

Anticipate, Adapt and Innovate by understanding and acting on Novel Risks

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2 How can novel risks *arise*?

Novel risks are, by their nature, new **to us**, and they have high uncertainty to them. How can they arise?



Black Swans

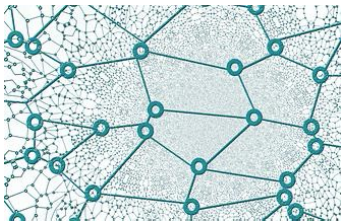
Black Swan events are rare, materialising from threats not previously encountered or envisioned by those that experience them. Black Swans are not only “huge events”; they can be small as well. Black Swan events are more descriptive of the beholder than of the event itself (what may be a Black Swan to you may not be to me).



Perfect Storms & Massive events

Perfect Storm events are those where numerous events or circumstances combine to produce an unusually bad and/or powerful result/event/problem.

Massive events are self-explanatory. They can arise from known risks or surprises and they are very large in impact and scale, often occurring at high speed.



A series of unusual and/or interlinked risks/events unfolding in a novel way

The risks and events that we face (from large to small) are rarely independent and isolated, and they will often lead to knock-on impacts and/or knock-on risks. When a series of risks and/or events coincide, they can create novelty and uncertainty to how they may or do unfurl. Sometimes, such situations occur gradually – they do not always arise quickly.



Misunderstood complexity

The world is increasingly complex. For example, complexities in the supply chain can create novel events when a problem occurs; financial network complexity can easily create novel risks with AI et al; cyber attacks wreak new havoc; failure to understand intangible assets can lead to novel situations.

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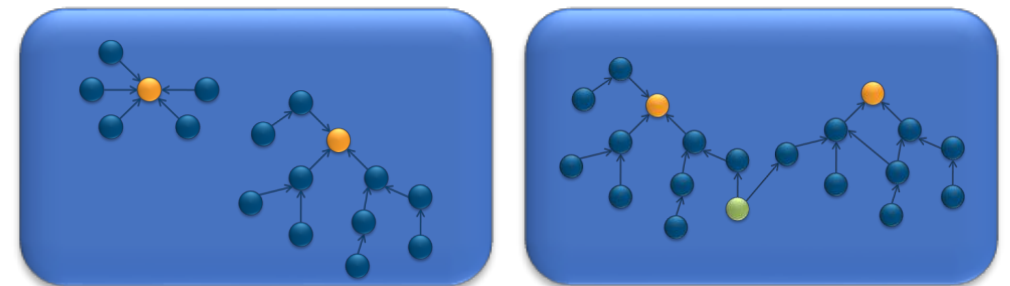
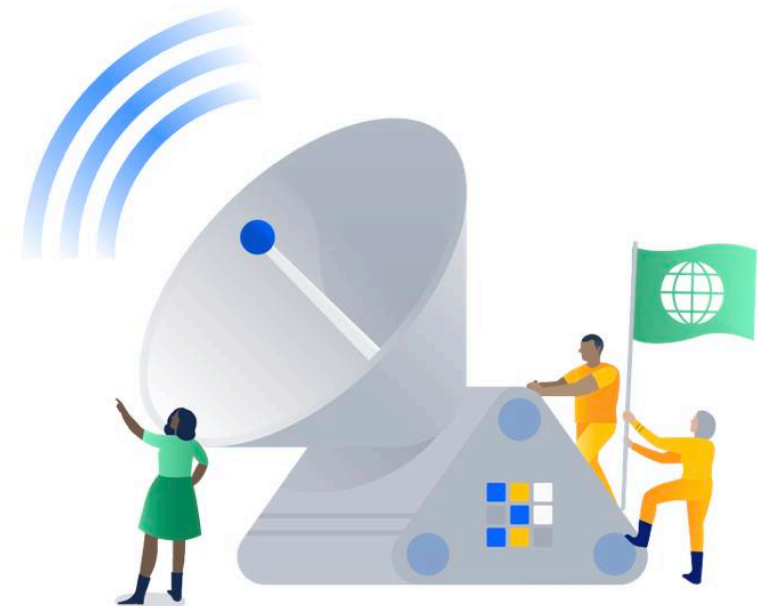
How can we *recognise* novel risks, early?

To recognise novel risks we need to “see anomalies, gaps and, sometimes, join dots together”. This takes time.

In today’s interconnected and fast-changing world, recognising novel risks is challenging and requires critical thinking skills. It means looking at potential scenarios, situations and possible linkages that may never occur.

A team may be given overall responsibility, and the time, to monitor threats and opportunities on the horizon and to seek out, and analyse, the possibilities for novel risks. Finding novel risks can be aided by engaging everyone in your organisation, and perhaps more widely across your value chain, to provide observations and insights into “what goes on” and whether novel risks could result.

Using techniques such as horizon scanning, scenario analysis and workshops for “far out risks” can help us to join dots and assess possibilities. When we recognise novel risks we can then discuss our appetite for them.



4 How can we *prepare for + respond* to novel risks?

1. Ensure a culture of “chronic unease”, opportunity-seeking, and speaking up / raising a hand early.
2. Embed a core team, supported by senior management, to discuss and review novel risks, working with a broad group of people to ensure diverse views are listened to.
3. Reviews, scenarios and simulations should be matched with risk appetite and a willingness to act.
4. Stress-testing of options must be done in an unbiased manner to understand resilience.
5. High quality and adaptable decision-making ensures we are prepared and ready to respond.
6. Purposeful resilience planning and preparation helps us be prepared for risks and events.



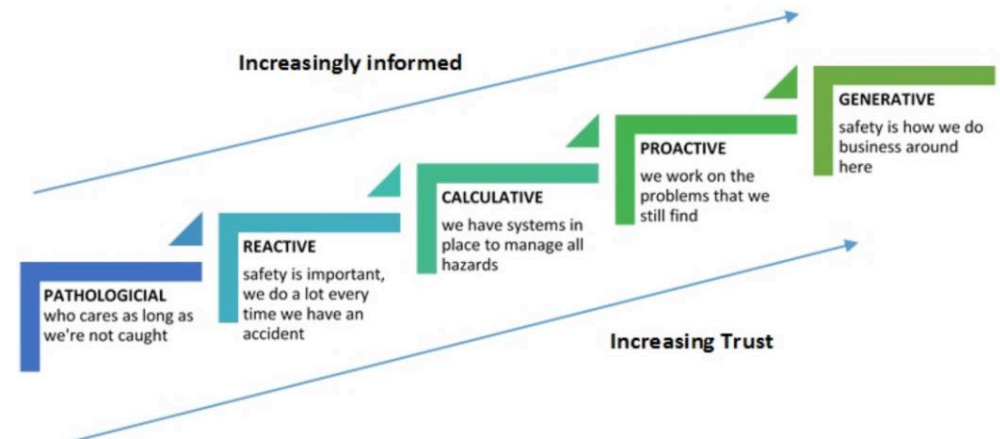
5 De-bias your decision-making to tackle novel risks

We all have in-built biases (confirmation bias, optimism bias and others) which affect our decision-making. It is important to keep our biases “in check” when we are seeking to understand novel risks.

Since novel risks are new to us, we need to be open-minded about how they could eventuate. They could take different directions, depending on how a situation unfurls.

We need to use a good decision-making process in order to make good quality decisions in how to respond to novel risks.

In safety management, the term “chronic unease” is often used to describe a generative safety culture. This same mindset, which is a constant appreciation and scanning of what could happen, stands us in good stead for identifying and responding to novel risks.

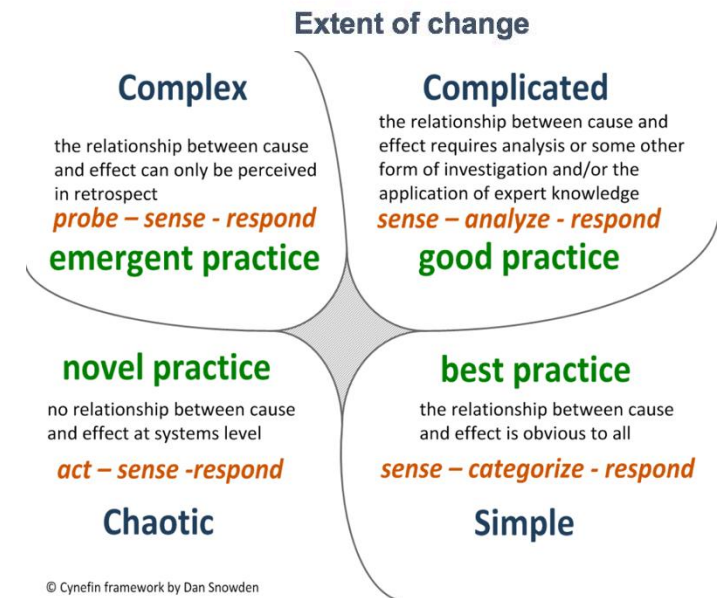
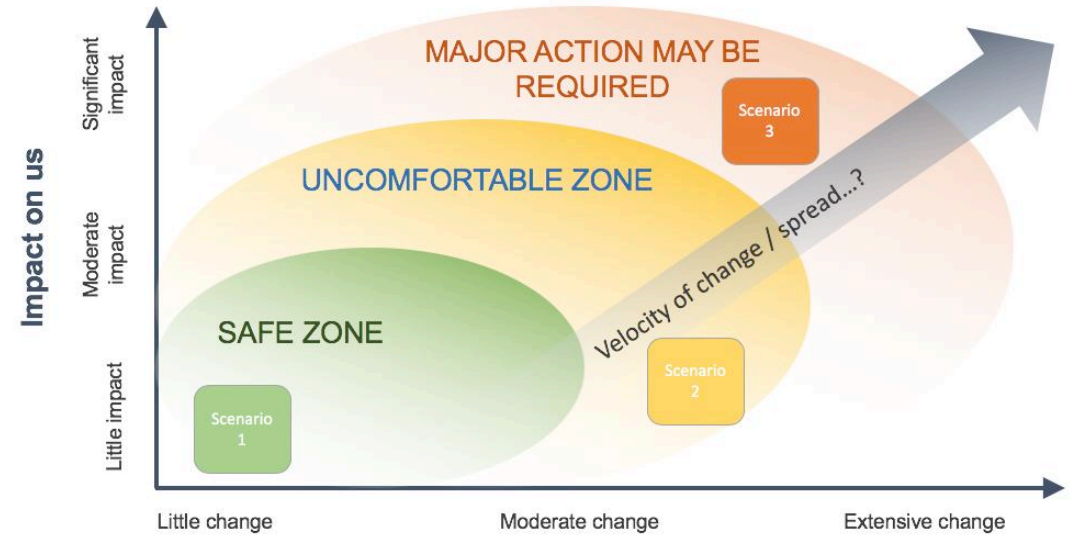


6 Combining techniques to tackle novel risks

In today’s dynamic and fast-changing world, looking at different scenarios to think about the future helps us think about “What if...?” A PreMortem (prospective hindsight) can be used to envisage a potential disastrous outcome; a ProMortem, an extremely positive one.

When we think through different possibilities including “plausible outliers”, black swans, perfect storms and huge-scale events, and the interlinkage of risks, we improve our ability to plan for our objectives, we de-bias our decision-making, we ensure we take into account external factors and we put ourselves in a better position to spot new, unusual circumstances on the horizon.

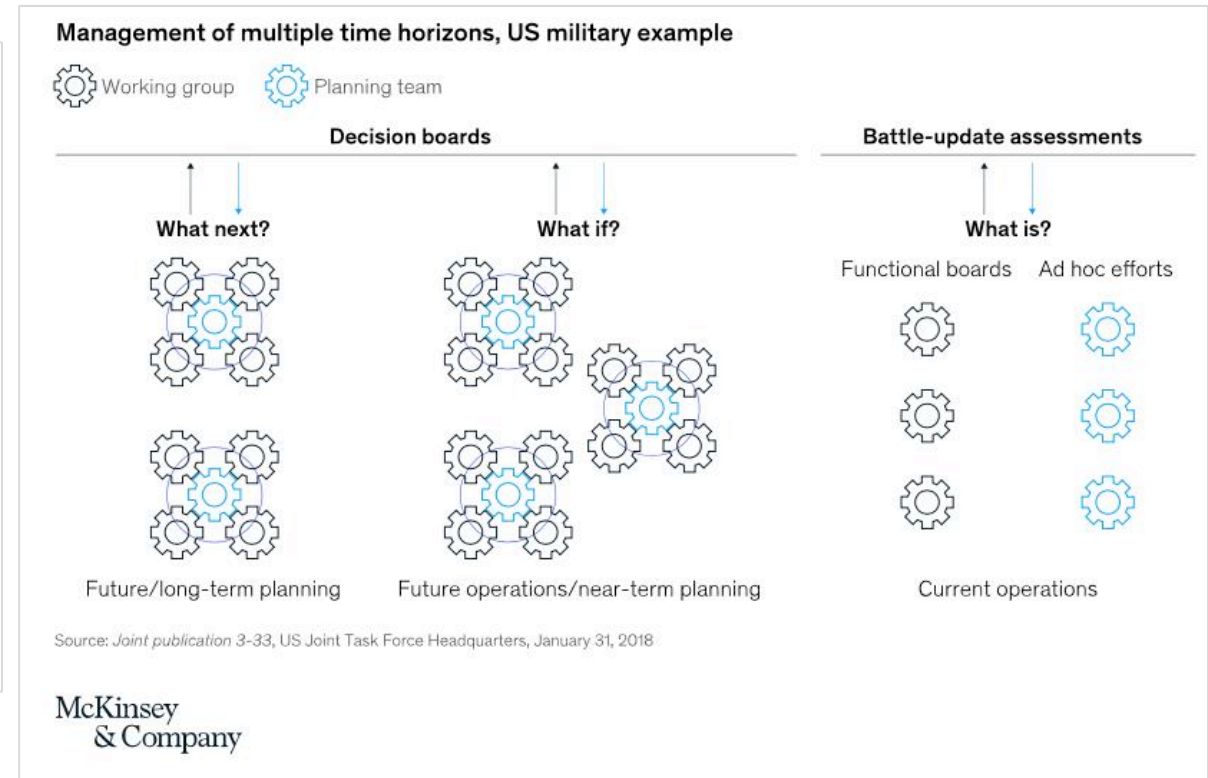
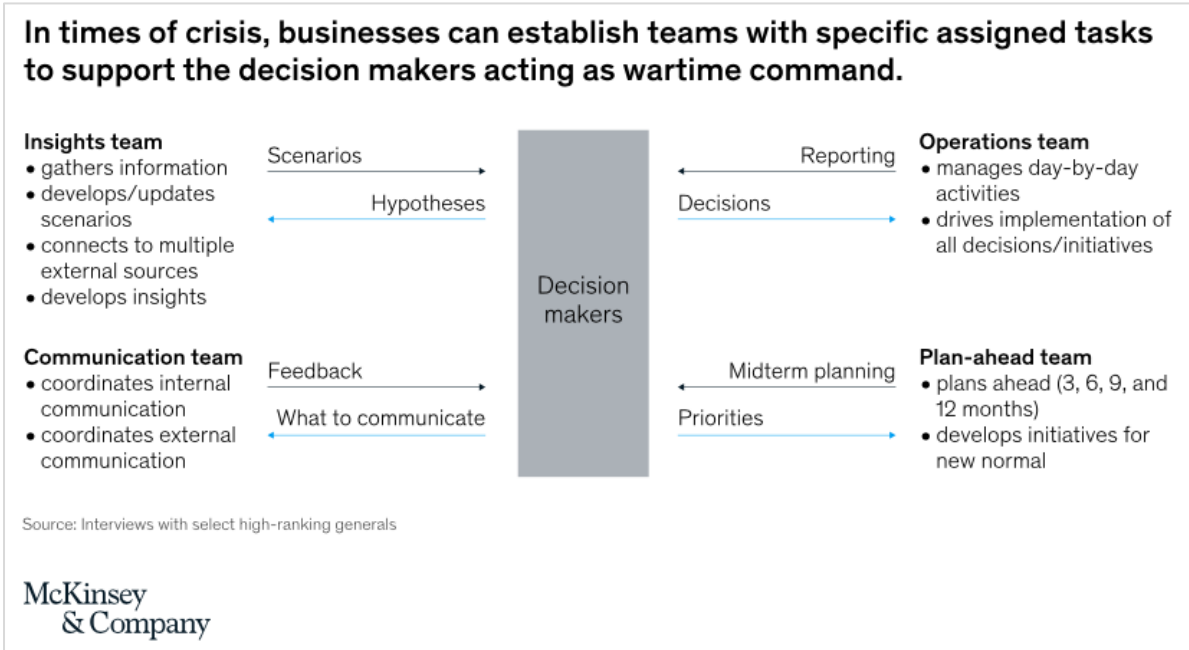
Various techniques exist to help us consider influences and linkages that are outside of our organisation and outside of our control.



7 Learning from how others deal with novel risks

The military: faced with unknowns, teams anticipate and adapt.

- Select and focus on an *overarching goal*.
- Maintain *resilience* as things unfold.
- Embrace *offensive action*.
- Inject *elements of surprise and innovation*.
- Accept *concentration on the main effort* may demand economy elsewhere.
- Conserve effort to *sustain* the fight.

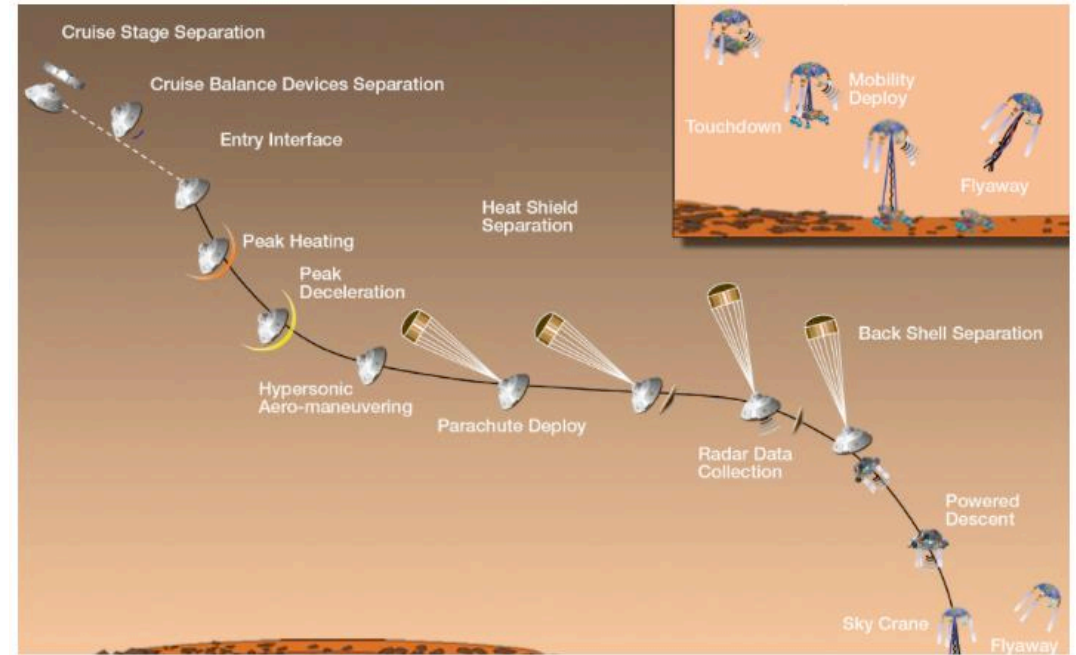
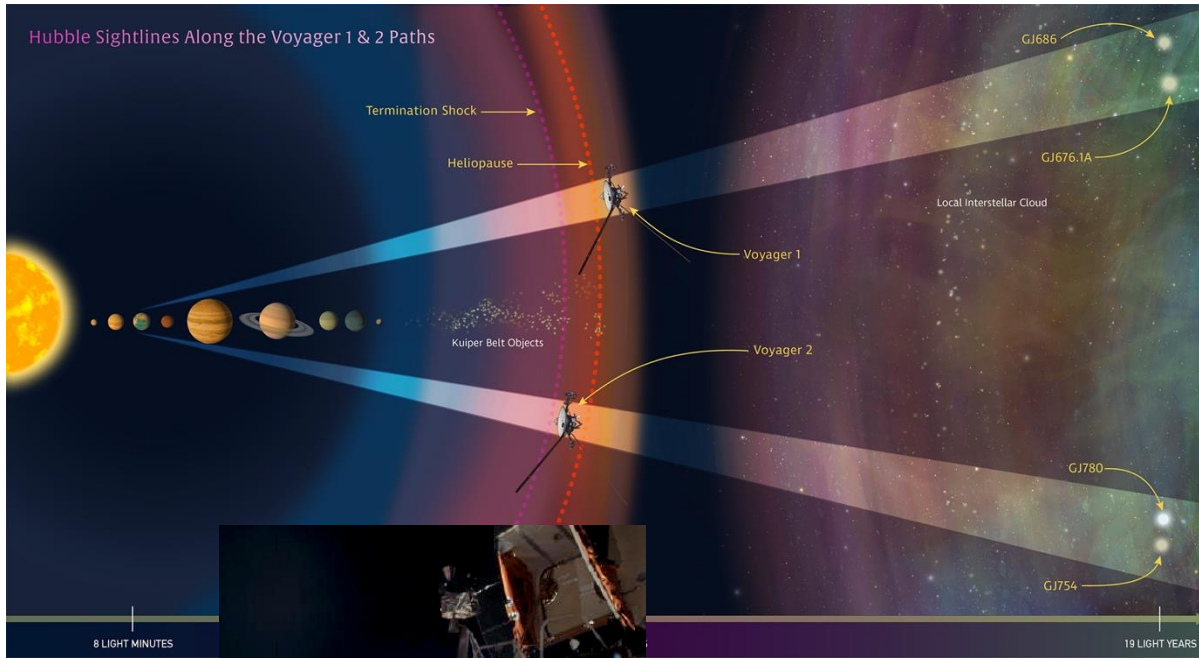


Source: McKinsey

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/lessons-from-the-generals-decisive-action-amid-the-chaos-of-crisis/>

8 Learning from how others deal with novel risks

The space industry: faced with unknowns, teams anticipate and adapt.



"I had spent so much time thinking about the ways in which it couldn't work, or wouldn't work, that the idea of feeling that it would work, of relaxing and trusting that it would work, felt like a dereliction of duty to me. I was rationally confident but emotionally terrified."

Source: The Guardian
<https://www.theguardian.com/science/2013/jul/28/curiosity-rover-descent-mars-nasa>

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What should Risk professionals be thinking about?

We need to show, in practice, not theory, how we can help people to deal with novel risks, take opportunities and manage threats

Questions for Risk professionals:

1. Do we understand the nature of the organisation(s) we work with and *the real challenges and opportunities we all face in future, including novel risks?*
2. Do we understand the complexity of our environment, and *can we help those we work with to understand and manage the complexity, and novel risks, they face?*
3. Do we know our state of resilience, and *can we help our teams to have the best resilience and skills to anticipate and respond to changing and unexpected circumstances in a purposeful way?*
4. What insights do we see into opportunities to achieve success – *how do we articulate them?*
5. *How do we harness the knowledge and ideas on novel risks across our organisation and value chain, to help people make good risk-informed decisions?*