

# Special delivery

Perhaps the most fundamental change in corporate culture to come about with the invention of the internet has been the all-pervasive use of email, a revolution that has seen mailstream specialist Pitney Bowes reinvent itself for the digital age. Executive Vice President and Chief Financial Officer [Michael Monahan](#) addresses managing risk amid rapid change with Steve Coomber.





US Fortune 500 firm Pitney Bowes is an organisation used to dealing with risk. The business' success was founded on its invention of the postal franking machine in 1902. Yet, following decades of dominating the huge postal market in the US and expanding across the globe, new forms of communication such as email threatened to cast Pitney Bowes into obscurity. Former CEO Michael Critelli even described the company as the whip to the postal service's buggy.

Under the guidance of its management, however, the company anticipated the risk inherent in the introduction of new technology and successfully reinvented itself, redefining the way it looks at markets; the diverse stream of mail, documents and packages that flow in and out of organisations, from bills and e-statements to direct mail, catalogues and online goods, such as DVDs. The company calls this flow the mailstream.

It is no surprise to find then, given the firm's history, that Pitney Bowes has a well developed framework for dealing with enterprise risk management. As Michael Monahan, Executive Vice President and Chief Financial Officer, explains, it is a framework that goes much further than risk mitigation, seeking to make effective risk definition and management an integral part of organisational growth strategy.

### Enterprise risk management

'We have defined a number of risk areas for our business; 17 in total,' says Monahan. 'These cover a broad spectrum of risk areas, including competitive environment, industry specific risks, more traditional financial risks such as liquidity, as well as other related business risks such as contractual and supplier risks.'

The firm looks at three key elements. First, there is the definition of the risk. Then it is a question of looking at the probability of a particular risk occurring and its relative severity. Plus the extent of disclosure required for the risk is considered, measured in terms of whether that disclosure needs to be within the management hierarchy, to the board or externally, as well as the potential financial impact on the firm, or other possible impacts, such as reputational risk.

The third component is risk mitigation, and the strategies and plans that Pitney Bowes puts in place to mitigate each of those risks.

One reason the company's approach to risk works well is the way that its enterprise

### A risky future

Given the severity of the ongoing global financial crisis, it is no surprise that Pitney Bowes is already factoring issues such as the increased liquidity risks encountered trading in the current environment, into its strategic decision making. So what is the enterprise risk management programme telling CFO Michael Monahan at the moment as the business moves forward into 2009?

'Liquidity is an obvious area, but if you think about your business more broadly, that leads you to supply chain and procurement, and your supply network. Our process has kept us attuned to the fact that we needed to expand our view, and review our supplier base to look at their ability to continue to meet their obligations and continue to supply us,' says Monahan.

'So we have taken a much closer look at our customer base as we identified a risk in a certain segment in the marketplace, let's say mortgage lenders, for example, in the United States. So in the latter part of 2008 our risk assessment process told us that not only should we look at mortgage lenders, but we should also look at the people who support them, and the segment of our customer base that supports them.'

The focus on risk assessment, says Monahan, allows you to cascade the planning and thinking about how Pitney Bowes may be impacted by the credit crisis, across the broad spectrum of its business.

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risk framework is structured to drive responsibility for risk down to the lower levels of the organisation.

'The way we have organised it is to assign the ownership of each of those risks to a leader across the business, and the decision of who has the ownership of a given risk will be based on which leader is most able to understand the impact of that risk,' says Monahan. 'Then that person will engage across the organisation to develop a risk mitigation programme or strategy to deal with that risk.'

Although one person will have ownership of each of the 17 areas, there are sub risks within each risk category, and people who support that risk owner in terms of evaluating and mitigating those sub risks.

A committee of senior executives will review the portfolio of risks on a regular basis, review the mitigation plans, and review the probability assigned to these risks. It will then take a view on the risks, rate them in terms of the firm's mitigation strategies and put a programme together to continue to refine those mitigation strategies, especially in the light of changes in risk or business goals.

The results of the process are regularly reported right up to the CEO, and then to the board directors. Certain risks will go to committees of the board, where the risk is most relevant to the topics those committees are responsible for.

'It is really a structure that allows us to drive down ownership into the organisation,' says Monahan. 'We have structured it that way because we want to address the risk at the level at which it is most likely to impact the business, and then be able to bring those plans together at an overall corporate level to understand the overall risk, and create an overall dashboard of those risks that can be communicated both to our senior management as well as to our board.'

The process then is a highly integrated one throughout the business, that allows management to really understand the broader risks in the business, but at the same time have its mitigation strategies align strongly with growth objectives.

### Risk and opportunity

With a carefully structured risk management programme in place, says Monahan, it is possible to factor risk into the strategic decision making process in a meaningful way.

'The process for acquisitions and capital investment programmes means that, as well as putting together an explanation of the project, the business unit has to put together a business case,' he says.

'An important component of that business case, what we call the capital investment proposal, is identifying the risks inherent in the programme, and the mitigation strategies associated with those risks. One value of having these risk categories identified, defined, and redefined, is that we can identify those risks within any capital programme or investment that we might undertake, and

management would expect an assessment of the regulatory risk as part of any investment proposal for the product or service.

Monahan is aware that risk assessment can come to dominate a firm's activities and mindset, particularly operating under certain economic conditions. 'The greatest risk of that happening, though, is when you do not have a clear definition of what the risks are, and then it can paralyse the decision-making process,' he says.

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map them consistently against our pre-existing risk categories.'

This means that management's ability to assess the impact of those risks against an investment opportunity has a lot more clarity and objectivity to it.

So, for example, says Monahan, Pitney Bowes has a substantial part of its business in the postal industry. If someone is proposing a new product or service within the postal industry in a given market, one aspect of risk to consider is the postal regulatory environment in that market place. And so

By having an effective enterprise risk management programme you actually allow those risks to be put into a more objective context within the decision-making process, allowing you to make faster, more informed decisions.'

Pitney Bowes also ensures that it does not take too cautious an approach to risk management. Within its rating system it identifies excessive mitigation, as well as acceptable mitigation and optimal mitigation. Excessive mitigation is where the company may invest more in avoiding a risk than is really necessary, based on the return that the

firm is trying to generate from that activity. 'You are never going to mitigate 100 percent of any risk, and that has got to be part of the assessment when you are making investments,' says Monahan. 'Our goal is not to limit investment but actually to enable investments, by understanding risk, and putting it in the right context in the decision-making process.'

As Monahan points out, risk management systems are inevitably a work in progress, yet Pitney Bowes has spent some time developing what is a fairly robust enterprise risk management framework. With the benefit of hindsight how would Monahan go about building a risk management programme if he was starting from scratch?

'I think the first thing is really understanding your business strategy, what you are trying to accomplish in your business, and then defining your risks around that strategy, both the external risks, as well as the internal risks,' he says.

'Once you have defined those risks it is a matter of determining what you need to address to mitigate those risk, and then the most important element is creating ownership around that within the organisation.'

And an important aspect of this, emphasises Monahan, is to ensure that it has relevance to the business, that it is not a separate compliance exercise, but is about enabling the business to achieve its strategic objectives.

Finally, ownership also means that the senior management has to communicate to the organisation that this enterprise risk management is a critical business need and a critical business objective for the organisation for it to achieve its goals, says Monahan. With that commitment from leadership, you get the engagement of the organisation. ■



### Michael Monahan

Michael Monahan was named executive vice-president and chief financial officer of Pitney Bowes in March, 2008. In this role, he has responsibility for the financial operations of the company on a global basis.

