Risk Management Made Simple Advisory

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for **executives** and **management professionals**

from ***Risk Wise Inc.*** and **Diana Del Bel Belluz**

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BONUS RESOURCE: How to Leverage 'The Global Risks Report 2017' to Enhance Your Risk Intelligence – PART 2

By Diana Del Bel Belluz, M.A.Sc., P.Eng.

This is the second article in a 3-part series on **how risk management leaders can enhance their organization's risk intelligence by leveraging *The Global Risks Report 2017 - 12th edition*** released by the **World Economic Form**. Each article in the series focuses on how to bridge one of these common gaps in ERM performance identified in the ***Risk Wise* Risk Intelligence Benchmarking Survey**:

1. **Weak understanding (and monitoring) of trends** (covered in **PART 1** of the series)
2. **Failure to cultivate foresight** (covered in this article)
3. **Failure to understand interdependencies** (covered in **PART 3** of the series)

(N.B. A more fulsome analysis of the ***Risk Wise* Risk Intelligence Benchmarking Survey** is forthcoming. In the meantime, this 3-part series provides a sneak-peak of a few survey findings on a topic where a majority of organizations have significant opportunities to improve.

Common ERM Gap #2: Lack of Foresight

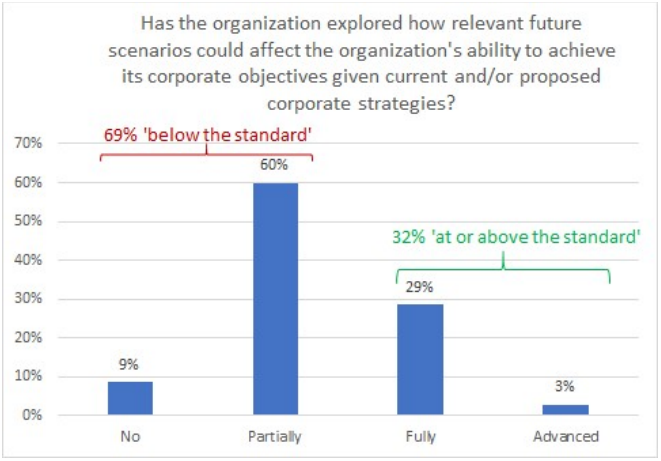
"Skate where the puck's going, not where it's been."
Walter Gretzky

That's the advice hockey great Wayne Gretzky got from his dad. It encapsulates **a central objective of risk management, i.e., using foresight to anticipate your future circumstances** (both threats and opportunities) **so that you can position yourself advantageously.**

Scenarios are an indispensable tool to give you foresight about what the trends in your business environment portend for your future. However, Figure 1 shows that according to our *Risk Intelligence Benchmarking Study*, **69% of organizations aren't adequately exploring future scenarios** that could affect their ability to achieve corporate objectives using proposed strategies, and only 3% of organizations reported advanced practices in this area.

These statistics are particularly concerning considering that a large proportion of the organizations in the survey sample reported having fairly mature ERM programs.

Figure 1: Result of question #10 of the *Risk Wise* Risk Intelligence Benchmarking survey



As **Yogi Berra** famously quipped "It's tough to make predictions, especially about the future." That quote sheds some light on **the reason many of us are reluctant to even attempt foresight**, i.e., because we fear that our imagining of the future will turn out to be wrong and we'll end up with egg on our face. But this fear reflects **a common misconception about foresight,** i.e., that **it's about being imbued with the superpower of being able to perfectly predict the future**!

In truth, foresight isn't about developing a crystal ball. Rather, it's about unleashing our imagination to enable us to envision different ways the future might unfold. **The true value of foresight is to help us anticipate the range of things that might happen in the future so that we can set the organization on a path that puts us in the most advantageous position possible in the future.** Here is a tip on how to use scenarios to enhance risk intelligence.

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Tip: Cultivate Foresight by Embracing Scenarios

At its core, Strategic Foresight involves:

- ✓ the act of imagining the future (typically accomplished by constructing a few scenarios that each paint a vivid picture of a possible future state),
- ✓ analyzing the scenarios to evaluate the potential implications of the future for the organization, and
- ✓ applying the insights gained from the scenario analysis to chart a path forward that will position the organization advantageously should a version of the scenario(s) evaluated occur.

To illustrate, let me walk you through a simple 4-step foresight process.

SAMPLE: Foresight Process

STEP 1: Recruit a diverse team of people. You will want to include a cross section of people who collectively meet these **5 criteria for strategic foresight teams:**

1. understand the internal business environment,
2. have deep and broad knowledge of the external business environment,
3. have a great imagination,
4. have expertise in more than one discipline or branch of knowledge, and
5. are skilled at synthesis (more on this later).

While not all team members must possess all of these qualities, **the success of the foresight exercise is dependent on assembling a team that collectively meets all of these *diversity* criteria.**

Now let's explore the question **What is *synthetic* style thinking and why is it crucial for foresight?** *Synthetic* style thinking is the opposite of the *analytic* style of thinking most managers are steeped in. Where *analytic* style thinking *breaks down* data to generate an understanding of the way things are today, *synthetic* style thinking *builds up* an understanding of where things might progress in the future. Where **analysis *dissects* an existing issue into its component 'parts'** or underlying 'roots', **synthesis creates an *holistic* view by first spotting potential previously unseen connections in the available data and then weaves those themes together to suggest a new 'string'**, 'thread', 'path', or 'way'. We can then follow the new 'path' to foresee the shape of things to come. (Many of the ideas in this paragraph are based on the writings of **Guntram Werther**, Professor of Strategic Management at **The Fox School of Business**, Temple University.)

The composer Stravinsky asserted that "creativity begins with noticing". So does synthesis. For example, synthetic-style thinking foresight exercises depends on noticing trends and anomalies in the environment that when taken together tell a new story about the future. **Synthesis requires a heavy dose of artistry to forge a new 'path' and cannot be achieved via extrapolation** from the 'roots' isolated in an analytical exercise. It reminds me of how the human brain learns, i.e., by laying down new connections between neurons to form new neural pathways.

STEP 2: Construct 2-4 unique scenarios. Here are two simple techniques the team can use to construct scenarios:

1. **Select one or more of today's trends** and envisage a few different ways that your world might look like in the future if those trends were to play out to their logical (or extreme) conclusions. Note: **Foresight exercises are most effective when they employ a time horizon that is longer than the organization's strategic planning cycle,** i.e., imagine yourself 5-10 years or more into the future. For example, ***The Global Risks Report*** uses a 10-year time horizon.
2. **Identify potentially disruptive forces in your business environment** and contemplate how those forces could transform your business environment and upend the assumptions you are operating under today. For example, you could select one or more of the emerging technologies identified in this year's Global Risks Report (see Table 1 below) and then imagine what your business circumstances might look like if that technology(s) were to develop to the point where your sector is disrupted.

STEP 3: Evaluate the implications of the scenarios for the organization's future success.

This step has two parts:

1. **Identify the risks (both threats and opportunities) of each scenario.** Have the team identify the potential upsides and downsides for the business if the scenario were to occur.
2. **Evaluate your readiness to exploit the opportunities and handle the threats.** This is where you 'test' how well your current capabilities and strategies will work in the future. Aim to identify critical gaps that would leave the organization in a precarious or highly vulnerable position.

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Table 1: Twelve Key Emerging technologies identified in The Global Risks Report 2017

Technology	Description
3D printing	Advances in additive manufacturing, using a widening range of materials and methods; innovations include 3D bioprinting of organic tissues.
Advanced materials and nanomaterials	Creation of new materials and nanostructures for the development of beneficial material properties, such as thermoelectric efficiency, shape retention and new functionality.
Artificial intelligence and robotics	Development of machines that can substitute for humans, increasingly in tasks associated with thinking, multitasking, and fine motor skills.
Biotechnologies	Innovations in genetic engineering, sequencing and therapeutics, as well as biological-computational interfaces and synthetic biology.
Energy capture, storage and transmission	Breakthroughs in battery and fuel cell efficiency; renewable energy through solar, wind, and tidal technologies; energy distribution through smart grid systems, wireless energy transfer and more.
Blockchain and distributed ledger	Distributed ledger technology based on cryptographic systems that manage, verify and publicly record transaction data; the basis of "cryptocurrencies" such as bitcoin.
Geoengineering	Technological intervention in planetary systems, typically to mitigate effects of climate change by removing carbon dioxide or managing solar radiation.
Ubiquitous linked sensors	Also known as the "Internet of Things". The use of networked sensors to remotely connect, track and manage products, systems, and grids.
Neurotechnologies	Innovations such as smart drugs, neuroimaging, and bioelectronic interfaces that allow for reading, communicating and influencing human brain activity.
New computing technologies	New architectures for computing hardware, such as quantum computing, biological computing or neural network processing, as well as innovative expansion of current computing technologies.
Space technologies	Developments allowing for greater access to and exploration of space, including microsatellites, advanced telescopes, reusable rockets and integrated rocket-jet engines.
Virtual and augmented realities	Next-step interfaces between humans and computers, involving immersive environments, holographic readouts and digitally produced overlays for mixed-reality experiences.

STEP 4: Chart a path forward. Identify options to address the potential risks and any potential weaknesses or gaps identified in the organization's corporate strategies or capabilities. The objective of this step is leverage the foresight you developed in the previous steps to support well informed decisions about how to put the organization on a path that will position it for success far into the future.

The 4-step process described above is deceptively simple. If you're not careful, you can fall into the classic pitfalls of an analytic mindset and other cognitive biases, e.g., dissecting data to find roots and then extrapolating to predict the future. To get the most out of the above 4-step process, you may wish to engage a facilitator experienced in strategic foresight techniques who can help your team use synthesis to think holistically and cultivate illuminating foresight.

The *Risk Wise* bottom line…

The true value of foresight is to enable us to anticipate a range of possible futures so that we can set the organization on a path that **puts us in the most advantageous position possible** in the future. **To explore additional techniques for cultivating strategic foresight in your organization, contact Diana Del Bel Belluz** at Diana.Belluz@riskwise.ca or (416) 214-7598.

In the next and final installment in this series I provide tips on how to bridge a third common gap in ERM performance identified in the ***Risk Wise Risk Intelligence Benchmarking Survey***:

- ✓ **PART 3: Failure to understand interdependencies**

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About Us

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Diana Del Bel Belluz, M.A.Sc., P.Eng., is a risk management advisor who **helps executives in complex organizations to implement systematic and sustainable risk management practices**. Since 1990, Diana has been doing **leading-edge risk work** for a wide range of organizations in the corporate, government and nonprofit sectors.

In addition, Diana **advances the field of risk management** by **teaching** university courses and management training seminars, **speaking** at conferences and **authoring** publications on a wide range of risk management topics.

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