Strategy and Risk

To Stay Competitive, Leave No Risk Behind

In order to stay ahead of enterprise risks, directors should ask management questions that illuminate gaps in strategy.

By Raina Rose Tagle

Dynamics like trade policy, economic and labor market shifts, and data security issues can drastically impact business outcomes in real time. These forces, along with other threats of varying predictability, represent risks to business as usual. The question for boards is this: How do you ensure your organization can keep pace and remain competitive in the face of constant change?

Boards can enable organizations to gain an edge through a sometimes overlooked area: the intersection of strategy and enterprise risk management (ERM). The integration of ERM and strategy enables enterprise risks to be identified in the context of your strategic plan. It also allows strategic execution to consider the potential impacts of enterprise risks.

For boards to fully understand how strategy and ERM intersect, they should consider asking the following questions:

- **What is the state of our integration of ERM and strategy today, and who are the risk owners?** Start with understanding the organization's current approach to ERM. Directors need to know the existing approach to enterprise risk assessment, the top enterprise risks, whether senior leadership has designated risk owners, and the organization's assessment of risk mitigation sufficiency. From there, directors can inquire about the current state of strategy and ERM integration.

An advanced organization's board actively oversees ERM and its alignment with strategy and works with leaders to evolve this continuously. Organizations on the opposite end of the spectrum may lack a formal approach to ERM and may fail to address the potential impact of enterprise risks on strategy execution. Even in the absence of a formal ERM program, organizations can evaluate aspects of their strategic plan for potential risks.

- **What are the enterprise risks that could affect business strategy, and how are those risks mitigated?** This question can help directors dig deeper into their organization's ERM process maturity. If exploration of this question reveals a lack of consideration of the potential impact of risk on strategy, it can provide the impetus needed to begin a more formal evaluation process. At a minimum, this question presents an opportunity to spur the exercise of integrating components of ERM into the organizational strategy.

- **When did we last revisit the design of our ERM program?** ERM is not a one-and-done practice. Organizations face constantly changing financial, regulatory, operational, and reputational risks. A strategically driven ERM process must evolve accordingly. Directors should know if their organization's ERM process incorporates relevant leading practices, which change over time. Directors should press to understand how management ensures the continued evolution of ERM.

- **How closely do our chief risk officer and strategy leaders work together?** Establishing a culture of strategically driven risk management requires collaboration among the teams of the risk and strategy functions. Are the managers of these functions aligned and incentivized to do this? Are they feeding into the same overall process? Are strategic planners connected to risk owners and vice versa? These are expectations directors can set as part of their oversight of both organizational strategy and ERM.

By integrating ERM and overall strategy, organizations can move beyond assessing and monitoring the risks most relevant to the business to increasing the likelihood of strategy achievement. Strategically driven ERM positions organizations to pivot when risks change and to use risk to their advantage when possible.

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