Do your homework on your customers. Far more money will be saved in the long run. Use credit bureaus to analyze financial and credit history. Supplement these reports with news tracking, examination of SEC filings, and in person discussions where possible.

Examine current credit policies to see if they need to be refreshed. Confirm that guidelines are clearly communicated and understood among finance, marketing, and sales staff.

Discourage end of quarter discounting. It may take tough love at first, but communicate to staff that linear quarterly sales are the expectation and that additional discounting or incentives need top management approval.

Conduct a receivables management exercise. Determine what percentage of your customers is regularly in arrears. Meet with them personally to explore the underlying reasons. Adjust their payment program to ensure that future payments are realized—possibly extend terms, lower the purchase price, offer channel incentives, and use one’s own network to sell overstock. Then lock down on future ordering and billing practices to prevent a recurring pattern of delinquent payments—require deposit or pay-down, a credit letter, or other guarantee.

Understand that credit management is a competitive tool. Be aware of current practices within your industry. Remember that having a personal relationship with key customers makes their retention more assured.

Make sure the CFO takes overall responsibility for enforcing credit guidelines, particularly in overseas jurisdictions where problems can easily arise.

Consider using or paying attention to what the credit derivatives market has to say about your clients and key vendors.
INTEREST RATE RISK:

- Keep frequent watch on leading indicators that may presage unexpected rate swings.
- Adjust debt-to-equity ratios to reflect anticipated rate trends.
- Hedge to help reduce volatility.
Foreign Currency Risk:

Internal Electronic Platform

☐ Allows the company greater and more unified control of its funds

☐ Allows the company to automatically integrate financial, accounting, and treasury information through one platform—some even automatically process hedging information into FAS 133 general ledger tools

☐ Allows the company to itself offer subsidiaries the ability to internally execute spot, forward, and future contracts

☐ Allows the company to manage unit loans and deposits, and gives the company greater control to shift excess funds from surplus regions to other units with cash demands

☐ Provides company management with a comprehensive, real-time view of its FX exposures

☐ Allows considerable cost-saving through sharply reduced external banking transaction fees

Other

☐ Direct exposure through sales in foreign currencies

☐ Indirect exposure through intermediaries’ changing risks

☐ Hedging to reduce volatility
EQUITY:

CONCENTRATED STOCK

- Protect against stock downturns, and thereby protect capital
- Diversify holdings from a single stock to a different asset
- Monetize the value of a stock position to generate additional liquidity
- Possibly defer the capital gains tax from a stock sale

OTHER

- Restructuring the equity portfolio using portfolio-management correlations to augment diversification
- Watching for concentrations that exceed your tolerances
DEFINING FINANCIAL TRANSPARENCY:

In March 2002, John Morrissey, Deputy Chief Accountant of the SEC, offered the U.S. House of Representatives Subcommittee on Oversight and Investigations this definition: “A primary goal of the federal securities laws is to promote honest and efficient markets and informed investment decisions through full and fair disclosure. Transparency in financial reporting, that is, the extent to which financial information about a company is available and understandable to investors and other market participants, plays a fundamental role in making our markets the most efficient, liquid, and resilient in the world.”
- Separate risk-taking functions from record-keeping and risk-assessment functions
- Monitor and respond to earlier warning signals in risk management
- Identify and fix errant internal controls
- Use effective internal audit procedures focused on risk, including procedures requiring verification of key information with third parties
Source: KPMG, 2002
As first steps for improving how one deals with operational risks we recommend the following:

☐ Recognize that there’s a profound risk of loss caused by deficiencies in information systems, business processes, or internal controls.

☐ Examine your internal controls and map what must be done, internally, to deliver on your business strategy and agreed stakeholder promises, pinpointing organizational obstacles and crafting practical workarounds.

☐ Focus on the handoff points because in any end-to-end process these are likely to be the primary trouble spots.

☐ Ensure that risk factors are embedded in quality programs and organizational education.