ERM IMPLEMENTATION IN A FAST-TRACK, AWARD-WINNING JOURNEY

By Russ Banham

RIMS

Recology likes to say that the company has been in the recycling industry long before there was one. In the mid-1800s, the company's founders immigrated to the U.S. looking for opportunity, and found it in scavenging—salvaging and repurposing discarded items. In the century-and-a-half that followed, through name changes and acquisitions, 100% employee-owned Recology has evolved into a San Francisco-based integrated resource recovery company serving more than 140 communities throughout California, Oregon, and Washington. The company collects and processes municipal solid waste, recycling, and organic material, reclaiming useful materials that otherwise would end up in landfills.

In November 2019, Recology was presented with the RIMS 2019 Global Enterprise Risk Management Award of Distinction. The award recognizes the company's successful implementation and integration of a highly comprehensive ERM program that took less than 18 months to deploy. RIMS sat down recently with William Lyons, Recology's Vice President and Senior Director of Risk, Safety and Environmental Compliance, to discuss the ERM program implementation in detail.

RIMS: You've been engaged in risk management and compliance at Recology for nearly 10 years and previously held the position of vice president of risk management at Petco. Did your background give you a jump-start in putting together an effective ERM program in such a relatively short period of time?

Lyons: I actually launched my career in risk management at Marriott in the mid-1980s, where I learned under the tutelage of Arnie Davenport, the company's vice president of risk management at the time and a mentor to so many young risk managers. I have been a student of ERM since those days.

RIMS: Yet it took almost a decade before Recology implemented an ERM program. What were the factors guiding its implementation?

Lyons: Recology has grown substantially over the past five years, mostly through acquisitions. One overarching goal during this transition period was to evaluate the fit and ability of the acquisitions to meet our financial hurdles. Since I joined the company (in 2010), our revenues have tripled and our workforce nearly doubled. We already had a strong traditional risk management infrastructure in place, including a wholly-owned captive domiciled in Hawaii for part of our general liability, auto liability and other risks. Some unexpected events that occurred over the last few years kickstarted our thinking more deeply about managing risks and improving our methods for evaluating business activity. Through this process, our goal has been to provide increased transparency into both risks and potential strategic opportunities.

From there, implementation of an ERM program became one of the company's primary objectives in our five-year strategic plan.

RIMS: As the person who has been involved in the ERM program from the start, how did this journey begin?

Lyons: The chairman of our board, Dennis Wu, introduced our executive team to a well-known ERM consultant, James Lam. Our CEO, Mike Sangiacomo retained James to help build the ERM framework and guide us through the implementation. James worked with us to create five teams focused on various elements of the program. These teams included executive management sponsors, subject matter experts and a project manager. The board simultaneously created a Risk Oversight Committee chaired by Larry Colton, a board member and longtime insurance industry executive. The committee's charge was to ensure that risk oversight responsibilities were allocated across the full board. Our executive management team also established an ERM Steering Committee, whose primary task was to ensure the program would align with our organizational priorities.

RIMS: It seems the board and C-Suite were very much involved in the ERM strategy. Did this strong tone from the top help the program resonate throughout the organization?

Lyons: Absolutely. The C-Suite and board's championing of ERM was crucial. The ERM Steering Committee engaged employees across the organization to ensure risk-based decisions were made from the bottom up. Five ERM teams were created to work on various aspects of the program, including ERM framework, policy and governance, and risk assessment and analysis. ERM Team #1 launched a Risk Culture Survey to better understand and track employees' risk perceptions. The team also developed an ERM training program for all employees, including our field employees—drivers, material handlers and mechanics. As one of the trainers from the corporate side, I partnered with one of our regional controllers to deliver a highly interactive training class. Our goal is to deliver the in-person risk escalation training every two years to all 3,800 employees, tailoring the presentation by job category. A recent milestone for us is the creation of an online ERM training program that will be presented to all new employees as part of their onboarding. Altogether, this outreach to employees helps facilitate organizational alignment and knowledge transfer.

RIMS: How do you track and report on major risks?

Lyons: We've created a database that tracks our major risks and losses across five categories—financial; strategic; operational; legal, regulatory and compliance; and technology, insofar as cybersecurity and opportunities presented by digital transformation. The database ensures specific risks are properly analyzed and addressed, continuously improving our risk management processes. Management is apprised of these major risks in a quarterly report provided to the Risk Oversight Committee. Another ERM initiative is designed to quantify the major risk drivers affecting our earnings, such as the global pricing of recyclable materials, and the quantification of potential positive or negative impact that could have on future earnings.

RIMS: You've also developed a plan to enhance risk transparency and rapidly resolve related issues. What is it and how does it achieve these aims?

Lyons: We call it our Risk Escalation Policy. It's designed to empower employees to identify risks, take actions to mitigate them, and report them through normal channels or via our ethics hotline. These actions are critical to our success, hence the use of the word 'escalation.' To get this message across we've created a clever tagline, 'Don't hesitate to escalate.'

RIMS: Since Recology is a product of nearly a century's worth of organic growth and more recently, acquisitions, how does the ERM program assist your M&A due diligence going forward?

Lyons: In our evaluation of a company as a potential acquisition, we've added a variety of quantitative and qualitative risk considerations, including stress-test assumptions like labor costs, and a more structured view of areas like cultural fit and environmental impacts.

RIMS: You've mentioned a couple times that the ERM program was built not just to identify and manage risks but also to ferret out strategic opportunities. Is there a scenario that exemplifies this goal in action?

Lyons: Yes, the one that comes to mind initially involved a risk response, which subsequently led us to seize an opportunity. In 2018, the tragic Camp Fire in Paradise (California) posed an imminent threat to our infrastructure and operations. We had plans in place to respond to the disaster, depending on how the fire spread. When the fire moved in a different direction than the predictions of weather channels and Cal Fire, we were prepared and able to continue our collection routes. A few months later, a much less severe yet related risk arose that we turned into an opportunity for both our organization and the community. In planning for the cleanup of the debris from the Camp Fire, CalRecycle requested that one of our landfills in Yuba County accept volumes of waste that were five times what we'd historically accepted. We didn't have the capacity to address the request at that time, but embraced the opportunity and made a major investment in our landfill to accept more volume than initially requested. This action helped to reduce the cleanup timeline from a projected 18 months to about six months. By successfully assessing risk and planning for debris cleanup from the Camp Fire, we were able to help a community that had suffered greatly, while establishing a blueprint for future disaster cleanup efforts.

RIMS: That's pretty amazing. It's nice to have a corporate reputation tied to something so altruistic, 'doing well by doing good.'

Lyons: That's true. CalRecycle and other agencies said they'd never before seen an effort like what we had pulled off. They're now replicating our process for their future needs at other landfills. ERM put us on track to do the right thing. ■

Russ Banham is a Pulitzer-nominated financial journalist and best-selling author.