ISSUE 111

BOARD PERSPECTIVES: Risk Oversight

THE TOP RISKS FOR 2019

The latest survey of C-level executives and directors conducted by Protiviti and North Carolina State University's ERM Initiative on the macroeconomic, strategic and operational risks that organizations face indicates a challenging year lies ahead.

Overall, 825 C-level executives and directors participated in this year's global study, with 45 percent representing companies based in North America. As with our prior surveys, the results captured significant uncertainties by industry, executive position, company size and type, and geographic area. Overall, the important message is that the survey participants noted an increasingly risky global business environment in 2019 compared to 2018.

Consistent with prior years, boards and C-suite executives presented a range of views on the magnitude and severity of risks for 2019. This finding suggests the need for dialogue at the highest levels of the organization to ensure everyone agrees on the risks most critical to the enterprise.

In the table provided on the following page, we rank the highest-rated risk themes in order of priority to provide a context for understanding the most critical uncertainties companies face as the year 2019 gets underway. Below we summarize five key takeaways:

Global business environment is riskier in 2019 — Survey respondents indicate that the overall global business context is somewhat riskier in 2019 relative to the two prior years. Our prior-year survey respondents only rated seven of the top 10 risks higher for 2018 relative to 2017. However, for 2019, respondents rated every top 10 risk higher for 2019 relative to 2018. A majority of respondents rated each of the top 10 risks as a "significant impact" risk, using our survey methodology. Likewise, risk levels for the top 10 risks in 2019 were higher than in 2017. That suggests a potential shift in views about the relative riskiness of 2019 compared to the past two years.

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Face the Future with Confidence

There are notable shifts in the top 10 risks for 2019 — A comparison of the top 10 risks to last year shows that the top risk — existing operations and legacy IT systems not meeting performance expectations against competitors, especially "born digital" and/or low-cost-base competitors — jumped all the way from the 10th spot last year. This risk is a composite of several significant uncertainties. Those uncertainties include the company's digital readiness, its lack of resiliency and agility in staying ahead of or keeping pace with changing market realities, the restrictive burden of significant technical debt, lack of out-of-the-box thinking about the business model, failure to probe fundamental assumptions underlying the strategy, and the existence or threat of more nimble competitors. Respondents in five of the six industry groups we examined selected this risk as a top five concern, and rated it as a "significant impact" risk concern for 2019.

One risk returned to the top 10 in 2019 after dropping off in the prior year. Respondents indicated their concerns about increasing difficulty in sustaining customer loyalty and retention in light of evolving customer preferences and demographic shifts in their customer base. This risk had appeared on the top 10 risk list in our 2015, 2016 and 2017 reports.

The remaining top 10 risks were ranked in a different order last year; therefore, the mix is similar, but the ranking order has shifted. As in the prior year, seven of the top 10 represent operational risk concerns, while the remaining three represent strategic risk concerns. No macroeconomic risk concerns made the top 10 list of risks for 2019 for the overall global sample.

Nature of concerns over uncertainty varies across the world — Overarching views about uncertainty in the business environment seem to be global in reach. Survey respondents in North America identified the same top five risks as reported globally, with resistance to change and cyber risk in the fourth and fifth spots, respectively. Respondents in Europe placed regulatory risk in the top spot and ranked economic conditions as the fourth-highest risk, with cyber risk, competitor risk and talent risk rounding out the top five risks. Meanwhile, respondents in Asia reported big data and supply chain issues as top five concerns along with talent risk, regulatory

TOP 10 RISKS FOR 2019[1]

RISK ISSUE
Existing operations meeting performance expectations, competing against "born digital" firms
Succession challenges and ability to attract and retain top talent
Regulatory changes and regulatory scrutiny
Cyber threats
Resistance to change operations
Rapid speed of disruptive innovations and new technologies
Privacy/identity management and information security
Inability to utilize analytics and big data
Organization's culture may not sufficiently encourage timely identification and escalation of risk issues
Sustaining customer loyalty and retention

[1] *Executive Perspectives on Top Risks for 2019*, Protiviti and North Carolina State University's ERM Initiative, available at www.protiviti.com/toprisks.

risk and competitor risk. Respondents in Australia and New Zealand, Latin America, the Middle East, and India reported the same top risks as the global results, except for cyber risk; in its place is the risk of disruptive innovation.

Firms are more likely to invest in risk management — Interestingly, respondents indicate that they are more 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, suggesting a greater desire to invest in strengthening risk management capabilities. That is especially true for financial services organizations as well as the largest organizations (revenues greater than US$10 billion) in our sample. Individuals serving on boards indicate the greatest desire to devote additional time or resources to risk management, perhaps to better inform their risk oversight processes. The overall reality of the riskiness of the global business environment continues to motivate boards and senior executives to renew their focus on effective risk oversight.

Regulatory concerns persist, and economic concerns vary across the globe — Survey respondents (particularly in Europe) remain troubled over the threat of regulatory change and increased scrutiny, which has been a top 10 risk in all seven years of the survey. But for the first time, concerns about economic conditions fell out of the top 10 list of risks for 2019 for the overall survey. Despite that finding for the overall sample, respondents in Europe, Latin America and South America, the Middle East, and Africa did include economic concerns as a top five risk concern for 2019. Perceptions of economic risks are like a swinging pendulum, as they can change quickly over a short period as new developments transpire (including after our survey period). Interestingly, board members and chief executive officers rated economic conditions as a top five risk, ranking it in the third and fourth spots, respectively.

In summary, we encourage interested parties to read the executive summary of our survey results to learn more. Looking forward, the message is that digital disruption and changing demographics are major drivers of risk impacting uncertainty over business model viability, customer preferences, the competitive landscape, workplace dynamics and even regulatory demands. It's clear that organizations must align their culture, people, processes and intelligence-gathering to embrace this rapidly changing business environment.

Risks have increased, both individually and overall, pointing to a perceived higher-risk environment over the next year. The mix of the top 10 risks is largely unchanged, but the ranking order has shifted. Seven of the top risks are operational in nature, and the other three are strategic. The top risks also vary in different regions across the globe. It all adds up to exciting times ahead.

Questions for Boards

The board of directors may want to consider the above risks in evaluating its risk oversight focus for the coming year in the context of the nature of the entity's risks inherent in its operations. If their companies have not identified these issues as risks, directors should consider their relevance to the company's business and ask why not.

How Protiviti Can Help

We assist boards and executive management in identifying and assessing the enterprise's risks and implementing strategies and tactics for managing risk. Also, we assist public and private companies with integrating their risk assessment process with their core business processes, including strategy-setting and execution, business planning, and performance management. We provide an experienced, unbiased perspective on issues separate from those of company insiders to help organizations improve their risk reporting to better inform the board's risk oversight process.

Is It Time for Your Board to Evaluate Its Risk Oversight Process?

The TBI Protiviti Board Risk Oversight Meter™ provides boards with an opportunity to refresh their risk oversight process to ensure it's focused sharply on the opportunities and risks that truly matter. Protiviti's commitment to facilitating continuous process improvement to enable companies to confidently face the future is why we collaborated with The Board Institute, Inc. (TBI) to offer the director community a flexible, cost-effective tool that assists boards in their periodic self-evaluation of the board's risk oversight and mirrors the way many directors prefer to conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at http://theboardinstitute.com/board-risk-meter/.

Learn more at
www.protiviti.com/boardriskoversightmeter

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 percent of *Fortune* 1000® and 35 percent 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.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on https://blog.nacdonline.org/authors/42/. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.

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