

# Emerging Risks & ERM

**White Paper Series**

**St. John's University, Tobin College of Business**

**Center for Excellence in ERM**

**Dr. Paul L. Walker**

Copyright 2022 © by Dr. Paul L. Walker. This working paper is distributed for purposes of comment and discussion only.

**Introduction**

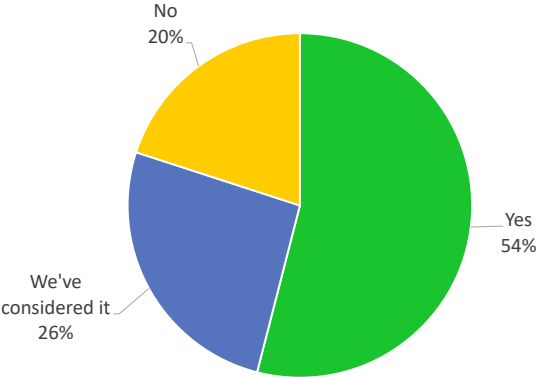
Given the amount of disruption and change that has happened the last few years it is not surprising that risk leaders at the last ERM Summit focused on emerging risks. On October 21, 2021, over 100 risk leaders met virtually to dig into the topic. The Summit was hosted by the Center for Excellence in ERM at St. John’s University and the Tobin College of Business. The ERM leaders were asked about the importance of the topic in a pre-Summit survey and over **94% agreed that how well an organization anticipates, interprets, and reacts to emerging risks, market changes, trends and disruption is the “key to future success.”**

**Current Emerging Risk Questions and Approaches**

Some questions going into the Summit were focused on how companies are identifying emerging risks and whether they were just part of the regular risk register and ERM process or whether there was a separate process. Others also wanted to know if emerging risks get reported to the board and how ERM works with the business to identify these risks. Finally, there were questions about how and where to look for emerging risks and what tools and sources were being used.

Many companies in attendance were already involved in identifying and managing emerging risks – 51% reported that they already had a separate process for identifying emerging risks. Additionally, 54% reported that emerging risks are included in the risk register. And, interestingly, another 26% said they were considering including them in their risk register. **If emerging risks are going to be included in risk registers and board reports it makes sense for ERM leaders to look carefully and get it right.**

Emerging risks are included in our regular risk register.

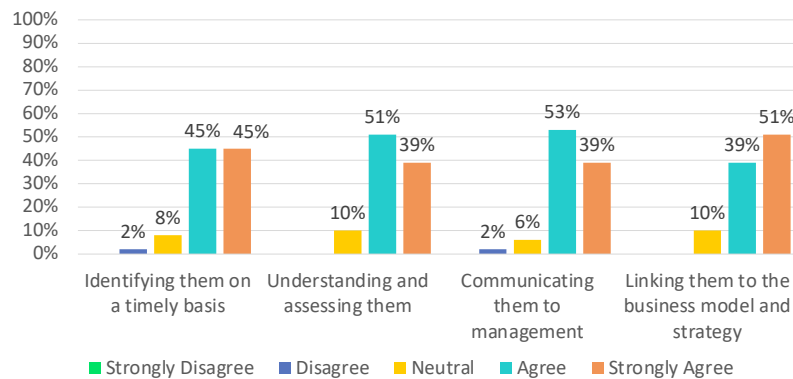


## A strategic View of Emerging Risks

Emerging risks are opportunities. That was the message from a senior strategy executive who emphasized that these are important risks to grasp and understand. **He noted that this is especially true since the greatest risk to any organization is irrelevance.** The executive explained that organizations must learn to see change and trends, and he reminded the risk leaders that there are too many lessons from companies that missed strategic pivot points and ended up losing massive value or even going bankrupt.

These emerging risks and trends can create upside opportunities, increase volatility, and/or create downside strategic risks. That must be clear. **One warning was made apparent – the biggest risk is doing nothing!** There seemed to be some agreement when risk leaders were asked about the key to emerging and unknown risks. Almost 90% agreed that it was important to identify, understand, and communicate these risks. 90% also agreed (with 51% strongly agreeing) that the key is to link these risks to the business model and strategy.

The key to emerging and unknown risks is:



## Observing Disruption, Risks, and Trends

In an effort to understand some of the changes on the horizon, a leader in disruption and trends shared views about the current and future trends. Using a data driven approach he noted some key trends:

- Spending tech dollars on transformation projects vs traditional IT
- Increasing interest in Cloud and in Artificial Intelligence
- Increasing need for agility as a key to success (making faster decisions, rescaling, and pivoting)
- Continuing the push towards open innovation, and

- Increasing use of business platforms.

This leader also discussed that there may be some impending big tech black swans on the horizon. Block chain was mentioned as one to watch. Consistent with the strategy executive's views, the warning was that those who don't take these digital changes seriously or transform enough could be left behind.

### **An Intelligence Approach and Perspective**

The Summit participants were also asked about the use of threat intelligence in identifying emerging risk and 73% agreed they used it. One key to threat intelligence is that it appears to take a broader view of risks than a traditional ERM approach and can help ensure the final set of risks are generated using a more holistic approach. Furthermore, some corporate intelligence practitioners have backgrounds in the military, the FBI, or the CIA – backgrounds that could help provide additional insights. The focus areas of intelligence used by one organization included:

- Cybersecurity
- Geopolitics
- Social activism
- Brand protection
- Physical security, and
- Health and natural disasters.

In addition to these focus areas, intelligence gathering uses a lot more and different resources than an ERM leader would use. The intelligence approach also provides output and briefing in the areas. But in addition to briefings they can also serve on working groups to provide their perspective (and perhaps avoid managing some threats in silos). The Intelligence leader noted that it is imperative to understand what's happening and to be more proactive. **With respect to ERM, the intelligence gathered helps to frame risks and to serve as input into the annual corporate risk assessment.** Any risks that come up with the intelligence approach must be tracked back to the risk portfolio and the businesses.

### **How ERM Leaders Are Building and Evolving Emerging Risk Processes**

Organizations are taking a variety of approaches to emerging risks. To extend and improve risk identification, one organization has built a process for identifying and monitoring these emerging issues. They do both internal and external scans and create watch lists that are used by departments at the start of the annual risk assessment. Eventually, the emerging issues and trends they identify can get reported to the CEO (for department lists) or to the Board (for enterprise watch lists). In addition to identifying the issues and working with the business units, ERM also generates an "insights report" covering, among other things, key drivers of the issues, recent events, opportunities, and actions.

Another organization also looks at both internal and external sources of risks to help them identify emerging trends. They try to think of trends as potential risks, risk amplifiers or

opportunities. Their sources included research, benchmarking, Summits, conferences, surveys, roundtables, and pressure testing. This organization uses a GRC platform, Power Apps, and power BI to support ERM. They generate many reports including a “most cited topics” list of potential new risks, risk amplifiers, and emerging trends. One critical takeaway from these risk leaders was the reminder to simply ask the business units, “what does the business believe is a trend or emerging risk?”

One organization shared how they had evolved their approach to ERM and emerging risks. They looked three to five years in the future for risks that were “on the horizon” and “over the horizon.” This helped them find risks that were emerging but also tangible and applicable to the company. They later amended their approach to look five to ten years out and applied a social, technological, economic, environmental, and political framework. This macro trends approach included voting and prioritization of the findings. The next evolution in their emerging risk process was when they let Strategy take the lead and used a lot of different corporate teams. More recently, they also look at a lot of consumer behaviors to help them identify the new normal, acknowledging that the new normal may be more dynamic than at any point in their past corporate history.

### **Internal Sources of Emerging and Unknown Risks**

The organizations above noted they used both internal and external sources. Additionally, the risk leaders participating in the Summit were asked what sources they used for emerging and unknown risks. Internal sources included are quite extensive and the full list of internal sources is in Appendix A.

Many patterns of sources emerge from the list shown in Appendix A. One big takeaway is to *talk* to the right people. You will not find all the emerging and unknown risks unless you have many conversations. As the list shows, risk leaders talk to a wide variety of people including audit, legal, operations, and all levels of management, boards, etc. Other risk leaders talk to innovation teams, digital teams, market intelligence, and strategy teams. Some risk leaders go beyond these conversations and appear not to just talk to these groups, but also to try to form their own view and develop their own insights. Some mention talking to intelligence or strategy but also reading the intelligence and strategic plans themselves to build their own insights. One risk leader mentions knowing the business model. This seems especially important given that all risks come back to how they impact the business model and because 90% (noted above) stated the key is to link them to the business model and strategy.

Another insight that comes up from talking to others is the need to talk to the *right type of people* in the business. In other words, it is important to talk to forward thinkers, diverse groups, a mix of groups, groups close to the customer and even those considered “doers.” Other risk leaders point to looking in the *right places* for additional risks. Examples include any continuous improvement projects, new initiatives, or pain points.

### External Sources of Emerging and Unknown Risks

External sources included consultants and major organizations such as the World Economic Forum and NACD. Others mentioned trade, intelligence, threat, and market reports. Some noted they use ERM connections such as ERM Centers, think tanks, ERM Summits and conferences, and other ERM experts. Horizon scanning, crowdsourcing and futurists were interesting sources too. More than one ERM leader noted the importance of using a wide variety of sources. See the full list of external sources in Appendix B.

### Tools for Emerging and Unknown Risks

Appendix C shows the tools the ERM leaders listed to help them *identify* emerging and unknown risks and Appendix D shows the tools to *assess* these risks. The emerging risk *identification* tools included tools such as:

- Scenario analysis
- Workshops
- Market scanning
- Surveys
- Research
- Benchmarking, and
- Brainstorming.

It is interesting to note that two tools listed were straightforward and simple:

- Listening and,
- Having conversations.

One risk leader emphasized “do not get stuck” on likelihood or impact. Instead, they encouraged others to focus on the outcomes and the company’s ability to respond.

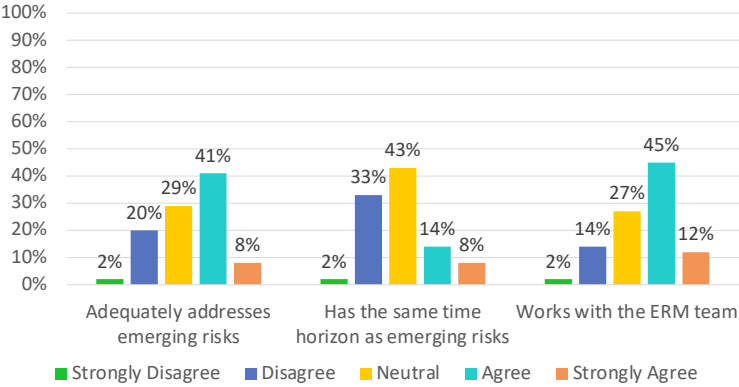
The tools listed for *assessing* emerging and unknown risks included the ERM process, as well as scenarios, analyzing the data, brainstorming, and table-top exercises. The assessing emerging risk question was more difficult and included some responses from risk leaders that they were trying to figure this out. **One risk leader highlighted the importance of “framing” and putting the risks into the right context to figure out the “so what” for the organization.**

### The Strategy and Board Connection

Some organizations mentioned either including strategy in the emerging risk process or using strategy as a source for emerging risk. The survey of risk leaders showed there is some room for improvement. About half of risk leaders agreed that strategic planning adequately addresses emerging risk. This means that about half also agree that strategic planning does not adequately address emerging risks. The gap needs to be closed. Furthermore, the time horizon used by strategic planning and enterprise risk management may need to be calibrated since only 22% of risk leaders acknowledge that they have the same time horizon as strategic planning on emerging risks. Finally, although 57% of risk leaders acknowledge that strategic

planning works with the ERM team it also shows that enterprise risk management does not work with strategic planning in a lot of organizations.

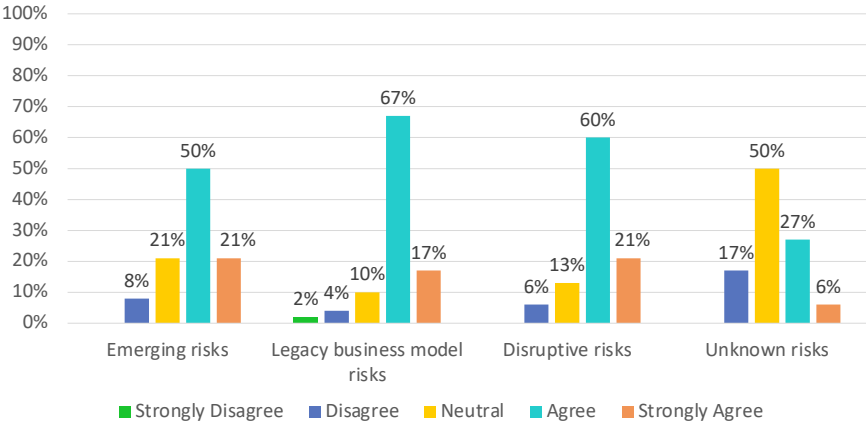
The strategic planning process at my organization:



Boards are getting more concerned about emerging and unknown risks. In fact, the risk leaders acknowledge that currently 45% are *already* including emerging risks in their board risk reporting package. Furthermore, another 41% are *considering* including emerging risks in their board risk reporting package. A recent article highlighted the pressure facing boards.<sup>1</sup> That article noted that boards were being encouraged to ask about legacy business models, external risks, emerging risks, interconnected risks, and an organization's vulnerability to disruptive risks. Consistent with this pressure, the risk leaders at this summit shared that 71% of boards are asking about emerging risks, 84% of boards are asking about legacy business model risks, 81% of boards are asking about disruptive risks, and 33% of boards are asking about unknown risks. **The importance of building an emerging risk process and linking it to the business model probably cannot be emphasized enough.**

<sup>1</sup> Boardroom advice for handling disruptive risk (Walker and Barton). Journal of Accountancy, Feb. 1, 2020.

# The Board asks about:





**Appendix A - The best internal sources for emerging and unknown risks are:**

Actual events that may indicate growing risks	Actuarial department	Analysis of cross-functional risk information for emerging themes
Analytics - leading indicators monitoring and trends	Board	Business Leaders
Business model	Business operations team	Business Risk Assessments
Commercial (Sales and Marketing)	Social Listening	Corporate Development & Innovation Team
Corporate finance	Corporate security	Customer facing business teams (sales; customer service)
Customers: satisfaction surveys; focus groups; customer service	Data models	Departmental project plans/actions
Digital team	Distinct technologists	Employee surveys and focus groups; employees in the field
Engineering	ERM being on the agenda at management planning meetings	ERM team and program
ERM team attending management planning meetings	Executive Team Conversations	External facing groups (marketing, customer service, supply chain, regulator/government affairs, etc.)
Feedback from Risk Committees	Forward thinking leaders	FP&A
Front line business units and workers	Functions that monitor external environment (Legal, Consumer Insights, etc.)	Global Security
Good mix of strategic and diverse thinkers	Government Affairs	Identifying key areas and leaders in the company who are working on new & evolving longer term initiatives and discussing new and emerging risks and trends observed by ERM team

Increasing "pain points" - collective management discomfort	Innovation	Internal Audit team
Internal controls - patterns in business process and program/project reviews	Internal stakeholder survey	Interviews
Investor relations	Leader/SME forums	Legal and compliance
Lessons learned	Leveraging executive-level risk surveys (once / year) asking for 'top of mind' new and emerging risks	Listening closely to executive leaders during risk discussions to detect common, evolving, or developing issues & trends
Low likelihood/high impact risks in current risk portfolio	Manufacturing Leadership (Directors and Superintendents)	Market Intelligence
Middle management	Mid-to-upper-level manager workshops	Continuous improvement projects in a specific area
Operational risk teams/assessments	Operations leaders	Other assurance functions
Output of scanning tools	Peer Group Discussions	Quarterly Business Reviews
Regulatory/compliance/legal	Research projects and reports	Risk assessment process owners
Risk discussions with global leaders	Risk Liaisons / Risk Committee members	Risk surveys
Root cause analysis of issues	Senior Management	SMEs
Strategy [as it might cause new risks to emerge]	Strategic planning	Futurecasting Team
Supply chain team/procurement	Sustainability Team	Technology Team
The doers of the work	Threat intelligence team	Treasury and Capital team
Trend teams		

**Appendix B - The best external sources for emerging and unknown risks are:**

Active horizon scanning	Assessing the marketplace	Attend conferences like this one
Audit board	Big 4	Bloomberg
Broader risk experts (e.g., geopolitical, risk management)	Brute force review of industry publications, WSJ risk newsletter, DOD emerging risks, WEF, etc.	Business partners
Collaboration on the topic with external colleagues	Competitors' actions/new entrants	Conferences and meetings
Consultant surveys and reports	Consultants who work in the industry	Consumer Reports
CRO forum	Crowdsourcing	Customers' needs/changing behaviors
Emerging risks reports	Ensuring a wide-variety of sources - industry and non-industry	ERM consultants/experts
ERM Summits (like this one), Webinars, Trainings	ERM think tanks and non-profit surveys / scans	ERM trade organizations like COSO
Eurasia, EIU, Fitch publications	External Auditors	External independent audits / evaluations
External legal counsel	Futurists	Gartner and similar surveys
Global forum risk reports	Horizon scanning and regular industry research of sources including	Think tanks, science based journals, market research
IIA	Industry communications, e.g. McKinsey, quintiles, etc.	Industry groups & publications: news, trends, etc.
Industry-focused risk professionals	Insights/foresight groups	Knowledge sharing organizations
Macro news	Market activity & trends	Market Reports
Market researchers	Market trend identifiers	Media
NACD	Neugroup	News
News/publications specific to your company's revenue drivers, regulatory bodies and strategy	OECD type data	Peer benchmarking

Peer discussions and analysis	Protiviti	Published surveys and assessments
Regulatory agencies	Regulatory: guidelines; news; updates	Relevant trends analysis
Research articles about risks companies are facing	Research reports	RIMS
Roundtables	Social Media/Networking/News Feeds	Society of Actuaries
St. John's ERM summit	Start-ups	The heritage foundation
Third party service	Thought leader articles	Threat & Risk Intel
Trade publications	Trend Reports	Universities
WEF & IMF		

**Appendix C - The best tool or method for emerging and unknown risk identification is:**

Aggregation of emerging risk trends	An inquisitive mind
Annual discussions with SMEs	Best method is ensuring a wide-variety - risk is in the bias and assumptions so have to overcome
Brainstorming	Conversations
Creation of working group with senior functional heads to meet and discuss external and internal emerging risks	Don't get stuck on trying to identify the exact form, likelihood, impact of an emerging risk. Focus on broader outcomes you want to avoid, then determine your ability to respond appropriately if the risk trend does come to fruition. Knowing what parts of your business are most vulnerable allows you to have a conversation with leaders around allocation of capital and resources (mitigation).
Environmental scanning	Establishing a register to review regularly and/or when business strategy changes
Existing corporate methodology	External market scan
External research, internal discussions, coupled with internal risk survey and complemented with Risk Committee feedback	Horizon scanning / participating in active professional ERM networks exploring risk topics
Horizon scanning, of societal, technological, environmental, economic, regulatory/political trends	Human Judgement
I think a combo of sourcing from internal leaders and supplementing with an external lens from third parties and analysis	Industry experts / organizations
Industry publications	Internal risk survey plus emerging risks workshops
Internal stakeholders	Interviews with key stakeholders
Interviews/workshops	Listening and researching
Market Intelligence by Risk Team and Corp Dev	Market scans combined with leadership discussions
Multiple views	Probably the audit assessment/review
Review the strategic planning process	Risk Workshops

Routine business reviews (Monthly Business Reports, risk metrics etc.)	Routine check-ins with business leaders on what is impacting them
Scenario planning	Surveying various publications
Surveys of Industry Groups	The ERM process
Trends analysis enhanced with scenario planning where helpful	Unknown
Workshops and interviews	Workshops, benchmarking, root cause analyses on known events

**Appendix D - The best tool or method for emerging and unknown risk assessment is:**

Analysis	Analyze data
Assign accountable party for keeping tabs on the risk in between regular risk ID workshops	Benchmarking
Brainstorming / open dialog	Combination of discussions with risk owners/SME and external sources of impacts to other companies
Don't know	External facing risk and corp dev team
Financial measures	Impact and Velocity
Industry issues that others have experienced	Internal expert insights
Internal interviews	Internal stakeholders
Interview with leadership and frontline staff	Interview/survey of relevant stakeholder groups, i.e.: executives, risk owners, third parties, to understand threats, weaknesses, opportunities and strengths or simply opportunities and challenges to current business model given emerging trends
Leadership input / table top exercise	Modeling or software that eases use of assessment
Once identified, using traditional risk assessment methodology	Qualitative framing to put the risk in context for "so what?" to the organization (and to help leadership decide to commit more resources if more analysis needed)
Research projects	Risk Workshops
Same thing... Discussion on outcomes you want to avoid.	Scenario Analysis
Scenario assessments	Standard ERM practices
Strategy implications	TBD
The ERM process	This is the most challenging part and would appreciate insight - hard to contextualize the impact of emerging risks especially in relation to our existing top priority enterprise risks
Time horizon for impact	Unknown--still trying to figure this out!
Unsure	Whatever standing corporate risk methodology is

## Center for Excellence in ERM Advisory Board

<p><b>Paul Walker</b> Schiro/Zurich Chair Enterprise Risk Management Director, Center for Excellence in ERM, St. John's University</p>	<p><b>John Adams</b> Retired VP Global Enterprise Risk Management, PepsiCo</p>
<p><b>Kimberly Chacko</b> MBA in ERM Student; Senior Consultant, Risk and Compliance, Protiviti</p>	<p><b>Russ Charlton</b> Chief Audit Executive, Advance</p>
<p><b>Blake Eisenhart</b> Retired Chief Audit Executive, Unisys</p>	<p><b>Geralyn Fanelli</b> Global Enterprise Risk Management Sr. Director, PepsiCo</p>
<p><b>Stuart Horn</b> IBM, Director of Enterprise Risk Management</p>	<p><b>Deon Minnaar</b> KPMG, Global Leader for Internal Audit, SOAS, and ERM</p>
<p><b>Adrian Mueller</b> Vice President, Risk Management, Enterprise Risk Management, MasterCard</p>	<p><b>Rich Muzikar</b> Enterprise Risk Management Advisor, Long Island Power Authority</p>
<p><b>Matthew Perconte</b> Managing Director, Protiviti</p>	<p><b>Steve Richard</b> Senior Vice President, Chief Risk Officer, Becton Dickinson &amp; Co</p>
<p><b>Chris Ruggeri</b> National Managing Principal Risk and Financial Advisory, Deloitte</p>	<p><b>Kelli Santia</b> Risk Manager, Strategic Risk Management, General Motors</p>
<p><b>Denise Sobczak</b> Director Enterprise Risk Management (ERM) – BIC Group</p>	<p><b>Geraldine Spry</b> Vice President, Enterprise Risk Management &amp; Global Insurance, Estee Lauder</p>
<p><b>Jorge Tercero</b> Global Enterprise Risk Management Sr. Director, PepsiCo</p>	<p><b>Zach Wolff</b> Con Edison, Director of SOX &amp; Enterprise Risk Management</p>
<p><b>Arya Yarpezhkan</b> Chief Risk Officer, Global Specialty, AIG</p>	<p><b>Stephen Zawoyski</b> Partner – Internal Audit, Compliance, Risk Services – ERM Leader, PWC</p>