



UNDERSTANDING  
YOUR STRATEGIC  
RISKS

## BOREDOM IN THE BOARDROOM

How to focus your boardroom agenda



### How to live your boardroom agenda

No matter how big or small an entity, no matter what stage in the life-cycle and no matter what sector it operates in, those responsible for the organisation should understand the strategic risks that are being faced.

In fact, whether you are driven by the desire to obtain more value from your risk management, or only by the fact the regulators are pushing you, then make sure you undertake a review of your strategic risks. At the least, it will confirm what you thought you knew and at best, it might just change your organisation altogether and maybe for the better.

### So what do we mean by strategic risk?

A definition that our risk advisory teams have been using for quite a while is below. It is fair to say that this has been subject to some reasonable check and challenge in the boardroom:

"Those business risks that, if realised, could fundamentally affect the way in which the organisation exists or provides its services in the next one to five years. These risks will have a detrimental effect on the organisation's achievement of its key business objectives. The risk realisation will lead to material failure, loss or lost opportunity."

Many organisations that are considered to have mature risk management arrangements have not really focussed on this dimension of risk management. Boards are often good at preventing operational failures in their many guises, but are not using strategic risk to set the organisation's future agenda and direction. In some cases, Boards are not keen to even consider strategic risk because they are afraid of what they might find; either as a result of ignorance (do not want to know!) or dogmatic boardroom behaviours (I do not need to know!). Both characteristics you might find in less well-governed organisations. There are also organisations that think they know what their strategic risks are, but the risks, by their very nature, are not strategic (or do not meet the criteria in the definition above). Thus the organisation does not get the real benefit.

To consider whether your organisation really has an understanding of its strategic risks, undertaking a strategic risk identification exercise can bring the following benefits:

- The Board (collectively and individually) having "head room" and time to consider, debate and articulate the future strategic risks of the organisation (this discussion alone can be refreshing in itself)
- Development of a common understanding of the strategic objectives, risks and organisational values
- An opportunity for the Board to assess its own vulnerability – does it know as much as it should? Or are there any knowledge gaps?
- The chance to challenge plans, that will help mitigate the strategic risks, and ensure they are as robust as they should be
- An opportunity to refocus the boardroom agenda, or at least check that it reflects what it should do
- Demonstrate to others that the Board takes its risk management seriously.



### Identifying strategic risks

To identify the strategic risks there has to be a starting point. In all cases this should be the organisation's strategic objectives (or equivalent), after all, this is what the organisation is looking to achieve. However, this is often the first difficulty, as in many cases they are not commonly known, or they do not exist at all.

Strategic risk identification should involve all members of the Board, both executives and non-executives, but does not need to be limited to these individuals. That said, as you move outside of the boardroom, then the strategic focus can become diluted. However, it is often appropriate to make use of an independent external facilitator who can provide objective challenge to the thoughts in the boardroom.

Furthermore, be aware, it may take a few sessions to get to a point that the organisation is happy that it has captured its set of strategic risks and suitably articulated these with appropriate cause and effects analysis.

With the set of strategic risks decided, Boards are encouraged to determine the correlation between the risks and

each strategic priority, enabling them to understand which risk will have the most detrimental effect. This will start to form a strategic risk appetite. A further step, dependant on the size of the organisation, is to link operational risks to strategic risks. By their very nature the strategic risks will take some time to materialise, unlike the operational risks which can present themselves more quickly and be used as early warning indicators. What the Board will have eventually is a risk management methodology that is focused totally on the achievement of its strategic objectives.

Consider the following questions when identifying strategic risk. These are by no means every question, but they are a good starting point:

- What is occurring internally at the organisation that could present strategic risk or challenge?
- What is occurring externally in the local or national landscape in which the organisation operates that could present strategic risk or challenge?
- What has happened in the past at the organisation that led to the realisation of a strategic risk and could it happen again?

- What is happening elsewhere (other providers/sectors)?
- What are the regulators, partners, customers/ public, and other stakeholders telling you about the organisation?
- What does the organisation want to look like in five years? How different is that from now? What will the organisation face in getting there?

The word 'challenge' has been added as this can significantly help the Board with its thinking in the early stages. The word 'risk' can often lead to an assessment of likely weaknesses and in many cases leads some Board members to focus on micro or operational aspects. Whereas 'challenge' promotes a more opportunistic approach as well as macro thinking, especially when used in the context of the organisation's strategic objectives.

## Conclusion

In conclusion, it does not matter how Boards get an understanding of the strategic risks being faced, as long as they do. There are enormous benefits that can be obtained both in completing the exercise as well as getting to the final outcome. The future is still massively uncertain with constant changes in the landscape. It is always better to be prepared and ready, so that you can protect your organisation or take advantage of the opportunities presented. For more information or to discuss ways to liven your boardroom contact:

RSM is one of the largest providers of advisory services to all business sectors in the UK and we support and enhance our service provision with our own in-house developed software platform: Insight4GRC™ – our governance, risk and compliance software suite.

For more information about Insight4grc™ and how it can help your organisation visit:  
[insight4grc.rsmuk.com](http://insight4grc.rsmuk.com)



### **Matt Humphrey**

**Partner, Governance and Risk Consulting**

T 44(0)7764 688 248

[matthew.humphrey@rsmuk.com](mailto:matthew.humphrey@rsmuk.com)

## rsmuk.com

The UK group of companies and LLPs trading as RSM is a member of the RSM network. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

RSM UK Consulting LLP, RSM Corporate Finance LLP, RSM Restructuring Advisory LLP, RSM Risk Assurance Services LLP, RSM Tax and Advisory Services LLP, RSM UK Audit LLP, RSM Employer Services Limited and RSM UK Tax and Accounting Limited are not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. Baker Tilly Creditor Services LLP is authorised and regulated by the Financial Conduct Authority for credit-related regulated activities. RSM & Co (UK) Limited is authorised and regulated by the Financial Conduct Authority to conduct a range of investment business activities. Whilst every effort has been made to ensure accuracy, information contained in this communication may not be comprehensive and recipients should not act upon it without seeking professional advice.