



# The Upside of Uncertainty: Transforming Global Shocks into Strategic Wins

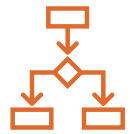
**SPEAKER**

**Rob Quail**

Rob Quail Consulting

CONNECTING RISKS THAT MATTER

# Enterprise Risk Management – Key Elements



## Articulated framework and process

- Why and how we will assess risk
- Key roles, responsibilities, and authorities



## Criteria

- Risk appetite (willingness to accept uncertainty in order to earn a return, improve, learn, grow, etc.)
- Risk measures (Impact, likelihood, strength of controls)



## Enterprise-wide application

- Application to key risks
- Integration into key business processes



## Reporting

- Key risks, status, mitigation strategy, forward-look

Conversations

Prioritization





## RISK MANAGEMENT

# COVID-19: The Risk Management Part Is Unfinished

What actions should senior risk managers and executive management take to deal with the remainder of the crisis and its aftermath? By John R.S. Fraser, Rob Quail and Betty J. Simkins

To control the spread of the disease, economic and social activities worldwide have been severely curtailed. Governments and organizations struggle to manage through the situation and strike an appropriate balance between mitigation of harm to public health and economic well-being. ¶ What actions

should senior risk managers and executive management undertake to manage through the remainder of the crisis and its aftermath?

### Immediately: Dependencies and Risks

We've had many conversations with risk managers and executives about the short-term and immediate-term risks of COVID-19 concerning external dependencies and conditions: e.g., the supply chain, outsourced services, access to a flexible or seasonal labor pool. Most of our questions were met with reassuring answers regarding what is expected, such as, "We think our supply chain is going to be OK," or "Our offshore data center is managing well through this."

But these are answers to the wrong question. The relevant question for risk managers to be asking in the short-term is not "What is expected?" but "What are the risks?" The pandemic is happening at a time of tremendous global interconnectedness. Organizations should be evaluating all of their third-party dependencies for vulnerabilities and conducting near-term risk assessments. This is a time when overdependence on limited supply chain channels or specialized, single-party services in support of

mission-critical business processes is an especially acute source of risk.

We recommend that risk and business managers revisit their third-party dependencies and associated risks, and take steps to reduce single-point vulnerabilities through the one- to two-year time horizon during which the pandemic is expected to continue.

### Short-Term: The Second Crisis

Leaders and public health officials acknowledge that the pandemic will be with us until late 2021 at least. Meanwhile, it is a fact of corporate life that from time to time, even in normal circumstances, all large organizations experience surprises. Given the timeline, it's likely that for many organizations, some other unrelated risk event is going to happen, too: perhaps a labor disruption, a technology failure, or an asset performance issue; that is, some other "shock" unrelated to the pandemic.

So, the question that risk managers and executive leaders should be asking themselves is, "if and when this 'second crisis' hits us, how will we cope?"

Many organizations have been

placed in a weakened state by the prolonged crisis, financially or in terms of human resources; crisis management resources have been fully deployed for many months. Are we watchful for other risk events that could occur, or are we so busy managing the impacts of COVID-19 that we may have developed blind spots? When something new breaks, will we be able to work through it? Or could a second crisis represent a "tipping point" with disproportionate negative impacts on the organization?



We recommend that organizations conduct a specialized, immediate-term review of their risk profile with a particular focus on agility and capacity to endure worst-credible scenarios, should any occur while the pandemic is still in full force.

### Medium- To Long-Term: Scenario Planning

There is no question that the pandemic and our response to it will have lasting effects on many aspects of business and society. Early in the crisis, the United Nations' trade and development agen-





# Lessons we should have learned from COVID



- Include less-obvious, indirect risks
- Expand the horizon
- Consider a “second punch”
- Look at opportunities, competitive advantages
- Learn lessons the right way
  - not just “what did...” but also “what if...”





Two-thirds of economy is trade

75-80% of exports are to the US

US\$1 trillion per year

Exports to the US make up  $\frac{1}{4}$  of GDP

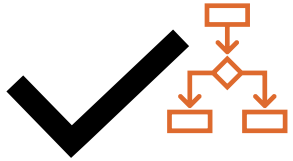
1866 (and before)

1987





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# General Approach

- Impacts:
  - 1<sup>st</sup> order: trade of goods and services
  - 2<sup>nd</sup> order: local economy, markets
  - 3<sup>rd</sup> order: responses from stakeholders (Gov't, community, customers)

(Build Scenarios; Extend Horizon)
- Impact on Risk Appetite
- Impact on Risks (amplification)
- Upsides and opportunities





# Large-ish Not-for-Profit Community Service Organization

- Funded 80% by government and 20% by charities, other
- Effects of the “shock:”
  - 1st order: cost and availability of supplies and services
  - 2nd order: general economic downturn; reduced development
  - 3rd order: government policy reaction
- Impact on risk appetites:
  - Financial
  - Modernization and Technology







# Regional Co-Op (retailer)

- Member-owned
- Effects of the “shock:”
  - 1st order: cost of commodities, availability of materials and supplies
  - 2nd order: reduced consumer spending; changes in consumption patterns; credit risk
  - 3rd order: long term changes in consumer behaviour
- Impact on risk appetite:
  - Much more sensitivity and focus on volatility in operational performance





# Provincial Regulators (industrial, healthcare)

- Effects of the “shock:”
  - 1st order: access to some materials and services
  - 2nd order:
    - impact on revenues (fees)
    - labour market impacts
  - 3rd order: impacts on government policy \*\*\*
- Impact on risk appetite:
  - Tightening of operational performance, throughput
  - Generally more agility required







# Natural Gas and Electricity Utility

- Strategic direction to enable transition from gas to electricity, support high growth in community
- Effects of the “shock:”
  - 1st order: availability and cost of specialized materials and equipment
  - 2nd order: impact on community economy, growth
  - 3rd order: pace and priority of migration from gas
- Impact on Risk Appetite:
  - Much greater uncertainty re organic growth







# Mid-size University

- Strategic direction was to shift from undergrad to a higher research focus
- Effects of the “shock:”
  - 1st order: use of and access to service providers; research partnerships
  - 2nd order: employment markets
  - 3rd order: research focus and funding; provincial directives re sourcing etc.
- Effect on Appetite:
  - Doubling-down on the strategy





# Lessons Learned

- Changes in the risk constellation
  - 1st-2nd-3rd order impacts
    - 1st: immediate and obvious effects
    - 2nd: indirect effects (economy, markets, etc)
    - 3rd: stakeholder response/reaction
- Use scenarios
- Stretch the horizon
- Lenses: impacts on **risk appetite** and on **known risks**
- Engage Board, stakeholders
- Look for competitive advantage



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# Questions?

CONNECTING RISKS THAT MATTER



# THE MATRIX

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# Thank You!

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# Connect with me.

**Rob Quail**

e: [rob@robertquailconsulting.com](mailto:rob@robertquailconsulting.com)

 [/company/robert-quail-consulting](https://www.linkedin.com/company/robert-quail-consulting)

 [/in/robquail](https://www.linkedin.com/in/robquail)

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