



Effective risk response needs a prepared mindset

Leaders and risk strategists must collaborate effectively on decisions of global importance, says Erwann Michel-Kerjan.

As the global reaction to the terror attacks in Paris shifts from shock and grief to questioning, politicians in France and abroad are seeking ways to minimize the risk of similar atrocities in future.

Post-crisis situations are typically handled badly. Politicians pander to the demand for ‘something to be done’ (or seen to be done). Short-term solutions are rushed in to address the crisis, until public attention switches to something else. There are already signs of political fire-fighting in the wake of the Paris attacks — British Prime Minister David Cameron has talked of outlawing electronic encryption. True, this might make life more difficult for a small number of would-be terrorists. But the knock-on effect on broader society of restricting this technology would cause more problems than it solves.

The days of quick fixes to risk are over. The key now is to integrate advances in risk management into decision-making, and doing so (or not) has already affected outcomes of several national elections. The competent management of the Hurricane Sandy disaster helped US President Barack Obama’s 2012 re-election, whereas the 2004 Spanish elections were lost by the government after it dealt poorly with the Madrid terrorist attacks in March that year. The Paris attacks are high on the agenda at the summit of the World Economic Forum this week in Davos, Switzerland.

A systemic approach is necessary. A simplistic take on the Paris event, for instance, would be that two brothers were radicalized, and killed cartoonists who made fun of the Prophet Muhammad. This might be true, but it is not very helpful.

Advanced risk management quickly connects several trends, often misperceived as independent. In France, these include unsolved immigration issues and reduction in the police workforce — a direct consequence of the current fiscal crisis. Thousands of kilometres away, they include the geopolitical conflicts in the Middle East that give rise to uncontrolled extreme jihadism. Killing journalists allows terrorists to use today’s 24/7 media coverage as a social amplifier to spread fear globally. Economic, geopolitical, societal and technological factors reinforced each other.

Beyond terrorism, recent years have seen a series of events caused by converging trends that start in one part of the planet and quickly have far-reaching effects: social unrest, cyberattacks and espionage, climate change, natural disasters, water scarcity, pandemics, economic crises, rising inequality and so on.

It is no surprise, then, that there is now high demand for strategic risk-management expertise in world leaders’ offices and corporate boardrooms. But how to foster an effective collaboration? Modern risk management

builds on an innovative process with six core stages.

First, do not consider only the risk you know best. Experts in one type of risk — radicalization, for example — tend to overlook the importance of other factors. To avoid this, consult widely.

Second, assess quality and quantity. Computer models can perform advanced quantitative analysis, but emotions and perceptions still influence decision-making. Find a balance and acknowledge uncertainty.

Third, do not approach risks in a silo; map their interdependencies. Monitor hazard trends that can reinforce each other.

Fourth, think beyond tomorrow. Short-term thinking is natural for politicians with an eye on the next election or business leaders concerned with next quarter’s results. Risks do not materialize overnight.

Look at evolving trends over the past ten years and expected ones for the next ten.

Fifth, rinse and repeat. Risk analysis benefits from re-evaluation, say every year. Bring specialists together regularly to discuss findings openly.

Sixth, communicate risk effectively. For scientists, avoid jargon. Don’t say, “It depends.” Instead, say, “Here are three possible outcomes based on three different assumptions.”

Is that all feasible? My experience in the past decade shows that it is. Since 2005, our Wharton Risk Center team in Philadelphia, Pennsylvania, has collaborated with the World Economic Forum and other partners to produce an influential report ahead of Davos to better foresee such risks.

The Global Risks Report, now in its tenth year, groups 30–50 global risks into five categories: economic, environmental, geopolitical, societal and technological. It compares their likelihood and severity on a ten-year horizon and builds a map of

their interdependencies. It combines results of a risk-perception survey of nearly 1,000 leaders in academia, business, government and non-profit circles with technical assessments and several workshops during the year. The findings are written in non-technical terms and accessible to all on the Internet, from global leaders to concerned citizens.

A leading risk from the 2007 report was ‘asset price collapse’ — an unpopular forecast at a time of great exuberance. A year later, we all witnessed the systemic downfall of the financial system.

Advances in risk management might not prevent all crises, but they do help to build a more pragmatic mindset to mitigate risks and strengthen resilience. Interstate conflict tops the 2015 ranking. This is no coincidence. ■ [SEE NEWS P.419](#)

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