Executive Perspectives on Top Risks for 2013

Key Issues Being Discussed in the Boardroom and C-Suite

Research Conducted by: Protiviti Inc. and North Carolina State University's ERM Initiative

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INTRODUCTION

The global business environment continues to evolve rapidly, creating opportunities and challenges for all types of organizations. Upheaval in economic and financial markets, uncertain political environments, 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.

To provide perspectives about the nature of potential risks in 2013, Protiviti and North Carolina State University's ERM Initiative recently surveyed more than 200 business executives to obtain their views about what risks they believe are likely to affect their organizations over the next 12 months. The respondent group, comprised primarily of board members and C-suite executives, provided their perspectives about the potential impact of 20 specific risks across three dimensions:

- **Macroeconomic risks** likely to affect their 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 2013, followed by a review of results by size of organization and type of executive respondent, as well as a breakdown by industry. We conclude with a discussion of the organizations' plans to improve their capabilities for managing risk.

Our plan is to conduct 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.

METHODOLOGY

More than 200 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 2012. Respondents were asked to rate 20 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organizations over the next year.

For each of the 20 Strategic, Macroeconomic and Operational risk issues included in our survey (see table below), we computed the average score reported by all respondents. Using mean scores across respondents, we rank-ordered risks from highest to lowest impact.

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 (company size and type, role of respondent, and industry). With respect to the various industries, we grouped related industries into combined industry groupings to facilitate analysis.

Strategic Risk Issues	Macroeconomic Risk Issues	Operational 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	• 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 the viability of key suppliers or scarcity of supply will make it difficult to deliver our products or services • 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

Rarely has there been a greater need for transparency into the nature and magnitude of risks undertaken in executing an organization's corporate strategy than today. The first question 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 these risks. This survey provides insights across different sizes of companies and across multiple industry groups as to what the key risks are for 2013 based on the input of the participating executives.

Among the notable findings in this study:

- Executives are significantly concerned about the magnitude and severity of risks that could affect the achievement of profitability or funding goals over the next year.
- Overall, two risks stand out as being of the highest concern:
  - Risks related to profitability constraints due to overall economic conditions that will limit growth opportunities; and
  - Concerns about the potential for regulatory changes and heightened regulatory scrutiny that will affect how products and services will be produced and delivered.

  Both of these risks are perceived as having a "Significant Impact" across most industries, all types and sizes of organizations, and most types of respondents.
- In addition to concerns about the economy and regulatory change, the other risk viewed as having a major impact in the coming year relates to growth opportunities being restricted by uncertainty surrounding political leadership in national and international markets.
- Other top risks, while not perceived as having a "Significant Impact" overall, include risks related to succession planning and attracting/retaining top talent; anticipated volatility in global financial markets; and cyber threats, privacy, identity management, and other information security and system protection risks. Rounding out our top 10 list of risks are organizational resistance to change, and ability to meet performance expectations as well as competitors.

A number of other insights about the overall risk environment for 2013 can be gleaned from this report:

- The largest organizations (those with revenues greater than $10 billion) view a greater number of risks to have, potentially, a "Significant Impact" on them than do smaller organizations. Large organizations identified eight out of 20 risks as "Significant Impact" risks. In contrast, smaller organizations (those with revenues less than $100 million) perceive the environment to be much less risky – they ranked just two out of 20 risks as ones that will have "Significant Impact" in 2013.
- There is overall agreement in perspectives about risks across different types of respondents, with the exception of chief risk officers (CROs), who view more risks at a "Significant Impact" level. Perhaps not surprisingly, these same executives indicated the greatest likelihood that their organization will be investing more resources in risk management over the next year.
- When we analyze the data by type of organization (publicly held, private, not-for-profit/government), fewer risks are considered as "Significant Impact" risks relative to our industry analysis. This suggests that differences in risk conditions are linked more to industry or size and less to type of organization.

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.

OVERALL RISK CONCERNS FOR 2013

Topping the list of risks is the concern that **regulatory changes and heightened regulatory scrutiny may affect the manner in which the organization's products and services will be produced or delivered.** This suggests organizations have significant concerns that regulatory challenges may affect their strategic direction. The stakes are high since, without effective management of regulatory risks, the organization is reactive, at best, and non-compliant, at worst, with all of the attendant consequences.

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 presents a complex, ever-changing picture.

Also included in the top five risks are concerns about the **ability to grow organically through customer acquisition,** and **challenges related to leadership and to succession planning** within the participating organizations. 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. In addition, the war for talent continues as a concern while a significant shortfall of workers looms on the horizon in many developed countries. This concern translates into succession issues that may not be addressed adequately.

Table 1: Top 10 Risks

Rounding out the top 10 risks are the following risk concerns:

- **Anticipated volatility in global financial markets and currencies will create challenging issues** – 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 interest rates, credit availability and currencies.
- **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 the loss of intellectual property and business intelligence, have made the headlines. 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.
- **Privacy/identity management and information security/system protection will be significant issues to manage** – 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 with managing privacy, information and system security risks.
- **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.
- **Existing operations may deliver performance falling short of expectations related to quality, time to market, cost and innovation** – Improving quality, time, innovation and cost performance is as important today as it has ever been.

ANALYSIS ACROSS DIFFERENT SIZES OF ORGANIZATIONS

The sizes of organizations, as measured by annual revenues, vary across our 205 respondents as follows:

Most Recent Revenues	Number of Respondents
Revenues $10 billion or greater	31
Revenues $1 billion to $9.99 billion	69
Revenues $100 million to $999 .99 million	74
Revenues less than $100 million	24
Those not reporting revenues	7
Total Number of Respondents	205

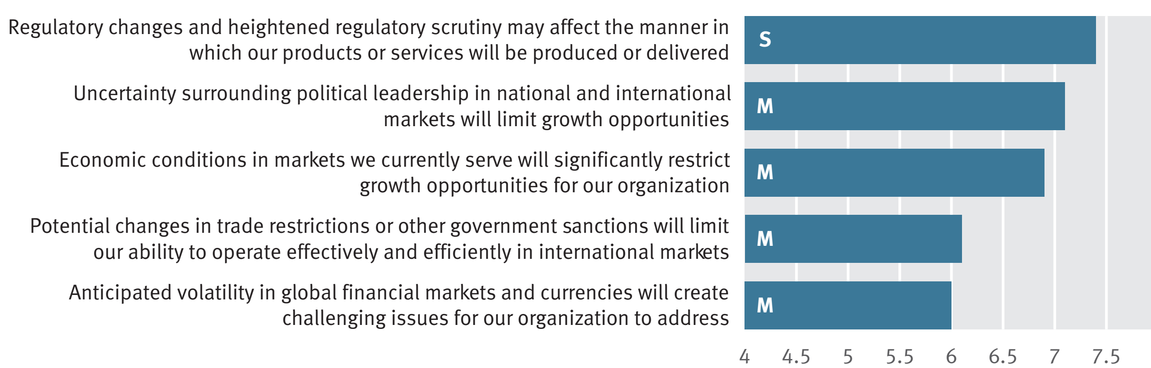
Consistent with what we have previously reported, concerns about the potential impact of regulatory changes and heightened regulatory scrutiny affecting the manner in which products and services will be produced or delivered are noticeably high for all sizes of organizations. Similarly, uncertainty surrounding political leadership in national and international markets limiting growth opportunities and concerns about economic conditions in markets they serve remain high across most sizes of organizations. Clearly, the regulatory environment and the potential for further change to that environment are of paramount concern to many organizations, influencing their decisions to expand, invest and hire.

While the following charts only highlight the top five risks (including ties), 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). Moreover, just one of the 20 risks for these 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.

Small and midsize organizations (those with revenues below $1 billion) only scored two risks as “Significant Impact” risks while eight of the 20 risks had averages below 4.5 on the 10-point scale, which we categorize as “Less Significant Impact” risks. Again, as would be expected, the size of the organization is likely a proxy for the complexities within the organization and thus may be an important dimension to consider when evaluating risks across multiple entities.

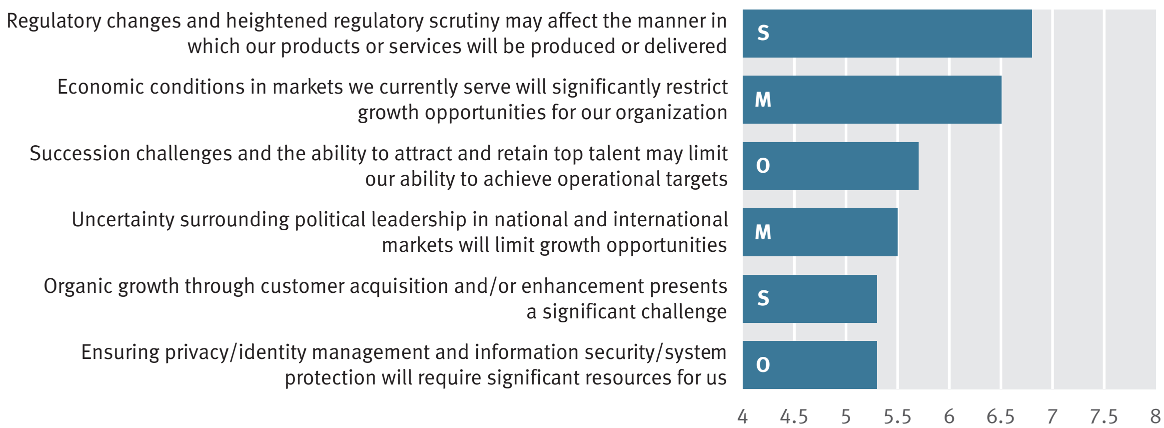
The accompanying charts summarize the top-rated risks by type of organization. Only the top five risks (with ties) are reported.

Organizations with Revenues $10 Billion or Greater

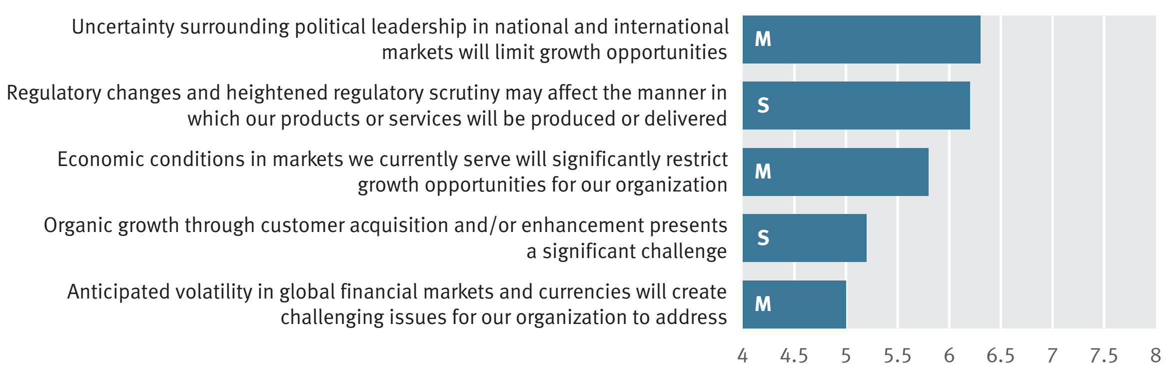


Organizations with Revenues between $1 Billion and $9.99 Billion

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 2013. Respondents to the survey hold a number of different executive positions – 19 serve on the board of directors of an organization, and the remaining respondents serve in a variety of executive positions. The positions with the greatest number of respondents are summarized below:

Executive Position	Number of Respondents
Board Member	19
Chief Financial Officer	29
Chief Risk Officer	42
Chief Audit Executive	54
Other C-Suite[1]	44
All Other[2]	17
Total Number of Respondents	**205**

To determine if perspectives about top risks differ across executive positions, we also analyzed key findings for board members and the four executive positions with the greatest number of respondents: chief financial officer (CFO), chief risk officer (CRO), chief audit executive (CAE) and other C-suite.[3] The results are summarized in Table 2 on the following page.

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. We use the following color-coding scheme to highlight visually risks using these three categories:

- 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

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

[2] These 17 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.

[3] 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 2: Perceived Impact over Next 12 Months

	All Respondents	Board Member	Chief Financial Officer	Chief Risk Officer	Chief Audit Executive	Other C-Suite
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	🔴	🔴	🔴	🔴	🔴	🔴
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	🟢	🟢	🟢	🟢	🟢	🟢
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	🟡	🟡	🟡	🟡	🟡	🟡

Consistent with the previous analyses provided in this report, almost all executives rated risks related to economic conditions and regulatory changes as "Significant Impact" risks. CFOs rated the risk associated with regulatory change as 5.9 – just below the threshold established for "Significant Impact." Board members, CAEs and CFOs did not rate any of the other 18 risks as "Significant Impact" risks. Other C-suite executives identified two additional risks associated with volatility in global financial markets and political uncertainty as significant. The remaining risks for board members, CFOs, CAEs and other C-suite executives were either "Potential Impact" risks or "Less Significant Impact" risks.

CROs named three additional risks at levels we categorize as "Significant Impact" risks. CROs are also noticeably concerned with operational risks related to cyber threats, risks related to succession issues and recruitment and retention of managerial talent, and risks related to privacy/identity management and information security. In total, CROs rated five of the 20 risks as "Significant Impact" risks as compared to all other executives, who identified two or less (board members, CAEs and CFOs) or four (other C-suite) of the 20 risks at that level. So, perhaps unsurprisingly, CROs perceive that some risks have more potential impact to their organizations than other executives. CROs may have a broader, enterprise perspective of risks arising from multiple silos across the organization's operations and that viewpoint manifests itself in their assessments of overall risk conditions.

Board Members

Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization

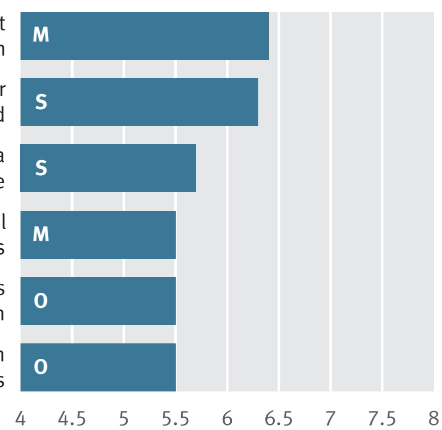
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered

Organic growth through customer acquisition and/or enhancement presents a significant challenge

Uncertainty surrounding political leadership in national and international markets will limit growth opportunities

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



Chief Financial Officers

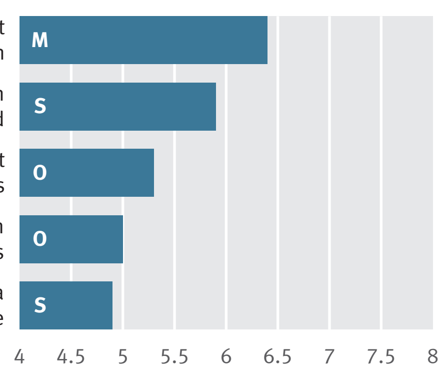
Economic conditions in markets we currently serve will significantly restrict growth opportunities for our organization

Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered

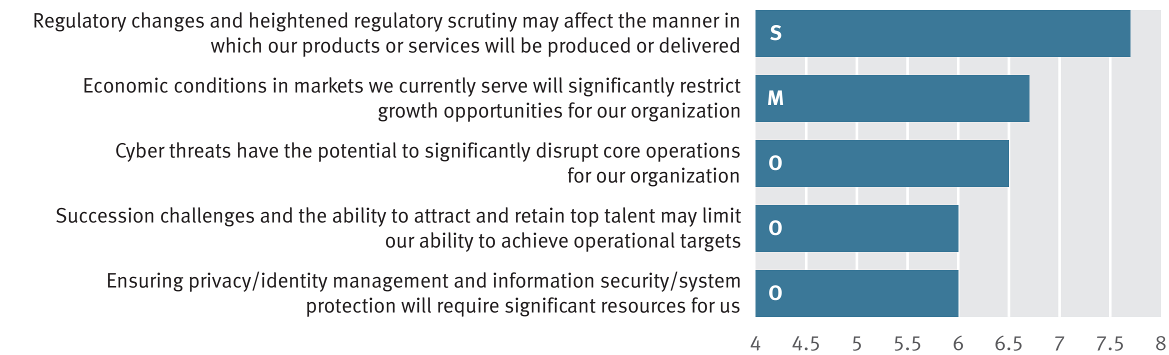
Succession challenges and the ability to attract and retain top talent may limit our ability to achieve operational targets

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

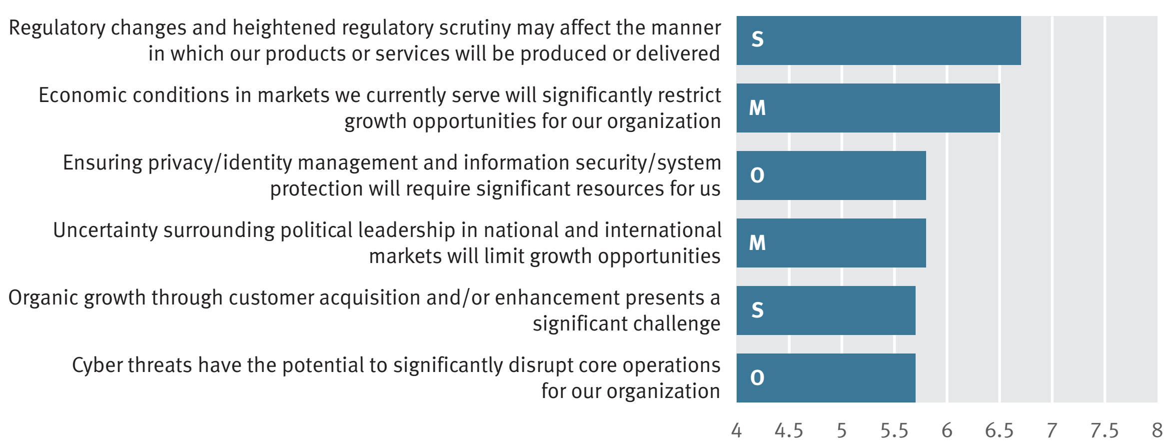
Organic growth through customer acquisition and/or enhancement presents a significant challenge



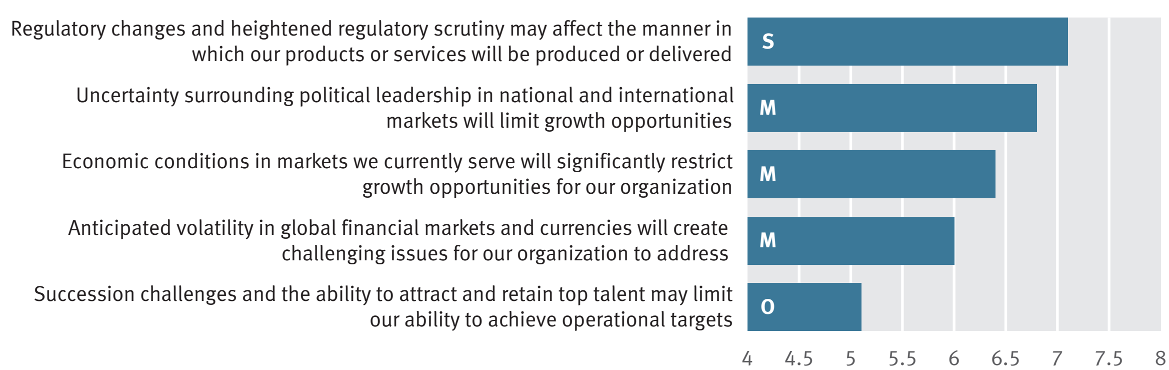
Chief Risk Officers



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	57
Consumer Products and Services	39
Industrial Products	27
Healthcare and Life Sciences	25
Technology, Media and Communications	23
Energy and Utilities	19
Other industries (not separately reported)	15
Total Number of Respondents	**205**

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

Table 3 (on the following page) provides an overview of the significance and differences across industries in executive perspectives about each of the 20 risks rated in this study (categorized as macroeconomic, strategic and operational risk issues).

Consistent with the full sample, respondents across all industry groups believe economic conditions in markets they currently serve will significantly restrict growth opportunities for them this year. All industry groups rated that risk as having a significant impact, as illustrated by the red circle across all industry columns. Most industry groups also believe regulatory changes and heightened regulatory scrutiny may significantly affect the manner in which the organization's products or services will be produced or delivered (exceptions are Industrial Products, and Technology, Media and Communications).

Most industry groups identified three to four risks as having a "Significant Impact;" however, both the Financial Services and the Technology, Media and Communications industry groups had the greatest number of "Significant Impact" risks.

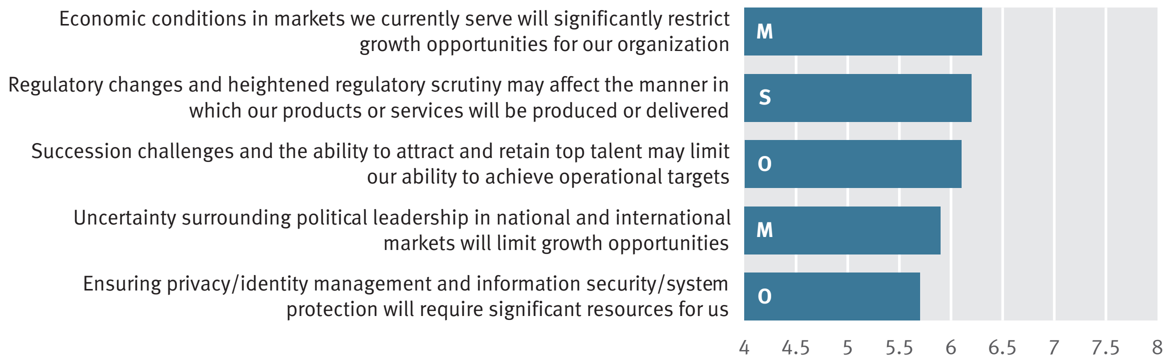
Four risks rated as less significant to most industries (at least four of six industries) relate to access to capital markets; ease of entrance of new competitors; ability to grow through acquisitions, joint ventures and other partnerships; and uncertainty surrounding viability of key suppliers or scarcity of supplies. Most industries perceive these risks to be "Less Significant Impact." No industry groups scored them high enough to be "Significant Impact" risks, with most scoring these risks at the lowest level ("Less Significant Impact").

The bar charts on pages 14-16 report the top five risk exposures (including ties) 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 For each of the industry groups, commentary is provided regarding the risk exposures noted.

Table 3: Perceived Impact over Next 12 Months

	All Respondents	Consumer Products and Services	Energy and Utilities	Financial Services	Healthcare and Life Sciences	Industrial Products	Technology, Media and Communications
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	🔴	🔴	🔴	🔴	🔴	🔴	🔴
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 operations	🟡	🟡	🟢	🟡	🟡	🟢	🔴
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	🟢	🟢	🟡	🟢	🟢	🟡	🟢
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	🟡	🟡	🟡	🟡	🟡	🟡	🔴

Consumer Products and Services

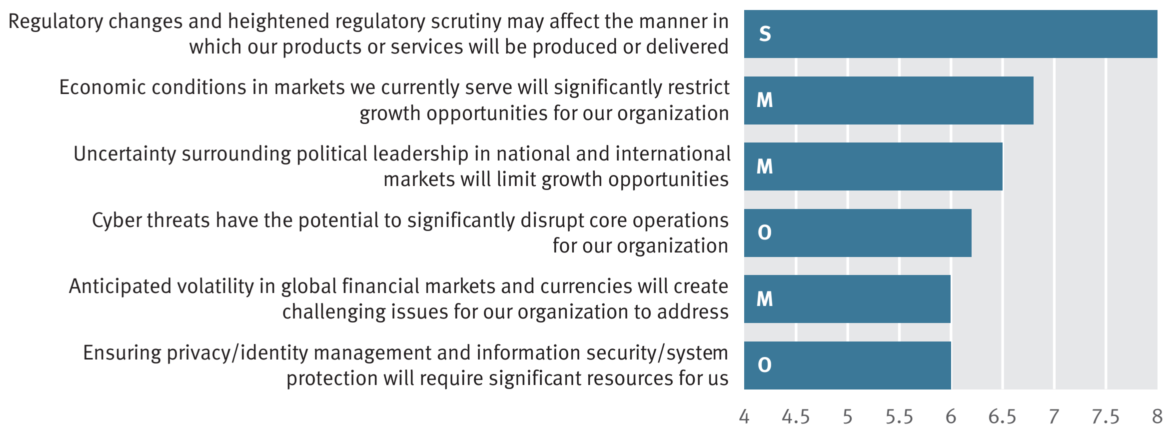


For this industry group, economic growth constraints continue as uncertain consumer confidence persists while political and regulatory changes occur on the heels of a recovering economy. New laws, including the Affordable Care Act, and rising taxes will put increased strains on both businesses and consumers. Although the increased regulation is typically less than other industries, the changes will require strong leadership to keep the business competitive and provide products and services the consumer wants and can afford. Privacy ranked fifth, but not far below the top risk of economic conditions. In a technology-enhanced world where consumer businesses win by marketing to the masses while customizing to the individual, breaching any consumer information is a risk that can be as damaging as providing the wrong products or services. Given the significance of the risk and the complexity of the technology protocols, having a strong plan to manage this risk is as important as managing through the economic, regulatory and political environment. All this leaves little doubt of the importance of attracting and retaining top talent for Consumer Products and Services companies.

Energy and Utilities

Energy companies – already heavily regulated – are under increasing pressure to improve corporate governance, manage risk, and comply with new policies, laws and regulations. Regulatory changes can add tremendous cost to an organization and even the threat of changes can create investment uncertainties. The wave of drilling activity in shale plays utilizing hydraulic fracturing technology as well as the heightened "Green Movement" could result in the potential tightening of environmental regulations. The additional public scrutiny from oil spills as well as significant discussion around the elimination of certain tax benefits all contribute to regulatory change being the top risk. Concerns over economic conditions in current markets, as well as political leadership in national and international markets, are understandable as political leaders domestically and internationally are promoting and subsidizing alternative energy sources, and the current gridlock in Washington leaves companies in an anticipatory mode. Power and other energy companies are watching developments on the climate change legislation front closely to understand the potential effect on their operations.

Financial Services



Coming out of the financial crisis, financial institutions are dealing with a highly dynamic regulatory environment and an unprecedented number of new requirements, including, as examples, Dodd-Frank, Basel III, and mortgage and derivatives trading reforms. Complicating the situation is a perceived lack of coordination among international regulatory bodies and significant shifts in the overall regulatory oversight framework. This is especially a concern given new regulators such as the Consumer Financial Protection Bureau in the United States, and changes to existing regulatory bodies such as the separation of prudential supervision of institutions from conduct regulation in the United Kingdom. Financial Services respondents also noted concern with macroeconomic risks, which tend to directly impact the need for and availability of credit, volatility in market risk and general customer behavior. Finally, security and privacy risks remain a longstanding issue within Financial Services given the expansion of social media, the sensitivity of account-level data, financial assets that can be accessed through compromise of such data, and the significant amount of nonpublic personally identifiable data that exists within most financial institutions.

Healthcare and Life Sciences

Regulatory changes and scrutiny continue to be the highest strategic risk areas of focus for organizations in the Healthcare and Life Sciences industries. For example, the implementation of the Affordable Care Act continues to force significant change, and the realization of reduced revenues driven by lower government reimbursement rates is driving strategic initiatives such as accountable care organizations, physician alignment strategies and other quality of care programs. In addition, government incentives around "Meaningful Use" have driven widespread implementation of electronic health records, and with the introduction of emerging health information exchanges, the risks around security and privacy of protected health information are becoming more complex to manage. Each day brings news of more HIPAA security and privacy breaches requiring the addition of resources for adequate protection.

Industrial Products

Several of the top risks for Industrial Products companies are interrelated because they operate in a global environment with complex, integrated value chains, from upstream suppliers through operations and ultimately downstream to customers. In addition, economic conditions have created an environment of slow growth rates, albeit ones that continue to improve. Continued volatility in foreign exchange rates and commodity costs across the supply chain is squeezing margins if a manufacturer is unable to pass through these cost increases to customers. Beyond these macro issues, however, the day-to-day reality of increased – and sometimes unclear – regulatory requirements is driving greater compliance efforts and costs. Recently passed legislation (such as Dodd-Frank Conflict Minerals disclosures, California's Supply Chain Transparency law and the U.K. Bribery Act), ongoing compliance scrutiny (such as Foreign Corrupt Practices Act compliance), and ongoing uncertainty related to proposed changes in taxes and healthcare requirements are presenting new challenges.

Technology, Media and Communications

Given the rapid pace of change and convergence taking place in this industry group, companies operating in this space face significant challenges in driving innovation, developing new products and protecting intellectual capital. While the globalization of the supply chain has continued to drive down the cost of production, the demand for engineering and creative talent has driven up the costs of development. A product's lifecycle is now measured routinely in months as opposed to years, resulting in a more limited time period to recover the costs of research and development that all technology, media and communications companies need to expend. Against this backdrop, this industry requires the spending power of individuals, organizations and governments. When economic conditions are weak, consumers limit discretionary spending and these companies are impacted significantly.

ANALYSIS OF DIFFERENCES BETWEEN PUBLIC AND NON-PUBLIC ENTITIES

Participants in the survey represent three types of organizations: publicly traded companies (104 respondents), privately held for-profit entities (66 respondents), and not-for-profit and governmental organizations (35 respondents). According to the survey results, all types of organizations have concerns about economic conditions and regulatory changes, consistent with the full sample. Clearly, economic uncertainty and the resulting changes that might occur in regulatory oversight top the list of risk concerns regardless of type of organization. Both public companies and not-for-profit organizations note concerns about growth opportunities being limited due to uncertainty surrounding political leadership in national and international markets.

Interestingly, when analyzing the data across public, privately held, and not-for-profit/government organizations, most other risks are not rated as "Significant Impact" risks (i.e., average scores of 6.0 or higher). Other than the risks described in the preceding paragraph, respondents in publicly traded or privately held, for-profit entities scored the 17 remaining risks as "Potential Impact" or "Less Significant Impact" risks.

PLANS TO DEPLOY RESOURCES TO ENHANCE RISK MANAGEMENT CAPABILITIES

Finally, in light of the risk environment, we asked executives to provide insights about whether the organization plans to devote additional resources to 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 5.8 out of 10 points possible. The noticeable difference is Financial Services, which had an average score of 7.0 out of 10 points, suggesting a greater likelihood of this group to deploy more resources to improve risk management capabilities.

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

We also analyzed responses to that question across different sizes of organizations, with the largest organizations signaling they are most likely to deploy additional resources to risk management:

	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)	5.8	6.1	5.8	5.3	6.7

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.

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:

	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)	5.8	5.6	5.8	6.4

These results are interesting as 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.

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 oversight 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:

	All Respondents	Board Members	Chief Financial Officers	Chief Risk Officers	Chief Audit Executives	Other C-Suite
Likelihood the organization plans to devote additional resources to risk management over the next 12 months (1 = unlikely; 10 = extremely likely)	5.8	5.1	6.0	6.3	5.4	5.9

CONCLUSION

This report provides insights from more than 200 executives about those risks that in 2013 may significantly affect profitability and funding objectives of their organizations. Overall, most executives rate the business environment as significantly risky.

Risks related to current economic conditions, changes in regulatory oversight and scrutiny, and uncertainty surrounding political leadership in both U.S. and international markets are noted consistently across industries, organizations of all sizes and types, and executive positions of respondents. While these three risk issues are consistently rated as "Significant Impact" risks, there is noticeable variation in perspectives about other risk areas across organizations. That suggests that there is no one-size-fits-all list of risk issues for organizations. Rather, the most notable risks vary across industry, size of organization, and type of ownership structure.

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 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 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?
- 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 the strategy-setting process appropriately considers 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 2013 and provides 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 include:

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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 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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