MEETING KEY CHALLENGES

How can you assess your organisation's response to strategic risk? **Terry Kendrick** suggests four key challenges

Good risk management has been shown to have significant effects not just on corporate governance compliance, but also on reputation and on the perceived success of projects within organisations. Unfortunately, strategic risk management looks hard and uninspiring. And those involved with risk management in an organisation tend to have very unsexy job titles and are often associated with boring, repetitive tasks.

For example, I was recently speaking at a professional meeting, extolling the virtues of increasing project risk management awareness and activity in strategic marketing planning. While the idea met with general interest there was some suspicion. "Have you ever tried to work with one of those detail-obsessed project risk managers?" asked one delegate, implying that it is difficult to make progress if strategic planning has to take account of risk management in the early stages. However, simply leaving risk management to the implementation stages of business planning is to leave it in the position where it may be too late to mount an effective response to the negative aspects of risk.

Strategic risk management does not necessarily mean preparing detailed risk registers at every stage. Rather, if the company undertakes risk management around the end-to-end process of value creation, risk identification can be tailored to where it impacts on that value either negatively or, most importantly, positively.

There are two key dimensions to the strategic understanding of risk within an organisation. On the one hand, there is the issue of understanding the organisational and personal attitudes to risk. On the other, there are the business risk and project risk issues. Clearly, these make risk a complex subject. However, the board cannot wait for the concepts of risk and its management to be fully disentangled and totally understood before making its response.

The following four challenges offer a very broad checklist for those keen to make a top level assessment of their organisation's response to strategic risk. There are no right or wrong answers to these challenges. We all know that risk can have many definitions and many approaches, depending upon the context. Each management team should consider these challenges and honestly assess how comfortable they are with their responses.

Manage the risk of the overall customer portfolio as well as the returns

CHALLENGE 1: ARE THE RISKS TO SHAREHOLDER VALUE POSED BY OUR STRATEGY CHOICES FULLY UNDERSTOOD?

This first challenge is based upon the organisational attitude to risk in the context of the general business risk environment. Is profit to be made from low risk or high risk ventures? Is the chosen approach, or portfolio of approaches, consistent with the reality of the market? Will shareholder value be developed or destroyed? Will our reputation be enhanced or damaged?

This is a live issue in those many marketplaces where progress is not going to come from overall market growth, but from gains in market share, or entry into poorly understood marketplaces. BP's Russian joint venture TNK-BP is a current example of a strategic risk that needs to be managed. The 'Challenge 1' risks here are many and varied – from oil price fluctuations to corporate governance disparities and the Russian government's ambiguous attitude towards oligarchs. In addition, BP has in the past found itself grappling with the legal system, with the consequent implications for reputation inside Russia and within the international financial community.

Strategic planning will often explicitly or implicitly use the models offered by strategic management guru Igor Ansoff, for product-market strategies, and Harvard Business School professor Michael ▶