

Q&A

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ERM AT CEMEX: FROM TACTICAL TO STRATEGIC

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CEMEX S.A.B. de C.V., known as CEMEX, is a multinational building materials company headquartered in Monterrey, Mexico. The company manufactures and distributes cement, ready-mix concrete and aggregates in more than 50 countries worldwide.

Over the past 16 years, the risk management function at CEMEX has evolved from a focus on managing specific business challenges into a broad-based strategic, competitive, environmental and operational ERM infrastructure designed to identify, assess and manage the full gamut of enterprise risks. RIMS sat down with Enrique Alanis, global director of ERM, and Adrian Castillo Cisneros, ERM manager, to discuss this evolution.

RIMS: Take us back to the beginnings of CEMEX's ERM journey. What was the precipitator for a more rigorous focus on enterprise risks?

Enrique: In 2001, our CEO (Lorenzo H. Zambrano) had the perception that we were mainly managing urgencies, as opposed to managing what might happen to the business. He felt we were constantly being surprised by unidentified risks. One day there would be a union blocking a port in one country, another day a typhoon would hit the Philippines, the next day there would be a political issue in a different country, and after that a new regulation would come up elsewhere. We were in a reactive mode, not a preparatory one. He wanted a 'heads up' of what might happen.

RIMS: Were you tasked with providing this intelligence?

Enrique: The CEO hired the former director of the Mexican intelligence agency in 2002 to provide this supervision. I joined the company the same year and reported to him. Together we built up a risk agenda of what we considered to be the main concerns of every operation at CEMEX, all of it focused on what might happen. This was the first evolution of ERM, where we went from people reporting on what had happened to considering what might occur. If a country were considering a new regulation that could affect the industries we serve, such as a regulation affecting the trucks that transport our materials, our people in that country were tasked to identify this as a potential risk. We instituted this across every country: building risk agendas that addressed everything from political issues like possible insurrection and riots, to natural disasters, cyber attacks, new regulations and so on.

RIMS: What you're describing sounds like an early warning system. What was the next iteration towards more of an ERM framework?

Adrian: At the time we were only providing risk intelligence; identifying the risks. We then created a process to monitor the risks that were identified with an eye toward deeper investigation. We put together three types of information networks to do this, beginning with an internal network composed of all our employees worldwide. We also established external networks of people outside the organization like suppliers, market experts, industry trade groups and consultants to update the risk information, and incorporated public sources of information like the internet, media and public forums. We gathered and assessed all this information on a real-time basis, producing a risk report as the final phase. We then presented the reports on a weekly basis to senior executive leadership.

RIMS: To sum up this leg of the ERM journey, you went from identifying enterprise risks on a global basis to investigating them more deeply, and then analyzing them in a report. Please tell us the next phase of the effort.

Adrian: Bear in mind that up until this time, we were conducting basic risk intelligence. We then started to analyze our industry and other industries insofar as how they were managing their risks. That's when we heard about something called ERM. This was around 2010.

RIMS: What was your reaction?

Enrique: Well, we felt we were already moving in this direction, but we wanted to be sure we were doing it correctly. So we retained a consultant to study what else we could do. The person's report indicated that we needed to develop more strategic risk management—identifying, monitoring, assessing and managing the risks that might hinder our ability to achieve our strategic objectives. We then tasked our ERM network worldwide to consider business continuity and resilience in their identification and management of risks. We compete on the quality of our products and services and we do that very well. If something happens in a region that could affect these capabilities, such as a new regulation or a cyber attack, they are entrusted to anticipate possible impacts.

RIMS: Did this mark the transition to true enterprise risk management?

Enrique: Well, it was the next stage, since we believe ERM should constantly evolve.

Adrian: The goal at all times was for us to stay ahead of potential risks in order to be ready if and when they occurred. This way we would reduce the element of surprise. We are looking forward, not backward. Now a lot of this involves rumors, hypotheses, scenario testing and innovative ideas. But, it's basically the same process as before—risk identification followed by risk monitoring, analysis and reporting. The difference is we added a fifth stage: risk treatment or mitigation. Previously, the intelligence stopped when we delivered the report. Now with ERM, we understand we have a big part to play in formalizing a response to the risks that have been identified. For example, we may design a project to mitigate a particular risk and assign it to someone responsible to see it through to its completion by a specific date—basic project management.

RIMS: In your development of ERM, have you found any particular technology tools to be useful?

Enrique: The first tool we used was a database with an automatic reporting function that captured our risks in a risk register. Over time, we embedded the mitigation phase—the project management updates—into the tool. Most of this information is built from the bottom up to the senior executive level and then goes from the top down to the regional and corporate offices and to the specific executives tasked to manage the risks.

RIMS: Can you provide an example of where your robust ERM process has been strategically vital to the company? In other words, had the ERM program not been in place, a less desirable outcome might have occurred?

Enrique: What comes to mind are the political risks that emerged in Egypt when the revolution started in 2011. Thanks to our ERM process, we already had some information that something was not right. We sensed the problems before they erupted, based on the intelligence we were receiving from within and outside our industry in the country. This advance warning gave us some time to prepare for how to cope with the situation.

RIMS: How did you prepare for the uprising?

Enrique: We've been very supportive of the industry in Egypt. They know that CEMEX is good for the economy, for employment in the country. We provide important products that help the country and many different businesses. Thanks to ERM, we were prepared with this corporate affairs strategy in hand. It was on our risk agenda before the political transition finally took place. ■