THETHIRD PARADIGM. The Third Paradigm of Risk Management: linking Strategy and Risk to Create Value.

Risks have been a part of business since the dawn of time. Most risks centered around single events, such as the flooding of the Nile or famines, and people mitigated risks by moving out of the flood plain and storing food. Eventually, people developed forms of insurance emerged that transferred the risks involved with business activity. For example, 17th century shipping companies often ran into pirates or storms that ended in stolen or sunken good and financial losses. Risk mitigation and insurance was based on single events and represented the *First Paradigm* of risk management.

By the late 19th and through the 20th centuries, companies began to scale up in both domestic and international markets. They had far more shareholders and stakeholders than ever before. These complex organizations were involved in multiple events at the same time, and First Paradigm risk management was no longer adequate. Enterprise Risk Management, the *Second Paradigm*, evolved as leaders struggled to deal with risks that spanned the organization and multiple markets. Risk management required centralized control and senior leaders were crucial because only they could see how risk in one part of the organization could impact another part.

We now live in a world of characterized by Volatility, Uncertainty, Complexity, and Ambiguity. Leaders must deal with clearly defined systemic risks to the enterprise, but also to future, longer-term uncertainties that have the power to torpedo or turbocharge strategic and financial performance. To identify, monitor, and manage these opportunities and threats, executive teams need a new set of tools to manage in today’s uncertain world. They need a *Third Paradigm*, one that moves beyond mere complexity and provides them with the tools to manage ambiguity, uncertainty, and volatility. They need *Strategic Risk Management*.