

Harmony Alliance Guides:
Risk Management

Emerging Risks



Emerging Risks

Volatile, Uncertain, Complex and Ambiguous (VUCA)

Emerging risks, often referred to as disruptive risks, are those that gradually surface and are challenging to predict. These risks can present both as opportunities and as threats to organisations, highlighting the ever-changing nature of risk. Boards with management teams must take a proactive approach, stepping away from daily operations to identify and respond effectively these disruptions.

Examples of emerging or disruptive risks include:

- Disruptive innovations
- Disruptive technologies
- Global risks
- Social media impacts
- Interdependency and contagion risks
- Cloud computing vulnerabilities
- Cybersecurity threats
- Environmental, social and corporate governance (ESG) challenges

This guide focuses on helping organisations understand and respond to these disruptive risks.

Disruptive Innovations

Disruptive innovations create new markets or customer categories, often challenging existing business models. While these disruptions can stem from new technologies, they are not always technology based. Boards and management may not always be the disruptors but must respond effectively to such innovations.

Examples include:

- Sharing economy platforms like Airbnb and Uber.
- Digital disruption from streaming services transforming traditional media.
- Sectors such as micro-financing emerging as an alternative to traditional donations.
- Crowdfunding platforms replacing conventional fundraising methods.
- Social enterprises that operate commercially while pursuing social goals.
- Expanded performing arts models, where consumers expect added value, such as merchandise, alongside live performances.



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Disruptive Technologies

New and emerging technologies remain at the core of disruption.

These include:

- Mobile communications
- Nanotechnologies
- Robotics
- Modern medicines and pharmaceuticals.

Global Risks

The World Economic Forum¹ lists the top risks by probability (within 2 years) and impact as follows:

- Infectious diseases
- Livelihood crises
- Extreme weather events
- Cybersecurity failures
- Digital inequality
- Prolonged stagnation
- Terrorist attacks
- Youth disillusionment
- Social cohesion erosion
- Human environmental damage



Social Media

Social media, while no longer emerging, remains highly disruptive due to its rapid evolution. It has become essential for organisations to engage with customers, donors, suppliers, and stakeholders. However, it presents significant challenges, including:

- **Tracking audience shifts:** How do you handle your Facebook presence when your audience moves to platforms like WhatsApp?
- **Ensuring safety:** Social media poses risks such as reputational harm, identity theft, and challenges in meeting data privacy obligations.
- **Effective use:** Using social media for business or corporate purposes can backfire, such as a Tweet potentially leading to fraud accusations.

Interdependency (Contagion)

Global shocks often highlight the interconnected nature of systems.

Examples include:

- **Subprime mortgage crisis:** Excessive risk-taking in one market triggered a global financial meltdown.
- **Volkswagen emissions scandal:** Suppliers to Volkswagen faced reputational harm due to the company's misconduct.
- **COVID-19:** The pandemic underscored the far-reaching impacts of a globally connected world.

1. World Economic Forum, 2020, The global risks report 2020, p6

Emerging Risks

Cloud Computing

Organisations must carefully evaluate security measures when outsourcing data storage to international providers. Compliance with regulatory obligations under the *Privacy Act 1988 (Cth)* and the *Privacy Amendment (Notifiable Data Breaches) Act 2017* is essential, as the risk of data breaches increases. This area is also receiving heightened scrutiny by APRA.

Cybersecurity

Cyber risk is among the top three threats to organisations in 2021², following global pandemics (ranked in the top position) and business interruptions (ranked second).

Key causes include hacker attacks, data breaches, ransomware, denial-of-service attacks, and employee errors. These threats can lead to severe financial losses, reputational harm and operational interruptions.

Cybersecurity is becoming a critical and growing priority for Boards, management teams, and organisations.

Environmental, Social and Corporate Governance (ESG)

Organisations face increasing scrutiny over their corporate social responsibilities, requiring a stronger emphasis on non-financial measures.

Key areas to focus include:

- Socially responsible investment
- Environmental issues, including damage and sustainability
- Breaches of human rights
- Shareholder rights
- Board performance, including remuneration and diversity

Key questions to ask:

1. Are the appropriate disclosures being made?
2. Are the disclosures accurate?
3. Can disclosures be made without compromising the organisation's competitive advantage?

² Allianz Risk Barometer 2021, The Most Important Business Risk for 2021.

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Managing Disruptive Risk

Boards and management can address disruptive risks, both as threats and opportunities, by:

- Reviewing decision-making processes to avoid underestimating disruptive risks.
- Ensuring the right mix of expertise on the Board and within management, fostering a mindset equipped to embrace digital and technological changes.
- Continuously looking outward and seeking advice from experts.
- Cultivating a culture that supports, rather than resists disruption.

Other Harmony Alliance Guides in the Risk Management Series

- Risk Management
- Identifying, Analysing & Evaluating Risk
- Risk and Culture
- Crisis Management
- Business Continuity Planning – Overview
- Pandemic Planning

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