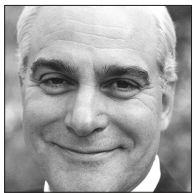


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LEVINE ON LEADERSHIP

Effective leaders understand how to manage risk



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If I ask people to describe the attributes of a good leader, the smartest ones will always mention the ability to stay calm during difficult situations, find ways to be positive and hopeful, and ensure the implementation of effective risk-management strategies. The economic climate, coupled with recent regulations announced by the Securities and Exchange Commission, makes this skill set one of the most important ones facing the business world's boards and leaders today.

Recently I was considering risk within the context of a conversation with Dave Rudofsky, a senior financial consultant at our firm. Dave's weeklong summer hike through the White Mountains highlighted many lessons he had learned at work regarding the importance of good communication and open dialogue. Dave also found his professional experience in risk management had applications on the ambitious hike.

While gearing up for the trek Dave and his friends had to consider all potential problems they might face on the mountain. Bears? What if they didn't reach camp one night and lacked access to food and water? How low could the temperature drop during a New England summer? Conversely, what if a heat wave hit? The potential obstacle list was long, but had to be balanced against the limits of what the hikers could physically

carry. The more in the pack, the more slowly they would move.

One option was for Dave and his friends to bring along every possible piece of equipment in order to be ready for every possible event. However, they had set an aggressive schedule for their trip, planning to cover many miles of rugged terrain each day. The extra weight of anticipating every risk would slow them down to a point where they wouldn't be able to meet their goals. When deciding what to take along and what to leave behind, Dave found his professional experience in enterprise risk management especially helpful.

In the business world, leaders must consider a number of areas: reputational risk, organizational risk and human capital risk. Excessive financial risk taken by certain major corporations in the past few years has led to a public outcry for more controls by government. While it is important to consider where the systems went wrong within those corporations and correct them, I grow concerned about the pendulum swinging too far in the other direction, squelching innovation. A business cannot grow without risk. Our economy cannot rebound unless we continue to be a nation of bold risk-takers.

If Dave and his friends mulled over all the possible dangers of their hike, they never would have set foot on the mountain. Any one of them might trip and fall over a cliff, or be stung by a poisonous insect. Every endeavor we undertake in our personal or professional life involves a certain amount of risk. The key is finding the balance and mitigating risk through a thorough analysis of factors.

Dave and his friends never let risk stop their glorious hiking trip, but that isn't to say

they plunged headlong without a great deal of planning. Dave relayed to me how they decided what to bring. Even on vacation he thought about work – they utilized a process similar to the approach our firm takes to analyze enterprise risk management. They looked at the implications of the various risks in conjunction with the probability of them arising. Then they decided where there was the greatest need to be prepared.

They went item by item. Bear repellent was nixed based on the infrequency of bear attacks in the area. The repellent weighs 12 ounces, so they determined it wasn't worth it. On the other hand, they weren't going to take a chance with severe bad weather. During a similar hike many years ago, they faced a hailstorm and winds of 50 miles per hour. So they carried hats and winter gloves, although it turned out to be very mild. They packed a first aid kit that wasn't used, but they were glad to be prepared for emergencies. Ultimately the process allowed them to enjoy the hike without being weighed down by either excess supplies or excess worry.

Effective risk management allows businesses to move forward in the same manner. As a leader, define your tolerance for risk and how you will gauge it. Create effective systems to understand risk, so you eliminate the possibility of impeding growth and innovation. Whether you are running a small shop or a complex global corporation, the biggest risk of all is to do nothing.

Levine is chairman and chief executive of Stuart Levine & Associates, an international consulting and leadership development company.