BOS32

RISK MANAGEMENT STRATEGY

Key Takeaways

- Business risk can be broadly broken down into categories of financial risk, operating risk, and contextual risk
- Responding immediately to risk and opportunity as well as a long-term program to address capability to respond to both are essential for a long-term strategy
- Risk management includes:
    - Identifying risk early
    - Setting priorities
    - Putting in place the right people and systems to manage risk
    - Building robust cultures that adapt to the changes created by risk
- Not identifying risk is itself a great risk

Questions to Consider:

- Do you have the infrastructure in place to identify and respond to risk?
- How do you balance risk with opportunity?
- Are you being aware enough of risk to be prepared for issues that may arise?

INTRODUCTION

Every strategy carries with it a set of risks which require analysis and management. There is no such thing as a low risk / high return strategy in most industries- and the bolder the proposed change, the greater the risks involved.

Understanding and managing risk is an inevitable part of strategy. The following definition of risk can both set priorities on action (based upon relative net risk assessments) and focus investment on that part of the risk equation which can most effectively reduce each individual risk. The unbundled content of risk can be specified as:

- Scale of potential harm *adjusted by*
- Probability of occurrence *net of*
- Ability to respond *adjusted by*
- Likelihood of response

Analysis and ranking of business risks need to be balanced by a specific approach to risk management, specifying immediate actions in the context of Strategy.

Guidance

Risk and opportunity are closely linked, and a lot of strategy involves finding the relationship between the two. Risks are where things can go wrong, can be expected or unexpected, internal or external, and unmanaged risk is a great source of disaster for many companies. It is important to identify risk early, set priorities, putting the right people and systems in place, and building a robust culture that adapts to changes.

External risks include:
Geopolitical, fiscal, competitive, interest- related, tax, market, crisis, reputation, environmental, technologically, environmental, data, HR, or security related.

Internal risks include:
Successional, capability, political, quality, corporate culture, M&A, health and safety, poor teamwork, transitional, social, or leadership based.

It is crucial to invest in endeavors that identify possible risks early on and allocate resources to mitigate their effects. Mapping, defining, and prioritizing risk management are important aspects of strategy. Strategy requires thinking about both the present and future, so identifying current and potential risks are vital. Failing to address risks is dangerous, as being blind to risk is in itself a great risk.