EXECUTIVE PERSPECTIVES ON TOP RISKS 2020

Key issues being discussed in the boardroom and C-suite

EXECUTIVE SUMMARY

Research Conducted by NC State University's ERM Initiative and Protiviti

NC STATE Poole College of Management
Enterprise Risk Management Initiative

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Introduction

A constantly evolving geopolitical landscape that is trending toward nationalism, an ever-present concern over cyber threats, increasing market disruptions caused by “born digital” organisations and the rise of artificial intelligence (AI)-enabled technologies, and the effects of tightening labour markets are just a handful of concerns voiced by organisational leaders around the globe. Add to these the devastating impact of hurricanes and other natural disasters, continued apprehension over interest rates, uncertainty in war-torn regions of the world, polarisation of political viewpoints, the ease with which information can go viral via social media and other digital platforms, and ongoing negotiations to settle Brexit. These are but a few of the many drivers of uncertainty affecting the 2020 global business outlook.

Concerns that foretell a rapidly changing business environment and the potential for unwelcome surprises vividly illustrate the reality that organisations of all types face risks that can either disrupt their business model over time or damage brand image and reputation almost overnight. Insufficient focus on and attention to the web of complex enterprisewide risk events of varying velocity, persistence and severity are likely to threaten an entity’s brand, reputation, business model and, in some instances, its very survival.

Leaders of organisations in virtually every industry, size of organisation and geographic location are reminded all too frequently that they operate in what appears to many to be an increasingly risky global landscape. Boards of directors and executive management teams cannot afford to manage risks casually on a reactive basis, especially considering the rapid pace of disruptive innovation and technological developments in an ever-advancing digital world.

Protiviti and NC State University’s ERM Initiative are pleased to provide this report focusing on the top risks currently on the minds of global boards of directors and executives. This report contains results from our eighth annual risk survey of directors and executives worldwide to obtain their views on the extent to which a broad collection of risks is likely to affect their organisations over the next year.

Our respondent group, comprised primarily of board members and C-suite executives from all major regions of the world, provided their perspectives about the potential impact in 2020 of 30 specific risks across three dimensions:[1]

- **Macroeconomic risks** likely to affect their organisation’s growth opportunities
- **Strategic risks** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organisation in executing its strategy

[1] One new risk was included in the 2020 survey. It replaced a risk we asked about in prior years that consistently was of relatively minimal concern over the years surveyed. See Table 1 for a list of the 30 risks addressed in this study.

This executive summary provides a brief description of our methodology and an overview of the overall risk concerns for 2020, followed by a review of the results by type of executive position. It concludes with a call to action offering a discussion of questions executives may want to consider as they look to strengthen their overall risk assessment and management processes.

Our full report (available at **erm.ncsu.edu** or **protiviti.com/toprisks**) contains extensive analysis of key insights about top risk concerns across a number of different dimensions, including a breakdown by industry, size of company, type of ownership structure, and geographic locations of company headquarters.

> "Our survey results suggest that business leaders are concerned with two overarching themes as they look forward to 2020 – talent and culture on the one hand, technology and innovation on the other. These two interrelated themes are especially relevant in the coming year as companies across the globe strive to strengthen their competitive position by advancing their digital maturity and embracing the transformative potential of technology."
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> Pat Scott, Executive Vice President, Global Industry Program, Protiviti

About the Survey

We surveyed 1,063 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 30 unique risks on their organisation over the next 12 months. They rated the impact of each risk on their organisation using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 30 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact. We also grouped risks based on their average into one of three classifications:

CLASSIFICATION	RISKS WITH AN AVERAGE SCORE OF
Significant Impact	6.0 or higher
Potential Impact	4.5 through 5.99
Less Significant Impact	4.49 or lower

With regard to the respondents, we targeted our survey to individuals currently serving on the board of directors or in senior executive positions so that we could capture C-suite and board perspectives about risks on the horizon for 2020. Respondents to the survey serve in a number of different board and executive positions.

EXECUTIVE POSITION	NUMBER OF RESPONDENTS
Board of Directors	120
Chief Executive Officer	53
Chief Financial Officer	112
Chief Risk Officer	216
Chief Audit Executive	223
Chief Information/Technology Officer	35
Other C-Suite[1]	86
All other[2]	218
Total Number of Respondents	**1,063**

In our full report (available online at erm.ncsu.edu and protiviti.com/toprisks), we analyse variances across different sizes and types of organisations, industry and respondent position, in addition to differences among organisations based in North America, Europe, Australia/New Zealand, Asia, Latin America, India, Africa and the Middle East. Page 20 provides more details about our methodology. This executive summary highlights our key findings.

"Our review of this year's top risks suggests that directors and executives are very concerned about competition with 'born digital' companies, shifts in the economy and the impact of regulation (including privacy) on their ability to transform. These issues are inextricably linked to concerns around the ability to attract talented leaders who can take the business forward in the digital age and organisational resistance to change; these concerns could relate to fears that the organisation's leaders are not digital ready and change is needed, but not attainable due to cost and cultural constraints and inability to attract the necessary talent. Some may view clinging to the status quo as risk averse behaviour, but as many organisations have found to their peril in recent years, in the digital age this positioning is rarely successful medium term."

Jonathan Wyatt, Managing Director, Global Leader, Protiviti Digital

[1] This category includes titles such as chief operating officer, general counsel and chief compliance officer.

[2] These 218 individuals either did not provide a response allowing for classification by position or would best be described as middle management or business advisors/consultants. We do not provide a separate analysis for this category.

Executive Summary

AI, robotics and other rapidly developing digital technologies. Changes in the geopolitical landscape. Shifting customer preferences and demographics. Natural disasters. Record lows in unemployment, tightening labour markets and escalating competition for specialised talent. Immigration challenges. Cyber breaches on a massive scale. Terrorism. Big data analytics. A strong U.S. dollar.

These and a host of other significant risk drivers are all contributing to the risk dialogue happening today in boardrooms and executive suites. They highlight the influence of the economy and digital disruption on the risk landscape.

One of the first questions an organisation seeks to answer in risk management is, "What are our most critical risks?" The organisation's answer to this question lays the foundation for management to respond with appropriate capabilities for managing these risks. This survey provides insights for 2020 from 1,063 respondents in C-suite and board positions in organisations around the globe.

The need for greater transparency about the nature and magnitude of risks undertaken in executing an organisation's corporate strategy continues to be high as expectations of key stakeholders regarding risk management and risk oversight remain strong. Pressures from boards, volatile markets, intensifying competition, demanding and potentially disruptive regulatory requirements, changing workplace dynamics, shifting customer preferences, uncertainty regarding catastrophic events, and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities and response mechanisms to identify, assess and manage the organisation's key risk exposures, with the intent of reducing them to an acceptable level.

TOP RISKS FOR 2020

1. Impact of regulatory change and scrutiny on operational resilience, products and services
2. Economic conditions impacting growth
3. Succession challenges; ability to attract and retain top talent
4. Ability to compete with "born digital" and other competitors
5. Resistance to change operations
6. Cyber threats
7. Privacy/identity management and information security
8. Organisation's culture may not sufficiently encourage timely identification and escalation of risk issues
9. Sustaining customer loyalty and retention
10. Adoption of digital technologies may require new skills or significant efforts to upskill/reskill existing employees *(new in 2020)*

Major Findings

- **Global business environment slightly less risky in 2020 —** Survey respondents indicate that the overall global business context is somewhat less risky in 2020 relative to 2019, after we saw the level of overall risk in the environment increase in 2019 from 2018. Last year, survey respondents rated all of the top 10 risks higher for 2019 relative to 2018, but this year only two of the top 10 risks are rated higher for 2020 than they were in 2019. Only the smallest sized organisations (those with revenues less than $100 million) perceive the overall risk environment for 2020 to be higher than 2019. Despite this overall general shift toward a slightly lower risk concern for 2020, a majority of respondents still rate each of the top 10 risks as a "Significant Impact" risk, with seven of our top 10 risks having an overall average score exceeding 6.0 (on a 10-point scale), placing the profile of top risks as "Significant Impact" on an overall basis. It is important to note that whilst there is some slight reduction in risk concerns for 2020 relative to 2019, both 2020 and 2019 risk concerns remain much higher than two years ago. This indicates that whilst the level of risk is somewhat lower in 2020, there is still a higher level of risk concern as compared to 2018. For example, risk levels for eight of the top 10 risks in 2020 were higher than the ratings two years ago. This suggests that the elevated view of overall risk levels we observed in 2019 continues in 2020.

- **Interesting shifts in the 2020 top 10 risks —** We observe some interesting changes in the top 10 list of risks for 2020 relative to last year. One risk jumped from not appearing in the top 10 list for 2019 to the number two spot for 2020: concerns about economic conditions significantly restricting growth opportunities. Whilst that risk had been in the top 10 list for six of the seven prior years we have conducted our surveys, it fell to the number 11 position in 2019. However, recent concerns about the overall strength of the global economy, particularly in light of the ongoing Brexit debate in the United Kingdom and Europe, perceived volatility in global trade discussions, declines in certain manufacturing sectors, and a general reduction in growth rates in major economies, have clearly heightened this risk looking forward to 2020. Respondents in four of the six industry groups we examined selected economic conditions as a top five risk concern. The new risk we added to the 2020 survey actually made it to this year's top 10 (tenth overall). Respondents are concerned about their ability to attract, retain and reskill/upskill talent needed for their organisations to adopt digital technologies (e.g., AI, robotics, natural language processing, among others). The remaining eight risks in the top 10 for 2020 were also in the top 10 for 2019, generally in similarly ranked positions.

MAJOR FINDINGS

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Global business environment slightly less risky in 2020.
Interesting shifts in the 2020 top 10 risks.
Talent and culture risks and technology and innovation risks dominate the top 10.
Most executives concerned about economic conditions.
Concerns over operational capabilities have strategic underpinnings.

- **Talent and culture risks and technology and innovation risks dominate the top 10 —** There are two overarching themes surrounding most of the top 10 risk concerns for 2020: talent and culture risks, and risks related to technology and innovation. These two themes are especially relevant as companies strive to advance their digital maturity and embrace the transformative potential of technology.
  - **Talent and culture:** Two of the top 10 risks have implications related to the organisation's ability to attract and retain top talent (risk number three — concerns related to succession challenges and attracting/retaining top talent in a tightening market, and

On page 17 of this executive summary, we pose key questions as a call to action for board members and executive management to consider that can serve as a diagnostic to evaluate and improve their organisation's risk assessment process.

risk number 10 — concerns related to reskilling/upskilling the talent needed as a result of adopting AI-enabled digital technologies impacting the future of work). Two other risks present implications related to the organisation's culture (risk number five — resistance to change, and risk number eight — culture surrounding the escalation of risk concerns).

- **Technology and innovation:** Three of the top 10 risks have implications related to the organisation's ability to embrace and manage technology and innovation (risk number four — existing operations, legacy IT systems and digital capabilities may not be sufficiently flexible to compete; risk number six — cyber threats; and risk number seven — privacy and information security issues). Regulatory concerns also surface in this discussion, as regulation can affect companies' ability to innovate and transform their business models. Furthermore, technology impacts customer preferences which, in turn, affect customer allegiance to brands failing to keep pace with market developments.

Interestingly, these two overarching themes are potentially interconnected given that the combined inability to attract and retain the right talent and ensure the appropriate culture is in place may negatively affect the organisation's ability to execute increasingly complex strategies for navigating the rapidly changing digitally based global business environment. Talented people are interested in a work environment where they believe their skills will be appreciated and they can envision a path for success. In other words, they are much more focused on an organisation's ambition, people and culture than they are its history or reputation. An organisation's digital maturity and ability to innovate has a direct impact on its ability to source and keep the best and brightest.

- **Most executives concerned about economic conditions —** Concern about the overall economy is the top risk condition for board members, CEOs, CFOs and CIOs/CTOs. Clearly, economic conditions are top of mind for individuals in those positions. However, this concern did not make the top five list for CROs, CAEs or Other C-Suite positions. Risks related to the impact of regulatory change and heightened regulatory scrutiny on companies' business models and ability to innovate made the top five list in 2020 for all positions analysed. Directors and most C-level positions are also concerned about the organisation's overall resistance to change and how that might restrict the organisation from making the necessary changes to the business model and core operations. That is a top five concern for board members, CFOs, CROs, CAEs and Other C-Suite respondents. Interestingly, CEOs are mostly concerned about macroeconomic risks, with four of their top five risks representing that category. In contrast, the top five risks for most other positions surveyed represent operational risk concerns with strategic underpinnings.

- **Concerns over operational capabilities have strategic underpinnings** — Six of the top 10 risks reflect operational risk concerns, suggesting on the surface that respondents continue to be focused on operational issues to a greater extent than strategic or macroeconomic risks. This remains consistent with 2019, when seven of the top 10 risks related to operational concerns. Uncertainties surrounding their organisations' infrastructure and core operations are creating challenges for their leaders to manage.

However, these operational issues have strategic underpinnings, meaning they may present multiple considerations in strategy setting or may be perceived as a threat to successful execution of the strategy. It is possible that these considerations are on the minds of the executives rating them. For example:

- Concerns regarding the ability to attract and retain talent that can take the business forward in the digital age, whilst operational in nature, have strategic implications. A digital-savvy leadership team supported by the requisite digital expertise is a strategic imperative. Without it, companies will have a difficult time articulating a coherent and compelling vision that will attract the talent needed to act on that vision and remain competitive.
- Inability to adjust technology-based operations and digital capabilities timely enough to compete with "born digital" organisations may necessitate tough decisions around allocation of scarce resources as part of the strategy-setting process to avoid outdated strategies and obsolete business models.
- Cybersecurity is a strategic imperative, as the occurrence of severe cyber incidents can impair the value of critical enterprise assets, e.g., intellectual property, market share, company reputation and brand image. Concerns around privacy may reflect uncertainty about the organisation's ability to execute on its strategy and the potential for risk-averse behaviour impacting competitive position.
- A dysfunctional culture that fosters resistance to change and frustrates the timely identification and escalation of critical matters can lead to missed opportunities, decision makers losing touch with business realities, and failure to achieve strategic objectives.

The point is that executives rating these matters may not be viewing them narrowly as day-to-day "blocking and tackling" issues.

Operational risks represent three of the top five risks for these size categories of organisations: revenues between $1 billion and $9.99 billion, and revenues between $100 million and $999 million. Two of the top 10 risks for the full sample represent macroeconomic risk concerns, whilst the remaining two represent strategic risk concerns. This is different than 2019, when none of top 10 risks were macroeconomic risks.

"The list of top 10 risks reinforces the reality that risks cannot be viewed in a siloed, individual fashion. Four of the top 10 have interrelated implications related to talent and culture, whilst three additional risks have implications related to technology and innovation. When considered holistically, an ability to attract and retain talent needed to run the business and to ensure the appropriate culture is in place may negatively affect the organisation's ability to navigate the rapidly changing, digitally-based global business environment. An enterprise-wide approach to risk management strengthens leadership's ability to recognise these important interconnected realities."

Mark Beasley, Professor of Enterprise Risk Management and Director of the ERM Initiative, Poole College of Management, NC State University

Other Notable Findings

- **Regulatory concerns persist, economic concerns vary across the globe —** The concern over increased regulation and its impact on how products and services are produced and delivered is shared by all regions — it ranks first or second in seven of the eight regions (third in North America) — and, as in the past, continues to be a significant risk. Perceptions of economic risks are like a swinging pendulum, with perceptions changing quickly over a short period of time as new developments transpire (including after our September-October survey data collection period). Whilst economic concerns were only in the top five for some regions of the world in 2019, this risk concern made it to the top five list for seven of the eight regions of the world for 2020. Only North American-based organisations did not rate this risk as a top five risk for 2020.
- **Firms still likely to invest in risk management —** Interestingly, whilst respondents indicate that they are somewhat less likely to devote additional time or resources to risk identification and management over the next 12 months relative to their plans in the prior year, that level of investment is still higher than two years ago, suggesting a continued desire to invest in strengthening risk management efforts. This is especially true for financial services organisations, as well as organisations with annual revenues between $1 billion and $9.99 billion.
- **Relative consistency across different sized organisations —** Like previous years, there is consistency with respect to which risks make the top five list of risks for the four different sizes of organisations we analyse in our study.
- **Executives have differing views about the overall magnitude and severity of risks expected in the coming year —** There is variation in views among board members and C-suite executives regarding the magnitude and severity of risks for 2020 relative to prior years. Interestingly, chief financial officers (CFOs) and chief audit executives (CAEs) report the highest overall score about their impression regarding the magnitude and severity of risk for 2020 relative to board members, chief executive officers (CEOs), chief information/technology officers (CIOs/CTOs) and chief risk officers (CROs). There are noticeable differences in the changes in overall magnitude of risks from 2019 to 2020. Whilst the overall magnitude of risk concerns declined for board members and CEOs from 2019, the overall magnitude of risk concerns increased for CFOs, CAEs and CROs, whilst remaining unchanged for CIOs/CTOs.

  Out of the 30 risks examined, CIOs/CTOs rate 13 of the 30 risks as "Significant Impact" risks. In contrast, CEOs only rated one of the 30 risks at that level, whilst CROs rated four at that level. Board members rated six of the 30 risks at the level. CFOs rated eight of the 30 risks at the "Significant Impact" level. Considering how respondents rated the risks making the top five, board members, CFOs, CAEs and CIOs/CTOs rated all of their top five risks as "Significant Impact" risks, whilst CROs rated four of their top five risks at that level. Interestingly, CEOs only rated one of their top five risks at that level. The dispersion of these findings suggests there is a strong need for discussion and dialogue to ensure everyone is in agreement at the highest level of the organisation as to what the most important risk exposures are and whether the organisation is focused on them appropriately.

OTHER NOTABLE FINDINGS
Regulatory concerns persist, economic concerns vary across the globe.
Firms still likely to invest in risk management.
Relative consistency across different sized organisations.
Executives have differing views about the overall magnitude and severity of risks expected in the coming year.
Most industries have reduced risk concerns for 2020.
Nature of uncertainty concerns varies across the world.
There are similarities in risk viewpoints across for-profit and not-for-profit and governmental organisations.

- **Most industries have reduced risk concerns for 2020 —** Our sub-analyses of results across six different industry groups finds that every group, with the exception of the Financial Services industry, perceived that the magnitude and severity of risks affecting their organisations will be lower in 2020 than in the prior year. The Healthcare industry group reflects the highest overall concern related to the magnitude and severity of risks. Except for the Energy and Utilities industry group, all other industry groups decreased the number of "Significant Impact" risks from 2019 levels. Two of the 30 risks are deemed "Significant Impact" risks across all industry groups: restrictive/disruptive regulatory changes/scrutiny, and succession challenges and attracting/retaining top talent in a tightening market. Concerns about the organisation's operations, legacy IT systems and digital capabilities not being able to compete with "born digital" enterprises are rated as a "Significant Impact" risk for all industry groups except Technology, Media and Telecommunications.
- **Nature of uncertainty concerns varies across the world —** There are noticeable differences in the views about the overall magnitude of risks for 2020 across different regions of the world. Interestingly, the overall magnitude of risks increased for respondents in North America-based organisations and Africa-based organisations. This is in contrast to respondents in all other regions of the world, who indicated a lower overall magnitude for 2020 relative to 2019. This suggests there are differences in overarching views about uncertainty in the business environment in different global regions. Whilst respondents in organisations in Latin America believe the magnitude of risks for 2020 is lower than 2019, those respondents still indicate the highest overall magnitude of risks as compared to other parts of the world.

  The restrictive impact of regulatory changes and scrutiny on operational resilience, products and services appears on every region's top five list and economic conditions are a top five risk concern in every region except North America. Most regions of the world rate all of their top five risks as "Significant Impact" risks, except for European-based and African-based organisations, which rate four of their top five risks at that level.
- **There are similarities in risk viewpoints across for-profit and not-for-profit and governmental organisations —** Public companies, as well as not-for-profit and governmental organisations, rate all of their top five risks for 2020 at the "Significant Impact" level. Privately held for-profit companies rate only one risk, related to concerns over economic conditions, at the "Significant Impact" level. It is interesting that both private for-profit entities and not-for-profit and governmental organisations seem to view the overall risk landscape equally (both groups scored the overall magnitude and severity of risks in 2020 at 5.9), whilst the top risk concerns of not-for-profit and governmental organisations scored higher. The top four risks for both public and private companies are identical (though public companies uniformly scored them higher). The number one risk for both groups is a concern over deteriorating economic conditions in 2020.

The list of top 10 global risks for 2020, along with their corresponding 2019 and 2018 scores, appears in Figure 1 on the next page, followed by an assessment of perceived impact by executive position.

One of the first questions an organisation seeks to answer in risk management is, "What are our most critical risks?" The organisation's answer to this question lays the foundation for management to respond with appropriate capabilities for managing these risks. This executive summary provides insights for 2020 from 1,063 respondents in C-suite and board positions in organisations around the globe.

The full report on this study (available online at **erm.ncsu.edu** and **protiviti.com/toprisks**) includes our in-depth analysis of perceptions about specific risk concerns. We identify and discuss variances in the responses when viewed by organisation size, type, industry and geography, as well as by respondent role. In addition, on page 17 of this executive summary, we pose key questions as a call to action for board members and executive management to consider that can serve as a diagnostic to evaluate and improve their organisation's risk assessment and management processes.

Our plan is to continue conducting this risk survey annually so that we can stay abreast of key risk issues on the minds of directors and executives across the globe and observe trends in risk concerns over time.

FIGURE 1

Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered

Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organisation

Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets

Our existing operations, legacy IT infrastructure, and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" and with a low cost base for their operations, or established competitors with superior operations

Resistance to change may restrict our organisation from making necessary adjustments to the business model and core operations

Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand

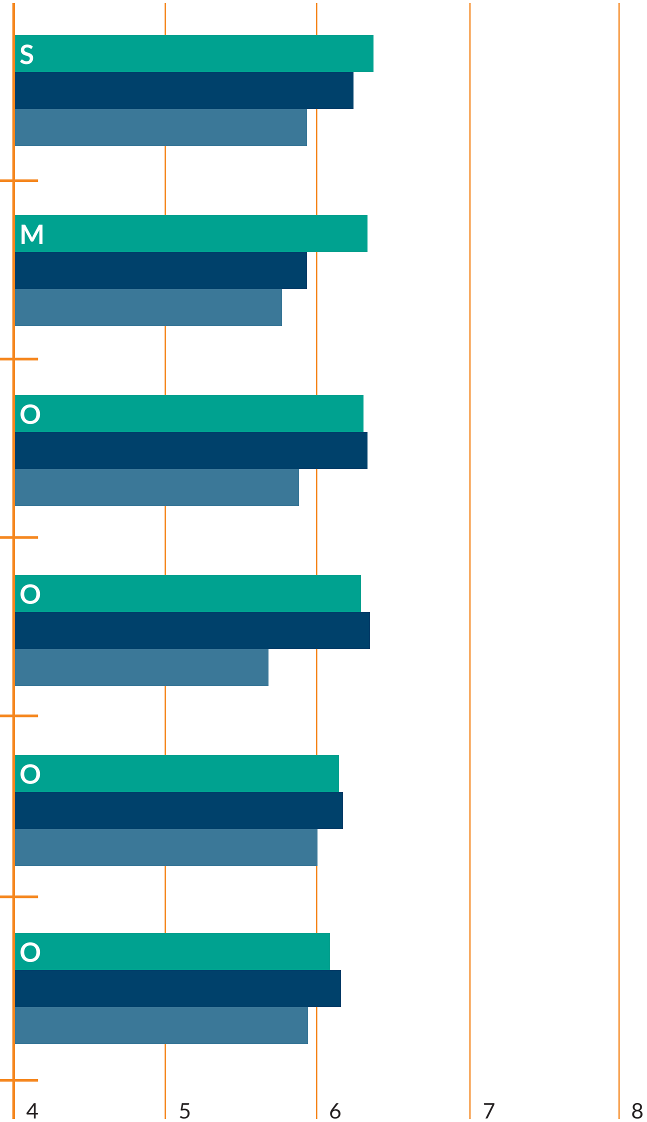


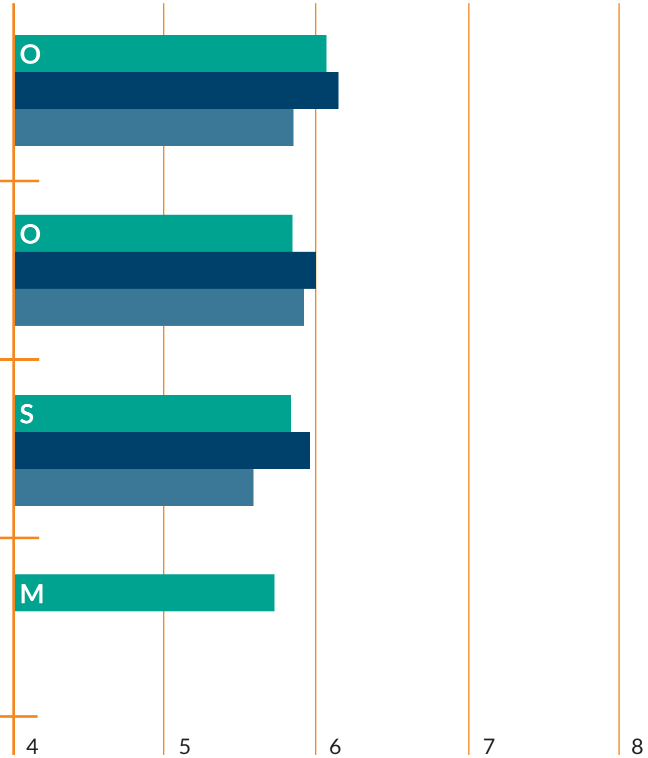
FIGURE 1 (CONTINUED)

Ensuring privacy/identity management and information security/system protection may require significant resources for us

Our organisation's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives

Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/ or demographic shifts in our existing customer base

The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing) in our organisation may require new skills that either are in short supply or require significant efforts to upskill and reskill existing employees *(This risk issue was added to our survey in 2020)*



Legend

M Macroeconomic Risk Issue | S Strategic Risk Issue | O Operational Risk Issue | 2020 | 2019 | 2018

Recall that risks with an average score of **6.0 or higher** are classified as **"Significant Impact"** risks, whilst risks with average scores of **4.5 through 5.99** are classified as having a **"Potential Impact"** for 2020. Risks with average scores **below 4.5** are classified as having a **"Less Significant Impact"** for 2020. As illustrated in Figure 1, seven of the top 10 risks for 2020 are deemed to be "Significant Impact" risks, with six of those seven risks deemed to be "Significant Impact" risks in the previous year's report, as well.

• • • Perceived Impact for 2020 — by Role

TABLE 1

Table 1 illustrates how boards and C-suite executives differ in their views about top risks for 2020. Risks with a red circle represent those deemed to be "Significant Impact" risks.

MACROECONOMIC RISK ISSUES	BOARD	CEO	CFO	CRO	CAE	CIO/ CTO	OTHER C-SUITE
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organisation	🔴	🔴	🔴	🟡	🔴	🔴	🟡
Unexpected change in the current interest rate environment may have a significant effect on the organisation's operations	🟡	🟡	🟡	🟡	🟡	🔴	🟡
Political uncertainty surrounding the influence and continued tenure of key global leaders may impact national and international markets to the point of significantly limiting our growth opportunities	🟡	🟡	🟡	🟡	🟡	🟡	🟡
The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing) in our organisation may require new skills that either are in short supply or require significant efforts to upskill and reskill existing employees (new in 2020)	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Anticipated increases in labour costs may affect our opportunity to meet profitability targets	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Anticipated volatility in global financial markets and currency exchange rates may create significantly challenging issues for our organisation to address	🟡	🟡	🟡	🟡	🟢	🟡	🟡
Evolving changes in global trade policies (e.g., Brexit, NAFTA update, escalating tariffs) may limit our ability to operate effectively and efficiently in international markets	🟡	🟡	🟡	🟢	🟡	🟡	🟢
Geopolitical shifts and instability in governmental regimes or expansion of global terrorism may restrict the achievement of our global growth and profitability objectives	🟡	🟡	🟡	🟢	🟢	🟡	🟢
Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organisation	🟡	🟡	🟡	🟢	🟢	🟡	🟢

Legend

🔴 Significant Impact — Rating of 6.0 or higher

🟡 Potential Impact — Rating of 4.5 — 5.99

🟢 Less Significant Impact — Rating of 4.49 or lower

TABLE 1 (CONTINUED)

STRATEGIC RISK ISSUES	BOARD	CEO	CFO	CRO	CAE	CIO/ CTO	OTHER C-SUITE
Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered	🔴	🟡	🔴	🔴	🔴	🔴	🔴
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organisation	🔴	🟡	🟡	🟡	🟡	🟡	🟡
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	🟡	🟡	🟡	🟡	🟡	🔴	🟡
Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyperscalable platforms) and/or other market forces may outpace our organisation's ability to compete and/or manage the risk appropriately, without making significant changes to our business model	🟡	🟡	🟡	🟡	🟡	🔴	🟡
Our organisation may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	🟡	🟡	🟡	🟡	🟡	🔴	🟡
Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business	🟡	🟡	🟡	🟡	🟡	🔴	🟡
Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share	🟡	🟡	🟡	🟡	🟡	🟡	🟡

STRATEGIC RISK ISSUES (CONTINUED)	BOARD	CEO	CFO	CRO	CAE	CIO/ CTO	OTHER C-SUITE
Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Shifts in environmental, social and governance (ESG) preferences as well as expectations of key stakeholders about climate change, diversity and inclusion, and other sustainability issues may be difficult for us to identify and address on a timely basis	🟡	🟢	🟡	🟢	🟢	🟡	🟢
Performance shortfalls may trigger activist shareholders who seek significant changes to our organisation's strategic plan and vision	🟡	🟢	🟡	🟢	🟢	🟡	🟢

OPERATIONAL RISK ISSUES	BOARD	CEO	CFO	CRO	CAE	CIO/ CTO	OTHER C-SUITE
Resistance to change may restrict our organisation from making necessary adjustments to the business model and core operations	🔴	🟡	🔴	🔴	🔴	🔴	🟡
Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets	🟡	🟡	🔴	🔴	🔴	🔴	🔴
Our existing operations, legacy IT infrastructure, and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" and with a low cost base for their operations, or established competitors with superior operations	🟡	🟡	🔴	🔴	🔴	🔴	🔴

TABLE 1 (CONTINUED)

OPERATIONAL RISK ISSUES (CONTINUED)	BOARD	CEO	CFO	CRO	CAE	CIO/ CTO	OTHER C-SUITE
Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand	🔴	🟡	🔴	🟡	🔴	🔴	🟡
Ensuring privacy/identity management and information security/system protection may require significant resources for us	🔴	🟡	🔴	🟡	🟡	🔴	🟡
Our organisation's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives	🟡	🟢	🔴	🟡	🟡	🔴	🟡
Third-party risks arising from our reliance on outsourcing and strategic sourcing arrangements, IT vendor contracts, and other partnerships/joint ventures to achieve operational goals may prevent us from meeting organisational targets or impact our brand image	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Inability to utilise data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plans	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Uncertainty surrounding the viability of key suppliers, scarcity of supply, or stable supply prices may make it difficult to deliver our products or services at acceptable margins	🟡	🟢	🟡	🟢	🟡	🟡	🟢
The behaviours and personal conduct of the organisation's management team and other key representatives may not conform to societal and ethical expectations (new in 2019)	🟡	🟢	🟡	🟢	🟢	🟡	🟢

A Call to Action: Questions to Consider

This report provides insights from 1,063 board members and executives about risks that are likely to affect their organisations over the next 12 months. Overall, most rate the business environment as less risky, and on an overall basis, respondents rated 26 of the 29 risks included in prior year surveys as lower in 2020 relative to 2019, but at a higher level than 2018 (recall we added one new risk in 2020).

The ever-changing risk landscape and the overall perceived magnitude and severity of risks should prompt boards and senior executives to closely scrutinise the approaches they use to keep an eye on emerging risks. Unfortunately, some organisations continue to manage risks the way they have for many years, even though the profile of risks is changing as business is transformed in the digital economy. Their risk profile is most certainly not yesterday's risks, and a focus on financial and compliance risks using static analogue-age tools without any conception of the organisation's risk appetite leaves decision makers across the company to their own devices. Soon those organisations may realise, once it's too late, that the level of investment in risk management and their willingness to engage in robust tools are inadequate.

Now may be the time for boards and C-suites to closely examine how their organisation approaches risk management and oversight in the digital age to pinpoint aspects requiring significant improvement. Managing today's risks using outdated techniques and tools may leave the organisation exposed to significant, undesirable risk events that could threaten its brand and reputation, and even its very survival.

Accordingly, in the interest of evaluating and improving the risk assessment process in light of the findings in this report, we offer executives and directors the following diagnostic questions to consider when evaluating their organisation's risk assessment and risk management process:

Assess impact of leadership and culture on our risk management process

Because culture and leadership significantly impact the organisation's approach to risk oversight:

- Is the board's and the C-suite's support for more robust risk management processes evident to key stakeholders across the organisation?
  - To what extent is our risk management process helping to foster robust discussion and dialogue about top risk issues among senior management and the board?
  - Is the board asking for more risk management information or is the board relatively uninterested in advancing the organisation's risk management processes?
- Do we have an accurate read on how our organisation's culture is affecting how employees engage in risk management processes and conversations? If so, how do we know?
- Are warning signs posted by the risk management function or internal audit addressed in a timely fashion by executive and operational management?
- Do we have a "speak up" culture that encourages transparency and sharing of contrarian information and bad news? Are our employees convinced they can "speak up" without fear of repercussions to their careers or compensation? For example, does the process:
  - Encourage an open, positive dialogue for identifying and evaluating opportunities and risks?
  - Focus on reducing the risk of undue bias and groupthink?
  - Give adequate attention to differences in viewpoints that may exist across different executives and different global jurisdictions?
- Is adequate attention given to red flags indicating warning signs of a dysfunctional culture that suppresses escalation of important risk information or encourages unacceptable risk taking?

Ensure our risk management approach is sufficiently robust

Because risks are constantly changing, the risk management process needs to be repeatable, clearly defined and adequately resourced to ensure business leaders are staying abreast of emerging issues:

- Is the process supported by an effective, robust methodology that is definable, repeatable and understood by key stakeholders?
  - To what extent is our risk management process mostly focused on internal, operational types of risks using a bottom-up approach to risk identification?
  - How extensively does our approach to risk identification foster consideration of risks that may have a higher-level strategic impact and that may be triggered by external events or competitor moves?
  - Would most stakeholders describe our approach to risk management as one that is siloed across disparate functions in the organisation and/or one that is more ad hoc than structured?
  - Does the process delineate the critical enterprise risks from the day-to-day risks of managing the business so as to focus the dialogue in the C-suite and boardroom on the risks that matter?
  - Do we engage all the right stakeholders in the risk identification process?
  - How often are we engaging in a formal or an informal risk assessment process? Is it frequent enough?
  - How extensively do we evaluate the effectiveness of responses that are intended to help prevent risk events from occurring and that might reduce the impact of the risk events should they occur?
- Is there a process for identifying emerging risks? Does the risk identification process allow the board and management enough time to adequately consider response plans to these risks?
- To what extent does our management dashboard system include robust key risk indicators that help the leadership team monitor shifts in risk trends?

Evaluate whether our risk focus is sufficiently comprehensive

Given the pace of change experienced in the industry and the relative riskiness and nature of the organisation's operations:

- To what extent are we centering our focus on risks in the context of our organisation's strategy, business objectives and operations? To what extent is the output about top risks identified by the organisation's risk management process serving as a critical input to the strategic planning process?
- Does the process consider a sufficient time horizon to pick up strategic risks, e.g., the longer the horizon, the more likely new risk issues will present themselves?
- To what extent is our focus on external risks linked to geopolitical shifts, emerging disruptive innovations and changes in macroeconomic factors?
- Do we consider the effects of changes in internal operations, personnel, processes, technologies, suppliers and third-party vendors in our ongoing assessment of risk?
- Does the process consider extreme as well as plausible scenarios?
- Are we encouraging the identification of opportunities to take on more risk on a managed basis?

> "The world is changing such that taking risk means much more than introducing new products and entering new markets. It entails becoming more innovative in re-imagining processes, disrupting business models and even re-inventing the organisation itself. That is why in the digital age, enterprise risk management has an important role to play in strengthening and nurturing the appropriate risk culture that facilitates the initiative, creativity, innovation and digital thinking so critical to success."
>
> Jim DeLoach, Managing Director, Protiviti

Clarify accountabilities for managing risks

Following completion of a formal or informal risk assessment:

- Are risk owners assigned for newly identified risks?
- Are effective risk response action plans developed to address the risk at the source? Are risk owners accountable for the design and execution of those responses?
- Is there an effort to source the root causes of certain risks that warrant a better understanding? Does the process look for patterns that connect potential interrelated risk events?
- Are we monitoring the business environment over time for evidence of changes that may invalidate one or more critical assumptions underlying the organisation's strategy? If so, when there is evidence that one or more critical assumptions underlying the strategy are becoming, or have become, invalid, does management act in a timely fashion on that knowledge to revisit the strategy and undertake necessary mid-course adjustments?
- Do decision-making processes consider the impact of a decision on the organisation's risk profile?
  - Have we sufficiently communicated the relative value and importance of considering risk in decision-making across the enterprise?
  - Is the board sufficiently involved in the decision-making process, particularly when it involves acquisition of new businesses, entry into new markets, the introduction of innovative technologies or alteration of key assumptions underlying the strategy?
  - Is there actionable, current risk information that is widely shared to enable more informed decision-making?
- Are significant risks related to the execution of the strategy and business model monitored over time to consider whether changes have occurred requiring corrective action and the organisation operates within established risk tolerances in meeting key business objectives?

Communicate an enterprise view of top risks and board risk oversight

With respect to communicating and overseeing the risk profile:

- Is the board informed of the results of management's risk assessment on a timely basis? Do directors agree with management's determination of the significant risks?
- Are significant risk issues warranting attention by executive management and the board escalated to their attention on a timely basis? Does management apprise the board in a timely manner of significant emerging risks or significant changes in the organisation's risk profile?
- With respect to the most critical risks facing the organisation, do directors understand at a high level the organisation's responses to these risks? Is there an enterprisewide process in place that directors can point to that answers these questions and is that process informing the board's risk oversight effectively?
- Is there a periodic board-level dialogue regarding management's appetite for risk and whether the organisation's risk profile is consistent with that risk appetite? Is the board satisfied that the strategy-setting process appropriately considers a substantive assessment of the risks the enterprise is taking on as strategic alternatives are considered and the selected strategy is executed?
- Given the organisation's risk profile, does the board periodically consider whether it has access to the diverse expertise and experience needed — either on the board itself or through access to external advisers — to provide the necessary oversight and advice to management?

These and other questions can assist organisations in defining their specific risks and assessing the adequacy of the processes informing their risk management and board risk oversight. We hope the important insights about the perceived risks on the horizon for 2020 provided in this executive summary prove useful. We also hope that the insights serve as a catalyst for an updated assessment of risks and the risk management capabilities in place within all organisations, as well as improvement in their risk assessment processes and risk management capabilities.

Methodology

We are pleased that participation from executives was very strong this year. Globally, 1,063 board members and executives across a variety of industries participated in this survey. This represents a 29% increase in participation over last year's 825 responses (and 46% more than in our 2018 report). Our survey captures insights from C-suite executives and directors, 39% of whom represent companies based in North America, 22% in Europe, 18% in Asia and Australia/New Zealand, and the remaining 21% from Latin America, India, Africa and the Middle East.

Our survey was conducted online in the fall of 2019. Each respondent was asked to rate 30 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organisation over the next year.

For each of the 30 risk issues, we computed the average score reported by all respondents. Using mean scores across respondents, we rank-ordered risks from highest to lowest impact. This approach enabled us to compare mean scores across the past three years to highlight changes in the perceived level of risk.

Consistent with our prior studies, we grouped all the risks based on their average scores into one of three classifications:

- Risks with an average score of **6.0 or higher** are classified as having a **"Significant Impact"** over the next 12 months.
- Risks with an average score of **4.5 through 5.99** are classified as having a **"Potential Impact"** over the next 12 months.
- Risks with an average score of 4.49 or lower are classified as having a **"Less Significant Impact"** over the next 12 months.

We refer to these risk classifications throughout our report, and we also review results for various subgroups (i.e., company size, position held by respondent, industry representation, geographic location, organisation type, and presence of rated debt). With respect to the various industries, we grouped related industries into combined industry groupings to facilitate analysis, consistent with our prior years' reports.

Table 2 on the next page lists the 30 risk issues rated by our respondents, arrayed across three categories — Macroeconomic, Strategic and Operational.

List of 30 Risk Issues Analysed

MACROECONOMIC RISK ISSUES
• Anticipated volatility in global financial markets and currency exchange rates may create significantly challenging issues for our organisation to address
• Political uncertainty surrounding the influence and continued tenure of key global leaders may impact national and international markets to the point of significantly limiting our growth opportunities
• Evolving changes in global trade policies (e.g., Brexit, NAFTA update, escalating tariffs) may limit our ability to operate effectively and efficiently in international markets
• Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organisation
• Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organisation
• The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing) in our organisation may require new skills that either are in short supply or require significant efforts to upskill and reskill existing employees[2]
• Geopolitical shifts and instability in governmental regimes or expansion of global terrorism may restrict the achievement of our global growth and profitability objectives
• Anticipated increases in labour costs may affect our opportunity to meet profitability targets
• Unexpected change in the current interest rate environment may have a significant effect on the organisation's operations

[2] Represents a new risk added to the 2020 survey.

STRATEGIC RISK ISSUES
• Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyperscalable platforms) and/or other market forces may outpace our organisation's ability to compete and/or manage the risk appropriately, without making significant changes to our business model
• Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business
• Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered
• Shifts in environmental, social and governance (ESG) preferences as well as expectations of key stakeholders about climate change, diversity and inclusion, and other sustainability issues may be difficult for us to identify and address on a timely basis
• Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share
• Our organisation may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation
• Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement
• Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organisation
• Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives
• Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base
• Performance shortfalls may trigger activist shareholders who seek significant changes to our organisation's strategic plan and vision

OPERATIONAL RISK ISSUES
• The behaviours and personal conduct of the organisation's management team and other key representatives may not conform to societal and ethical expectations (new in 2019)
• Uncertainty surrounding the viability of key suppliers, scarcity of supply, or stable supply prices may make it difficult to deliver our products or services at acceptable margins
• Third-party risks arising from our reliance on outsourcing and strategic sourcing arrangements, IT vendor contracts, and other partnerships/joint ventures to achieve operational goals may prevent us from meeting organisational targets or impact our brand image
• Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets
• Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand
• Ensuring privacy/identity management and information security/system protection may require significant resources for us
• Our existing operations, legacy IT infrastructure, and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" and with a low cost base for their operations, or established competitors with superior operations
• Inability to utilise data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plans
• Resistance to change may restrict our organisation from making necessary adjustments to the business model and core operations
• Our organisation's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives

Research Team

This research project was conducted in partnership between Protiviti and NC State University's Enterprise Risk Management Initiative. Individuals participating in this project include:

NC State University's ERM Initiative

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We also would like to thank the **Nedcommunity,** an organisation of non-executive independent directors, and the **Associazione Italiana Internal Auditors** for their efforts in inviting board members and C-suite executives in Italy to participate in our study.

About Protiviti

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 75 offices in over 20 countries.

We have served more than 60% of *Fortune* 1000® and 35% of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

About NC State University's ERM Initiative

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at NC State University provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance, host executive workshops and educational training sessions, and issue research and thought papers on practical approaches to implementing more effective risk oversight techniques (www.erm.ncsu.edu).

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