



The Role of Risk in Setting Goals in Difficult Times

What is Business Risk?

When businesses set goals and strategies, they take a number of factors into consideration, including opportunities, resources, and the marketplace. Businesses also look at and address both internal and external risks that may affect or interfere with strategy execution. The internal risks relate to the availability of personnel and resources, the ability of the business to develop and distribute its products and services, and the sufficiency of the business's finances. The external risks relate to competitive pressures, factors in the business's industry and the economy, and governmental regulation and requirements.

In recent years, market forces have created an additional set of risks that must be assessed and addressed in the standard goal-setting and strategic planning processes. These include globalization, concerns about the environment and climate change, regulation or deregulation, and rapid technological changes. The business environment has become increasingly complex, and companies are facing issues they have never had to consider before.

In positive economic times, businesses are able to contain, accommodate, or work around their risks, so they can carry out their plans effectively. The game changes in difficult economic times, though. Some of these risks and forces may become overwhelming and may disrupt operations, profitability, and even the ability of the business to function.

This white paper was written by Thomas Cowan and the thought leaders at the VECKER Institute, which provides business executives and Board members with the practical tools and applications they need to build great companies and to carry out effective governance of the business. We are interested in receiving your comments on this white paper and on the topic of good governance. Please contact us at: info@vecker.com.



In difficult economic times, businesses need to look critically at their risks and categorize them in a way that will help them see which they need to focus on and manage. The risks fall into these categories:

- Survival: The most basic goal is to stay in business. Executives need to identify the risks that put them most in danger – such as the deteriorating economic situation, disappearing customers, or loss of financing – and focus on taking action to manage these risks.

- ‘Piling on:’ Bad news leads to more bad news, in a downward spiral of more and more problems in an already complex and difficult situation. Risks that had been managed now arise, sometimes in overwhelming numbers, but they may not be crucial to the basic survival of the business.

- Distractions: Instead of addressing the main risks facing the business and focusing their energies on its survival, executives may find themselves working on noncritical risks and issues or spending their time on routine activities.

Executives need to see clearly which risks affect the survival of their business, set strategies and goals to reduce the risks, and act to drive those goals through the organization. Failing to take action will only make matters worse.

Setting Goals in Relation to Risks

In positive economic times, executives follow a strategic planning process that:

- Develops an integrated, long-term set of goals and actions to pursue growth and opportunities
- Creates systems and procedures for identifying, monitoring, and handling risks in the business environment
- Sets procedures for capturing feedback and information used to review and revise the strategic plan



Risks are acknowledged and watched, but they are not the focus of the plan or goals.

In difficult economic times, pursuing growth and opportunities may not be feasible. Rather, executives need to shift their attention to the risks that threaten the survival of the business. They need to prioritize and focus on survival and piling-on risks, in that order. Then they need to set goals that will help them manage those risks; develop shorter-term action plans to reach the goals; and focus on the fundamental operations, finances, and procedures that will keep them in business.

Doing this successfully requires:

- Recognizing that the business's situation has changed and that new goals and actions are needed
- Sorting through and assessing the risks to identify the two most important categories – survival and piling on – and to keep less important ones from assuming importance
- Deciding on the specific goals and actions that will allow them to contain the top risks
- Defining specific measurements that will tell them when they are succeeding
- Collecting complete, reliable, and valid information to help assess the degree of risk, drive changing strategies and goals, and measure success
- Ensuring that feedback processes capture the ongoing risks and provide the information needed to monitor operations
- Developing contingency plans to respond to growing or shifting risks
- Operating efficiently and effectively, without distractions and without becoming overwhelmed by problems

These factors clearly point to the need for management systems that organize actions and operations, provide regular feedback, and generate the information needed to monitor progress toward meeting the goals.

Driving Risk Management Through the Organization

Risks are managed effectively when well-designed, functional systems are in place. The systems must cover the entire business and link executives, managers, and employees to actions that meet goals and results that reduce risks. The best systems:



- Get executives directly involved in the business's operations and numbers, which helps them set valid goals
- Provide ways to measure and analyze risks
- Generate information and feedback from all parts of the business
- Capture the measures of success identified in the goal-setting process
- Monitor the factors that increase or decrease the risks
- Demonstrate the effectiveness of actions taken
- Allow for timely responses to risks
- Provide a disciplined, targeted methodology for meeting goals

Failures in risk management can come about when the systems are too limited: The systems may address certain areas of the business, but not others, so they may not be able to control all aspects of the risks. Or they may provide incomplete or out-of-date information. Or they may focus on narrow measures or limited factors, so they present an incomplete picture of the business or cannot identify new risks as they emerge. Or, worst of all, they are not connected to goals and operations, so they cannot support executives trying to ensure the survival of the business. These failures can be avoided if the systems are designed thoroughly and thoughtfully from the beginning.

Because the purpose of risk management is so basic – the survival and health of the business – it is essential to get the management systems right. When the systems are right, the executives, managers, and employees can work together toward specified goals that keep the business functional and may even position it for growth in better economic times.

A Management System that Supports Effective Goal-Setting and Risk Management

The VECKER SX and Tagetik 3.0 Strategy Management powered by VECKER are tools used by business leaders to successfully execute their strategies, meet their goals, and manage risk. It is a proven strategy execution management methodology built into a customizable, technology-based operational management system that:

- Gives a transparent look at the key elements of a business – goals, numbers, risks, operations, and people – and the relationships among the elements



- Provides high-quality qualitative and quantitative operational data that help review and analyze those elements
- Identifies problems and risks in key areas as soon as they arise, and reports on those problems
- Covers a business's financial systems, processes, and activities
- Provides a consistent and repeatable framework for managing strategy execution, judgments, decision-making, and goal setting from the business unit to Board levels
- Evaluates the overall performance of the business
- Tracks business performance over time

This functionality gives the Board and executives the ability to look thoroughly and deeply at a business's operations, address risks and problems, improve operational processes, make informed decisions, and run the business efficiently and responsibly. The business is positioned to plan and execute effective strategies and to react to changes in the business environment. It is able to provide accurate pictures of business performance and the operating environment to stockholders and external entities. In other words, the VECKER SX and Tagetik 3.0 Strategy Management_{powered by VECKER} contribute to the success of the business – growth, profitability, satisfaction, and excellence.

Summary

In difficult economic times, businesses must be able to focus on the two main categories of risk that threaten their survival – survival risks and piling on risks. Executives must use the goal-setting process to define goals and actions that direct operations and personnel in managing the risks. Good, effective management systems are invaluable in meeting the goals by providing information, monitoring factors associated with the risks, assessing actions and operations, tracking risks and threats, and providing measurements of success. The VECKER SX and Tagetik 3.0 Strategy Management_{powered by VECKER} are tools that provide this functionality and can be used by executives and the Board to sustain profitability, growth, satisfaction, and excellence of the business.