

**NCSU**  
**David Hughes Interview Segment 3**

**Q:**           **Interviewer**  
**Hughes:**   **David Hughes**

[TECHNICAL COMMENTS]

Beasley:       Hello. I am Mark Beasley, the Deloitte Professor of Enterprise Risk Management and Director of ERM Initiative in the Poole College of Management at North Carolina State University. Today, I am joined by David Hughes who is the Assistant Vice President of the Enterprise Risk Management and Business Continuing Planning at Hospital Corporation of America, which is based in Nashville, TN. David has been very instrumental in leading the enterprise risk management efforts at Hospital Corporation of America and I appreciate your being here with me today.

David, let's just start with the topic of ERM. Many organizations when they begin that process of trying to embrace enterprise risk management approach, or an ERM approach, sometimes run into the struggle of people not quite understanding what ERM is particularly relative to what they are already doing in risk management. So when HCA began the ERM process a few years back, did you observe any kind of difficulty as you began to explain what you were trying to do in an enterprise risk management effort relative to what they are already being done in a traditional kind of risk management approach.

Hughes: We did a little bit, because we have a risk management department and we've got an enterprise risk management group. And risk management is your traditional kind of risk management that you see in all companies. It's insuring a risk or avoiding them or accepting risk, and it's—which is totally different from enterprise risk management.

And I see enterprise risk management as looking at the strategic goals and objectives of the company and what risk that could prevent you from achieving those goals and objectives. And a lot of it is communication. It's improving the communication up and down the lines within the company.

Beasley: Some struggle with a preconceived notion that ERM sounds bureaucratic. Sometimes you find that they hear ERM as another compliance or regulatory initiative. How would you help people understand that that's not the goal of ERM?

Hughes: I think, you know, it has been embraced in our company. They don't see it that way at all. It's something that they get value in, and you've got to strive each year to give them a little bit more and to—uh, they're not—they're surprised every year by some of the responses. I think that helps the program, because they don't always know all the emerging risks out there. Even though executive management thinks they know all of the emerging risks, there's always a couple that pop up, and it creates a lot of good discussion and our CEO really enjoys that. He gets value in it, as well as the rest of the management team.

Beasley: Well, that actually leads to my next question. How do you see the role of leadership and culture of an organization impacting the success of ERM? Is the CEO's perspective important, for example?

Hughes: It most certainly is, and that's where we have been very fortunate. We've—we've been through three CEOs since we started our program. And each one of them, uh—the first one embraced it from day one, and we were very fortunate in that. The second CEO that came on had been with the company for a long time, knew its value, and it wasn't a hard sell to keep the program going. He was—he was very engaged in it. And then our third CEO, as soon as he became CEO, asked us to come over and talk to him about why we needed to keep this program going. And so that was a challenge. And by the time we left his office, he was—he was very much on board, and wanted us to do more than what we had been doing in the past. So he just wanted to challenge it and make sure that it was—as he was doing everything in the company, to see that it was something that was giving everybody value.

Beasley: What do you think were the key messages were that you helped get that story across in the meeting that time?

Hughes: I think, uh, just some of the emerging risk, the board involvement, keeping them engaged about what are the risks. I think even the—your 10k—risks that are in

your 10k, you know, making sure that somebody's taking an objective look, you're not just having the lawyers right that or your SEC guys write that, that it really reflected the company—so we—we worked closely with them as well on the risk factors.

Beasley: David, sometimes I'll hear people respond with things like, "I don't think we really need to go down this ERM path, as far as any kind of formal process, because we have really smart people on our board or we have really smart people on the management team. So they think they're already doing ERM because of the smart people factor." How would you help someone see some benefits of still formalizing an enterprise-wide risk oversight process? Obviously at HCA you have very bright people on the management team and on the board and both the board and senior executives see tremendous value in ERM. Can you help shed some insights to help people understand the benefits of benefits of ERM despite having very smart people on the board?

Hughes: I would say start at a high level. Don't try and get too detailed, out of the gate. But they're going to see value in it once you do it, because they're going to be surprised by some of the results. I think probably every CEO thinks that they know everything that's going on in the company and all the risks, and it—I think it provides value when, you know, he hears about some things that are emerging risks or things that may not be as—managed as well as he thinks they're managed, that more people are seeing those as risks and need more attention.

So I think, you know, if you don't have a formal process, I would try it. Because I think you're going to see that you get a lot of value out of it. And it's not something that's a huge resource drain. It's something you can do without a big team to do it. You know, now with the new SEC rule, as well, you know, you need to make sure that your board—you're helping your board provide oversight to risk and your CEO is the owner of the risk, so this is a good time to build a formal process if you don't have one.

Beasley: David, thank you for sharing some of your perspectives on the value proposition of taking an ERM approach to risk identification and oversight. We appreciate your being here.

Hughes: Thank you.

Beasley: For our audience, I would encourage you to take advantage of the ERM Initiative website we have summarized numerous articles, thought papers and other kinds of guidance on topics related to ERM some of which we have explored today on the value proposition question – what is the value of ERM. We've got several articles thought papers summarized in the section called the business case for erm and looking at the connection of ERM to strategy. So, I would encourage you to take advantage of what we have summarized on our website that we have found of interest that are very relevant to this value question when you explore the benefits of ERM. In addition there are other topics that we have summarized that you will see on our website and you can also use our search engine to find other

topics of interest to you. So we encourage you to take advantage of that. Thank  
you for being here today.