THE STRATEGIC RISK OF BEING AN ANTI-DENTITE

by Steve Brown

There are sure many strange things around us that we may not think about or know, but are nonetheless interesting. Take for instance the fact that the wingspan of a 747 jet is longer than the Wright Brothers' first flight, or that most people take only 7 minutes to fall asleep, or that a dentist invented the electric chair. All of these weird facts swirl around us every day, yet few but the dentist one seem to make perfect sense. Instead of being an "anti-dentite," as the Seinfeld cast famously once said though, have fun with these odd but true facts as you also fondly recall that great television show. Speaking of odd but true facts that could make good television, research done some years back by Deloitte and others finds that when publically traded firms have a significant decline in market value, it can be attributable 60% to strategic risks, 30% to operational and 10% to financial. As such, you might want to consider these risks in your next strategic planning analysis given their potential impact. Here are some ideas to get going. We begin with the most impactful risk by defining strategic risk. This risk is the internal and external risks to the bank that can lead it to not achieve strategic objectives. Strategic objectives are further defined, as the high level goals of the bank that are aligned with and support the mission. To be sure, managing strategic risk is complex, but it is also important to understand it is a critical component of a robust and fully functional enterprise risk management process. If that description is about as clear as mud, consider it put another way. In order to manage strategic risks, executives have to zero in on the most significant risks the bank faces around maintaining and growing shareholder value. Reverse engineer from there and think in terms of what risks could derail the efforts. Begin by identifying and assessing any risks you can think of that could impact the bank's business strategy. These can run the gamut, but they usually include customers, market, innovation, employee engagement, brand, reputation and others. To manage strategic risks effectively, you have to not only have a clear idea of what the strategy is, but also to understand how different internal and external factors could impact execution. Once you have identified the key risks to strategy, you have to take the next step of calculating their likelihood, understanding what the effect on the bank would be if they were to happen and figure out how you will measure and monitor them going forward as conditions change. That gives you a great platform and structure to deal with strategic risk. You end up not only with a better ability to understand the risks and how they can impact your strategy, but also end up putting in place contingency plans to protect yourself in case your strategy does not turn out as you had originally expected. As you start down this path, you might want to consider asking some questions suggested by the Committee of Sponsoring Organizations (COSO), the sort of the defacto leader globally on governance, ethics and enterprise risk management. These include asking whether shareholders want you to pursue high risk/high return businesses; whether they prefer a more conservative, predictable business profile; what sort of credit risk you want to take; how often and how confidently you want to be able to pay dividends; what portion of the budget could be subject to potential loss; the amount of earnings volatility you are willing to accept; the specific risks you are not willing to accept; whether you are interested in growing through acquisitions; what sort of willingness you have to see your reputation or brand damaged as a result of the strategy; what extent you want to expand your product, customer or geographic reach; and what level of risk you are willing to accept around new products or services to achieve a specific return on investment. Asking questions like these not only drives more structure into the bank around the strategic planning process, but it also forces the management team/board to coalesce around exactly what risks everyone is willing to take and which ones are not acceptable. In so doing, everyone better understands exposures, what could derail the strategy, areas where the strategy could have difficulty and provides time to set contingency plans to protect your downside by knowing what can happen when you eat Junior Mints when someone is doing corporate surgery.

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