2019-2020 Annual Edition

Top Insights for the C-Suite

How to Excel at Both Strategy and Execution: A Risk Perspective
A Perspective From Mike Harris
Executive Vice President
Research & Advisory, Gartner

Business leaders today face a very challenging business environment marked by significant change, competition, uncertainty — and opportunity.

Although many organizations find it hard to accelerate through the kinds of disruptions and mixed signals they face, Gartner research shows that there are ways to position your business to drive through disruption and come out ahead, but it takes concerted action and preparation.
If you’re like most business leaders, you’d probably prefer not to make big moves until the signals are clearer, or you may look for ways to weather uncertainty — perhaps first leveraging low-hanging tactics like cost-cutting to improve a few performance metrics.

But neither a “wait-and-see” approach nor defensive cost-cutting will power you through adversity — not least because today’s current state of uncertainty won’t magically disappear.

There’s little clarity on a range of economic, regulatory, geopolitical and trade issues, and digital disruption has made widespread and multidimensional uncertainty the new normal.

Turns of fortune may be sudden (e.g., enormous security breaches) and can blindside you unexpectedly (e.g., new competition from outside your industry). The g-forces in the turn may be extreme (a nontraditional competitor that doesn’t need to make a profit) and the time to impact short due to digital capabilities (viral anti-brand social media). Turns often coincide, increasing the need to react on different business vectors and requiring a high-performing executive team.

To survive any such turns, organizations must be able to flex as the environment changes. But some progressive business leaders, our research shows, do more than survive; they thrive — by embracing turns as a prime opportunity to seize and sustain a competitive edge.

But winning in the turns in this way requires you to prepare before the turn — whether you’re on the executive committee crafting enterprise strategy or leading your function to execute it.
The risk of paralysis is very real, especially if your organization lacks institutional memory of operating outside of a growth cycle. Many of today’s leaders have, for example, only led strategy and operations during times of growth. Fewer than half of current CxOs were functional heads during the 2008-09 financial crisis, and less than 10% were heading the same function in their current company.

Lack of preparation creates business risk. In today’s business environment, being right is only half the battle. Companies also need to execute at speed — intensely pursuing strategy with confidence and discipline as the environment changes.

This e-book delivers insights from Gartner research in 2019, featuring data and findings from proprietary surveys and engagements. It highlights the actions that progressive functional leaders are taking to improve their execution and drive forward the organization’s objectives, especially through disruptive turns and uncertainty.

These practice-specific insights tackle the very real changes that functional leaders face in their own areas of the organization — from the lack of critical skills and capabilities to evaluating risks and speaking data as a second language — as well as their imperative to execute against the enterprise objectives.

Best regards,

Mike Harris
Uncertain Business Conditions Seen in Unprecedented Market Trends

Trend lines across major indexes

This is the first time since the Great Recession that these trends have converged at post-recovery highs.

- **Business Transformation**
  - Business model transformation
  - M&A transactions

- **Competition**
  - Entrepreneurship health index
  - Top-player dominance

- **Economic Uncertainty**
  - Economic policy uncertainty
  - Probability of recession

- **Employee Power in the Labor Market**
  - Employment rate
  - Employee disengagement index

- **Capital Inefficiency**
  - Corporate debt new issues
  - Corporate capital inefficiency

Scaled from 0% to 100%, and where 0% is the minimum while 100% is the maximum rolling three-year average reached since 2009. Trends are based on well-known indexes and reported benchmarks and both public and proprietary data.

Source: Gartner
More and more of our clients are telling us that their companies are just too slow and ill-equipped to deal with fast-moving, volatile emerging risks — think single-use plastics, the opioid crisis in the U.S. or employee activism. Enterprise risk management (ERM) can no longer treat emerging risks as future issues — they need to develop new tools to help executives act on these risks now.

Matt Shinkman
Practice Vice President
Gartner Research & Advisory
Risk

Drive faster action on emerging risks
“Emerging” label on risk encourages procrastination

ERM teams have long struggled to get their organizations to act quickly on emerging risks, which — by definition — don’t have a meaningful immediate impact. Emerging risks also have an uncertain trajectory because their evolution is rapid, nonlinear or both, making it difficult to coalesce a consensus around what action to take. As a result, many such risks are left in “monitoring mode.”

It’s admittedly tempting to postpone management of trends as broad and disruptive as climate change or demographic shifts. The perception that emerging risks are big and could hit hard only reinforces the misconception that the response will be complex and costly. As a result, executives postpone a response until the need for action is proven.

90% of ERM leaders say their company needs to act faster to get ahead of emerging risks

Source: 1Q19 Gartner Emerging Risks Webinar Poll

ERM leaders also struggle to clearly convey risk information to key stakeholders as risks become more interconnected and unpredictable. This adds to the paralysis of senior leaders as they try to understand the potential consequences for the business.

Business leaders, though, want more decisive action. They are cognizant of other organizations (or their own) being hit by emerging risks that they could have seen coming. ERM leaders are left between a rock and a hard place: Response planning is taking longer at exactly the time that action is required sooner.

77% of ERM leaders feel pressure from executives to do more on emerging risk mitigation.

Source: 2019 Gartner Emerging Risks Action Model

73% of ERM leaders say emerging risks are moving faster than five years ago.

Source: 1Q19 Gartner Emerging Risks Webinar Poll
Driving discussion, but not action

Under pressure to do more, ERM leaders typically try to push harder for quicker action by providing stakeholders with more precise information. But building a better "crystal ball" to predict the timing and size of impact for emerging risks is difficult and often ineffective.

The precision approach assumes that decision makers won’t fund risk management initiatives if they can’t quantify the risk impact, attach a specific time horizon to the risks or measure emerging risks in a similar way to more established enterprise risks.

But while this approach enables ERM teams to speak in a language that the risk committee already understands, Gartner research shows that it ultimately fails to achieve the outcome ERM teams should want: Building real momentum to tackle the risk.

Just 3% of risk committees are prompted to take action or shift their previously held position after receiving a precise analysis from the ERM team.

Source: 2019 Gartner Emerging Risks Action Model
Three decisive steps to faster risk mitigation

Gartner research shows that taking an “options-focused” approach, which recognizes that not all emerging risks are theoretical and that some are already impacting the organization, greatly increases the likelihood of near-term executive action.

Reframing the emerging risk discussion entails three key steps:

1. **Triage your risk watch list** to separate the risks to watch from the risks to act on immediately. For the urgent subset, present options to the risk committee proportionate to the impact of the risk.

2. **Identify low-cost, low-regret actions.** Offering solutions that require relatively little funding or disruption encourages decision makers to take action knowing that even if the analysis is off, the consequences will be relatively insignificant.

3. **Find credible advocates** among executives across the business who would be held accountable for the impact of potential emerging risks.

In the Solution Options approach, members discuss the following with their risk committee:

- Options available to respond to an emerging risk
- Potential loss of ability to take response options to the emerging risk
- Adjustments to current mitigation activities
- Incorporation of emerging risk information into planning processes
- Scenarios of how the emerging risk could develop

Solution Options Increase the Likelihood of Action

An options-focused approach to emerging risk mitigation leads to a 67% increase in the likelihood of near-term action on executive committee decisions.

Source: 2019 Gartner Emerging Risks Action Model
“With emerging risks moving at a faster pace, it is imperative that ERM leaders are not only skilled at reporting on these risks but also at driving near-term action on the most urgent risks. To do this, ERM leaders must demonstrate concrete, low-cost low-regret options for addressing risk, and challenge executives to consider whether their current plans are sufficient to tackle emerging challenges.”

Dan Herd
VP, Team Manager

“Maintaining organizational agility and preserving opportunities for growth starts with ensuring adequate executive attention to emerging risks and the critical steps that can be taken today for maximum impact tomorrow.”

Chris Matlock
Sr. Director, Advisory
Moving From Insight to Action

Gartner Risk Management Leadership Council

Discover how Gartner supports risk decision makers

Gartner Risk Management Leadership Council is the definitive research and advisory resource for enterprise risk decision makers. Gartner equips risk leaders and their teams to identify, assess and mitigate emerging risks across a range of key areas, including risk assessment processes and methodologies, risk response strategies and ERM program management.

In addition, Gartner’s unique blend of insights, advice and tools support the success of risk leaders by:

• Driving management action with risk reporting
• Aligning enterprise risk to strategic objectives
• Early detection of new and emerging risks
• Building an ERM function

Learn more

Risk Reporting That Drives Action
Download our guide to actionable risk reporting.

Connect with Gartner today

Gartner equips risk leaders to make the right decisions and stay ahead of change.

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