Corporate Strategy Alignment and Risk Management

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Corporate strategy is the conscious blend of strategic goals that support the mission and vision of an organization. When a corporate strategy is aligned, the key outcomes (strategic goals) of the organisation are cohesive and integrated with the key operations of the organisation and the tactics required to execute the corporate strategy. In other words, all parts of the organization's attributes and systems (the sum of internal and external functions of an organization's environment) are moving in the same well-defined direction.

Strategy misalignment is often a subtle anomaly and sometimes difficult to spot. Yet without a properly aligned corporate strategy, it is likely that a significant amount of disorder would have been inadvertently introduced into the organizational environment.

When strategy is misaligned, operational initiatives are often out of sync with the strategic goals of the organisation and mission drift could occur within the operational sphere. It is thus critically important to identify strategic misalignment early since misalignment can lead to disordered and untidy reactions. Uncorrected, the problems compound quickly and lead to serious issues within the organisation.

In our experience, the reason for the disconnect is that different layers of management do not always have the same capabilities or levels of understanding related to defining strategic priorities and where to make trade-offs, identifying and managing the relevant strategic risks, establishing appropriate causes and drivers, and determining appropriate strategic and tactical responses. The goal is to recognise the barriers to achieving success and create alignment throughout the organisation. Those organisations most likely to succeed are the ones that are able to successfully align their operating model (how they operate) with their strategy (what it is they want to be).

Michael Porter[1] emphasised the need for clear strategic choices for business. His dynamic view of business strategy recognised that competitive advantage is fleeting and that constant realignment between strategy, environment and competencies is needed. In his view, the management of change is the major strategic challenge faced by organisations. The alignment of strategy with tactics should be a continuous process, which requires top management to balance both emergent and deliberate strategies with environmental demands and with strategy implementation.

As the business executes its strategy, it creates and increases its exposures to uncertainty. Therefore, objectives and strategies provide the context for understanding the risks the business desires to take. The ISO 31000[2] model affirmed this point by establishing objective and context setting as a key component of the ERM framework.

[1] Porter, M.E., 1985. Competitive Advantage: Creating and Sustaining Superior Performance

[2] ISO 31000 is a family of standards relating to risk management codified by the International Organisation for Standardisation published in 2009.

Risk management plays a pivotal role in ensuring that the organisation remains on the course charted by its strategic intent since the basis for risk assessments is contained in the context and objective setting process of risk assessments. The first step to defining risk management goals and risk management objectives is to define the organisation's shared vision. Once the shared vision is articulated, overall risk management goals and objectives must be defined.

Objective setting should constitute the beginning of the organisation's risk management approach and the organisation should set strategic, financial, operational, and other objectives during its strategic and annual planning processes and throughout the year. These objectives should then cascade through the organisation to individual operations, programmes, projects and teams and become the basis for the contextualisation and identification of related risks.

Risk assessment is the process of identifying risks to the objectives, evaluating the impact of those risks and choosing a response. The line of sight should extend from the vision and strategic intent through to the risk management process and risks and controls should in turn be assessed against strategic and operational objectives that are aligned.

Risk management programmes that are focused on and consistently aligned with strategic priorities and initiatives will provide the most efficient approach to organisational risk management. Strategic priorities often change over time, and if risk management activities do not address these changes and priorities, thereby ensuring that strategic alignment is maintained, associated efforts can become reactive, misaligned and compliance-focused rather than supportive of strategic decision-making. Additionally, assessments may then also cover a wide spectrum of low impact risks, which although important, become unnecessary noise in the prioritisation process. Compounding the challenge is the tendency for risk assessments to focus on current or historical issues rather than the future – and to short-change strategic issues if risk management programme initiatives are managed independently.

When defining risk management goals and objectives, management should ask pertinent questions, such as those listed below:

- What are our business objectives and strategies? What are our targets? What values do we want to build and reinforce?
- What specific possible future events do we face? Are they related?
- How sensitive are our strategies and operations to the occurrence of future events?
- How risky are our tangible and intangible assets for creating value? What are the loss drivers affecting those assets?
- Which specific future events could, if they occurred, affect our organisation's ability to achieve its objectives relating to quality, innovation, timeliness, safety, compliance, etc., and to execute its strategies successfully?
- How capable are we of responding to events beyond our control that may happen in the future?
- Finally, if we decide to accept the exposures inherent in our business model that give rise to our existing risks, do we have sufficient capacity to absorb significant unforeseen losses should they occur?

The above questions provide a powerful context for defining and aligning risk management goals along with strategic and operational objectives.

Craig Smith (PrEng, MBA) has 17 years' experience in the field of risk management and during that time has consulted to a range of clients in various industry sectors and regions.
Craig is a dedicated organisational and strategic risk management consultant, a risk culture strategist who is passionate about organisational capacity building and performance management. There is no ideal organisational culture for governance or risk management but Craig can assist in developing your organisation's level of maturity by providing a proven programme with supporting processes.

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