

ERM: CUSTOMIZED TO FIT

By Russ Banham



RIMS

Laura Langone is a seasoned ERM director. In her career as a lawyer, global insurance consultant and corporate risk manager, Langone has advised on multiple ERM implementations and captained a few programs at companies as diverse as Oracle and Genentech. She is now five years into leading the ERM program at Juniper Networks, a Sunnyvale, California-based manufacturer of networking equipment like routers and Ethernet

switches, where she serves as senior director of global risk management.

Langone learned long ago that ERM is not a cookie cutter. Rather, it is dependent on the specific operational and financial risks of each organization in relation to its strategic objectives. As she describes this wide range of ERM programs, “I’ve done everything from bottoms up ERM to top down.”

RIMS sat down recently with the veteran risk manager to learn from her experience.

Editor’s note: Since this interview Laura has joined Paypal

RIMS: So it looks like you’ve enjoyed a very circuitous path in your career. Tell us a bit about it and why you it was crucial to your development as a global risk manager.

Langone: I started as a casualty underwriter at AIG, working internationally with companies like Raytheon and L’Oreal, primarily to increase their insurance capacity through improved program design. I then went to Thunderbird Business School, where many of my colleagues from AIU, the international company of AIG, went to business school. Once I graduated I had the chance to move to Venezuela and work for a leading investment banking company. When the company had financial problems due to significant political and economic risk, I realized the failure of the business was to not anticipate these types of risks in such a volatile market. I realized I was talking about insurance and really saw the value of this profession in solid business decision making. When I returned to the US, I decided to go back into insurance but serving clients. I joined Johnson & Higgins’ (J&H) technology group in California, serving accounts like Microsoft and Hewlett-Packard. During this time, I also obtained my law degree attending night school—another aspiration I had. I realized the importance in risk management as insurance is a contract and in most of the world, many underwriters and brokers do have a legal background. While at J&H, I also had the opportunity to do outsourced risk management. When our clients left or went on vacation, I had the chance to be the acting risk manager. As a result, my profession came full-circle. I really understood the various perspectives of different risk management stakeholders.

RIMS: You’re just scratching the surface, according to your resume. It seems you also worked for Towers Perrin and then returned to the broking business at Aon.

Langone: That’s right, but shortly after I joined Aon, I received a call from Oracle’s risk manager who was leaving the industry. I decided to take this opportunity. I worked for Oracle until I graduated from law school and the treasury team moved their operations to Reno. While I thought about moving into the legal group, I received good advice to try my hand at working at a law firm. I was able to easily transition to a law firm specializing in insurance defense. It was a natural transition. Now I was working on the interpretation of the insurance policies I wrote and brokerage deals I marketed and truly understood the value of my legal degree. Many of the coverage enhancements brokers and underwriters discuss, do not actually hold up in state law decisions. This value of underwriting, brokerage, risk management and legal defense really helped

me understand the industry more. My passion, however, was helping companies resolve difficult issues and manage enterprise risk. As a result, while I was learning my legal craft, I looked for a dynamic position in enterprise risk management, which is where I could see all of my skills coming together. I joined Genentech as a director of risk management.

RIMS: In the early 2000s, Genentech and the rest of the biotech industry were in a high growth mode. Did this encourage the drug company's embrace of ERM?

Langone: They did not have a program at the time; I essentially started it. The Treasurer wanted to reprioritize the efforts of risk management. Given that 99 percent of the risks were uninsured, it meant spending more time consulting with the business to understand the risks from R&D through pipeline development to market. The opportunity was to align Genentech's ERM program to delivering products to patients to save their lives. We really had a mission and it was strategic. Our ERM program also had to be tailored to the culture of the company. For instance, Genentech's executive management were scientists and very analytical. Significant investments went into drug development and to divert these funds to other risks like supply chain or hazard risk required a very analytical perspective. At technology companies, where the product life cycle is shorter, decision making is based on innovation and time to market so quantitative analysis of risks are not as critical.

RIMS: A number of years ago in the midst of the "Great Recession", you left Genentech, then joined former colleagues at Marsh in brokerage again but came back to corporate risk management at Juniper Networks. What drove you back into risk management?

Langone: Simply the opportunity to be an internal consultant helping the company build an ERM program. The CFO wanted a top-down-driven ERM process because the company was going to raise debt and establish a credit rating. After the financial crisis, more companies were required to demonstrate greater governance for risk across the enterprise. Juniper's CFO wanted to ensure there was a solid program in place. The opportunity at Juniper was to determine which ERM framework was right for Juniper. We evaluated many and decided to adopt a simple framework consisting of components of COSO, ISO and other models—how to assess the risk, have accountability for it, mitigate and monitor it, and then report it. Also, how deep and analytically the program needs to be is dependent on the company's culture.

RIMS: How did you kick the program into gear?

Langone: We started with a blank sheet, listing the responsibilities for risk from the board all the way down. We then assembled a risk management committee at the executive vice president level with the CEO. We also had a risk management working team consisting of senior vice presidents and vice presidents, including corporate and functional areas like strategy, IT and legal. It is important to have people on the team who understand the business. While I can bring the ERM framework and process, the working team can provide deeper insight into the business and our potential risks.

RIMS: Tell us a bit about the ERM framework itself.

Langone: Well, we explored many models. I did not want one model. I leveraged the similar components of every model to drive a risk intelligent framework. The working team evaluated our risk taxonomy and identified a universe of risks impacting the company. We prioritized these risks based on impact, vulnerability after current mitigation, and speed of onset.

RIMS: Over your career, are there specific instances or examples where you believe having ERM in place truly made a difference?

Langone: I think having ERM in place makes a difference specifically for governance and transparency for risks that otherwise may be evaluated. Having senior management engagement ready to discuss new and/or emerging issues is also critical. At Genentech, there are strict regulations surrounding the product or drug, including the components from suppliers that go into the product. The FDA requires the company to pre-qualify or qualify the suppliers in the supply chain. If one of the key suppliers experiences a fire, we need to have backup suppliers that are qualified ready to step in; otherwise we could miss a market opportunity. The ERM program provided transparency into our supply chain and inventory management, guiding new year-end modeling that changed how the various suppliers were qualified. The bottom line is that we had better insight into the supply chain improving senior decision-making, which we might not have had without the ERM program.