THE GREAT DEBATE: SHOULD A PRIVATE COMPANY CONSIDER ERM?

Exploring the Value of Enterprise Risk Management (ERM)

A COMMON MISCONCEPTION – that misconception is - I'm a privately held company, so I have no need for any Enterprise Risk Management (ERM) initiative – there is limited value to my private company. Do you believe this to be true? I would like to offer the following points for you to consider, as we ponder this topic together.

It's all in the definition….

Let's first take a look at what ERM really means. If you have read one of my earlier articles, you may recall that I take the view that ERM is simply an enhanced form of decision making. By focusing on not only the downside of risks, ERM encourages practitioners to also look at the upside – the opportunity side of a risk event.

What ERM also introduces is the 'E' into the basic principles of risk management that is likely already occurring in many parts of your organization. That 'E' being '***enterprise***' – the view of risk and uncertainty, and the principals and practices of managing those risks and uncertainty across the entire organization – the enterprise-wide view to risk management. If we evaluate the definition of ERM at a more granular level – where in any definition (and there are many!) does it imply that this is only suited for large, publically-traded organizations?

Are private & public companies really that different…..

At the core of running any successful business is sound management. If you ask any recent business school graduate, "Are there Business Schools for Privately Held Companies and Business Schools for Publically Traded Companies?" What do you think the answer might be? Do schools of business actually teach basic management principals based on how an organization is owned and structured?

What may seem like a trite question, it does present an interesting point of view – effective management is not bound by ownership structure. Now, there are some critical exceptions to that general rule, such as legal/regulatory differences between being a publically traded company with public shareholders versus a privately held company owned and operated by an individual or a group of individuals.

The main point I am trying to identify here is that regardless of how an organization is owned and structured, at the core of any public or private company is an organization that requires sensible management at the strategic and operational levels, to generate revenue and make a profit. If you view the practice of risk management across the enterprise, as among the necessary tools in management's toolkit, should the attitude towards ERM, being exclusively an initiative for a publically traded company, be challenged?

It's all about scale and flexibility……

So far, I've simply presented a few critical points and questions to consider, as we continue to ponder the original question at the beginning of this article. I shall leave you with one more aspect to consider about ERM. Once again, referring back to one of my earlier articles, I commented on the fact that a view to approaching any ERM effort should be centered on the truth that this is not an off the shelf product or initiative. Successful ERM initiatives are scaled and designed to complement and support existing organizational make ups.

So the final question I pose to you is that if public and private corporations are truly different, wouldn't it be ideal to adopt a management practice that can be flexible and scalable to meet the unique risk management needs of your own organization?

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