

# Driving Faster Action on Emerging Risks

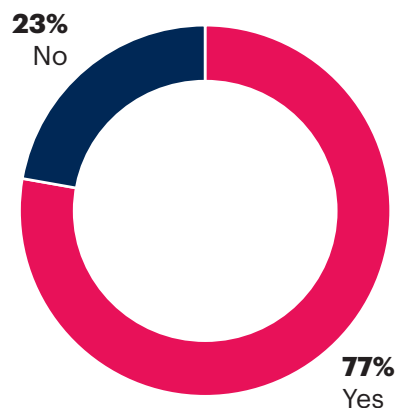
Management of trends as broad and disruptive as climate change or demographic shifts can be tempting to postpone. Simply put, a legitimate perception — that emerging risks are big and could hit hard — leads to a misconception: The response will necessarily be complex and costly. This reaction prompts executives to put off a response until the need for action is proven.

Procrastination, though, hurts companies. These threats are moving more quickly, are increasingly interconnected and may impact multiple parts of an organization. High-profile failures to respond soon enough (e.g., Facebook to the data privacy movement) worry boards and CEOs. Consequently, assurance and strategy leaders feel more pressure to help their organizations respond faster once a risk is identified (see Figure 1).

The typical reaction: Try to push for quick action with more precise information. But building a better “crystal ball” to predict the timing and size of impact for emerging risks is difficult and often ineffective.<sup>1</sup> It is also unnecessary.

For many emerging risks, you can identify low-cost, low-regret responses that do not rise to the level of full risk mitigation. These small steps give organizations a head start as threats evolve. Ideally, this process will cost less than waiting to act until there is enough information to formulate a complete response. Low-cost, low-regret responses can also strengthen organizations regardless of the risks’ impacts. Some examples include PR or lobbying efforts, exit clauses or protections in contracts, contingency plans and permit applications.

**Figure 1: Heads of ERM who are pressured by executives to do more on emerging risks**



n = 91 ERM heads

Source: 2019 Gartner Emerging Risks Action Model

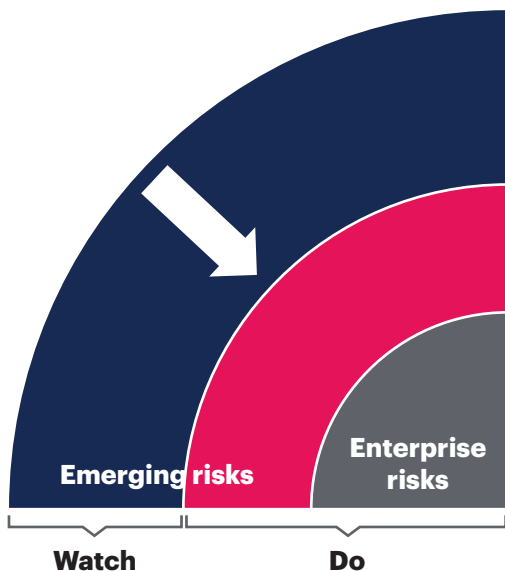
### Triage the emerging risks watch list

Most organizations have a watch list of emerging risks they deem potentially relevant, even if they haven't prepared specific response plans. They monitor these risks until leaders have enough information to determine and justify a response action. Unfortunately, increased velocity and interconnectedness mean some of these risks are "closer" than anticipated and negatively affect organizations before they can implement a response. Risk management leaders need to sort the "watch" and the "do" emerging risks (see Figure 2).

Risk management leaders find traditional sources of information difficult to use when prioritizing risks that have not yet fully manifested. Asking existing sources different questions can "unlock" information on emerging risks' urgency — those that require immediate action versus those that are safe to watch. The front lines are most likely to see the first signs of emerging risks, even if full impact is still far in the future.

For example, the U.S. Internal Revenue Service leverages existing risk advocates who are embedded throughout its business units to vet the watch list for risks they believe may occur within three to five years and those already showing warning signs.

**Figure 2: Risk categories**



Source: Gartner

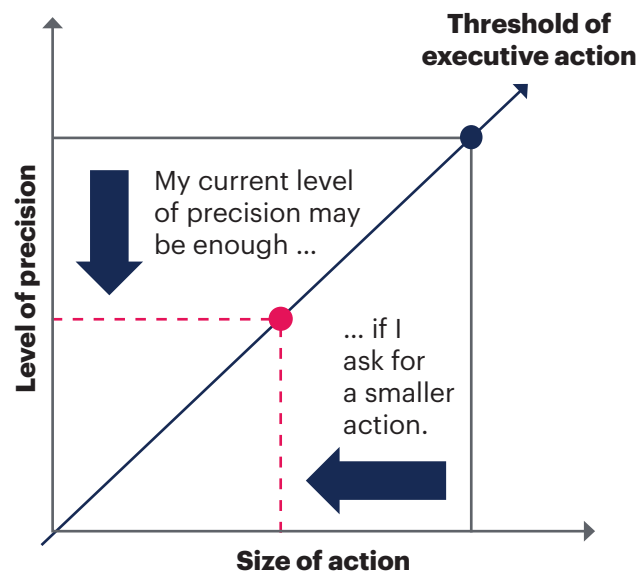
One technology company identifies ties between emerging risks and enterprise risks while searching for trends that affect three or more enterprise risks. Current risk owners validate they are already feeling impacts from these "amplifiers."

A large defense manufacturer also identifies "risk signals" in internal, function-level reporting documents that ERM does not traditionally leverage: function-level strategic planning documents, insurance program reviews and Form 10-K disclosures. These documents include information on new or growing areas of concern, control or mitigation breakdowns, or planned new risk-response activities that signal emerging risks may already be manifesting.

### Identify low-cost, low-regret actions

Once assurance and strategy leaders have isolated the subset of emerging risks that requires an immediate response, one more step must be taken before presenting it to senior leaders: Demonstrate relatively low-cost actions are available. These smaller steps reduce the level of precision required to meet executives' threshold for action (see Figure 3).

**Figure 3: Relationship between precision provided and action requested**



Source: Gartner (February 2019)

Look for responses that would have a meaningful impact on an imminent emerging risk and understand how these potential responses map to existing activities in the organization.

ON Semiconductor conducts scenario workshops to identify interim events that would indicate an emerging risk is likely to impact the organization. Workshop participants then develop actions to address these interim events while also building the business's overall resilience. Strengthening the company's value drivers in the face of emerging risks helps identify actions that are good business investments (such as improving the company's local reputation in foreign investment locations) regardless of how (or whether) the threat evolves.

At this company, the head of ERM carefully constructs a participant list to include midlevel managers known for being strategic thinkers and exclude C-suite representatives whose presence might hamper a free exchange. The aim is to reflect business-specific expertise and a long-term view in an environment that leads to action.

Executives are more likely to approve the resources needed to respond proactively to emerging risks when they are presented with a short list of the closest approaching risks accompanied by specific, low-regret action options. This combination demonstrates the urgency and feasibility of proactive response, providing executives with concrete options that more realistically address a given emerging risk.

### **Appeal to executives' competitive nature and find credible advocates**

Still, the evidence will not always speak for itself, so assurance and strategy leaders have an obligation to make the strongest, most compelling case for early action. Target Corporation combats executive bias toward inaction on emerging risks by guiding executives to imagine the impact of emerging risks and question whether their current plans really are "future proof." ERM also challenges their competitive nature by asking, "Are we doing enough?"

The head of ERM at one Australian energy company recognized the generalists on the risk team might not be the most credible voices on emerging risks. Instead, ERM identifies "must avoid outcomes" that would impede the company's strategic goals, finds the emerging risks that could contribute to these damaging events and recruits champions for action among the executives with the greatest responsibility for helping the company avoid them. Because these advocates have subject matter expertise and are accountable for any potential impacts, they effectively galvanize their peers.

### **The benefits are clear**

The results of an options-focused approach to emerging risks and their responses — coupled with compelling presentation of that information — are profound. A precision-focused emerging risks discussion — even when you gather enough data to enable it — does not increase the likelihood of executive action. However, an options-focused discussion leads to a 67% increase in the likelihood of near-term action on executive committee decisions.<sup>2</sup> Given not every emerging risk identified by assurance and strategy professionals requires immediate attention, the success of this method is clear.

<sup>1</sup> This endeavor is so difficult few ERM leaders try it. Our data shows only 12% of respondents had put in "moderate" or higher levels of effort to precisely estimate the time to impact of an emerging risk, and only 16% had devoted this level of effort to precisely estimate the size of impact.

<sup>2</sup> 2019 Gartner Emerging Risks Action Model, n = 91

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