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CORPORATE FINANCIAL SOLUTIONS (CFS) provides confidential strategic financial management consulting to resolve crucial issues for businesses in transition.

Founder **Debra Pauli** brings senior level financial experience, on site, to evaluate issues crucial to minimizing risk. CFS has repeatedly been able to protect assets, enhance value for the seller or limit after purchase losses for a buyer by discretely drilling down to the bottom of financial information until the solid realities of business performance are known.

CFS has supported private equity groups, audit committees, entrepreneurs, investors and lenders during risky business transitions. Typical transitions include turnarounds, the sale of a business, and management change. As a trusted adviser, you can be assured that CFS will provide your client the confidentiality and expertise that make the crucial difference in a successful outcome.

CORPORATE FINANCIAL SOLUTIONS
Discover the Roots of Growth℠

April 2012

Managing Risk to Improve ROI

Knowledge is the fact or condition of knowing something with familiarity gained through experience or association. **Risk** is the potential for loss. These two related concepts are easy to understand when facts support knowledge to assess risk. Managing risk is a key role of management and boards. How can corporate stakeholders, who include the board, owners, lenders and investors, manage risk when they don't know the facts? How do they manage risk when they don't know what they don't know?

Signs We Need to Know More

After years of working in corporate financial management and consulting with companies in transition, I've developed a list of seven signals indicating more knowledge is needed to manage risk.

1. **The Weak Link in the Management Team**
   As the first line of defense in managing corporate risk, each member of the management team must have the skills to recognize risk, assess it and resolve the risk. If the individuals lack the required skills for their responsibilities, then risks may go unrecognized. Corporate stakeholders should know the strong players from the weaker members of the management team and how the company compensates for these weaker team members.

2. **Management Organization isn't on the Organization Chart**
   Corporate culture is the manner in which things are done within a company. Does management operate within silos or cross functionally? Is management instructed to keep the "bad" news away from the stakeholders? Early in my career I was hired to "change the culture" in the controller's department of a large Company. Certainly managers can influence a department's culture but overall culture is defined by top management. The Board is ultimately responsible for a company's culture and influences the culture through its corporate governance practices which include statements of values, management selection and incentive compensation design.

3. **Controls for Everyone**
   Top management must support internal financial controls for all personnel including themselves. If the financial controls are not respected, then the corporate stakeholders can't depend on controls to surface risks. Corporate stakeholders support financial controls through audit committees, internal and external audits, and appropriate action when controls are violated.

Client Comment

"Due to Debra's ability to quickly understand the Company's business, manage challenging cash flows and provide the guidance and analysis necessary to help move the Company forward, the Company moved to a much stronger position both operationally and financially."

President & CEO of a medical equipment company

February 2012

When you need to sort out the facts to gain the knowledge to manage risk in order to discover the roots of growth, consider the senior level experience provided by Debra Pauli and Corporate Financial Solutions, LLC. We're experienced in evaluating the crucial issues to manage risk.

4. **Tools for the Job**

   Just as you wouldn't think of hiring a plumber without the right tools, does the board support all business processes to ensure good financial systems are in place for management to do their job effectively? The board and the CEO have the responsibility to direct asset allocations. Failure to support all business processes and functions will result in problems. A company can't run on sales and operations only.

   In one consulting project, I sensed something was different about the company just in walking around but I couldn't define it at first. Finally, I realized that I hadn't seen so much paper in a company in a long, long time. The failure to invest in technology was a major clue that the company had risks that weren't well defined despite heavy investment in the business.

5. **Information or Data**

   Does the data create information or is the information merely a data dump? Is it timely? Can management use the information to answer why? This can be tougher for a stakeholder to assess because reporting tends to follow the way it has always been done. The key here is to drill down into the data structure to insure it's aligned with the business units. Businesses change and the reporting process must change with it. Poor data compilation within financial reporting leads to inaccurate information and ultimately wrong decisions.

   In one situation, management used the standard overhead allocation model to develop pricing but failed to recognize that the "new" business wouldn't share that overhead. Lack of critical thinking caused this mistake primarily because the overhead calculation was always done that way.

6. **Managing for Today and Tomorrow**

   How well does the management team anticipate financial, operational and market place changes? Are these changes incorporated into planning and action? Years ago a company recruited me to become their CFO. In my discussion with the CEO, I sensed he was experiencing a great deal of stress with the Board about planning for the most current year. I sensed that the CEO was more stressed that the current year losses hadn't been planned than actually losing money. He confirmed this. If management doesn't know what's going on in their business, they aren't in control. Stakeholders must insist on adequate planning, monitoring results and anticipation of change.

7. **Management and the Board**

   Managing risks begin and end with management. You may remember that Cantor Fitzgerald, a global financial services firm, lost two-thirds of its workforce in the 9/11 attack on the World Trade Center. Within one week, the company was able to bring its trading back online. This is a great example of how management prepared for a major risk and was able to emerge from it despite the loss of its team. Although management develops the plans, it is the Board who insists on the plans being fully developed.

Managing risk begins with knowledge of how to identify these seven signals.