

ORGANIZING COMMITTEE, PAN AMERICAN/PARAPAN GAMES

By Russ Banham



Joanna Makomaski

RIMS

Joanna Makomaski is an internationally recognized ERM expert, who has served as a Chief Risk Officer, consultant and as a respected instructor of ERM principles globally over the past two decades. These days, Makomaski is putting her experience and skills to work for the Pan American Games, on behalf of the Toronto 2015 Organizing Committee.

The Pan Am Games is a major sports event in the Americas, in which more than 6,000 athletes from 41 countries and territories compete in 36 sports. Following the conclusion of Pan Am Games, 1,600 para-athletes will compete in 15 sports in the Parapan American Games. Involving 20,000 volunteers to host 250,000 anticipated visitors in more than 50 venues over a 5,300-square kilometer geographic footprint, the games span several weeks in July and August of 2015. Both games share many features with the Olympics, including the running of the torch and the awarding of gold, silver and bronze medals. A number of the events will qualify athletes for the Rio 2016 games.

RIMS sat down with Makomaski to chat about her career in ERM, what she has learned from this experience, and how she is applying this expertise in her new role.

RIMS: Thanks so much for taking the time to chat with us, given your blistering schedule. We did a little research and came across a comment you once made, that a lot of organizations have the “eyes for ERM but not always the stomach.” What did you mean by that?

Makomaski: The eyes theoretically see the benefits of an ERM program and enjoy it and want a big plateful, but at times when you really bite into it you realize you may not have the stomach for it. To really do ERM effectively, you have to do risk identification, open the kimono and be brutally honest about all your possible bumps and blemishes. Executives have to openly reveal areas of vulnerability. This can at times cause a tendency to recoil. To paraphrase Jack Nicholson, ‘Only a few good men can handle the truth.’

RIMS: How does an organization get beyond these impediments to implement ERM and instill it as a culture?

Makomaski: First critical thing is to consider the proposed risk management structure. Some organizations may choose to have a Chief Risk Officer who reports directly to the CEO, with dotted line accountability to the audit committee and access to the board. It’s up to this person to broker dialogue with the (board) governors or directors and the management team on what it is the company is trying to protect. I often compare the role of the Chief Risk Officer to a Chief Protection Officer of the organization’s strategy and deliverables. A hallmark feature of good ERM isn’t a focus on doom and gloom and losses, but expertly diagnosing the potential deviations from anticipated outcomes, negative and also positive. ERM is there to ensure disciplines are in place that help manage and respond to both kinds of these deviations.

RIMS: Must say we like this description a lot. We’ve also come across some of your comments (Makomaski is a columnist for Risk and Insurance magazine) that it is the companies that are exceeding expectations that are also vulnerable to possible unpleasant surprises. Would you elaborate?

Makomaski: There is a tendency often when everything is going overly right to enjoy the ride too much and not pay that much attention to risk. The important thing is to also understand why the business is exceeding expectations. Let me tell you a story: I know this Chief Risk Officer at a

well-known Fortune 500 company. It was 2005, right before the financial crisis, and the company was just implementing ERM. The CEO asked the new CRO what area he would focus on first. He replied, 'Sir, I'll focus on the area where we are making a lot of money and you, sir, don't completely understand why.' The CEO confessed it was the mortgage division. Come 2007, the CEO's concerns were substantiated even though his timing was off, had he brought in ERM a few years earlier, things could have turned out very differently for the firm.

RIMS: Sounds a bit like the CRO could be seen as a party pooper, no?

Makomaski: Quite the contrary. The CRO really should not be a killjoy or a fun sponge. Rather, they must be enablers. It is vital for the CRO to understand and foster the organization's goals—what the firm is looking to do strategically in five or ten years, and what it wants to be. I like to use up to five bulls-eyes or strategic objectives to underpin an ERM program. An organization can't really manage beyond that I feel. I will then unapologetically say my ERM program will deliver risk intelligence around just those five bulls-eyes and ensure plans are in place for good target management. In those goals you also find the critical design criteria of the ERM program. If the business is on a deep growth trajectory, that tells me the strategic risks of the future, making market positions and market intelligence is important. If the organization is looking to divest redundant businesses or sell themselves off, that shapes a different ERM program, where you focus on different risks.

RIMS: Say a company is bent on implementing ERM. Structurally, what needs to happen next?

Makomaski: What shouldn't happen is to force ERM on the organization. You need to understand what management systems already exist and which ones are working well within the organization's culture. As I say in my speeches, you need to 'dance to the rhythm of the existing organization' and try not to introduce new stand-alone programs. I suggest attaching yourself to existing weekly or monthly reports, a piece of paper or an electronic document that already travels around the organization and is held to a high level of importance to get people's attention. It's easier to get buy-in when new ERM development requirements are attached to something already familiar to employees.

RIMS: Is that what you did when you hired on at the Pan Am Games in 2012?

Makomaski: In many ways, yes but this has been a slightly different experience. When I got here I was employee number 40 or so; today there are around 450 employees. As such, I didn't inherit an organization with a pre-existing culture because there wasn't one to inherit. Some may see that as daunting but to me that was very exciting for many reasons. I had an opportunity to create the right culture and behaviors from scratch, to put into practice what I'd been preaching for years. I did attach myself to the newly created project management group, which runs the second largest multi-sport event in the world. They were developing a lot of foundational documents and I was able to create a risk assessment template and embed it within these documents. It broke planning decisions and anticipated risk identification down by functional area, and by virtue of each function completely these templates they then became my mini-risk managers, which made it all consistent and easy. We developed a commonly understood risk lexicon and initially replaced the word 'risk' with the word 'issue.' It was a less divisive word for many at first. It's the spirit of the effort that was important not the terminology. With time people became more comfortable with using the word 'risk' and I have now found that many people have re-adopted it.

RIMS: We have to ask—what is your specific definition of ERM?

Makomaski: It's the adoption of a management style that uses risk as the primary currency to address deviations from organizational goals. One key value proposition of this management style is forcing an understanding of the organization's risk position. When I talk about risk position, I mean both the appetite for risk and risk tolerance. The adage "one's eyes can be bigger than one's stomach" reminds me of the concept of risk appetite and tolerance. Appetite being our eyes for taking on risk while our risk tolerance is limited by our stomach size. ERM helps to centralize this understanding of the risk position, which leads to interesting discussions on, for example, how much insurance we need and how much residual risk we can handle. Really, these discussions on risk position are critical to guiding better risk management decisions.