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Risk Management and the Strategy Process

by Ken Doughty and Craig Terry

To fully embed risk management within the strategy creation process effectively, organizations need to first understand the risks that its stakeholders take when providing continuing resources and support. They must also comprehend the actual processes used to create strategy. As we explore in this *Executive Report,* strategy creation models can differ according to environmental context and each impacts the design of a *strategic* risk management framework. Importantly, these models also create their own risks.

Executive Report

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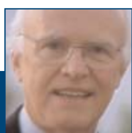
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Risk Management and the Strategy Process

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The global financial crisis (GFC) has provided a once-in-a-generation opportunity to develop support among key decision makers that a strategic view of risk management actually does matter. Post-GFC views of risk management increasingly seek to embed the analysis and understanding of risk within the strategy process itself. After all, strategy is about taking risk. The challenge becomes: how should risk taking be controlled?

While it is true that a large number of organizations have implemented some form of an enterprise risk management (ERM) framework, many have done so while continuing to see "risk management" and "strategy development" as two distinct and separate processes. In this context, risk management is usually seen as an activity to achieve compliance goals, or, as a means to identify and evaluate the possibility of loss through adverse operational events. Risk management almost becomes an administrative function (a chore) when viewed in this way.

Even where organizations elevate risk analysis to the strategic level by considering the risks of a selected or proposed strategy, on many occasions this is done in order to simply "mitigate" or "minimize" the risks of the strategy. Risk management tends to be something tacked on at the end of a strategic planning cycle rather than being an integral part of the process. One may often hear a chief risk officer (CRO) claiming that he or she has a "seat at the table" within the strategic management process. In reality, the CRO may have the seat, but risk is not taken into consideration until after the strategy has been substantially determined.

Furthermore, even when an organization generates and analyzes a number of strategic options for risk, the range of options that key decision makers see as potentially desirable will have already been selected. A more strategic view of risk management, therefore, may influence the development of this set of choices in the first place. This means that strategic risk management can provide the ability to change the way the organization sees the range of possibilities available.

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For risk management processes to be fully embedded within those of strategy creation, boards and management need to have both an intimate knowledge of the concepts of risk and an understanding of how organizations actually go about creating and developing strategy. Organizations are diverse. Each will have its own methods of strategy development depending on such variables as size, maturity, culture, technologies, industry sector, economic environment, and so on.

The stakeholders of an organization can include employees, suppliers, government and regulatory agencies, the media and lobby groups, as well as customers and shareholders.

Some will have highly formal approaches to strategy development while others less so. Still others will have no discernible approaches at all. How risk management becomes strategic risk management and what is appropriate in each context is the challenge when considered in this way.

This *Executive Report* discusses strategic risk management, taking into account the environmental contexts within which organizations operate, in three major parts:

1. The need to align the organization's attitude to risk taking with the expectations of stakeholders and how this is used to define risk policies that help guide the organization through its strategy development processes
2. The consideration of the varying "models" of strategy development used within different environmental contexts and how risk management may be undertaken within each (i.e., risk management being relevant within the organization's strategic environment)
3. The need to recognize the inherent problems (and risks) within each major type of strategy development process "model" (i.e., recognizing the inevitable problems confronted by all organizations in the definition of strategy)

An understanding of risk management within the different strategy development contexts generally provides boards, senior management, and risk management professionals the ability to ask questions about not only the content of strategy but also the strategy creation process itself.

RISK MANAGEMENT AND THE PURPOSE OF AN ORGANIZATION

Most classic texts on strategic management usually describe the starting point of strategy development with the deceptively simple question: what is the purpose of the organization's existence? Defining "purpose" provides the organization with a sense of what goals it wants to achieve.

Within a capitalist system, the purpose of business has been seen historically as the maximization of profits for shareholders. Increasingly, however, this discussion is being redefined to include the organization's stakeholders. The stakeholders of an organization can include employees, suppliers, government and regulatory agencies, the media and lobby groups, as well as customers and shareholders. It introduces a much broader concept of the purpose of an organization, particularly profit-motivated organizations, that now more generally includes a "person, or organization that can affect, be affected by, or perceive themselves to be affected by a decision or activity" of an organization.[1]

Much of what is discussed within stakeholder theory involves the definition of to whom the organization has a "responsibility."[2] This level of discussion inevitably needs to include issues of ethics. Ethics is not within the scope of this report, but the concept of a "social contract" and a company's "license to operate" are phrases that we increasingly see used by the largest of companies, particularly large resource companies like BHP Billiton, BP, and Chevron. After the debacle of the GFC, these terms are also applied to the world's large financial institutions.

Even where individuals do not subscribe to the view that the purpose of an organization is to serve multiple masters, the notion that the expectations of all key stakeholders should be accommodated through the idea of "enlightened self-interest" is gaining considerable momentum. That is, organizations do not need to address stakeholder concerns out of any moral sense but simply as a matter of self-interest. Examples where companies' activities ignore stakeholders' expectations show that this is done at their own peril. An organization's activities that ignore these expectations will create conflict and roadblocks. Increasingly, taking a stakeholder approach "is about creating as much value as possible for stakeholders without resorting to tradeoffs."[3]

Even in the minimalist approach — acting out of enlightened self-interest — it is clear that ignoring or negatively impacting powerful stakeholders in some

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way detracts from the achievement of a strategy. Put more strongly, the more a strategy seeks to benefit all key stakeholders, the more successful the organization will ultimately become, helping to ensure its long-term survival.

This is the case because organizations need the continual support of stakeholders. Stakeholders provide both explicit support (e.g., customers buying product, financial markets providing capital, employees utilizing their skills) and implicit support (e.g., favorable media coverage, government legislation that will not drive organizations out of business).

Stakeholders provide resources that they put at risk; they have "skin in the game" — provided they get something in return. For example, the customer risks buying the wrong product, the shareholder risks losing money, governments risk losing support if they allow organizations to misbehave, and employees risk losing their job or risk wasting time if their career doesn't develop in a way that is acceptable to them. All stakeholders are themselves taking some level of risk and each will have their own risk "philosophy" and expectations.[4]

The key questions to ask in any organization are:

- What value do we need to deliver to each of our key stakeholders in return for the resources and support supplied by these stakeholders?
- How much risk is the stakeholder prepared to take in providing this support?

Risk then, at this level of the organization's search for strategic purpose, is in fact taking a view on the risk attitudes of each its stakeholders. Some examples of this are indicated in Table 1.

Table 1 builds a profile of not only what value is to be delivered, but what risks the stakeholders are prepared to take. That is, what is their attitude to risk? Are they risk takers? Or are they more conservative?

For example, it is a common point of discussion in investment analysis to identify that some stocks are high-risk growth stocks (e.g., high-tech stocks), while some are low risk (e.g., utilities). As an individual investor, if stable high dividends are desired, then you would not invest in companies whose business models are high risk. Likewise, the shareholder would not want the utility company that was invested in for its relative safety to turn around and pursue alternative high-risk strategies.

Table 1 provides some simple examples for selected individual stakeholders. There are some inconsistencies between the risk attitudes of each stakeholder. Shareholders and bankers appear conservative, but customers and employees seem to be happy to take higher-risk positions. This is done deliberately to show the importance of this stakeholder analysis. If an organization has the above profiles across its stakeholder base, there will be considerable tradeoffs between the value-creation pursuits of the organization. The more tradeoffs, the more potential conflict, and the greater the possibility that powerful stakeholders will withdraw their support.

As Table 1 shows, this type of analysis can be performed for each individual stakeholder, and the results can then become more detailed risk criteria (i.e., "the terms of reference against which the significance of risk is evaluated"[5]). For example, criteria for retail shareholders may encompass desired dividend yields; for employees, the criteria may involve the

Table 1 — Stakeholder Analysis

Stakeholder	Value Required	Stakeholder's Risk Attitude
Retail shareholders	Regular high dividends, capital preservation	Stable profits required to afford regular high dividends suggests a lower risk position is desirable.
Employees	Career growth, increasing salaries and bonuses	High growth to create career opportunities; thus, higher risk activity required.
Customers	Innovative, state-of-the-art products; branding/image important to customers	Innovation and new product development required. Product failures likely; thus, higher risk.
Bankers	Payment of appropriate level of interest and secure capital	Lower risk as provider of debt capital is conservative.
Regulators	Compliance with laws and expectation that company will "self-regulate" to a large extent	Environmental footprint of organization requires low-risk activities as noncompliance could easily ignite public opinion and therefore regulators.

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extent of succession planning for which levels of employee job grades; for customers, the definition and protection of the organization's branding and image, and so on.

The key point here is that the organization needs to satisfy these criteria in order to continue receiving support from these stakeholders. Another way of putting this is that by receiving this support, the organization has a continuing financial and social "capacity" (or license) to operate. Shareholders and bankers continue to provide capital, employees their resources, and society its moral support, as long as risk-adjusted value is being created and delivered.

The notion of the capacity to take risk is, therefore, neither solely a financial measure nor just a static measure of a general ability to take risk. By continuing to satisfy stakeholder criteria, the organization can keep going back for more support and create more capacity to take risks. For example, increased funds can be sought from shareholders and bankers such that additional risk can be pursued if a particular new strategy requires it. Or, the loyalty of employees and customers can be called upon if a particular strategy is deemed risky.

Of course, how much risk can be sought without beginning to disappoint stakeholders if strategies fail is the key question. It is indeed a "strategic balancing act."[6]

In summary, from this type of analysis, risk attitudes and criteria (at whatever level of detail the organization and board is comfortable with at this point in the analysis) can form the basis for boards and senior management to define explicit risk policies that guide all subsequent strategy development. That is, as the organization develops its detailed strategies, it guides management in what strategic pursuits are acceptable from a risk point of view. It helps senior management determine how much "appetite" for risk is appropriate within chosen strategies.

RISK MANAGEMENT AND THE DEVELOPMENT OF COMPETITIVE STRATEGY

The preceding discussion concerned the analysis and consequent policy making that creates a purpose for the organization and a means by which risk policy is created. The analysis, if not actually performed by the board, must be controlled by the board.

This is the highest level and first part of strategic management — a sense of strategic purpose. It is also the highest level and first part of strategic *risk* management — defining the risk attitude of the organization as identified in the risk criteria of each stakeholder and as embodied with the board's risk policy. What we now require is the development of competitive strategy. That is, how do we achieve product innovation? How do we achieve company results that deliver stable, regular dividends? How do we ensure that our activities comply with regulation? It is now up to management to use its expertise to develop the strategy to achieve the required stakeholder value outcomes.

It is during this phase where the organization performs risk management (e.g., risk capacity, risk appetite) at a more detailed level, as each strategic option involves differing amounts of risk. But before doing this, the organization must consider how it actually goes about developing strategy. Strategy development differs depending on the organization's environmental context. The "model" used impacts what risk management processes the organization ultimately employs.

How Do Strategies Develop?

Strategy development isn't easy. It requires extensive analysis and, ultimately, some tough decision making. So thinking about how strategies develop means considering how the participants in an organization as individuals and groups actually come together to make these decisions.

There are many different views of these processes within management literature.[7] A useful way of summarizing these methods is within a continuum between those strategies that are created in a top-down and deliberate manner (strategy by *design*) and those that are created through a more consensual, inclusive, or experimental type of process (strategies that *emerge*).

Even if organizations aren't assigned one or another of these pure forms of strategy development, they will certainly have attributes of each that results in different strategic outcomes. For example, a strategy decided on by a board and CEO based on their own information gathering and analysis and then implemented down the organization is likely to be different to one where employees are allowed to fully participate and have their ideas included within the strategy development process.

It is important to understand how strategies are developed within organizations, since strategic risk management processes are more effective if consideration is given to how strategic decisions are made. It is useful to consider these "ends" of the strategy development continuum to then allow further discussion of how risk management can effectively become "strategic."

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Strategy by Design

Most strategy textbooks use a design approach to teach students about strategy development, particularly within large, mature organizations. This is because it is a rational, analytical, and logical approach to strategy.

It takes a formal, planned view of strategy that has as its foundation the classical management concept that "knowledge" resides at the top of organizations. Other assumptions about the functioning of organizations of this model include:[8]

- Careful analysis makes it possible to predict and forecast the future.
- The organization can use its existing resources or indeed change itself to match external environmental challenges.
- Action arises after an appropriate level of analysis has been undertaken.
- Importantly, analysis and decisions are undertaken at the top and implemented down the organization. Those who implement the strategy are usually not those who have created it. The classical management doctrine of the separation of those who make decisions from those whose job is to carry them out applies.
- Organizations are, therefore, arranged in hierarchies where each person knows his or her role and is accountable for it. More often than not, these hierarchies take a bureaucratic form.
- Control systems (e.g., a project management office) are readily available to collect information and to monitor implementation of strategic decisions.
- In this way, the organization resembles a machine with behavior of organizational participants controlled through the organization's structure.

Its efficient, machine-like qualities make this form of strategy development ideal for stable environments where future environmental challenges are reasonably predictable.[9] In large organizations, the design approach can result in highly detailed processes resembling the structure of the organization. It's a simple one at the conceptual level, producing clear outcomes that the organization can communicate and possibly implement. The design approach typically encompasses the following seven steps (see Figure 1):

1. The definition of an organization's *purpose*, its vision, and values (discussed earlier)

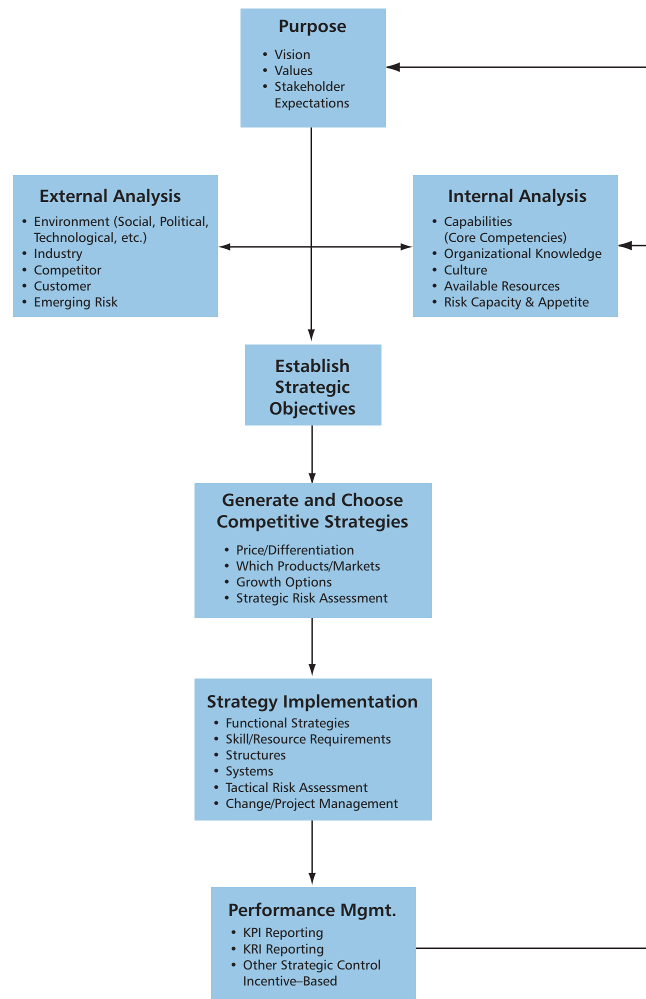

Figure 1 — A typical design model of the full strategic management cycle.

2. The *external analysis* of the organization's environment (threats and opportunities)
3. The *internal analysis* of the organization's competencies (strengths and weaknesses, including its risk capacity)
4. The definition of medium to long-term *strategic objectives* that exploit strengths and opportunities
5. The choice of *competitive strategies* to achieve the objectives
6. The *implementation* of these strategies, including the management of change
7. The monitoring of operational *performance* once the strategy has been implemented

According to some researchers, strategy helps the organization deal with its environment given the various "forces" residing within the industry sector.[10]

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As such, strategy has an external orientation. Consider, for example, how does the organization change itself to deal with the variables within its external environment?

Other researchers emphasize the importance of identifying the organization's "core competencies" that will give it a competitive advantage.[11] It can also be thought about in terms of what capabilities and resources are available to the organization in the pursuit of strategy. Strategic analysis has an internal orientation at least in so far as determining the drivers of strategy.

While the various approaches place relative importance on either external or internal orientations to strategic analysis and provide important insights, it makes sense to combine these perspectives. Hence, each can and should be included within this highly rational and logical design approach.

Strategy That Emerges

The logical, rational essence of the design approach attempts to process information about a complex world and use this information to create and drive strategic decisions through the organization. The amount of information to be processed can be vast, so inevitably this approach involves taking a "snapshot" of the organization's environment (e.g., during the annual strategic planning meeting). In this way, it can be described as a "static" analysis of an organization's strategic challenges.

More dynamic views of strategy analysis and development involve the organization continuously analyzing its environment and allowing strategies to evolve or emerge from its operations.[12] There may well be an overarching, "imprecise vision" serving as a focus, but this view of strategy development enlists all the "sensors" of the organization to process and act on any opportunities that may arise. It is to engage in experimentation, even if these experiments sometimes result in failure.

In this context, strategy is "crafted," not planned. Managers build flexible structures, hire creative people, and watch for successful patterns to emerge. Lateral information flows (rather than information flowing simply up and down a vertical hierarchy), and managers who are open to new or even conflicting ideas requiring negotiation are vital.

This concept of strategy development may be critical in highly uncertain environments. Take Web-based industries for example. Former eBay CEO Meg Whitman attributed the company's success less on strategic analysis and more on learning along the way. "This is a completely new business so there's only so much analysis you can do," she said in 2005. "[It's] better to put something out there and see the reaction and fix it on the fly. You could spend six months getting it perfect in the lab or six days in the lab. We're better off spending six days, putting it out there, getting feedback and then evolving it."[13] It also provides the opportunity to gain a competitive advantage while competitors perfect their product offering.

Take also the example of a company acquiring a new product by accident as part of a larger company acquisition. The product may be within a completely new market segment that opens the eyes of the acquiring company to completely new opportunities. An organization that is willing to learn, rather than quickly dismiss the product simply because it is not part of existing strategy, displays elements of an emergent strategy development process. This type of organization is a "learning organization."[14]

Of course, learning cannot go completely uncontrolled. Organizations that are total experiments will not be stable ones. Yet the idea of viewing strategy development as an evolving, continuous process provides significant insight into how organizations may actually behave in certain situations.

A model of this type of continuous strategy development, but within a rational and "controlled" framework, is "logical incrementalism."[15] The name implies that it is a conscious, rational, and even purposive framework (i.e., a certain logic to development), but it is one that allows for organizational participants to participate and negotiate their way through the strategy development process without committing the entire organization to one strategic direction or another in the first instance (i.e., strategy by partial, incremental commitments).

There are several logical steps within this approach that a company can use to manage how it develops strategy. The organization, for example, can consider strategy in a step-by-step way, but within each step is an acknowledgment of the importance of how people behave and the impact of this on information processing, decision making, and, ultimately, how people commit to shared objectives. Figure 2 summarizes these steps.

In some ways, the "logical incrementalism" approach can be read as a change management model. Indeed, this may be at least one measure of its potential effectiveness as a strategy development model. Many strategies that are developed in a more rigid design approach fail at the time of implementation. Causes of failure can be many and sometimes obscure. The logical incrementalism approach can reduce this risk because of its negotiated, flexible nature.

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More generally, an organization using a model of emergent strategy development based on the concepts of learning has the following key characteristics:

- It understands that the organization must learn/update continuously in order to change with a changing environment.
- Knowledge resides everywhere within the organization, not just at the top.
- Information flows will be encouraged both vertically and horizontally, not just according to the organization's role and responsibility structure.
- Teamwork and sharing ideas is valued.
- Making mistakes is acceptable and taking experimental risks are encouraged within certain boundaries (i.e., learning through action).
- Shared vision can help transcend the internal politics of self-interest.

Importantly, a learning organization continues to question not only its performance against existing objectives, but continues to question the objectives themselves. Organizations are not only learning; they are "learning to learn" in this model.[16] A diagrammatic summary of this is shown in Figure 3.[17]

The concept of "learning to learn" involves the two loops of measuring operational performance against strategy and a loop of questioning the assumptions that are used within the strategies. It represents a feedback loop that acts not just as a simple thermostat, but as a means to question "why" a particular direction is being pursued. This model has important implications for the overall governance of strategic risk, which will be discussed later.

STRATEGY DEVELOPMENT MODELS IN CONTEXT

The approaches discussed thus far sit along a continuum that suits some contexts more than others. A learning approach is suitable for fast-moving companies such as eBay. A design approach may be suitable for more stable companies in mature industries such as the financial sector. Environmental contexts will clearly be a major determinant of which approach is suitable for the organization.

The "environment" can be further explored by defining whether the environment is static or dynamic (and hence uncertain) and whether it is simple or complex (in terms of levels of technological expertise and knowledge required).

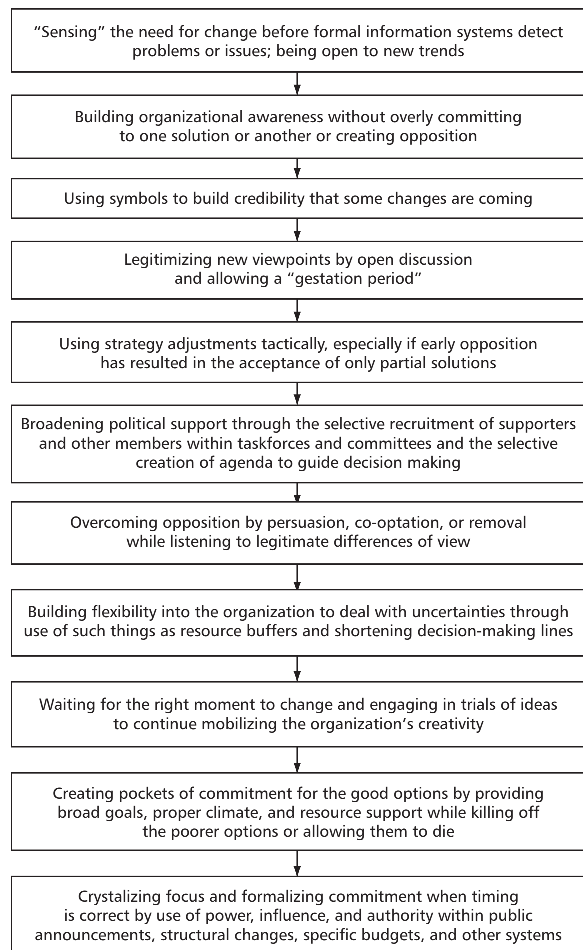

Figure 2 — Logical incrementalism and strategy development.

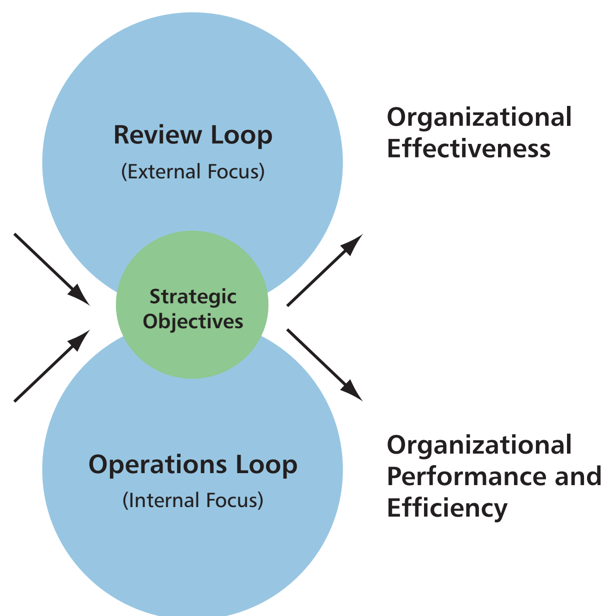

Figure 3 — Learning to learn. (Adapted from Garratt.)

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Organizations can use a matrix comprising these elements to help summarize desired methods of strategy development within these contexts (see Figure 4[18]).

Figure 4 outlines some of these methods, including the "design" model (simple/static) and the "emergent"/ learning model (complex/dynamic). While most organizations have attributes of both approaches, an understanding of these assists in the further analysis of risk management.

So far, this report has discussed two critical elements of strategic risk management:

1. The need for risk to be analyzed by the organization in its attempt to define a sense of purpose and, as part of this, understanding the risk attitudes of its stakeholders in order to create risk policy
2. The development of knowledge of the potential methods that organizations can use to define its competitive strategy within which more detailed risk analysis can be conducted

The definition of purpose and the attempt to understand the attributes of key stakeholders should be performed regardless of type of organization. Risk policy arising from this understanding guides the organization regardless of scenario. But, when the organization undertakes the creation of its competitive strategy, how are risk management processes then developed to help control risk within the context of each of the models discussed?

Strategic Risk Management and the Design Approach

Some of the various risk management standards positively lend themselves to integration with the logical and rational strategy by design approach. This is not least because the standards are logical and rational themselves! How then can risk management be included within the design-based strategic process?

Within most large organizations, which have a level of so-called bureaucracy to develop strategy, the design approach has logical milestones where risk management is clearly included. There is usually one of three possibilities here, either:

1. The organization has already determined its strategy and risk management is subsequently implemented to identify and mitigate risk prior to implementation.
2. The organization has determined its strategy, but allows for its risk management processes to identify and to provide feedback to strategic decision makers such that strategies are then altered or not pursued at all if risks are too great (e.g., exceed risk capacity).
3. The organization performs risk management as part of the strategy development phase in a more iterative parallel manner: risks are identified during the decision-making process itself.

The first scenario represents a passive approach to strategic risk management. It is most likely that this approach primarily concerns itself with those risks that

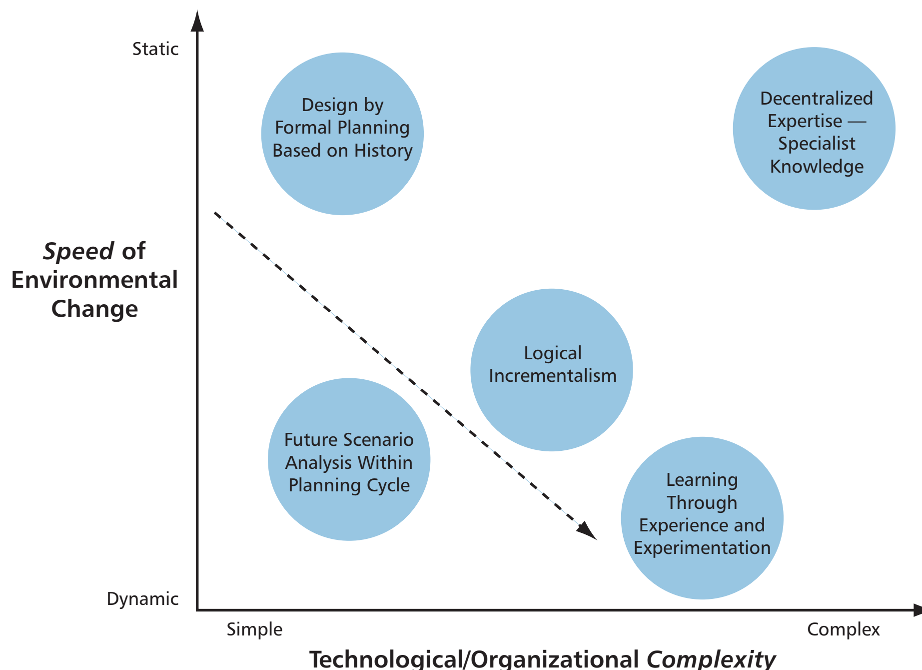

Figure 4 — Strategy development in different contexts. (Adapted from Johnson et al.)

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may be impediments to successful strategy execution only. In this way, it is similar to the risk management processes used during change management exercises: the scope and type have been decided upon and simply need to be implemented within the organization. This type of risk management is more operational than strategic.

The second and third scenarios, in contrast, more explicitly include the input of risk assessment during the decision-making process. The third scenario implies that the functions of strategy development and risk management operate simultaneously. The second scenario implies that while the functions are separated, decisions about what strategies to implement will not be made until the risks of the strategy are fully investigated. Either way, these two scenarios recognize that risk management is part of the strategy process.

A useful way of structuring this discussion is to review the steps involved within the design model with a comparison of the steps involved in the 2009 standard ISO31000 Risk Management — Principles and Guidelines, depicted in Figure 5.[19]

The standard has three primary sequential steps within its risk management process: establishing the context, risk assessment, and risk treatment. Each can be placed within the design strategy development model.

Establishing the Context

In relation to the risk management process, it is essential for an organization to define its environmental context. Risk management at this highest level becomes one of "alignment" of attitudes between the organization and its stakeholders. As previously discussed, risk criteria are developed for each stakeholder. From this, risk policy is defined, which then guides the strategy development process.

Risk Assessment

According to ISO 31000, risk assessment comprises the logical set of risk identification, analysis, and evaluation. Taken as a whole, this step is vital to ensure that the competitive strategy that the organization ultimately pursues has been developed, taking into account the inherent strategic risks.

The first part of this process is an external and internal analysis of the organization. While the organization performed a type of this analysis as part of its stakeholder analysis and purpose definition stage, this process will most likely involve different personnel, for example, with functional and geographical specializations. It is likely that at this level more detailed data will be provided for the formation of more specific, potential customer, product, and market development strategies.

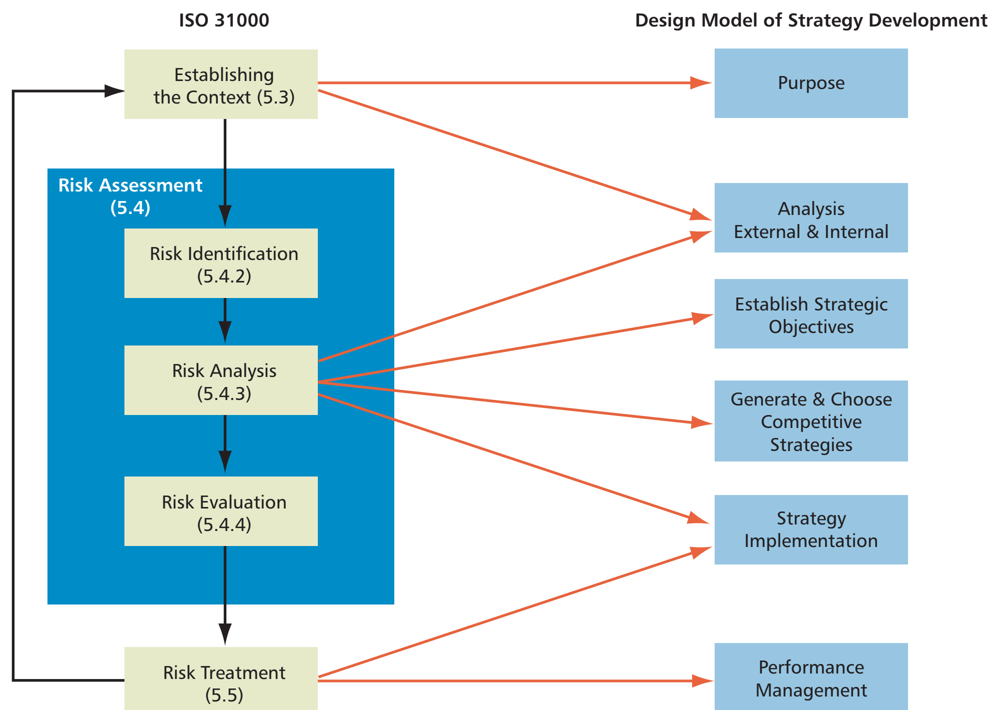

Figure 5 — The ISO 31000 Risk Management Process with reference to the design method of strategy development.

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As described earlier in Figure 1, external analysis needs to consider the key environmental factors that may impact the organization. It should include consideration of social, economic, technological, or political factors as well as industry, competitor, and customer factors. Critically, it should consider emerging variables or trends that may represent both risk and/or opportunity to the organization. This implies that the opportunities and threats to the organization provide input into both the potential strategic choices of the organization and the risks that are inherent within these choices. The analysis is inextricably linked.

A component of the analysis that organizations often overlook is emerging risks. These can be an event, condition, situation, or trend that may significantly impact the organization's financial and competitive positions or reputation within the foreseeable future (say three to five years). Emerging risks demands significant attention during the strategic planning process to minimize potential impact.

The challenge is that organizations have difficulty integrating emerging risks into their strategic planning and quantifying the potential impact. In other words, how do we risk-adjust the strategic plan for these emerging risks? Organizations must identify their key value drivers in order to know the emerging risks and analyze their potential impact on the enterprise as well as its customers.

Internal analysis, as shown earlier in Figure 1, should consider the capabilities and resources of the organization and the attendant strengths and weaknesses that may impact the organization's future success. As these strengths and weaknesses should be assessed against competitive and other external forces operating within the relevant industry, the concept of risk is also inextricably linked within this part of the strategy development process. An identified weakness within the capabilities of the organization will be an inherent risk, particularly if this "weak" capability needs to be used within a chosen strategic direction.

The internal and external analysis hopefully identifies options for the setting of specific objectives (e.g., growth targets in particular market segments) and the means by which these will be achieved (e.g., new product development, pricing strategies). These options have inherent risks that need to be assessed as a part of the strategic risk management process. So on what basis can this assessment be carried out?

Each strategic option needs to be analyzed with respect to what risk appetite is implied in pursuing the option. The standard ISO 31000 defines risk appetite as "the amount and type of risk that an organization is prepared to pursue, retain or take."[20] The Committee of Sponsoring Organizations of the Treadway Commission (COSO) further refines risk appetite as "the amount of risk, on a broad level, an organization is willing to accept in pursuit of value."[21]

As previously discussed, the purpose of an organization is to deliver (risk-adjusted) value to its stakeholders. The organization attempts to achieve this by developing various strategic options. These options then need to be considered in light of how much risk taking (appetite) is involved within each of these and its overall risk capacity.

Typically, this would include an assessment of both the likelihood and extent of impact of any event occurring so long as the risk appetite of individual options is within the defined enterprise risk management policy arising from the previously performed stakeholder analysis. Management is free to explore opportunities that have varying levels of risk as long as it conforms to this policy.

Let's look at some examples (based on the value propositions and attendant risk criteria/policy previously identified):

- **Shareholders.** If a strategy has a high level of risk of failure that will adversely impact the "capacity" to pay acceptable levels of dividends (as per policy), the strategy may be unacceptable (capacity for loss is a variable that can be quantified and, indeed, can be either a major strength or weakness of the organization — indeed it can be a competitive advantage).
- **Customers.** Product innovation is valued, but how much risk is involved in new product development? What level of innovation should be introduced to the portfolio of existing products without fear of failure that may impact not only profitability but also branding? If a particular product development strategy fails, will customers continue to support the organization?
- **Employees.** Is there a need to deliver organizational growth to provide employees with career opportunities and increasing incomes? How much growth does the strategy imply and is this acceptable? Indeed, is there enough growth such that employees support the organization rather than leave?
- **Government/regulators.** Is there an unacceptable risk of noncompliance with laws or regulations if new

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products are developed or new markets entered? Are there risks or excessive costs of compliance surrounding strategic options? Indeed, are there a relative lack of laws and a dependence on self-regulation that introduces complex social responsibility questions that may risk putting powerful stakeholders offside?

Risk appetite can sometimes be quantified. This is particularly important in the finance and banking sectors where capital requirements are so critical. Sometimes, however, appetite remains a qualitative judgment call, but this doesn't diminish the importance of its consideration. From a risk standpoint, understanding the risk appetite implied with each strategic option is key to making sensible strategic choices.

Risk Treatment

The third major step of the risk management process is the treatment of identified risks. As shown earlier in Figure 5, the organization must consider this step both within strategy implementation and through ongoing performance management.

During the strategy development process, various risks are identified. Since all strategy is about taking risks — whatever the chosen strategic option — it will have its attendant risks that the organization should have identified prior to implementation. These may be external risks (e.g., competitor behavior, social trends) or internal risks (e.g., potential capacity and resource issues, capability issues). Not only must the organization identify these risks prior to implementation but it should also analyze and decide upon treatment options. If there are no treatment options available, then either the risk appetite allows for this level of failure, or the organization should not pursue the strategy.

Where a treatment option is available, the organization must also determine the residual risk after successfully employing the risk treatment. This residual risk itself needs to be analyzed in terms of acceptability. If the residual risk is not within the accepted level of risk (risk appetite) previously defined for the strategy, then it needs to be reconsidered.

Such analysis should be undertaken not only prior to implementation, but also prior to making a decision about the choice of a particular option. It is about thinking ahead through the entire strategic choice and implementation lifecycle. A strategy may be logically sound, but if the organization cannot implement it satisfactorily, then it is not a good strategy.

Be sure to include operational personnel here, as risk treatment options may involve operational systems. They are the experts when considering the capabilities of the organization in implementing strategy. It may be the case that a strategic option that has been considered acceptable from a risk-policy and risk-appetite point of view by senior management may be highlighted as problematic by operational personnel who see difficulties with implementation that cannot be feasibly controlled by available treatment options (e.g., they may simply be too expensive to introduce).

From a risk standpoint, understanding the risk appetite implied with each strategic option is the key way to make sensible strategic choices.

Once a strategy is decided upon and implemented within ongoing operations, performance needs to be monitored. This is critical not only to ensure the effective implementation of strategy, but also to identify new pieces of information about what changes may occur within the organization's operating environment. This provides a continuous feedback loop within the strategy development lifecycle.

Risk tolerances need to be defined to measure whether the organization remains within risk appetites. These are usually more detailed measures than can be used to more continuously report on risk outcomes. Using the previously discussed scenarios concerning particular stakeholders, some examples may include:

- **Shareholders** — financial reporting of profit/loss, budgetary variances, level of bad debts
- **Customers** — product defects and returns, customer satisfaction surveys
- **Employees** — staff turnover ratios, employee attitude surveys
- **Government/regulators —** instances of noncompliance highlighted within regular internal audits

These measures, which can be seen as part of a performance reporting system, are an intrinsic part of risk management when used in comparison to predefined risk appetite and tolerance levels. While the design approach to strategy development uses a top-down philosophy, the information provided through the maintenance of this type of reporting helps to ensure the strategy stays on track. It is a vital part of the strategic management process generally.

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Strategic Risk Management and Emergent Strategy

In contrast to the design approach, strategy development that takes an incremental or emergent approach is inherently a lower risk method (from a financial risk standpoint). While there may be issues in the longer term, as discussed later, there are no "bet the company" types of decisions being made here that could destroy the organization.

But incrementalism and learning involves experimentation and, hence, the possibility of failure. The organization's success can depend on making several experiments with the hope of just one or two successes. It is a very similar mindset that successful salespeople have when they recognize that closing a sale gets that much closer after each rejection.

It is important then that risk management structures and processes accommodate this sense of experimentation and acceptance of failure as a legitimate part of the strategy process. It is crucial that the conventional language of risk management, namely risk "minimization" and risk "mitigation" be adjusted so that "risks" can be opportunistically taken when required. Line managers can easily interpret this language as being negative. The task of risk management is made that much more difficult if inappropriate risk management methods are used in these organizational contexts.

Risk management needs to take a more management rather than analytical approach where an emergent strategy development process exists. In these situations, risk management needs to be even more embedded within the strategy development process as the more formal, analytical checkpoints for review that exist within the design and planning approaches are not as readily available. For example, within the planning documentation that arises from the design approach, risks can be formally identified, analyzed, and managed. The formal identification of risk is, or as we have seen, should be part of the strategy process in this context.

A key feature of the emergent approach is that strategic options are not formally identified and analyzed in the rational way that they are in the design approach. There are fewer clear milestones where risk management processes can be easily included. It is because of this that risk management in this context relies more on the risk policies (i.e., risk management framework) previously created and the application of risk tolerances. While the notion of risk appetite is still relevant at a conceptual level, clear risk appetite statements may not have been defined as these arise from the more formal step of strategic option generation and choice that normally exists within the design model.

The effectiveness of the incremental approach is that the organization never quite knows what it is going to achieve until it sees some level of results. This is not to say that it is chaotic. But any formalized risk management routines need to be carefully considered in this more fluid context. Culture also becomes an important element of risk management as it helps to control behavior in a less formal decision-making environment.

Formal Routines in an Uncertain Environment

Nevertheless, there will always be some need for structure; otherwise, there would be no organization at all. Within the context of the logical incrementalism model, author James Quinn believed that there remains a benefit of having planning meetings. He felt that these are an aid particularly during the need-sensing, awareness-building, consensus-generating, and commitment-affirming stages of the process.[22] While these meetings and processes generate important data, the behavioral benefits of these formal processes are valuable in moving the organization in a coherent and integrated manner.

In this context, motivational and political consensus building are major benefits of bringing the organization together, so formalized meeting processes should not be discounted. More generally, given that the incremental development process can be viewed in some sense as a "change management" model, other familiar organizational routines remain as useful control devices. These include:

- **Project and program organizational structures —** for instance, when new ideas and concepts are to be trialed, these are necessary to manage these processes.
- **Fitting these project structures within the overall organizational structure —** that is, ensuring that there is diverse representation of functional or divisional areas within these activities.
- **Budgeting processes to control the amount of expenditure for each experimental project —** that is, imposing a cap on the amount of loss for each trial.

Formalized management reporting of progress against some level of preset objectives with commensurate milestones and outcomes is required.

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Experimentation Within Boundaries

A properly functioning and "mature" risk management model even within more dynamic strategy development contexts needs to display some elements of these conventional processes. But experimentation should not be stifled by routines that some may label as "bureaucratic."

Robert S. Kaplan and David P. Norton have suggested that strategy development (and risk taking) be formally included within a company's budgeting systems.[23] In addition to budgeting for operational expenditure (OPEX) and capital expenditure (CAPEX), companies should also develop budgets for strategic expenditure (STRATEX) — that is, specific budgets for the physical and human resources, which are required to develop new strategic initiatives. For example, by separately funding new product development, experimental marketing programs, or other value chain initiatives in the short term, organizations are less likely to allow these initiatives to fail as they are protected from the typical pressures to restrain spending and cut costs of the existing OPEX and CAPEX budgets that most organizations experience. By using budgeting systems in this way, both the upside and downside of risk can be managed in an explicit manner.

The creation of a system of formal risk tolerance measures for the control of ongoing operational activity should also be considered. Within the design approach, risk tolerance measures can be created to measure the success of formal strategy implementation. Within the emergent setting, strategy is more opportunistically pursued. In this context, tolerances can be created that are directly linked to risk policies themselves. Their purpose is not to monitor the progress of a specific strategy, but to help ensure that operations are operating within acceptable policy (i.e., framework and appetite) rather than strategy parameters. They may also be designed and seen in a way that highlights opportunities.

For example, the results from a customer satisfaction survey can be used not only to measure "compliance" but to generate new strategic ideas. Indeed, one major company identified the benefits of having a formalized and specifically labeled "opportunity planning system" to ensure that new ideas are captured, rather than lost, and rigorously considered.[24]

In many ways, the challenge for organizations is to manage these processes as expressions of risk taking and not risk avoidance. When setting project and program budgets, for example, a mindset needs to be developed that this is setting an implied "risk appetite" for experimentation. The very existence of a new project (e.g., developing a new product) is an expression of this. But this risk appetite needs to be pursued within the previously defined risk policy. The policy is the reference point here that needs to be referred to as often as any new projects or experiments are being considered for implementation.

A broad conception of risk management within the emergent model should place major emphasis on the "top-down" control of policy (and, indeed, culture). Take, for example, a liquor company that produces a new alcoholic product. It may fail to sell. But if the company targets the product toward a youth segment of the market, there may be a far greater downside for the company if it is perceived by society as unethical. If this is the case, the company will experience far more loss in brand damage than simply the cash investment of developing and marketing the new product.

The challenge for organizations is to manage these processes as expressions of risk taking and not risk avoidance.

Likewise, a company that has an efficient, low-cost supply chain that has taken years and substantial costs to develop may run into problems if part of this supply chain uses low-cost labor in an overseas country. The bad publicity or even legal sanctions may far outweigh the hoped-for financial benefits if the public perceives this labor as exploitive.

The point of these examples, particularly given the rise in the importance of the social responsibility of organizations, is that organizations should place greater emphasis on the definition and rigid application of risk policy where strategy emerges in an experimental way. Emergent strategy development needs to be controlled to avoid conceivable negative outcomes — not just the short-term cash cost of a failed experiment.

So, in addition to policies for what the company needs to *achieve*, policies can be defined in terms of what it needs to *avoid*. In effect, they become "limitation" policies and can act as a considered level of constraint on experimentation.[25]

In the case of the liquor company, a limitation policy may be devised such that new product development

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excludes targeting of particular market segments (18- to 21-year-olds). Drafted in these broader, non-quantified terms, a company can define the risks it is not prepared to take. This then allows management some free range to explore opportunities, but inside these boundaries. It helps to ensure that the organization enjoys the continued support of key stakeholders (and therefore capacity to operate) by not "overstepping the line."

Properly drafted ERM policy can actually liberate management to make decisions or experiment within specific boundaries. Policy is telling management not what to do, but what not to do. While some may regard "policy" as a bureaucratic and restrictive control device, it can also be a powerful motivational device.

Risk-based policy can take on an extra importance within the emergent model of strategy development as it helps to control the more experimental decision-making behavior seen in this context.

Table 2 places some selected routines and processes within the context of the logical incrementalism model defined in Figure 2.

INHERENT PROBLEMS WITHIN THE MODELS

So far, this report has discussed the following: the importance of risk policy, the need to understand the differing strategy development models, and how risk management needs to be thought about within each of the illustrative models. Further, this discussion has assumed that the models work effectively and produce desirable outcomes. That is, it is assumed that they operate as they are meant to operate.

But are there inherent risks within the models themselves? That is, by their very nature, will they produce some risks that render the strategies decided upon irrelevant or ineffective? And, can these risks be managed?

Problems Within the Design Model

The design model is most appropriate for relatively stable, predictable environments. This allows key decision makers to monitor and analyze the environment, helping them to then make the appropriate strategic decisions. As previously described, it assumes that this knowledge resides at the top and that once a course of action is decided upon it can be successfully implemented.

The world is inevitably, however, a complex place. So the risk of the design model is an oversimplification of the world in which the organization operates. The strategy that is "intended" to be implemented within, say, an annual strategic planning cycle, may not be that which is eventually "realized."[26] All the analysis in the world will not guarantee that the choice of options or the implementation of chosen options will work. There may be myriad reasons why this is the case, including the following:

- The external environment changes such that competitors react differently to what was anticipated.
- There is a change in regulatory regime resulting in new laws.
- There are changes in personnel resulting in loss of skills or loss of political support.
- Other strategies or projects demand their own resources that then become roadblocks to implementation.
- Natural events arise.
- External or internal cultural inconsistencies come forth.

The lists of possible reasons why strategy may never get fully realized are almost endless. So what can be done? To some extent, this needs to be accepted as a fact of organizational life and instead of fighting it, the organization may need to work with the changes (e.g., include new information and change the strategy more often where appropriate). In this way, an organization that employs a design model of strategy development and implementation has similar behavioral characteristics as an organization that uses emergent techniques. It is simply recognizing that all environments are dynamic to varying degrees.

In a project management setting, this type of change to accommodate ostensibly unforeseen environmental changes is seen as scope creep — making the change larger or different to what was originally intended. There is a danger that the change will lose its control. The other way of looking at this is that the ultimate change may more likely satisfy organizational requirements if there is at least some flexibility within the implementation of the change.

This type of activity requires good monitoring and performance systems and, of course, sound judgment (i.e., effective management over the project risks) and reporting. Organizational activity in this regard needs to be continually referenced against original strategic change objectives. The wisdom required is determining between whether unsuccessful organizational performance is a result of unsatisfactory implementation of strategy or the inadequacy of the strategy itself.

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Table 2 — The Logical Incrementalism Model of Strategy Development with Some Selected Risk Management Routines and Processes

Logical Incrementalism and Strategy Development	Risk Management Processes
"Sensing" the need for change before formal information systems detect problems or issues; being open to new trends.	• Using stakeholder analysis to monitor stakeholder value requirements (internal and external) and associated risk criteria. • Recognizing that internal information flows are important to identify needs; analysis needs to be wide-ranging and continuous.
Building organizational awareness without overly committing to one solution or another or creating opposition.	• Having an overall risk management framework, including clear articulation of risk-limitation policies. • Continually developing a cultural "tone at the top," which will guide the organization in what is, and what is not, from a risk viewpoint, legitimate strategic activity.
Using symbols to build credibility that some changes are coming.	
Legitimizing new viewpoints via open discussion and allowing a "gestation period."	
Using strategy adjustments tactically, especially if early opposition has resulted in the acceptance of only partial solutions.	• Recruiting and using "risk champions" who will provide support for the actual operation of the risk management framework. • Allowing a concept of acceptable "risk appetite" to evolve within defined policies. Appetite will be a dynamic concept continually tested by new ideas and options generated from broad areas of the organization that will evolve within the legitimate limitations of risk capacities and policy.
Broadening political support through the selective recruitment of supporters and other members within taskforces and committees and the selective creation of agenda to guide decision making.	
Overcoming opposition by persuasion, co-optation, or removal while listening to legitimate differences of view.	
Building flexibility into the organization to deal with uncertainties (e.g., using resource buffers and shortening decision-making lines).	• Understanding that risk policy and the "iterative" definition of risk appetite will help control activity during experimentation phase, when the organization narrows down the most appropriate strategic options. • Using budgeting methods to provide active support for desirable options through, for example, "SRATEX" budgets, organizational focus will be concentrated on desirable options. • Ensuring senior management and risk champions continue to support this process.
Waiting for the right moment to change and engaging in trials of ideas to continue mobilizing the organization's creativity.	
Creating pockets of commitment for the good options by providing broad goals, proper climate, and resource support while killing off poorer options or allowing them to die.	
Crystalizing focus and formalizing commitment when timing is correct by use of power, influence, and authority within public announcements, structural changes, specific budgets, and other systems.	• Formally assessing risk and providing change/project structures and risk and operational budgets for implementation; defining risk tolerances, making them explicit and using them to control operations.

The notion of recognizing the difference between intended and realized strategy is an important one. What is more important, however, is to attempt to answer the question of why the organization has experienced this. Information arising from this activity can provide further valuable information for subsequent strategic development cycles.

Problems with the Emergent Model

Organizations that use a design model often decide on strategies that require significant, transformational change. This is often the case where a new CEO starts the rollout of a "bold new strategy." Such changes can be too bold and fail. In contrast, where strategy develops incrementally, it is the gradualist nature that has such a favorable outcome for its implementation.

As a change management model, this can be highly effective. A major reason for this, apart from the fact that smaller changes are usually easier than larger changes, is that emergent strategy works within the prevailing culture of the organization. Culture is a major behavior control. At the heart of an organization's culture are the basic assumptions and beliefs that help to define it: "Basic assumptions are so taken for granted that someone who does not hold them is viewed

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as a ‘foreigner’ or as ‘crazy’ and is automatically dismissed.”[27]

It is this “taken for granted” nature of culture that makes it so hard to change. And it is the reason why profound, transformational change efforts often fail. The failure is mostly due to the fact that the prevailing culture would not allow the change to take hold. Conversely, the incremental nature of change within the emergent model is more likely to be successful at time of implementation. It is the relative ease with which incremental strategies are created, developed, and implemented inside the prevailing culture that makes it relatively easy. The culture, in effect, allows the change.

But it is this behavior that can be the reason why, paradoxically, emergent strategies fail. Why is this? It’s because these incremental, step-by-step strategic changes that are “allowed” by the culture ultimately fail to keep up with the environment. This concept is known as strategic drift and is shown in Figure 6.[28]

Phase 1 in Figure 6 represents where the incremental change experienced by the organization is effectively keeping up with changes in the environment (the upward sloping straight line). The second phase of a strategy lifecycle represents where the organization starts to “drift” from the required rate of change. The “flux” phase is characterized by an organization that is aware that there are issues (e.g., declining rates of profitability), but these have not yet been fully identified, or, where new strategies have not yet been devised, or, where insufficient support is present to move the organization to a more appropriate strategic setting. Phase 4 represents the stark choice available to an organization that has suffered from strategic drift. It will either need to undergo high-risk and rapid “transformational” change or suffer a slow demise. A stark choice indeed!

There is a tendency toward strategic drift for a number of reasons, including:

- Managers perceive the environment based on history; what’s worked in the past will work in the future.
- Managers see changes within the context of their long-held assumptions.
- Managers do indeed change, but solutions are based on their existing beliefs and assumptions.

One example of strategic drift is Eastman Kodak. A pioneer in the photographic industry and the inventor of the digital camera, the company ultimately filed for bankruptcy as it did not recognize the rise of the importance of digital photography. When it did try to change, it was too late. Eastman Kodak is just one recent example where the risk of strategy drift is the need to quickly catch-up with the changed environment. And the transformational change that many organizations have to ultimately undertake is highly risky.

So within the context of the incremental, emergent model of strategy development, how is strategy drift prevented? This is possibly the most important strategic

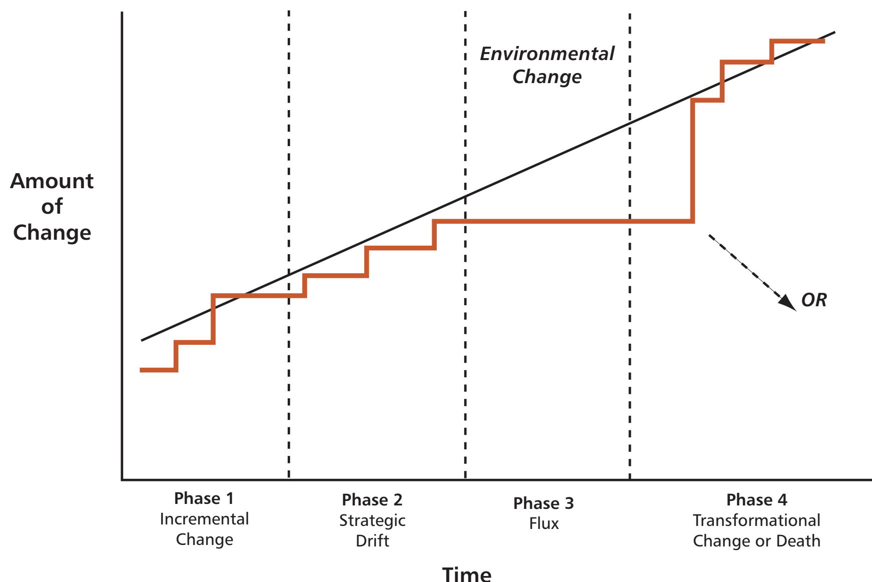

Figure 6 — Strategic drift. (Adapted from Johnson et al.)

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risk facing any organization. How can we detect when an existing strategy is achieving poor results not simply from some cyclical or temporary external downtown but because it is simply the wrong strategy?

Usually within the area of strategic change management, the focus of discussion is how to get an organization to change according to a plan or vision (i.e., how to counteract active resistance to strategic change). In the case of potential strategic drift, the change management challenge is how to get an organization to acknowledge that change is required in the first place (i.e., to objectively reflect on the existing strategy to identify shortcomings).

The concept of double-loop learning previously discussed and shown in Figure 3 describes not only how performance is measured against some type of benchmark in a classic feedback loop, but also, and critically, shows conceptually how the benchmarks themselves need to be questioned. If this double loop of learning is in place on a continuous basis, a substantial part of strategy drift may be reduced. It helps the organization continuously question its assumed strategic positioning.

So how to promote questioning? Segmentalist or silo-type structures do not help. As change management writer Rosabeth Moss Kanter observed:

> [In] searching for the right compartment in which to isolate a problem, those operating segmentally are letting the past — the existing structure — dominate the future. The system is designed to protect against change, to protect against deviation from a predetermined central thrust, and to ensure that individuals have sufficient awe and respect for this course to maintain their role in it without question.[29]

The integration of organizations through flatter structures; cross-functional, semiautonomous work groups; and new systems of sharing and disseminating information would be a good start here.

Other methods may include:

- The recruitment of outsiders with new ideas and viewpoints
- A change to the existing structure (not necessarily based on any change to strategy) to see if new perspectives are created (e.g., changing to a matrix-based structure or from a functionalist structure to a divisional structure)
- The utilization of independent experts or departments inside the organization (e.g., planning or risk management departments)
- Ensuring that senior management and boards have sufficient time and information to fundamentally question strategic direction and associated risks

Boards in particular are seen as vital during any type of strategy process particularly during long, evolutionary time frames given their relative independence and the fact that board directors are "perhaps the only coherent executive body continuously in existence … [helping to] ensure top management's own objectivity."[30]

The buck stops at the board, so it is the board that needs to consider its place within the total risk structure. This includes:

- The enterprise risk management framework in general (policies, standards, and guidelines)
- The risk appetite of strategy
- Risk management reporting

The board also needs to ensure that enough risk is being taken. The existence of potential strategic drift makes this a crucial role for the board.

Indeed, most of the preceding discussion, including the concept of strategic drift, may sound more like strategic management rather than strategic risk management. But therein lays the challenge. Given the nature of incremental and emergent strategy development, those who are responsible for risk management within the organization need to think about how risk is handled within the strategy decision-making process itself. They must both manage and promote risk taking within the organization.

CONCLUSION

This *Executive Report* canvasses a number of key attributes of a strategic management framework. Key themes include:

- The critical nature of risk management policy that guides all strategic management processes within the organization, which also helps create cultural values
- The need to analyze stakeholders who are the true reference points when considering the purpose of the organizations and subsequent risk policy settings
- The importance of considering the appropriate strategy development method (design or emergent) when designing a strategic risk management framework

The hierarchical nature of the risk management process discussion allows for the allocation of responsibilities

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for this process among organizational participants. Any process needs to be embedded within the prevailing structure of the organization. Frameworks of the responsibilities of board and senior management tend to place these within a "flow," or chronological sequence, of decision making from policy making, through to strategy decision making, and ultimately to implementation.[31] Likewise, discussions of risk management and appetite frameworks also are seen in this hierarchical manner.[32]

The themes discussed in this report are summarized in Table 3 within this organizational structure context.

Columns 1-5 summarize the various strategic development and strategic risk management steps discussed, allocating primary responsibilities for these steps to the three hierarchical levels of board, senior management, and operational management. While all organizations will differ in respect to the various job descriptions of each management level, the table attempts to summarize the report's discussion within these levels in this logical, hierarchical way for the sake of illustration and discussion.

The last column in Table 3 summarizes a major thrust of the report. The discussion indicates that there will be systematic differences between organizations based on their environmental contexts. An organization using a design approach can and should use each of the three hierarchical steps within its risk management processes. As discussed, risk analysis can be applied at each of the three major steps of purpose definition, strategy option creation, and implementation/change management.

Organizations using a more emergent approach, however, will not have the formal, top-down strategy development and risk management processes. Strategy emerges, rather than being decided on in the formal manner of the design approach. Because of this, risk policy has a relatively higher importance in guiding the organization in its risk taking and to create the culture that will inform the participants within the organization of what risk is acceptable or not. Additionally, risk treatments and the definition of risk tolerances will have a relatively higher importance as risk taking is being managed in a more continuous fashion within the operational areas of the organization rather than in the more formal strategic routines and processes. The relative role of defining risk appetite is lower because of the absence of formal risk analysis checkpoints within the strategy and risk management process.

Finally, this *Executive Report* highlighted the fact that there are inherent risks within whatever strategy development method is used — design or emergent. That is, there is risk within the process itself.

Boards, in particular, are in a unique position because of their relative independence to not only create the right risk governance environment, but also to identify where the organization may not be taking on enough risk (i.e., preventing the organization from drifting away from environmental requirements).

This point requires boards and those who are held responsible for risk management strategies within an organization to not only examine risks as they are identified within any risk management systems, but also to

Table 3 — Summary of Strategy and Risk Management Methods

Organization Level	Responsible for …	Key Tools and Processes	Risk Focus (ISO 31000)	Risk Measures/ Outcomes	Relative Role Importance of Measures/Outcomes Within Strategy Model	
					Design	**Emergent**
Board	Purpose and policy setting	Stakeholder analysis	Establish context	Risk attitude (risk criteria) and creation of risk policy	High	Higher
Senior management	Competitive strategy	Strategic analysis and option generation	Risk assessment	Risk appetite	High	Lower
Operational management	Implementation management (systems/ processes)	Change risk assessment (and ongoing risk identification)	Risk treatment	Risk tolerance	High	Higher

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question the strategy development process itself. The very model used by the organization may be creating strategic risk. A full understanding of these models by risk management practitioners is therefore essential.

ENDNOTES

[1]"ISO 31000 Risk Management — Principles and Guidelines." International Standards Organization (ISO), 2009.

[2]Freeman, R. Edward, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar, and Simone de Colle. *Stakeholder Theory: The State of the Art.* Cambridge University Press, 2010.

[3]Freeman et al. See 2.

[4]"Risk Appetite — The Strategic Balancing Act." Ernst & Young, 2010 (www.ey.com/GL/en/Services/Advisory/Risk-appetite--the-strategic-balancing-act).

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[6]Ernst & Young. See 4.

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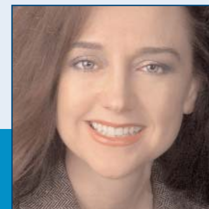

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