Camms.Risk

Whitepaper

Risk Management as an Enabler to Strategic Success

Camms.

Robust risk management has long been a touchstone of successful companies. Traditionally this process has been viewed through the lens of minimising or avoiding risk, with resources focused on protecting value. But over time, businesses have come to realise that risk isn't always a harbinger of doom; it's an inevitable part of doing business that's fundamental to enhancing performance, driving value creation, and ensuring sustainability.

Today, successful businesses embrace risk; they don't shy away from it in the hope it will go away or take a response-based approach after an incident has occurred – a short-sighted approach that perpetuates a vicious cycle of risk reoccurrence.

Risk can blossom into opportunity, and it's down to business leaders to strike a balance between risk and reward. Those who recognise which risks have the potential to generate profit and opportunities should anchor those risks into existing strategic planning processes to ensure success. This determination to manage risks proactively won't just prevent them from happening again – or at least mitigate them – it will foster a culture of informed risk-taking from the top down.

However, business leaders must not be naïve enough to assume that strategic risks will always turn into opportunities; they must be aware they might require the pro-active avoidance – or mitigation – of significant threats that could be detrimental to the business. Both the challenge and opportunity is for them to recognise which risks offer the greatest potential to influence business outcomes and understand how to harness those risks to enhance performance, drive value creation and enable long-term viability.

Empowered by this ability to pre-empt what could happen from a risk perspective – both good and bad – businesses will develop the agility and resilience needed to thrive. This brings the need to align risk management with strategic planning into sharp focus for business leaders.

What Is Strategic Risk and What Makes It Unique?

Strategic risk is a category of risk alongside risks such as operational risk, financial risk, reputational risk, and regulatory risk. Sometimes, strategic, and operational risks are confused – but there's a key difference between them: strategic risks are long-term risks that relate to strategic decisions or objectives set by the board; while operational risks are short-term risks that relate to systems, processes, and products.

Examples of strategic risk include:

- Changes in senior management and leadership
- The introduction of new products or services
- Mergers and acquisitions
- Market or industry changes, such as a shift in the needs or expectations of customers
- Problems with suppliers and other stakeholders
- Financial challenges
- Failure to adapt to a changing environment or keep up with competitors
- Company reputational damage
- Black swan events, such as the COVID-19 pandemic

These risks have the potential to compromise supply chains, facilities, technology, talent, capital, reputation, and value creation – and stop an organisation from achieving its goals. Despite this, they typically reside outside enterprise risk management (ERM) programmes - making them difficult to quantify, monitor, and manage.

To address these risks, business leaders need tools for scanning the environment, tracking developments, and visualising risk data. And they must prepare effective responses because responsibility for strategic risks sits with the C-suite and board. However, amid a range of forces – operational and otherwise – that have the potential to stop a business from achieving its aims, strategic decisions made at these levels don't guarantee success. That's why they must be reinforced by an effective strategic risk management process.

Deloitte.

Deloitte defines strategic risks as

“those [risks] that threaten to disrupt the assumptions at the core of an organisation's strategy. A strategic risk can take the form of a potential event that can undermine implementation of a business strategy or achievement of strategic goals.”

Why Is Strategic Risk Important?

While risk has traditionally been perceived as something that should be mitigated or avoided, strategic risk-taking is different. If done well, it can create value and opportunity on a grand scale and prevent catastrophic events that could have a detrimental impact on the future success of your business.

By monitoring and anticipating strategic risk alongside strategy planning and execution, your business will move beyond a mindset of protecting value to achieving superior performance. This is vital in a business environment that is increasingly volatile, uncertain, complex, and ambiguous. Forward-thinking businesses not only consider strategic disruptions and opportunities linked to traditional factors like mergers, acquisitions, and reorganisation activities; they possess the agility to consider – and address – contemporary forces like start-up competition, the rapid adoption of social media, cloud-based technologies, and the changing demographics of customers and employees. Businesses that overlook these factors to protect value & long-term sustainability will trail behind their competitors.

According to the PwC 2022 Global Risk Survey, the top 10% of respondents – those that are realising benefits from strategic risk management practices – expect faster revenue growth and better outcomes.

Strategic risk-taking can enhance businesses at various stages of their lifecycle – from fledgling start-ups to market leaders – across all industries, as demonstrated by these examples:

Dropbox

Drew Houston took some big risks to make file hosting service Dropbox a success. Houston – an MIT student tired of hauling around USB sticks and emailing himself documents to share information across computers – first appeared on the start-up scene in 2007 when he debuted Dropbox at the coveted Y Combinator Demo Day.

Just four years later, Dropbox's innovation caught the attention of a certain Steve Jobs, who – as legend has it – personally told Houston that he was coming to take over the Dropbox market with his iCloud service. Houston stood his ground, however, and refused Apple's "nine-digit" acquisition offer – a shrewd decision – with Dropbox posting double-digit percentage revenue growth for the fourth quarter of 2021: the business generated total revenues of $565.5 million, up from the $504.1 million posted for the same quarter just 12 months earlier.

Google

In 2005, Google purchased a relatively unknown mobile start-up that had been founded only a few years earlier called Android. While the exact sum is undisclosed, it's estimated that the deal was worth approximately $50 million – a bargain compared to the $1.65 billion Google spent on purchasing YouTube just over a year later.

This shrewd acquisition landed Google the mobile operating system (OS) it needed to compete with the likes of Apple and Microsoft in what at the time was a burgeoning mobile market. Today, their estimated share of the lucrative smartphones market is a whopping 85%.

Goldman Sachs

In 2016, Goldman Sachs – one of Wall Street's investment banking heavyweights – expanded into consumer banking by launching Marcus by Goldman Sachs, after realising customers didn't feel they were getting enough value from their products. Marcus is an online platform that offers high-yield savings accounts, high-yield certificates of deposit (CDs) and no-fee personal loans.

Named after Marcus Goldman – one of the founders of the Wall Street bank – Marcus marked a shift into a new market: consumer fintech banking. Positioned as a simple, accessible online banking option that gives people control over their finances, Marcus has established a "can-do" brand image centred on helping people achieve financial well-being and be smarter with their money – using the tagline: "You can money".

The diversification of the Goldman Sachs offering appears to have paid off. While it doesn't offer as many types of financial products as other online banks, the ones it does provide tend to be highly rated. For example, Marcus ranks as one of the best online savings accounts and as having some of the best CD rates. Their personal loans were recognised by J.D. Power as #1 in personal loan customer satisfaction. Marcus became even more user-friendly in 2020 following the launch of a convenient mobile app. As of October 2020, Marcus had $96 billion in deposits.

How Do You Identify Strategic Risks?

A cornerstone of effective strategic risk management is the process of identifying risks that affect or are inherent in an organisation's business strategy, strategic objectives, and strategy execution. The unique nature of strategic risks means this is fraught with challenges due to their complexities and potentially high stakes. Unlike financial, operational, security, and other risks – which most businesses manage as part of their ERM programme – strategic risks can result from and exacerbate risks organisations typically face, or they are triggered by unfamiliar external risks like the pandemic.

This calls for a focused approach to risk identification that considers ongoing business, geopolitical, economic, and environmental conditions – both internal and external – and supports the continuous monitoring of strategic risks while maintaining strategic flexibility. These areas that should be closely considered and monitored include:

Competition:

This is not limited to the actions of a competitor negatively impacting your business. Competitive risk can drive cost reductions, improve the quality of your product/service and present merger and acquisition opportunities.

Political:

More than 90% of executives in the EY Geostrategy in Practice 2021 survey said their company had been impacted by unexpected political risks in the past 12 months – largely due to pandemic-fuelled headwinds. A strategic approach to managing political risk – such as a change in legislation– should focus on minimising the impact of downside political risk events while proactively identifying opportunities related to the upside of political risk events.

Economic:

Changes in macroeconomic conditions have the potential to impact a business negatively or positively - depending on the outcome. For example, exchange rate fluctuations & recessions or tax changes can produce financial losses or gains.

Environmental:

From extreme weather to carbon emissions, environmental risks cause disruption at the source and throughout the business supply chain. The benefits of implementing a sustainable operating model extend beyond mitigating some of these risks: it can also attract more customers, allow better access to resources, lower energy and water consumption, and reduce operational costs.

New and Emerging Technology:

In contrast to other conditions, new and emerging technology is typically viewed through the lens of tangible benefits, such as better outcomes and experiences for employees and customers, and lower costs. However, failure to align it with the business strategy will result in the adoption of technology that's unfit for purpose, wasting time and money.

Black Swan Events like the Pandemic:

Whether environmental, economic, political, societal, or technological in nature, a black swan event – a highly improbable occurrence – has the hallmarks of strategic risk: it's unpredictable, it carries a huge impact, and its shock value & impact is huge.

The process of identifying strategic risk will be rudderless if you don't know where to look. There are three types of risk that will point you in the right direction by categorising these internal and external conditions and helping you understand that risks can come from every angle:

Upside Risk

These risks offer benefits and present opportunities that can drive the business strategy and improve performance goals by focusing on the risk opportunity. They include things like product or service innovation, technology as an accelerator, and market expansion.

Upside risks can't be managed through a rules-based control framework; they require careful strategic planning and strategy execution to capture the potential gains, such as:

- Implementing an agile business model to manage risk events if they occur
- Establishing a risk appetite and risk tolerances and operating within those guidelines
- Predicting the impact & outcomes of possible risk events – pro's & con's
- Monitoring of key risk indicators (KRIs) that go beyond transactional and operational data, by considering external factors and market news.

Outside Risk

These risks are prompted by events outside of an organisation's control and offer negative and/or positive outcomes. Organisations can't control the likelihood of these events but can be proactive and mitigate the cost of a potential impact. They include things like competition, geopolitical risks, legislation, and natural disasters. Addressing them requires an approach that facilitates the identification and mitigation of their impact through scenario analysis and stress testing. This will help determine whether an organisation has sufficient resources to shield itself from the full force of external events. This requires the extensive monitoring of the marketplace, your competitors and emerging trends and technology and can involve collating opinions from a variety of stakeholders.

Downside Risk

These are internal risks that emerge within an organisation that can be controlled, eliminated, or avoided. They include things like cybersecurity, fraud, accidents, system failures and regulatory non-compliance. Organisations that implement active prevention measures and design controls to mitigate these risks will manage them efficaciously. The control framework should focus on preventable risks and provide structured monitoring of the threat level of those risks.

Empowered by this knowledge of different risk areas, your business might consider the potential benefits of investing in one or more of the following areas as part of its strategic risk identification process:

Identifying Hard-to-predict Strategic Risks:
Leaders brainstorm potential low-likelihood/ high-impact events that could compromise strategies and examine ways in which the business could identify and assess them.

Sensing Capabilities:
Technology enables real-time monitoring of multiple variables that may precede a risk event.

Modelling and Scenario Analysis:
Strategic risks are a by-product of other risks. Therefore, by generating scenarios that incorporate multiple risks it's possible to clarify the impact of risk events on different business areas and your strategic goals.

Response Capabilities:
Simulating responses to risk events that can be anticipated and developing comprehensive response plans will drive improved response capabilities.

Linking Risk Management to Your Strategic Plans:
By linking risk management to your strategic goals and objectives you can clearly identify the factors that can either derail your strategy or help you achieve it.

There are many cautionary tales of high-profile businesses that disappeared or had their market share slashed because they failed to identify strategic risk.

Blockbuster

You'd be forgiven for assuming the internet caused the demise of the once ubiquitous home movie and video game rental services provider. In reality however, the company was the master of its downfall. Blockbuster lacked agility in a dynamic market that was evolving from physical stores to delivery and then streaming. It erroneously thought it was in the entertainment distribution business when in fact it needed to focus on the retail customer experience. Blinded by the misconceived strength of their brand they failed to adapt to the shifting landscape. In 2010, Blockbuster filed for bankruptcy, while Netflix – which began shipping DVDs to consumers' homes in the late 1990s – is now a $28 billion streaming platform.

BlackBerry

The mobile phone manufacturer was riding the crest of a wave in 1998 thanks to its revolutionary arched keyboard and first-rate encryption. They had the technology nailed in the short-term but lacked the foresight to consider the user experience in the future. Just a few years later the mobile industry began focusing on bigger touchscreen displays – and so the smartphone as we know it today was born. BlackBerry meanwhile failed to adapt because it was more concerned about protecting what it already had, rather than moving with the times.

IBM

International Business Machines (IBM) is an American multinational technology that rose to prominence in the 1960s when it developed and released the IBM System/360 – a family of computers designed to cover a range of applications. Following sustained success, IBM failed to adjust to the personal computer revolution in the early 1990s, triggering their downfall in that space. Today, after going through several transitions, IBM is one of the most powerful names in enterprise software having turned its luck around under new management – an all too unfamiliar happy ending among businesses that are blind to the importance of identifying strategic risk.

Strategic Risks Are Often Less Quantifiable: How Can Leaders Raise Awareness of These Risks and Take Action?

Effective strategic risk management should cultivate awareness of these risks across your business and any potential opportunities to generate value and gain a competitive advantage. This should be underpinned by technology that continuously gathers, scans and analyses vast amounts of data; and performed within a framework that identifies what to seek, where to look, and how to monitor developments.

Technologies related to real-time scanning, big data, text analytics, visualisation tools, and early warnings can recognise emerging risk events, monitor changes, trends, and patterns, and distil them into actionable information. This will provide you with the foresight to define thresholds and indicators and empower stakeholders to collaborate in the pursuit of informed decision-making using functionality like trigger notifications, discussion forums, and document and link sharing.

A balance must be struck between conducting too much risk analysis and not enough. While measuring and predicting risk provides the foundation for informed decision-making, when overused it can engender a fear of risk-taking because the business erroneously believes more analysis is needed before a decision can be made.

To overcome this paralysis by analysis, you must be thorough in your approach to risk-taking without clouding your vision. To achieve clarity the board must leverage quantitative and qualitative risk analysis that feeds into a dynamic risk management strategy.

Qualitative Risk Analysis

Qualitative risk analysis focuses on the probability of a threat occurring and how it will impact the business – financially, legally, reputationally etc. These risks are often based on research, discussions, and gut feelings. Qualitative risks are typically measured on an established scale that estimates the probability, and they are categorised based on their source or the impact on the business.

This type of analysis lacks a level of accuracy compared to the quantitative model because it is not based on objective, numerical data; instead, it is based on collaborative discussions and research to generate opinions and judgements of those with knowledge of the business and the industry.

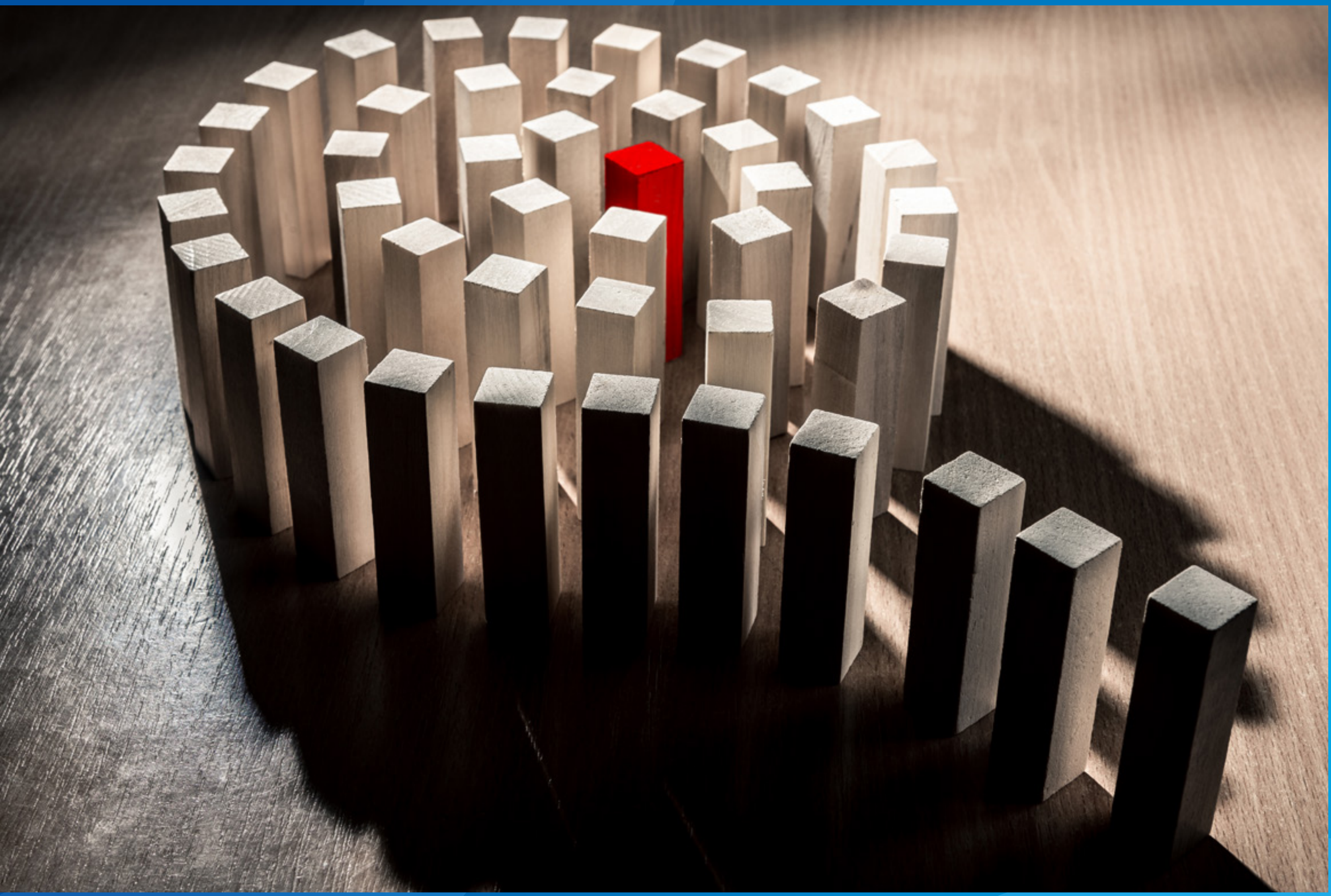
Quantitative Risk Assessment

While qualitative risk assessments harness knowledge and experience to determine risk probability, quantitative risk assessments rely on objective, measurable transactional & operational data to provide insights into a business's risk management process.

Quantitative assessments produce more probable results by attaching numerical values, such as money or time, to the risk & likelihood. By using historical data to determine probability and numerical values to determine impact, a quantitative risk assessment provides an accurate reflection of the threat landscape.

Combining both methods of risk-detection provides the necessary data to accurately predict future outcomes and estimate the likelihood of risk from all angles. It also strengthens the risk management strategy by exploring risk from different perspectives. Basing results on objective, numerical, and measurable data removes the window of uncertainty that's associated with qualitative assessments, but organisations should still use qualitative methods to assess risk based on research and the opinions of employees, leaders, and analysts for an accurate risk profile. Combining both methods gives stakeholders more confidence to navigate their risk landscape and paints a clearer picture - making it easier to determine the best strategy.

Aligning Risk Management with Strategic Planning for Successful Strategic Risk Management



Risk practitioners should view risk management as a journey, not a destination. A crucial stage on this journey is the need to align risk management with strategic planning. If done successfully, this can make strategic plans stronger while helping focus limited resources on the risks that matter most.

According to Deloitte, there are three points of engagement between risk management and the strategic planning process that can support the detection – and management – of different types of strategic risk:

D.

Risks That Inform the Development of Your Strategic Plan

The risks from the internal and external environment that help determine which goals and objectives to choose in the first place.

Example

New legislation that curtails an organisation's mission may make part of its previous strategy obsolete.

D.

Risks to the Implementation of Your Strategic Plan

The risks that may prevent you from achieving the goals and objectives defined in your plan.

Example

An organisation's strategic objective may require a specific set of skills they lack.

D.

Risks Generated from Implementing Your Strategic Plan

The new risks created by implementing the strategy itself, or the unintended consequences of success.

Example

A new strategic initiative to implement cloud computing solutions may make the organisation more vulnerable to security breaches.

Deloitte also identifies what successful alignment of risk and strategy can help your business achieve:

- **Address risks that require external legislative, regulatory, or budgetary support.**
- **Capitalise on the strategic planning process to produce critical input for risk management.**
- **Create resilient strategies that plan for potential risk exposures and are more likely to succeed.**
- **Strike the right balance in dedicating attention/resources between publicly visible risks and mission-critical operational risks.**
- **Monitor external indicators that provide early warnings and trigger pre-emptive actions.**

Strategy management tools that link to risk management programmes will automate this alignment by breaking down strategic goals & objectives into a series of programmes, projects, tasks, and actions and allocating them across the business. This palatable approach ensures your entire business is accountable for achieving the strategic goals set by senior executives and the board, with employees and teams benefitting from full visibility of their role in achieving the strategy. Each project, task and action should be allocated an owner, timelines, dates, and key actions. When users input into the strategic tool, they can automatically add any associated risks which feed into the risk register and risk reporting for a joined-up approach.

Strategic priorities typically shift over time, and if risk management processes do not address these changes, associated actions can become reactive, misaligned and compliance-focused rather than supportive of strategic decision-making. Therefore, having identified strategic risks expeditiously via this single point of oversight, any necessary change at any stage of the strategy can easily be amended and rolled out to the relevant teams.

By augmenting risk management with software that facilitates integration with strategic planning processes, you gain crucial insights through built-in dashboards and automated reports that support informed decisions and changes. Lines of communication are established from the top down and bottom-up between frontline staff, project owners, and leaders. This automated information sharing across teams consigns time-consuming siloed approaches to the past and builds a collaborative approach - with consolidated data sets providing further business intelligence.

Software that offers both strategy planning & execution alongside risk management capabilities in the same platform provides integration to harness risk data which when associated with business objectives has the power to guide your strategy while addressing any risks that could derail it.

Here we outline key steps that must be considered within your strategic plans from a risk perspective:

Define the Business Strategy and Objectives:

This should be conducted and communicated by the board of directors – and must be as specific and as quantifiable as possible and broken down into smaller tasks & projects with key deliverables for each business area.

Establish Key Performance Indicators (KPIs):

These reactive indicators help a business to measure forthcoming results. Whether they are met or missed, KPIs will provide a roadmap for progress in the future by measuring historical performance.

Identify Risks That Can Drive Variability in Performance:

These are the unknowns that will determine results in the future – such as customer demand.

Establish Key Risk Indicators (KRIs) and Tolerance Levels for Critical Risks:

These proactive, forward-looking lead indicators are the opposite of KPIs because they are used to anticipate risk events that may occur in the future – and should be communicated from the top-down and tracked at an operational level.

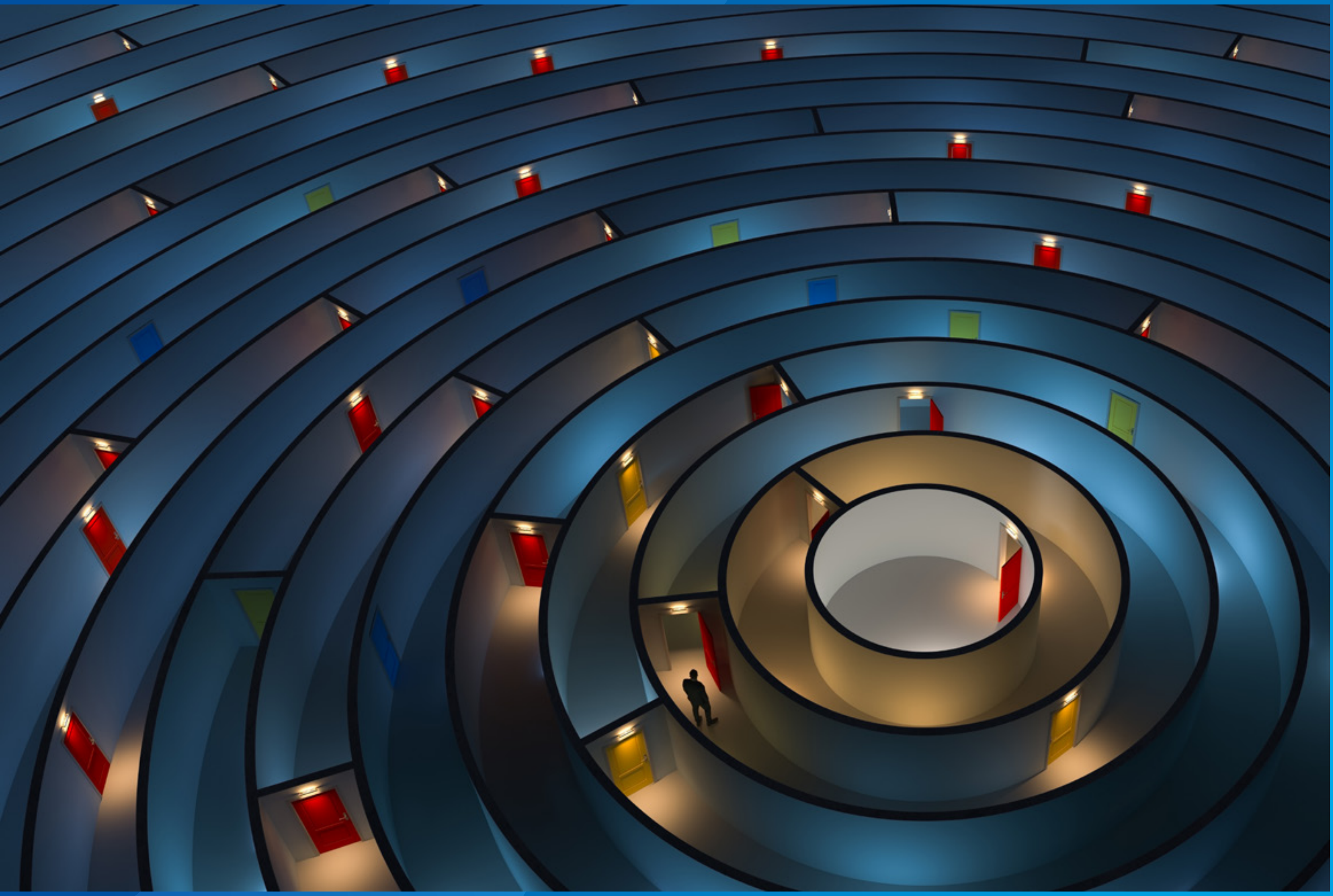
Provide Integrated Reporting and Monitoring:

Businesses must monitor KPI-driven results and KRIs continuously to mitigate risks or leverage unexpected opportunities when they arise.

There is an appetite to embark on this stage of the risk management journey among organisations that haven't taken that first step – but there are hurdles to overcome. According to a KPMG benchmarking study to assess the current state of ERM practices across a variety of industries, most of the businesses surveyed expressed a desire to better connect risk and strategy. Most indicated that while their executives informally consider risk during strategic planning, ERM often didn't have 'a seat at the table'.

Meanwhile, the study also underscored the power of alignment to turn risks into opportunities. Those surveyed that have integrated ERM and strategic planning, indicated that natural advancements have been made in emerging risk management and consideration of risk as not just a threat, but an opportunity.

Strategic Risk Requires Data Evaluation



Relevant data is the bedrock of a risk-informed strategic planning function – so don't deprive yourself of this foundation because your business will lack the agility to evolve. The use of disparate risk-related tools that are unable to integrate - causes an information bottleneck. Each department typically has a tool in place, but the data produced is not connected because the applications are siloed and fail to communicate. This lack of connectivity creates a roadblock when attempting to achieve an integrated approach to strategic risk management.

Forward-thinking businesses embrace platforms that seamlessly connect to and co-exist with other IT applications across the organisation that provide data to facilitate risk processes. This promotes the consistency and standardisation of treated data, requiring less oversight, and supporting fast, risk-informed business decisions.

Enhancing your access to risk data and storing it correctly is not enough; you must evaluate it thoroughly to realise its true potential. By turning this data into actionable information that's delivered to the right people in an understandable format you can achieve a risk-informed strategic planning function. This brings data management into sharp focus for risk professionals, including tools that centralise and consolidate data; the maintenance of risk registers that identify potential risks; the development of KPIs that measure performance over time; and comprehensive risk assessments & questionnaires that capture information consistently so that it can be reported on.

Software provides access to functionality that automates the data evaluation process: scorecards, graphs, dashboards, reports to monitor performance against targets, benchmarks, deadlines, risk assessment templates, budgets, and key milestones. It also enables teams to align goals, outcomes, strategies, actions, and tasks to every level of the organisation with configurable planning frameworks, templates, and hierarchies.

This comprehensive oversight allows organisations to make linkages between different data sets, view the impact of a strategic risk on different business units, and map every scenario that could impact the overall strategy – from something that must be mitigated to reinforce your strategic goals, to making a risky decision that aims to grow the business - like buying a competitor or investing in new technology.

According to the PwC 2022 Global Risk Survey:

75%

of organisations report that having technology systems that don't work together is a significant risk management challenge.

...and just

35%

of those are addressing that challenge in a formal, enterprise-wide manner.

Conclusion

Strategic risks often pose greater threats than other high-profile types of risks, like financial, operational, security, and regulatory compliance risks. Yet amid dynamic and expanding regulatory demands and the threat of financial and reputational damage, organisations typically remain focused on these everyday risks that are easier to identify.

Their ability to quickly erode considerable value means strategic risks should not be shoved to the bottom of the corporate agenda – potentially jeopardising lines of business or the entire enterprise. Instead, they should be considered in the same breath as other risks. Business leaders that are aware of their origin understand the importance of aligning risk management with strategic planning.

This holistic approach considers the internal and external factors that could impact the business objectives and recognises that strategic risks can have contrasting outcomes: they're either calculated risk-based decisions that turn into opportunities or involve the pro-active avoidance of significant threats to the business. With the risk management programme and strategic planning processes operating in unison, your business will remain agile and resilient by pre-empting what could happen from a strategic risk perspective – good or bad.

It's not just a brave few trailblazers' that are embracing risk and strategy automation; according to the PwC 2022 Global Risk Survey, 65% of respondents are increasing overall spending on risk management technology. They recognise that mapping your strategic planning and strategy execution to your risk management programme doesn't have to be laborious and time-consuming. Specialist software automates every stage of this vital process, so your business benefits from evaluated data in one solution that feeds actionable information to the right people in an understandable format.

This data-enabled oversight enhances your operating model and risk culture by helping senior executives & boards to understand a broad range of risks and the interactions between them. It also ensures stakeholders at every level of the organisation understand their role in the risk management process - and facilitates communication from the top-down and bottom-up - creating a holistic approach to strategic risk creating security and sustainability for the business for years to come.

Discover How Camms is Helping Businesses to Remain Agile Through Comprehensive GRC Programmes that Align with Their Corporate Strategy

Camms offers a cloud-based SaaS solution to manage your GRC programme and your strategy planning & execution. Set up obligation's libraries and risk registers, manage incidents, monitor compliance, administer policies & regulations, and roll out your corporate strategy – all within one solution. Automatic workflows & alerts link to a defined framework of KPIs, controls, and tolerances, to form a complete end-to-end solution.

With integrated solutions in risk, compliance, strategy, and projects, Camms software is helping organisations manage risk, make the right decisions, and focus on what matters.

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