


The Actuarial Profession
making financial sense of the future

STRATrisk : Thinking it Differently

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This Session

- Overview of research & some findings
- Some concepts that emerged
- How this helps to manage strategic risks
- Why this requires a new way of thinking
- Tools to aid new thinking about risks




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STRATrisk Research

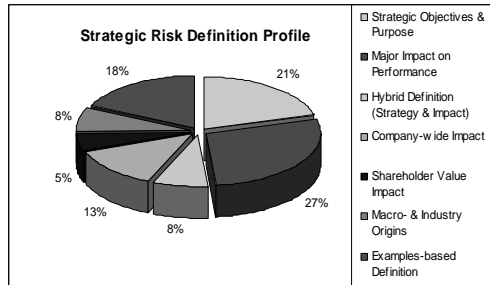
The key elements of the £480k research programme funded by DTI, ICE Actuarial Profession and 30 leading organisations are:

- Research by Universities of Bath and Bristol.
- Qualitative action research approach
- 50 in-depth interviews with Board members
- Focused on construction industry



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How our sample defined strategic risk?



The Annual Performance
Measuring the Difference of the Future

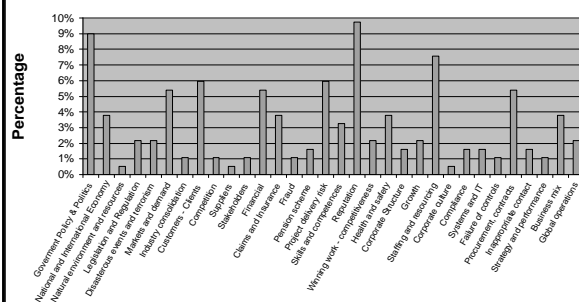
The Nature of Strategic Risks

Some explanations of the difference:

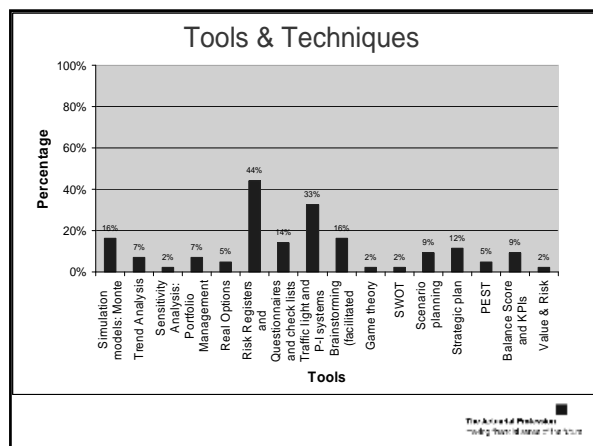
- “they tend to be less easy to spot, more disruptive, less easy to quantify and often less stable” OGC & SUCO
 - Risk/return paradox (Bowman, Fiegenbaum and Thomas)
 - In the majority of industries studied higher-average-profit companies tended to have lower strategic risk
 - The paradox appears more likely in uncertain, less predictable conditions
 - “they are at once pervasive and inter-related” & “effective organisational control structure is essential”
- Economist Intelligence Unit

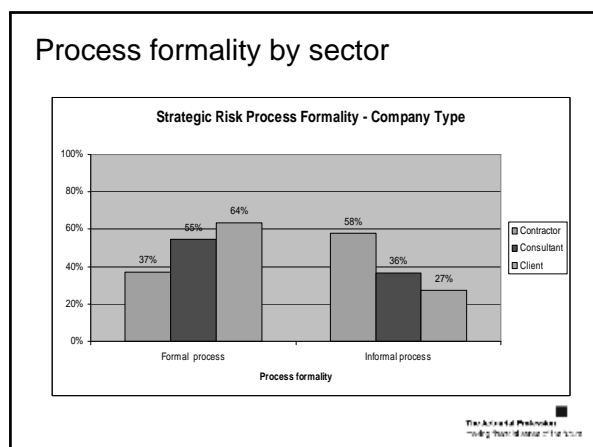
The Annual Performance
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Strategic Risks Origin - Distribution



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How are Strategic risk different

Project Risks

- ☐ Singular events
- ☐ Many of the risks are known or are knowable
- ☐ History based on experience and repeatability
- ☐ Clear metrics
- ☐ Can be easily broken down into discreet events
- ☐ Individual risks can be owned and managed

Strategic Risks

- ☐ Dynamic and adaptive
- ☐ Unpredictable & High degree of uncertainty
- ☐ Process requires communication with people outside the organisation
- ☐ Process heavily dependant to people's behaviour
- ☐ Multi-variant, and interconnected
- ☐ Difficult to assign risk

The Ansoff Methodology
Modeling Strategic Risk in the 21st Century

Strategic risks are the system of opportunities or threats that initiate a process that *can* significantly transform the enterprise's purpose'



The Ansoff Paradigm
Modeling the future of the future

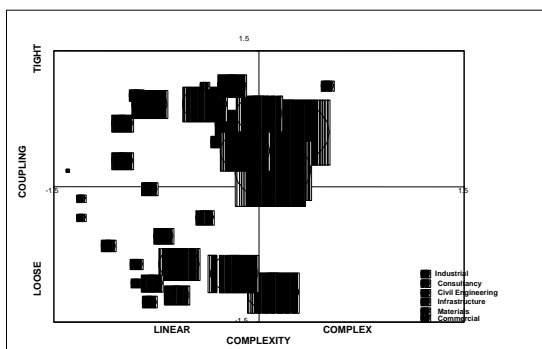
How does this approach help?

By thinking about process & systems rather than events we can:

- See interrelationships, not snapshots of events
- Give early identification of fermenting risks
- See how to create opportunity from perceived emerging risk
- Avoiding treating symptoms with quick fixes
- Provide tools and techniques from existing branches of science and management

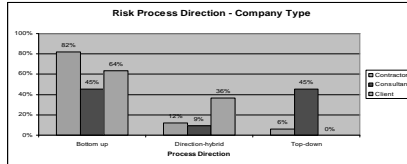
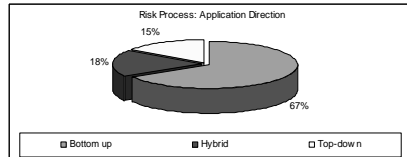
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Perrow's Complexity and Coupling



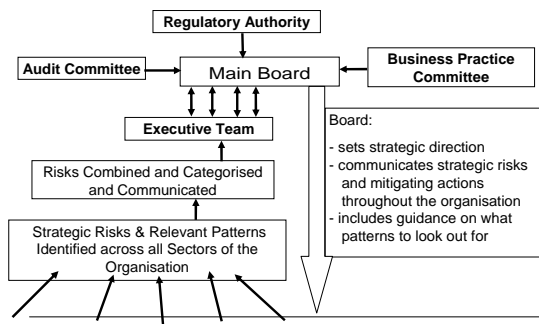
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Communication Processes



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Making the Most of the Future

Current Best Practice Model

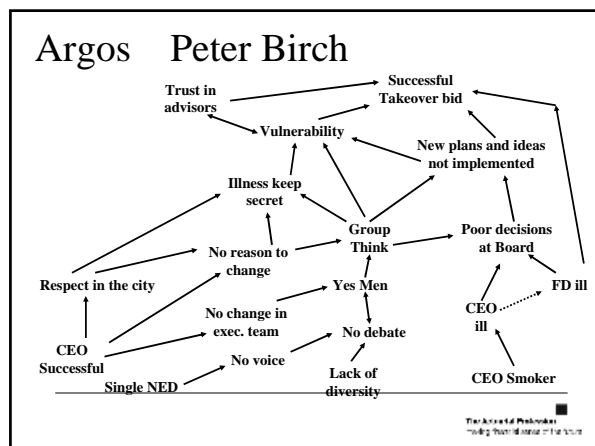


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Conclusions from Research

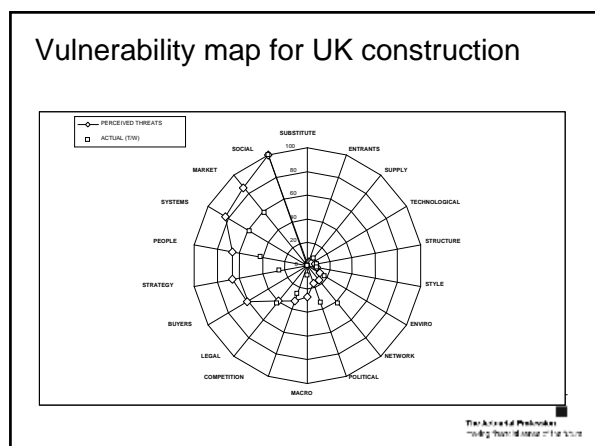
- People
 - Strongly linked to people, behaviour and culture - Individual behaviour at heart of most strategic risk
- Process
 - Dynamic complex processes rather than static events
- Patterns
 - Appear random, chaotic and unpredictable - but usually indications of problems brewing
- Perception
 - Experience, learning and openness important
- Performance
 - Nearly all companies realise they need to get better

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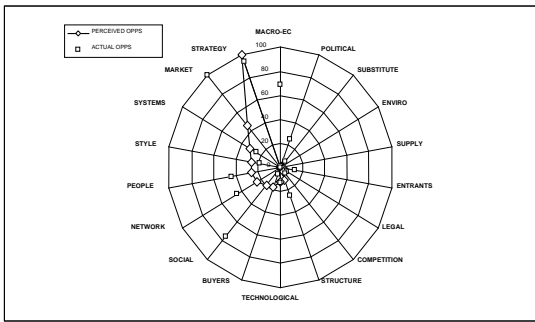


What we found from concept mapping

- Some correlation 30% with industry
- Stronger correlation 30-40% with awareness and performance
- Firms better at identifying strengths than weaknesses & risks rather than opportunities.
- Possible to map vulnerability and opportunistic for company against industry norms.



Opportunity Map for UK Construction



The Journal of Professional
Building Technology and Construction

Key Recommendations

- Strategic risks agenda led by the Board
- Key tool is coherent, 'open' communication
- Need to take holistic, systems approach
- Soft systems thinking provides the basis and rigour for this approach
- Concept/cognitive mapping shows great promise for communication and understanding of complex risks.

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