ENTERPRISE RISK ASSESSMENT, MEASUREMENT, & MANAGEMENT FOR INFORMATION PROFESSIONALS

WORKSHEET TO HELP WITH PREPARING CASES FOR CLASS DISCUSSION AND/OR ASSESSMENTS

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| **STUDENT NAME: Rutwik Ghag** | **CASE NAME: Dupont** |

Fill this out BEFORE trying to complete the assessment. These cases present information throughout the chapter. If you try to answer questions as you read, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. The discussion forum may be helpful.

1. **List any terms you do not understand or questions you have. Add to this list as you read along. Fill in answers as you find them.**

One term that I had to research about was:

EAR- Calculates the maximum potential earnings loss within a certain confidence interval caused by the adverse movements of market factors

1. **After reading the case, what do you feel are the *most important facts about* the**

**company’s business, markets, and/or history that influence the firm’s RISK culture? WHY are these important?**

I feel that the most important facts about the company were that even though DuPont has changed over the years risk management has remained an important part of its organization. Managing risks has always been ingrained in the company’s culture, resulting in an efficient risk management process. This was important as this helped DuPont develop its new risk infrastructure and the transition was smoother.

1. **What does the case indicate were the most important reasons the company decided to engage in Enterprise Risk Management, i.e. Why NOW? Who was most influential in championing this change to and Enterprise perspective of risk?**

The most important reasons the company decided to engage in ERM were:

-The sale of Conoco (energy) and the purchase of Pioneer Hi-Bred International (agricultural) changed the company's energy and commodity risks.

-Changes in exchange rates and interest rates were exposed because of the company's international expansion.

-SBUs were created because they lacked the systems and competence to manage risks.

-More public awareness of financial risk - bank regulators were working more on this sector, and other significant derivatives disasters occurred at other firms.

They decided to engage in ERM then as [1]“In the 1990s, DuPont faced challenges and risks different from its early black powder days. The business continually changes and so do the risks. For example, recently DuPont had a major change in its operations— the sale of Conoco, an energy company, and the purchase of Pioneer Hi-Bred International, an agriculture seed company—that altered its energy and commodities risks”. Bruce Evancho, U.S. treasurer and global risk manager was the most influential in championing this change.

1. **Describe how this company structures and delegates decision making for Enterprise Risk Management? (Describe the structure.) For example, do they have a single Risk Management Department and a Chief Risk Office (CRO), or do they expect everyone to be involved, or a little bit of both. How is this different from their past approaches? Is there anything unusual about their approach? How is it different from the case studies and WHY?**

The reorganization that created key business divisions, as well as the fact that financial risks in the wider business community were gaining greater attention, were the main drivers that pushed DuPont to modify their existing risk infrastructure.

The three major components of DuPont's new risk approach were as follows:

-Corporate Wide Policies

-Corporate Wide Guidelines

-Line Management Strategies and procedures.

DuPont does have a risk management department, The department consists of CFO, treasurer, controller and vice president of sourcing. The committee assists the CEO in setting policies and guidelines and they have the authority to execute any financial instruments. In the past they didn’t have an infrastructure. It is different from other case studies as the decisions are not taken by one person but keep all the high level officers involved.

1. **What were some of the company’s biggest challenges in making the transition from their old approach to dealing with risk to the new focus on ERM? Why were these challenges? Do you think every company would face these same challenges? Why or Why not?**

The biggest challenges were:-

-DuPont's Business Expansion Outside of the United States

-Degree of flexibility while designing the framework for Risk Management during the reorganization of the company to form SBUs

-DuPont used the EAR (Earnings at Risk) approach after integrating risks across the enterprise.

-Analytical tools are in short supply for Due to the need to quantify the risks, DuPont partnered with Measurisk.com for the analytical tools.

-The use of Risk Management to achieve year-over-year and quarter-over-quarter growth led to the modification of the previous Risk policy.

Yes I feel every company would face the same challenges as every company expects to have some sort of business expansion in the future.

1. **Using the table below, list some of the main risks this company has identified with how they measured these risks, and how they manage them.**

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|  | | |
| **What are the main RISKS they face?**  **Be brief but specific**  **and provide an example.** | **How do they measure these risks?** | **Briefly explain the main method for managing each risk, *(for example, how each Risk is Mitigated, Transferred or Shared)* and why they manage the risk this way?** |
| Financial risks | Risk Map | EAR |
| Chemical prices | Risk Factor | EAR |
| Energy Prices | Risk factor | EAR |
| Foreign Exchange | Risk Factor | EAR |

1. **How does this company approach contingency planning or disaster recovery planning/plans as part of their overall ERM approach? (E.g. integrated, detailed and specific, general guidelines or not discussed?)**

Contingency Planning Of DuPont:-

To avoid dangers when dealing with a huge clean-up project, DuPont does the following:

* + - In many contamination circumstances, every minute that passes results in a considerably more complicated and, in some cases, globally distributed clean-up. Pollutants mixed with natural factors such as vegetation and pileups, as well as pollutants distributed far by wind and tides, will be significantly more difficult and dangerous to handle.
    - Ascertain that they considered all the resources you'll require, including labor, equipment, transportation, clean-up supplies, safety equipment, and illumination.
    - Examine a variety of choices. Is there a less risky or environmentally aggressive technique, such as using machines instead of people, that could be used?
    - To avoid unauthorized or unintentional public or third-party access, make sure the cleanup site is secure.

1. **What does the company feel are the main benefits of ERM for their firm?**

The DuPont risk framework had the advantage of effectively integrating financial hazards.

DuPont was able to establish whether its risk management approaches and tactics were consistent, and whether it was assuming the appropriate level of risk for each risk area, using the integrated approach.

Collaboration with Measurisk.com - DuPont was able to keep its costs down while still having world-class tools by leveraging Measurisk.com's systems, data, and knowledge. DuPont currently has two capabilities as a result of the partnership: first, it now has earnings at risk (EAR) capacity using world-class methodology, data, and models. Second, the collaboration has created services to help businesses comply with the SFAS.

1. **What surprised you most about this case? Why?**

The thing that surprised me most about this case was how DuPont used EAR instead of VAR as [1] Evancho comments, “Value at risk doesn’t help us; it’s too short term and narrow. DuPont’s focus is not on the market value of a financial instrument portfolio but on earnings and cash flow.”

1. **What do you think is the *most important lesson*(s) to be learned from this firm’s experiences with Enterprise Risk Management? Be SPECIFIC. Hint: Think about what may be unique or different for this firm.**

The most important lesson to be learned from DuPont’s ERM is how DuPont tried to become world-class in financial risk management. They achieved this by:-

-Collaborating with Measurisk.com - DuPont was able to keep its costs down while still having world-class tools by leveraging Measurisk.com's systems, data, and knowledge. DuPont currently has two capabilities as a result of the partnership: first, it now has earnings at risk (EAR) capacity using world-class methodology, data, and models. Second, the collaboration has created services to help businesses comply with the SFAS.

-Hiring a person with an MBA to assist with the process.

Another important(different lesson) was how DuPont used EAR instead of VAReven though companies like J.P Morgan were using VAR.

DuPont was able to assess hazards across all classes of exposures using EAR and observe how they affected earnings (or cash flows).

DuPont was able to observe natural risk offsets, determine whether hedging is truly essential, and assess the effectiveness of hedge methods thanks to it.

**References: -** [1] Making enterprise Risk Management Pay Off by Thomas L. Barton, William G. Shenkir, Paul L. Walker