

Enterprise risk assessment & management



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Security & Exchange Board of India (SEBI), to protect interest of investors, has made risk assessment and management as an important aspect for all listed companies under its *Clasue 49-IV (c)* of listing. Following activities are mandatory for all listed companies:

- i. Procedures to inform Board about risk assessment and minimization;
- ii. Periodic review of procedures to ensure that executive management;
- iii. Controls risk through a properly defined framework;
- iv. Risk management report to be submitted to the Board for review.

The intent of SEBI is to protect interest of investors. It is a good management practice that every company, listed or unlisted, 'for profit' or 'not for profit', can benefit by practicing in true spirit. The ERM will help protect long term sustainability of any organization. Enterprise Risk Assessment & Management (ERM) should be on agenda of every management meeting and every board meetings.

The simple steps to follow in risk managements are:

- i. Identify the sources of risk.
- ii. Assess the likely damage that can be caused by each risk identified.
- iii. Determine probability of the risk becoming a reality.
- iv. Calculate expected loss due to each risk = damage x probability
- v. Develop a strategy based on expected loss and cost of mitigating the risk.
- vi. Implement the strategy
- vii. Review the impact of the strategy and make changes if required.
- viii. Establish an ongoing process of review and corrections.

Let us now review risk for various assets of an enterprise. These risks can be classified as under:

- Risks to physical properties
- Risks to information
- Risks to brands

Risks to physical properties

Physical properties like offices, plant and machinery are subject to various types of risks such as Theft, Fire, Earthquake, etc. There are several established strategies,



Risk Management Organization Structure

approaches and solutions available for risk mitigation against theft - such as providing doors & windows with locks, video camera etc. The mitigation strategy against risk of fire is also well known. There are experts available to carry out a complete risk profile. The best way to fight fire is to prevent it by carefully handling all possible sources, by providing training at all levels. In case of a fire there are still several well established tools and technologies available to fight – Smoke detectors, fire extinguishers, sprinklers etc. Well managed companies have a safety manager, a safety management plan and review systems.

Risks to information

Information is power and clearly a company has to have plans to protect its confidential and important information. The need and awareness has increased in recent past due to extensive use of IT technology. There are several strategies and tools available to manage this risk. Use of fire walls and spam control are very common. The high tech companies

involved in sensitive information adhere to international standards (ISO 27001).

Risks to brands

It takes many years and consistent efforts to build a brand. Brand represents the emotional bond that the stake holders have. Brand is intangible but it is the most valuable asset for a company. Consumers buy products of a known brand as she feels confident about the consistency in the promise delivered by the brand. Global brand names like *Johnson & Johnson*, *Coke*, and *Toyota* have values which run in billions of dollars. Indian brands like *Tata*, *TVs*, and *Bajaj* are well known.

An attack on brand can cause a significant blow and lead to huge loss of consumer base, loss of market share and loss of profit. The cost of rebuilding a damaged brand is huge and requires very intense efforts. The brand attack can be by pilferage in transit, by adulteration, infringement of spurious products etc.

Brand risk management is a new

concept and needs to be on the agenda of every management team and every board of directors. There are various options available to develop a customize strategy for Brand risk management. One can draw inspiration from good management practices adopted in known areas like - health, safety, environment, quality. Enterprises can form a brand risk management team with CEO as a leader and possibly with the help of an external expert the team can prepare itself to mitigate risk to a brand.

Summary

Risk mitigation strategies are a necessity of the modern times. Every company listed or unlisted needs to pay a serious attention to this important and critical aspect for long term sustainability. Among various sources of risks, brand risk management requires highest attention. Companies must develop a risk profile and continuously review plan, action and performance.