

Preface

A small company is an inherently risky enterprise. Mortality rates for small companies are shrouded in debate over research definitions and methods. The statistical variance among conflicting studies is enormous. Depending upon which study you choose to believe, 33% to 90% of small businesses have short lives. Even under the most optimistic survey, the risk factor is fearfully high. Would any Wall Street investor in his right mind invest heavily against such poor odds?

Despite these odds, each year millions of Americans invest their fortunes and futures by creating and nurturing small businesses. Current federal research (Small Business Administration, May, 2003) counts 22.9 million small businesses in the USA. Nearly six million have employees. Small companies continue as the foundation for tens of millions of American Dreams. Obviously, the dreamers believe that the rewards outweigh the risks. Some get smart or lucky and prosper. Tragically, a high percentage fail.

In the mid-1980s a senior partner of one of America's largest law firms analyzed my former company, a small business that grew to serve America's largest corporations, including *Fortune* magazine's top three. The attorney summarized the company in two words, "Risk aplenty." Dozens of different risks were likely to destroy everything we had struggled to build. I had to find those risks, prevent every one that I could and reduce those that I couldn't prevent. Or end up with a dead company. The company was successfully sold nearly 20 years later. Our Harvard-educated attorney remarked that the sale was enhanced because the company was "... the cleanest, most legally trouble-free" company he knew. I had beaten the risks – and learned some hard lessons.

Bulletproof Your Business is about making your company prosper amid a sea of risk. I've distilled my 20 years of lessons into two categories: **Road Maps** to show you where and how to find risk and **Tools** to let you prevent and reduce many universal risks. Together, they form the *PreAct™* process, a risk management process for bulletproofing your company much more easily and affordably than you might expect.

Small business owners and managers know risk. It keeps them awake at night. It attacks them from a dozen directions and in a hundred different forms. It distracts their precious workday hours from the crucial tasks of improving customer relationships and innovating their products and services. Risk commands their attention because a single major "blowup" can mortally wound their companies. And they are forced to watch, often almost helplessly, as risk turns into trouble that gnaws at their profit lines.

If you ask them, "What is risk?" or "What is risk management?" most will answer in an insurance-related context. This happens repeatedly, even though they know that insurance is only a small part of a risk solution. They have the wrong focus. And few have either the time or training to get it right.

Small business risk is primarily about relationships with customers, suppliers, employees and financial stakeholders. Risk management for

small business is about finding, reducing and preventing risks generated in those relationships. Sometimes insurance is part of a solution. But insurance is expensive and, for most small businesses, that makes it a tool of last resort.

I suspect the error of linking risk to insurance is caused by the history of risk management. Most people think of risk management as a function of big business, largely the Fortune 1000. Risk management students can find nearly 1,000 published risk management books that focus on large companies. Many of them focus almost exclusively on insurance. To date, few authors have attempted books that tackle the risk management needs of small businesses.

Small business owners and managers know intrinsically that their risk needs vary greatly from the Fortune 1000. The Small Business Administration defines a small business as a company with fewer than 500 employees. *Bulletproof Your Business* provides a rare and exclusive focus on these small businesses.

Bulletproof Your Business is based upon the unique perspective of an experienced small business owner and hands-on risk manager. Small company owners see risk differently than many risk managers. Much of an owners' personal wealth is at risk each day, tied up within his company. His personal wealth, perhaps even his home, is often contractually pledged against his company's debts. If a major risk event occurs, he stands to lose his job, his savings and his home.

With so much at stake, and with the frantic pace found in most small companies, owners don't have time to wade through the scholarly theories associated with large company risk management, searching for nuggets that might apply to them. They must quickly identify and defuse the risks that threaten to shut down their companies overnight or bleed off profits through repeated hits. They must stop the self-inflicted wounds that distract their companies from the work that ultimately generates their bottom line. They need simple strategy for reducing risk with great speed and cost-effectiveness. To meet this need, *Bulletproof Your Business* is a strategic road map.

Better yet, the book provides a risk manager's tool kit. Tools follow the strategy and prevent or reduce many universal risks. The tools are model business processes, documents and contracts that owners and managers can quickly and cost-effectively fit to the unique needs of their companies.

Bulletproof Your Business also delivers a rare emphasis on value. You will learn how to select attorneys, law firms and insurance agents – and to measure and hold them accountable for their performance. Decades of experience have convinced me that many risks will be defined as legal issues and so you will sense a legal flavor in parts of the book. Don't let this scare you if you aren't an attorney. I'm not an attorney, either. But my attorneys encouraged me to write this book, knowing that their clients – people just like you – would benefit from it. While you will still rely on an attorney for legal advice, you don't need a law degree to effectively manage your risks. But you do need a good road map and effective tools.

You will also learn how to deal with some universal financial risks. Small businesses are heavily influenced by the anxieties of their commercial lenders and investors. Financial stakeholders want you to consistently produce a “predictable” bottom line number. Ultimately, *Bulletproof Your Business* is about building both a bigger and more predictable bottom line for your company. Yes, actually growing the profit line, not just defending it. Few small businesses can afford resources that don’t contribute to profits. I won’t presume that your company is an exception to this rule.

I never found a resource like this to guide my journey through risk. It is my earnest desire that this book helps you to *Bulletproof Your Business*, making your small business journey safer and more profitable – and letting you sleep a lot better than I did.

Brad Forsythe

Acknowledgments

Writing a book of this nature is a privileged experience. Throughout the long process I have been blessed with many talented, supportive and warm friends. Calvin Buford and Cliff Roe of Dinsmore & Shohl, LLP contributed inspiration, honest criticism and sincere support. Over more than a decade, Mark Brokamp taught me the intricacies of insurance. I learned much about strategy from Dan Wertenberg. Rick Barlow lived so many of these lessons with me over our nearly three decades of friendship. Stephanie Bush, Sally Rowe and Elizabeth Williams have my deep gratitude for their detailed and caring contributions to this book. Dianne Powers provided wonderful art direction. And thank you, George Stoiber, for instilling your optimism in a country boy, those many years ago.

Thank you all for sharing this experience with me.

What You Won't Find in This Book

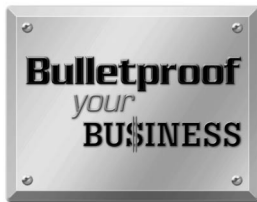
This book doesn't try to be all things to all people. Here are some of the topics you won't find covered in this edition. First and foremost, the book doesn't provide advice on the practice of law. It doesn't replace a competent attorney in matching your needs with the statutes and regulations of your specific legal circumstances and jurisdiction.

The book doesn't try to cover every risk confronting every small business in every industry. If such a book could ever be written, it would come with wheels so you could roll it around the office. This book focuses on the most common risks that I have experienced in my prior two decades and that I have found to be most common in other small businesses. In addition, the book doesn't cover:

- Risks common to large companies
- International risk matters or
- Specialized industry topics like
 - Highly regulated industries (i.e., insurance, healthcare, transportation, utilities, telecommunications, chemicals)
 - SEC-related activities for publicly traded companies
 - Board of Directors/shareholder relations
 - Title 7 and similar regulatory matters
- Consumer contract matters

Notice


Your attorney will remain an important service provider even if you implement all the recommendations contained in this book. This book is a guide to risk management. Do not mistakenly use it as a legal guide. The information in this book is based upon experience and information that, to the best of our knowledge, was current at the time of this writing. That doesn't mean, however, that any specific piece of information is now or ever was applicable to every legal jurisdiction. The author provides you only with suggested models, which you should adapt (or reject, in some cases) with the aid of a competent attorney who is licensed to practice within the legal jurisdictions that govern your business. Neither the author nor Best Practice Advisors, LLC provides any warranty whatsoever, express or implied, nor do they accept liability of any manner nor for any amount, directly or indirectly related to the results or lack of results you obtain from use of this book.



Section I: The *Bulletproof* Road Map

Chapter 1

Bulletproofing 101


 "A soldier manages risks through a combination of "bullet resistance," speed and agility. And that is precisely how your CEO expects you to protect your company."

Objectives for risk managers.

An Overview of the *PreAct*[™] Risk Management Process

Bulletproof is written for the owners and managers of America's 22.9 million small businesses (companies with fewer than 500 employees). Its purpose is to help them find quick and affordable solutions to many of the universal risks that threaten their companies. The voice of this book is primarily written to the risk manager, whether he is the company's owner, an employee (likely one who wears many hats, including that of a part-time risk manager) or a dedicated, full-time professional risk manager. Exceptions to that voice will be found in sections relating directly to company owners and chief executive officers.

What Is Risk Management for Small Businesses?

 Risk management is a professional process that allows companies to conduct aggressive operations with low distraction and financial distress caused by risk-related trouble. It starts with strategy – but it's all about the bottom line.

Bulletproof has Three Objectives for Risk Managers.

1. Provide a strategic road map and tactical tool kit to help small companies implement a risk management process tailored to their specific needs. This management process, called *PreAct*[™], can anticipate and prevent many risk and legal problems, reduce risks that can't be prevented, reduce legal costs, substantially improve the value of risk services received from attorneys and insurance agents, lower the cost of insurance policies and substantially boost the speed and efficiency of company operations that rely on risk management or "Legal" for direction or information.
2. In many small companies the owner, CEO or another high-ranking officer is heavily involved in daily risk management activities. *Bulletproof* shows how to build a management process under which these officers can confidently appoint a risk manager and delegate much of their work to that manager, freeing the officers to increase their focus on other critical tasks that only they can perform.
3. Increase your company's speed and flexibility, even while reducing risk and error.

Objectives for owners and CEOs.

Bulletproofing enables your company's aggression.

The first step is to understand what your CEO expects.

***Bulletproof* has Three Objectives for CEOs and Owners.**

1. Your company must be aggressive if it is to fulfill the dreams you envision. But you can't charge forward against a hail of arrows without a shield. *Bulletproof* shields you against many risks, providing substantial protection and added confidence (both for you and your employees), letting you move forward aggressively and focus more exclusively on the smart risks that build a great company. More protection – more aggression – less distraction from preventable risks.

The Roman soldier conquered the world with a short sword and a shield. His shield "enabled" his sword. The shield let him move forward, confidently and focused, even against incoming arrows and spears, advancing his sword to a point where it could be put to aggressive use. Your company needs a similar shield so that it can confidently focus forward, safer from and undistracted by common risks that confront small businesses.

2. *Bulletproof* reduces and manages risk with a coordinated business process. The process views risk as a whole issue – not a set of unrelated pieces. The process perspective makes reducing risk easier than you think and gives you much more reliable protection. Many of the solutions are long term in nature so you can use them far into the future.
3. Your day is already filled with critical tasks that only the owner/CEO can perform. *Bulletproof* is about an ongoing, professional management process. Such processes are designed to be executed by professional managers and don't fit into the classic set of job responsibilities belonging to owners/CEOs. Give this book to your chosen risk manager and let him use *Bulletproof* as a training guide.

It's Called "Risk Management" – Not "Risk Elimination"

The first step to success as a small business risk manager is to understand what your owner or CEO expects when he asks you to "bulletproof" the company. Let's examine his actual expectations.

Bulletproof is one of those common words that is often misunderstood. Most people associate the word with body armor worn by police and military personnel. Few would think to ask a soldier, "What are the objectives for your vest?" The answer appears self-evident – to stop bullets. But that is only partially correct. The real answer has three parts.

- Part 1** Protect against a specified range of incoming ballistic threats – a pure safety issue.
- Part 2** Do little or nothing to impede the soldier's speed and agility, because speed and agility are often more important safety features than bulletproofing.

Speed means life for most small companies.

Part 3 Increase actual physical and perceived psychological confidence, thereby increasing the soldier's offensive capabilities and performance.

Bulletproof vests aren't actually bulletproof. While a vest will stop bullets within a limited ballistic range, wearing a vest that stops bullets of every caliber would be much like wearing a cloak of concrete. That vest's weight and bulk would make its wearer a sitting duck and far too immobile to be effective in doing his job. The soldier understands that all his risk from all bullets can never be fully eliminated. So his job is to *manage* the risks that confront him. A soldier manages risks and increases offensive capabilities through a combination of "bullet resistance," speed and agility. And that is precisely how your CEO expects you to protect the company.

Like the soldier, you can never fully eliminate all the risks that confront the company. Even if you could create a perfect risk elimination plan, the nature of human behavior would defeat it, and probably sooner than later.

Operating a small company is an inherently risky venture that often requires quick and aggressive action if the company is to succeed. Forget the thought of eliminating all risk by building a concrete cloak around your company. You must also boost the company's speed and agility.

Instead of concrete, think bullet resistant. Think of ways to greatly increase your company's odds for survival when taking a direct hit from a significant threat. Far better, think of ways to use speed and agility that let you avoid the hit altogether. Just as the soldier relies upon speed in combat, speed means life for most small companies. As faster competitors reap the rewards, slower companies lag behind, left with only the risks that can't be eliminated. Slow companies don't last long.


Your job is to preempt preventable trouble, reduce the danger levels of trouble that can't be prevented, maximize the value of your company's legal and insurance expenditures, pack all these benefits into a sustainable, long-term process and do all this quickly, at low cost and in a way that contributes to (and doesn't conflict with) the company's revenue producers and operational speed. When you accomplish all this, *then* you'll be managing risk in a small company. Then you'll be using the PreAct™ process, which you will learn about in Chapter 2.


Less risk isn't necessarily better than more risk.

What Is the CEO's Objective?


What is the CEO's objective for implementing a risk management process? What does he want to accomplish? I believe that there is one universal answer to this question. It isn't simply "reducing risk." Risk is a natural byproduct of business. Increasing the company's scope of business increases your exposure to risk. Innovation brings risk. New products, markets and customers bring risk. New employees bring risk. Increasing your exposure to risk can be a good thing, provided that you are managing your risks. A company can actually work itself into a position in which it is taking too little risk – not being aggressive enough – and hurt itself just as badly as if it were taking too much risk.

Risk levels may or may not relate to the company's level of aggression.

 Less risk isn't necessarily better than more risk. It is the CEO's job to take smart risks. His objective is to have his risk manager manage the company's risk to its "best" level.

 What is the "best" level? It primarily reflects the level of safeguards the CEO wants in place. It reflects the CEO's level of tolerance for risk. The best level will be unique and personal to each CEO. It won't be the same for any other CEO, even in similarly sized companies in the same industry. The best level is an overview. It is a compilation of the CEO's comfort and discomfort with the many different risks that the risk manager is controlling. It is particularly important for you to understand that the CEO's best risk level may or may not relate to the company's level of aggression.

Risk and aggression are separate concepts.

 Risk and aggression are separate concepts.

Don't let these two concepts confuse you. A CEO can choose to push his company aggressively and simultaneously require the risk manager to operate at either very high or very low levels of safeguards. Risk exists in every company, regardless of when the company is overly aggressive or overly passive. Running a "risky" company means operating without managing risk. A company that operates aggressively *and* manages risk aggressively is less risky than a passive company that ignores risk management.

CEO – you must first "Know thyself."

There are many different risks that confront a company. The risk manager cannot manage these risks up or down to their best levels unless the CEO can effectively communicate his level of risk tolerance on each primary risk. So the first requirement of risk management is borrowed from an ancient Greek oracle. CEO – you must first "Know thyself." How high of a risk level can you run in your company and still sleep well at night? This requirement isn't a terribly complicated issue. CEOs usually know their general comfort levels with risk – at least until new information or circumstances change the way they feel about a particular risk.

Neither the CEO nor the risk manager should expect to adjust every risk to its perfect "best" level. There is no such thing as a perfect level. If there ever was such a thing as a perfect level, it would change anyway, as the company, the marketplace and the CEO's personal life situations change. Manage risk so that you get close to the CEO's comfort zone - and expect that the best level of risk will change from time to time. It is the CEO's responsibility to maintain a personal understanding of his risk tolerance and communicate changes to the risk manager.

Some day, most CEOs will try to sell their company.

The CEO's Secondary Objective

Sooner or later every small business CEO will leave his company. The vast majority of these companies will be privately held. Some founding CEOs will pass their company along as gifts to their families. A tiny fraction will enjoy the entrepreneurs' dream of a successful publicly

traded stock offering. But most CEOs must deal with the inevitable fact that some day they will try to sell their companies. Of course, many won't find a buyer. Their life's work will simply dissolve, leaving them with little or no cash reward to show for their years of earnest effort.

As the CEO, you want to maximize your odds of attracting a good quality buyer and boost your company's real and perceived value in the buyer's eyes. Risk management is an important part of that process. Put yourself in the buyer's shoes. A buyer has many companies from which to choose. Would you choose to buy a company loaded with unchecked liability? Or would you spend your money on a professionally managed company that is unlikely to give you unpleasant (and costly) surprises? No matter how charismatic and polished you might be as a CEO, you won't hide a lack of professional process from a smart buyer who performs reasonable due diligence upon your company.

But you can use a risk management process to greatly reduce and manage risk, enhancing your company's value in the eyes of a buyer. I know. I've already been there. When it was time to sell the company I co-founded in 1981, our effort quickly concluded in a stock purchase agreement with a high-quality buyer.



The buyer's due diligence uncovered little risk in buying my company, which left them free to contemplate only the upside of our deal. That's the way you want a buyer to be thinking.

Seeing little risk leaves the buyer free to contemplate the upside of the deal.

Some CEOs will manage to find a buyer even if they haven't controlled risk. But don't expect a smart buyer to pay a high price for your risk. Again, I'm speaking from experience. My company once purchased a small business with unmanaged risk. As the buyer we had two options, neither of which was good for the selling CEO. We chose to purchase only the target's assets and deliberately chose not to purchase their stock. This means that we got the good stuff and none of the risk. Since the sellers still owned their stock, they were left with 100% of the liability of their unmanaged risk. This made them very uncomfortable, to say the least. But that was their penalty for choosing to ignore risk. Our other option was to pay a severely discounted price for the company and buy the stock. I doubt this would have made the sellers any happier.

The lesson here is that ignoring risk is a major financial error. You will pay a high price for this choice, sooner or later. You are wise to choose to manage risk now, while the cost is low and the upside is high.

A Critical Change in Thinking for CEOs

There is one vital piece of advice that I must give to owners/CEOs. This advice will feel terribly counterintuitive to many of them. As leaders, especially as entrepreneurs, they have learned to praise and reward the heroic man of action. In a company without a risk management process, a behavior that is often highly prized and rewarded is firefighting. What CEO doesn't love to sing the praises of a hero who bravely dashes into the flames and rescues the big client or delivers the company from peril?

Implementing a risk management process means an end to a culture of firefighting.

Many companies live in an environment where firefighting is common and heroic firefighting exploits are part of the company's legends.

A primary component of risk management is fire prevention. If a risk manager does everything right, there will be very few or no fires. So what is there to celebrate? The answer is obvious: You celebrate how the absence of destructive fires is letting you focus human and financial resources on innovating your products and building relationships with your customers. But this answer is counterintuitive for CEOs. They don't celebrate the fact that nothing happens – which is the way many of them will subconsciously interpret the results of an excellent risk manager having done an excellent job! Risk managers often live in fear of this subconscious interpretation of their work.

They fear the CEO will think, "I might not need the risk manager anymore. We haven't had any fires since he put his risk management process in place. The company might be safe without him."

The CEO must learn to think in new ways! Implementing a risk management process means an end to a culture of firefighting. Prevention is to be celebrated and rewarded. If the risk manager has everything under relatively good control, he is probably working smart and hard in many ways that aren't visible to the CEO. This invisibility factor makes it important that the CEO receive regular reports from the risk manager.

All that said, no risk management process can prevent every fire over the long term. Even if the process is perfect, human nature and evolutionary changes within the company will eventually find a way to defeat it. There will always be some fires to fight. But fewer fires will occur and they will probably be less costly than the blazes that happened prior to implementing a risk management process.

**Ignoring risk is a major financial error.
Manage risk now while the cost is low and the upside is high.**

Ground Rules for the CEO







In many small companies the risk manager will report directly to the president or CEO. It is important that the superior officer understands and effectively executes his role in support of the risk management process.

My finest business mentor summarized the CEO's job in three sub-roles: Chief Strategist, Chief Ambassador and Chief Coach. Twenty-two years after co-founding my first company, I agree that this is an effective summary of the CEO's job.

None of these three roles includes the title Chief Risk Manager. Yet many CEOs become immersed in risk details and lose focus of the tasks they alone can and must perform if their companies are to prosper. Some CEOs enjoy the legal elements of risk management. Some fear that delegating this work might lead to a costly mistake. Some simply haven't realized that they could create a risk management process, appoint a manager to execute that process and free the CEO's time for his own unique work. Your CEO, however, has probably made the key decision to delegate at least some portions of this important work to you – and that is why you are reading this book.

Delegating this work to an effective risk manager frees your CEO from the vast majority of this work. As the risk manager, you should encourage the CEO to stay clear of the work – work that you will soon be better trained to perform than he. However, getting and staying free of this work will require the CEO to:

CEOs can and must delegate the job of risk management.

-  Select and empower you in the risk manager's position.
-  Assist you in refining the *PreAct™* risk management process to fit your company, primarily by clarifying his tolerance levels for the different risks confronting the company.
-  Provide you with ongoing information, especially information relative to potential events, threats and shifting risk tolerances.
-  Give you support to implement, enforce and improve risk management practices.
-  Give you the economic resources needed to secure services from competent risk management suppliers, especially legal, insurance and tax experts.
-  Give you frequent performance feedback.

Risk management is a process – not a project.

Note that we are definitely talking about a process – not a project. This is an important distinction. The book presents an ongoing, long-term risk management process that may change the fundamental way your company conducts many important parts of its business. While some parts of this process can be rapidly implemented and quickly return significant economic value, the CEO must understand that, overall, this is not a short-term project. The bad news is that many CEOs prefer projects. Most projects require only short-term focus, letting the CEO see a definitive end to his involvement in the matter. The good news is that the *PreAct™* process is designed to drop the CEO's involvement to the lowest possible level in the shortest amount of time.

How will you know if you are on track? Use the CEO Checklist.

Like most process initiatives, the odds of this effort's success increase proportionately to the degree it is understood and enthusiastically supported from the top of your company. A small company CEO should strongly consider having the risk manager report directly to him. In such circumstances it is likely that the risk manager will wear more than one company hat. For example, the risk manager may also be a VP of Administration, a Director of HR, a Chief Financial Officer or he may perform any of several other administrative functions. The CEOs should not place the risk manager more than two levels down. You will need high-level access, authority, information and support in order to succeed at your highest potential. As the risk manager, you will become a very

The risk manager is one of the most important people covering the CEO's back.

important person in the CEO's life. You will be one of the most important people covering his back.

How will your CEO know if you and he are on track toward a successful implementation of the *PreAct*[™] process within your company? He should read the CEO's *PreAct*[™] Risk Management Checklist found at the end of this chapter. He can check off each of the tasks as they are implemented. When he checks off the last item of the list, he can sleep a bit easier knowing that his company is substantially more bulletproofed. As the risk manager, you can use the same list to keep track of your own progress toward full implementation.

Do you need to follow this exact checklist? Of course not. You should adapt the list to display the primary steps that will constitute your company's own unique version of the *PreAct*[™] process, listing the primary items in a rough order of priority for their implementation. And note that with the exception of items 1 through 3, you needn't complete each of the items before embarking on the next. If time permits, you might be working on several items simultaneously.

Use this book to define and adapt the risk solutions that are best for you.

Using This Book

Just as every company has its own unique set of risks and risk tolerances, each must also find its own unique set of risk solutions. A risk management plan that is perfect for one company may be a mistake for another, even if those companies are of similar size and operate within the same industry. Some companies will need every part of the entire *PreAct*[™] process, plus a few additional solutions that reflect their special needs. Other companies will be safe with only a few of the *PreAct*[™] process elements. The *PreAct*[™] process neither requires nor recommends a cookie-cutter approach to designing each company's risk management process. Instead, use this book to define and adapt the risk solutions that are best for you. It's easy. And like every other aspect of good business practice it starts with objectives and strategy.

It Starts with Objectives and Strategy

Simply put, you need to know what you need – and how to satisfy those needs in a logical and productive manner. When confronting risks, you must start with a clear understanding of the risks and a set of objectives that, when achieved, will define success.

If you haven't already set objectives ...

If You Haven't Set Risk Management Objectives and Strategy

If you haven't already defined your risks and set objectives for dealing with them, begin by following these three steps.

Step 1 Read Chapter 14, "Quantifying and Prioritizing Risks." That chapter provides a simple tool to help you organize and prioritize the risks that face your company.

Step 2 Next, read the Table of Contents. You will gain a quick overview of the strategies and tools that create the complete

PreAct™ process. You will probably spot some solutions that are needed immediately to address some of the risks confronting your company. The value of other solutions may be less clear, at least initially, so don't worry about them for the moment. They will show their value later, if you have needs that fall under their particular scopes.

Step 3 Next, read Chapters 1 through 5 as soon as you can. They will lead you into a strategic plan and you will be well on your way. Consider sharing the Table of Contents with your attorney. He will likely see it as a basket filled with risk management tools. He can recommend which tools can most immediately reduce your risk and boost your bottom line.

If you already know your objectives ...

If You Have a Risk Management Strategy

If you are facing a threat that demands immediate attention and you have a clear definition of the threat and objectives for resolving it, then skim the Table of Contents to find the *PreAct*™ tool that addresses the threat. Read the tool in detail, looking for those pieces of the tool that match your circumstances.

For example, if your company is about to start relationships with a major new supplier, read the chapter on supplier contracts. Read each sample contract in detail, searching for issues that address the supplier-related risk issues that are important to you. Make a list of your needs, noting which needs are covered in the sample contracts and which unique solutions (if any) you will need to create. Next, after reading both the simple and the complex contracts, select the format that best fits your needs.

Your job is to understand the business needs and risks that confront you. Your job isn't necessarily to understand the detail of the legal risks that confront you, at least not at this point. That is your attorney's job. Give your list of needs and the sample contract to your attorney, along with your threat definition and objectives. Your work will give your attorney an enormous head start (saving you time and money), and he should be able to quickly respond with a draft document and advice fitted precisely to your needs.

If you feel comfortable working with contracts and can spare some time, use your list of needs to make a rough draft from the best format sample contract, shaping it to meet your needs. Then, share your threat definition, success objectives and your contract draft with your attorney. He can use your work to save even more of your time and money. I personally like this latter approach, where the risk manager creates a rough contract draft. The intent isn't to replace the attorney – rather, this effort makes the risk manager intimately familiar with the contract that his company will rely upon for safety. It sets the knowledge much deeper in the manager's mind and adds clarity that can't be achieved in any other manner. It is a powerful learning experience.

Warning: If you draft your own version of a contract, it is important that your attorney reviews your work before using it in actual practice. Law is specific to its time and location, meaning that certain items within

the contract models might not hold up in every legal jurisdiction at all times. Legislation and court precedence are in constant change, as are mandatory state and federal regulations. So, please, get the advice of a licensed, up-to-date legal expert before putting your contract to work.

Note: The following tasks and checklist apply to the CEO if the risk manager reports directly to him.



EXAMPLE, INC.

***PreAct™* CEO's Implementation Tasks and Checklist**

CEOs - use this checklist to track progress as you and your risk manager implement a risk management process in your company.

CEO's Tasks

1. Put your risk management objectives in writing so you know and can communicate your needs. Where do you start? List the things that keep you up at night.
2. Appoint a risk manager, explain your objectives and approve his job description.
3. Your ongoing job:
 - a. Create an effective corporate risk environment by:

Telling all employees what they must do in order to win – and what they must not do (i.e., cut corners on quality, honesty, service in order to make their numbers, overstep their written authorities).

Practice what you preach. Employees don't listen to what you say, they watch what you do. Don't break your own rules. Reward the right behaviors.
 - b. Hold weekly or bi-weekly 15-minute meetings. Update the risk manager on all relevant company activities and plans. Let the manager report his performance against plan and budget. Provide performance feedback and updates on your changing risk tolerances.
 - c. Provide "air cover" for the risk manager – political support and displays of corporate will.
 - d. Provide reasonable economic resources when needed.
 - e. Celebrate fire prevention – don't reward firefighting.

Risk Manager's Tasks

- 1.** Risk manager completes initial fact finding and a strategic plan (including budget, tactical assignments and timetable). You adjust and approve the plan.

- 2.** Risk manager executes the plan and implements standardized agreements and work processes with:
 - a.** Customers
 - b.** Suppliers (focused on high-value/high-risk suppliers)
 - c.** Employees (recruiting/hiring, performance reviews, terminations)
 - d.** Visitors and other parties negotiating with your company
 - e.** Attorneys (implements performance polices and reviews)
 - f.** Insurance agents (implements performance reviews)

- 3.** Risk management audits are planned and completed on an ongoing basis.

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