Q&A

Scot Schwarting , Director Risk Management, Whirlpool Corporation

ERM MANDATE AT WHIRLPOOL

By Russ Banham

Scot Schwarting

RIMS

After a three-year period of putting together the "nuts and bolts" of an ERM program at Whirlpool Corp., the world's leading manufacturer of home appliances was ready to implement the program in 2007. A few weeks earlier, Scot Schwarting had been appointed Whirlpool's director of risk management. Much of what he would do the next several months would be focused on putting the ERM program in place across the world. Fortunately, he was well prepared for what lay ahead.

Schwarting has enjoyed a long career in insurance and risk management, starting with working in the claims department at insurer Liberty Mutual, where his clients included large, national accounts like UPS and Federated Department Stores, and smaller companies like OSI Industries, a large food processing concern. He soon became OSI's risk manager and puts its ERM strategy in place. Whirlpool reached out to Schwarting to assist the launch of its ERM program because of his success at OSI.

He had his work cut out for him at the much bigger company—Whirlpool's 66 global manufacturing and technology facilities around the world produce and market such leading brands as Maytag, KitchenAid, Jenn-Air, Amana and, of course, Whirlpool, among others. Annual global sales are in the $20 billion range. RIMS sat down with Schwarting to find out if ERM has made a difference at the companies he's worked for.

RIMS: After you left Liberty Mutual's claims department to become risk manager at OSI Industries, did you find your previous career was useful to your new one?

Schwarting: It was a great way to learn about business from the standpoint of insurance. You see where most of the claims come from and what caused them. One of my accounts was OSI, where I had worked closely with the risk manager. He called to say he was moving on and he wanted me to be his successor, commenting that I had done a good job working the account. At the time, the company's sales were about $400 million. Sixteen years later when I left they were $4.3 billion.

RIMS: What happened in-between, risk management-wise?

Schwarting: Initially I had responsibility for the safety program and corporate compliance, working closely with internal audit. As the company expanded globally, I started a captive and had the opportunity to tackle operational risk and food safety. I also dove into claims to understand why workers compensation was so costly. When I started, we had about 2,000 employees and our comp costs were about $500,000. When I left, we had 21,000 employees and our comp costs were still $500,000.

RIMS: That's pretty impressive. What did the trick?

Scwarting: Well, our ERM program was a big part of it. We launched the program in 1996 with a three-year implementation globally. As the risk manager, I got my hands in different parts of the pie, talking with the quality control and safety people, walking through the plants, looking at the maintenance program and plant downtimes, and all the other components creating variability in the business plan. This guided the decision to centralize worker compensation for reporting purposes, and putting effort into ensuring the coding was correct. Data is king; if coded and measured correctly great things happen.

RIMS: Did you learn anything interesting?

Schwarting: We learned, for instance, things like the third shift of line number seven at the Oklahoma plant produced more claims. This then moves us to do a safety walk-through with a checklist I hand to figure out why.

RIMS: We understand you're a Six Sigma Black Belt. Has this been useful to you in your risk management role?

Schwarting: When I apply risk management, I follow the `plan, do, study, act' principles I learned. For example, I was walking through one of OSI's facilities in Chicago, where there was a serious back injury each year at the south grinder plant. I had a young claims person with me who asked the supervisor `Why is it we always get a $100,000 claim on this particular piece of machinery?' While they were chatting, I was standing between these two platforms, where the line workers did their tasks. One platform had a bar that was waist high. Workers had to bend over the bar and use their backs to hoist things, instead of their legs. We replaced the platform for $8000 and that ended the $100,000 claims. When I asked the plant manager why this hadn't been done before, he said it wasn't in the budget. My point is that you need data first, followed by observation and intelligent conversation to challenge the status quo.

RIMS: Did you apply the same ERM principles when you arrived at Whirlpool?

Schwarting: Yes, although the program was well thought out when I got here. The board of directors mandated ERM in 2007, and my predecessors had worked on the concept for three years. The first phase of the implementation for me was cultural, given the many different brands, diversity of regions, and different personalities and biases. These all became components of the program's design. I put together a process map with internal audit, locating where risk data resided and the people that would report the data. We then built the tools.

RIMS: Can you provide an example of these tools?

Schwarting: One was to discern risk velocity. Partnering with internal audit, we looked at material events that could affect the share price and forecast—risks that occur from a regulatory issue or a product recall, for example. If bad enough, they can affect your stock price and possibly the rating agency view of your free cash flow. Risks that trend over time that are the biggest risks.

RIMS: Does one come to mind?

Schwarting: The Thailand floods (of 2011). We knew that suppliers in Thailand in the case of a major flood event would not be able to produce components. We needed a model in place to know where else the components were available, how we could scoop them up before competitors did, and what it would take to have boats on the water in the right place at the right time to ship them.

RIMS: When the stock market tumbled in 2008-09, Whirlpool was downgraded and couldn't sell commercial paper to finance the business. Was ERM a factor in the company's successful response to the challenge?

Schwarting: It was a big factor. We had to go to a commercial credit facility, which we needed to renew in 2010. Our treasurer and CFO quickly undertook a risk assessment regarding the liquidity portion of our banking covenants. There were certain financial risks that could affect the bank covenants. This convinced them to negotiate a special EBITDA (earnings before interest, taxes, depreciation and amortization) carve-out.

RIMS: What were these risks?

Schwarting: Chiefly, we needed to settle a 20-year dispute in Brazil, which ended up costing us $600 million. We agreed to pay out the sum in three $200 million chunks. This $600 million liability on the balance sheet, had it been put into a ratio analysis, would have broken the bank covenant. But $200 million instead of the whole amount allowed us to maintain the banking covenant and continue financing the company through the financial crisis. Had they (the CFO and treasurer) not done the risk assessment two years earlier and negotiated a solution, things might have turned out very differently.