



ERM PROFESSIONAL INSIGHTS

ERM Professional Insights Getting Your Arms Around the Ever-Changing World of Emerging Risks

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Mark S. Beasley, CPA, Ph.D., is Professor of Enterprise Risk Management and Director of the ERM Initiative at NC State University. He completed over seven years of service as a board member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has served on other national-level task forces related to risk management issues. He advises boards and senior executive teams on risk governance issues, is a frequent speaker at national and international levels, and has published over 90 articles, research monographs, books, and other thought-related publications.

The ERM Initiative at NC State recently hosted a group of ERM leaders to discuss challenges related to monitoring emerging risks – those risks that appear to be on the horizon but are currently a bit fuzzy in nature and loaded with uncertainty about how they may impact an organization. Strikingly, over 80% of those leaders indicated that they believe the portfolio of risks on the horizon is increasing and the task of monitoring emerging risks is only getting more challenging given the pace of change in today’s global business environment.

Technology and Disruptive Innovation are Big Sources of Emerging Opportunities and Risks

Amid the conversation of these ERM leaders, risks related to the rapid embrace of technology and the potential for new types of disruptive innovations are of particular concern. Developments in artificial intelligence, machine learning, the Internet of Things, combined with a shifting workforce where needed talent may be hard to come by and where social and environmental norms are evolving quickly are all coming at organizations sometimes faster than can be digested.

Emerging Risks Can Create Opportunities, But Go with Eyes Wide Open

Gratefully, many of these emerging risks are introducing a number of great opportunities that many organizations feel the urgency to embrace, such as the increasing use of smart devices and the Internet of Things to conduct all kinds of business activities. But, in the rush to grab hold of the perceived benefits, organizations may be inadvertently introducing new and different types of risks currently not on their organization’s risk radar.

Risks Can Emerge Through Suppliers and Vendors

As organizations continue to rely more and more on suppliers and vendors to perform all kinds of processes and services for the organization, we need to keep in mind that our third-party vendors (and vendors to our vendors) are also rushing to embrace all kinds of new innovations, too. If those third parties aren’t managing risks effectively, we may be exponentially bringing their risk exposures under our umbrella.

In Need of a Filter to Sort Emerging Risks

The volume of emerging risks can be overwhelming. Thus, management and the board need some kind of filter or guide to help them structure their thinking about and prioritization of emerging risks. Our conversation among our assembled group of ERM leaders focused on the importance of using a strategic lens as a way to sort through which emerging risks may be most critical to an organization.

GETTING OUR ARMS AROUND THE EVER-CHANGING WORLD OF EMERGING RISKS

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Position Consideration of Emerging Risks from Strategic Perspective

Starting with what is most important to driving value for the organization and then using that lens to consider emerging risks may help leaders determine which are most important.

For example, as we think about emerging risks related to the growing use of artificial intelligence and machine learning, we might want to ask

- **“How might artificial intelligence help us perform processes that are critical to the delivery of our product or service?”** That question helps us think about how the emerging risk may actually lead to opportunities that AI might provide for our organization.

But, before we rush too quickly towards embracing those opportunities, it would be prudent to consider,

- **“What assumptions are we making about our abilities to navigate the implementation of AI in our organization?”** That question helps us tease out potential areas of vulnerabilities that we need to recognize and then proactively manage in order for the embrace of AI to deliver the value we hope it will.

We should also consider,

- **“How might developments in artificial intelligence disrupt demand for our organization’s core product or service or our competitive advantage in how we deliver it?”** That question can help us understand how emerging developments in AI might be a disrupter to our business model.

Using high-level questions such as these may help foster conversation that helps tease out both the opportunity side and risk side that may be associated with emerging risks. Positioning our thinking about emerging risks from a strategic perspective can help us begin to put more color and definition to those fuzzy elements of potential emerging risks that are on the horizon by helping us initially view the emerging risk from an opportunity and risk perspective. Once we have a better sense of how the emerging issue might impact our organization, we can then engage in a deeper dive understanding of more specific dimensions of that risk.

Keep Your Eye on the Ball

Our group of ERM leaders concluded that the task of thinking about emerging risks will never go away given new types of risks that emerge all the time. The key is to keep the focus on emerging risks front and center on the minds of management and the board. Periodically placing the topic of “emerging risks” on the table for explicit discussion may go a long way in helping create a “watch list” of risks to keep an eye for the future.

Take advantage of all the resources on the ERM Initiative’s website to help keep the conversations going for your organization.

Visit www.erm.ncsu.edu to learn more.