Session 3a

12:50 – 1:50 PM

Unintended Consequences of Risk Mitigation:

How to identify and manage hidden risks

ARC|Hybrid

Sharing Wisdom Together

Learning Objective

1. Recognize unintended consequences of risk mitigation strategies and their potential impact on organizational goals.
2. Evaluate emerging risks, including challenges related to AI, cybersecurity, and third-party risk management.
3. Apply a structured approach to assess and address hidden risks, incorporating stakeholder impact analysis and systems thinking.
4. Develop resilient risk management strategies that minimize hidden risks while fostering adaptability and innovation.

The paradox of risk mitigation

The evolving risk landscape

Economic conditions

Inflationary pressures are a key economic risk.

Attracting talent

Difficulty attracting, developing, and retaining top talent.

Increased labor costs

Rising expenses associated with employing labor.

Cyber threats

Risk from malicious cyber activities is increasing.

Labor availability

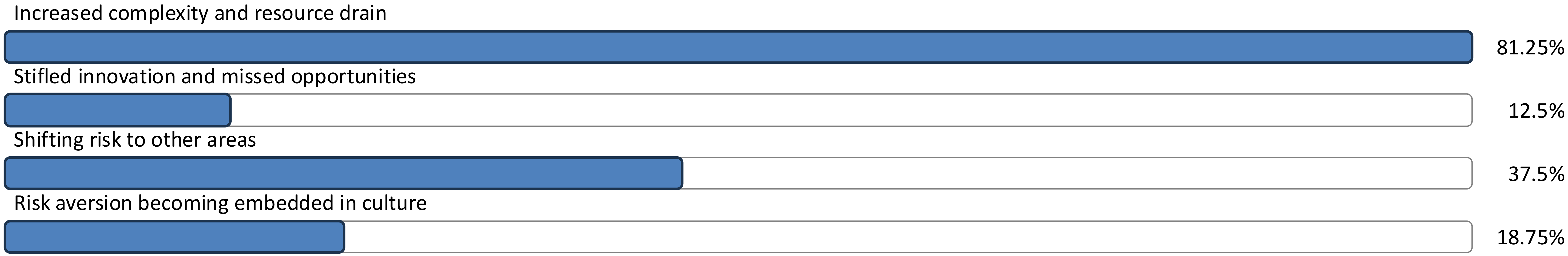
Lack of available talent and labor resources.

The unintended consequences paradox

Cause & Effect:
Actions taken to mitigate one risk often generate new, unforeseen risks elsewhere in the organization.

"Every solution breeds new problems"
- Murphy's Law of Risk Management

Which of the following unintended consequences of risk mitigation has your organization experienced? (*select all that apply*)



Reflect · Compare · Share

Does anyone want to share a time when *solving one risk* **created another**?"

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Hidden risks in organizational management

Hidden risks

Risk displacement
- Tightened controls
- Shifted risks

Risk aversion culture
- Punished failures
- Unrewarded risk-taking

Cross-departmental friction
- Implemented controls
- Workarounds

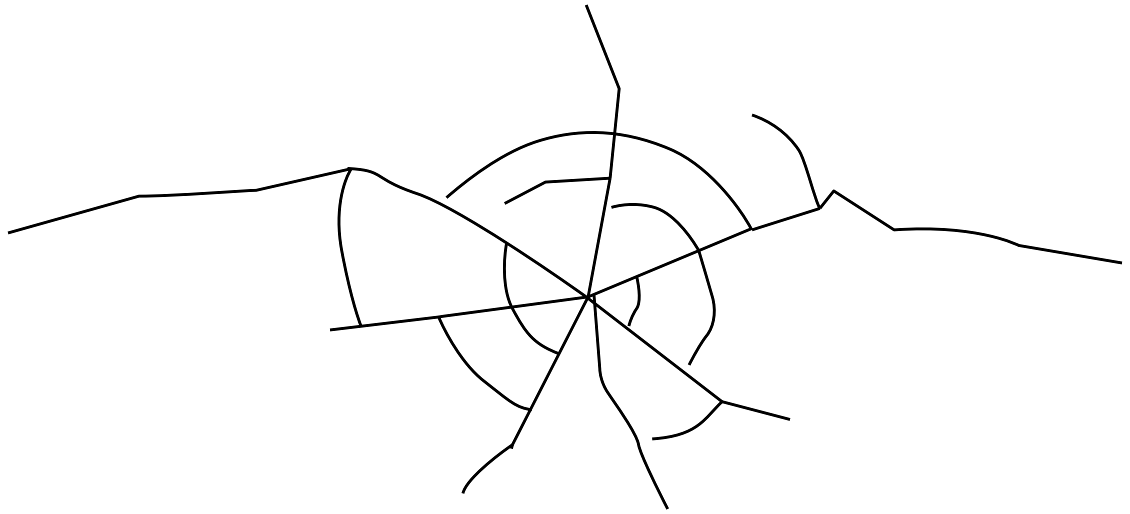
Compliance burden
- Checking boxes
- Lost Strategic focus

When good risk management goes wrong

Financial Service

Balanced approach

· Reduced fraud
· Capture discounts



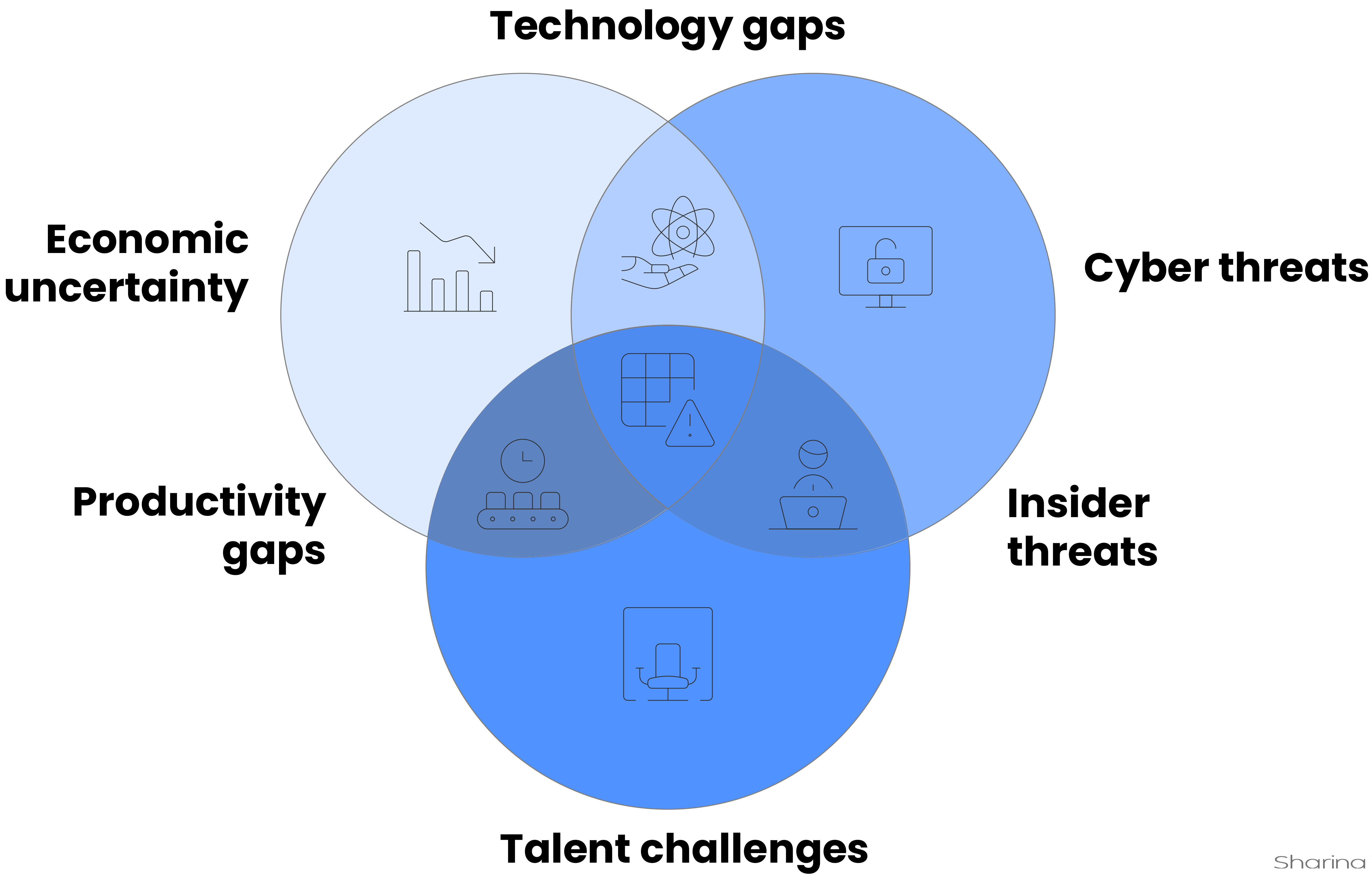
Payment delays

Missing early payment discounts

Price increases

Suppliers increase prices

Why this matters now



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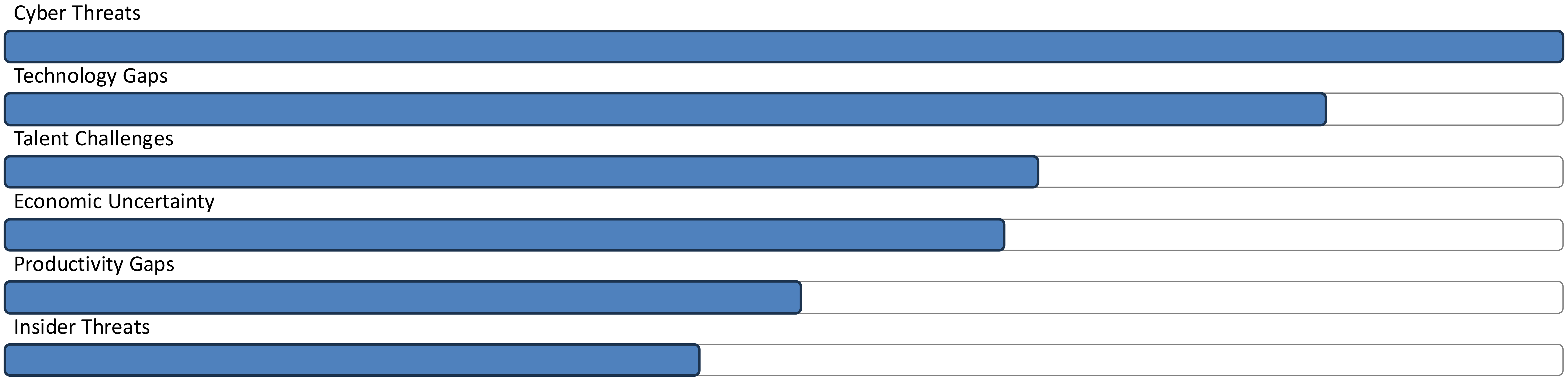
ID: **408-602-339**

Preparing Results

How might your Board/Mgmt team rank these risks?



Hidden Risk Discovery Worksheet

Step 1 – Define the Control, Change, or Mitigation:

Describe what is being evaluated:

(Write a clear description of the control, change, decision, process, or mitigation.)

What problem was this originally intended to solve?

(Write a clear description of the control, change, decision, process, or mitigation.)

What assumptions does this solution rely on?

Behavioral assumptions:

-

Capacity assumptions:

-

Data/information quality assumptions:

-

Technology/system assumptions:

-

Who owns this decision/control:

Department:	*Role:*	*Sponsor:*

Hidden Risk Discovery and Resolution

Risk ID	Risk Description	Category	Source/Trigger (e.g., new control, process change)	Likelihood	Impact	Detectability	Interconnectiv	Risk Score	Composite Score	Priority	Owner	Status	Date Identifi
R1	Shadow IT	Cyber	Process change	4	5	3	2	20	120	High	Jane	Open	Jun 30, 2025
R2	Excessive policy exceptions	Compliance	Policy clarity	3	4	4	2	12	96	Medium	Adam	Open	Jul 15, 2025
R3	Vendor delays from new controls	Third-party	Training	3	3	4	2	9	72	Medium	Alice	Open	Jul 01, 2025
R4	Employee resistance to new system	Technology	Management	2	3	4	2	6	48	Low	Carlos	Open	Jun 20, 2025

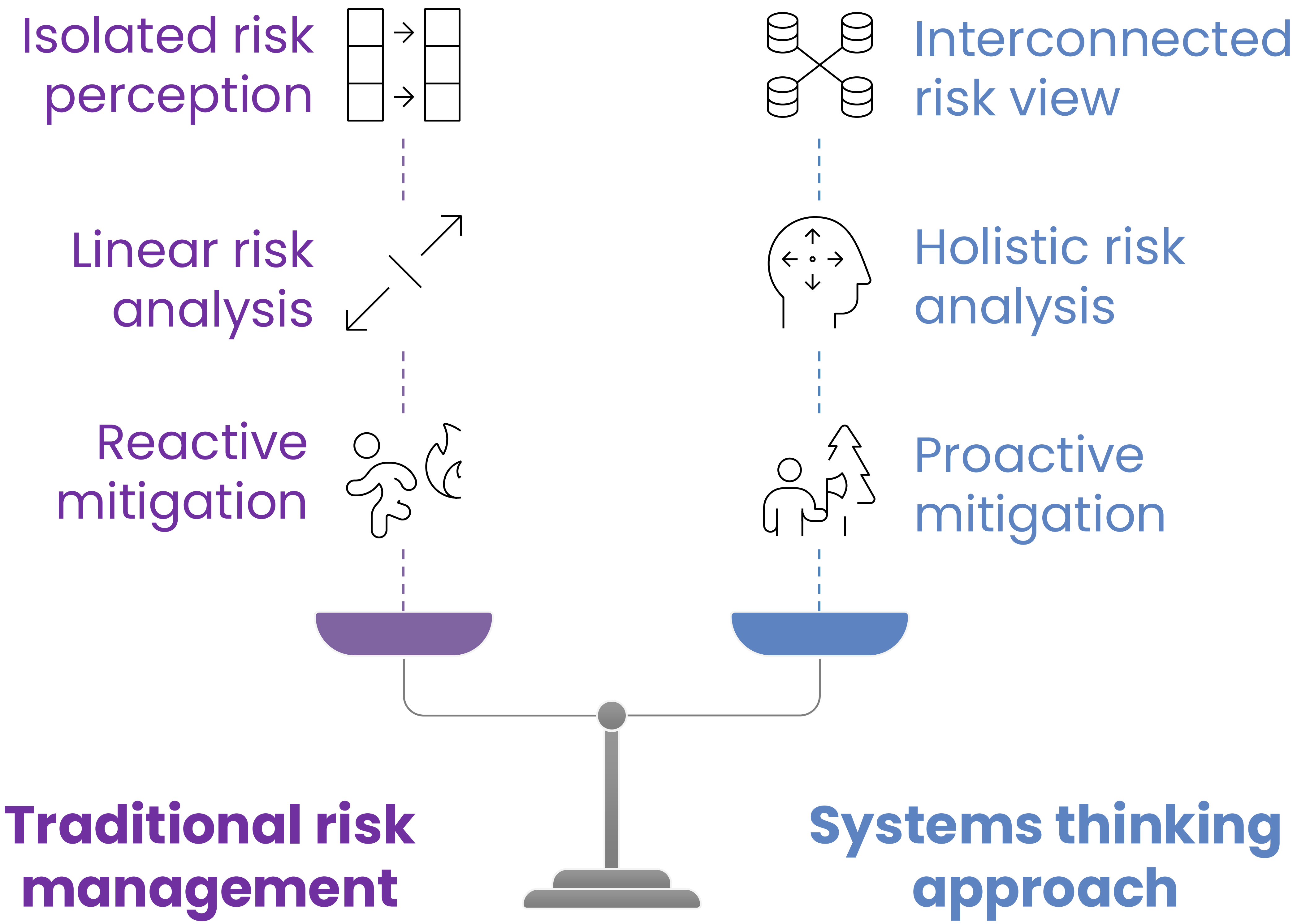
Risk ID	Stakeholder	Influence (1–5)	Interest (1–5)	Impact Score	Likely Response (e,g, Support, Resist, Neutral, etc.)	Engagement Priority	Communication Plan	Monitoring Frequency
R1	IT Department	5	4	20	Resistance	Critical	Monthly meeting	Monthly
R1	Procurement	3	5	15	Support	Important	Quarterly update	Quarterly
R2	End Users	2	2	4	Workarounds	Monitor	Training session	Ad hoc

Action ID	Risk ID	Action Description	Owner	Status	Start Dat	Due Dat	Completion Date	Days to Completion	Effectiveness (post-action review)	Budget Impact (optional)	Notes
A1	R1	Streamline onboarding process	Jane	In Progress	Jun 01, 2025	Jun 30, 2025		177			IT reviewing workflow
A2	R2	Clarify policy exceptions	Adam	Not Started	Jun 05, 2025	Jul 15, 2025		173			Drafting new guidelines
A3	R3	Vendor onboarding training	Alice	In Progress	Jun 10, 2025	Jul 01, 2025		168			Training scheduled
A4	R4	Change management comms	Carlos	Completed	May 20, 2025	Jun 20, 2025	Jun 18, 2025	29	4		Positive feedback from users

Indicator Name	Risk ID	Current Valu	Warning Threshold	Critical Threshold	Status	Trend	Escalation Required	Notes
System Downtime	R1	3	2	3	Critical	Up	Yes	Downtime increased from last month
Exception Requests	R2	12	10	20	Warning	Down	No	Trending down after process change
Policy Violations	R3	5	5	10	Warning	Up	Yes	Spike after new control introduced
Shadow Systems	R4	1	2	4	Normal	Stable	No	No new shadow systems detected

Recognizing hidden risks

Systems thinking approach for risk identification



Stakeholder impact mapping

Core stakeholders

Employees, customers, shareholders, regulators

Direct impact pathways

Extended stakeholders

Suppliers, partners, communities

Indirect impact pathways

Identify stakeholders

List all parties affected by risk or control

Map changes

Illustrate how changes affect each stakeholder

Identify response behaviors

Determine potential reactions from stakeholders

Assess secondary impacts

Evaluate the broader consequences of these responses

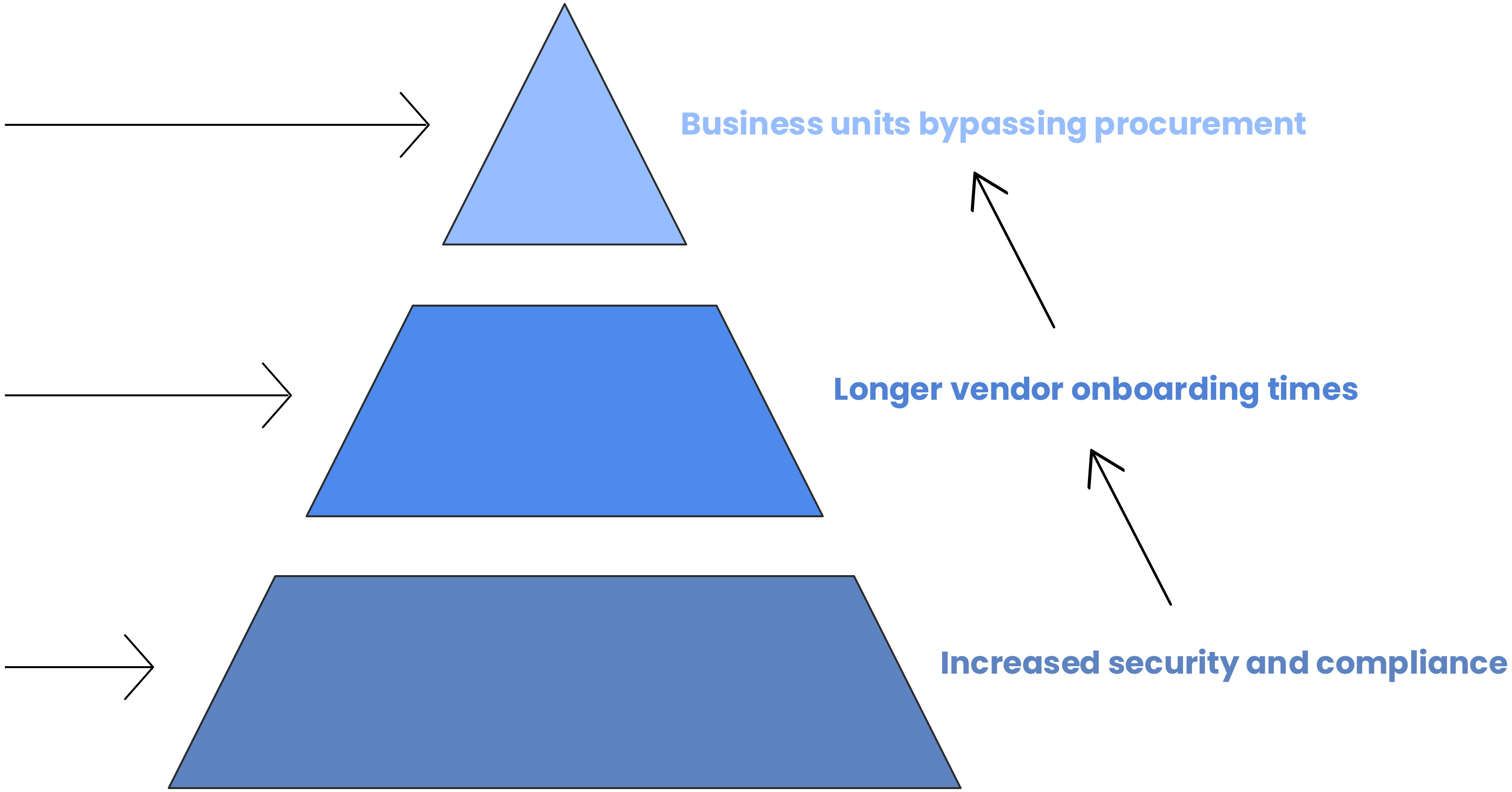
Second and third-order effect analysis

Third-order effects
Longer-term systemic impacts

Second-order effects
Consequences of first-order effects

First-order effects
Direct and immediate impacts

EXAMPLE: Enhanced vendor due diligence process



Warning signs of hidden risks

HANDOUT

Early indicators checklist

- Workarounds and exceptions become common
- Increased resistance or complaints about controls
- Process delays and bottlenecks
- Shadow systems emerging
- Key performance metrics declining

Leading vs. lagging indicators

Leading:

- Exception requests
- Policy violations

Lagging:

- Incidents
- Failures
- Losses

Red flags in organizational behavior

- "That's not my problem" mentality
- Increase in policy exceptions
- Blame-shifting between departments

Early Warning Indicator Library

Early Warning Indicator Library

Hidden Risk Type	*Leading Indicators (Early Signals)*	*Lagging/Behavioral Indicators (Observed Failures)*
Workaround/Bypass	• Increase in email approval • Exception requests rise • More manual overrides	• Audit trail gaps • Control failures • Policy drift
Delay/Bottleneck	• Cycle time creep • Queue growth • SLA misses creeping	• Backlogs • Customer/vendor escalations
Shadow System	• New spreadsheets appear • Staff maintain parallel logs	• Data inconsistencies • Recon breakdowns
Stakeholder Friction	• Increased clarifications • Rising conflict • Escalations	• Turnover • Declines in morale • Relationship breakdowns
Risk Displacement	• Work moves to alternate channels • People route around the process	• Failures in adjacent processes • New hotspots
Compliance Burden	• Step count inflation • Frequent complaints about control efforts	• Noncompliance • Rule circumvention
Data Quality	• More corrections • Manual data entry rises	• Reporting errors • Conflicting data in systems

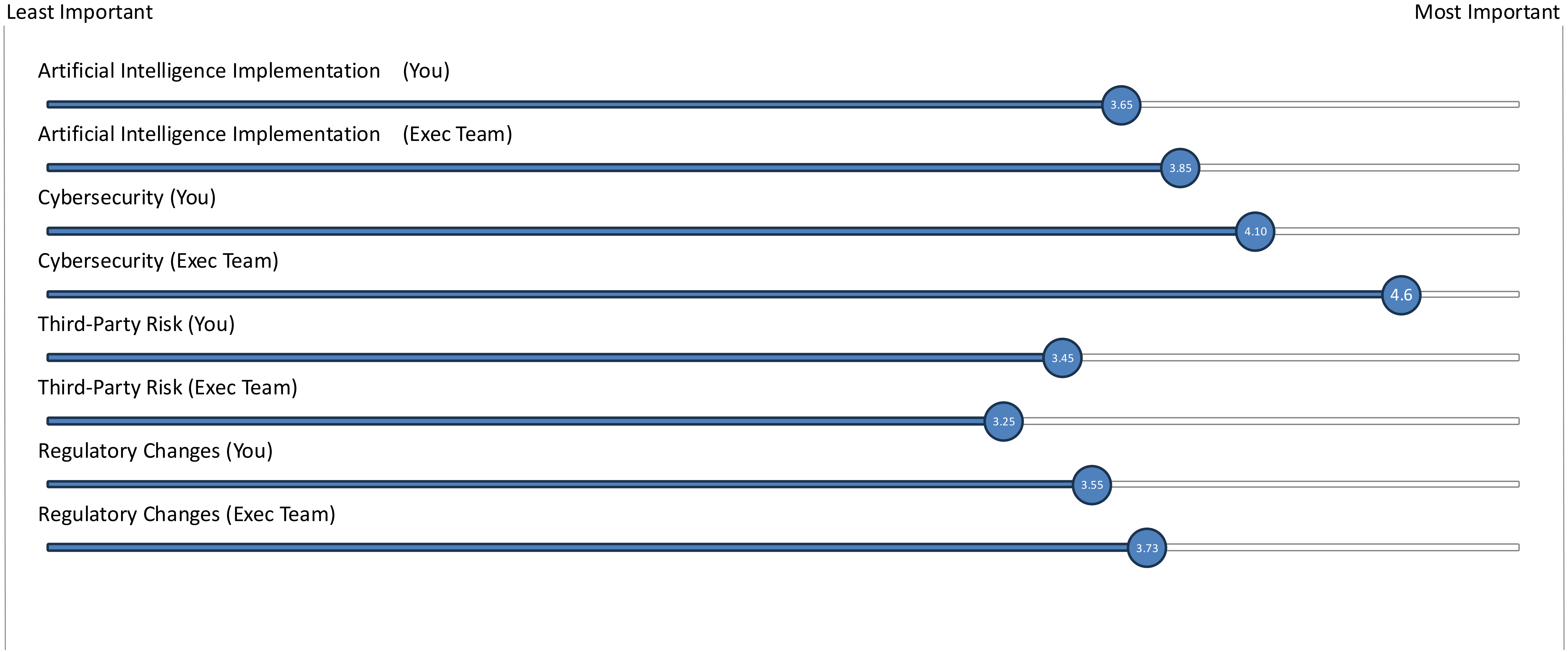
HANDOUT

Evaluating emerging risk challenges

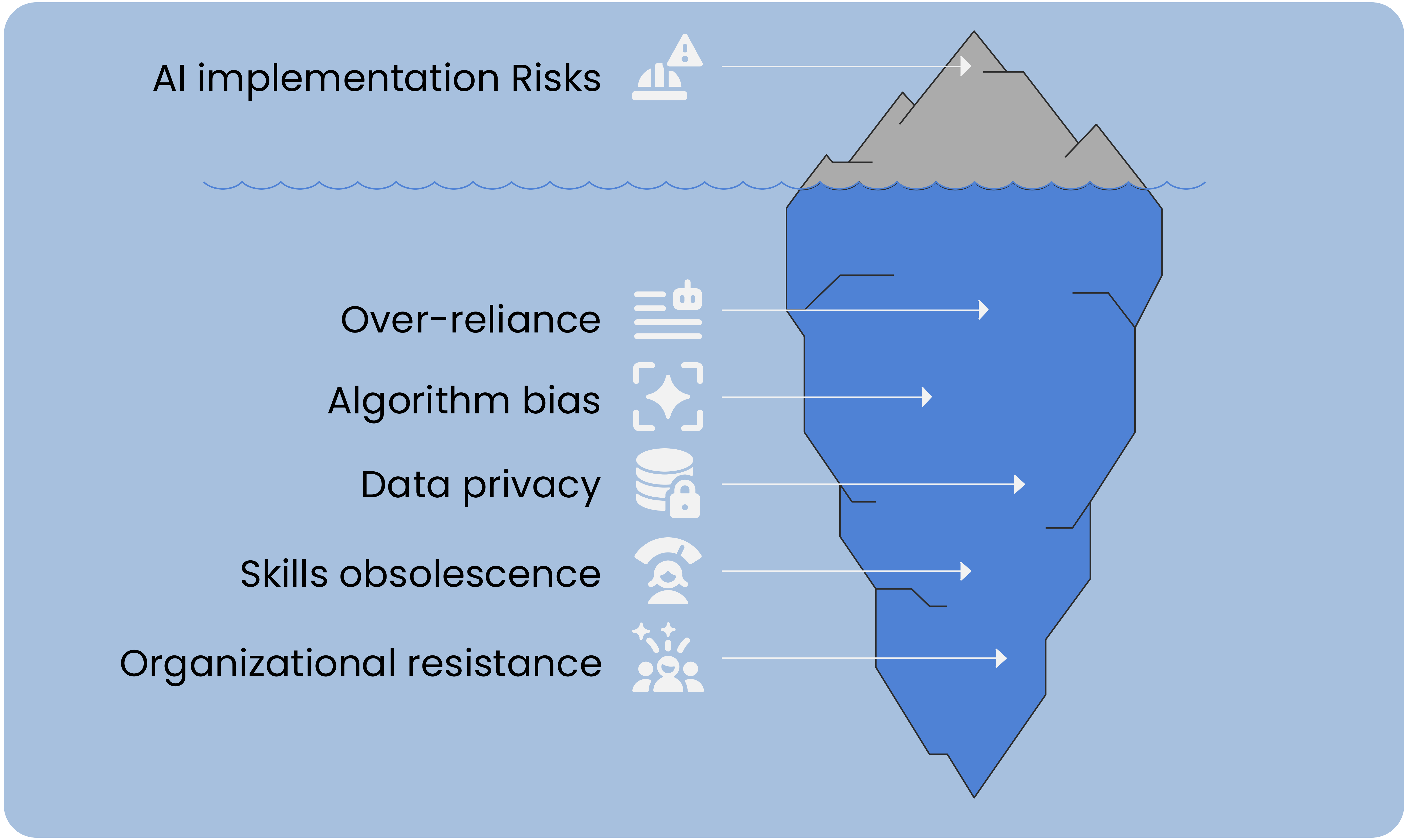
20 Join at: **vevox.app** ID: **408-602-339** Preparing Results

Please rank the following risk areas **from 1 (Trivial Risk) to 5 (Critical Risk)** in two ways:

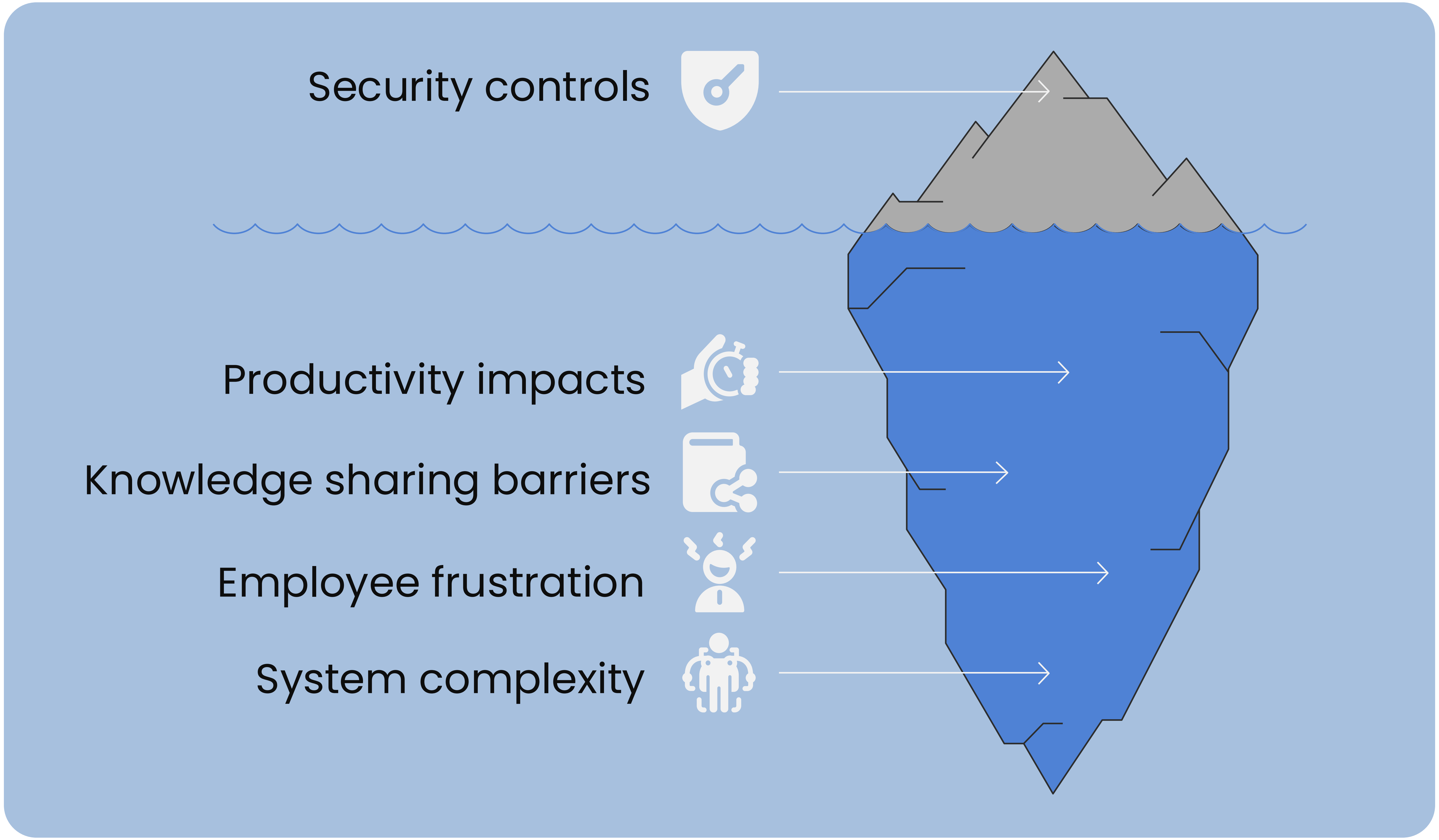
- First, **how YOU personally view their importance**
- Second, **how you believe your EXECUTIVE TEAM would rank them**



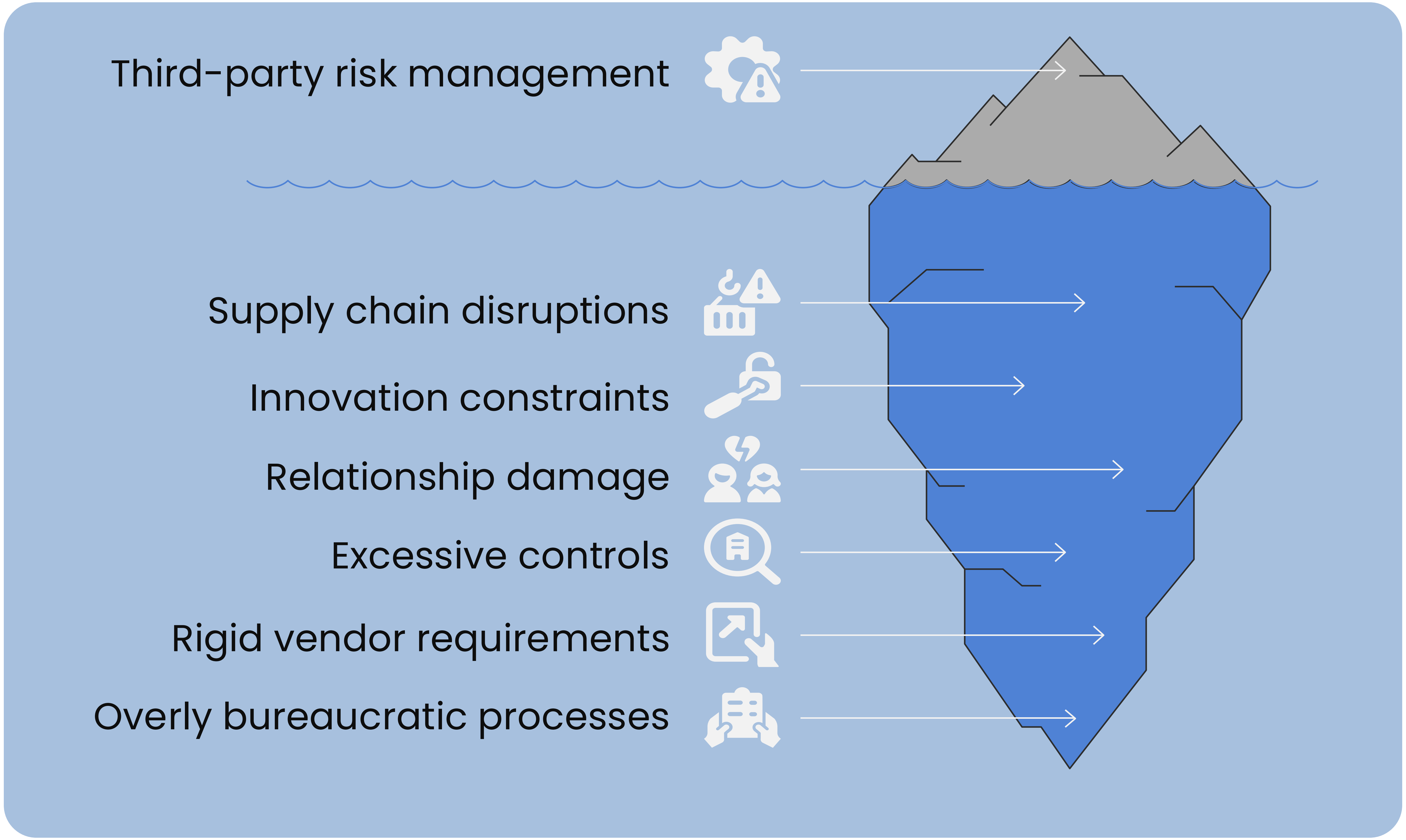
AI implementation hidden risks



Cybersecurity's unintended consequences



Third-party risk management cascades



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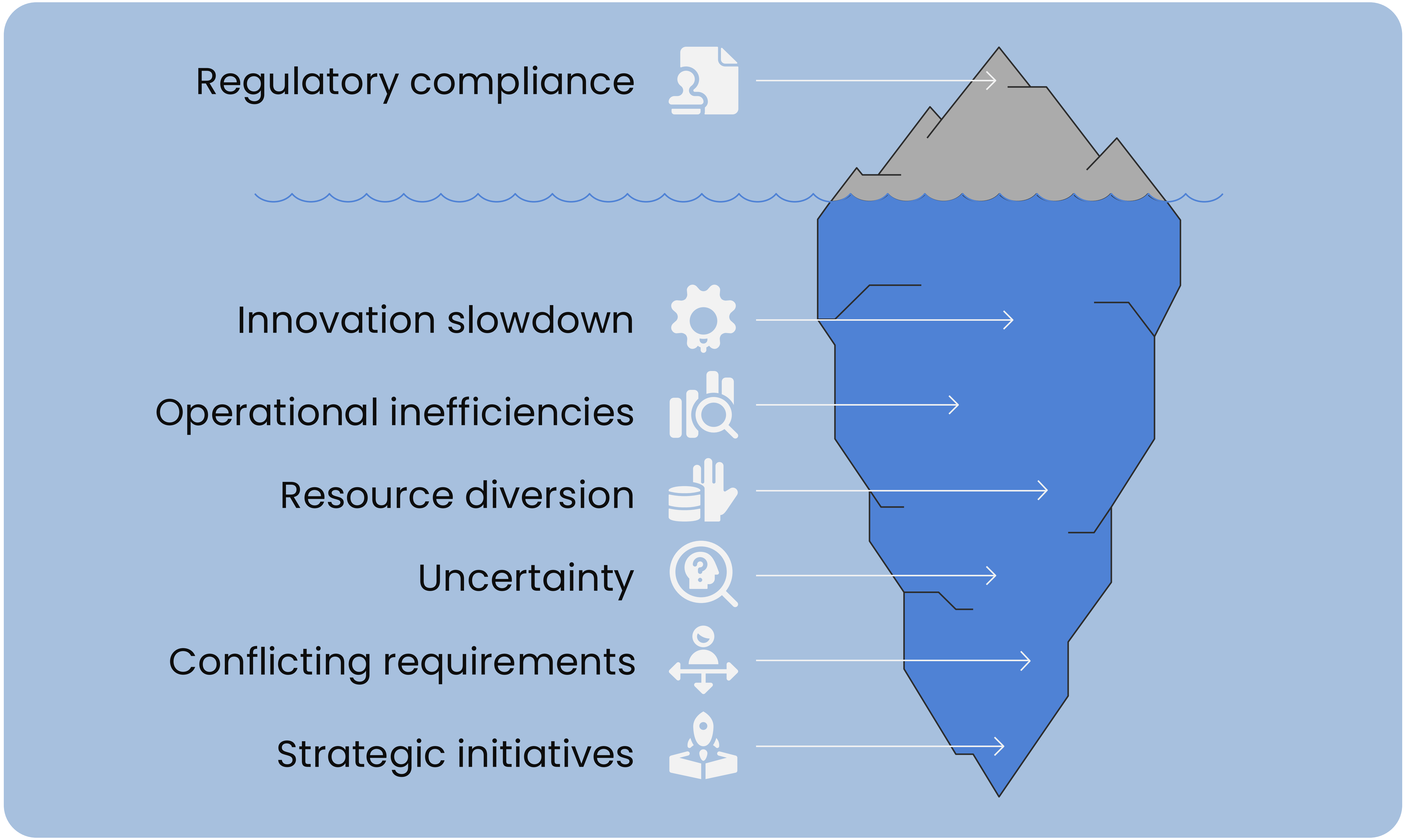
Regulatory change management



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Avoiding risk blind spots

HANDOUT

Common blind spot areas:

Cross-functional impacts

Impact across different departments and teams.

Long-term effects

Considering the lasting impact of quick fixes.

Cultural dimensions

How culture influences risk control perception.

Stakeholder adaptation

How stakeholders change their behavior.

Diagnostic Questions:

"Who else will be affected by this control?"

Identify individuals impacted by the control.

"How might people work around this?"

Consider how people might bypass the control.

"What behaviors are we inadvertently incentivizing?"

Behaviors the control unintentionally encourages.

"What assumptions are we making about compliance?"

Evaluate assumptions regarding adherence to the control.

Interview Booster Sheet

Targeted Questions to Surface Undisclosed Risk and Unintended Consequences

Process Reality Questions

- What happens on a busy day vs. a normal day?
- What steps take the most time?
- If the process breaks, what do people *actually* do?
- What part of this process causes the most frustration?

Workaround & Behavior Questions

- When do people bypass this control?
- What shortcuts exists?
- Are side spreadsheets or personal trackers used?
- What exceptions occur most often and why?

Cross-Functional & System Impact Questions

- Who else is impacted by this control?
- Does this slow down any downstream activities?
- What new work is created because of this?
- Are there any recurring complaints from other teams?

Hidden Risk Identification Questions

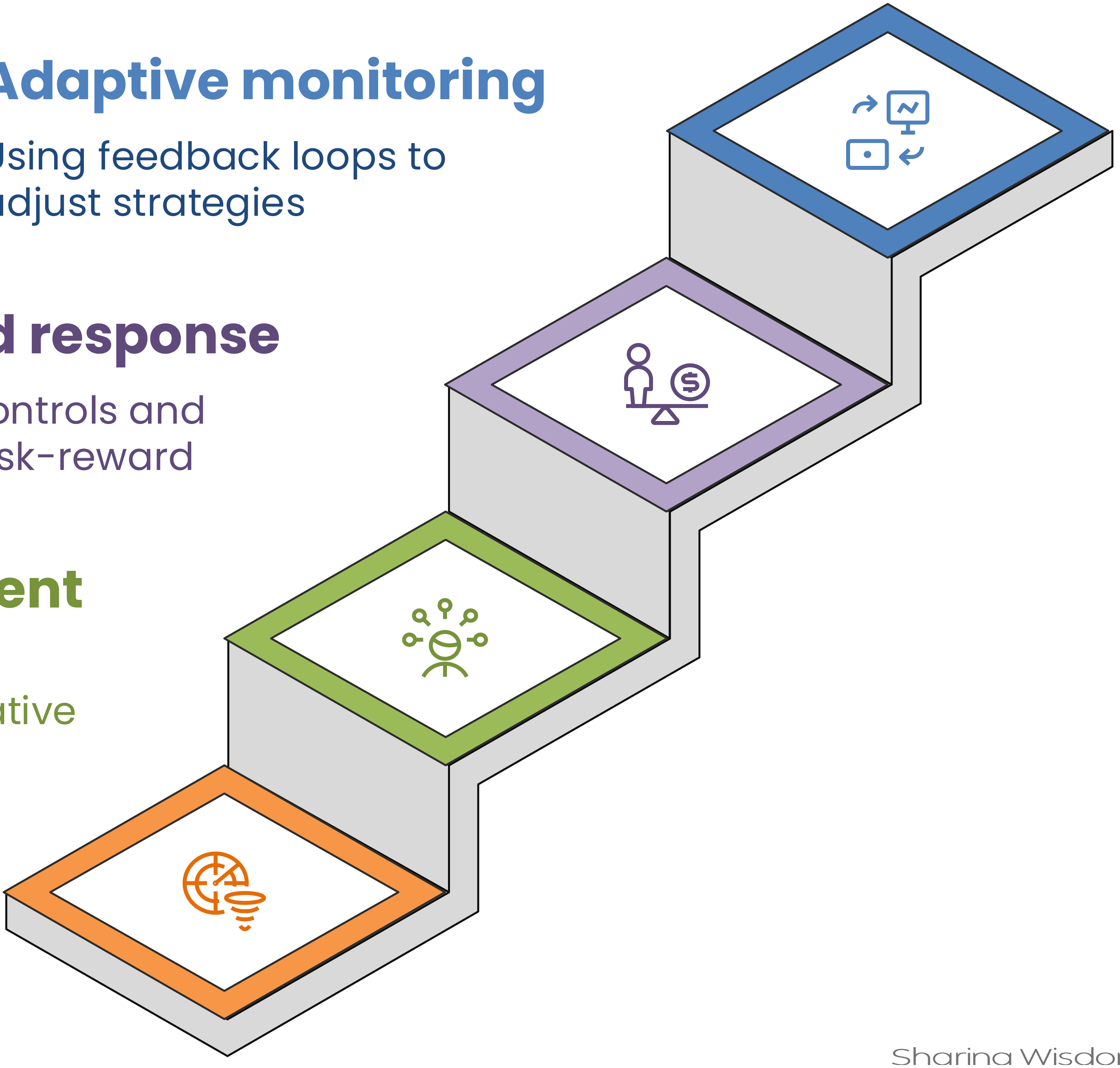
- What new problems did this control unintentionally create?
- Who does this control create more work for?
- What assumptions does this process rely on?
- What would someone do if they wanted to avoid following the process?

Early Warning Indicator Questions

- What's the earliest sign something is breaking?
- What metric changes first when pressure builds?
- What do people do when overloaded?
- Where would you expect to see the first red flag?

Structured approach to managing hidden risks

Four-step hidden risk management framework



4 | **Adaptive monitoring**
Using feedback loops to adjust strategies

3 | **Balanced response**
Designing controls and optimizing risk-reward

2 | **Holistic assessment**
Evaluating risks using quantitative and qualitative methods

1 | **Systematic identification**
Identifying potential risks through radars and workshops

Identification tools and techniques

Risk identification tools and techniques

Risk radar methodology

- Visual representation
- Systematic scanning
- Example template

Horizon scanning techniques

- Trend analysis
- Scenario development
- Early warning indicators

Cross-functional risk workshops

- Structured process
- Diverse representation
- Facilitation techniques

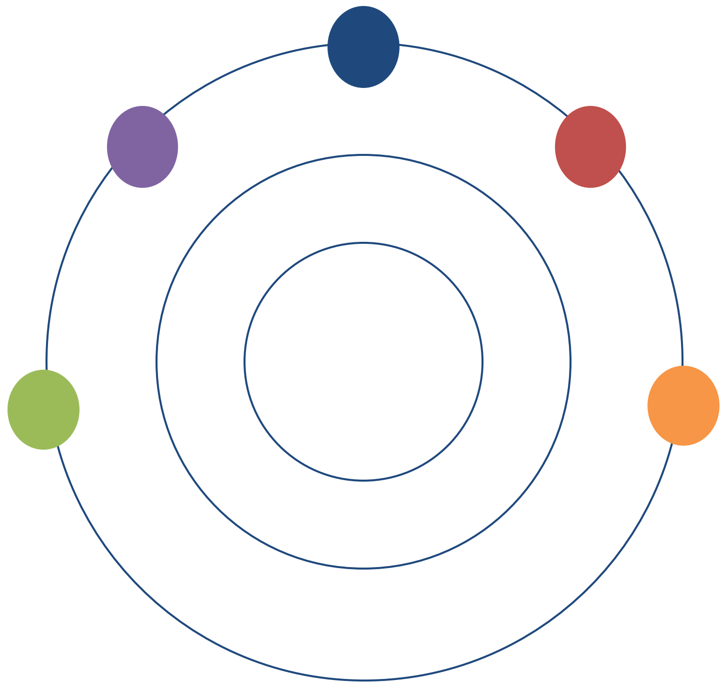
Assessment approaches

Hidden risk scoring methodology

3. Likelihood
Probability of risk happening

2. Severity
Impact of risk occurrence

4. Detectability
Ease of identifying risks



1. Risk assessment
Core process of evaluating risks

5. Inter-connectivity
Relationships between risks

Assessment techniques

Quantitative
Expected value and Monte Carlo simulations are used.

Qualitative
Expert judgment and scenario analysis are performed.

Balanced response strategies

Framework for Evaluating Options:

Effectiveness

Measures how well the option addresses the primary risk.

Secondary risks

Assesses the potential for creating new risks.

Implementation

Considers the complexity and cost of implementing the option.

Adaptability

Evaluates the option's ability to adjust to changing conditions.

Key Questions Before Implementation:

"Who will be affected by this control?"

Identify individuals or groups impacted by the control.

"How might this control be circumvented"

Analyze potential ways to bypass the control.

"What secondary effects might emerge?"

Predict unintended outcomes from implementing the control.

"How will we monitor for unintended consequences?"

Develop methods to track unintended consequences.

Group Activity

Hidden Risk Chain Reaction! (15 mins)

HANDOUT

Objective:
To collectively simulate how a "fix" evolves into a failure and practice spotting the early warning signals before the damage occurs.

Chain of Consequences:

1. The Trigger (The Event)
2. The Reaction (1st Order - Behavior)
3. The Ripple (2nd Order - System/Process)
4. The Fallout (3rd Order - Impact)

The Audit Challenge:
Where was the "Early Warning Indicator"

Hidden Risk Chain Reaction! (15 mins)

Early Warning Indicator Library

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What data point would have told us this was happening *before* the patient was harmed?


Q&A

SCOTT MADENBURG

AUDIT, RISK, COMPLIANCE
ADVISOR | TRAINER | SPEAKER

Let's Connect

Founder of ARC*Hybrid*

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CIA, CISA, and CRMA

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