ROCK 'N ROLL TO STRATEGIC RISK MANAGEMENT

By Russ Banham

RIMS

Jim Presmanes is applying his graduate education in statistical modeling, advanced corporate finance and asset valuation to advise the strategic risk management of Haverty Furniture Companies, Inc. (Havertys), where he serves as vice president of risk management and insurance. His work has assisted the 130 year-old Atlanta-based retail furniture company to identify and understand the leading indicators of its business to more effectively allocate resources and spend.

RIMS: We hear you made a living as a rock 'n roll performer as a young man, and here you are today with a Masters of Science degree in Finance advising on corporate strategy. How did you go from rock to risk management?

Presmanes: It was a circuitous route, as much of life is. My undergraduate degree was in English and I had hoped to teach English in college. I graduated in 1977 and then came to Atlanta, played in a rock band and managed a series of restaurants. I got a job with a transportation company (Courier Dispatch) as a part-time driver and took courses in business at night at Georgia State University, thinking the time had come for me to get a real job. I was promoted to a dispatch supervisor and chalked up enough undergraduate courses to apply for an MBA at Georgia State. And then the insurance industry crashed. I can still see the headline in Time magazine: `America, your insurance is canceled.'

RIMS: What did that have to do with your work as a supervisor?

Presmanes: The problem was Courier Dispatch traditionally had first dollar coverage, but the deductibles increased overnight to a quarter million dollars per occurrence. That potentially could put us out of business. The company also needed someone to manage safety and claims and, since I was in an MBA program, I got the tap on the shoulder.

RIMS: And now you're on your way to risk management.

Presmanes: Correct, but the company was having troubles beyond insurance and safety (it is no longer in business). There were some ownership changes and I decided to see what else was out there. I went to the risk management department at Georgia State to see if there were any jobs locally. There was just one—for a risk analyst. I called the recruiter and he said the position was with Havertys. I applied and had my job interview with Rawson Haverty, Jr., and Rawson Haverty, Sr., a local legend whom everyone called Mr. Haverty. He was very much involved in the growth of Atlanta. I liked them both immediately and they hired me in 1992. Three years later, when my predecessor retired, I was named risk manager.

RIMS: Was risk management at the company pretty traditional at the time?

Presmanes: There was no enterprise risk management. I was focused on insurance renewals, getting the right coverages, and on safety and loss prevention. After a few years, I started to get restless. I'm a student basically—I love to learn. I enrolled in an executive education program at

Wharton, studying with Jeremy Siegel, who wrote the book `Stocks for the Long Run.' That exposed me to the interplay between a company and the macro-economic environment. I later ran into someone at the school who mentioned that Georgia State had a new head of the risk management department who had just launched a graduate certificate program in ERM. We hit it off and he became my academic mentor, hand-selecting courses for me. I got the certificate and took a few additional courses to get the Masters in Finance degree in 2005. With all I had learned by now, I was completely amped up about strategic risk management. So was my boss (Rawson Haverty, Jr.), who is a true strategic thinker and a great believer in ERM. I remember him saying, `Jim, the biggest risk we have is investing in new stores.' Rawson is the senior vice president for real estate and development and gave me air cover as I implemented the ERM program. We adopted the Casualty Actuarial Society model and started doing risk assessments with department heads. And then our sales started to dip in 2005, beginning a 30 percent slide through 2009.

RIMS: By 2009, the country was in recession and the housing market in Atlanta and elsewhere had collapsed. Did the ERM program soften the impact?

Presmanes: The ERM program was just getting traction at the time. Nevertheless, ERM helped provide our board with confidence that we had an effective risk management process. The program provided us with a framework and process in place for managing risk, thanks to the work Rawson and I had done. We had the risk processes in place to deal with the economic downturn.

The recession was really taking a toll on the ability of people to pull together a budget. No one had a grasp of what our sales would be in such a difficult environment. Like a lot of other companies, we could not forecast sales for the quarter or the year ahead. No one felt confident about it. Rawson took me aside and said we needed to figure this stuff out, to find a way to reduce all the uncertainty about our sales. Otherwise, we'd be winging it in putting together a budget. I took on the task, analyzing more than 30 macro-economic variables, doing these simple linear regressions on unemployment, new homes sales, household wealth, and so on. I was trying to build a model that explained what was going on with our sales. We tested consumer spending, thinking this might be a variable in our sales. It turned out not to be. The idea with the model is to get to as few variables as possible, not many.

RIMS: And what was the outcome?

Presmanes: It turned out that two variables correlated with our sales. The first is the annual percentage change in real GDP. The second is the annual percentage change in new homes sales in the South. We've now built a statistical model that connects these macro-economic models to our sales.

RIMS: That's a long way from rock 'n roll.

Presmanes: That's a long way from just buying insurance. The Casualty Actuarial Society ERM model says the first step in the risk assessment process is to establish the context. Now when we're thinking about opening five new stores or one new store, we look outside the company to the macro-economic environment to inform our decision.

RIMS: Have you checked the accuracy of the model?

Presmanes: We have. We've even checked the same variables against other furniture retailers' sales and got different results. In one case, the retailer was a higher margin company; the correlations weren't the same.

RIMS: You've found the secret sauce.

Presmanes: Yes, for our niche in the market. Not that we won't continue to refresh the model, as the world is constantly changing.