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# **Managing Strategic Risks**

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**ISACA Greater Houston Chapter  
Paul F. Feiler, Ph.D.**

# One Question

“Discuss the arbitration of the International Fisheries problem in respect to hatcheries protocol and dragnet and trawl procedure as it affects: (a) the point of view of the United States; and (b) the point of view of Great Britain.”

# Six Moves

1. How do strategic risks differ from other kinds of risk?
2. What do strategists do?
3. Why do strategies fail?
4. “Strategy Mapping,” a holistic strategic framework
5. Four observations on assessing strategic risks within a holistic strategic framework
6. A test

# **Move #1**

**How do strategic risks differ  
from other kinds of risk?**

**“What if there were no  
hypothetical situations?”**

# COSO Risk Framework

1. Compliance: ensures compliance with applicable laws and regulations
2. Reporting: ensures that controls are in place so that financial reports are reliable
3. Operations: ensures that organizations make effective and efficient use of their resources
4. Strategic: assesses risks to the achievement of the high-level goals that support an organization's mission

# Non-Strategic Risks

## Compliance, Reporting, Operational Risks

- Focus on point issues and point solutions
- Mitigation actions specific to particular sources or impacts of risk

# Strategic Risks

## A “Point-of-Risk” Approach (Wyman)

1. Project Risk
2. Customer Risk
3. Innovation Risk
4. Transition Risk
5. Brand Risk
6. Industry Risk
7. Unique Competitor Risk



# Strategic Risks

## **“Point-of-Risk” Approach Is Limited**

1. Origins of strategic risk are complex
2. Impacts of strategic risk cross boundaries of organization
3. Impacts of strategic risk can simultaneously affect several drivers of economic value

# Strategic Risks

Not “point” solutions, but  
***holistic management approaches***

# Strategic Risks

**Case**

**Barbie**

# Barbie

1. September 10, 2007, Mattel recalled 21M Barbies manufactured in China due to concerns over lead paint and small magnets.

***Risk: Poor quality, workmanship associated with off-shoring work to particular countries (Financial Times of London)***

2. September 21, 2007, Mattel reveals design flaws released to China from its engineering department in El Segundo, CA. 76% of recalled toys built to specifications.

***Risk: Design errors; failure of QC processes***

# Barbie

3. October 1, 2007, Insiders leak to media that apologies to Chinese government were moves calculated to help China save face in the light of threatened punitive measures, new regulations and increased taxes.

***Risk: political and regulatory ambiguities associated with investing in and working in particular countries.***

## What do we learn from this case?

- Assessing the origins and impacts of strategic risks is complex.
- Assessment can involve a chain of activities that . . .
  - span the boundaries of a company
  - simultaneously impact different functional areas
  - impact several different drivers of economic value.

# **Strategic Risks**

## **Case**

### **Macondo Deepwater Horizon Explosion**

# Macondo

## **April 20, 2010 Deepwater Horizon Explosion**

- 11 workers killed; 16 injured
- Unit burned and sunk
- Created massive oil spill in Gulf of Mexico
- 2<sup>nd</sup> largest environmental disaster in U.S. History
- Disastrous for companies involved (BP, Transocean, Cameron)
- Severe criticism of oil and gas industry
- Curtailing of drilling operations in Gulf



# Macondo

- **What were the root causes?**
- **What would you do to mitigate future strategic risks?**

# Macondo: Root Causes

1. Basic design and engineering mistakes. Questionable casing program caused cementing short cuts and created a leak path straight to surface.
2. Lack of quality control: design, parts, suppliers, vendors.
3. Lack of proper “Change Management” procedures for major changes in the project: rig, crew, contractors, well objective.
4. Time, Cost and Schedule focus--not Risk Management. Lack of risk identification and understanding. No documentation of the consequences of unsuccessful results of decisions made, nor what risk mitigation that was taken, nor what contingencies that were in place.
5. Failure to implement basic procedures and controls.

# Macondo: Root Causes

6. Attitude of complacency, failure to acknowledge the inherent risks of the activity when the activity becomes “routine.”
7. Safety Culture varied within the company; at rig, failed to give safety the highest priority.
8. Best Practices and Best Available Technology were available, but not applied.
9. Failure of the regulatory environment that allowed this all to occur.

(Summary of Aconon Wellpro A.S. Report, 2010)

# Macondo: Where do you focus?

- **The way the activity of planning and executing the activity is resourced, organized, structured and managed** (Organizational Unit, Teams, Rigs and Contractors, Manning Level, Competency assurance and financial support)
- **How the work is carried out** (Mgt. guidelines, goals, HSE culture, process, procedures, preparations & planning)
- **How the work is supervised and quality controlled** (peer reviews, independent verification, expectations, follow up/ “walk the talk”)
- **The way the work program is implemented offshore--routines and processes** (internal control, respect for procedures/ instructions)
- **The way that individual competence is utilized** (open and honest communication or management by fear) Communicate/ discuss hazards and share important information.

# Strategic Risks

## Summary

1. Strategic risks differ from other kinds of risk
2. Point-of-Risk approaches have limited applicability
3. Origins of strategic risk are complex
4. Impacts of strategic risk cross boundaries of organization
5. Impacts of strategic risk can simultaneously affect several drivers of economic value

# Strategic Risks

**To Deal Effectively with Strategic Risks:**

**Holistic methodology linked with the  
strategic planning process**

## **Move #2**

**What Do Strategists Do?**

**MWN, Inc.**

**Machete Wielding Natives,  
Incorporated**



# MWN, Inc.

- Best people
- Best technology
- Most efficient processes
- Skilled management team
- Strong CFO
- Willing investors
- Target market
- Burgeoning brand
- Effective sales force

## Why will we fail?

- I need a leader on top of the tallest tree
- My company lacks strategic direction

# Strategic Intelligence

- **Foresight:** anticipates how current trends and forces will play out in the future, creates vision and sets direction
- **Systems Thinking:** understands how the different parts of the organization have to work together to achieve strategy
- **Partnering:** able to execute strategy; strategy communicated; people motivated and aligned; leader trusted

**Good luck!!!!**

## **Move #3**

**Why Do Strategies Fail?**

# Why Strategies Fail?

## Decades of Strategic Underperformance

- 40% of CEOs don't last 18 months
- 20% more weak, but tolerated
- Inability of CEOs to execute strategy
- 70-90% of strategies fail
- Fewer than 10% of large companies achieve strategy
- Only 1 in 8 come within 33% of goal

# Why Strategies Fail?

## Lack of Holistic Strategic Framework

### Strategic Doctrines:

- Shareholder value
- Customer management
- Positioning for competitive advantage
- Process management
- Total quality management (TQM)
- Core competencies
- Human resources
- Information technology
- Organizational design

# Why Strategies Fail?

No comprehensive integrative framework to develop strategy, communicate it and align organization to execute it.



# Move #4

## Strategy Mapping

Robert Kaplan and David Norton

***The Strategy-Focused Organization*** (2001)

***Strategy Mapping*** (2004)

# Strategy Maps

- Holistic Strategic Framework
- 50% of Fortune 1000 Companies
- Links in cause-and-effect chain, activities that create value
- Begins with intangible assets (people, processes) moves toward financial outcomes

# Strategy Maps

## Four Strategic Perspectives

- The ***Financial*** Perspective
- The ***Customer*** Perspective
- The ***Internal Process*** Perspective
- The ***Learning and Growth*** Perspective

# Strategy Maps

## The Financial Perspective

- The ultimate objective for profit-maximizing companies
- ***When we achieve our strategy, how will we look to our shareholders?***

# Strategy Maps

## The Financial Perspective

Two primary objectives:

- To sell more
- To spend less

# Strategy Maps

## The Financial Perspective

- Growth (to sell more)
  - Sell more products/services to current customers
  - Sell new products/services to current customers
  - Sell products/services to new segments
  - Sell products/services in new markets

# Strategy Maps

## The Financial Perspective

- Productivity (to spend less)
  - Reduce costs
  - Do what you do more efficiently

# Strategy Maps

## The Customer Perspective

**Most important strategic question**

*Who are the customers we want and how will we have to be perceived by them to get and retain their business?*



# Strategy Maps

## The Customer Perspective

### Why Customers Buy

- Products and services meet their needs: price, quality, availability, selection, functionality
- Strong relationship through service or personal bond
- Brand is market-leader: first to market, high-performance products

# Strategy Maps

## The Internal Perspective

*At which processes must we excel to achieve our customer value proposition?*

# Strategy Maps

## The Internal Perspective

1. Operational Processes
2. Customer Management Processes
3. Innovation Processes
4. Regulation and Social Processes

# Strategy Maps

## Learning and Growth Perspective

*In order to excel at the internal processes that support our customer value proposition, what must we learn, and how must we change and grow?*

# Strategy Maps

## Learning and Growth Perspective

### *Intangible Assets*

- Human Capital: skills, talent, know-how
- Information Capital: information systems, networks, infrastructure
- Organization Capital: culture, leadership, teamwork, alignment


# Strategy Maps

## How it works

- Objectives set in each level are supported by the ones beneath
- Results in a cause-and-effect chain of activities that ultimately support growth and productivity objectives

# Strategy Maps

## **Strategic Theme: Growth through Increased Sales**

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- Train people in Quality Management and Six Sigma (L&G)
  - Improve quality of manufacturing processes (I)
  - Improve functionality of product (I)
  - Increase customer satisfaction (C)
  - Increase long-term customer loyalty (C)
  - Growth from increased sales (F)

## **Move #5**

**Assessing Strategic Risks in the Context  
of a Holistic Strategic Framework**



# Assessing Strategic Risks

## Four Observations:

1. Strategic risks exist at every level of the map.
2. The assessment of strategic risks not only protects the value chain, it also creates value.
3. The assessment of strategic risks requires a consultative methodology.
4. The complex origins of strategic risks demands an integrated management approach.

# Assessing Strategic Risks

## ***1. Strategic risk exists at every level of the map***

Breaks in the chain at every level may have  
a negative impact across organization

# Assessing Strategic Risks

## Dave's Plumbing Supply

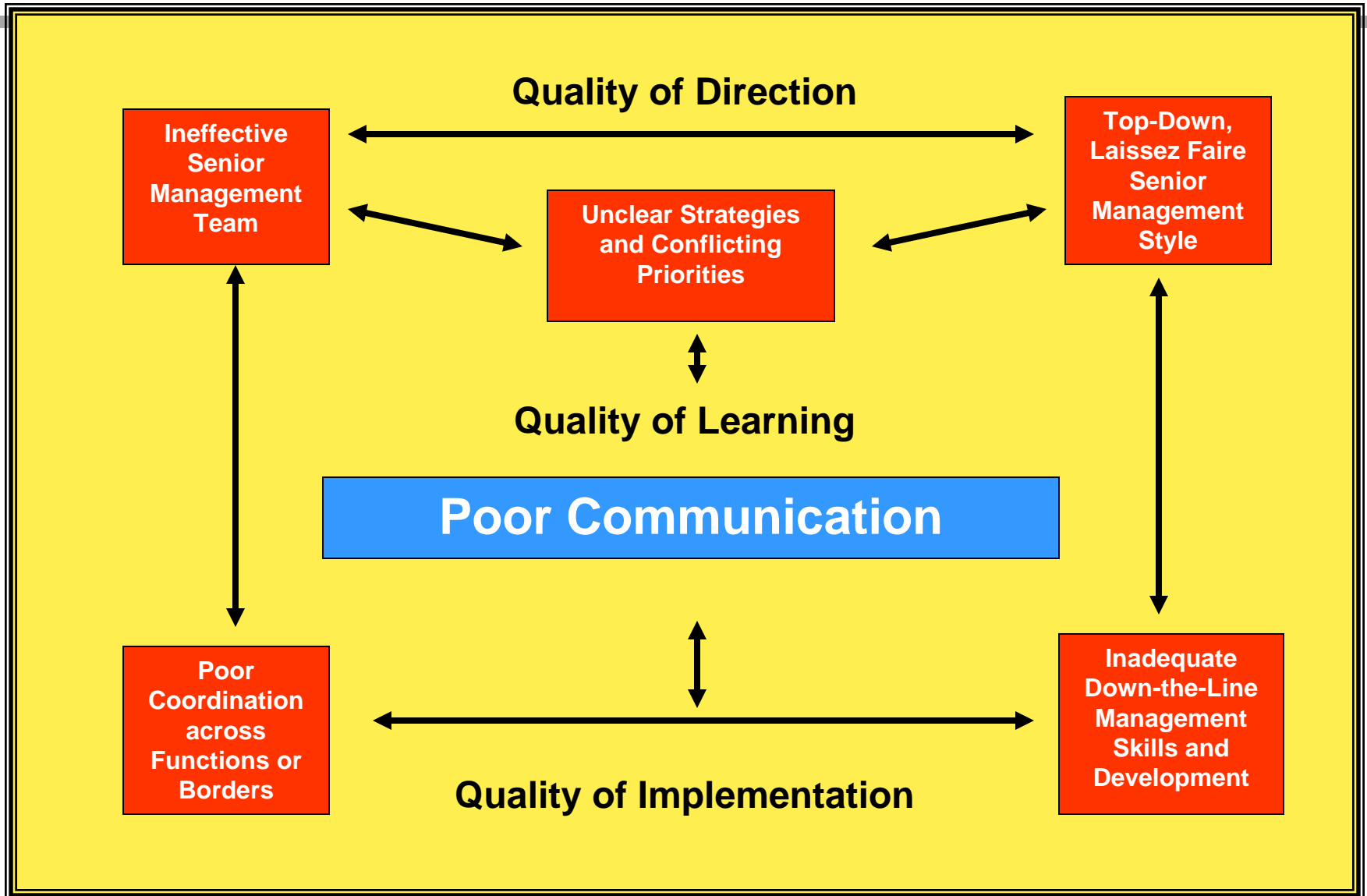
Customer Value Proposition:

***Customer Intimacy***

# Strategy Killers

Beer and Eisenstat, “The Silent Killers of Strategy Implementation,” Sloan Management Review (Summer, 2000), pp. 28-40.

# Strategy Killers



# Assessing Strategic Risks

## ***1. Strategic risk exists at every level of the map***

- Breaks in the chain at every level may have a negative impact across organization
- Look for weak links
- Look for weak linkages

# Assessing Strategic Risks

- 2. *The early identification of strategic risks not only protects the value chain, it can also create value.***
- Risk and opportunity are two sides of the same coin.
  - Early identified risks, as mitigated, can become a competitive advantage.

# Assessing Strategic Risks

- Turnover: “Best Place to Work”: Increased productivity, Improved customer relations, Recruit higher caliber of employee
- Heat Treat Bottleneck: Three-way partnerships, new revenue source



# Assessing Strategic Risks

3. ***Strategic risks are best identified, assessed and mitigated through a consultative methodology.***
  - Strategies differ from organization to organization; the routes to sustained profitability and growth are unique.
  - Approach begins with listening and dialogue.

# Assessing Strategic Risks

## Case

***Post-Macondo Risk Mitigation  
Leads to Global Transformation of  
Well Design and Drilling Operations***

# Assessing Strategic Risks

***4. The complex origins of strategic risk require an integrated management approach to address them.***

- Strategic risk management competency present in all strategy meetings at every level of company.
- Great companies think about strategy everyday.
- At every point in the continuous strategic process, strategic risk management plays an important role.

# Assessing Strategic Risks

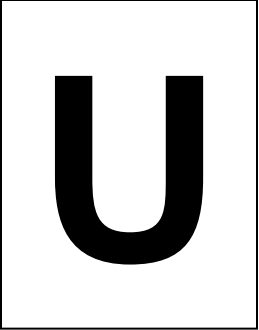
## *Four Observations (Summary):*

1. Strategic risks exist at every level of the map.
2. The assessment of strategic risks not only protects the value chain, it also creates value.
3. The assessment of strategic risks requires a consultative methodology.
4. The complex origins of strategic risks demands an integrated management approach.

# **Move #6**

**The Test**

# The Test



U



8



M



7

**“If a card has a vowel on one side, then there must be an odd number on the other side.”**

***Which two cards would you flip to test this assertion?***

# The Test

## The Confirmation Bias

- People tend to seek information that confirms their point of view and discount information that doesn't.
- Strategists are no different.
- It's difficult to bring to light strategic risks and vulnerabilities that challenge strategy.

# The Test

**Strategic leaders need people like you!**





# **Thanks**

**pfeiler51@gmail.com**