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Change The Culture Of Risk Management To Increase Business Resilience

Why Interconnected Data, Analytics, And Processes Are Needed To Combat Systemic Risk

A FORRESTER CONSULTING THOUGHT LEADERSHIP PAPER COMMISSIONED BY DUN & BRADSTREET, SEPTEMBER 2022

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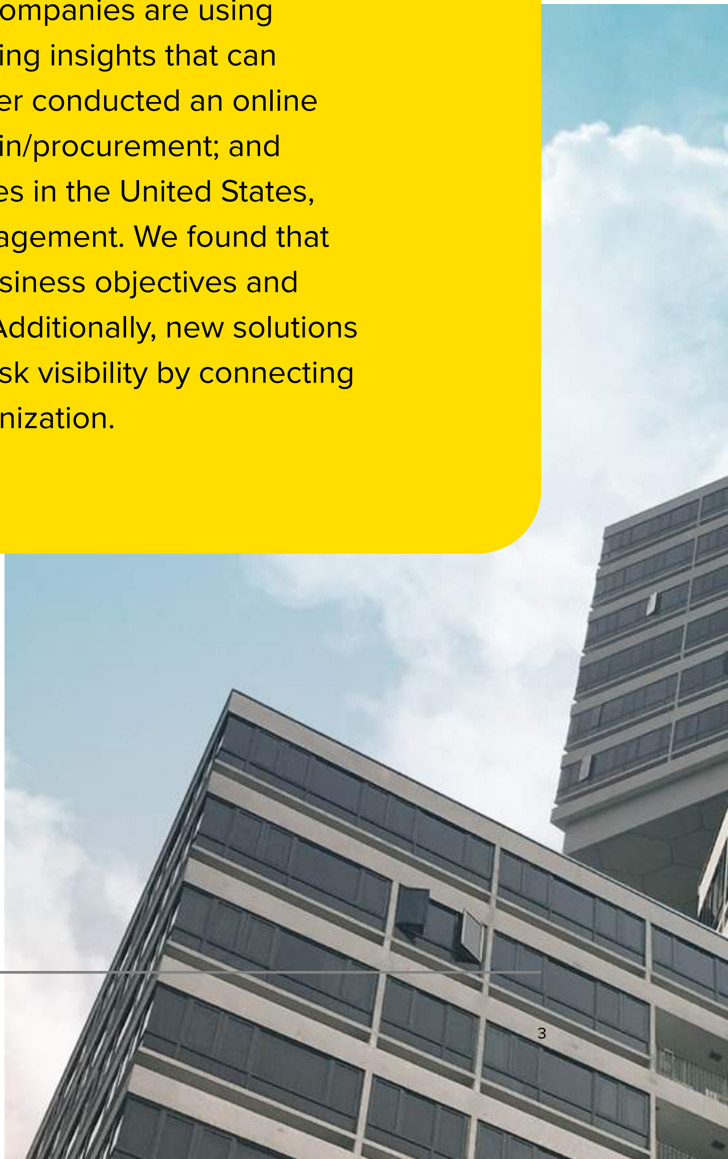
Executive Summary

The risk management status quo isn't cutting it. Even in the current business environment of economic uncertainty and geopolitical instability, companies aren't prioritizing systemic risk enough. A clear disconnect exists between risk professionals' perception of how effectively they're managing risk and the real-world consequences of risk events their firms experience. Specifically, risk professionals are not leveraging risk data effectively and underestimating the impact of systemic risk, a dangerous combination.

Many respondents, 65% of whom are responsible for their organizations' risk management strategies, believe their enterprise risk management (ERM) efforts are mature and routinely use a broad range of risk data to make risk-based decisions. Simultaneously, they revealed widespread challenges managing rising risk levels and an alarming rate of discrete critical risk events impacting business, revenue, operations, and brand reputation.

In August 2022, Dun & Bradstreet commissioned Forrester Consulting to evaluate the culture of risk management and how companies are using risk data to manage risk and generate forward-looking insights that can create strategic value. To explore this topic, Forrester conducted an online survey with 423 respondents in finance; supply chain/procurement; and governance, risk, and compliance roles at companies in the United States, Canada, and the UK with responsibility for risk management. We found that companies need to better align ERM efforts with business objectives and invest in more-robust data and data management. Additionally, new solutions are needed to empower employees and increase risk visibility by connecting ERM processes, data, and analytics across the organization.



Key Findings

Despite being a top priority, many enterprise risk management (ERM) programs don’t focus on the most consequential risks. Risk levels are increasing, and critical risk events are more commonplace and consequential. But while companies are prioritizing ERM, they often overlook systemic risk and aren’t fully linking the consequences they have faced or expect to face with how or where they’re devoting resources.

Companies know they need a new, cross-functional approach to risk management. Respondents told us that the best solutions for ERM will empower employees by increasing risk visibility and connecting ERM processes, data, and analytics across the organization.

Using risk data creates a competitive advantage by increasing business resilience. Being more resilient isn’t just a matter of keeping the lights on. It’s an advantage that drives financial gain as well as innovation. When business leaders rethink risk management, align efforts with business goals, and consistently leverage data throughout the risk lifecycle, risk management allows companies to adapt more effectively to systemic risks such as climate change.

More-robust risk data and management offers significant benefits across the enterprise. Companies are in dire need of better data and dedicated technology. Respondents reported significant challenges achieving myriad risk goals with current risk data and technology and that investing in more robust solutions will have sweeping effects.

Global Complexity Threatens Business Continuity And Resilience

Organizations are grappling with record inflation, economic contraction, proliferation of cyberattacks, and mounting geopolitical instability. Globally, the constant barrage of risk events, incidents, and disruptions have become so frequent that the increased level of risk is the "new normal."[1] Importantly, business and risk leaders must understand the new risk environment at a systems level and manage systemic risk using third-party technology.[2] Forrester defines systemic risk as: *"A risk that is based on externalities but is highly connected and interdependent with enterprise risks. Systemic risk events will cause a cascade of adjacent industry failures or a breakdown of a system rather than an impact to an aspect of a system. Because of the effects of these events, a failure to properly respond to them will represent a relevant impact to customers and shareholders."*

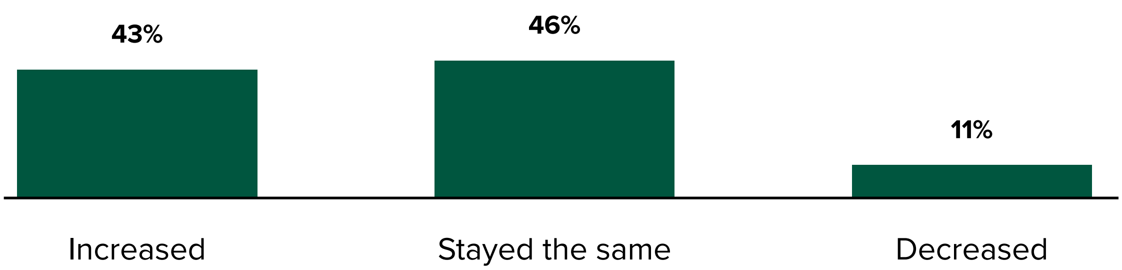
To adapt, risk leaders should not only bolster preexisting ERM but also challenge themselves and their entire company to reimagine risk management altogether. In surveying 423 risk management decision-makers in the US, Canada, and the UK, we found that:

- **Risk levels are rising for many firms.** Considering the many recent crises and the persistent threats that continue to plague firms, it's no surprise that 43% of respondents reported that their companies' level of risk increased over the last 12 months (see Figure 1). But this only tells part of the story. What's driving the increasing level of risk? How does it affect business? And what can leaders do to mitigate and prepare for its eventuality?
- **Critical-risk events are not isolated incidents and should be expected.** We define critical-risk events as those that cause significant business, financial, or reputational damage. Whether it's disruption from a pandemic, a war, or the climate, these are major events, and each one should be cause for concern. Even though nearly half of respondents (46%) said risk has remained steady in the 12 months preceding our study, 82% of respondents told us their company had experienced at least one discrete critical risk event. And two out of five respondents (39%) saw four or more critical risk events over that same period (see Figure 2).

With the potential harm from even a single risk event, and the probability of more events being so likely, effective business leaders will think not in terms of "if," but "when." And in today's heightened risk climate, the best course of action is to presume you'll f ace multiple risk events and prepare accordingly.

Figure 1

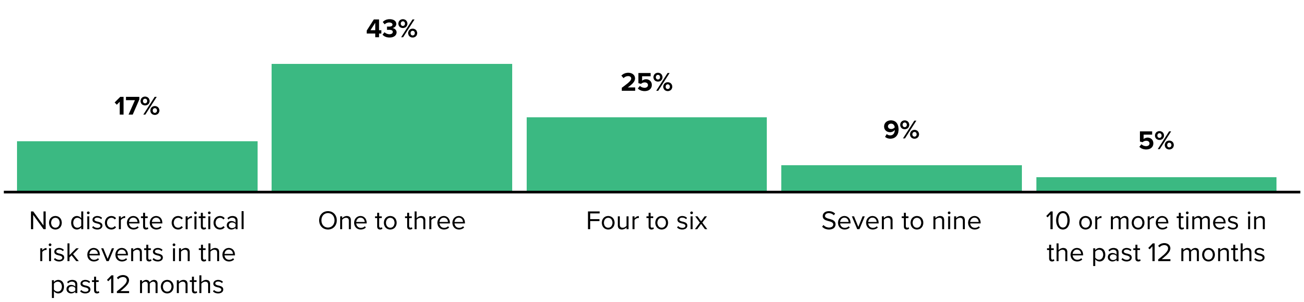
"How has your organization's level of risk changed over the last 12 months?"



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

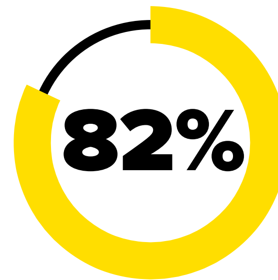
Figure 2

"How many times do you estimate that your organization has experienced a discrete critical risk event in the past 12 months? By discrete critical risk event we mean those causing significant business, financial, or reputational impacts or disruptions to your company. If you're not sure, please give your best estimate."



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

RISK EVENTS LAST YEAR CAUSED SIGNIFICANT AND WIDE-RANGING REPERCUSSIONS



of respondents experienced significant business, financial, or reputational damage in the past 12 months.

How do risk events affect your business? To make the most informed decisions, business and risk leaders must understand the true consequences they stand to face when a risk event occurs.

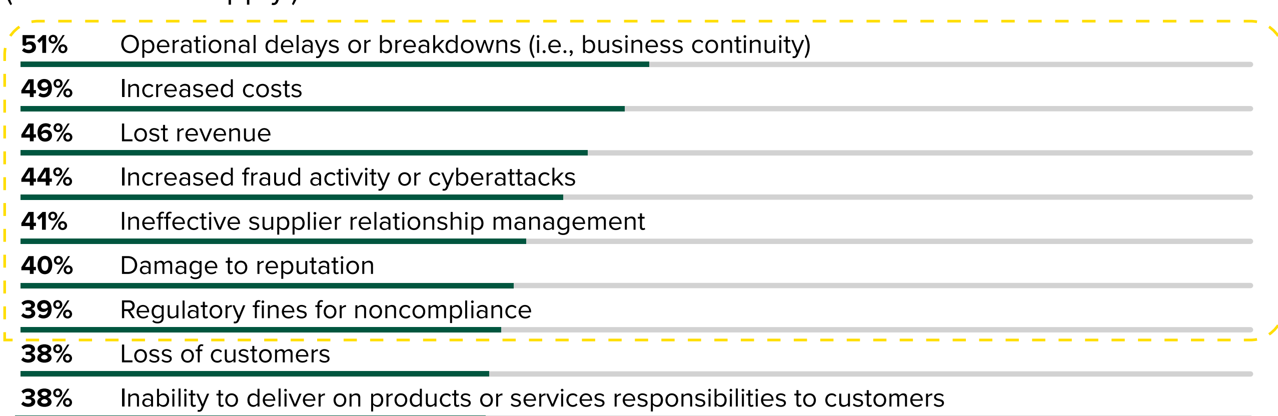
To this end, we asked about specific impacts of the risk events. For more than half (51%) of respondents who faced a risk event in the past 12 months, impacts came in the form of operational breakdowns or delays (see Figure 3). From a financial perspective, the top consequences of real-life risk events were increased costs (49%) and lost revenue (46%), collectively known as lost profit. Additionally, 39% were fined for regulatory noncompliance.

But these financial metrics are driven by many important risk factors. Increased fraud activity or cyberattacks were a reality for 44% of respondents. And looking at the ever-important supply chain, 41% of respondents now face new challenges managing supplier relationships. But beyond supply chains and fraud, one of the most potentially significant and far-reaching consequences of any risk event is damage to reputation, which 40% of respondents said their companies experienced.

Figure 3

"What were the consequences of the critical risk events your company experienced in the past 12 months?"

(Select all that apply.)



Base: 348 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance, that have experienced a discrete critical risk event in the past 12 months
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Without The Right Data And Tools, Prioritizing ERM Won't Avert Consequences

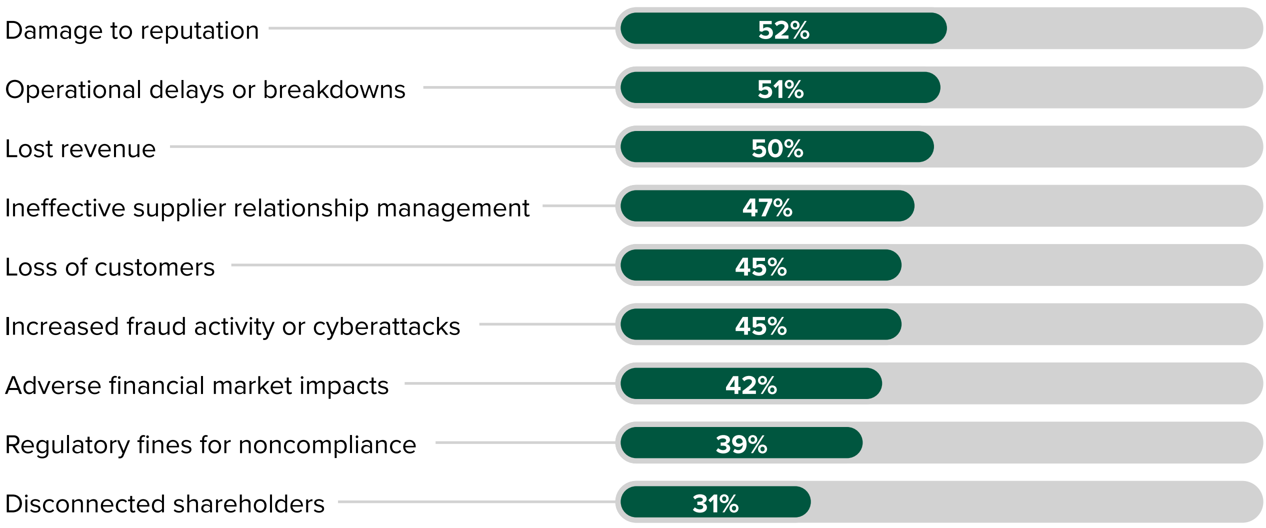
One hundred percent of respondents said managing risk is a priority for their companies. (It's a critical or high priority for 92%.) But even with that degree of attention, risk levels continue to either increase or hold steady, and most firms had at least one discrete, disruptive risk event in the past 12 months. We found that firms are not only struggling to achieve their risk goals with current data and technologies, but they're also not aligning the areas of risk they believe are important to where, how, or when they use data.

FIRMS AREN'T PRIORITIZING REPUTATIONAL, OPERATIONAL, OR SYSTEMIC RISKS ENOUGH

When we compare the consequences that firms experienced or anticipate they'll experience against how they're prioritizing different risks, a dissonance arises. When asked about the potential impact from not managing risk effectively, the most anticipated consequences are damage to reputation (52%), operational delays or breakdowns (51%), and lost revenue (50%) (see Figure 4).

Figure 4

"To the best of your knowledge, what are some of the consequences your company could face if it does not effectively manage risk?"

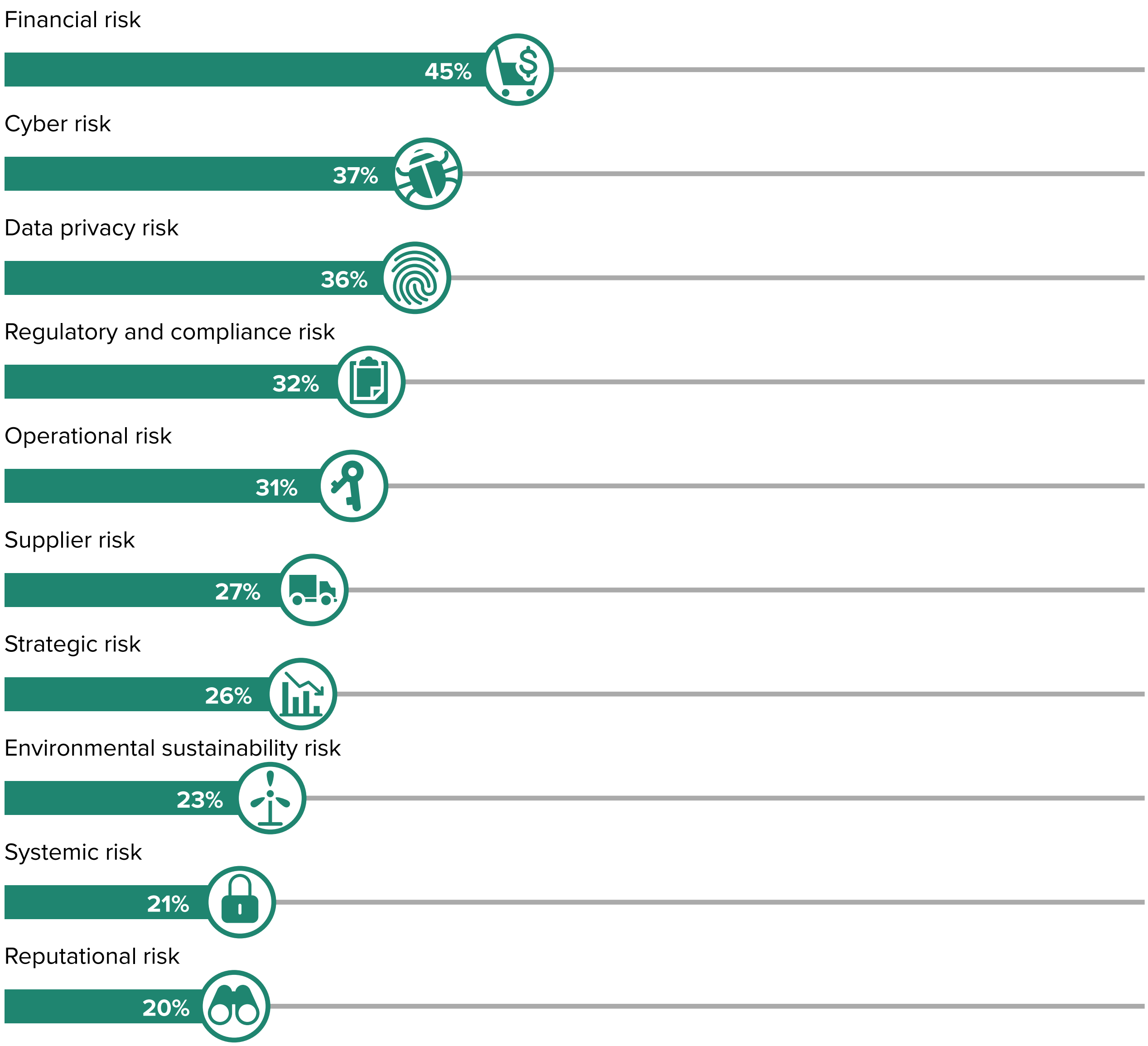


Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Yet when we asked respondents to prioritize the top three risks their firms face, reputational risk is dead last (10th) and operational risk is fifth (see Figure 5). And while operational disruption was the most common consequence of real-world risk events in our survey, only 31% put it as a top-3 risk their companies face. This tells us that the risks firms prioritize do not fully align with the consequences they face.

Figure 5

"What are the top enterprise risks your company faces today?"



Base: 423 Global Manager + Risk professionals in finance, supply chain/procurement, or governance, risk, and compliance.
Note: Respondents were asked to select up to three responses, with their first being the most important
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Furthermore, respondents indicated that systemic risk was second to last when ranking importance, just above reputational. This is an all-too-common misjudgment with dire consequences. Independent Forrester research shows that "firms underestimate systemic risk, citing it as vague and far away. ... [But] because of the effects of these events, a failure to properly respond to them will represent a relevant impact to customers and shareholders."[3] Instead of calling systemic risk events "acts of God" and moving on, business leaders would be well served to learn more about systemic risk and apply data-driven methodologies to measure and mitigate it.

TECHNOLOGY HAS LIMITED IMPACT WITHOUT THE RIGHT DATA

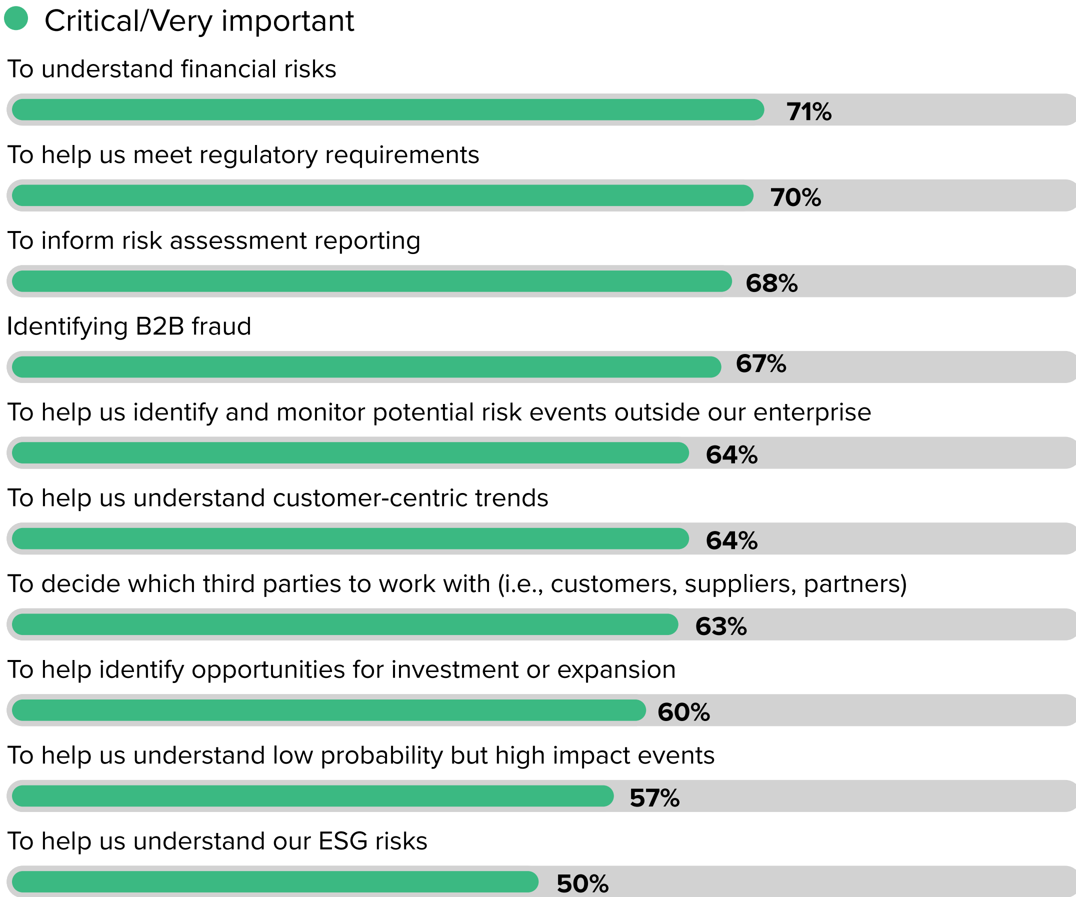
Access to risk data is critical. And respondents told us their companies use a broad range of risk data, including financial, supply chain, compliance, and sanctions data. However, they also reported significant challenges achieving their risk goals with current data and technology. With the heightened risks of economic uncertainty, climate change, and geopolitical instability, legacy ERM resources (data and technology) fall short, and bolstering risk management should be a primary focus. We found that:

- **Having the right data is critical to managing risk.** Respondents indicated their companies use risk data to generate insights and drive decisions across the organization. Remarkably, half of all respondents felt using risk data is critical or very important to achieving each of the 10 goals we asked about (see Figure 6). But collecting, integrating, and analyzing diverse types of data from diverse sources is challenging. And each case requires specific data, meaning risk data isn't a one-size-fits-all resource.

  Considering that nearly every aspect of a business faces inherent risk, it would be hard to overstate the importance of using risk data across the organization. From choosing third-party partners, understanding customer trends, and meeting regulatory requirements to identifying systemic risk, investment opportunities, and fraud, risk data offers important insight.

Figure 6

“How important is risk data to your company when achieving each of the following goals?”



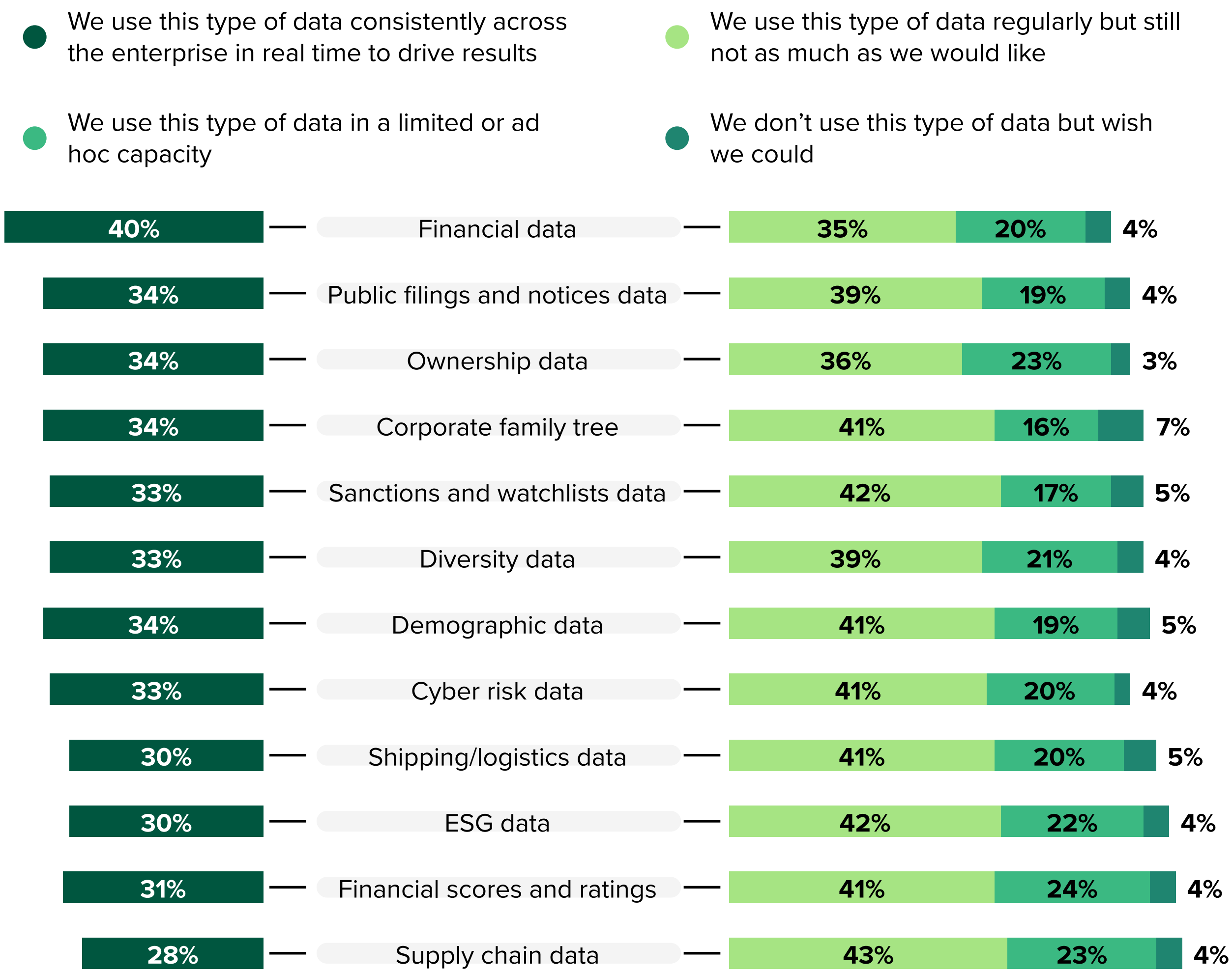
Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Additionally, we found that risk data is fundamental to understanding financial risk, reporting risk assessments, and understanding ESG risks.

- **But how you use data is more important.** Many respondents told us that their companies have access to a broad range of risk data and use it regularly or consistently — 74%, on average, for the 12 types of risk data we asked about (see Figure 7). But, on average, 65% of respondents also told us their companies aren’t using risk data as consistently as they want, if at all.
- **The risk data feedback loop is broken.** Risk management is an on-going process. If risk leaders don’t create a data feedback loop to continuously improve, they are inviting trouble.

Figure 7

“Which option best describes how your company uses the following types of data to make decisions involving risk?”



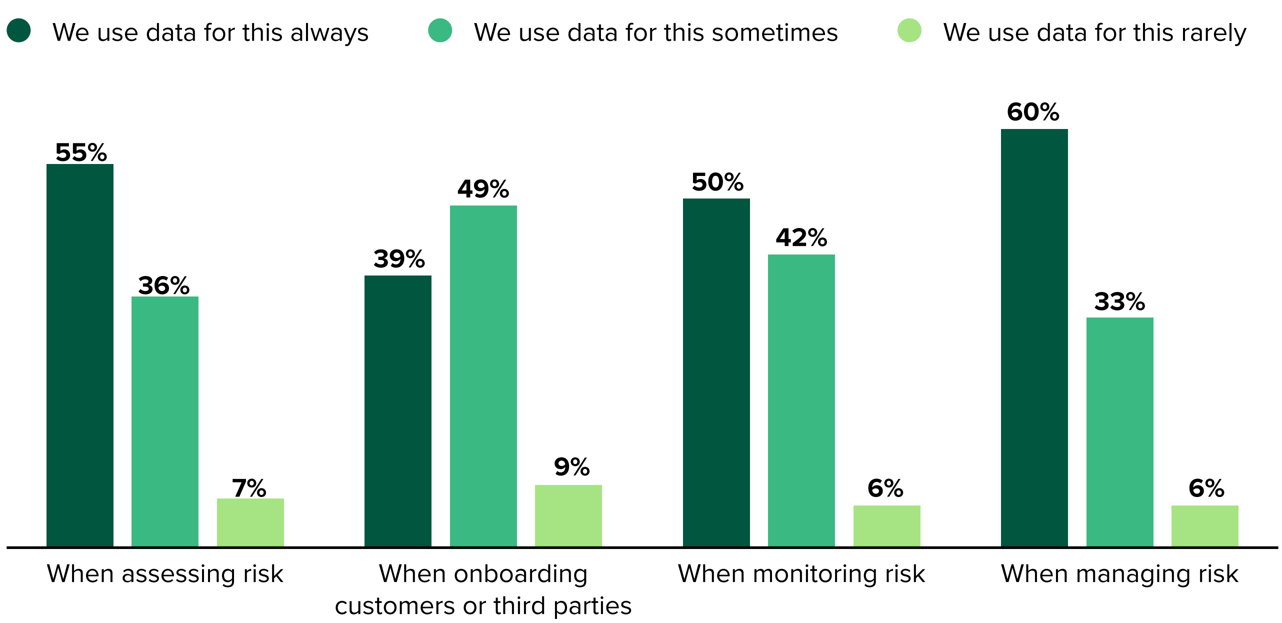
Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

We looked at when organizations are using risk data and analytics (internal or external) across a four-stage risk lifecycle (assessing, onboarding, monitoring, and managing) and found more evidence that many companies aren’t using risk data when they should be. The biggest deficit in data usage is during onboarding customers or third parties: 58% said their companies use data for this only sometimes or rarely (see Figure 8). During the monitoring stage, nearly half (48%) are using data sometimes or rarely. The numbers are slightly better for assessing and managing. But until a company is always using risk data at each stage, ERM will suffer.

The biggest deficit in risk data usage is during onboarding customers or third parties.

Figure 8

"When does your organization use internal or external data and analytics to assess risk levels for each of the following stages of the risk lifecycle?"



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

COMPANIES ARE IN DIRE NEED OF BETTER DATA AND TECHNOLOGY

We've seen that companies have access to a broad range of risk data, and respondents report they are actively using it. But despite this, companies are still struggling in large numbers to manage risks across the enterprise with their current data and technology.

Strikingly, 60% or more of respondents reported that meeting every goal in the study was either challenging or very challenging for their companies. Without better data and improved tools for generating insights from that data, firms will continue struggling to meet their risk goals and mitigate heightened risks.

Although companies face significant challenges across many use cases, at the top of the list are identifying B2B fraud (72%), understanding financial risks (71%), and identifying and monitoring potential risk events outside the enterprise (70%) (see Figure 9). The last one is important because we're talking about systemic risk, which, despite being out of a company's control could still create widespread disruption, like a pandemic and global economic instability.

Figure 9

"How challenging is it for your organization to use your current risk data and technology to achieve the following goals?"

Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

But the bottom three also tell an important story. Although these numbers are still remarkably high, one might presume companies are not facing as many challenges deciding which third parties to work with (64%), understanding low-probability but high-impact events (60%), or understanding ESG risks (60%). But these are also the same risk scenarios for which companies have the least amount of data available.

This combination indicates we likely are not observing that companies find these tasks easier, but that they aren't putting forth the effort to prioritize them for lack of data. And without visibility into these risks, companies are in fact not managing them as well or as often as other risks. An apt metaphor may be that climbing a mountain is harder than walking around its foothills. Keeping to lower elevation is not as challenging, but you'll never get the views as someone who struggled to reach the top. Taken together, mitigating these risks may turn out to be more challenging for companies than it appears at first glance.

Many firms are leveraging advanced analytics, but current solutions aren't enough. Risk analysis technology is available, and most firms in our study (55%) are using advanced analytics to manage risk. But these solutions are clearly insufficient considering how much companies struggle to manage enterprise risk.

MISALIGNED AND UNDERFUNDED RISK MANAGEMENT INTRODUCES INSTABILITY

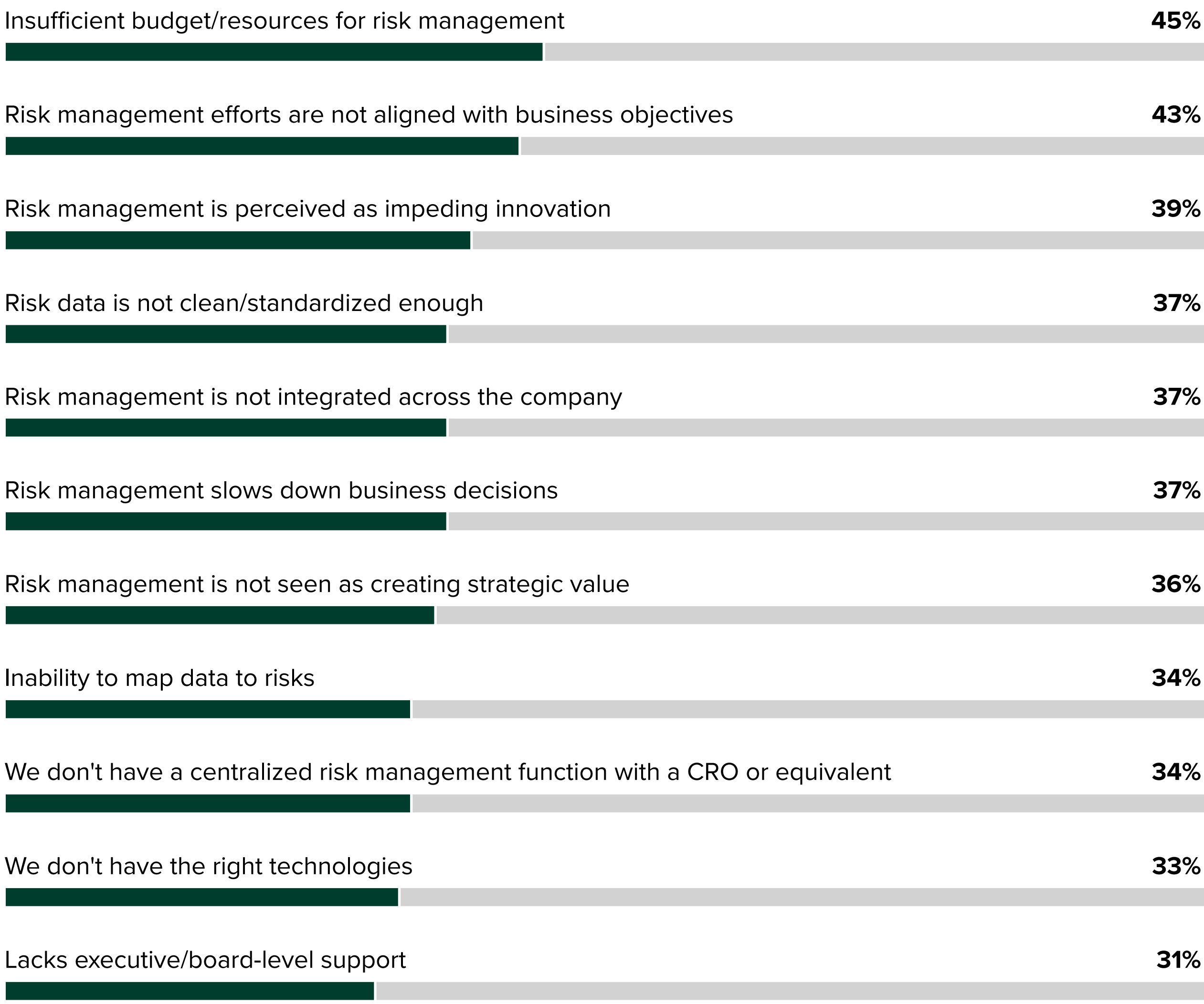
As risk levels increase, ERM is falling short, and business leaders need to consider why this is happening. Respondents told us their companies' top challenges to risk management are an insufficient budget (45%), a misalignment between risk management efforts and business objectives (43%), and the perception that risk management impedes innovation (39%) (see Figure 10).

As a starting point, business leaders should recognize the potential for risk management to create strategic value when it's properly aligned with business objectives. When efforts are aligned, this interconnected risk management doesn't stand in the way of growth but drives resilience. And in the new business environment of today, increased resilience can translate into an advantage over competitors who aren't as prepared. Thinking of risk management as more than just a cost center will allow business leaders to strategically align ERM to business growth, which will naturally justify a sufficient budget. Until they turn that corner, a lack of resources will likely hamper ERM efforts and impact business success.

Figure 10

"What are the top challenges to risk management in your company?"

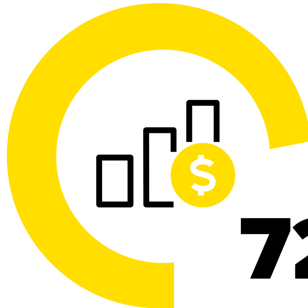
(Top 5 rank)



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Note: Respondents were asked to select up to five responses, with their first being the most challenging
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Strategically-Aligned Risk Management Drives Business Resilience

During times of economic uncertainty, risk management is a critical component of resilience and longevity. When risk management goals and processes are aligned with strategic business priorities, interconnected across the enterprise, and built on good data, business operations are better prepared to navigate risk events.



72%

of respondents expect transformational or significant improvement to business resilience from investing in more-robust risk data and management.

- **Investing in more-robust risk data and data management offers transformational benefits across the enterprise.** Notably, more than 60% of respondents have seen or expect to see transformational or significant benefits from investing in more-robust risk data and data management (see Figure 11). Respondents expect the biggest impacts from investment to be increased efficiency (74%), safeguarded reputation (73%), improved business resilience (72%), and accelerated due diligence (72%).

  But we also see dramatic gains with increased revenue (71%), improved strategic decision-making (70%), improved supply chain mapping (69%), and better risk visibility (67%). On top of that, nearly two-thirds of respondents expect investment to reduce costs (67%), optimize supplier relationship management (67%), reduce financial risk (64%), and even support better product or service offerings (62%).

- **Best-in-class ERM solutions increase risk visibility and integrate ERM processes, data, and analytics across the organization.** The top five most-important capabilities for an ideal risk management platform point in one clear direction. Over half of respondents said their companies most need a solution that increases risk visibility and transparency (53%), integrates risk management across the company (52%), and enables employees to make better day-to-day risk-based decisions (51%) (see Figure 12). To that end, they need a solution that supports a cultural shift by creating a companywide understanding of risks (46%) and allowing cross-functional consistency and sharing of risk insights (46%).

Figure 11

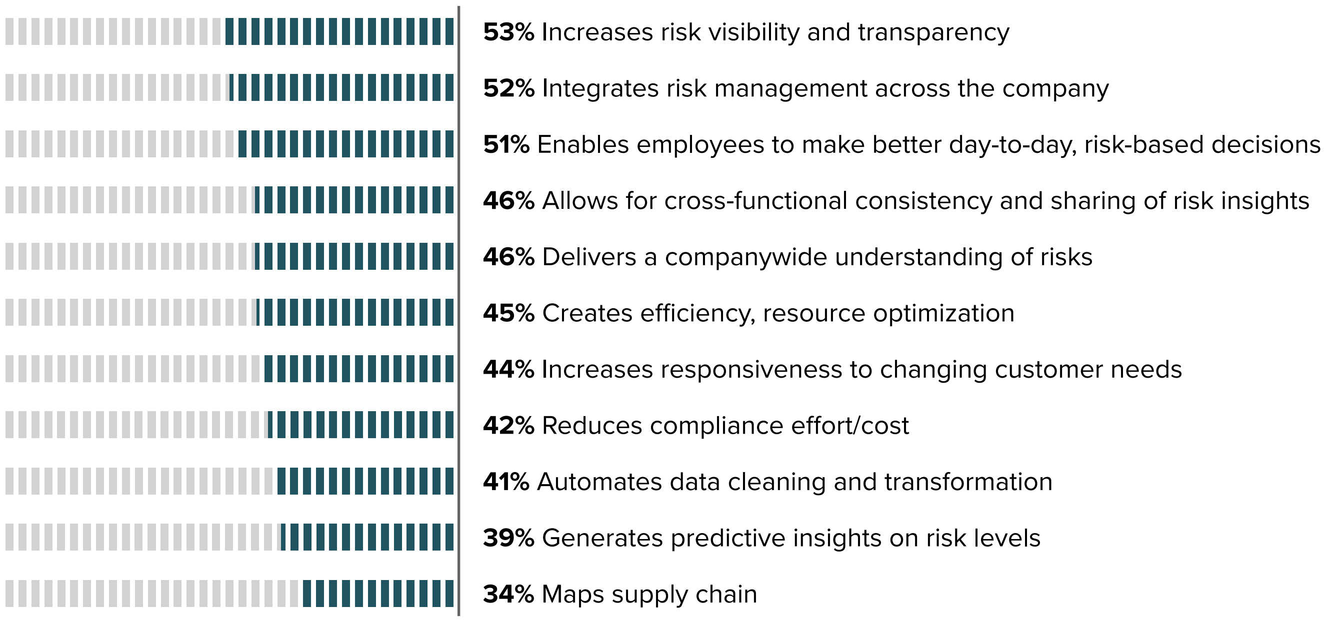
“What benefits has your company seen or would it expect to see from investing in more robust risk data and risk data management?”

74%	Increased efficiency
73%	Safeguarded reputation
72%	Improved business resilience
72%	Accelerated due diligence
71%	Increased revenue
70%	Improved strategic decision-making
69%	Improved supply chain mapping
67%	Better risk visibility
67%	Reduce costs
67%	Optimized supplier relationship management
64%	Reduced financial risk
62%	Better product/service offerings

Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Note: Showing "Transformational benefits" and "Significant benefits"
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Figure 12

“Thinking about your company’s ideal risk management platform, what are some of the most important capabilities?”



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

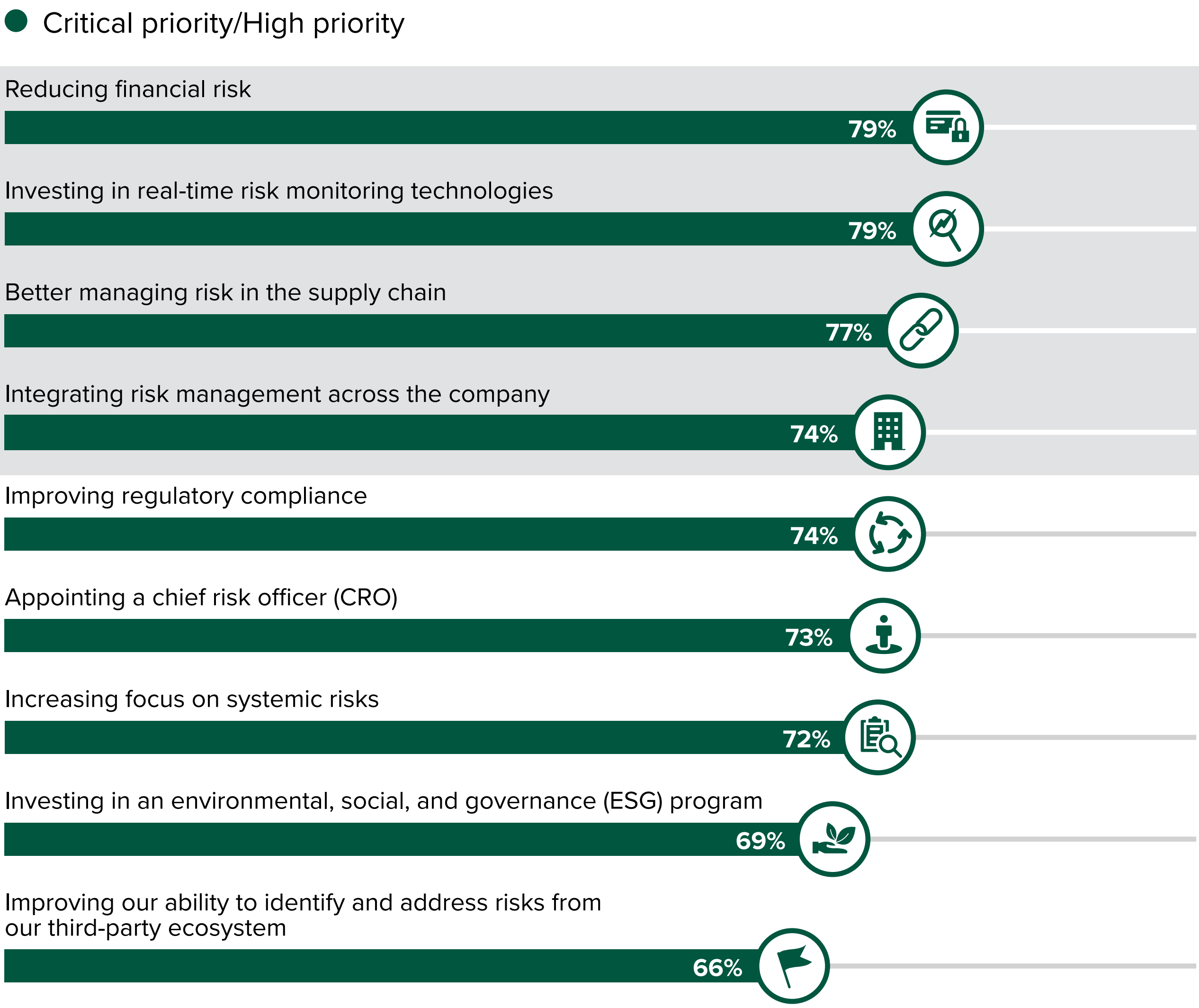
- **Firms look to real-time monitoring technology to help connect risk management across the company.** Looking at the top enterprise risk priorities in the coming 12 months, we see that companies have a broad set of needs and are investing in new tools and solutions. Two-thirds of respondents indicated each of the nine initiatives we asked about is critical or high priority for their companies (see Figure 13). To achieve their goals, companies are investing in real-time risk monitoring technology (79%), integrating risk management across the company (74%), and improving regulatory compliance (74%). The top risk priorities are reducing financial risk (79%) and better managing the supply chain (77%).
- **Insights don’t happen on their own.** Investment patterns indicate companies understand that technology alone will not meet their ERM needs. In today’s heightened risk environment, businesses need data-driven, proactive insights to guide their risk management decisions. In the coming 12 months, 56% of respondents’ companies are responding to rising risk levels by investing in third-party data and analytics, either

implementing, expanding, or upgrading (see Figure 14). And after adding respondents whose companies have already invested in third-party data and analytics, we see that 90% will be invested in one year's time.

The fact that similar percentages are investing in dedicated platforms indicates that leveraging the right data and analytics is as important as using the right technology when supporting interconnected risk assessment and management.

Figure 13

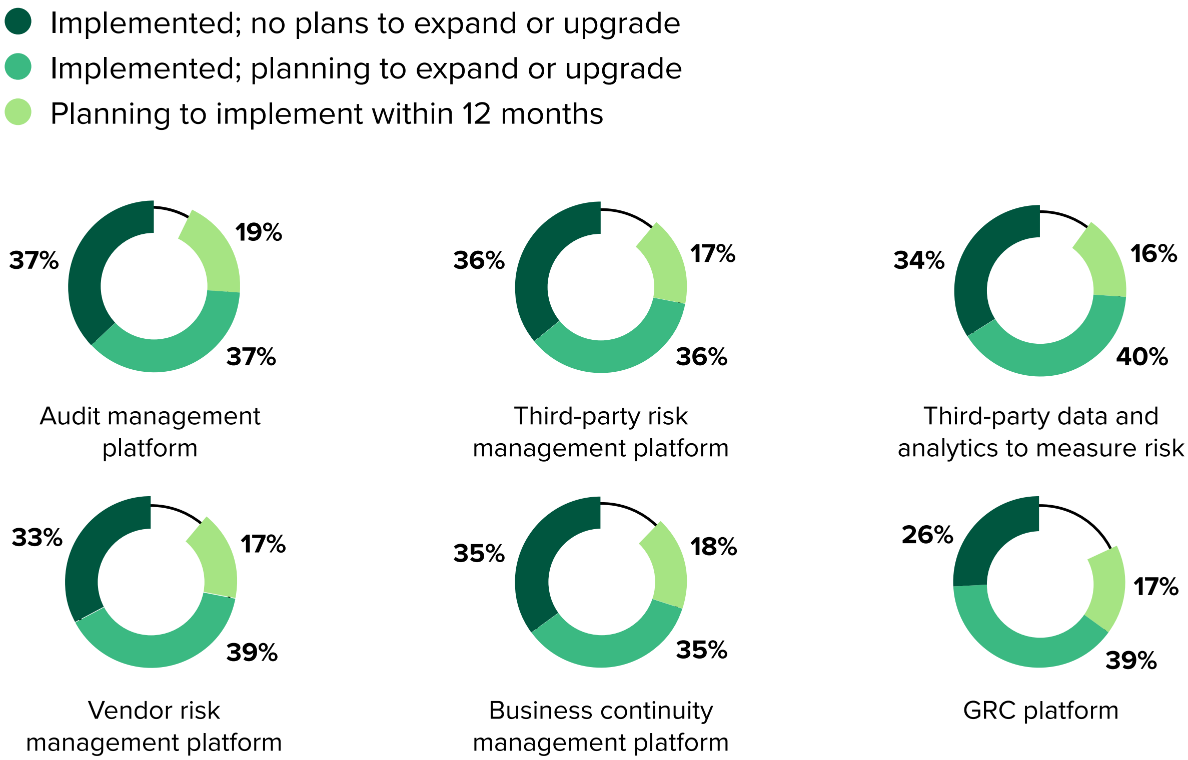
"To your best knowledge, what are your organization's top ERM priorities over the next 12 months?"



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

Figure 14

“Which option best describes your organization’s investment in the following risk technologies?”



Base: 423 global manager + risk professionals in finance, supply chain/procurement, or governance, risk, and compliance
Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, July 2022

THE RISK-AWARE BUSINESS WEATHERS THE STORM

Systemic risk is a top global threat, yet our survey found it’s often overlooked. To successfully navigate the economic uncertainty and global disruptions seen today, the ability to assess, monitor, and manage internal and systemic risks is more important than ever. How companies respond to rising risks levels will play a large part in their future performance.

In our study, we found that firms would benefit from expanding their risk and governance strategies beyond traditional risk managers, compliance officers, or reactions to a singular event by increasing risk visibility across the enterprise. Companies need continuous, cross-functional processes built on data that adds value and predictive insight. To achieve this, all employees should be risk-aware and empowered to manage risk in their own jobs.

Key Recommendations

Forrester's in-depth survey of risk professionals about risk data analytics and management yielded several important recommendations:

Make interconnected risk management an enterprisewide initiative.

Risk management efforts in siloed business areas are not the same as an interconnected ERM function. With clear risk visibility across the entire organization, risk leaders can help avoid costly missteps at the enterprise level without inadvertently creating other risks that can affect customers, employees, partners, and stakeholders.

Some risks are outside your control, but you can still manage and mitigate them.

Risk leaders must balance enterprise risks such as regulatory compliance and operational risks with risks that stem from the third-party ecosystem as well as externalities such as systemic risks. Although firms can't prevent systemic risks such as pandemics, the climate crisis, and geopolitical tensions, with the right data and analytics, they can evaluate the business impact and trigger risk mitigation strategies.

Combine real-time data and analytics to get the most from technology solutions.

Risks are dynamic. Leverage data and analytics in addition to automation tools to understand changes in behavior, posture, and potential risks. Risk leaders must learn to combine internal data, external risk intelligence, real-time event data, and predictive analytics to continuously monitor, review, and adapt to risk and threats dynamically.

Leverage ERM to accelerate growth and innovation.

When risk processes are out of sync with the business, risk management can be viewed as a bottleneck for growth. Change the narrative by aligning enterprise risk efforts with strategic objectives to improve business resilience and strategic decision-making, support the shift to digital business, and safeguard brand reputation.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 423 risk management decision-makers at organizations in the US, Canada, and the UK to evaluate the culture of risk management and how companies are using risk data to not only manage risk but also generate forward-looking insights to create value at a strategic level. Survey participants included decision-makers in finance; supply chain/procurement; and governance, risk, and compliance roles. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began in June 2022 and was completed in August 2022.

Appendix B: Demographics

COUNTRY	
United Kingdom	**50%**
United States	**37%**
Canada	**13%**

RESPONDENT LEVEL	
C-level	**20%**
Vice president	**16%**
Director	**35%**
Manager	**30%**

COMPANY SIZE	
500 to 999 employees	**43%**
1,000 to 4,999 employees	**25%**
5,000 to 19,999 employees	**21%**
20,000 or more employees	**11%**

ANNUAL REVENUE	
$250M to $499M	**32%**
$500M to $749M	**20%**
$750M to $999M	**13%**
$1B to $5B	**22%**
>$5B	**13%**

INDUSTRIES	
Financial services	**32%**
Technology and/or technology services	**27%**
Healthcare	**12%**
Construction	**12%**
Media and/or leisure	**9%**
Life science	**8%**

POSITION/DEPARTMENT AREA	
Finance	**34%**
Supply chain/procurement	**34%**
Risk and compliance	**33%**

Note: Percentages may not add up to 100 due to rounding.

Appendix C: Endnotes

[1] Source: “The State Of Enterprise Risk Management, 2022,” Forrester Research, Inc., May 10, 2022.
[2] Source: “Future Fit Businesses Are Preparing For Systemic Risks,” Forrester Research, Inc., September 28, 2021.
[3] Source: “The Top Systemic Risks, 2022,” Forrester Research, Inc., April 20, 2022.

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