

ERM Tool

Embedding Risk Considerations in Strategic Planning and Budgeting

BRIEF DESCRIPTION OF TOOL

Most executives understand the relationship of risk & return: In order to generate higher returns, we may need to be willing to take greater risks. Despite appreciating the connections of risk and return, organizations often struggle to explicitly integrate risk considerations in strategic planning or budgeting processes. While discussions of potential new strategic initiatives or budget requests might lead to discussions of risks, those discussions are often ad hoc and a by-product of other discussions.

There may be benefits of having business leaders articulate risk considerations as part of their development of a business plan or budget request. This tool identifies questions that an organization might embed in its instructions that are provided to business unit leaders as they develop a strategic plan or budget request for their business unit. The questions prompt business leaders to explicitly consider risk dimensions as they develop their strategic plan or budget request.

HOW TO USE

These questions could be added to the instructions provided to business unit leaders when they are asked to prepare their unit's business strategic plan or budget request.

Embedding Risk Considerations in Strategic Planning and Budgeting

This tool illustrates how risk considerations might be embedded in a strategic plan or budget development process.

EMBEDDING RISK CONSIDERATIONS IN STRATEGIC PLANNING

As part of strategic planning efforts, organizations often request business unit leaders to submit a strategic plan for their business unit. One way to integrate risk management into strategic planning is to embed prompts within the business plan development instructions for business unit leaders to explicitly address risks related to their business unit and risks related to their proposed strategic plan.

Consider including questions such as these in your strategic planning instructions provided to business unit leaders:

1. *What top 3 risks does your business unit face in its ability to achieve its strategic objectives over the next three-to-five years?*
2. *How does the business unit's proposed strategic initiatives contained within this business plan address the top risks identified in #1 above?*
3. *What assumptions are business unit leaders having to make about the unit's ability to achieve its strategic objectives over the next three-to-five years?*
 - a. *What is the basis of those assumptions and how do you know they are reasonable?*
 - b. *What risks would our organization face if the assumptions are significantly inaccurate?*
4. *What are the top 3-5 risks that might threaten the strategic success of the proposed strategic initiatives described in this business plan?*
5. *What are the business unit's strategies for managing the risks identified in #4?*
6. *What risks would our organization face if the strategic initiatives proposed in this business plan are wildly successful?*

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EMBEDDING RISK CONSIDERATIONS IN BUDGET REQUESTS

Most organizations request business unit leaders to submit an annual (or bi-annual) budget for their business unit. One way to integrate risk management and budgeting is to embed prompts within the budget development instructions for business unit leaders to explicitly address risks related to their business units and how the budget request impacts those risks.

Consider including questions such as these in your budget development instructions provided to business unit leaders:

1. *What top 3 risks does your business unit face in its ability to achieve its strategic objectives over the next three-to-five years?*
2. *How would the funding requested in the budget, if approved, help the business unit address the top risks identified in #1 above?*
3. *What assumptions are business unit leaders having to make about the unit's ability to achieve its strategic objectives over the next three-to-five years?*
 - a. *What is the basis of those assumptions and how do you know they are reasonable?*
 - b. *What risks would our organization face if the assumptions are significantly inaccurate?*
4. *What are the top 3-5 risks that might threaten the strategic success of the proposed strategic initiatives that would be funded by the budget if approved as requested?*
5. *What are the business unit's strategies for managing the risks identified in #4?*
6. *What risks would the organization face if the requested budget is not approved?*
7. *What risks would our organization face if the strategic initiatives to be funded by this budget request are wildly successful?*