ERM AS A BUSINESS GROWS GLOBALLY

By Russ Banham

RIMS

Fifty years ago, brewing and selling beer was a local and regional business. Old-time breweries like Coors fed the public's thirst-quenching needs within the borders of its home state of Colorado. In the 1970s, the "Coors Mystique"—the drinkability of the company's beer, reportedly made with pure water from local springs—seized the imagination of college students, who made repeated treks across state lines to haul the suds to their respective campuses. Soon Coors made it easier for fans to buy Coors Banquet and Coors Light, acquiring licenses to sell its product beyond Colorado. It quickly grew into the country's third-largest beer maker, following Anheuser-Busch and Miller.

In the midst of its eastward expansion, Raphael E. Castillo joined the company in 1987 as its risk manager; three years later, he was named Director of Risk Management. Between then and now, Coors kept widening its national footprint, and then its global expanse, the latter accomplished through a series of remarkable joint ventures, acquisitions and mergers. Today, Castillo is the Director of Global Risk Management at Molson Coors Brewing Company. Eight years ago, Castillo introduced ERM at the global business, a program he continues to lead.

RIMS: It is truly amazing how both your company and your profession have evolved over the past 30 years. When Coors was just a single brewery, risk management was really just a combination of plant safety, product quality and insurance buying. Today, your run an ERM program that is worldwide and involves different sets of risks depending on the geographic location. Was it the company's globalization that brought about ERM or some other factors?

Castillo: Well, as someone who was very involved at RIMS (Castillo formerly was president of the Rocky Mountain chapter), I had certainly heard about ERM. But, the idea really came about through a discussion I had with our head of internal audit. He expressed an interest in having our top risks documented. I agreed we had a need to do this, and together we pushed the concept to our top executives. They liked what they'd heard and we designed (the program) to satisfy the audit committee of the board.

RIMS: Does internal audit share ERM responsibilities with you?

Castillo: We (in risk management) own it, but audit looks over our shoulder.

RIMS: Did you bring in a consultant to create the program or did you develop it in-house.

Castillo: We developed it here. Bear in mind that our focus is exclusively on making beer. We're not a very complicated company. Even though we are a major beer company, we're pretty small compared to large corporations and their ERM programs. We didn't really have a need to buy software to run the program, which is all on spreadsheets. And we didn't feel a need to have a multidisciplinary ERM risk committee like you see elsewhere. But, I don't want to give the impression that this isn't a very important part of our risk management strategy—it is.

RIMS: Actually, it's interesting to learn that a company's complexity, size and scope aren't the only factors compelling the embrace of ERM. Once you decided to move in this direction, what were the first steps?

Castillo: We wanted to put together a list of our top thirty risks and decided the best way to do that was through interviews. We reached out to senior people across the company and asked them a single question—`What keeps you up at night?' Once we had their answers, we assessed each one in terms of risk frequency, severity and velocity, meaning if a particular risk came to pass, how quickly would it deteriorate into a serious issue.

RIMS: So you essentially assembled the list based on consensus?

Castillo: Correct. Everything was focused on top management. We looked at how others did it, but decided this was the best way for us. The process took about nine months, give or take, to have the final list.

RIMS: Once the list was assembled, what then? Is there a process to report on each of these risks on a regular basis?

Castillo: In the early years, we would make a periodic report to the audit committee of the board, but as our risks are both strategic and operational, we now report to the full board every six months. The audit committee then chooses one or two risks they feel requires a deeper dive from top management. They dive in and then present their findings.

RIMS: Can you point to a significantly positive outcome that has come about because of the ERM program—something that might have gone badly were it not for ERM?

Castillo: I can't say there has been a direct correlation. What ERM does is create more (risk) awareness. Just like we conducted the interviews with top management about risks in the past, they now do the same interviews with the people who report to them. We continue to ask questions ourselves. Everything is discussed openly and documented and not swept under the rug. We're there to capture whatever bubbles up. This consistent process happens at every business unit, which we define as a country. Each unit creates a (risk assessment) report, which then becomes part of a regional report. These reports come to me, and I summarize them into a report for top management.

RIMS: The top thirty risks list you mentioned earlier—are those risks the same on a country-by-country basis? Have there been changes to the list over the past eight years?

Castillo: Some countries have 50 risks, but the list of the top 30 has remained steady. We're in a highly regulated business—alcohol beverages—that involves different rules governing taxation, advertising and market restrictions. Consequently, it is a best practice to designate a top leader in a country as the owner of risk in that country. They understand the challenges best. There are some risks that require more centralized oversight, however.

RIMS: Can you provide an example?

Castillo: Take flooding. In some countries but not others, it might require the corporate head of our supply chain operations to be involved. We've actually moved some facilities based on this involvement. So I guess that does demonstrate an example where having ERM has prevented something that could have turned out badly not to happen.

RIMS: In your oversight of ERM, what would you consider to be a prime focus today?

Castillo: Certainly, we will continue to put more effort into strategic risk management. As we increase our global footprint, we may encounter government interference or market dynamics in a country that is different from other countries. We've been tasked in ERM to work with others across the business to identify obstacles that may impede our long-range growth plans. Where I would like to take this further is to identify opportunities, as well.

RIMS: Can you elaborate?

Castillo: What I mean is this: Can we help find a way of doing business that no one else has thought about yet? For instance, everyone is coming up with new beer flavors and innovative packaging, but what about a new beer altogether or a new way of making beer? These may sound like outrageous ideas, but that's the whole point. By dealing with obstacles, we may find a niche view that no one else has.

RIMS: You do that and the "Coors Mystique" will take on an entirely new and fresh meaning. Or shall I say the "Molson Coors Mystique?"

Castillo: I'd rather leave the advertising to the professionals.

RIMS: Good thinking.

Russ Banham is a Pulitzer-nominated business journalist and author. Coincidentally, one of Banham's 24 books is a history of Coors.