STEP-BY-STEP GUIDE TO

RISK STRATEGY DEFINITION

This guide provides a comprehensive, step-by-step approach to help you define and implement a robust risk strategy tailored to your organisation's unique needs and objectives.

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00

Introduction and Background

Creating and embedding an effective risk strategy is crucial for safeguarding your organisation against potential threats, dealing with volatility and uncertainties, and ensuring long-term sustainability.

This guide provides a comprehensive, step-by-step approach to help you define and implement a robust risk strategy tailored to your organisation’s unique needs and objectives.

Designing an effective risk strategy requires an understanding of how your organisation's risk profile aligns with its mission and drives value creation for its business activities.

There are broadly three types of outcomes you would want to target:

- Optimise risk-taking to maximise value from the risks inherent to your operations and essential for mission delivery and value creation. This is about supporting revenue generation, which necessitates accepting a high residual risk within a comprehensive risk appetite framework.
- Limit downsides through effective control measures, monitoring, and process optimisation. This is about those risks necessary for your business continuity and licence to operate, including regulatory and operational risks (but not all!).
- To improve operational efficiency and reduce costs, minimise or eliminate inherent risk. This is about the risks arising from inefficiencies in organisational blueprints and operations that impact costs, unwanted losses, and agility.

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01

Understand Your Organisational Objectives

Objective: Align the risk strategy with the organisation's overall goals.
Actions:

a. Review the organisation's mission, vision, and strategic objectives.
b. Identify key performance indicators (KPIs) and critical success factors (CSFs).
c. Ensure the risk strategy supports and enhances these objectives.

Outcome: A clear understanding of how risk management aligns with and supports organisational goals.

02

Define Risk Vision and Mission Statement

Objective: Establish a clear vision and mission for your risk management efforts.

- **Actions:**
  a. Create a risk vision statement that outlines the long-term objectives of the risk management program.
  b. Create a risk mission statement that defines risk management's purpose and primary objectives.
  c. Ensure these statements align with the overall organisational mission and vision.
- **Outcome:** A clear and compelling risk vision and mission statements that guide the risk management program's direction.

03

Define Risk Appetite and Risk Tolerance

Objective: Establish the level of risk your organisation is willing to accept.

- **Actions:**
  a. Conduct workshops with senior management to determine risk appetite.
  b. Define risk tolerance levels for different business areas and activities.
  c. Document and communicate risk appetite and tolerance statements.
- **Outcome:** Clearly defined risk appetite and tolerance levels that guide decision-making.

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04

Develop Strategic Goals and Objectives

Objective: Develop strategic goals and objectives that align with the vision and mission.

- **Actions:**
  a. Create specific, measurable, achievable, relevant, and time-bound (SMART) goals.
  b. Ensure these goals and objectives align with the overall risk vision and mission.
  c. Communicate these goals throughout the organisation.
- **Outcome:** Clear strategic goals and objectives that guide the risk management efforts.

05

Identify and Assess Risks

Objective: Systematically identify and evaluate potential risks that could impact the organisation.

- **Actions:**
  a. Use a combination of brainstorming sessions, checklists, SWOT analysis, and expert interviews to identify risks.
  b. Identify risks across various categories: strategic, operational, financial, compliance, and reputational.
  c. Assess each risk based on its likelihood and potential impact using qualitative and quantitative methods.
  d. Prioritise risks using a risk matrix.
  e. Document the identification and assessment results in a risk register.
- **Outcome:** A risk register documents a comprehensive and prioritised list of potential risks.

06

Develop Risk Mitigation Strategies

Objective: Create strategies to manage and mitigate prioritised risks.

- **Actions:**
  a. For each prioritised risk, determine appropriate mitigation strategies (avoidance, reduction, transfer, acceptance, and sharing).
  b. Develop action plans detailing the steps, resources, and timelines needed for each strategy.
  c. Assign responsibilities for implementing the mitigation strategies.
- **Outcome:** Clearly defined risk appetite and tolerance levels that guide decision-making.

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07 Integration with Business Strategy

Objective: Align the risk strategy with your overall business strategy.

- **Actions:**
  a. Make sure to incorporate risk management considerations into strategic decision-making.
  b. Collaborate with business units to incorporate risk assessments into their planning processes.
  c. Align risk management goals with business objectives to support organisational growth and sustainability.
- **Outcome:** A risk strategy that is seamlessly integrated with the overall business strategy.

08 Decision-Making Processes

Objective: Embed risk management into organisational decision-making processes.

- **Actions:**
  a. Develop frameworks and tools to include risk assessment in decision-making.
  b. Ensure that risk considerations are a standard part of business case evaluations and strategic planning.
  c. Train decision-makers on how to incorporate risk assessments into their workflows.
- **Outcome:** Risk factors are consistently considered in enhanced decision-making processes.

09 Governance and Reporting

Objective: Establish robust governance and reporting mechanisms for risk management.

- **Actions:**
  a. Define roles and responsibilities for risk management across the organisation.
  b. Develop a reporting structure that provides clear visibility into risk management activities and outcomes.
  c. Implement regular reporting cycles to keep stakeholders informed of risk status and mitigation efforts.
- **Outcome:** A well-defined governance structure and transparent reporting system for risk management.

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Resource Allocation

Objective: Allocate resources effectively to support risk management initiatives.

- **Actions:**
  a. Identify the resources needed for risk management, including personnel, technology, and financial investments.
  b. Prioritise resource allocation based on risk assessments and strategic importance.
  c. To address emerging risks, monitor resource utilisation and adjust allocations as necessary.
- **Outcome:** Adequate resources allocated to ensure effective risk management.

11

Communication and Training

Objective: Ensure risk management is embedded in the organisational culture through effective communication and training.

- **Actions:**
  a. Communicate the risk strategy, policies, and procedures throughout the organisation.
  b. Foster a risk-aware culture by promoting risk management at all levels.
  c. Provide ongoing training and resources to employees to enhance their risk management skills and awareness.
- **Outcome:** A risk-aware organisational culture with risk management embedded in everyday practices.

APPENDIX 1

Case Studies of Successful Implementation

In this section, we showcase real-world examples of successful risk strategy implementation across various industries.

These case studies highlight how organisations have effectively aligned their risk management practices with their strategic objectives, navigated complex challenges, and achieved remarkable results.

Technology Business Adapts to Market Volatility	• **Situation:** A leading technology business faces significant market volatility due to rapid changes in consumer preferences and emerging technologies. The uncertainty poses substantial risks to its product development roadmap and overall business strategy. • **Action:** The business develops a dynamic risk strategy that involved continuous market analysis, consumer trend monitoring, and competitor benchmarking. They integrate agile methodologies into their product development process to quickly adapt to market changes. • **Result:** The business successfully navigates the volatile market, maintaining its position as an industry leader. By swiftly adapting to emerging trends and consumer demands, they not only mitigate potential risks but also capitalise on new opportunities, resulting in sustained growth and innovation.
Healthcare Provider Enhances Patient Safety	• **Situation:** A healthcare provider recognises the critical need to enhance patient safety and reduce medical errors, which pose significant risks to patient health and the business's reputation. • **Action:** The healthcare provider implements a comprehensive risk management strategy focused on patient safety. This involved staff training, the adoption of advanced medical technologies, and the establishment of robust protocols for patient care and communication. • **Result:** The healthcare provider sees a substantial reduction in medical errors and an improvement in patient outcomes. The proactive risk management approach not only protected patients but also strengthened the business' reputation and trust within the community.

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Manufacturing Giant Tackles Supply Chain Disruptions	• **SupSituation:** A global manufacturer faces challenges due to supply chain disruptions caused by geopolitical tensions and natural disasters. These disruptions threaten production timelines and the manufacturer's ability to meet customer demands. • **Action:** The manufacturer develops an approach that emphasises supply chain diversification and the establishment of contingency plans. They build strong relationships with multiple suppliers and invest in predictive analytics to foresee and mitigate potential disruptions. • **Result:** Despite facing a volatile external environment, the global manufacturer maintains smooth operations and timely product delivery. This approach enables the management to minimise the impact of supply chain disruptions and uphold their commitment to customers.
Financial Institution Manages Regulatory Compliance Risks	• **Situation:** A multinational financial institution faces the complex challenge of managing regulatory compliance risks across different countries, each with its own set of regulations and compliance standards. • **Action:** The financial institution implements a global risk management strategy that includes the formation of a dedicated compliance team, regular training for employees on regulatory requirements, and the adoption of advanced compliance management software. • **Result:** The financial institution successfully navigates the intricate regulatory landscape, avoiding penalties and legal issues. Their comprehensive mitigation plan ensures adherence to regulations, safeguarded their reputation, and built trust among clients and stakeholders.

APPENDIX 2

Glossary of Key Terms

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- **Risk Appetite:** The level of risk an organisation is willing to accept in order to achieve its goals.
- **Risk Tolerance:** The acceptable variation in outcomes related to specific objectives is something that an organisation can withstand.
- **Risk Capacity:** This is the maximum level of risk that an organisation can absorb without compromising its stability or objectives.
- **Risk Identification:** The process involves identifying potential risks that could impact the organisation.
- **Risk Assessment:** We evaluate the likelihood and impact of the identified risks.
- **Risk Mitigation:** Actions taken to reduce the likelihood or impact of a risk.
- **Risk Transfer:** Shifting the burden of risk to a third party, typically through insurance or outsourcing.
- **Risk Avoidance:** Eliminating activities or conditions that expose the organisation to risk.
- **Key Risk Indicators (KRIs):** Metrics are used to signal increasing risk exposure in various areas of an organisation.
- **Risk Register:** A documented list of identified risks, including their assessment and mitigation measures.
- **Qualitative Risk Assessment:** Subjective evaluation of risk based on expert judgement, scenarios, and qualitative data.
- **Quantitative Risk Assessment:** Numerical evaluation of risk using statistical methods, models, and quantitative data.
- **Risk Strategy:** A high-level plan outlining how an organisation intends to approach, manage, and mitigate risks.
- **Risk Governance:** The framework of rules, practices, and processes used to manage risk and ensure accountability.
- **SWOT Analysis:** A tool used to identify strengths, weaknesses, opportunities, and threats related to an organisation or project.
- **Scenario Analysis:** A method for analysing possible future events by considering alternative possible outcomes (scenarios).
- **Contingency Plan:** A predefined course of action designed to help an organisation respond effectively to a significant future event or situation.
- **Control Self-Assessment (CSA):** A process through which employees evaluate the effectiveness of risk management and control processes within their area of responsibility.
- **Incident Reporting System:** A mechanism for reporting and analysing risk events and near misses to improve risk management practices.