



ITS 835

Chapter 22

JAA Inc. – A Case Study in Creating Value from Uncertainty
Enterprise Risk Management

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Introduction

- Business background
- Initial steps
- Evolution of Risk Management
- Introduction of ISO 31000 and HB 436 to JAA
- Bringing everything together

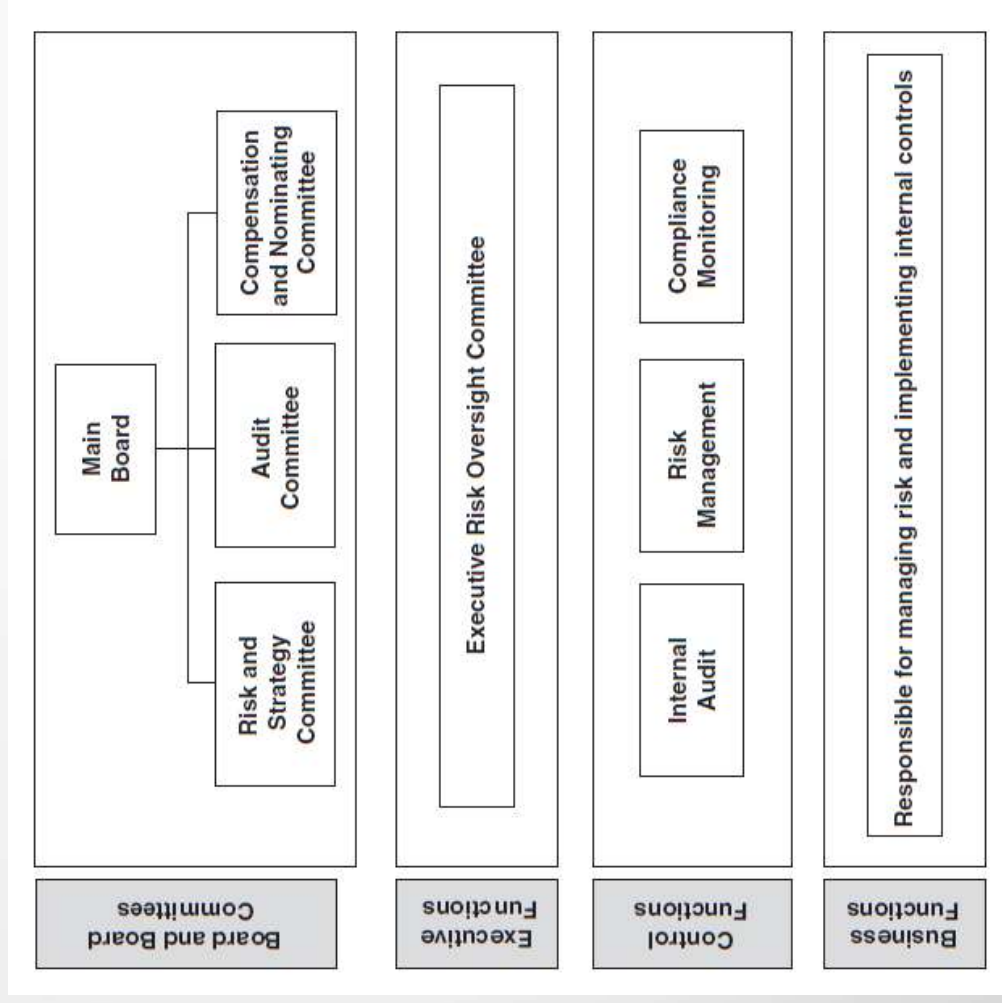
Business Background

- JSS is a clothing wholesaler and retailer
- Founded in 1972
- Went public in 1998
- Three operating segments
 - U.S. wholesale
 - U.S. retail
 - International (wholesale and retail)
- 57 retail stores in 10 countries

Initial Steps

- Strategic objectives
 - Maintain market leadership
 - Sustain technology leadership
 - Strengthen global presence
 - Deliver quality service
 - A leader in compliance with all laws and regulations
- Establish a governance system
 - Multiple committees, each with specific responsibilities

Governance Framework



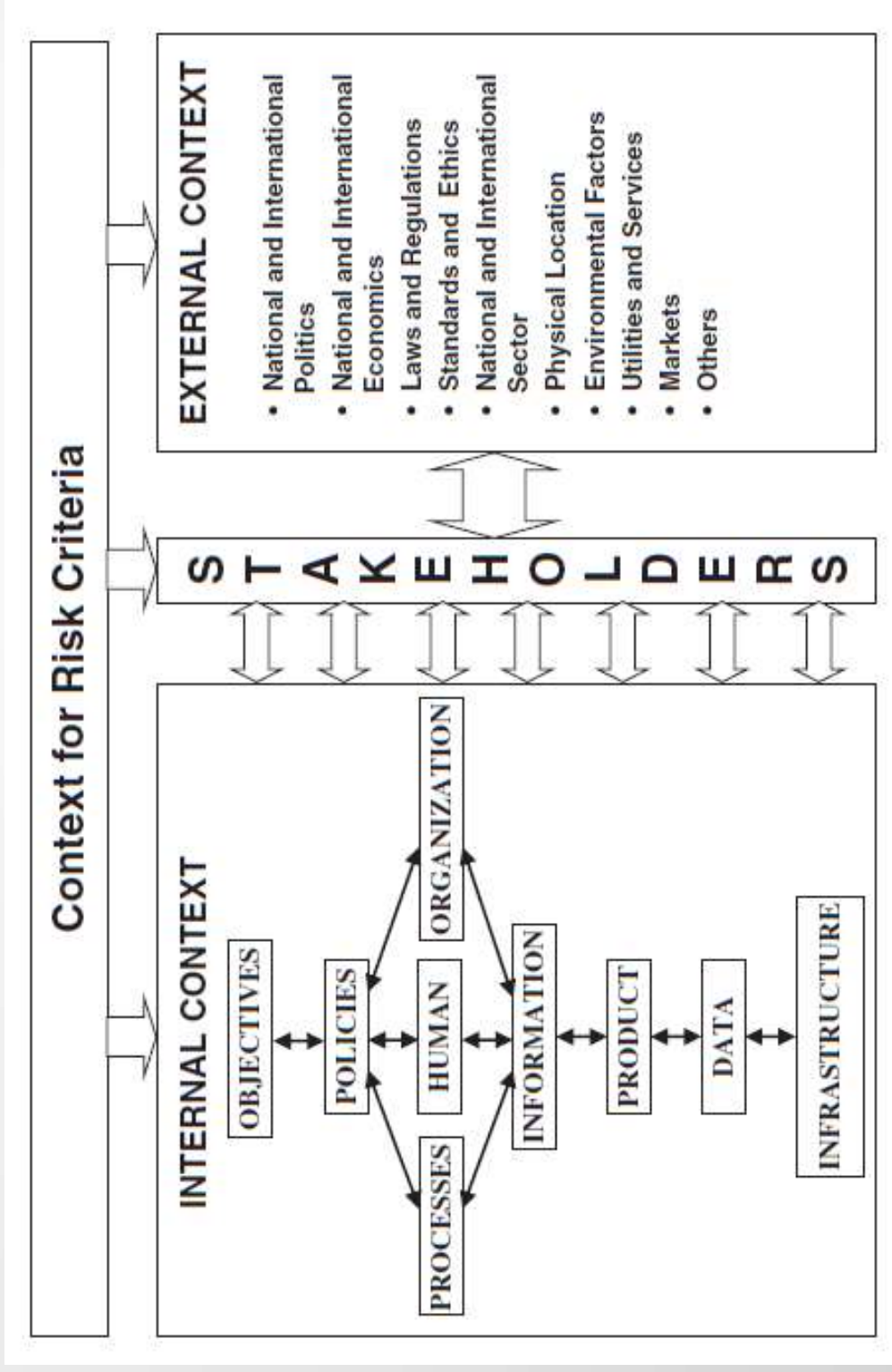
Evolution of Risk Management

- Lack of strategic risk management led to many problems
 - Communication
 - Missed/lost opportunities
 - Lack of commitment to objectives
 - Declining quality
- Identified gaps in risk management
- Engaged in aggressive internal training
 - Soft skills
 - Team building
 - Management planning

Introductions of ISO 31000 and HB 436

- JAA adopted ISO 31000
 - HB 436 provided extensive implementation guidance
- ISO 31000 was basically an upgrade of the framework JAA was already using
- ISO 31000 framework formalized JAA's ERM
 - Defined organization and process

Using Context for Risk Criteria

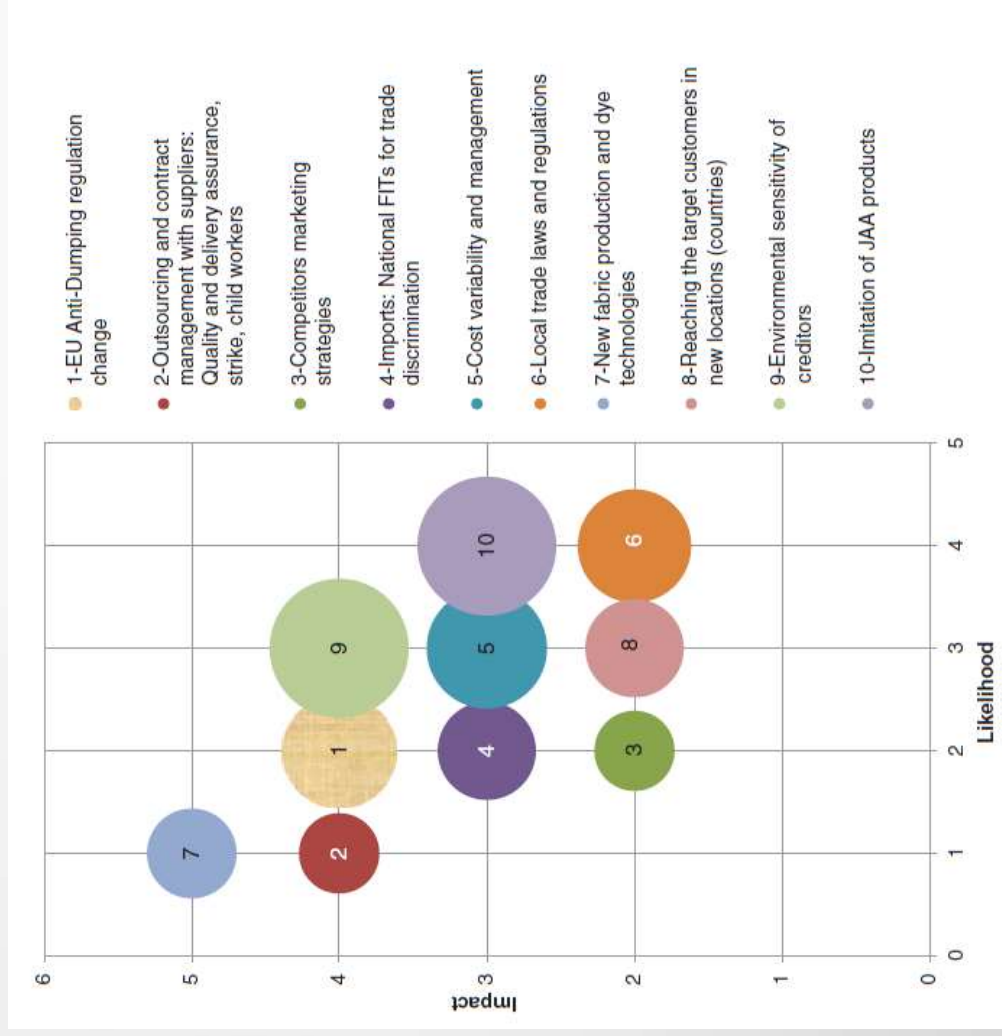


Bringing Everything Together

Risk Source	2013 Perception	2014 Forecast	Trend
EU Anti-Dumping regulation changes	Medium	High	↑
Outsourcing and supplier contract management: Quality and delivery assurance	Medium	Medium	↓
Competitors' marketing strategies	Medium-high	High	↗
Imports: National FITs for trade discrimination	Medium-high	Medium-high	↘
Cost variability and management	Medium	Medium	↘
Local trade laws and regulations	Medium	Medium	↔
New fabric production and dye technologies	Medium	Medium-high	↘
Reaching target customers in new locations (countries)	Medium	Medium	↔
Environmental sensitivity of creditors	Medium	Medium-high	↗
Imitation of JAA's products	Medium-high	Medium	↘

Trends: ↑: Impact is increasing, ↗: Both impact and likelihood increasing, ↘: Impact decreasing but likelihood increasing, ↔: Same from the last assessment, ↖: Both likelihood and impact decreasing.

Risk Map



Risk Attitude

Exhibit 22.7 Risk Attitude

All negative risks must reside in a low region, and all positive risks must remain at least at a medium level. Exceptions must be decided according to Executive Risk Oversight Committee (EROC) approval and authorization levels. Specific limits and tolerances are set within the risk criteria to enhance risk management treatments. Each specific attitude is set consistently with the risk scales established as per Exhibit 22.3 or Exhibit 22.4. Exceeding the maximum or falling below the minimum is considered a risk indicator. Hence this must be immediately evaluated by the risk owner.

Human resources personnel turnover rate: Maximum 2 percent of the sector median. Maximum compensation can be two times the minimum compensation at the same level in the responsibility level. If the performance parameters do not match higher compensation, then it must be decided by the Compensation Committee whether or not to continue with this policy.

Business continuity: Maximum allowable total business disruption is three days in severe conditions (i.e., disasters) for operating centers.

Health and safety: Maximum of one occurrence in a three-year period. No employee or nonemployee deaths are acceptable. Maximum is one minor event per year.

Legal: No delays accepted in reporting and replying to official letters. Contract failures must strictly reside at low levels.

Concentration: No one single customer can exceed 5 percent of JAA's sales.

Customer satisfaction: Maximum yearly returned products 1 percent, and maximum yearly replaced products 1 percent of prior year's sales.

Market risk: Nonhedged foreign exchange portfolio balance can be a maximum 30 percent of the aggregate total open positions.