

Powerful Insights 2019 Top Risks Survey Overview

Kevin Donahue: Hello, and welcome to a new edition of *Powerful Insights*. This is Kevin Donahue, a senior director with the Protiviti Marketing Group. I'm really excited to be talking today with Mark Beasley and Jim DeLoach about the results of a just-completed global survey of board members and executives that we call *Executive Perspectives on Top Risks for 2019*. We're going to be hitting on some of the highlights of this very comprehensive study today.

As I mentioned, I'm pleased to be talking with Mark and Jim. Mark Beasley is a professor of enterprise risk management and director of the ERM Initiative at the Poole College of Management at North Carolina State University. Mark, it's great to speak with you today.

Mark Beasley: Thank you, Kevin. It's great to be here.

Kevin Donahue: Jim, who we've spoken to many times before, is a managing director with Protiviti and a member of the firm's Global Solutions leadership team. Jim, it's great to speak with you as well.

Jim DeLoach: Great, Kevin. Glad to be here. Thank you.

Kevin Donahue: To get things started, Mark, why don't you give us a rundown of the methodology for this year's global study?

Mark Beasley: Sure, Kevin. This is, exciting to say, our seventh annual study that we've done at North Carolina State University in partnership with Protiviti to gain some insights about what executives believe are the most significant risks on the horizon for their enterprises as they look into 2019. Our goal has been to get the executive perspectives – that being C-suite executives and boards of directors – on a number of risks as they look into 2019, with a goal of seeking global inputs. We're very excited that this year, we've received input from 825 executives and

board members from all around the world. About 45 percent of our sample is from North America, so it gives us the opportunity to focus in on, particularly, the United States, as well as the other 55 percent from other regions of the world so that we were able to analyze the results across eight different global regions.

The way we approach this each of our seven years is consistent, which allows us to provide some comparative benchmarking to prior years, and that is, we give each of the executives a list of 30 different risks – 9 macroeconomic, 11 strategic and 10 more operational risk – and we're asking them to provide us their perspective as they think about each of those 30 risks for 2019 along the lines of a 10-point scale, "1" being not significant at all and "10" being pretty significant, extensive impact.

That allows us, then, to use their scoring to categorize those where they're indicating a pretty high score, that being 6.0 or greater – what we call significant impact risk. As you hear us talk today, as well as when you read the study, a significant impact risk means that respondents, on average, are rating that at a 6-out-of-10 or higher level. Again, there are 825 executives at a global level looking at a number of different risk issues.

Jim DeLoach: I might add, Kevin, to Mark's comments, we're very excited about the global participation about issues on top risks as well as the interesting, diverse results across different regions, with some similarities as well as distinctive differences in some cases. Not only did we have the highest level of participation we've ever had of the seven years we've done this study, we got the greatest global dispersion as well. We're very excited about that.

Mark Beasley: Jim, I'll add to that, too, just to make sure people are aware what's in this report. It's a very extensive report. We have sliced and diced the data along so many different dimensions. For readers that are interested in seeing results by a particular industry group, we've done that across six industry groups. We've also done it across different sizes of organizations so you can get a sense of what are the views of the largest companies. We've also

done it by participant position. What do boards think versus CEOs, as well as public versus nonpublic, and geographic regions? My message is to understand that we look at it as a full sample and then from a number of different cuts so people can look at it from different perspectives.

Kevin Donahue: Thanks, Mark. Thanks, Jim. That was a great rundown. I can remind our audience now that you can find our full report and numerous other related materials at erm.ncsu.edu and protiviti.com/toprisks.

As Mark mentioned, we have a lot of different results, insights and cuts of the data by different views, but we do have some high-level findings. I wanted to walk through some of those now. Mark, Jim, why don't you give us two or three, say, highlights from the study in terms of takeaways that you saw? Mark, I'll let you start.

Mark Beasley: Sure. Let me just touch on a couple of these that really caught my eye. First, one of the things we ask, before we got into the 30 specific risks, is, we asked for an overall perspective about how they perceived the risk environment for 2019 and whether they sense it to be riskier. One of the things that caught our attention is, overall, they sensed that the environment, from a risk perspective, seems a little bit riskier for 2019 relative to 2018. When you look at the specific 30 risks, out of all 30, 25 of them rate higher for 2019 relative to 2018, so, overall, there's a higher level of concern across almost all the risks for 2019.

When you look at our top 10 specifically, as I mentioned earlier, those where our score was greater than 6 out of 10, we call those significant impact risks, so eight of the top 10 risks are all significant impact risks for 2019. You back away from that a little bit, and it just seems that there's an overall upward shift in risk concerns for 2019 relative to 2018. That seems to be at a global level. Except for North America, all the other regions of the world rated all their top five risks as significant impact risk. When you get the top five risks, all regions of the world said all of these are significant impact risks. North America didn't rate all five that way, but that was an

interesting finding. I guess the message is a general sense that the environment for 2019 seems, overall, to be a little bit riskier relative to the current year.

Jim DeLoach: Yes, Mark. I thought that what's really interesting is that, as you look at all that, you see several other themes that pop out. For example, operational risk concerns dominate the top 10 risks, as they did last year, followed by strategic risk. In fact, none of the top 10 risks are macroeconomic in nature, because for the first time, economic risks fell out of our global top 10, whereas it was a major aspect in prior years.

Another thing that's interesting is a noticeable shift in the ranking order. For example, one risk jumped from the top 10 – it was number 10 last year on the top 10 list. It jumped to the number one spot, reflecting on a composite of concerns that executives and directors had about their organization: digital readiness, lack of resiliency and agility, the restricted burden of technical debt, or the lack of out-of-the-box thinking about business models, or the existence of more nimble competitors. All those factors, Mark, likely impacted the movement of this one risk from the 10th spot last year to the top spot this year.

As I mentioned earlier, economic risk fell out. It fell out of the top 10 to the 11th spot, leaving the remaining risks shifting on a different order and customer-loyalty concerns entering our top 10 risks this year. It was not on the top 10 risks last year. I found, Mark, that it's very interesting how there were noticeable shifts in the ranking order, which I think reflects the perceptions; the risk profiles are changing in terms of their significance and severity in the eyes of the participants of this survey.

Mark Beasley: Yes, I agree with that insight. Picking up on that, it's a message, I think, for entities to be thinking about: Managing yesterday's risks doesn't mean you're managing tomorrow's. Really challenging that was the risk, and on a refreshed basis is pretty critical, because we are definitely seeing some shifts in that.

Another one of our observations is that when you look at then the positions of people that are responding, when you look at their perspectives on the risks, there are some interesting differences in how executives and board members are looking at the environment. For example, for board members, 2019 is much riskier than CEOs see it – among board members, for 26 of the 30 risks, they rated them significant impact risks, in contrast to CEOs rating only six. What that tells me is, one, as you were saying, the mix and the profile of risks are shifting, and two, we see it all differently, so we really need to be talking about this on a very regular basis. Assuming that last year's risks are the same ones is not really the best approach. I think that really popped out to me.

One of the other points that we found, too, is that in light of that, I think we are seeing that respondents are also indicating a greater desire to devote more time and resources to the entity's approach to identifying risks and then managing those over the next 12 months. I think there is some recognition that this is shifting on us and we're going to be investing more in how we think about risk oversight for the entity because they're telling us – signaling, at least – that they're planning to invest more time and energy into thinking about risk in 2019 relative to 2018.

Jim DeLoach: I think that, Mark, to your point about the fact that we slice the data in many different ways, one of the most interesting cuts, of course, was our analysis of the distinction between different industry groups that we examine as such. There were some similarities across industry groups such as the concerns about competitors that were more nimble, given their digital capabilities. That's the number-one-rated risk this year, which moved up so highly from last year. That was also noted as a top five risk concern for five of the six industry groups.

At the same time, there were a number of noticeable differences among the industries. Of course, our readers, our listeners, can find the distinctions in the report. I love the reference, Mark, to your comment "This is no longer yesterday's risk. This is a different, more fluid environment – new developments every day." I think the message, looking forward, is that

digital transformation is a main driver of risk. It's impacting uncertainty over business-model viability, customer preferences, the competitive landscape, workplace dynamics, even regulatory demands. To your point, Mark, organizations have got to do as good a job as they can – a lot of culture, people, processes and intelligence-gathering – to embrace this rapidly changing environment.

Kevin Donahue: Thanks, Jim. Mark, why don't you share some of your high-level thoughts on our top 10 risks for 2019?

Mark Beasley: Yes, Kevin, it's interesting. Even building on what Jim was just talking about, just this: When you look in the top 10, it's important, I think, for people to recognize you don't look at each of these 10 individually. They are very related in so many ways – as Jim was saying, this real emphasis and concern about technology and innovation and whether companies are going to be nimble enough with their legacy infrastructures to be able to compete with entities that are more born digital, where they've got more flexibility and lower overhead.

When you look at the top 10, there are some related groupings in that 10 – first, that number one risk that Jim has touched on about this concern about existing operations, legacy infrastructure, being able to compete with those that are more nimble, more digital. Another one of our top 10 is concern about rapid speed and disrupted innovation because of emerging technologies. Then you link that to concerns about not being competitive and being able to utilize data analytics and big data. Right there, there are three that really connect. They're distinct, but they relate to one another.

Jim also touched on culture, and I think this ties there, too, because one of our key findings is this resistance-to-change concern. That was our number five out of the 10, where that resistance to change might restrict the organization's ability to make the needed adjustments to a business model. Then we have another culture of concern: Does the culture really embrace

the escalation and timely reporting of key risk issues upward? Does the culture support it, or is the process clear enough to know how to escalate a risk?

Then finally, cyber – naturally, no surprise, it's in the list. It's there. People are definitely concerned about cyberthreats, but then a separate one of our 10 is privacy and identity management. I think that's a key takeaway for me – what's bubbling to the top is that it's probably better to look at related themes like that because I think collectively, they're telling us the bigger message.

Jim DeLoach: Yes, the cyber is a big deal. It's interesting how pervasive it was. To put that in perspective, it's a top five risk for each of the four size categories of organizations, except for the largest organizations. It was deemed a significant risk by all C-suite positions, going back to the way we slice the data, in that respect, as you mentioned earlier, as well as board members. It was also a top five risk for four of the six industry groups we examined. In fact, it's the only one of the 30 risks we identified as a significant-impact risk concern for all industry groups.

Mark Beasley: Yes, it sure is.

Kevin Donahue: Most definitely. Jim, Mark, I want to thank you very much for sharing your insights with us today about just some of the key findings and takeaways from North Carolina State University's and Protiviti's *Executive Perspectives on Top Risks for 2019* study. For more information – to obtain our full report, our stand-alone executive summary, our infographic, our CR video and more – visit erm.ncsu.edu or protiviti.com/toprisks.