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APPLICATION OF CREATIVITY IN ENTERPRISE: RISKY CREATIVITY

Just take that old Bible off the shelf.
I sit and read the verses by myself.
Today's message has to reach my soul.
I like that old time Rock that rolls.

And shake those old methods out of your head.
If you don't change, the world goes by and you're dead.
Today's ideas will ultimately come and go.
You have to plan for tomorrow.

(Apologies to Bob Seeger, George Jackson, and Thomas Jones)

Bob Seeger's "Old Time Rock and Roll" is part of a classic scene with future businessman Tom Cruise in the movie "Risky Business." We do not generally think of the business world as a world of faith. Or think of the world of faith as a business. But since "Faith is … the evidence of things not seen" (Hebrews 11:1)[1], there may be more faith on Wall Street than there is in churches. Because there is a HUGE amount of evidence of things not seen. And if churches and other non-business enterprises do not take care of business, they risk not being able to spread their messages.

Some things cannot be seen because they have not happened yet. But you know they will eventually. That is why Generally Accepted Accounting Principles require setting aside reserves for things like future warranty claims.

Then there are things like "Goodwill." "Trademarks." "Patents." These are called "intangibles" on financial statements. For example, on 3/31/12 Facebook reported a Net Worth of $5.3-billion. After almost $200-million of Intangibles,[2] Tangible Net Worth was $5.1-million.

Then there are the "hope and a prayer" types of things not seen. When Facebook went public less than two months later on 5/18/12, the stock price hit $42 per share before dropping back. At that high, the company had a market value of over $120-billion. Compared to a Tangible Net Worth of $5.1-billion. Wall

Street had a lot of faith. Three months later, Facebook was trading below $20, and at this writing the closing price near $24 per share gives Facebook a market capitalization just under $60-billion.[3] That means in March of last year "the market" had faith enough to see twice the value that it no longer has faith to see now.

And then there are the "smoke and mirrors" types of things not seen. In 1985, after several very large, very public business failures, five accounting organizations sponsored a study of financial reporting fraud in publicly traded companies, and made recommendations to companies, auditors, the U.S. Securities and Exchange Commission, and other regulators. This Committee of Sponsoring Organizations—COSO—continues to study fraud; but has expanded its focus to include other risk, too.[4]

This is the world of Enterprise Risk Management, or ERM.

ERM combines:

Enterprise

What is the purpose of your organization?
What is your mission?
What are your goals?
What is your method of trying to accomplish that?

Risk

What could keep you from getting there?
What is the likelihood of that happening?

Management

How much risk are you willing to take?
What are you willing to take a chance on not happening?
How much effort are you willing to spend to prevent it or prepare for it?
In terms of managing risk, let's use an example that will be familiar to everyone. Insurance. Risk management is making a conscious effort to figure out:

Where is the risk of a fire?
How big could that fire get?
What could that fire do to you?
What would it take to put it out?
How likely is it to happen?

What might it take to prevent it in the first place?
Are you willing to take the chance that it won't happen?

Now, at this point, some of you are thinking, "What in the world does this have to do with me?" And I submit to you that government agencies, churches, charitable organizations, member driven organizations, nonprofit agencies are enterprises that have risk that needs to be managed.

Because a non-business is a business. A government agency is a provider of services in return for resources provided by someone else—be it an executive, administrator, or legislature. A church is in the business of selling Jesus—getting people to "buy into" the Gospel. A charity is in the business of promoting its cause—to contributors as well as users.

So the question is, What would keep our organization from achieving its mission? Those are the risks you have to manage.

There are certain obvious risks that non-businesses have in common with businesses. We already mentioned fire. And there is risk of theft. And risk of financial loss. But the risks can have a different "face" for each organization.

For example, while money may be a measure of success for a business—e.g. Earnings Per Share; Return on Assets; Return on Investment—typically money itself is not the goal. Some sort of activity is the actual goal. And money is a resource for getting it done.

Therefore, the real damage from fire or theft is having to use resources to get back to where you were, rather than being able to use them to move forward.

Money is also a resource for a non-business. But it may not be the most critical resource. Often volunteers are more critical. People who share your interest and passion. People who you depend on, but cannot fire if they are not dependable. Or people in a legislature that controls your purse strings.

Thus, the real risk to businesses and non-businesses alike is the risk of loss of resources. Where do those risks lurk?

Enterprise Risk Management categorizes risk in such areas:
Regulatory Risk
Strategic Risk
Operational Risk
Reputation Risk

These risks apply to both businesses and non-businesses alike. Consider:

- Regulatory Risk—Not just the money spent for a noncompliance fine. Possibly losing tax-free status. A church could lose affiliation with its denomination because of a censure.
- Strategic Risk—Following a plan that uses resources on efforts that do not

accomplish your goal.

- Operational Risk—The risk of loss from a bad process. Basically lack of excellence in all you do.
- Reputation Risk —The risk of loss because of people's opinion of you. A bad report.

And all are related. If a charity's computers are stolen, what is the most important thing they would lose? A pastor's sermons and sermon notes? The club's membership list? What would happen if a charity could not give contributors their giving statements when they needed to file their tax returns? What would happen if they lost members because of this? So you have both Operational Risk and Reputation Risk at play in the one place.

And Reputation Risk is everywhere. Which is why I submit that Reputation Risk is connected to all others.

If a church has operational problems on Sunday—bad musicians in the service; the lights go out; the heat or A/C goes out; they have wrecks in the parking lot – it will leave an impression. Likewise, if someone speeds through rush hour with the organization's bumper sticker on his car, or shows up on the evening news after getting picked up on a DUI on his way home from a meeting, it will affect the organization's reputation.

It can even come from your technology. We automate processes for efficiency; to free us up for the "important" stuff. So we can do things without thinking. But even that requires thought.

I recently got an e-mail from a car dealer. Happy one-year anniversary of buying your new car… Ann. Come get a free car wash. They left a voice mail message, too. Now, I did buy a new vehicle a year ago. But, I am not Ann. They sent the e-mail to the right place. But addressed me by my wife's name. They called her cell phone to leave the message, too. And they told me a couple years ago they do not run pick-up trucks through their car wash.

They thought they were being efficient, when they were actually showing they put no thought into their dealings with me. Which affected their reputation.

This is key. After your message, your good name is the greatest asset you have got. What would happen to funding if it were discovered that the American Cancer Society could not account for $100-million of donations? That the American Red Cross spent 80% of contributions on administration and fund raising? That the IRS spent billions on employee parties?

So, what am I saying here? I'm saying any business or non-business ignores risk at its own risk. You need to think about it. And it takes a conscious effort. It requires thinking about things that have not happened yet.

This is why it is vital that creative thinking be a part of ERM. Because ERM requires envisioning things that you cannot see yet. The only way to "see" something that has not happened is with "vision." Without "sight," a person can get by. But "Where there is no vision, the people perish" (Proverbs 29:18).

And where there is no risk management, enterprise value perishes. Investors know there is a risk/return tradeoff. The New York Stock Exchange now requires audit committees of listed corporations to discuss risk management. Credit rating agencies such as Standard and Poors include enterprise risk management processes in their analysis.[5] Effective 2/28/10, Securities and Exchange Commission Regulation S-K Rule §229.407(h) requires publicly traded companies to disclose in proxy statements how the board of directors oversees the risk management process.[6]

The challenge is that people do what they are paid to do. In a business, the pay is obvious. In a non-business they may get a pay-check or satisfaction or recognition or some other type of "warm fuzzy." But in any case, people do what they are compensated for.

It is management's job to get the people to want to think about risk. And if, as George Kneller is quoted as saying, "Creativity… consists largely of rearranging what we know to find out what we do not know,"[7] where could there be a greater need for creative thinkers than in Enterprise Risk Management?

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Notes

[1] Bible references are King James Version.

[2] Prospectus filed with the SEC pursuant to Rule 424(b)(4), Registration No. 333-179287, dated 5/17/12, Page F3, [Online], Available: http://www.sec.gov/Archives/edgar/data/1326801/000119312512240111/d287954d424b4.htm, [7 July 2013].

[3] Closing price $24.40 with Market Cap $58.92-billion, Available: http://quotes.wsj.com/FB?mod=DNH_S_cq, [July 7, 2013].

[4] *History of the Committee of Sponsoring Organizations of the Treadway Commission*, [Online], Available: http://coso.org/aboutus.htm, [9 Sep 2012].

[5] "*Effective Enterprise Risk Oversight 2009*," [Online], Available: http://www.coso.org/documents/COSOBoardsERM4pager-FINALRELEASEVERSION82409_001.pdf [7 July 2013].

[6] *Notice on Final Rule of Proxy Disclosure Enhancements, Securities and Exchange Commission*, Page 39, [Online], Available: http://www.sec.gov/rules/final/2009/33-9089.pdf [7 July 2013].

[7] Notable Quotes, Creativity Quotes II, [Online], Available: http://www.notable-quotes.com/c/creativity_quotes_ii.html [7 July 2013].