

Risk Angles

Five questions on strategic risk

An interview and closer look at managing strategic risk to create and protect value with Henry Ristuccia, global leader of the Governance, Risk and Compliance practice, Deloitte Touche Tohmatsu Limited.

Strategic risk is not new; however, in a world where risks are hastened along by business trends and technological innovations, strategic risk management has taken on new urgency. In fact, according to a recently published [global survey](#) of more than 300 companies, conducted by Forbes Insights on behalf of Deloitte, 94% say they aren't just increasing their focus on managing strategic risks; they are changing how they do it – most often by incorporating strategic risk management into their business strategy and planning processes.

In this issue of Risk Angles, Henry Ristuccia answers five questions about strategic risk, and offers fresh insights on how companies can use strategic risk analysis to both protect and create business value.



Question	Henry's take
How is strategic risk different from other types of risk?	<p>Strategic risks are risks that have a major effect on a company's business strategy decisions, or are created by those decisions. So they tend to have a larger and more widespread impact than the other types of risk that businesses have traditionally focused on, in areas such as operations, finance, and compliance.</p> <p>For example, the shift from mature markets to emerging markets as the world's primary growth engine presents a company with strategic risks that affect every part of the business.</p>
Why the increased urgency, if strategic risk has always been a part of business?	<p>In the past, companies had more time to respond to strategic risks, so they could afford to follow more of a "wait and see" approach. But now, technology innovations, along with relatively new trends in mobility usage, social media and rapidly expanding connectivity – combined with globalization – have created a business environment of strategic impact, where even a small local problem can almost instantly develop into a worldwide crisis.</p>
How are companies responding to this new focus on strategic risk?	<p>Strategic risk has become a CEO and board-level issue. In our recent survey¹, 67% of companies said their CEO, board, or board risk committee now has direct oversight for managing strategic risk. Moreover, the vast majorities of companies have changed their approach to strategic risk management over the past three years by:</p> <ul style="list-style-type: none">• Increasing the frequency and budget for monitoring and managing strategic risks.• Monitoring and managing strategic risks continually.• Increasing the number of executives allocated to managing strategic risks.
What was wrong with the old way of managing risk?	<p>Traditional approaches to managing risk tend to focus on monitoring leading financial indicators and keeping tabs on regulatory changes. That's still an important exercise. But the resulting risk strategies and hedges – because they are mostly grounded in audited financial statements – are generally backward-looking and reactive. A fresh approach to strategic risk management enhances the detection of future strategic risks and predictions of future performance. This universal view of risk is crucial to staying ahead of risk as well as the competition.</p>

Question	Henry's take
Which strategic risks are the most critical today?	According to the survey, reputation is now the biggest risk concern. This is due in large measure to technologies such as social media that enable instantaneous global communications, making it harder for companies to control how they are perceived in the marketplace. Not to mention the time – or lack thereof – that companies have to respond to a crisis that's reputational in nature once it erupts. Technology itself is also cited as a major source of strategic risk, with 53% of companies saying that technology enablers and disrupters – such as social media, mobile, analytics, cloud computing, and big data – could threaten their established business models. Together, these new technologies are changing the way businesses are run and managing the risks associated with them is likely to remain a strategic priority for the foreseeable future.

¹Exploring Strategic Risk: A global survey of more than 300 companies, conducted by Forbes Insights on behalf of Deloitte. www.deloitte.com/strategicrisksurvey

A closer look: Creating value with strategic risk analysis

By Henry Ristuccia

Companies that fall behind on the innovation curve may soon find themselves facing innovation's evil twin – disruption. Those that do not actively manage strategic risk – as well as evolve with new technologies and plug into external sources to gain an “outside-in” perspective – are more likely to be victimized by the future than being a part of shaping it. Strategic risk analysis can help a company control its own destiny by surfacing the pitfalls and the opportunities that lie within their business strategy.

Where are we?

Today we see more and more businesses integrating strategic risk analysis into their overall business strategy and planning processes. And their efforts seem to be paying off. According to the survey, 61% of companies now believe their risk management programs are performing at least reasonably well in supporting the development and execution of business strategy. However, most risk management activities still focus on protecting business value – not creating it.

Where are we going?

Managing strategic risks effectively can do more than just help a company avoid potential downsides. It may actually create value by identifying opportunities to capitalize on uncertainty and volatility to maximize gains, improve competitive positioning as well as drive innovation and performance. That's one reason a growing number of companies are starting to adopt a broad view of strategic risk that doesn't just focus on challenges that might cause a particular strategy to fail, but on any major risks that could affect overall performance and help the business better position itself for the future.

How do we get there?

Managing strategic risk more effectively requires new capabilities and approaches. In particular, companies need to look outside of their traditional corporate structures – adopting more of an “outside-in” view when assessing their strengths, challenges, and opportunities. That means putting more weight on external data and perspectives from outside sources, including customers, bloggers, information trendsetters, and marketplace and security analysts. It also means learning from the experiences and practices of other companies and industries. This outside-in perspective can empower a business to make well informed decisions and operate with greater confidence.

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