

How to Reinvent Your Company Through Better Enterprise Risk Management

By Jack Bergstrand and John A. Wheeler

Transcending “scientific management” in the Knowledge Age



Jack Bergstrand

Enterprise reinvention and enterprise risk management have been a challenge to implement in many large

organizations. The key to unlocking the potential of both is to understand and overcome *why* the traditional implementation approach consistently struggles.



John A. Wheeler

While it can sound a little academic, the underlying problem is that companies have been built using “scientific management” principles from the early 1900s, but the nature and complexity of our companies have changed dramatically since then. As a result of technological advances, companies have automated their scientific management approaches—relying predominately on the results of historical data analysis. However, rigorous quantitative approaches and models—as witnessed on a grand scale in the recent global financial crisis—inevitably break down in rapidly changing, globally competitive environments.

A common example of this problem is often seen with large enterprise

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technology projects, which the Standish Group consistently finds struggling 70 percent of the time. These enterprise programs, based on objective scientific management, have not typically resulted in “reengineered” companies as promised. They have more often resulted in “over-engineered” organizations—with frozen decision-making processes and company routines.

It’s clear that companies must manage enterprise-wide initiatives differently. Consistent with the work of legendary management thinker Peter F. Drucker and more than 200 industry experts, enterprise reinvention needs to be managed more holistically.

Learning from Peter Drucker

Drucker was the first to identify the need to transcend scientific management in the Knowledge Age. The implications for enterprise reinvention and enterprise risk management are significant. Where executives have historically been able to improve results through specialization, successful reinvention now requires a much greater emphasis on unification—

moving from the parts to the whole. This requires a different approach:

Start with your customer

Every company’s enterprise view and strategy needs to start, as Drucker emphasized, with customers. Most agree with this tenet philosophically, but few enterprise restructuring and enterprise risk management programs follow this in practice—establishing and integrating *where* your company intends to go and *why*.

Be holistic and systematic

Another principle to incorporate from Drucker is to be both holistic *and* systematic. To be holistic, it’s important to integrate people into the scientific side of the equation to better manage the enterprise risk management programs.

Without a shared enterprise view to guide companies in continually changing environments, companies often get stuck by focusing on the parts instead of the whole. When competitive and organizational situations change, executives get caught working on the wrong things—on areas that used to be important but are no longer bottlenecks.

Don't forget your community

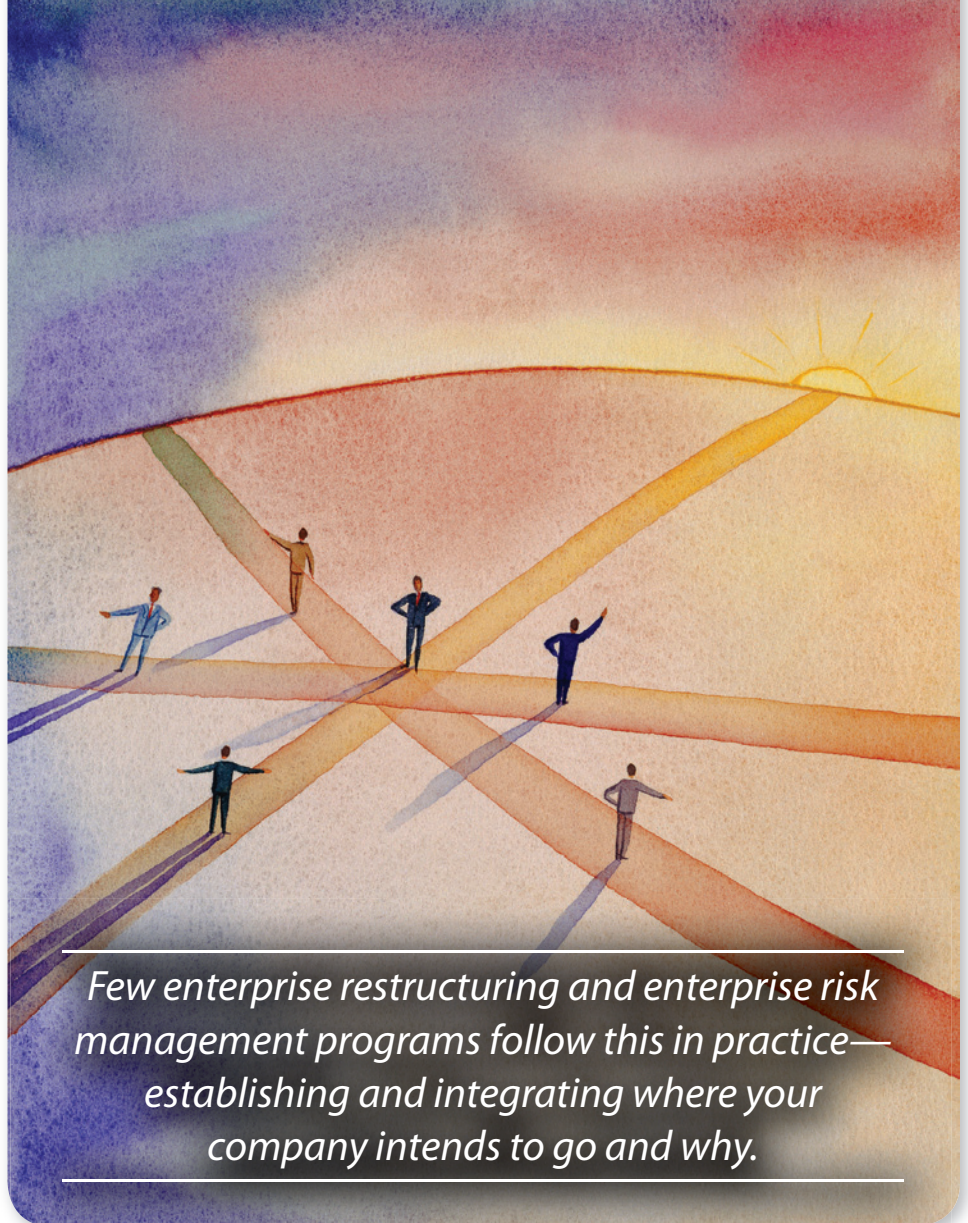
A third Drucker insight—important for sustainable enterprise reinvention and effective risk management—is to systematically manage social roles. Companies are the only true economic engines for society, and strong communities are the only source of sustainable profits. When companies don't formally integrate into their communities and view themselves as separate entities, enterprise risk profiles will inevitably increase.

Integrating ERM into Sustainable Enterprise Reinvention

Enterprise risk management is an important tool for sustainable competitive advantage. Like the market and the enterprise itself, successful enterprise risk management programs require holistic and systematic processes supported by the following factors:

- **Envision:** Strategy linked to customer needs, with defined operational implications, and well-articulated enterprise guidelines for managing risks and opportunities.
- **Design:** Formal risk mitigation and opportunity sensitivity analysis/monitoring/reporting.
- **Build:** Enterprise-wide controls, processes and infrastructure.
- **Operate:** Well-established personal roles and motivations for people to act in the best interests of their companies through proper incentives.

For companies to reinvent themselves, they can't be viewed as the sum of their parts. The enterprise overall is the goose that lays the



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golden eggs. Similar to a brand, it needs to be holistic, integrated and relevant—and continuously adapt through successful and accelerated enterprise projects.

To improve your company, try taking your enterprise risk management program to the next level. Integrate Envision-Design-Build-Operate to achieve your objectives through a shared enterprise framework, integrated roles and responsibilities, and adaptive monitoring/sensitivity analyses. Then, holistically address risk gaps through independent program assessments to diagnose and correct identified weaknesses and take full advantage of new opportunities.

Driven by a rapidly changing environment, there has never been a better time to reinvent your enterprise and your enterprise risk management program.

Jack Bergstrand is author of *Reinvent Your Enterprise*, creator of the Strategic Profiling enterprise project acceleration instrument, and founder of Brand Velocity, Inc. Prior to founding Brand Velocity, he was chief information officer of The Coca-Cola Company and chief financial officer of Coca-Cola Beverages Ltd. John A. Wheeler is founder of Wheelhouse Advisors LLC and served as senior vice president and senior risk officer within the corporate risk management division of SunTrust Banks, Inc. He was recognized in 2005 as one of the "Top 40 Finance Executives under 40" and one of the "100 Most Influential People in Finance" by *Treasury & Risk Management Magazine*.