



ISSUE 123

BOARD PERSPECTIVES: Risk Oversight

A LOOK AT THE TOP 2020 RISKS

Our global survey of C-level executives and directors of macroeconomic, strategic and operational risks highlights the influence of the economy, talent, digital disruption and culture on the risk landscape.¹

Our survey captures insights from 1,063 C-level executives and directors across multiple industries. Of the respondents, 39% represent companies based in North America, 22% in Europe, 18% in Asia, Australia and New Zealand, and 21% in Latin America, the Middle East, India and Africa. As with our prior surveys, the results captured significant uncertainties by industry, executive position, company size and type, and geographic area.

In the table on the next page, we rank the top 10 risk themes in order of priority to provide a context for understanding the most critical uncertainties companies face looking forward to 2020. Key takeaways are summarized below.

The global business environment is slightly less risky in 2020, but risk levels remain higher than in 2018: The elevated view of overall risk levels we observed in 2019

continues in 2020, as risk levels for eight of the top 10 risks in 2020 were higher than the ratings in 2018. Prior year survey respondents rated all of the top 10 risks higher for 2019 relative to 2018. But this year, looking forward to 2020, only two top 10 risks were rated higher than in 2019. Despite this overall shift toward slightly lower risk levels for 2020, a majority of respondents still rate each of the top 10 risks as a “Significant Impact” risk, according to our survey methodology.

Most executives are concerned about the economy: One risk — concerns about economic conditions significantly restricting growth opportunities — jumped to the second spot for 2020. On the top 10 list for six of the seven prior years that we have conducted our surveys, this risk fell to the 11th position in 2019. Recent concerns about the overall strength

¹ *Executive Perspectives on Top Risks 2020*, Protiviti and North Carolina State University's ERM Initiative, December 2019, available at www.protiviti.com/US-en/insights/protiviti-top-risks-survey.

of the global economy, particularly in light of the ongoing Brexit debate between the United Kingdom and European Union, uncertainties over global trade discussions, declines in certain manufacturing sectors, and a general reduction of growth in major economies have clearly heightened this risk for 2020. The economy was also the top risk condition for board members, CEOs, CFOs and CIOs, and made it to the top five list for all regions of the world we analyzed for 2020 except for North America.

There are uncertainties over the future of work:

A new risk — short supply of needed talent for the adoption of AI-enabled technologies — that we added to our 2020 survey actually made it into the top 10 (tenth overall). Respondents appear to be concerned about their ability to attract, retain, and reskill and upskill the talent that the organization needs as it adopts digital technologies to improve operational efficiencies. The remaining risks in the top 10 for 2020, with the exception of economic concerns, were also in the top 10 for 2019 in similarly ranked positions as 2019, for the most part.

Two overarching themes dominate the top 10:

As companies strive to advance their digital maturity and embrace the transformative potential of technology, there are two interconnected themes in our survey results to consider. The first concerns an organization’s ability to attract and retain the right talent and ensure that an appropriate corporate culture is in place. This theme has the potential to directly influence a second theme: concerns over the organization’s ability to execute increasingly complex strategies for navigating a rapidly changing digital marketplace. We refer to these two themes as “talent and culture” and “technology and innovation,” respectively.

- **Talent and Culture:** This theme pertains to four risks in our top 10 list. Talent risks include uncertainties around succession and attracting and retaining top talent that is in high demand, as well as the formidable challenges associated with reskilling and upskilling talent that is

| TOP 10 RISKS FOR 2020 | |
|---|---|
|  | Impact of regulatory change and scrutiny on operational resilience, products and services |
|  | Economic conditions impacting growth |
|  | Succession challenges; ability to attract and retain talent |
|  | Ability to compete with “born digital” and other competitors |
|  | Resistance to change operations |
|  | Cyber threats |
|  | Privacy and identity management and information security |
|  | Organization’s culture may not encourage timely identification and escalation of risks |
|  | Sustaining customer loyalty and retention |
|  | Adoption of digital technologies may require new skills that are in short supply |

needed thanks to the emergence of new job roles as a result of adopting AI-enabled technologies. Culture risks revolve around resistance to change and organizational dysfunction associated with the inability to escalate risks in a timely manner.

- **Technology and Innovation:** This theme pertains to five risks. Three such risks involve the viability of existing operations, legacy information technology systems, and digital capabilities in competing with “born digital” players; cyber threats; and privacy and information security issues. The top risk — the threat of disruptive regulatory change — is also relevant to this theme due to concerns that changes in regulations can impact a company’s ability to innovate and transform its business model. Finally, the

risk pertaining to customer preferences is germane to this theme because embracing technology and innovation are key to maintaining customer loyalty.

In summary, an organization's digital maturity, ability to innovate and culture can affect its ability to source and keep A-player talent in direct and powerful ways.

Operational concerns link to strategic implications: Six of the top 10 risks are operational in nature suggesting that respondents are focused on those issues to a greater extent than strategic or macroeconomic risks. Our assessment of these risks indicates that they have strategic underpinnings. For example, privacy concerns may reflect uncertainty about a company's ability to execute its strategy and could spawn risk-averse behavior impacting its competitive position. Concerns regarding the ability to attract and retain the talent that is needed to take a business forward in the digital age, while operational in nature, also have strategic implications. A digital-savvy leadership and the requisite digital expertise are vital to the execution of the strategy and remaining competitive.

Global concerns persist regarding potentially disruptive regulatory change: The concern over increased regulation 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 impact risk. It has strategic underpinnings as it affects companies' operational resilience and the manner in which products and services are produced and delivered.

Nature of concerns related to uncertainty varies globally: The overall magnitude of risks increased for respondents in North American-based and African-based organizations, but respondents in all other regions indicated a lower overall magnitude for 2020 relative to 2019. Operational risks dominate most top five lists, led by North America, which includes four such risks in its top five. The restrictive impact of regulatory changes and scrutiny appears on every region's top five list. Economic conditions are a top five concern in every region except North America. Most regions rate all of their top five risks as "Significant Impact," except for European and African organizations rating four of their top five risks at that level.

There is still a propensity to invest in risk management: Respondents noted that they are slightly less likely to devote additional time or resources to managing risk over the next 12 months relative to their plans in 2019. However, the likelihood of investing remains higher than two years ago, hinting at a continued appetite for improving risk management.

We encourage interested parties to read the executive summary of our survey results on the Protiviti website. Consistent with prior years, there is variation in views among boards and C-suite executives regarding the magnitude and severity of risks for 2020, which suggests the need for dialogue at the highest levels of an organization to ensure everyone agrees on the critical enterprise risks. The message is that economic concerns abound, and companies continue to cope with different forms of disruption, largely stemming from the pace of change in the digital economy.

Questions for Boards

The board of directors may want to consider the above risks in evaluating its risk oversight focus for the coming year. If management has 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 with identifying and assessing the enterprise's risks and implementing strategies and tactics for managing risk. We also help public and private companies integrate 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.

Audit Committee Self-Assessment Questions

In these dynamic times, it is best practice for boards and their standing committees and individual directors to self-assess their performance periodically and formulate actionable plans to improve board performance based on the results of that process. To that end, audit committees should consider the illustrative questions we have made available at www.protiviti.com/US-en/insights/bulletin-assessment-questions-audit-committees. These comprehensive questions consider the committee's composition, charter, agenda and focus and may be customized to fit the committee's assessment objectives in light of current challenges the company is facing.

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 on the opportunities and risks that truly matter. It offers boards a flexible, cost-effective tool for assessing their risk oversight and mirrors the way many directors conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at <http://theboardinstitute.com/board-risk-meter/>.

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.