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Strategic risks: Learning from blockchain and other potential disruptors

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In the age of disruption and game-changing ideas, failure to adapt can mean a failure to stay in business. Yet while there is a risk to standing still, there are equal dangers to embracing new technologies without careful considerations. Herein, the lifespan of any organization depends on its ability to identify the risks that will impact one's strategy and proactively adapt to disruptive technologies.

To that end, we can learn much from how organizations are responding to the rise of blockchain. But first, a review of why it is essential to keep strategic risks in full view.

Strategy and risks: two sides of a coin

One way to describe a 'strategic risk' is a risk that may be a threat to an organization's business strategy. Strategic risks may arise from a poor execution of the business plan, an inadequate business plan, or even the inability of the company to adapt to changes in the competitive, economic, legal or economic environment [1]. They can range from new competitors to technology breakthroughs, innovative business models to demographic trends, or even political shifts and regulatory changes.

Considering the impact they may have on an organization's strategy and sustainability, companies need to keep strategic risks in their sights. That means linking risks to the strategy process; management and board should identify the risks that may impact the strategy, put in place a structure to monitor existing and potential risks, responding proactively in order to mitigate their impact, and periodically review the underlying hypothesis of a strategy to ensure alignment between the identified risks and the strategy. Failure to do so can result in a loss of market share, expansion opportunities, or an inability to make good on a strategic plan.

Recent history is riddled with examples of successful companies that have been slow to recognize or address strategic risks and paid the price. In the entertainment world, for example, cable companies and once-mighty chains like Blockbuster have become eclipsed by online streaming services such as Netflix and Amazon Prime; while in retail, market leaders who ignored or under-serviced digital channels are now losing ground to more nimble online sellers.

The speed at which a strategic risk may impact a business demonstrate the necessity for companies to put in place a process to link risk to the strategy process. Simply ask those in the hospitality industry who have watched AirBnB dominate the market in less than a decade. Once dismissed as a passing fad, the self-serve home-sharing service was valued at over US$31 billion as of 2017 and continues to gain ground, leaving established hotel brands to fight for a shrinking market share.

Ultimately, focusing on strategic risks is vital to an organization's sustainability. "If you aren't constantly assessing strategy and risk, and adjusting as you go, there's no way you're keeping pace as a business or a board"[2]. Without consideration for what is ahead, and how it might impact or unlock opportunities for your business, the odds of falling behind become greater.

[1] Adaptation from IAG, Rapport de gestion, 2011, p. 45

[2] Public Company Director, KPMG's Global Boardroom Insights (September 2015)

Could blockchain be a disruptor to your business?

Few technologies have dominated the disruption conversation like blockchain. As Don and Alex Tapscott, authors of the book Blockchain Revolution succinctly describes it: "The blockchain is an incorruptible digital ledger of economic transactions that can be programmed to record not just financial transactions but virtually everything of value."

The nature of blockchain makes it appealing for a number of industries. For one, a blockchain model negates the need for a 'middle man' such as a bank or intermediary in financial transactions, drastically reducing fees and the time it takes to complete an exchange. In retail, blockchain technology can also bolster the efficiency and accuracy of a supply chain; while sectors such as healthcare, insurance, or asset management can benefit from the ability to encode and exchange vital personal records.

Blockchain is still relatively new (at least, in the mainstream). Nevertheless, it is a prime example of a disruptor that may hold both opportunities for those who address it and risks for those who choose to either ignore its potential advantages or adopt it without the infrastructure, expertise, and insights to wield it effectively.

When faced with a potential disruptor, one of the first steps companies should take is to review the implications of the disruptor to the business, its potential impact to the business's strategy and the possible risks to embrace it or not.

Remember: Strategic risks are also opportunities

As with many disruptors, blockchain is a technology that is difficult be ignored. Already, a number of organizations in both the public and private sector are taking lead in applying blockchain technology to their operations. Closer to home, a major power authority launched a recent campaign to attract cyrptocurrency miners to the province and now anticipates a pipeline of over 30 companies; while a major financial institution recently celebrated a successful blockchain trial with AlphaPoint's Distributed Ledger Platform (ADLP), and another is seeing the benefits of applying blockchain technology to its customer rewards program.

We also cannot ignore the implications of blockchain in the digital currency realm; and indeed, Canadian-born currency continues to gain momentum.

Elsewhere around the world, blockchain has been used by governments to reduce fraud in voting; in charity organizations to track donation allocation, accountability, and integrity; and in the media to help control ownership rights.

There is no shortage of success stories in regards to blockchain applications. Common among them, however, are organizations which recognized and reacted strategically.

Part of a strong risk management approach

Strategic risks should be part of a strong risk management approach which, in turn, should be seen as an integral component of one's business strategy. Embedding strategic risks, however, requires several actions and considerations:

- **A united front:** As with any risk management approach, it takes buy-in from all stakeholders to keep strategic risks in focus. The Board should spend time addressing strategy and strategic risks (e.g., through training, presentations, consultations with external experts), and management must implement an environment scanning process to monitor strategic risks and capture new technologies, consumer trends, competitor tactics, and other significant external changes.
- **Monitor your surroundings:** Keep a constant eye on market conditions, new technologies, regulatory changes, and demographic trends to ensure your external environments are being fully considered in strategy development.
- **Stay agile:** Organizations need to create a culture of awareness for strategic risks and be ready to respond to changes in the business and economics environment and take advantage of emerging opportunities when they appear.
- **Collaborate with experts:** You do not need to manage strategic risks alone. Collaborating with independent experts can go a long way towards identifying potential risks, assessing your organization's current state, and working with all stakeholders to design a roadmap for transformation.

Simply put, adapting your risk management approach to increase its linkage to the business's strategy leads to better decisions that are aligned with your company's mission and vision. Blockchain is just an example of one such strategic risk that may pose both benefits and pitfalls, but it is not alone and it is certainly far from the last.

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