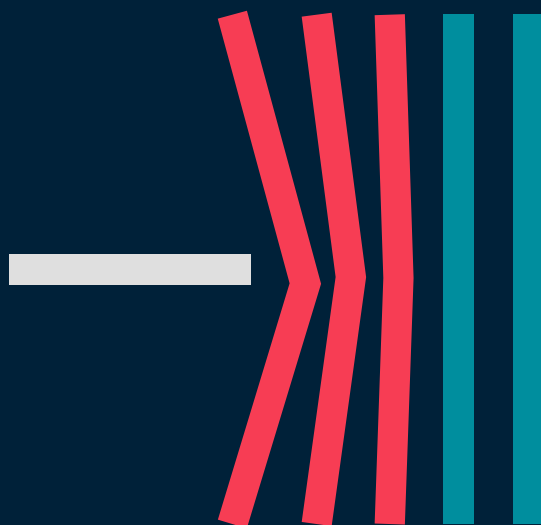


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ARTICLE

HOW TO PREPARE FOR REPUTATIONAL RISKS USING VIRTUAL SCENARIOS AND PROCESS AUTOMATION

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INTRODUCTION

In this second entry in the “Resilience” series, we tackle the challenges of trying to manage or control the impact of reputational risks on business continuity and sustainability.

In the first article, we discussed preventing these risks through human and AI anticipation. Now, we want to address the challenge of preparing for uncertain events by using technology to plan scenarios and program contingencies.

“Uncertainty” is the fundamental quality of any risk, with complexity being an additional factor in reputational risks in particular. As such, two extra schools of strategic thought should be applied alongside conventional risk management techniques: Scenario planning and problem solving. In both cases, the focus is on enabling companies to act in ways that go beyond merely defensive and short-term responses of a finance-focused nature.

In the modern world, thinking only about risks from a threat perspective does not help build more resilient organizations. Rather, it weakens the ability to adapt to and recover from disruptive changes.

We must broaden our approaches, accept uncertainty, and think differently in order to avoid getting stuck in an environment that anthropologist Jamais Cascio christened BANI, standing for Brittle, Anxious, Nonlinear, and Incomprehensible. As we are reminded by LLYC executives Cleber Martins and Adelia Chagas, this is a **BANI** context where “all paths are open to opportunities”.¹

¹ IDEAS LLYC (2021, mayo 5). Tras el VUCA, las transformaciones del mundo BANI [Website]. Taken from: <https://ideas.llorenteycuenca.com/2021/03/tras-el-vuca-las-transformaciones-del-mundo-bani/>



THREATS... AND OPPORTUNITIES

The fact that this concept is not defined merely in terms of damage in the field of risk management, as is indeed the case in colloquial speech, is often forgotten. According to the standard defined by the Project Management Institute, “a risk is an uncertain event that, if it occurs, has a positive or negative effect on one or more objectives.”² In short, a risk can be both a threat and an opportunity, depending on whether its impact helps or hinders the achievement of a desired result.

When talking about risk preparedness, we should also think about scenario planning or “control activities” (as they are called in COSO III)³ that allow all the situation’s negative and positive effects to be managed and controlled. There are four possible tactics to take when preparing for threats:

1. **Avoid:** Change planned actions or targets in order to completely eliminate threats with a strong impact and high likelihood of occurring.
2. **Transfer:** Pass the liability for a threat on to a third party, allowing them to control the risk and accept the impact of the threat should it occur, usually in exchange for a risk premium.
3. **Mitigate:** Reduce the likelihood or impact of serious or very serious reputational risks, especially early and before the full seriousness of the threat materializes.
4. **Accept:** This is the most suitable choice when responding to moderate risks, whether by actively setting aside resources to manage those that might occur or by passively monitoring the likelihood on a regular basis.

Similarly, there are four risk management or control options to consider when the effect is positive, representing reputational **opportunities**:

1. **Harness:** For high-priority risks with potential associated benefits, ensure the opportunity arises by increasing the risk’s likelihood to 100%.
2. **Share:** Transfer ownership of the opportunity to a third party in order to distribute part of the benefit if the risk eventually occurs, usually in exchange for a risk premium.

“When talking about risk preparedness, we should also think about scenario planning or “control activities””

² PROJECT MANAGEMENT INSTITUTE. (2019). The standard for risk management in portfolios, programs and projects. Pennsylvania: Independent Publishers Group.

³ PwC, Instituto de Auditores Internos de España (2013). Control Interno - Marco Integrado. Taken from: https://auditoresinternos.es/uploads/media_items/coso-resumen-ejecutivo.original.pdf

3. Enhance: Increase an opportunity's likelihood by paying attention to its causes, or increase the risk's positive impact by acting on factors that amplify its positive effects.

4. Accept: This implies acknowledging the existence of an opportunity but refraining from taking action to capture its potential benefit, usually in the case of low-priority risks or risks with a high opportunity cost. Acceptance can be active, by setting aside contingency resources to take advantage of a risk, or passive, by merely reviewing the risk regularly to ensure no significant changes take place.

SCENARIO PLANNING

In reality, when we discuss reputational risk response tactics, we often find ourselves facing a choice between either mitigating their negative effects or harnessing the positive ones.

Let's look at an example: An industrial company identifies a risk in certain environmental shortcomings being reported by activist groups, but which are not legally punishable. On a one-year horizon, this threat is evaluated as a moderate risk due to its limited impact on the trust of the company's primary stakeholders. A passive acceptance response is therefore chosen.

However, when we evaluate the same risk from an opportunity perspective, we might find (for example) a trend among customers in which, looking ahead one-to-three years, they begin making purchase decisions based on environmental impact. This might be compounded by an international directive requiring these shortcomings at the company to be rectified within the same period of time.

So, what had been defined as a threat could become a competitive market advantage and redeemable investment with a positive impact on the company's reputation and business. It is the same risk – only the future scenario changes. Depending on the future outlook, the response could be to harness or enhance this opportunity and perhaps even convert the company into

an activist supporting an environmental cause. Of course, everything would depend on the company's owners' and senior managers' threshold, tolerance, and appetite for risk.

The decision is not only influenced by financial variables, but also factors related to the brand's culture, purpose, personality, and value proposition. Naturally, the issue also involves other intangible factors tied to reputation, such as company innovation, credibility, leadership, and integrity.

As explained by scenario planning experts Scott Smith and Madeline Ashby, there are four steps to the forecasting process, based on risk thresholds and values and ranging from most defensive to most proactive⁴:

1. Anticipate: This is the most "defensive" step. Here, we try to answer the question "What can we expect from X in the years ahead?" It consists of expanding what we know to make predictions, create early warnings, and identify and evaluate risks and opportunities. In this series on reputational resilience, we classify this as part of the **preventative phase**.

2. Visualize: The next "defensive" step tries to answer the question "What would happen if X and Y converge (or separate) in the future?" This is about exploring possibilities regarding how current or new trends might shape what comes next. It enables us to visualize response scenarios during the preparation phase.

⁴Scott Smith, Madeline Ashby (2020). How to Future: Leading and Sense-making in an Age of Hyperchange. Kogan Page Inspire.



3. Discover: The first of the two “proactive” steps focuses on going further in recreating risk scenarios by facing the unknown, asking “What have we not seen yet in terms of the opportunities offered by X and Y in the Z world?” This is about exploring possibilities to discover previously unforeseen obstacles, surprises, and opportunities. It helps us imagine less-obvious scenarios and latent or emerging risks that are less likely to occur, ensuring we are ready even in this BANI world.

4. Build: This is the most “proactive” of the four steps, tackling the challenge of imagining what is to come by trying to answer the question of “How different is the experience in a Z world, and how or what should we change to achieve that?” In this phase, we create simulated future scenarios based on prototypes, resources, artefacts, and immersion exercises aimed at testing new realities. Here, we not only try to imagine but also shape our responses vis-à-vis those potential risks.

As explained by Heath & Heath⁵, they represent moments of discovery (insights) that offer pathways toward realization and transformation through simulations in which:

- *We stumble onto the truth.* These are experiences compressed in time that in and of themselves reveal simple and clear conclusions to the person via an emotional blow.
- *We strive to understand.* These experiences “put us in situations that expose us to the risk of failure,” where the goal “is not to achieve success but rather to learn.” In these experiences, the following formula should be applied: “High standards + safety + direction + support.”

“Technology is playing a more decisive role in risk scenario simulations every day”

VIRTUAL SIMULATIONS

Advancing toward discovering and constructing future risk scenarios helps organizations as they go through the constant adaptation and learning process that strengthens resilience.

⁵Heath C. & Heath D. (2017). The power of moments. Why certain experiences have extraordinary impact. London: Penguin Random House UK.

Technology is playing a more decisive role in risk scenario simulations every day due to the COVID-19 lockdown. As stated by Gartner in its latest technology trends report, the pandemic has accelerated what it calls “**total experience strategies**,”⁶ in which people stand at the center of integrated omnichannel experiences.

Virtual environment recreation platforms are now allowing us to imitate real crisis scenarios subject to the pressure of times and scrutiny of others, but within secure boundaries for company reputation. For example, there are environments for simulating critical situations on networks and social media, such as those we are already using to help teams reveal strengths and weaknesses in how they manage their own reputational risks. Virtual reality (VR) and augmented reality (AR) are also producing some high-value solutions in this regard.

CONTINGENCY PLANNING

We have already seen how scenario planning⁷ represents one of the fundamental tools for preparedness vis-à-vis reputational risks, as does prototyping in crisis simulations, which fosters learning and recalibrates processes. Now, we are going to examine another basic tool for controlling and managing the impact and likelihood of reputational risks: Contingency planning.

Managing contingencies means preparing responses to the most likely and/or impactful reputational risks in advance, especially those that represent serious threats to business continuity. In many cases, this means formulating actions in complex situations with numerous factors and variables in play. To do this, we use proprietary **problem solving**⁸ techniques: Heuristics, decision trees, and evaluation matrices.

Defining the problem, separating variables, prioritizing factors, planning reactions, and communicating effectively are what lead us to a precise response process for each risk situation.

Clear **flow charts** that detail the who, what, how, when, and why needed to favorably impact a crisis' reputational risk factors can drastically change the outcome.

“Defining the problem, separating variables, prioritizing factors, planning reactions, and communicating effectively are what lead us to a precise response process”

PROCESS AUTOMATION

Technology is helping us resolve the greatest challenge posed by contingencies today (besides their unpredictable nature): How quickly events happen and their knock-on effects in a world as hyperconnected as today's.

In its report, Gartner highlighted another “irreversible and inevitable” technological trend based on the hyper-automation of as many business processes as possible. This is done “using tools such as artificial intelligence, events-based programming architecture, robotic automation, and other kinds of tools for automating tasks and decision processes.”

Beyond its inevitable nature, the truth is that automation has become a necessary solution for managing contingencies in crisis communications, where response speed is a decisive variable for protecting organization reputation.

This means we are already automating decision-making protocols, converting flow charts into interactive **chatbots** that can be used on various devices. Response content production and distribution tasks are being automated via digital platforms based on predetermined templates and models. These are the first steps in this regard, but it will not be long before we are using digital twins to model and test responses to different reputational risk scenarios.

Thanks to the experience, knowledge, and technology available today, we can define reputational risk prevention and preparation models that allow us to scale, design, test, and refine appropriate responses for each opportunity.

At LLYC, we are certain that digitalization and technology are essential elements of good communication processes. As such, we have made a firm commitment to invest in researching, identifying, and developing relationships with partners who will allow us to offer the best opportunities to our clients.

In our post-digital era, communication challenges cannot be managed with the same processes and tools we used in the past. This forces us to adopt an open, exploratory, and demanding attitude, helping us truly anticipate what is to come.

⁶Smarter With Gartner (2021, mayo 5). Gartner Top Strategic Technology Trends for 2021 [Website]. Taken from: <https://www.gartner.com/smarterwithgartner/gartner-top-strategic-technology-trends-for-2021/>

⁷Thomas J. Chermack (2011). Scenario Planning in Organizations: How to Create, Use, and Assess Scenarios: How to Create, Use, and Assess Scenarios. AGENCY UK.

⁸Charles Conn, Robert McLean (2019). Bulletproof Problem Solving: The One Skill That Changes Everything. Wiley.



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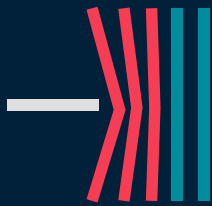
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