

# The Net Gain of Total Security Management

A Q & A with Luke Ritter

Companies have three basic options when determining a risk management strategy: one, do nothing and accept the risk; two, believe that it can rely solely upon the public sector to provide security; or three, develop and implement a proactive approach that mitigates risk across their entire enterprise.

For most industry leaders, the third option is the only viable choice. Below, Luke Ritter discusses the challenges involved in determining an effective enterprise risk management strategy as well as how to identify an approach that best fits an organization's unique needs, resources and goals.

***Q: What exactly is Total Security Management and why is it important to the security and risk management industry?***



Total Security Management (TSM) borrows from the time-tested Total Quality Management (TQM) approach as outlined by Dr. W. Edwards Deming. In simplest terms, Total Security Management is TQM for risk management. Just as Deming's TQM methodology enlists the entire organization in an effort to boost quality through an integrated process management approach, the TSM methodology prescribes a comprehensive and standardized strategy to enterprise risk management focused on continual, incremental improvement.

TSM includes a thorough evaluation of internal and key external partners, suppliers, distribution channels, processes, policies and procedures in terms of preparedness for all-hazards events. This methodology employs the same PLAN / DO / CHECK / ACT cycles used in quality management and establishes a framework of focus points, metrics and feedback loops in order to elevate risk management from a non-core objective to an essential business function.

Comprehensive and practical management systems tend to serve as the foundation for managing critical business functions in every successful company. Risk management should not be an exception. In today's global marketplace, where vendor difficulties, weather events, security breaches and other operational disruptions can cause immediate and devastating impacts throughout the supply chain, TSM gives corporations the means to turn security requirements from a net cost to a net benefit. By systematically managing risk using a standard methodology, firms can create value by ensuring long-term viability in the face of persistent threats.

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***Q: The insurance industry uses the term "risk appetite" to describe the level of risk that an organization is willing to accept. How can a company determine its risk appetite?***

Risk appetite is defined as the amount of risk exposure that an organization is willing to accept as a normal course of business. Tolerance for risk exposure can vary greatly from one business to another, even within the same industry segment. As a pre-cursor to establishing and managing risk, it's essential for a company to determine its risk appetite. This can be done using a baseline analysis

that accounts for a combination of threats, vulnerabilities, consequences and readiness. The Total Security Management methodology prescribes a “scorecard” process for this function that is a component part of the “PLAN” phase.

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It’s interesting to note that often a company’s appetite for risk doesn’t match its actual posture with regard to security and resilience. In other words, companies are often unaware that their risk exposure is significantly greater than their actual tolerance for that risk. Logically, it follows that businesses that are more averse to risk exposure should be investing more aggressively in security and resilience – but this isn’t always the case. That’s why an initial assessment of risk appetite is an important first step in the process of enterprise risk management.

***Q: Given the many different approaches to enterprise risk management currently offered in the marketplace, what sets TSM apart from other approaches?***

TSM is a comprehensive management system that includes a standard methodology and software package to support implementation. Currently, there are no other solutions available on the open market that take advantage of the proven quality management practices to help companies enhance both security and resilience.

For companies in search of a systematic, process-oriented way to manage risk, TSM represents a novel approach that includes a bundled package of training, consulting and commercially available off-the-shelf software tools. Over time a company’s customers, institutional investors, insurers and regulators will also recognize the benefits of this approach, yielding the ultimate competitive advantage: marketplace rewards for implementation of enhanced security and resiliency practices.

***Q: What’s the impact of not having a secure and resilient enterprise? Can you offer some examples?***

Unfortunately, there are many examples that illustrate the impact of significant disruptive events in the supply chain. For example, in 2007, Menu Foods was forced to initiate a massive pet food recall. Contaminated wheat gluten had been introduced by suppliers into multiple product lines. The contaminated pet food was making animals extremely sick and in some cases resulted in death. Menu was forced to recall at least 50 million packages of pet food, which cost the company approximately \$55M. A staffing reduction of 27 percent followed this incident. The CEO said that this was the “most unsettling time in Menu’s 37-year history.” Such an incident is unsettling to pet owners, too. In turn, that can have a devastating effect on brand loyalty and reputation for a company in the pet food business.

Another example of how potentially catastrophic a disruptive supply chain event can be is the Mattel toy recall. This also happened in 2007, and involved children’s toys that were painted by Mattel suppliers in China with a lead-based, toxic paint. This single event resulted in a 25 percent drop in Mattel’s stock price, and a Q1 2008 operating loss of \$36.5M. The CEO subsequently testified before Congress and apologized to consumers for not providing an appropriate level of quality assurance.

Finally, the Center for Retail Research “2009 Retail Theft Barometer Report” reported that \$42.2 billion was lost in 2008 due to retail crimes. This number includes shoplifting, employee theft and supply chain security-related losses.

***Q: Can mid-market companies afford to invest in Total Security Management?***

The reality is mid-market companies can't afford to *not* invest in TSM. In some cases, CEOs may be betting their company's entire long-term viability on the chance that a catastrophic event won't impact their enterprise – the “it won't happen to me” mindset. That said, more responsible and forward-leaning management teams and corporate boards are striving today to avoid what has been termed “willful disregard for the obvious” – which now includes, by default, a comprehensive and effective approach to enterprise risk management.

The cost of investing in security and resiliency can ultimately be insignificant when compared to the cost associated with surviving and recovering from a major disruptive event such as terrorism, geo-political upheaval, a natural disaster or an industrial accident.

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To survive in a rapidly changing business environment replete with significant risk management challenges, it's essential that successful enterprises, from mid-market companies to large multinationals, invest in creating a culture of resilience – built upon a solid foundation of process management. Corporate decision makers must be prepared to manage risk before it manages them – or be willing to accept the consequences.

Looking back over the past two decades, we know that Quality Management was not always an accepted practice in many organizations. However, today many of the most successful organizations attribute their achievements to implementing and cultivating a comprehensive and pervasive quality culture that supports all aspects of their business enterprise.



We expect to continue seeing the same with TSM. It's hard to argue with the principle that a more secure and resilient business is a more valuable one. Companies with world-class risk management programs can also obtain a competitive advantage in the market place.

And finally, a strong argument can be made that the cumulative, market-driven effect of businesses investing in enterprise risk management solutions will ultimately provide benefits throughout the global economy.

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