

Gartner Research

Driving action on emerging risks

Driving Action on Emerging Risks

Providing the risk committee with more precise predictions on emerging risks does not drive executive action. Instead, risk management leaders must improve at prioritizing emerging risks, identifying available actions and communicating the urgency to act.

Overview

Emerging risks are faster-moving and more interrelated than they were five years ago, making them more difficult to address before they become enterprise risks. Executives witness the consequences of unaddressed emerging risks in other organizations, and consequently, demand more from their risk management leaders. Most risk management leaders believe improving the precision of their emerging risk estimates will help meet this demand. But while this approach drives discussion, it fails to inspire action.

Offering solution options is a much more effective approach to driving executive action on emerging risks. When risk management leaders prioritize the right risks, identify available actions to take and communicate the urgency to act, they inspire executives to take necessary action on emerging risks.

Key Findings

Despite executive concern, risk management leaders still struggle to drive executive action on emerging risks. Two reasons make it harder than ever to meet this objective:

1. Emerging risks are more interrelated than they were five years ago. Interdisciplinary risks take longer to address as multiple risk owners try to solve parts of the same problem. It takes longer to find these people, connect them and get them collaborating on a joint solution.
2. Emerging risks are faster-moving than they were five years ago. Because of the speed at which they materialize, risk management leaders need to have a solution in place before those risks can have a meaningful impact. If an organization starts too late, the solution becomes more expensive and less effective.

In short, organizations need solutions sooner to combat the increasing velocity of emerging risks, but planning takes longer to coordinate. These opposing realities mean organizations may miss their chance to respond, leading to serious consequences.

For example, when marijuana legalization at the state level spiked, the IRS was overwhelmed by the sheer volume of cash payments from the large, but unbanked, marijuana industry. As a result, staff were exposed to a period of heightened security and fraud risk. In addition, mitigation costs, such as consultancy and extra staff, were higher than if the IRS had seen the oncoming cash flow and prepared for it.

Most organizations are all too familiar with this situation. Nearly 70% of risk management leaders have been hit by an emerging risk that they believe they could have seen coming and better prepared for.

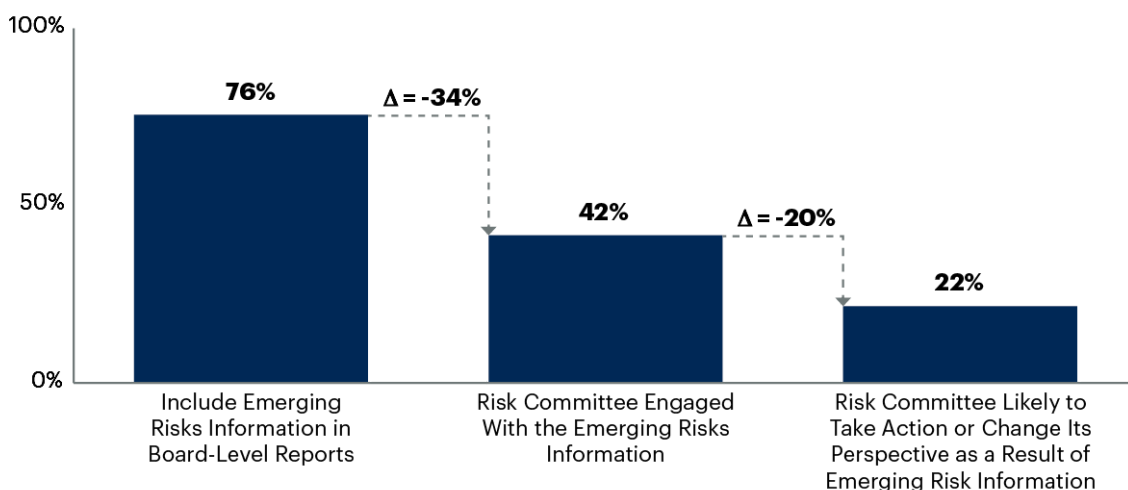
Driving Discussion but Not Action

Risk management leaders rely on the persuasive power of information to drive action. But while 76% of risk management leaders report on emerging risks to the board, only 42% are able to engage the risk committee with that information. And just as an informed committee does not guarantee engagement, an engaged committee does not guarantee action. Only about half of engaged risk committees are likely to take action or change their perspective as a result of the emerging risk information.

ERM's Activities and Outcomes

ERM's Activities and Outcomes

Percentage of Respondents



n = 107; 91

Source: 2018 Gartner Risk Management Leadership Council State of the Function; 2019 Gartner Emerging Risks Action Model

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Risk management leaders must find a better approach to their conversations with risk committee members in order to drive action on emerging risk.

Missed Response Opportunities

Getting the business to act on emerging risks has long been a pain point for risk management leaders. The prevalence and urgency of that issue is only growing: 90% of risk management leaders believe their organization must act faster to get ahead of emerging risks.

The remaining 16% of risk management leaders take a different approach – a “solution options” approach. In a solution options approach, risk management leaders discuss five topics with their risk committee:

1. Available options to respond to an emerging risk
2. Potential loss of ability in the future to use currently available options
3. Tweaks the organization could make to current mitigation of related risks that would also help mitigate the emerging risk
4. Incorporation of emerging risk information into business planning processes
5. Scenarios for how an emerging risk could manifest

This approach gives risk management leaders the opportunity to protect the organization’s options for later action with a small resource investment now.

Solution Options Trump Problem Precision

Our research shows a solution options approach to risk committee conversations has a much greater likelihood of driving action and changing executives' perspectives on emerging risks than a problem precision approach.

Executives tend to rebel when risk management leaders try to improve the precision of their timing and size of impact estimates for emerging risks. Some cite the sheer complexity of the issue as a reason to discount risk management leaders' analysis and methodology. Others internalize how expensive it will be to manage a risk they deem ignorable and opt to push action out until the risk seems more eminent.

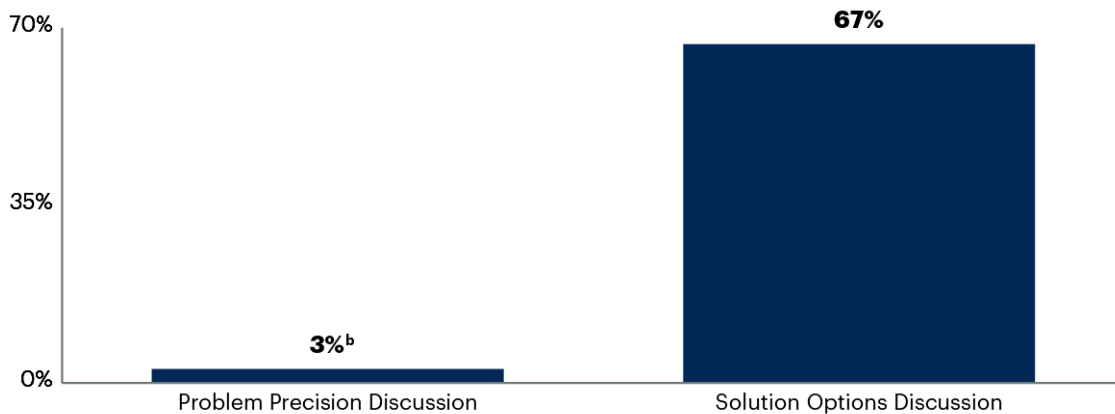
These reactions yield unimpressive results. When risk management leaders improve their problem precision approach, the likelihood that the risk committee will take action or change its perspective only increases by 3% and is not statistically significant.

However, when risk management leaders improve their solution options approach, the likelihood that the risk committee will take action or have a change in perspective increases 67%.

Risk Committee's Likelihood to Take Action or Change Its Perspective

Risk Committee's Likelihood to Take Action or Change Its Perspective

Percentage Increase in Likelihood as a Result of Improvement in Respective Approach^a



n = 91

Source: 2019 Gartner Emerging Risks Action Model

Note: R2 of the 2-variate regression model is 41%.

^a Improvement as a result of moving from the 10th percentile to the 90th percentile in respective approach

^b Not statistically significant

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By presenting real options for action, risk management leaders explain to executives:

- There are signs of this risk manifesting in a small way already.
- There are small things the organization can do that matter.
- If the organization does those small things, it will have a positive ROI on the risks it is managing today.

Risk management leaders must redirect time and energy from improving precision to discussing real options. Successfully implementing this approach requires risk management leaders to prioritize the right risks, identify available action steps and communicate the urgency to act.

Two Approaches to Risk Committee Conversations

Nearly 90% of risk management leaders believe providing the risk committee with precise, quantified predictions will drive action on emerging risks. They argue that decision makers will only be comfortable once they know the quantified impact of the emerging risk, and better data analytics will provide those metrics. But few actually act on this belief. In fact, nearly 70% of risk managers are doing little to nothing about the issue. Only about 15% of risk management leaders actually take the “problem precision” approach, applying outsized effort to achieve greater precision for emerging risks.

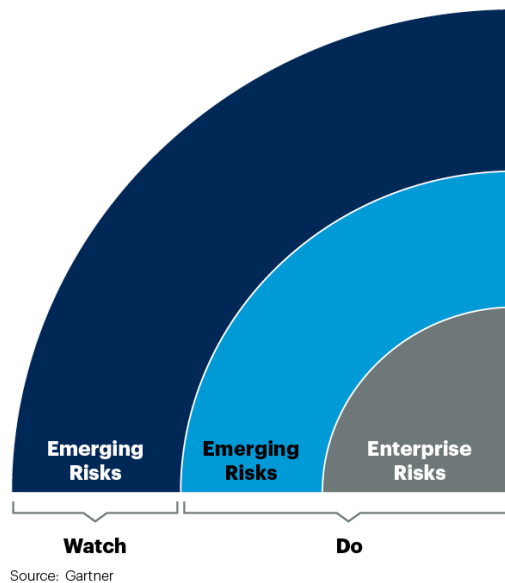
- Risks that require monitoring, or “watch” risks
- Risks that require action, or “do” risks

Most believe emerging risks comprise the former category, while enterprise risks comprise the latter. However, there is a class of emerging risks that are no longer “watch” risks; they are “do” risks.

While these “do” emerging risks may not require a risk owner, full mitigation or a place among enterprise risks on the risk register, they require some executive action. Risk management leaders must show executives this subset of emerging risks that they can and should act on now.

Risk Categories

Risk Categories Illustrative



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Determining which emerging risks require action can be challenging. Traditional risk assessment criteria evaluate likelihood and impact. These criteria are nearly impossible to assess for a risk with an uncertain trajectory, leaving risk management leaders uncertain which risks to focus on. Instead, risk management leaders should assess the organization's ability to respond to a risk. By applying new criteria to existing sources of risk information, risk management leaders can determine which emerging risks are most ripe for action.

ERM can source its information from a range of areas. Some organizations use people to distill a long list of emerging risks into a list of those that require action now.

Case in Point: Liaison Vetted Emerging Risks (IRS)



The IRS's enterprise risk management (ERM) team partners with its risk liaison network to narrow its long "watch list" of 40 emerging risks to a critical handful that most need action. The head of ERM runs a half-day workshop in which risk liaisons are placed in small, cross-functional groups and asked to prioritize risks based on their potential impact on the organization. Prior to the workshop, ERM creates risk implication cards that outline IRS-relevant implications for each emerging risk. The information from these cards stimulates conversation within the cross-functional liaison groups, helping liaisons pressure-test their prioritization of emerging risks' enterprisewide implications.

In some cases, the head of ERM works with current risk owners to source information about how to prioritize emerging risks.

Case in Point: Amplifier Risks (GraySpring*)



To prioritize the emerging risks most in need of action, GraySpring's ERM team combs through the enterprise risk portfolio with each emerging risk, identifying ties that run between them. The emerging risks that currently impact the risk level or control effectiveness of more than three enterprise risks are deemed "amplifiers." Those that do not are returned to the emerging risk register and excluded from the emerging risk discussion with the executive committee.

GraySpring interviews risk owners to validate its shortlist of amplifiers and identify mitigation improvement. Amplifier validation legitimizes ERM's emerging risk reporting, as ERM can provide executives with a shortlist of amplifiers vetted by risk owners who possess subject matter expertise and frontline experience.

*Pseudonym

Still others take documents they commonly use in assessing current risks and apply new filters to detect signals of emerging risks.

Case in Point: Sources of Emerging Risk Signals (Lockheed Martin)



Traditional sources of information on emerging risks — such as external sources and conversations with executives — are generally too high-level to provide the information about risks at a function/business-unit level that are not yet identified enterprise-level risks. Rather than sourcing information exclusively from external documents and high-level conversations with executives, Lockheed Martin uses the following internal sources to determine the small ways in which some emerging risks may already be impacting parts of the organization:

- Function-level strategic planning documents
- Insurance program reviews
- Audit reports
- Form 10-K public disclosures
- Data on trends in program performance metrics

This pre-existing documentation provides an in-depth view of an individual part of the business and reveals areas of new or growing concern.

After determining which emerging risks are most vital to act on, risk management leaders must find small but worthwhile steps executives are willing to take on those risks.

Identify Available Action Steps

The greater the perceived ask, the greater the requestor's burden of proof. In the case of emerging risks, if risk management leaders are asking executives to assign a risk owner, fund mitigation or set a risk appetite, most executives expect proof that the investment is worthwhile.

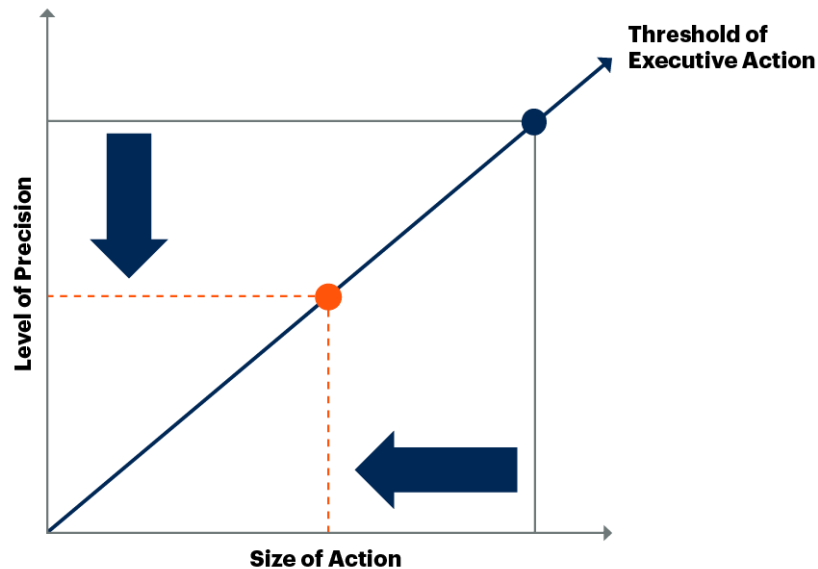
That level of proof is nearly impossible to achieve for emerging risks. In fact, executives often take no action because no matter how precise risk management leaders' analysis is on an emerging risk, it is not as precise as what executives are used to seeing for an existing, well-understood, well-managed enterprise risk.

However, by lowering the perceived ask, risk management leaders may have adequate precision to convince executives to act.

Relationship Between Precision Provided and Action Requested

Relationship Between Precision Provided and Action Requested

Illustrative



Source: Gartner

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Therefore, rather than trying to solve the emerging risk altogether, risk management leaders should recommend executives take action on a currently managed risk that would have a meaningful impact on that risk as well as on the “do” emerging risk. A smaller ask – one that requires fewer resources and therefore, more easily earns executive buy-in – aims to inspire an action that moves the organization closer toward solving the emerging risk, rather than solving it altogether. These actions are considered not just low-cost, but also low-regret – they are beneficial even if the emerging risk does not come to fruition because they build organizational resilience or clearly apply to the current strategy.

Identifying low-cost, low-regret actions that will still have a meaningful effect on “do” emerging risks is challenging because these risks haven’t yet clearly materialized. To meet this imperative, risk management leaders can use scenarios and the right business partners to:

1. Identify events or developments that indicate the emerging risk is close to manifesting.
2. Brainstorm nearer-term actions the organization can take to respond to those events, which are more specific and closer, rather than responding to the vague, farther-out emerging risk.

Case in Point: Value Driver Scenario Workshops (ON Semiconductor)

ON Semiconductor®



Finding low-cost, low-regret options requires knowledge of business-level activities into which ERM does not have complete visibility. The ERM team at ON Semiconductor overcomes this challenge by using scenario workshops focused on the organization's value drivers in order to identify early warnings and possible actions. Through discussion, workshop participants identify the progression of the scenario and the interim events that would indicate the scenario is more likely. By leveraging a cross-functional, strategic-minded group of mid-level managers as participants, ERM ensures visibility into the business-level information needed to brainstorm mitigation activities.

After uncovering the small but crucial actions organizations can take against “do” emerging risks, risk management leaders still need to convince those in executive roles to take action.

Communicate the Urgency to Act

While public failures raise executive concern about emerging risks, executives are unwilling to spend resources on specific risks they believe to be future problems. Risk management leaders may be familiar with the best ways to urge action on enterprise risk reports: easing consumption, making information more relevant to the decisions executives make and aligning information with how executives receive from other parts of the organization.

But compared with emerging risks, enterprise risks have a significant lead in organizational and individual acceptance because:

1. They already have ownership and accountability.
2. Organizations have history of firsthand experience in dealing with them
3. There is often consensus on the potential impact and likelihood of that risk materializing for the organization.

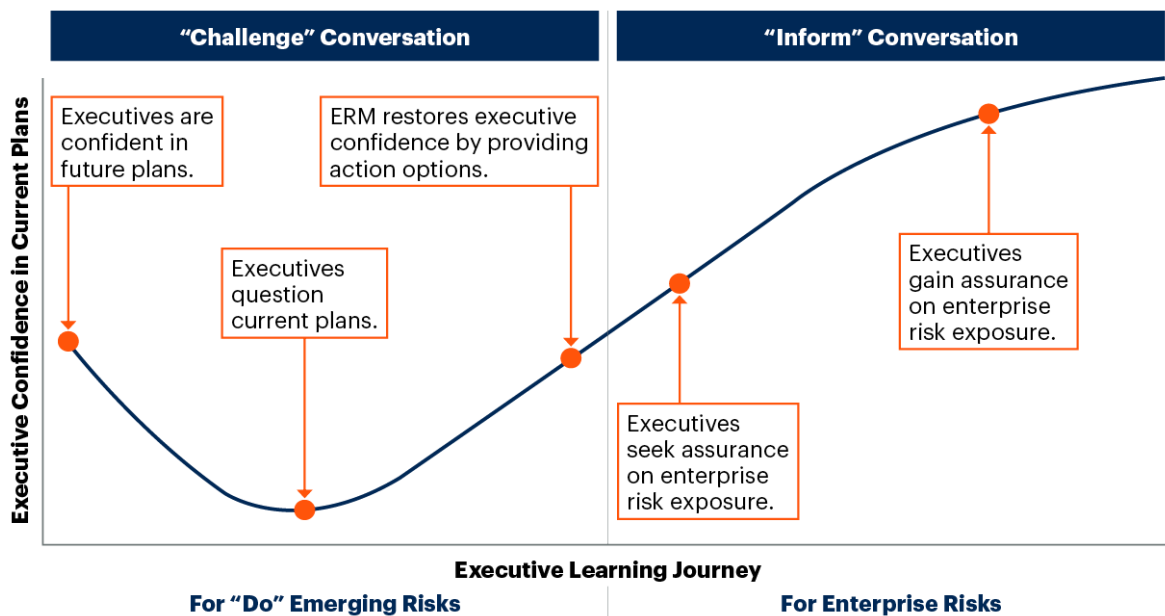
Emerging risks, meanwhile, lack ownership, history and consensus on impact and likelihood, meaning executive leadership will not be easily convinced that an emerging risk is imminent.

To change executives' perspectives on emerging risk, risk management leaders must shape the learning journey to safely challenge executives' current confidence in their future plans. Executives need to feel uncertain that their plans will sufficiently address the emerging challenges risk management leaders posit. Only once risk management leaders erode executives' confidence in the current approach will executives be open to a better way forward.

Executive Confidence in Future Plans Throughout the Learning Journey

Executive Confidence in Future Plans Throughout the Learning Journey

Illustrative



Source: Gartner

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Risk management is not traditionally in a position to challenge executives' confidence, but by leading with scenarios rather than data, appealing to executives' instinct to fill gaps and then supplying possible actions, risk management leaders can guide executives to take action.

Case in Point: Action-Oriented Discussion Framework (Target Corporation)



TARGET

When presenting to executives on emerging risks, the ERM team at Target was met with skepticism and inaction. The team needed to reduce executives' confidence about the status quo before introducing new information on emerging risks.

To reshape executive confidence, Target takes a three-step approach:

1. Instead of leading with data, ERM helps decision makers imagine potential negative outcomes in a future for which they are accountable.
2. Rather than asking if executives want to respond to an emerging risks, ERM challenges them to protect the future for which they are accountable and recognize the possible insufficiency of current plans.
3. Instead of relying entirely on executives to suggest response options, ERM presents low-regret actions for them to consider.

By reframing the emerging risks conversation to lead executives to question the status quo, ERM positions decision makers to be more receptive to taking action.

Still, executives may perceive sources other than ERM as more persuasive on emerging risks. To counter this challenge, risk management leaders can deploy allies whose subject matter expertise and accountability lend credibility to the emerging risks message.

By challenging executives' confidence in their future plans and guiding the learning journey, risk management leaders can drive executives to take action on emerging risk.

Conclusion

Organizations are struggling to address today's faster-moving, interdisciplinary emerging risks. Risk management leaders hope to convince executives to act by providing more precise estimates on emerging risks, but these reports do little to engage executives, nevermind inspire action. Instead, risk management leaders should take a solution options approach, in which they explain the various available options to respond to an emerging risk. This solution options approach is much more effective at driving executive action on emerging risks and gives risk management leaders the opportunity to invest a small amount of time and effort upfront to protect the organization's options for action later.

Successful implementation of a solution options approach requires risk management leaders to detect the emerging risks that need action now, identify low-cost, low-regret actions for executives to take, and guide the executive learning journey challenge executives' confidence in their future plans. By prioritizing the right risks, pinpointing available actions to take and communicating the urgency to act, risk management leaders drive executives to act on emerging risks.

Recommendations

To implement a risk response strategy for emerging risks, risk management leaders should:

- Prioritize emerging risks by applying new criteria to existing sources of risk information, such as risk liaisons, risk owners and internal documentation, to detect risks that need action now.
- Identify smaller actions executives can take to address emerging risks by using value-driver-focused scenario workshops to determine low-cost, low-regret actions that require a less robust business case.
- Communicate the urgency to act by shaping the learning journey to safely challenge executives' confidence in their future plans and recruiting subject matter experts with risk accountability to serve as credible advocates.


About This Research

This research is drawn from a survey of 108 risk management leaders from North America, Europe, Australia and South Africa on the outcomes and behaviors of information gathering, analysis and presentation of emerging risk processes. We also interviewed 76 risk management leaders on the challenges they faced in emerging risks processes, variations in approach and successes achieved. Other data comes from secondary research including journal articles, professional publications, consulting firm reports and annual emerging risks reports.

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