

BUSINESS RECOVERY TOOLKIT

Risk assessment guide - Thinking the Unthinkable

Organisations coming out of a protracted crisis situation that significantly threatens business continuity and indeed survival (such as the COVID-19 global pandemic) face a future that is fundamentally characterised by uncertainty. Unprecedented times create unique challenges and pose unforeseen threats and risks. It is vital that an organisation ensures that it understands the challenge it is facing and fights the correct battle. The key task is to bring shape and certainty to an uncertain future. This is where forecasting can help.

Forecasting

Forecasting techniques can be used to identify likely changes in the environmental context and future challenges, in order to first highlight emerging trends and then translate these into specific potential threats and risks against which plans for mitigation can be developed. It is important that organisations conduct forecasting activities across three different levels:

- Strategic
- Operational
- Tactical

The different levels are interlinked, with insights generated at one level informing the thinking at the next stage. Forecasting across all of these levels would be an effective way of translating future uncertainties into clear risks that can be mitigated by concrete plans.



Strategic – describing the challenge landscape

The first part of the process is to conduct horizon scanning exercises to analyse the environment in order to identify emerging trends and uncertainties. The timescale for this exercise should be from one to three years. Forecasting at this level would involve structured brainstorming exercises to translate these environmental trends into specific challenges and indeed opportunities. The process is straightforward and involves generating emerging trends or issues across different domains:

- Political
- Economic
- Social
- Technological
- Legal
- Environmental

Where applicable, Military, Demographics and Ethical could be added to this list. Once a long list of possible emerging trends has been identified, these are then prioritised according to Likelihood and Impact. Trends and emerging issues that score highly for both likelihood and impact should be prioritised and included in the next (operational) level of forecasting. The output from these exercises provide a framework for the challenges that need to be analysed at the operational level.

Operational – defining the threat framework

Once the emergent challenges had been identified at the strategic level, forecasting at this level would utilise scenario development exercises to develop the strategic challenges into a clear set of threats. The exercise follows a number of clear steps:

- Define the challenge in terms of a specific forecasting question such as “what will the future market look like in 12 months’ time?”
- Brainstorm the factors that will contribute to and shape the anticipated future (these should be stated in a neutral manner, such as ‘health of international market’)
- Select the five or six factors that seem most critical
- Put a ‘value’ to the neutrally stated factor by making an assumption about how it will develop over the timeframe in question (‘international market is severely reduced due to problems with transport infrastructure’)
- Define the impact of this assumption on the forecasting question (‘international market shrinks to 25% of pre-crisis state due to international customers’ inability to import products’)



The timescale for this activity should be between six and twelve months; the output provides a structured threat framework of specific issues that require focussed attention at the tactical planning level.

Tactical – generating risk registers

Focusing on the threat framework, forecasting at this level involves predictive analysis of the operational-level threats in order to identify the specific risks that these threats pose to the organisation. A couple of key principles should be followed when conducting this analysis:

- Beware of the tendency to focus on your own perspective (the Inside view)
- Factoring in the outside view gives more predictive power

It is important, therefore, to consider the problem by:

- First taking the **outside view**: is there any historical precedence or base rate against which a comparison can be made?
- Then take the **inside view**: what are the unique details of the current situation that make it different from the analogous situation?

When thinking about these issues, it is also important to guard against a number of judgement heuristics or cognitive biases, such as:

- **Belief perseverance**: the tendency to believe something in the face of contradictory evidence; to under-react to new information
- **Confirmation bias**: to uncritically accept information that is in accordance with a firmly held belief; to dismiss contradictory evidence

In these instances, it is vital to seek contrary evidence that challenges assumptions and beliefs. The timescale for this forecasting activity should be up to six months; the output are forecasts of specific issues that form a focussed risk register that drives the development of contingency plans to mitigate the risk identified.

Red Teaming

Once a specific set of risks have been identified, a final and necessary step is to Red Team the risk mitigation plans. Red Teaming exercises, such as Premortem Analysis helps to stress test plans and identify potential areas of weakness. The process is quite simple:

- Assume that the plan has failed
- Describe what death looks like, define the symptoms of death
- Brainstorm the likely 'causes of death'



- For each cause of death identify which the immediate causal actions that would have brought the situation about
- Then identify the factors that would have produced the immediate action
- For each factor, identify the next causal action
- Repeat the process until the action identified was specifically initiated by the plan

Using techniques such as this can help teams develop effective contingency plans to mitigate the risks identified in the forecasting component by challenging assertions and assumptions; assessing the strength of an evidence base; and identifying alternative options or outcomes.

Conclusion

Forecasting is a highly effective tool to make sense of a rapidly changing environmental context and identify the likely impact of external influences. Following the steps outlined above will help organisations bring structure to uncertain futures.

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