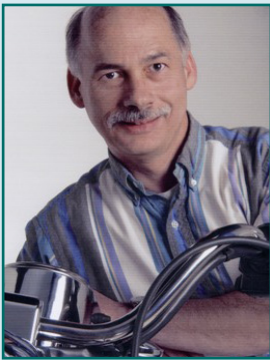


MORE THAN MOTORCYCLES ROARING AT HARLEY-DAVIDSON

By Russ Banham



RIMS

Rob Gould joined Harley-Davidson, the iconic American manufacturer of motorcycles, in 2003. It was the Milwaukee, Wisconsin-based company's 100th anniversary that year, and change was in the air as it embarked upon its second century. One change was the development of the company's first internal audit function, whose responsibility Gould would take on. He had served in audit leadership roles at

prior organizations, including Whirlpool and Protiviti.

A few years into the job, Gould realized a key management consideration was lacking at Harley-Davidson—a foundational Enterprise Risk Management program. He championed the effort to create the program, focusing primarily on strategic risks to the organization's storied brand value. Along with such companies as Coca-Cola and McDonald's, few other businesses have the brand recognition of Harley-Davidson. Revenues from licensing its brand and logo alone add up to tens of millions of dollars per year.

RIMS: So what led you to believe in the first place that Harley-Davidson needed an ERM program?

Gould: One of the key responsibilities of internal audit is to evaluate the company's risk management program, insofar as how well the risks are identified, assessed and managed. We undertook this audit in 2009, and it was no surprise that we did many things very well. But, there was a lack of consistency in risk ownership, monitoring and reporting, and no real framework in place for risk management. That was a bit of an eye opener. Internal audit communicated this to the audit committee of the board, and the determination was made to launch a three-year improvement plan incorporating principles of ERM. We put it together and the board liked it. One audit committee member said this is great, let's see if we can do it faster.

RIMS: Why was there a need for 'more and fast'?

Gould: The board just liked what it saw, realizing the strategic value in having ERM in place. We had identified 16 strategic risks. Internal audit would not own these risks; rather we would guide and coach the respective risk owners in the businesses. We'd do the benchmarking, help develop the policies, generate the traditional four-quadrant risk maps, and prepare the board packages. But, the business heads would own the risks and mitigation activities.

RIMS: That makes complete sense, as the business leaders are in the trenches where the action is. Can you provide an example or two of a key strategic risk that was identified and managed through the ERM program—something that might have slipped by pre-ERM?

Gould: A great example has to do with one of the company's key strategies today—introducing our products in new markets internationally. Our brand is known worldwide for our heavyweight touring motorcycles, which are designed primarily for highway cruising. That's what much of the public thinks about when they think about Harley-Davidson. These key features and others distinguish us as a brand, and company leadership obviously have no intention of weakening this vital connection with the public. But, in many regions of the world, motorcycles need to be lighter weight for street travel, which explains why the company launched our Street 500 and 750 motorcycle brands earlier this year. Before we did this, company leadership examined the potential impact on our brand.

RIMS: It would seem since the street motorcycles are now in the global marketplace that these risks were deemed to be minimal, correct?

Gould: Yes, although this is something the business will continue to manage. In this era of globalization, it is routine for major companies to chart some new directions. The point is that the ERM program gave the business a mechanism to identify and assess potential strategic risks, as well as manage them going forward. It is up to the owners of these risks how to ensure stability going forward.

RIMS: Would you provide an example of another strategic risk that popped up on the risk map?

Gould: Sure. Another strategic risk, one that many companies confront, is the enduring value of their products to younger generations. Our brand has a long legacy; we are now approaching our 112th birthday. Leadership realized that big touring bikes may not be viewed as the kind of bike younger people might be interested in. The business identified this as a possible strategic risk, and it led to the development of our Sportster Seventy-Two and Sportster Forty-Eight bikes, and the Street 750 and 500 we talked about, which are focused on these younger riders. Someday, these riders may decide they want a big touring bike. The business thus generates a relationship with them throughout their lifecycle. This type of strategy demonstrates the importance of ERM—to articulate the nature and the impact of strategic risks, and then help manage these as they evolve.

RIMS: We notice that you used the term ‘bikes’ to describe ‘motorcycles.’ We have to ask—are you a consumer of the company’s products?

Gould: Yes, I own and ride a Harley-Davidson Heritage Classic. I started riding minibikes when I was ten years old and dirt bikes as a teenager. Then I started working and sort of fell out of the whole riding experience. At the age of 40, experiencing the classic midlife crisis, I bought my first Harley touring bike. Riding it really does give one a unique sense of freedom.