise risk management (ERM), as I seek and attempt to demystify ERM and its relevance and impact to help drive long term strategy.

Now, I want to introduce an additional dimension, which is governance. By its very definition, governance is like a company's consciousness. So let's revisit my opening example. When you feel lost, do you charge ahead blindly? What goes through one's head to facilitate such a decision? What governs your decision making process to move forward?

In the absence of a formal strategy laying down the objectives in support of such a plan, management should be seeking guidance from somewhere else – ideally, from someone else. The Board of Directors should be your obvious first choice. The debate over what the role of the Board is and, specifically, of each individual Director's, is a long standing one.

According to various sources such as the Securities & Exchange Commission (SEC), the New York Stock Exchange (NYSE), the Canada Business Corporations Act (CBCA), and the Toronto Stock Exchange (TSX) to name only a few, the overarching theme is that a growing level of accountability, in some cases, means that legal responsibility rests with being a Director. For example, the Canadian government is currently reviewing possible amendments to the CBCA in areas such as transparency, corporate governance and Board diversification, in a possible effort to better align the Canadian corporate business environment with aggressive new and enhanced regulatory efforts in the US and around the world. At its core, the efforts to improve and hold corporations more accountable for their actions, in particular those that impact the investing public and the everyday consumer of products and services are predicated on the general belief that corporate behavior is influenced by risk. In that case, wouldn't it be prudent for the Board, its Directors and, more broadly, the Senior Management of a corporation, to explore a practical tool or framework to assist in understanding and assessing the overarching risk profile of the organization? What value would a cross-enterprise, strategic management tool like ERM present to such an organization?



Like a driver who uses GPS, a Director that utilizes ERM can potentially make better and more informed decisions when presented with the clarity of what lies ahead and the critical options, obstacles and challenges that may divert a course of action. Good corporate governance is more than providing oversight; it is an effective tool to assist Directors in meeting their moral and legal obligations to help drive a company towards achieving its long term success. Would you agree or disagree? Shall we let the GPS or ERM decide how to get us to our next destination…or are they one and the same…..??

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