

# Risk management: Anticipating future shocks

## Summary

Recent events again demonstrate that governance must take account not just of desired outcomes, but also of worst case scenarios. The challenge of identifying and responding to high-level and interconnected risks can be assisted by close examination of private sector routines on risk management, and of the insights of risk monitoring reports. This is a concise summary of a review of risk literature conducted as part of the inaugural EPRS Future Shocks report.

## The need for risk management structures and techniques

The war in Ukraine has put the importance of analysing, anticipating and mitigating risks into sharp relief. The EU is responding by further developing structures and expertise in risk management.

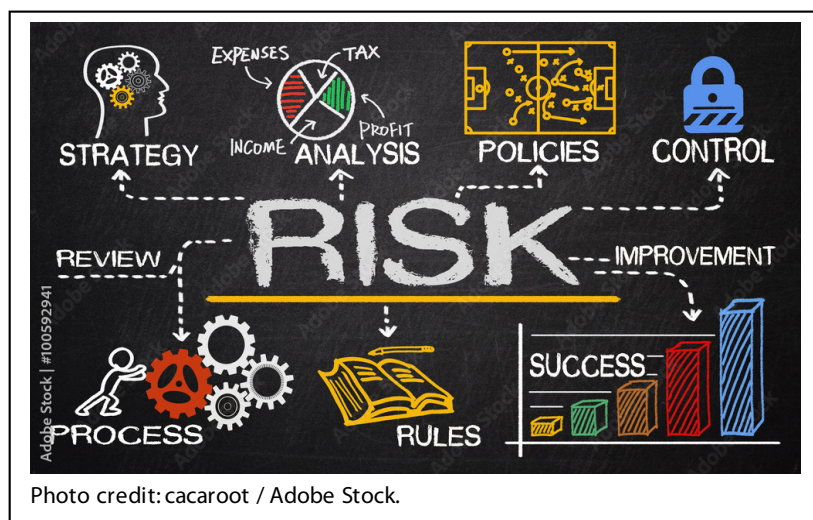
European governance can benefit from stronger engagement with processes and methods for evaluating and managing risk. Standard approaches can include:

- Structures to conduct continuous evaluation of risks, such as horizon scanning.
- Use of foresight techniques, including examination of and planning for worst case scenarios.
- Research on the effectiveness of measures, synthesising research to generate evidence for policy.
- Research on implementation of measures.

A key point is the need for rapid and direct access to decision-makers when support services identify an urgent threat.

In many respects, private-sector practices can provide inspiration for risk management in public administration. At European level, there is scope to develop the rich potential of cross-border and cross-sectoral collaboration and capacities.

## The most serious risks are both complex and complicated



In some cases, causes can be easily established and a single action or initiative may be sufficient to address them. More complicated risks call for a combination of measures. Then there are complex risks, where some causes are unclear; the remedies need to be multifaceted and may need to be adjusted over time. Finally, there are especially complicated risks, where solutions need to be fine-tuned to the specific context and carefully monitored over time; a mistimed action can make the situation worse.

Where the causes of a given risk are obscure, or a matter of dispute, it can be more difficult to muster support for a given set of countermeasures. As some of the most important challenges facing the EU are especially complex in character, there is a need both for a strong effort to understand causes and to develop a consensus around the findings of such analysis.

## Risks are interconnected and interdependent

Different policy areas are interconnected and interdependent. This can be illustrated by cycling through some of the risks addressed in this report. The increase in extreme weather events can include extreme cold snaps, which raise demand for heating, leading to spikes in energy prices. Higher energy prices can hamper economic recovery. At the same time, algorithms may drive political divisions; combined with economic troubles, this can produce greater social polarisation. In extreme cases, this could lead to the failure of a Western democracy, which could well damage the international effort to mitigate climate change. Interconnectedness of risks strengthens the case for cross-sectoral strategies and policy packages.

## Communication management

There is a long-standing and understandable tendency in governance to emphasise good news. There can be good reasons for leaders to project optimism and to convey confidence, for instance to guard against panic in financial markets. In the pandemic, the tendency to emphasise the positive had to be balanced against the need to accurately communicate real risks to health, in order to mitigate the spread of infection. In some cases, it proved difficult for public authorities to admit uncertainties and limits to their knowledge. In others, the political and public health authorities worked together to deliver clear messages on restrictions and on their justification. This contributed to greater public trust and greater compliance with rules and recommendations.

There are times when bad news has to be delivered and explained. This is especially the case when overcoming a challenge depends on better understanding its root causes and of the evidence base for policy responses to it.

## European governance adds capacity to master future shocks

The threats faced by the EU are faced by several other actors. It has been noted that there is a surplus of multilateral problems, but a deficit of multilateral solutions. This underlines the need for international collaboration, in particular between the EU and international organisations. When different actors realise that they face common problems, they can be more inclined to cooperate. The pandemic demonstrated the need to work together across boundaries and at a global scale, and there were important successes (as well as areas where the job is unfinished). This is the other side of the risk management coin: risks can pave the way for opportunities. (We should in such cases have the courage to seek new horizons.)

## Conclusion

The EU has unique capabilities, beyond those of a nation state acting on its own. It has a scope of action beyond that of individual countries. The recent example of collaboration on procurement of vaccines has demonstrated the potential benefits of coordinated and integrated action involving both European and national levels of governance. Realising the potential of both levels, and of coordination across governance levels, can be an important contribution to the resolution of future challenges.

## Further reading

EPRS, [Future Shocks 2022. Addressing risks and building capabilities for Europe in a contested world](#), April 2022.

