



Executive Perspectives on Top Risks for 2014

Key Issues Being Discussed in the Boardroom and C-Suite

*Research Conducted by Protiviti and
North Carolina State University's ERM Initiative*

INTRODUCTION

There are encouraging signs of an improving business climate, as exhibited by somewhat lower unemployment rates and a resurgence in consumer confidence, manufacturing and construction activity, among other factors during the survey period. The global business environment continues to evolve rapidly, creating opportunities and challenges for all types of organizations. Uncertainties linked to U.S. federal spending, the rollout of the Affordable Care Act in the United States, and the effects of technological innovation, expanding regulation and oversight, new competitive forces, and a host of other significant risk drivers are all contributing to the risk dialogue in boardrooms and executive offices. Organizations in virtually every industry and country are reminded, all too frequently, that they operate in a risky world.

Protiviti and North Carolina State University's ERM Initiative are pleased to provide this report about the top risks on the minds of global boards of directors and executives for 2014. This report contains results from our second annual risk survey of directors and executives to obtain their views about what risks they believe are likely to affect their organization over the next 12 months. Our respondent group, composed primarily of board members and C-suite executives, provided their perspectives about the potential impact in 2014 of 22 specific risks across these three dimensions:¹

- **Macroeconomic risks** likely to affect the organization's growth opportunities over the next 12 months
- **Strategic risks** the organization faces that may affect the validity of its strategy for the pursuit of growth opportunities over the next 12 months
- **Operational risks** that might affect key operations of the organization in executing its strategy over the next 12 months

In presenting the results of our research, we begin with a brief description of our methodology and an executive summary of the results. Following this introduction, we discuss the overall risk concerns for 2014, including how they changed from 2013, followed by a review of results by size of organization and type of executive position, as well as breakdowns by industry,² type of ownership structure (i.e., public company, privately held, not-for-profit and government), and geographic location of headquarters (i.e., U.S.-based or outside the United States). We conclude with a discussion of the organizations' plans to improve their capabilities for managing risk.

¹ Our prior year report about 2013 risks included 20 specific risks. We added two additional risks to the survey for this 2014 report. See table in the Methodology section for a list of the 22 risks addressed in this study.

² We organized related industries into combined industry groupings to facilitate analysis.

METHODOLOGY

More than 370 board members and executives across a number of industries participated in this survey, which was conducted in person and online in the fourth quarter of 2013. We are pleased that our participation from executives increased significantly over the 205 individuals who participated in the prior year survey. Each respondent was asked to rate 22 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 the organization over the next year.

For each of the 22 risk issues included in our survey, 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 between years to ascertain change in the perceived level of risk.

Consistent with our prior year study, 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 5.9** are classified as having a “**Potential Impact**” over the next 12 months.
- Risks with an average score of **4.4 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 also review results for various demographic groups (position held by respondent, company size, industry representation, organization type, and geographic location). With respect to the various industries, we grouped related industries into combined industry groupings to facilitate analysis.

The table on the following page lists the 22 risk issues rated by our respondents, arrayed across three categories – Macroeconomic, Strategic and Operational.

Macroeconomic Risk Issues

- Anticipated volatility in global financial markets and currencies will create challenging issues for our organization to address
- Uncertainty surrounding political leadership in national and international markets will limit growth opportunities
- Potential changes in trade restrictions or other government sanctions will limit our ability to operate effectively and efficiently in international markets
- Access to sufficient capital will restrict growth opportunities for our organization
- Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization
- Uncertainty surrounding costs of complying with healthcare reform legislation will limit growth opportunities for our organization *[Note: This represents a new risk issue added to the 2014 survey that was not included in our 2013 survey]*

Strategic Risk Issues

- Rapid speed of disruptive technological innovations within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our operating model
- Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered
- Shifts in social, environmental, and other customer preferences and expectations will be difficult for us to identify and address on a timely basis
- Ease of entrance of new competitors into the industry and marketplace will threaten our market share
- An unexpected crisis would likely have a significant impact on our reputation given our organization's existing preparedness
- Growth through acquisitions, joint ventures, and other partnership activities will be difficult to identify and implement
- Organic growth through customer acquisition and/or enhancement presents a significant challenge
- Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon

Operational Risk Issues

- Uncertainty surrounding the viability of key suppliers or scarcity of supply will make it difficult to deliver our products or services
- Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand *[Note: This represents a new risk issue added to the 2014 survey that was not included in our 2013 survey]*
- Succession challenges and the ability to attract and retain top talent may limit our ability to achieve operational targets
- Cyber threats have the potential to significantly disrupt core operations for our organization
- Ensuring privacy/identity management and information security/system protection will require significant resources for us
- Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors
- Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency is likely to affect our management of core operations and strategic plan
- Resistance to change will restrict our organization from making necessary adjustments to the business model and core operations

EXECUTIVE SUMMARY

Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures on boards to be effective in risk oversight lead to continued calls for management to design and implement effective risk management processes to ensure operational and functional leaders identify, assess, understand and manage the organization's key risk exposures.

One of the first questions an organization seeks to answer in risk management is, "What are our most critical risks?" The organization's answer to this question lays the foundation for management to respond with appropriate capabilities for managing the risks. This survey provides insights across different sizes of companies and across multiple industry groups as to what the key risks are for 2014 based on the input of the participating directors and executives.

Among the notable findings in this study:

- The top risk concerns for 2014 largely mirror the top risk concerns from the prior year. While executives continue to be concerned about uncertainties surrounding the magnitude and severity of risks that could affect the achievement of profitability or funding goals over the next year, there was a slight reduction in their perceptions of the overall risk impact in 2014 relative to 2013.
- Boards of directors appear to view the business environment as more risky than management does. Directors rated four of their top five risks as "Significant," more than any of their executive counterparts, and the overall risk assessment scores by board members for their top five risks increased from 2013, suggesting a shift toward a perceived riskier environment for 2014. In contrast, none of the executive positions rated more than two risks as "Significant Impact" risks. Why does this unexpected anomaly exist? While it may be due to a much smaller sample size for directors, one possible reason is that this study determined that the risks with the highest ratings were primarily strategic in nature and that many directors tend to focus more on strategic rather than operational issues. This finding may be an aberration and, most certainly, is an area we intend to focus on in next year's study. Regardless, we believe the possibility that boards and executives differ in their perspectives about risks calls for conversations between them about risk issues on the horizon.

Key Findings

- The overall survey responses suggest a business environment in 2014 that is slightly less risky for organizations than it was a year ago, although board members, when viewed discretely from the rest of our respondents, tend to perceive this year as more risky.
- Overall, strategic risk concerns show the largest year-over-year increase in risk scoring.
- Regulatory change and heightened regulatory scrutiny represents the top overall risk for the second consecutive year.
- Economic conditions in domestic and international markets are again a highly ranked risk, but there is a notable year-over-year decrease in the risk score.
- Cyber threats and privacy/identity management not only rank among the top 10 risks for 2014, but are ranked even higher, compared to the overall results, among many respondent groups, including large organizations.
- Uncertainty surrounding political leadership affecting U.S. and international markets represents another key risk that may affect or restrict growth opportunities for organizations.

- The five risks for 2014 with the greatest increase in risk scores from 2013 primarily relate to strategic risk concerns (though the risk with the greatest increase was macroeconomic: access to sufficient capital). Challenges associated with emerging competition, disruptive innovation, the ability to grow through acquisitions, and the emergence of substitute products increased notably in 2014 compared to 2013. In contrast, those risks that decreased the most from 2013 to 2014 tend to relate to macroeconomic risk issues. Encouraging signs in the economy may be lessening respondent concerns about issues related to economic issues.
- Overall, one strategic risk stands out as being of the highest concern: Overwhelmingly, respondents signaled their greatest risk challenge surrounds uncertainties regarding regulatory change and heightened regulatory scrutiny. That risk was rated at or near the top no matter how we analyzed the data. Even organizations in industries in which regulations are not typically viewed as having as significant an effect, including not-for-profits and governments, rated this risk near the top. There appears to be a general concern that broader government and regulatory interventions may have a significant effect on profitability and growth.
- In addition to concerns about regulatory change, other risks viewed as potentially having a major impact in the coming year relate to challenges associated with the uncertain economy and concerns about growth opportunities being restricted by uncertainty surrounding political leadership in national and international markets.
- Among the mix of types of risks, boards of directors, CEOs and CFOs identified mostly macroeconomic risks as their top five risk concerns, followed by strategic concerns. In contrast, CROs primarily pinpointed operational risks as their top five risk concerns. These findings emphasize the importance of obtaining perspectives from multiple executives when identifying and assessing the top emerging risks for an organization.
- Other top risks, while not perceived as having a “Significant Impact” overall, include risks related to succession planning and attracting/retaining top talent; concerns about the ability to grow organically through customer acquisition; cyber threats; resistance to change; privacy, identity management and other information security and system protection risks; and anticipated volatility in global financial markets. Rounding out our top 10 list of risks is a new risk we added for 2014 related to uncertainties surrounding costs of complying with healthcare reform legislation and the impact of those uncertainties on growth. Not surprisingly, this risk was considered relevant by companies with operations in the United States.

A number of other insights about the overall risk environment for 2014 can be gleaned from this report:

- The environment for the largest organizations appears to be the riskiest relative to the other size categories. They rated more of the 22 risks as “Significant Impact” risks relative to the other size categories and they had no risks rated in the lowest category, which we classify as “Less Significant Impact” risks. Despite this finding, we did observe an overall shift between 2013 and 2014 toward a more complex risk environment for the smallest organizations.
- Succession issues and the ability to attract and retain talent remain a top risk concern for all sizes of organizations, with the exception – perhaps surprisingly – of the very largest organizations (those with revenues of \$10 billion or greater). Conversely, the largest organizations were the only size category to include concerns about volatility in the global capital markets and currencies as a top five risk concern. In addition, cyber threats and issues surrounding privacy/identity management and information security moved into the list of top five risk issues in 2014 for the largest organizations, but was not viewed as a top five risk for the smaller organizations. These findings emphasize the reality that there is no “one size fits all” list of risk concerns. Risks must be evaluated in the context of the organization’s business.

- The magnitude of concern about regulatory change and increased regulatory scrutiny is notably high for the Financial Services industry and the Healthcare and Life Sciences industry. The average scores for that risk using a 1-to-10 point scale (where “10” indicates “Extensive Impact”) are 7.3 and 8.2 for the Financial Services and Healthcare and Life Sciences industry groups, respectively. Out of all the risk scores reported in this report, the average risk scores rarely exceed 7.0, which demonstrates the relative significance of regulatory concerns for these two industries (though there was a year-over-year drop in this risk score for Financial Services organizations).
- Given the focus on healthcare in light of the Affordable Care Act in the United States, as well as economic, political and other uncertainties, it is not surprising that respondents from the Healthcare and Life Sciences industry group indicated they are facing the greatest amount of risk relative to all other industries for 2014. Respondents in that industry rated six of the 22 risks (which include all of their top five risks)³ as “Significant Impact” risks. Most of the other 22 risks fell in the middle impact risk category (“Potential Impact”).
- Interestingly, not-for-profit and governmental organizations indicated more risks as “Significant Impact” risks than either public or private for-profit organizations. In fact, all of their top five risks are “Significant Impact” risks. Publicly held and private for-profit entities each only indicated one risk as a “Significant Impact” risk (the risk related to regulatory change and scrutiny), and most of their top five risk scores were lower in 2014 than 2013.
- U.S.-based and non-U.S.-based organizations identified four of the same risks in each of their top five risk concerns, suggesting that the types of risk concerns appear to be similar at a global level. However, while four of the top five risks are the same, non-U.S.-based organizations rated those risks as higher, or more significant, than U.S.-based organizations.
- The largest organizations and not-for-profit organizations signaled the greatest likelihood of devoting additional resources to risk management over the next 12 months.

In this report, we provide in-depth analysis of perceptions about specific risk concerns, and identify and discuss variances in the responses when viewed by organization size, ownership type and industry, as well as by respondent role.

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

³ The list of top five risks for the Healthcare and Life Sciences industry includes six risks given that two risks tied with the same risk score.

OVERALL RISK CONCERNS FOR 2014

The top 10 risk concerns for 2014 largely mirror the top risk concerns noted in our 2013 report, but we did observe an overall reduction in the intensity of the perceived risk impacts between 2013 and 2014. For most of the top 10 risks, the overall assessments of risk impact are lower in 2014 than the scores for those same risks in 2013. This suggests that while there continue to be significant risk issues for organizations of all types, there are some signs of improved conditions and less uncertainty in the overall business environment for 2014. (However, as we note later in our report, there are a number of differences when reviewing specific breakdowns of the results – for example, board members appear to perceive higher risk levels relative to 2013.)

Again topping the list of risks is the concern that **regulatory changes and heightened regulatory scrutiny** may affect the manner in which an organization's products and services will be produced or delivered. This suggests companies continue to have significant concerns that regulatory challenges may affect their strategic direction. The stakes are high since, without effective management of regulatory risks, organizations are reactive, at best, and non-compliant, at worst, with all of the attendant consequences. Even marginally incremental regulatory change can add tremendous cost to an organization, and the mere threat of change can create significant uncertainty that can hamper hiring and investment decisions. The pace of regulatory and legislative change can affect an organization's operating model to produce or deliver products or services, alter its costs of doing business, and affect its positioning relative to its competitors.

Consistent with the prior year survey, the next two highest-rated risk concerns highlight interrelated macroeconomic issues. Respondents indicated notable concerns about overall **economic conditions restricting growth** as well as concerns about **uncertainty surrounding political leadership affecting U.S. and international markets**, which in turn may also restrict growth opportunities. The challenge of adjusting to changes in the global economy along with continued shifts in geopolitical dynamics,

Table 1: Top 10 Risks



including divided government in the United States, presents a complex, ever-changing picture. In rating this risk, executives and directors may be mindful that the pace of economic growth could shift, dramatically and quickly, in any region of the global market.

Also included in the top five risks are concerns about **succession planning and acquiring and retaining top talent** as well as concerns about the **ability to grow organically through customer acquisition**. Succession planning and talent acquisition/retention remained at last year's level of risk, while concerns related to organic growth lightened somewhat. The war for talent remains a concern, as a significant shortfall of workers looms on the horizon in many developed countries. This risk translates into succession issues that may not be addressed adequately. To that end, organizations are considering alternative staffing models that provide more flexibility, such as part-time arrangements and contractors for retaining or replacing talent. In addition, organic growth through expanding the overall customer base, increasing output per customer and generating new sales is a priority as organizations are concerned with the high costs of replacing lost business and the significant uncertainties of seeking growth through mergers and acquisitions. This could be due to a number of factors, e.g., increased competition, the challenge of retaining customer loyalty, and reduced consumer spending due to lower disposable income.

Rounding out the top 10 risks:

- **Cyber threats have the potential to disrupt core operations significantly** – Over the last two years, reports of cyber attacks of unprecedented sophistication across multiple industries, resulting in loss of intellectual property and business intelligence, have made the headlines. While these stakes are serious enough, the consequences could also include loss of business. Since it is unlikely that all breaches have been reported, the sheer number and magnitude of malicious attacks create a need to better understand the threats and develop proactive solutions to mitigate them. While new developments (e.g., social business, cloud computing, mobile computing, new platforms and devices, and workplace virtualization, among others) present opportunities for companies to create new markets and disruptive business models, they also represent a moving target in terms of changing technology that makes security and privacy more complex and tougher to manage and control, resulting in fresh venues for cyber attacks.
- **Resistance to change may restrict necessary adjustments to the business model and core operations** – In these uncertain times, it makes sense to increase the organization's ability to change and adapt to a rapidly evolving business environment. Therefore, response readiness is important, as is the agility and resiliency of the organization. Early movers to exploit market opportunities and respond to emerging risks are more likely to survive and prosper in a rapidly changing environment.
- **Privacy/identity management and information security/system protection** – Technological innovation is a powerful source of disruptive change of which no one wants to be on the wrong side. Cloud computing, social media, mobile technologies and other initiatives to use technology as a source of innovation and an enabler to strengthen the customer experience present new challenges for managing privacy, information and system security risks.
- **Anticipated volatility in global financial markets and currencies** – Significant financial risks in the form of emerging market, credit, currency and other risks continue to be a concern. Few organizations are immune to the vagaries of the global economic and financial markets and the related impact on rates, credit availability and currencies.
- **Uncertainty surrounding costs of complying with healthcare reform legislation will limit growth opportunities for our organization** – This risk issue was added for the 2014 survey and it made the top 10 list of risks, with respondents signaling that business leaders are concerned about the unknown costs of complying with changes implemented as part of the U.S. healthcare reform rollout and worries that those costs will be higher than expected, which will take resources away from investments that might lead to new growth opportunities.

Excluding the risk related to uncertainty surrounding healthcare reform, which was added to the list of risks considered in 2014, the only risk with a notably higher score in 2014 relative to the score in 2013 is concern about resistance to change restricting growth. Positive trends in the economy at the time our survey was conducted, such as the strong U.S. equity markets and lower unemployment, may have provided some encouraging signs for organizations as they look at their businesses for 2014. Only one of the risks – regulatory change – is rated as a “Significant Impact” risk (i.e., an average risk score of 6.0 or higher) for this year.

We also compared the average scores for 2014 to the total population of 20 risks that we examined in 2013 to identify those risks with the largest changes in scores from 2013 to 2014. The five risks with the greatest increase in risk scores are shown in the accompanying table. Four of the five 2014 risks with the biggest year-over-year increase relate to strategic risks: concerns about competition, disruptive innovation, the emergence of substitute products and services, and the ability to grow through acquisitions. Attention appears to be focused on risks associated with a more competitive overall environment. That said, the risk with the greatest year-over-year increase is macroeconomic: concerns about access to sufficient capital. This suggests that, even with improving global economic conditions, organizations remain concerned about their ability to access the capital markets to support growth and remain competitive.

Table 2: Top 5 Increases

Risk Description	Type of Risk	2014	2013	Increase
Access to sufficient capital will restrict growth opportunities for our organization	Macroeconomic	4.7	4.1	0.6
Ease of entrance of new competitors into the industry and marketplace will threaten our market share	Strategic	4.3	3.9	0.4
Rapid speed of disruptive technological innovations within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our operating model	Strategic	4.9	4.6	0.3
Growth through acquisitions, joint ventures, and other partnership activities will be difficult to identify and implement	Strategic	4.6	4.3	0.3
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	Strategic	4.7	4.4	0.3

We also examined those risks with the greatest reduction in perceived risk impact scores from 2013 to 2014. Three risks that dropped the most for 2014 relate to macroeconomic risk issues. With some encouraging signs of improvement in the economy at the time we conducted our survey, respondents may perceive there to be less uncertainty tied to macroeconomic issues for 2014 relative to 2013. It is interesting that the five risks with the greatest decline were all included in the 2014 list of top 10 risks.

Table 3: Top 5 Decreases

Risk Description	Type of Risk	2014	2013	Decrease
Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization	Macroeconomic	5.7	6.5	0.8
Uncertainty surrounding political leadership in national and international markets will limit growth opportunities	Macroeconomic	5.6	6.0	0.4
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	Strategic	6.4	6.8	0.4
Anticipated volatility in global financial markets and currencies will create challenging issues for our organization to address	Macroeconomic	5.1	5.4	0.3
Ensuring privacy/identity management and information security/system protection will require significant resources for us	Operational	5.2	5.4	0.2

ANALYSIS ACROSS DIFFERENT SIZES OF ORGANIZATIONS

The sizes of organizations, as measured by total revenues, vary across our 374 respondents as shown below. The mix of sizes of organizations represented by respondents is relatively similar to the mix of respondents in our prior year survey:

Most Recent Revenues	Number of Respondents
Revenues \$10 billion or greater	50
Revenues \$1 billion to \$9.99 billion	88
Revenues \$100 million to \$999.99 million	132
Revenues less than \$100 million	98
Those not reporting revenues	6
Total Number of Respondents	374

Consistent with our findings related to the overall top 10 risks for 2014 for the full sample, concerns about the potential impact of regulatory changes and heightened regulatory scrutiny affecting the manner in which products and services will be produced or delivered continue to be noticeably high for all sizes of organizations. This issue was the top risk concern for the top three largest size categories reported, and the second highest risk for the smallest size category, which is identical to what we found in our 2013 survey results. Thus, uncertainty surrounding regulations and greater oversight continues to be top-of-mind for executives in all sizes of organizations.

Similarly, concerns about economic conditions in markets they serve remain among the top five biggest risks across all sizes of organizations, although the overall level of concern for this risk is lower than the prior year for all size categories except for the smallest organizations, which rated that risk higher this year and as the top risk concern. While the economy was showing signs of improvement during the survey period, smaller organizations tend to be less diversified than larger organizations. The regulatory and economic environments and the potential for further change to those environments are of paramount concern to most organizations, particularly smaller ones, influencing their decisions to expand, invest and hire.

Interestingly, while concerns surrounding cyber threats and issues relating to privacy/identity management and information security did not make the list of top five risks for the largest organizations in the prior year, these risks moved into the top five list for the largest organizations in 2014. Given the size and visibility in the marketplace and the increased awareness of cyber threats that might also threaten information security, the largest organizations are signaling heightened concerns about these potential risks. Among the other organization size groupings in our survey, only those with revenues between \$1 billion and \$9.99 billion also included cyber threats in their top five list. No other size categories other than the largest organizations included concerns related to privacy and information security in their top five risk issues for 2014. Larger organizations may be more apt to regard themselves as higher risk because of the perception that their size elevates their profile to a target of choice.

Succession challenges and the ability to attract and retain top talent remain top risk concerns for all sizes of organizations except the largest size category of organizations, while uncertainty surrounding political leadership in national and international markets limiting growth opportunities is a top five risk concern for organizations under \$1 billion in revenues.

Only the largest organizations (those with revenues of \$10 billion or higher) indicated concerns about risks associated with the volatility in global financial markets and currencies. This may be a reflection that the largest organizations conduct significant volumes of business in global markets and are likely to be more dependent on revenue streams from emerging markets.

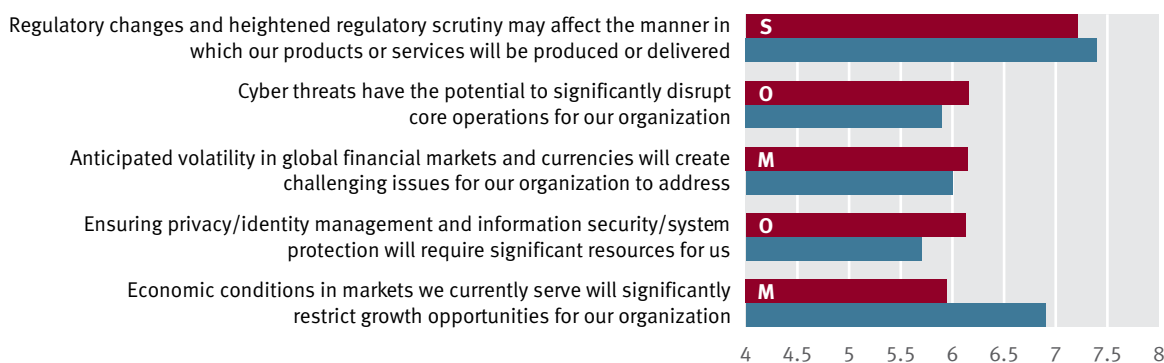
While the accompanying charts only highlight the top five risks for each size category, our analysis of the full results found that the largest organizations rated more risks as “Significant Impact” risks (i.e., average scores of 6.0 or higher). Out of the 22 risks, the largest organizations rated four as “Significant Impact” risks. Moreover, none of the 22 risks for the largest organizations has an average score low enough to be considered a “Less Significant Impact” risk. Thus, as would be expected, the environment for the largest organizations appears to be the riskiest relative to other size categories of organizations.

Smaller organizations (those with revenues below \$100 million) scored three risks as “Significant Impact” while five of the 22 risks had averages below 4.5 on the 10-point scale, which we categorize as “Less Significant Impact” risks. Smaller organizations actually ranked more risks as greater in significance this year relative to the prior year. Last year, smaller organizations rated eight risks as “Less Significant Impact” risks and only identified two as “Significant Impact” risks. This suggests a moderate shift toward a more complex risk environment for smaller organizations in 2014 relative to 2013.

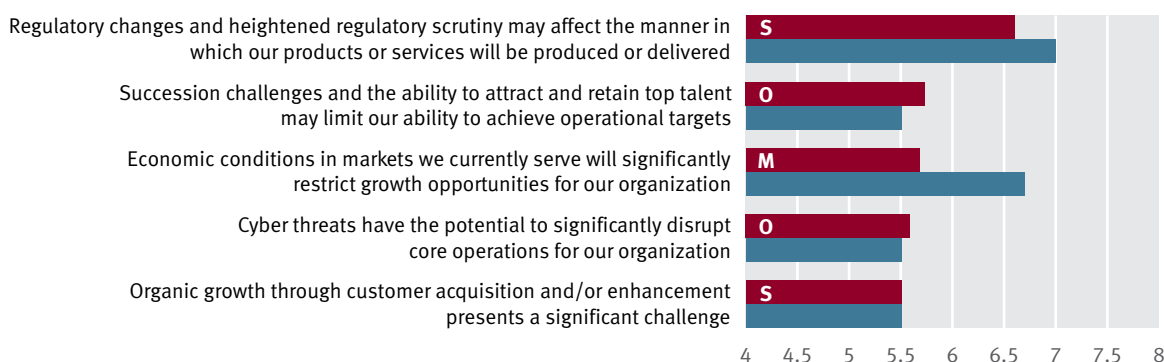
The two middle size categories identified only the risk related to regulatory change and heightened regulatory scrutiny as a “Significant Impact” risk.

The accompanying charts summarize the top-rated risks by size of organization. Only the top five risks are reported.

Organizations with Revenues \$10 Billion or Greater



Organizations with Revenues between \$1 Billion and \$9.99 Billion



Organizations with Revenues between \$100 Million and \$999.99 Million



Organizations with Revenues less than \$100 Million



ANALYSIS ACROSS EXECUTIVE POSITIONS REPRESENTED

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 2014. Respondents to the survey serve in a number of different executive positions. Twenty-one of our respondents currently serve on the board of directors of an organization. The remaining respondents represent individuals currently serving in a variety of executive positions:

Executive Position	Number of Respondents
Board Member	21
Chief Executive Officer	55
Chief Financial Officer	77
Chief Risk Officer	71
Chief Audit Executive	65
Other C-Suite ⁴	67
All Other ⁵	18
Total Number of Respondents	374

To determine if perspectives about top risks differ across executive positions, we also analyzed key findings for boards of directors and the five executive positions with the greatest number of respondents: chief executive officer (CEO), chief financial officer (CFO), chief risk officer (CRO), chief audit executive (CAE), and other C-suite.⁶ The results are summarized in Table 4.

As discussed previously, to help identify differences in risk concerns across respondent type, we group all the risks based on their average scores into one of three classifications. Consistent with our prior year study, we use the following color-coding scheme to highlight visually risks using these three categories. Table 4 on the next page summarizes the impact assessments for each of the 22 risks for the full sample and for each category of executive using the color code scheme; the table includes a column with arrows that indicate the direction of change in category from 2013 to 2014 for each of the 22 risks.

- Significant Impact – Rating of 6.0 or higher
- Potential Impact – Rating of 4.5 - 5.9
- Less Significant Impact – Rating of 4.4 or lower

⁴ This category includes such titles as: chief compliance officer, chief operating officer, general counsel, and chief information officer.

⁵ These 18 respondents either did not provide a response or are best described as middle management or business advisers/consultants. We do not provide a separate analysis for this category.

⁶ We grouped individuals with equivalent but different executive titles into these positions when appropriate. For example, we included “Vice President – Risk Management” in the CRO grouping, and we included “Director of Finance” in the CFO grouping.

Table 4: Perceived Impact over Next 12 Months

	All	Y-o-Y Change	Board	CEO	CFO	CRO	CAE	Other
Macroeconomic Risk Issues								
Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization	●	↓	●	●	●	●	●	●
Anticipated volatility in global financial markets and currencies will create challenging issues for our organization to address	●	↔	●	●	●	●	●	●
Uncertainty surrounding political leadership in national and international markets will limit growth opportunities	●	↓	●	●	●	●	●	●
Access to sufficient capital will restrict growth opportunities for our organization	●	↑	●	●	●	●	●	●
Uncertainty surrounding costs of complying with healthcare reform legislation will limit growth opportunities for our organization	●	N/A	●	●	●	●	●	●
Potential changes in trade restrictions or other government sanctions will limit our ability to operate effectively and efficiently in international markets	●	↔	●	●	●	●	●	●
Strategic Risk Issues								
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	●	↔	●	●	●	●	●	●
Rapid speed of disruptive innovations and/or new technology within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our operating model	●	↔	●	●	●	●	●	●
Shifts in social, environmental, and other customer preferences and expectations will be difficult for us to identify and address on a timely basis	●	↔	●	●	●	●	●	●
An unexpected crisis would likely have a significant impact on our reputation given our organization's existing preparedness	●	↔	●	●	●	●	●	●
Growth through acquisitions, joint ventures, and other partnership activities will be difficult to identify and implement	●	↑	●	●	●	●	●	●
Organic growth through customer acquisition and/or enhancement presents a significant challenge	●	↔	●	●	●	●	●	●
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	●	↑	●	●	●	●	●	●
Ease of entrance of new competitors into the industry and marketplace will threaten our market share	●	↔	●	●	●	●	●	●
Operational Risk Issues								
Succession challenges and the ability to attract and retain top talent may limit our ability to achieve operational targets	●	↔	●	●	●	●	●	●
Cyber threats have the potential to significantly disrupt core operations for our organization and/or damage our brand	●	↔	●	●	●	●	●	●
Ensuring privacy/identity management and information security/system protection will require significant resources for us	●	↔	●	●	●	●	●	●
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	●	↔	●	●	●	●	●	●
Resistance to change will restrict our organization from making necessary adjustments to the business model and core operations	●	↔	●	●	●	●	●	●
Uncertainty surrounding the viability of key suppliers or scarcity of supply will make it difficult to deliver our products or services	●	↔	●	●	●	●	●	●
Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand	●	N/A	●	●	●	●	●	●
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency is likely to affect our management of core operations and strategic plan	●	↓	●	●	●	●	●	●

Interestingly, board members perceive the overall risk environment to be riskier relative to the perceptions of the various executive management roles. Board members rated four of the 22 risks as “Significant Impact” risks, as reflected by the red circles. In contrast, none of the executive positions rated more than two risks as “Significant Impact” risks. (For example, CEOs did not identify any risks as expected to have a “Significant Impact.”)

While this gap could be attributed, at least in part, to a larger segment of executive respondents from the two smaller categories of organizations responding (i.e., organizations with revenues below \$1 billion), such differences are not apparent in other breakdowns of the results (e.g., industry). These results are consistent with our observation that smaller organizations may perceive the business environment to be less risky than their larger counterparts. Thus, it is possible the results would have included one or two risks rated as “Significant Impact” had the sample included more CEOs from larger organizations. As stated earlier, the global economy was showing signs of improving during the survey period, which could have been a positive influence on the participating CEOs, resulting in a lower assessment regarding macroeconomic and strategic risks. As CEOs tend to focus heavily on the strength of markets, the differences observed in the results by role remain noteworthy.

Consistent with the analyses of results for the full sample and across the four size categories provided earlier in this report, almost all executives, except CFOs, rated risks related to regulatory changes as their top risk concern. The average scores for that risk exceeded 6.0, which meets our definition of a “Significant Impact” risk for all executive categories, except for CEOs and CFOs, who rated that risk at 5.88 and 5.92, respectively – just below the threshold established for “Significant Impact.” Collectively, this suggests that virtually all board members and executives have heightened concerns about uncertainties linked to the overall regulatory environment. In addition to regulatory concerns, CROs also rated succession challenges and the ability to attract and retain top talent as a “Significant Impact” risk. CFOs rated uncertainties tied to economic conditions as a “Significant Impact” risk concern.

The charts on the following pages highlight the top five risks identified by each executive position. The overall risk assessment scores for all of the top five risks from board members are higher than the 2013 results, with four of their top five risks ranked as “Significant Impact” risks. Thus, board members perceive the overall environment as more risky than last year. In contrast, none of the risks were assessed by CEOs to be “Significant Impact” risks. All other executives ranked only one of the top five risks as “Significant Impact” risks, except for CROs, who ranked two of their top five risks at that level. In comparison to the prior year, the assessment of risks by all executives other than the board of directors and CEOs were higher for some risks while lower for other risks.

Among the mix of types of risks, directors, CEOs and CFOs identified primarily macroeconomic risks among their top five risk concerns, followed by strategic risk concerns. In contrast, CROs mostly pinpointed operational risks as their top five risk issues. The types of risks noted in the top five by the other executives are mixed.

Overall, the variation in results across executives suggests that there may be differing views among executives and boards about the overall nature of risks facing organizations for 2014. Discussions about these and other risk issues among boards and executives may be important as they focus on managing their organization’s biggest risk concerns this year.

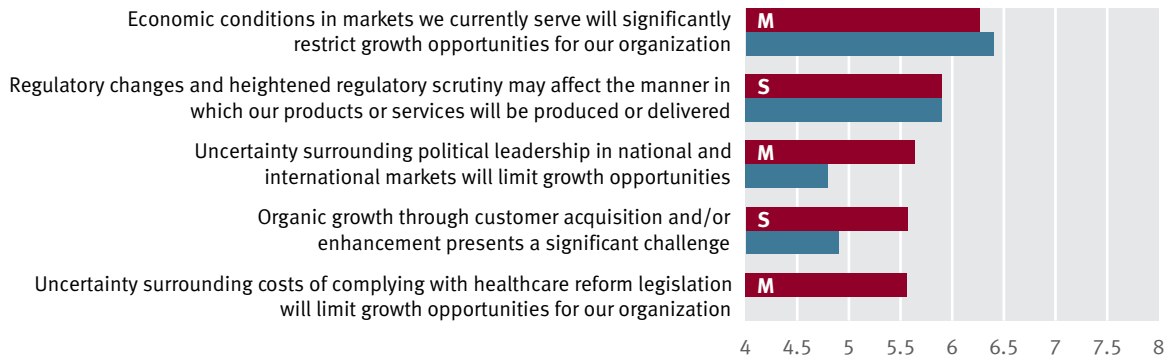
Board Members



Chief Executive Officers⁷

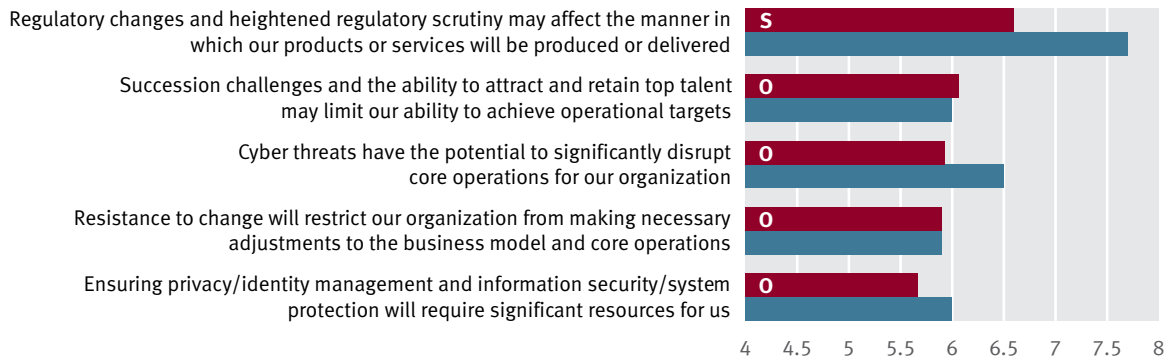


Chief Financial Officers

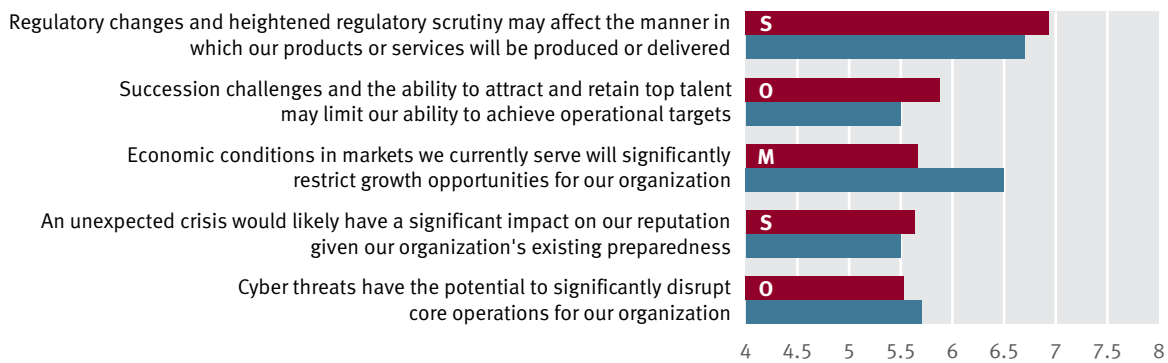


⁷ In our 2013 survey, there were not enough CEO respondents to provide a valid data sample.

Chief Risk Officers



Chief Audit Executives



Other C-Suite Executives



INDUSTRY ANALYSIS

Respondents to our survey represent organizations in a number of industry groupings, as shown below:

Industry	Number of Respondents
Financial Services (FS)	86
Consumer Products and Services (CPS)	84
Industrial Products (IP)	74
Technology, Media and Communications (TMC)	39
Healthcare and Life Sciences (HLS)	31
Energy and Utilities (EU)	28
Other industries (not separately reported)	32
Total Number of Respondents	374

We analyzed responses across these six industry groups to determine whether industries rank-order risks differently.

Table 5 provides an overview of the significance and differences across industries in executive perspectives about each of the 22 risks rated in this study (categorized as macroeconomic, strategic and operational risk issues). Consistent with our prior year study, we use the following color-coding scheme to highlight visually risks using the three categories we adopted for use in the study:

- Significant Impact – Rating of 6.0 or higher
- Potential Impact – Rating of 4.5 - 5.9
- Less Significant Impact – Rating of 4.4 or lower

Consistent with the full sample, three of the six industry groups rated uncertainty linked to regulatory changes and heightened regulatory scrutiny as a “Significant Impact” risk for 2014, as exhibited by the red circles for that risk in Table 5. Three industry groups also identified challenges associated with economic conditions as a “Significant Impact” risk, and two industries believe the rapid speed of disruptive innovation is a “Significant Impact” risk. Four other risks were rated as “Significant Impact” risks by only one industry group each, while 15 of 22 risks were not rated as “Significant Impact” risks by any industry group.

Given the focus on healthcare in light of the Affordable Care Act in the United States, it is not surprising that Healthcare and Life Sciences industry group respondents indicate that the industry is facing the greatest amount of risk relative to the other industry groups for 2014. Respondents in that industry rated six of the 22 risks (which include all of their top five risks)⁸ as “Significant Impact” risks. Fourteen of the remaining risks are in the middle risk range of “Potential Impact” risks for the industry. Healthcare and Life Sciences industry respondents only rated two of the 22 risks as a “Less Significant Impact” risk.

The Technology, Media and Communications industry group identified three of the 22 risks as “Significant Impact” risks, with most other risks rated in the middle category of “Potential Impact” risks. No other industry group identified more than one of the 22 risks as “Significant Impact” risks. Relative to other industries, organizations in the Energy and Utilities industry group perceive themselves to be facing the least risky environment, as evidenced by nine of the 22 risks rated at the “Less Significant

⁸ The lists of top five risks for the Healthcare and Life Sciences industry and the Energy and Utilities industry include six risks given that two risks tied with the same risk score within each industry group.

Table 5: Perceived Impact over Next 12 Months

	All	Y-o-Y Change	FS	CPS	IP	TMC	HLS	EU
Macroeconomic Risk Issues								
Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization	●	↓	●	●	●	●	●	●
Uncertainty surrounding costs of complying with healthcare reform legislation will limit growth opportunities for our organization	●	N/A	●	●	●	●	●	●
Anticipated volatility in global financial markets and currencies will create challenging issues for our organization to address	●	↔	●	●	●	●	●	●
Uncertainty surrounding political leadership in national and international markets will limit growth opportunities	●	↓	●	●	●	●	●	●
Access to sufficient capital will restrict growth opportunities for our organization	●	↑	●	●	●	●	●	●
Potential changes in trade restrictions or other government sanctions will limit our ability to operate effectively and efficiently in international markets	●	↔	●	●	●	●	●	●
Strategic Risk Issues								
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	●	↔	●	●	●	●	●	●
Rapid speed of disruptive innovations and/or new technology within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our operating model	●	↔	●	●	●	●	●	●
Shifts in social, environmental, and other customer preferences and expectations will be difficult for us to identify and address on a timely basis	●	↔	●	●	●	●	●	●
An unexpected crisis would likely have a significant impact on our reputation given our organization's existing preparedness	●	↔	●	●	●	●	●	●
Growth through acquisitions, joint ventures, and other partnership activities will be difficult to identify and implement	●	↑	●	●	●	●	●	●
Organic growth through customer acquisition and/or enhancement presents a significant challenge	●	↔	●	●	●	●	●	●
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	●	↑	●	●	●	●	●	●
Ease of entrance of new competitors into the industry and marketplace will threaten our market share	●	↔	●	●	●	●	●	●
Operational Risk Issues								
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	●	↔	●	●	●	●	●	●
Succession challenges and the ability to attract and retain top talent may limit our ability to achieve operational targets	●	↔	●	●	●	●	●	●
Cyber threats have the potential to significantly disrupt core operations for our organization and/or damage our brand	●	↔	●	●	●	●	●	●
Ensuring privacy/identity management and information security/system protection will require significant resources for us	●	↔	●	●	●	●	●	●
Resistance to change will restrict our organization from making necessary adjustments to the business model and core operations	●	↔	●	●	●	●	●	●
Uncertainty surrounding the viability of key suppliers or scarcity of supply will make it difficult to deliver our products or services	●	↔	●	●	●	●	●	●
Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand	●	N/A	●	●	●	●	●	●
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency is likely to affect our management of core operations and strategic plan	●	↓	●	●	●	●	●	●

The bar charts on the following pages report the top five risk exposures in rank order for each of the six industry groups. Recall that a risk with an average score of 6.0 or higher is considered a “Significant Impact” risk, while risks with average scores between 4.5 and 5.9 are “Potential Impact” risks and risks with average scores below 4.5 are “Less Significant Impact” risks.

A noticeable observation from these results is the magnitude of concern about risks associated with regulatory change and increased scrutiny observed by respondents in the Financial Services industry group and the Healthcare and Life Sciences industry group. The average scores for that risk are 7.3 and 8.2 for the Financial Services and Healthcare and Life Sciences industry groups, respectively. Out of all the risks reported in this report, rarely does the average risk score exceed 7.0, which demonstrates the relative significance of regulatory concerns for these two industry groups.

In regards to the direction of change in risk scores from 2013 to 2014, most of the top five risk scores for 2014 are lower than 2013 scores for the Financial Services, Consumer Products and Services, and Technology, Media and Communications industry groups. In contrast, most of the top five risk scores increased in 2014 from 2013 levels for the Healthcare and Life Sciences and Energy and Utilities industry groups. The direction of changes in risk scores for the Industrial Products industry group is mixed.

Financial Services



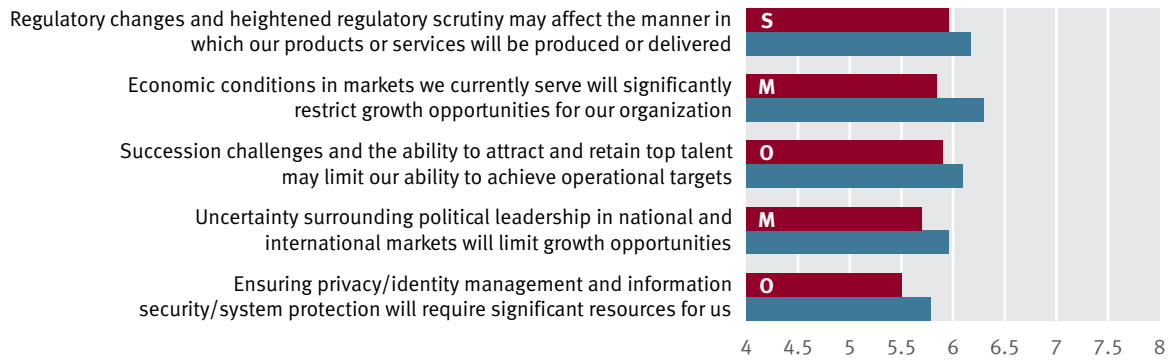
The global regulatory environment again leads the list of top risks facing financial institutions in 2014. In the United States, for example, regulatory focus is squarely on consumer protection, with zero tolerance for fair lending; unfair, deceptive or abusive acts or practices (UDAAP); and Bank Secrecy Act/Anti-Money Laundering (BSA/AML) issues. Across the globe, cyber threats are increasing in severity and frequency as global hackers seek to disrupt the core operations of large institutions. Meeting the challenge of information security and system protection – and managing privacy and identity information – remains a top concern. To illustrate, U.S. banks were hit by numerous “denial of service” cyber attacks in 2013 and, despite having invested significant effort and funds into data security, many institutions suffered breaches that compromised the private information of hundreds of thousands of customers. Global economic conditions remain uncertain, with anticipated volatility in financial markets and currencies posing particular concerns, along with the entry of nontraditional competitors and the challenge to meet organic growth targets through new customer acquisition. These factors affect all global banks, regardless of where they are headquartered.

On the insurance industry front, there continue to be significant regulatory developments. For example, in the United States, Own Risk and Solvency Assessment (ORSA) and the Solvency Modernization Initiative are critical regulatory priorities. Questions remain regarding how regulators will respond, regulate and address the information they are receiving. Also of note in the United States, the Federal Insurance Office has yet to have an impact, creating significant uncertainty, at least until the agency publishes its much-anticipated state of the industry report (as called for under Dodd-Frank). Cyber threats also are top-of-mind for insurance carriers, which increasingly are being “pulled” into social business and e-commerce by the global marketplace. As a result, there are myriad security and other IT risks that concern insurance companies, including fraud, regardless of where these companies operate.

Regulatory change is also a critical risk for organizations in the capital markets. For example, in the United States, a significant portion of Dodd-Frank (the so-called Volcker Rule) has been finalized and will have a significant impact on the trading operations of financial institutions. In addition, cyber threats are top-of-mind for these organizations throughout the world, particularly as attacks continue to grow in volume and sophistication.



Consumer Products and Services

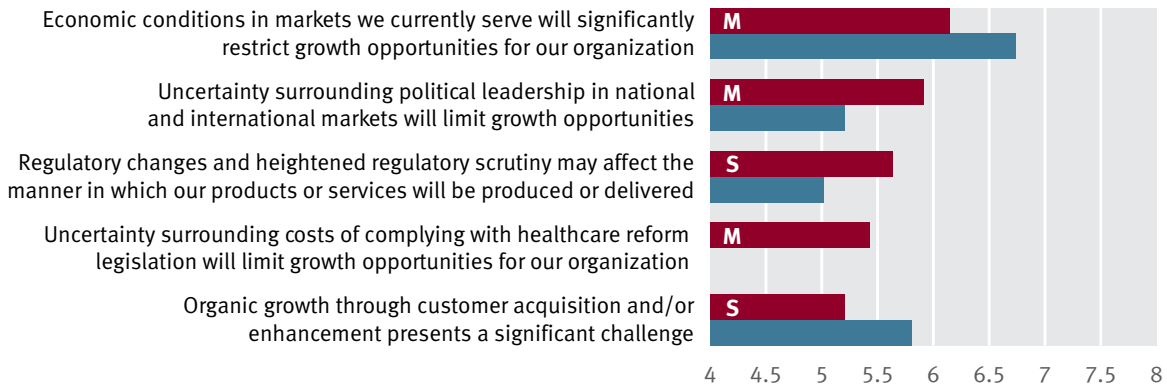


The regulatory environment is a top-of-mind risk for this industry, but by no means is it the only one. Data security, privacy and identity management represent critical risks that consumer products and services organizations are addressing as they seek to deliver an exceptional experience for customers while ensuring their information is protected. A large discount retailer's recent high-profile data breach is just the latest example of a worst-case scenario many of these organizations are experiencing and all want to avoid.

One risk area of notable concern for companies in this industry group is economic conditions in markets that they serve restricting growth opportunities. This is understandable considering that revenue growth throughout the industry has been lackluster over the past year. Many consumer products companies have stalled their expansion into emerging countries because of economic constraints as well as political uncertainty in these markets.

More broadly, consumer products companies have growing concerns about increasing competition. In particular, retailers are battling "showrooming," where customers look at products in the store and then elect to make their purchase online from other companies at deep discounts. This highly competitive environment – and the need for expertise and innovative ideas to achieve success within it – may be contributing to the ranking of succession challenges and the ability to attract and retain top talent as one of the top risk concerns for this industry group.

Industrial Products

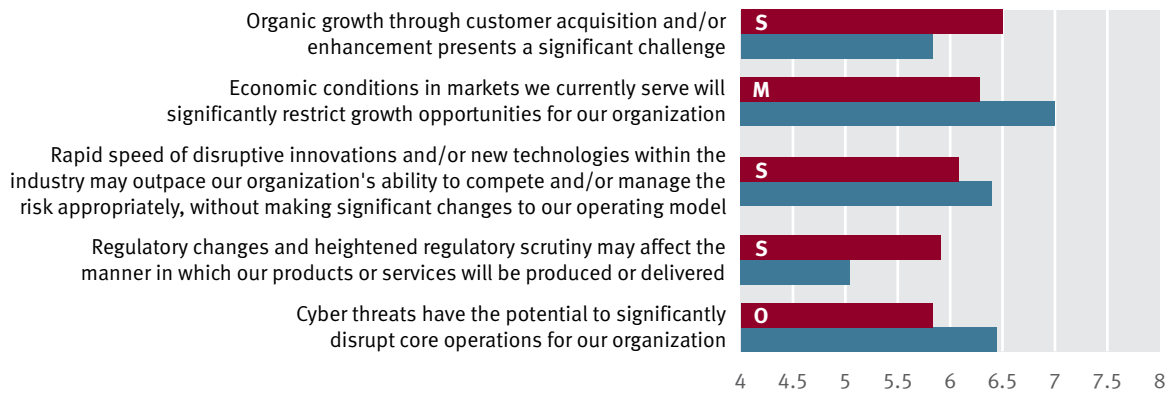


Most of the top-rated risks for Industrial Products companies are consistent with the prior year of our study, albeit with some shift in relative ranking. While still highly rated, the impact of economic conditions is rated lower than last year due to improving confidence in the post-recession recovery, which has been a slow climb for Industrial Products companies.

Uncertainty with national and international political leadership is higher this year due to continued unrest in the Middle East, North Korea and, more recently, Russia, as well as continued partisan political gridlock in the United States, with potential impacts on suppliers, distribution channels and international manufacturing operations. Another increase in risk rating this year is regulatory scrutiny, possibly as a result of the Dodd-Frank conflict mineral disclosure requirements now in effect, along with ongoing focus on anti-bribery/anti-corruption and environmental requirements.

The one “new” risk to the Industrial Products industry group’s top risks this year is uncertainty surrounding the costs of healthcare reform, due to significant provisions of the U.S. Affordable Care Act going into effect and the deferral of the employer mandate until 2015.

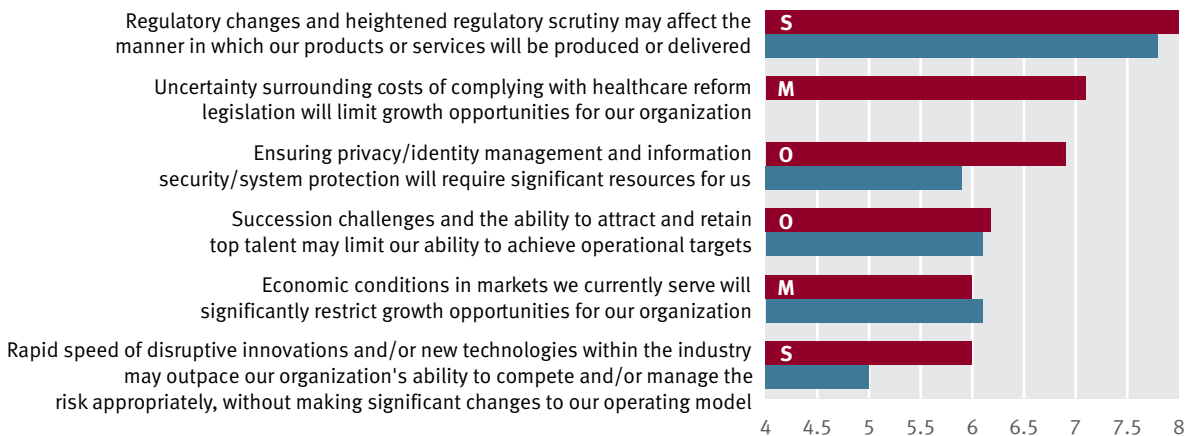
Technology, Media and Communications



Market competition continues to heat up, particularly for technology companies, amid improving economic conditions in the industry. It is therefore no surprise to find organic growth being viewed as a more critical risk compared to last year and at the top of the key risks list for 2014, as organizations continue to seek new opportunities for growth and competitive advantage. Perceived risk related to economic conditions has dropped somewhat, but remains significant – the drop is likely a reflection of overall improvements in the economy. The rapid speed of innovation also remains a significant risk, consistent with last year's results.

One particularly interesting result is this year's risk levels for cyber threats, which dropped noticeably compared to last year (though the risk of such threats remains high). While it is possible this drop in scoring reflects that respondents' understanding and awareness of these risks have become much more evident, it would be premature, in our opinion, to suggest that the perceived risk of cyber threats and data security/privacy is more under control in most organizations. We are reminded on a frequent basis of the risk all organizations face regarding the breach of their established data security methods.

Healthcare and Life Sciences⁹



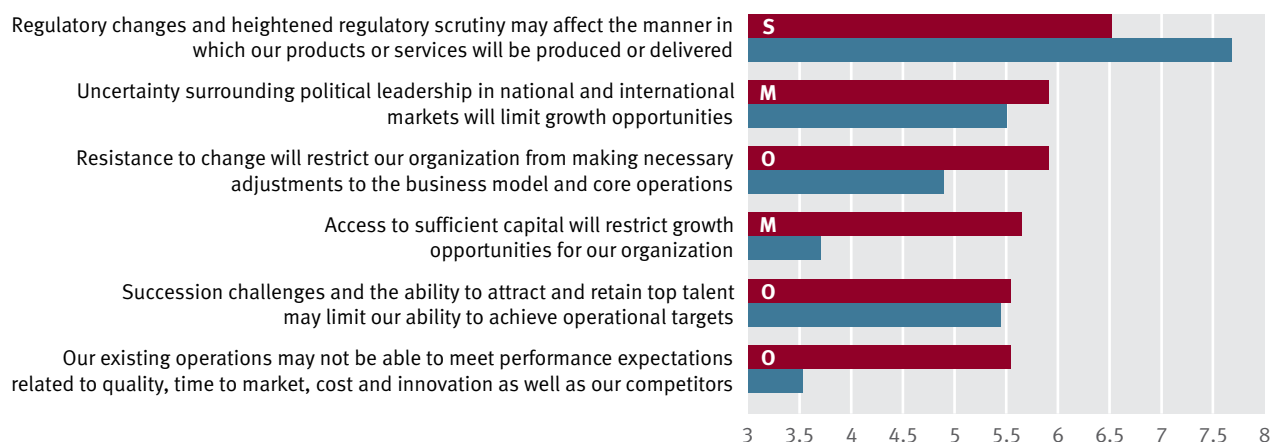
The healthcare industry continues to face intense regulatory demands at a time when revenue is decreasing and expenses are increasing. As indicated in our survey results, one key challenge is technological convergence and securing protected health information. For example, HITECH stimulus funds in the United States and incentive programs encourage rapid implementation of new applications and technology (e.g., electronic health records, health information exchanges), and the convergence of medical and information technology poses significant challenges. Focus will continue to shift to connectivity and integration, and both consumers and legislation will demand more privacy and security. In addition, in the United States, HIPAA Security scrutiny has become more complex with recent Office for Civil Rights (OCR) audit and monitoring initiatives.

Most industrialized countries, as well as many developing countries, operate some form of publicly funded healthcare, with universal coverage as the ultimate goal. Some sources have noted that the United States is unique as a wealthy, industrialized nation that historically has not provided some form of universal healthcare. Accordingly, the transition to the Affordable Care Act in the United States presents another challenge to managing the regulatory reality. This legislation is projected to remove US\$500+ billion from Medicare and Medicaid over 10 years, in part by imposing significant fines and take-backs for fraud, waste and abuse. Government audits will continue to increase, as well as penalties for non-compliance. The new CMS Two-Midnight Rule (noting that patient admission to a hospital is appropriate only if the stay requires duration of at least two midnights) will present reimbursement challenges, and ICD-10 will demand enterprisewide changes this year.

Finally, healthcare organizations are looking to improve performance and enhance the patient experience. Ensuring payment accuracy and charge completeness continues to be challenging, but is critical. There is lower government-program reimbursement and plans for moving to a value-based purchasing model are in high gear. Hospitals will be rewarded or penalized based on patient outcomes, and some will begin building centralized or shared services functions to improve the efficiency of spend. Providers must find ways to cut costs via better management of labor, supply and pharmaceutical spend. While this is likely a priority for healthcare organizations in many countries, it is vital in the United States.

⁹ The list of top five risks for the Healthcare and Life Sciences industry includes six risks given that two risks tied with the same risk score.

Energy and Utilities¹⁰



Not surprisingly, regulatory compliance again ranks as the top risk for the industry group (albeit with a lower risk rating than in 2013 – in fact, Energy and Utilities companies perceive themselves to be facing the least risky environment compared to other industry groups). New technologies, such as hydraulic fracturing, as well as expansion into new geographic areas are subjecting companies to expanded regulatory scrutiny and a broader range of regulatory requirements. Employee health and safety as well as the environment remain top priorities – there is zero tolerance for regulatory non-compliance, which can lead to heavy penalties and, to no one’s surprise, costly damage to public reputation. For companies with operations in the United States, healthcare reform adds to the regulatory concerns. And while not ranked among the top five risks, cyber threats continue to grow as a concern for the industry group, with cyber attacks posing a significant risk to operations and intellectual property.

Access to capital and liquidity constraints represent the largest leap up the 2014 energy risk spectrum. Increasing global energy demand coupled with enhanced technologies to reach previously inaccessible reserves are driving large capital outlays. To capitalize on current pricing levels and continuing growth opportunities, companies need more capital to remain competitive. And as the cost of exploration and production continues to escalate, so, too, will the risk of raising sufficient capital. The industry also remains concerned with uncertainty in many geographies regarding future government policy and political leadership. Companies must stay abreast of the political landscape in evaluating the risk and rewards associated with their investment strategy.

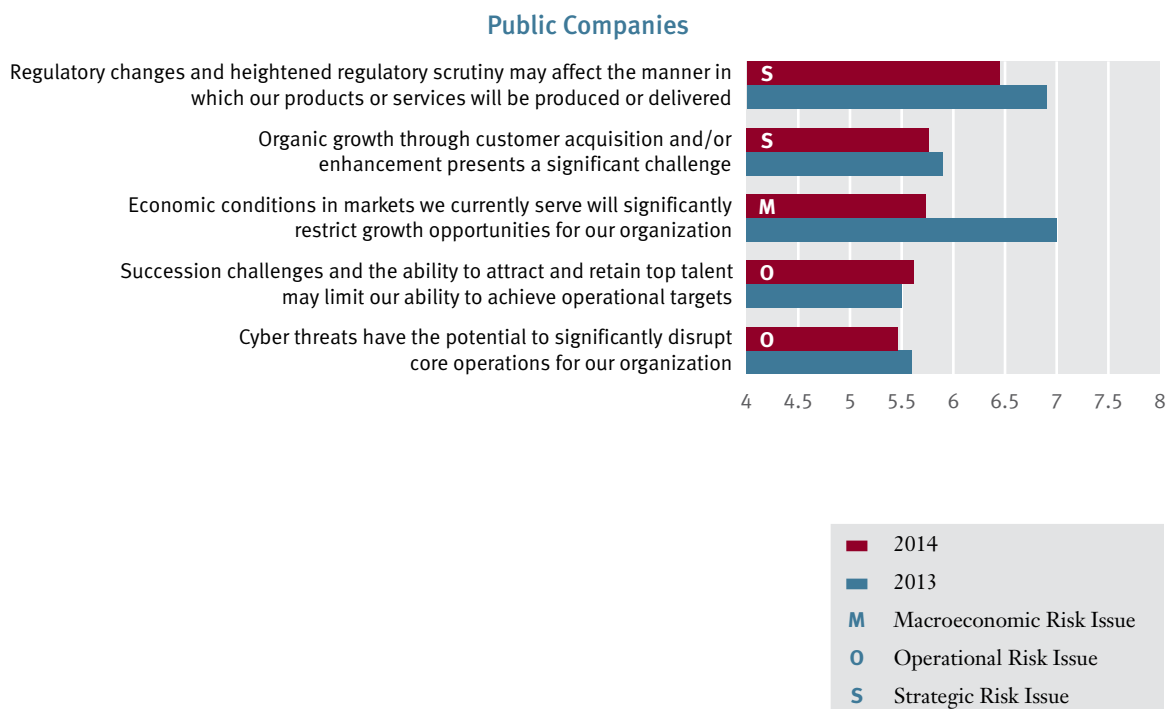
¹⁰ The list of top five risks for the Energy and Utilities industry includes six risks given that two risks tied with the same risk score.

ANALYSIS OF DIFFERENCES BETWEEN PUBLIC AND NON-PUBLIC ENTITIES

Participants in the survey represent three types of organizations: publicly traded companies (133 respondents), privately held for-profit entities (170 respondents), and not-for-profit and governmental organizations (71 respondents).

Consistent with the overall survey response, all types of organizations have concerns about regulatory changes, which they each rated as the top risk concern for 2014. Both public and privately held for-profit entities are concerned about the impact economic conditions might have on their ability to grow, and they identified concerns related to succession planning and talent acquisition/retention as well as challenges related to organic growth as top five risk issues for this year. Cybersecurity concerns were noted as a top five risk for public companies and for not-for-profit and governmental entities.

Interestingly, all of the top five risks identified by respondents representing not-for-profit and governmental organizations are rated as “Significant Impact” risks (i.e., average scores of 6.0 or higher). In contrast, only one of the top five risks is rated as a “Significant Impact” risk by public companies and privately held for-profit entities. Among public companies, the scores for the top five risks for 2014 are lower than the 2013 scores for all of those risks, except the risk related to succession challenges and talent acquisition/retention. Similarly, most of the risks for privately held for-profit entities are lower for 2014 relative to 2013 (the exception is uncertainty surrounding political leadership).¹¹

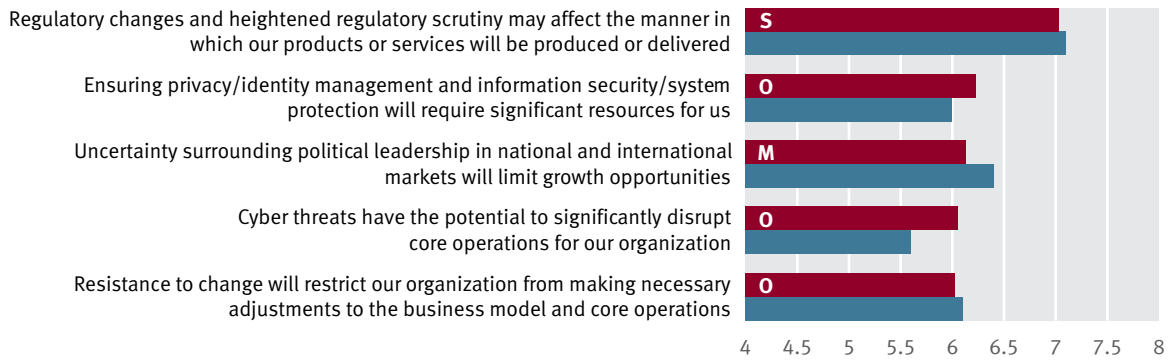


¹¹ The bar graph for privately held for-profit entities reports data about seven risks given there were ties in scores for four risks out of the 22 risks surveyed.

Privately Held For-Profit Companies



Not-for-Profit and Governmental Organizations



ANALYSIS OF DIFFERENCES BETWEEN U.S. AND NON-U.S. ORGANIZATIONS

Participants in the survey represent primarily U.S.-based organizations (301 respondents); however, 71 respondents represent organizations based outside the United States.¹² While we do not have the respective data for the prior year,¹³ we separately report the survey results for 2014 for U.S.- and non-U.S.-based organizations in the bar charts below.

Globally, respondents believe that risks related to regulatory changes and heightened regulatory scrutiny represent the top risk concern regardless of where their headquarters are located. Both U.S.- and non-U.S.-based organizations rank this as a “Significant Impact” risk. All other risks rated by U.S.-based organizations are not “Significant Impact” risks. However, three of the top five risks are deemed to be “Significant Impact” risks by non-U.S.-based organizations and one risk just missed that cutoff (average risk score of 5.94).

While the average risk scores differ between U.S. and non-U.S. organizations, four of the risks included as top five risks are the same for U.S.-based and non-U.S.-based organizations, suggesting the types of risks organizations face are similar at a global level. Regardless of geographic location, organizations face challenges related to regulatory scrutiny, economic conditions, uncertainty surrounding political leadership, and succession and people acquisition/retention.

U.S.-Based Organizations



Organizations Based Outside the U.S.



¹² Two of the respondents did not indicate the location where their organizations are based.

¹³ In our 2013 survey, there were relatively few respondents from organizations based outside the United States. Given the small sample size, we elected not to present the 2013 results for a year-over-year comparison.

PLANS TO DEPLOY RESOURCES TO ENHANCE RISK MANAGEMENT CAPABILITIES

In light of the risk environment, we asked executives to provide insights about whether the organization plans to devote additional resources to improve risk management over the next 12 months. We used a 10-point scale whereby 1 signifies “Unlikely to Make Changes” and 10 signifies “Extremely Likely to Make Changes.”

The likelihood of deploying more resources to risk management is at a moderate level for the full sample, as represented by the average score of 5.7 for 2014 compared to 5.8 for 2013. The noticeable difference is for the Healthcare and Life Sciences and Financial Services industry groups, which had an average score of 6.1 and 5.9, respectively. This finding makes sense given that the Healthcare and Life Sciences industry group noted the greatest number of “Significant Impact” risks, and survey respondents from that industry group, along with Financial Services, believe there is significant risk related to regulation. Thus organizations in these two industry groupings may be responding to increased regulatory pressure regarding risk management and oversight.

	All Respondents		Financial Services		Consumer Products and Services		Industrial Products		Technology, Media and Communications		Healthcare and Life Sciences		Energy and Utilities	
Likelihood the organization plans to devote additional resources to risk management over the next 12 months (1 = unlikely; 10 = extremely likely)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	5.7	5.8	5.9	7.0	5.5	5.7	5.3	5.4	5.5	5.5	6.1	5.5	5.7	4.5

We also analyzed responses to this question across different sizes of organizations, with the largest organizations signaling they are most likely to deploy additional resources to risk management. These results make sense as the largest organizations typically have more resources that they can bring to bear to managing risk, and they note that their environments are perceived to be riskier relative to smaller entities.

	All Respondents		Revenues Less than \$100M		Revenues \$100M - \$999.99M		Revenues \$1B – \$9.99B		Revenues \$10B or higher	
Likelihood the organization plans to devote additional resources to risk management over the next 12 months (1 = unlikely; 10 = extremely likely)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	5.7	5.8	5.3	6.1	5.4	5.8	5.8	5.3	6.4	6.7

Not-for-profit and governmental organizations also signaled a higher likelihood of investing additional resources in risk management over the next 12 months relative to publicly held and private, for-profit organizations. These results are not surprising given not-for-profit and governmental organizations identified more “Significant Impact” risks than other types of organizations. Not-for-profits focus on preserving brand reputation, and governments at all levels focus on identifying and managing risk as well as preserving the public trust. Risks to these organizations can relate to a variety of issues, including fraud, waste, misuse of assets, inadequate monitoring of investments, incomplete or unreliable information, and violation of legal requirements, not to mention reputation loss.

	All Respondents		Publicly Traded Companies		Private, For-Profit Enterprises		Not-for-Profit and Governmental Organizations	
Likelihood the organization plans to devote additional resources to risk management over the next 12 months (1 = unlikely; 10 = extremely likely)	2014	2013	2014	2013	2014	2013	2014	2013
	5.7	5.8	5.5	5.6	5.6	5.8	6.0	6.4

Executives, more so than board members, indicate a greater likelihood of investing additional resources in risk management over the next year. CROs and CFOs signaled the greatest likelihood of additional resources being deployed by their organizations to strengthen risk management capabilities over the next 12 months. That finding may not be surprising given the greater number of risks identified as “Significant Impact” risks by CROs relative to other executives, as discussed earlier. Surprisingly, while board members indicated the greatest number of “Significant Impact” risks compared to executives, board members are not signaling more than a moderate need to invest in risk management processes over the next few years.

	All Respondents		Board Members		Chief Executive Officers		Chief Financial Officers		Chief Risk Officers		Chief Audit Executives	
Likelihood the organization plans to devote additional resources to risk management over the next 12 months (1 = unlikely; 10 = extremely likely)	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	5.7	5.8	5.1	5.1	5.0	N/A	5.7	6.0	6.5	6.3	4.9	5.4

QUESTIONS TO CONSIDER

This report provides insights from 374 board members and executives about risks that are likely to affect their organization over the next 12 months. Overall, most rate the business environment as significantly risky, although improving relative to 2013. For most risks, the overall scores are lower in 2014 than the scores for those risks in the prior year, suggesting an overall improvement in the risk environment.

Because of the rapid pace of change in the global business environment, executives and boards of directors can benefit from a periodic assessment of risks on the horizon to best position their organizations for a proactive versus reactive response to risks that emerge and potentially impact their ability to achieve profitability and funding objectives. Following are some suggested questions that executives and boards should consider as they evaluate their risk assessment process:

- Is management periodically evaluating changes in the business environment to identify the risks inherent in the corporate strategy? Is the board sufficiently involved in the process, particularly when such changes involve acquisition of new businesses, entry into new markets, the introduction of new products or alteration of key assumptions underlying the strategy? Does management's evaluation reflect the input of the unique perspectives offered by different executives and stakeholders?
- Is there a process in place for identifying emerging risks? For example, is scenario analysis applied to understand the potential impact of risks emerging from changes in the external environment?
- Does management apprise the board in a timely manner of significant risks or significant changes in the organization's risk profile? Is there a process for identifying emerging risks? Does it consider the perspectives offered by different executives and stakeholders, and does it result in consideration of response plans on a timely basis?
- Is the board aware of the most critical risks facing the company? Does the board agree on why these risks are significant? Do directors understand the organization'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 organization's risk profile is consistent with that risk appetite? Is the board satisfied that strategy-setting and business-planning processes appropriately consider a substantive assessment of the risks the enterprise is taking on as it formulates and executes its strategy?

These and other questions can assist organizations in defining their organization's specific risks.

We hope this report provides important insights about perceived risks on the horizon for 2014 and serves as a catalyst for an updated assessment of risks and risk management capabilities within organizations.

RESEARCH TEAM

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

North Carolina State University's ERM Initiative

- Mark Beasley
- Bruce Branson
- Don Pagach

Protiviti

- Pat Scott
- Carol Beaumier
- Jim DeLoach
- Kevin Donahue

ABOUT PROTIVITI

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE 1000® and FORTUNE Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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ABOUT NORTH CAROLINA STATE UNIVERSITY'S ERM INITIATIVE

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at North Carolina 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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