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NC STATE Poole College of Management
Enterprise Risk Management Initiative

2021 & 2030

A MIDDLE EAST PERSPECTIVE ON **TOP RISKS**

Key issues being discussed in the boardroom and C-suite

Research Conducted by NC State University's ERM Initiative and Protiviti

Introduction

The range of uncertainties facing business leaders around the globe in 2021 is overwhelming. Challenges triggered by a rare airborne virus creating a global pandemic continues to unfold, combined with numerous other risk issues, such as growing social unrest, polarization and ever-present challenges ranging from new technologies and digitization innovations to everchanging markets, strategies, and business models. Staying abreast of emerging risks and opportunities is becoming increasingly difficult.

Leaders of organizations in virtually every industry, size of organization and geographic location are reminded frequently that they operate in what appears to be an increasingly risky global landscape. Boards of Directors and executive management teams cannot afford to manage risks on a reactive basis, considering the rapid pace of disruptive innovation and technological developments in an ever-advancing digital world and the need for resilience and agility, pivoting when new market opportunities and unexpected threats arise.

Protiviti and North Carolina State University's ERM Initiative is pleased to provide this report focusing on the top risks currently on the minds of global Boards of Directors and executives. This report contains results from our ninth annual risk survey of directors and executives worldwide to obtain their views on the extent to which a broad collection of risks is likely to affect their organizations over the next year – 2021. Also, for the first time, this year we asked respondents to consider how these risks will affect their organizations a decade from now (in 2030).

This report provides an overview of the overall risk concerns for 2021 and 2030. It concludes with a call to action offering a discussion of questions executives may want to consider as they look to strengthen their overall risk assessment and management processes.

Our survey was conducted online near the end of 2020 to capture risk perspectives on the minds of executives as they peered into 2021. The respondent group, comprised primarily of Board Members and C-suite executives from all major regions of the world, provided their perspectives about the potential impact in 2021, and also in 2030, of 36 specific risks across three dimensions:[1]

- Macroeconomic risks likely to affect their organization's growth opportunities
- Strategic risks that may affect the validity of its strategy for pursuing growth opportunities
- Operational risks that might affect key operations of the organization in executing its strategy

We are pleased that participation from executives was very strong this year. We surveyed 1,081 board members and executives across a number of industries and from around the globe. As part of the survey for 2021, we received responses from 75 organizations in the Middle East, across industry verticals and personnel from different functions within these organizations.

Respondents rated the impact of each risk on their organization using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

[1] Six new risks were included in the 2021 survey. These new risks are specifically focused on the effects of the COVID-19 pandemic and on the social and economic challenges experienced in 2020.

We also grouped risks based on their average score into one of three classifications:

CLASSIFICATION	RISKS WITH AN AVERAGE SCORE OF
Significant Impact	6.0 or higher
Potential Impact	4.5 through 5.99
Less Significant Impact	4.49 or lower

The global challenges continue with potential and existential threats posed by various risk drivers including the ongoing COVID-19 pandemic, political divisiveness and polarization, social and economic unrest, gridlock, artificial intelligence (AI), automation and other rapidly developing digital technologies. These also drive few other notable changes such as the rapid shift to virtual, remote work environments, changes in the geopolitical landscape, shifting customer preferences and demographics. This instils fragile supply chains, cyber-attacks, terrorism, wildfires and hurricanes, volatile unemployment levels, record of low interest rates, escalating competition for specialized talent and immigration challenges. These and a host of other notable risk drivers are all contributing to significant levels of uncertainties, making it extremely difficult to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at a record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. No one is immune to the significant levels of uncertainty. The C-suites and Boards need to be vigilant in scanning the horizon for emerging issues. As no one can possibly anticipate everything that lies in the future, organizations must focus on building trust based resilient cultures led by authentic leaders that can pivot at the speed of change.

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 these risks.

The top risks on the minds of all executives for 2021 are briefly summarized on the table in the next page.

Top Risks Global

TOP RISKS FOR 2021
1. Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of business (new in 2021)
2. Economic conditions in markets, particularly related to unemployment and government stimulus may significantly restrict growth opportunities for organization
3. Market conditions imposed by and in response to COVID-19, including shifts in consumer behavior to digital channels may continue to impact customer demand for core products and services (new in 2021)
4. The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees
5. Ensuring privacy/identity management and information security/system protection may require significant resources
6. Organization may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage brand
7. Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which products or services will be produced or delivered
8. Organization’s succession challenges, ability to attract and retain top talent in a tightening talent market may limit the ability to achieve operational targets
9. Resistance to change in organization’s culture may restrict organization from making necessary adjustments to the business model and core operations
10. Existing operations, legacy IT infrastructure, lack of digital IQ in the workforce and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost, and innovation as well as the competitors, especially new competitors that are “born digital” with a hyper-scalable business model and low-cost base for their operations, or established competitors with superior operations

TOP RISKS FOR 2030
1. The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organisation may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees
2. Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered
3. Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/or other market forces may outpace our organisation's ability to compete and/or manage the risk appropriately, without making significant changes to our business model
4. Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets
5. Ensuring privacy/identity management and information security/system protection may require significant resources for us
6. Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives
7. Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base
8. Our existing operations, legacy IT infrastructure, lack of digital IQ in the workforce and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" with a hyper-scalable business model and low cost base for their operations, or established competitors with superior operations
9. Inability to utilise data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plans
10. Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand

Regional Risk Analysis – Middle East vs. Global

We analysed responses about overall impressions of the magnitude and severity of risks across the three categories, namely Macroeconomic, Operational and Strategic. Again, the scores in the table below reflect responses to the question about their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = "Extremely Low" and 10 = "Extensive."

	MIDDLE EAST		GLOBAL	
	2021	2020	2021	2020
Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?	6.15	6.3	6.4	6.1

The results of the responses from the Middle East (ME) region, in comparison to the global responses are noteworthy. Macroeconomic risks dominate the top five risks listing followed by Operational risks.

Middle East respondents rank Government imposed restrictions for the containment of COVID 19 as the number one risk due to the economic slowdown caused by the restrictions imposed leading to significant impact on the businesses. Economic conditions in the GCC markets particularly related to unemployment and government stimulus may significantly restrict growth opportunities for organizations and hence categorize this macroeconomic risk next in the list. Similarly, organizations are also recognizing that sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts induced due to the pandemic which could negatively impact operations.

Respondents are recognizing that resistance to change in culture may restrict the organization from making necessary adjustments to the business model and core operations thereby impacting the overall growth.

Considering the cultural challenges, organizations perceive succession challenges, ability to attract and retain top talent may limit their ability to achieve operational targets.

Respondents have expressed concerns about their ability to access sufficient capital/liquidity due to the negative impact on overall financial position because of restrictions imposed due to pandemic which may restrict growth opportunities for the organization.

Lastly organizations are recognizing that they may not be able to adapt its business model to embrace the evolving "new normal" imposed on businesses by the current pandemic and the emerging social change.

• • • Top 10 Risks in the Middle East Region - 2021

RISK RANK	RISK	RISK CATEGORY
1.	Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of business (new in 2021)	Macroeconomic
2.	Economic conditions in markets particularly related to unemployment and government stimulus may significantly restrict growth opportunities for organization	Macroeconomic
3.	Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in organization's existing customer base (new in 2021)	Strategic
4.	Resistance to change in organization's culture may restrict the organization from making necessary adjustments to the business model and core operations	Operational
5.	Organization's succession challenges, ability to attract and retain top talent in a tightening talent market may limit the ability to achieve operational targets	Operational
6.	Organization's ability to access sufficient capital/liquidity may restrict growth opportunities for organization (new in 2021)	Macroeconomic
7.	Organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect the core operations and achievement of strategic objectives	Operational
8.	The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in the organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees	Operational
9.	Regulatory changes and scrutiny may heighten noticeably affecting the manner in which the products or services will be produced or delivered	Strategic
10.	Organization may not be able to adapt its business model to embrace the evolving "new normal" imposed on the business by the current pandemic and emerging social change	Strategic

Top 10 Risks in the Middle East Region - 2030

RISK RANK	RISK	RISK CATEGORY
1.	Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	Strategic
2.	Our organization’s succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets	Operational
3.	The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees	Macroeconomic
4.	Economic conditions in markets we currently serve, particularly related to unemployment and government stimulus, may significantly restrict growth opportunities for our organization	Macroeconomic
5.	Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share	Strategic
6.	Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered	Strategic
7.	Political uncertainty surrounding the influence and continued tenure of key global leaders may impact national and international markets to the point of significantly limiting our growth opportunities	Macroeconomic
8.	Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/or other market forces may outpace our organization’s ability to compete and/or manage the risk appropriately, without making significant changes to our business model	Strategic
9.	Resistance to change in our culture may restrict our organization from making necessary adjustments to the business model and core operations	Operational
10.	Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization	Macroeconomic

Year over Year Comparison of Risks in the Middle East Region

The comparison of Middle East risk rankings across the years 2021 and 2020 provides interesting insights. The new risks from a strategic standpoint that emerged were on account of COVID-19 and understandably so. Organizations believe that they may not be able to embrace the 'new normal' and also that the pandemic could bring about shifts in consumer behaviour to digital channels and impact customer demand.

Respondents also believe that growth opportunities through acquisitions, JVs etc. could be harder to come by. This could be on account of the significant strain on companies liquidity the pandemic has brought in.

With the pandemic and fluctuations in organizational performance, activist shareholders who seek significant changes to the organization's strategic plan and vision have now become more aggressive. Hence, we see a major upward swing in this risk score.

Organizations have taken serious efforts to embrace social media, deploy 5G networks and extend bandwidth. Thus, these issues do not pose the same challenges to brand, customer relationships, and regulatory compliance as before. These risks were perceived as much lower risk as compared to the previous year showing major downswing.

Governments in the region have made serious efforts towards reduction in unemployment and have provided stimulus on account of disruption caused by COVID-19, hence the respondents did not perceive restriction of growth opportunities due to economic conditions related to unemployment and government stimulus to be a grave threat, as they did in the past.

Refer to the table on the next page for comparison of top risk rankings for the Middle East Region between 2021 and 2020.

Macroeconomic Risks

S NO	RISK	2021	2020	VARIANCE%
1.	Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of the business (new in 2021)	6.51	N/A	N/A
2.	Shifts in perspectives and expectations about social issues and priorities surrounding diversity, equity and inclusion are occurring faster than the pace at which the organization is capable of managing effectively, which may significantly impact the ability to attract/retain talent and compete in the marketplace (new in 2021)	5.58	N/A	N/A
3.	The current interest rate environment may have a significant effect on the organization's operations	5.43	5.08	7%
4.	Anticipated increases in labor costs may affect the opportunity to meet profitability targets	5.78	5.43	6%
5.	Organization's ability to access sufficient capital/liquidity may restrict growth opportunities for the organization	5.94	5.62	6%
6.	Political uncertainty surrounding the influence and continued tenure of key global leaders may impact national and international markets to the point of significantly limiting the growth opportunities	5.66	5.41	5%
7.	Anticipated volatility in global financial markets and currency exchange rates may create significantly challenging issues for the organization to address	5.42	5.34	1%
8.	Geopolitical shifts, regional conflicts and instability in governmental regimes or expansion of global terrorism may restrict the achievement of the global growth and profitability objectives	5.59	5.70	-2%
9.	Evolving changes in global trade policies (e.g., Brexit, escalating tariffs and border restrictions) may limit organization's ability to operate effectively and efficiently in international markets	4.72	4.98	-5%
10.	Economic conditions in markets particularly related to unemployment and government stimulus may significantly restrict growth opportunities for the organization	6.40	7.23	-11%

Strategic Risks

S NO	RISK	2021	2020	VARIANCE%
1.	Organization may not be able to adapt its business model to embrace the evolving “new normal” imposed on the business by the current pandemic and emerging social change (new in 2021)	5.82	N/A	N/A
2.	Market conditions imposed by and in response to COVID-19, including shifts in consumer behavior to digital channels, may continue to impact customer demand for the core products and services (new in 2021)	5.73	N/A	N/A
3.	Growth opportunities through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement	5.82	5.05	15%
4.	Performance shortfalls may trigger activist shareholders who seek significant changes to organization’s strategic plan and vision	5.68	4.96	14%
5.	Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in the existing customer base	6.23	5.74	9%
6.	Substitute products and services may arise that affect the viability of the current business model and planned strategic initiatives	5.49	5.06	9%
7.	Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten the market share	5.58	5.54	1%
8.	Rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/or other market forces may outpace the organization’s ability to compete and/or manage the risk appropriately, without making significant changes to the business model	5.45	5.41	1%
9.	Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for the organization	5.44	5.41	1%

10.	Organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting the reputation	5.44	5.42	0%
11.	Shifts in environmental, social and governance (ESG) preferences as well as expectations of key stakeholders about climate change, diversity and inclusion, and other governance and sustainability issues may be difficult to identify and address on a timely basis	4.54	4.75	-4%
12.	Regulatory changes and scrutiny may heighten noticeably affecting the manner in which the products or services will be produced or delivered	5.83	6.24	-7%
13.	Social media developments, 5G networks to improve mobility, extended bandwidth, data transmission and other emerging innovations may significantly impact the brand, customer relationships, regulatory compliance processes and/or how organizations do business	4.24	5.00	-15%

Operational Risks

S NO	RISK	2021	2020	VARIANCE%
1.	Ongoing demands on or expectations for a significant portion of organization's workforce to "work remotely" or increased expectations for a transformed, enhanced collaborative physical work environment may negatively impact the effectiveness and efficiency of how organizations operate their business (new in 2021)	5.77	N/A	N/A
2.	Organization's ability to meet expectations around protecting the health and safety of employees, customers, suppliers, and the communities in which organizations operate may be insufficient to receive market permission to operate or encourage people to work for the organization or do business (new in 2021)	5.68	N/A	N/A
3.	Uncertainty surrounding the viability of key suppliers, scarcity of supply, or stable prices in the supply chain ecosystem may make it difficult to deliver the products or services at acceptable margins	5.36	5.16	4%
4.	The behaviors and personal conduct of the organization's management team and other key representatives may not conform to societal and ethical expectations	5.12	4.93	4%
5.	The adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in the organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees	5.88	5.68	4%
6.	Third-party risks arising from organization's reliance on outsourcing and strategic sourcing arrangements, IT vendor contracts, and other partnerships/joint ventures to achieve operational goals may prevent the organization from meeting organizational targets or impact the brand image	5.40	5.33	1%
7.	Resistance to change in organization's culture may restrict the organization from making necessary adjustments to the business model and core operations	6.06	6.01	1%
8.	Organization may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage the brand	5.73	5.69	1%
9.	Organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect the core operations and achievement of strategic objectives	5.94	5.97	-1%

10.	Existing operations, legacy IT infrastructure, lack of digital IQ in the workforce and insufficient embrace of digital thinking and capabilities may not meet performance expectations related to quality, time to market, cost, and innovation as well as the competitors, especially new competitors that are “born digital” with a hyper-scalable business model and low-cost base for their operations, or established competitors with superior operations	5.65	5.86	-4%
11.	Organization’s succession challenges, ability to attract and retain top talent in a tightening talent market may limit the ability to achieve operational targets	5.97	6.19	-4%
12.	Inability to utilize data analytics and “big data” to achieve market intelligence and increase productivity and efficiency may significantly affect the management of core operations and strategic plans	5.58	5.82	-4%
13.	Ensuring privacy/identity management and information security/system protection may require significant resources for organization	5.51	6.06	-9%

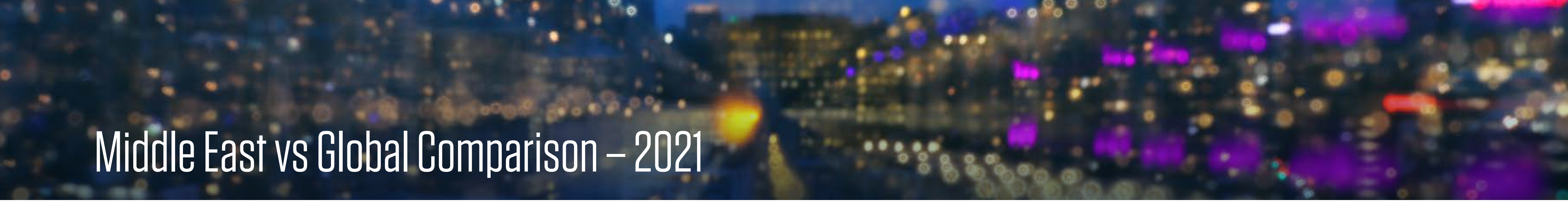
The above tables depict category-wise top risks and a comparison on year on year (YoY) scores.

Most of the risks, across categories, showed an increased risk score as compared to the previous year (i.e., 2021 vs. 2020) which is in contrast with last year (i.e., 2020 vs. 2019) wherein the risk scores decreased across categories, indicating the overall impact of pandemic related disruption across risk categories.

There were many new risks identified in 2021 which included ongoing demands or expectations for a significant portion of the workforce to ‘work remotely’ or increased expectations for a transformed, enhanced collaborative physical work environment negatively impacting the effectiveness and efficiency of business operations, government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols’ impacting the performance of business.

Overall, the survey results for the Middle East region clearly indicate that risks arising from disruption related to the ongoing pandemic of COVID-19 and subsequent economic conditions stand out as key risks edging out other risks related to succession planning and delayed adoption of digitization. The Middle East risks responses are not completely in sync with the global responses, which indicates that the Middle East market is going through a distinct phase of change.

The likelihood that the organizations plan to devote additional resources to risk management over the next twelve months is higher (6.6) compared to last year (5.9) which highlights the importance of risk management in the current business scenario. However, organizations do perceive challenges in the next 12 months in sustaining or strengthening the coordination and exchange of risk information internally, as the risk score increased from 5.7 in 2020 to 5.9 in 2021.



Middle East vs Global Comparison – 2021

The comparison of Middle East risk rankings and global rankings for 2021 identified certain stark differences. There were a few common risks identified across which were the top 2 risks i.e., government policies surrounding the COVID-19 and economic conditions related to unemployment and government stimulus in the markets served.

Market conditions imposed by and in response to COVID-19, including shifts in consumer behaviour to digital channels and its impact over customer demand for core products and services was ranked as the third risk as per global rankings. However, this risk was not even in the top ten risks of Middle East region depicting the different nature of markets and digital channels in ME region markets as compared to global markets.

Similarly, increasing difficulty in sustaining customer loyalty and retention due to evolving customer preferences and/or demographic shifts in existing customer base was ranked as the third risk as per ME rankings. However, this risk was not even in the top ten risks at the global level highlighting the greater impact of demographics in the ME region due to presence of large number of expatriates as compared to the rest of the world.

Further, requirement of significant resources for ensuring privacy/identity management and information security/system protection was ranked as the fifth risk globally as compared to rank twenty-four for the ME region highlighting the evolving laws towards privacy/identity management in this part of the world.

Middle East vs Global Comparison – 2030

The comparison of Middle East risk rankings and global rankings for 2030 provided insightful reading. The top risk at the global level was the adoption of digital technologies (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in the organization, which may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees due to rapid technological advances in the digital technologies currently which is expected to continue. This risk was ranked as the third risk in the ME region.

The risk of regulatory changes, scrutiny and its impact over the business was ranked as the second risk at global level. However, the same was not even in the top five risks of ME region highlighting the difference between the regulatory structure at global and ME level.

Further, requirement of significant resources for ensuring privacy/identity management and information security/system protection was ranked as the fifth in the global survey for 2030 also highlighting the importance of data privacy. However, its rank in ME region was twenty-one (as compared to twenty-four in 2021) showing the expectations around continuation of the evolving laws towards privacy/identity management.

A Call to Action – Questions to Consider

This report provides insights from 1,081 board members and executives about risks that are likely to affect their organizations over the next 12 months (and also looking ahead to 2030). Our respondents rate the overall business environment as riskier in 2021 vis-à-vis 2020, although when examining individual risks, respondents' rate 19 of the 30 risks included in the 2020 survey as higher in 2021 than they were rated in 2020 (recall we added six new risks this year).

This suggests that there is uneasiness among executives about what risks might be out there that management and the board currently do not see or understand. They may be concerned about the extent of disruptive risks that may arise but are not currently "known" to them. As a painful example, a global pandemic and associated economic ills were unlikely to have appeared on many organizations' top 10 lists of risks for 2020 at the beginning of the previous year.

The ongoing events of 2020 continue to present major challenges as we move deeper into 2021. The level of uncertainty in today's marketplace is rapidly evolving and presenting new risks that many previously thought were unimaginable. Though vaccine roll outs have begun across the world and countries have made considerable progress in administering the vaccines, the emergence of new and more potent variants of the virus have increased uncertainty in these times.

The ever-changing risk landscape and the overall perceived magnitude and severity of risks should prompt boards and senior executives to closely scrutinize the approaches they use to keep an eye on emerging risks. Unfortunately, some organizations continue to manage risks the way they have for many years, even though the profile of risks is changing as business is transformed in the digital economy. Their risk profile is most certainly not yesterday's risks, and a focus on financial and compliance risks using static analogue-age tools without any conception of the organization's risk appetite leaves decision makers short sighted. Soon those organizations may realize, once it is too late that the level of investment in risk management and their willingness to engage in robust tools is inadequate.

Hopefully, the experiences of navigating the complexities of the ongoing pandemic, social unrest and the extreme polarization of viewpoints revealed by the events of 2020 have highlighted for executives and boards the weak points in their organizations' approach to risk management.

At the same time, many organizations have benefitted from the "all-hands-on-deck" approach on how their leadership teams have come together to quickly assess emerging situations and respond to risks never seen before. Ongoing communications and transparent discussions about risks on the horizon are attributes worth preserving once the firestorm caused by the pandemic subsides. As business leaders think about issues they have had to confront in recent months, they may benefit from an honest assessment of their risk management infrastructure and its intersection with strategic planning and value creation.

Given the disruptive environment, now may be an opportune time for boards and C-suites to closely examine how their organization approaches risk management and oversight in the digital age to pinpoint aspects demanding significant improvement. Managing today's risks using outdated techniques and tools may leave the organization exposed to significant, undesirable, and potentially disruptive risk events that could obviate its strategy, business model and threaten its brand and reputation — even its very survival.

Accordingly, in the interest of evaluating and improving the risk assessment process in light of the findings in this report, we offer executives and directors the following diagnostic questions to consider when evaluating their organization's risk assessment and risk management process:

Ensure our risk management approach is sufficiently robust

Because risks are constantly changing, the risk management process needs to be repeatable, clearly defined and adequately resourced to ensure business leaders are staying abreast of emerging issues:

- What insights have the ongoing pandemic and other 2020 risk issues revealed about limitations in our organization's approach to risk management?
  - To what extent was the risk of a pandemic on our risk radar prior to early 2020? If so, how did having it in our risk register help us prepare for what we have faced?
  - How prepared was our organization to deal with the challenges we have experienced?
  - How effective was our organization's business continuity plan in addressing the enterprise-wide impact of COVID-19? What holes in the plan have been revealed so far?
  - Did our employees have all the technology and tools they needed? Did urgent efforts to adopt new tools and technologies and transition to a virtual workplace achieve acceptable productivity and returns? Did those efforts create information security issues?
  - Was our culture resilient enough to pivot in response to the pandemic's effects on our customers, employees, third-party relationships, and supply chain?
  - What do we now understand that we wish we had known prior to the pandemic? Why didn't we better anticipate those issues?
- Is the process supported by an effective, robust methodology that is definable, repeatable, and understood by key stakeholders?
  - To what extent is our risk management process mostly focused on internal, operational types of risks using a bottom-up approach to risk identification?
  - How well does our approach to risk identification foster consideration of risks that may have a higher-level strategic impact and that may be triggered by external events or competitor moves that are beyond our organization's control?
  - Would most stakeholders describe our approach to risk management as one that is siloed across disparate functions in the organization and/or one that is more ad hoc than structured?
  - Does the process delineate the critical enterprise risks from the day-to-day risks of managing the business so as to focus the dialogue on the C-suite and boardroom on the risks that matter most?
  - Do we engage all the right stakeholders in the risk identification process?
  - How frequently do we refresh our risk inventory? Do we use a formal or an informal risk assessment process? Is it often enough?
  - How extensively do we evaluate the effectiveness of responses that are intended to help prevent risk events from occurring and that might reduce the impact of the risk events should they occur?
- Is there a process for identifying emerging risks? Does the risk identification process allow the board and management enough time to adequately consider response plans to these risks?
- To what extent does our management dashboard system include robust key risk indicators that help the leadership team monitor shifts in risk trends?

Evaluate whether our risk focus is sufficiently comprehensive

Given the pace of change experienced in the industry, the relative riskiness and nature of the organization's operations:

- To what extent are we centering our focus on risks in the context of our organization executing its strategy, achieving its business objectives, sustaining its operations, and preserving its brand image and reputation?
- What have we learned from our management of risks triggered by the pandemic about the importance of focusing our attention on risks that are most critical to our core business operations and strategic initiatives?
  - The pandemic has helped many to focus on risks that threaten the organization's ability to deliver core

products and services. How is that focus different from the focus of our risk management activities prior to the emergence of COVID-19?
  - What kinds of risk management activities are we addressing during the pandemic that we were not engaged in previously?
  - In response to risks triggered by the pandemic, what changes have we made to our business model that should be preserved for the long term?
  - What risks has our organization been forced to take in light of the pandemic that now represent risk opportunities we should leverage for greater value going forward?
- To what extent is the knowledge of top risks identified by the organization's risk management process serving as a critical input to the strategic planning process?
- Does our risk management process consider a sufficient time horizon to pick up strategic risks and emerging risks looming on the horizon ("gray rhinos"), e.g., the longer the horizon, the more likely new risk issues will present themselves?
- To what extent is our focus on external risks linked to geopolitical shifts, emerging disruptive innovations, and changes in macroeconomic factors?
- In our ongoing assessment of risk, do we consider the effects of changes in internal operations, personnel, processes, technologies, suppliers, and third-party vendors?
- Does our risk management process consider extreme as well as plausible scenarios? Do we have meaningful discussions of "black swan" and "gray rhino" events?
- Are we encouraging the identification of opportunities to take on more risk on a managed basis? For example, is risk management integrated with strategy-setting to help leaders make the best bets from a risk/reward standpoint that have the greatest potential for creating enterprise value?
- Do the board and senior management receive risk informed insights, competitive intelligence, and opportunities to secure early-mover positioning in the marketplace, fostering more effective dialogue in decision-making processes, improved anticipation of future exposures and vulnerabilities?

Clarify accountabilities for managing risks

Following completion of a formal or informal risk assessment:

- Who is involved in risk management activities as we navigate the ongoing environment but was not involved prior to COVID-19? To what extent should those individuals continue to participate over the long term?
- What groups (committees, councils, task forces) of individuals have been regularly involved in helping the leadership team navigate the multitude of risks triggered by the pandemic, social unrest, political dysfunction, and other events of the prior year? To what extent do those groups need to be formalized so that they continue to provide risk management leadership and inform decision-making for the future?
- Are risk owners assigned for newly identified risks?
- Are effective risk response action plans developed to address the risk at the source? Are risk owners accountable for the design and execution of those responses?
- What are the biggest gaps in risk response that have been revealed by the events of 2020? How does the presence of those gaps reveal limitations in the organization's risk management processes? Who should be accountable for reducing those gaps?
- To what extent does the organization need to elevate its oversight and governance of its business continuity planning and operational resilience activities? To what extent are these efforts limited to certain aspects of the organization (i.e., information technology, supply chain operations) and not enterprise-wide?
- Is there an effort to source the root causes of certain risks that warrant a better understanding? Does the process look for patterns that connect potential interrelated risk events?
- Are we monitoring the business environment over time for evidence of changes that may invalidate one or more critical assumptions underlying the organization's strategy? If so, when there is evidence that one or more critical assumptions underlying the strategy are becoming, or have become, invalid,

does management act in a timely fashion on that knowledge to revisit the strategy and undertake necessary midcourse adjustments?

- Do decision-making processes consider the impact of a decision on the organization's risk profile?
  - Have we sufficiently communicated the relative value and importance of considering risk in decision-making across the enterprise?
  - Is the board sufficiently involved in the decision-making process, particularly when it involves acquisition of new businesses, entry into new markets, the introduction of innovative technologies, or alteration of key assumptions underlying the strategy?
  - Is there actionable, current risk information that is widely shared to enable more informed decision making?
- Are significant risks related to the execution of the strategy and business model monitored over time to consider whether changes have occurred requiring corrective action and whether the organization continues to operate within established risk tolerances in meeting key business objectives?

Communicate an enterprise view of top risks and board risk oversight

With respect to communicating and overseeing the risk profile:

- Is the board informed of the results of management's risk assessment on a timely basis? Do directors agree with management's determination of the significant risks?
- Are significant risk issues warranting attention by executive management and the board escalated to their attention on a timely basis? Does management apprise the board in a timely manner of significant emerging risks or significant changes in the organization's risk profile?
- With respect to the most critical risks facing the organization, do directors understand at a high level the organization's response to these risks? Is there an enterprise-wide 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 the strategy-setting process appropriately considers a substantive assessment of the risks the enterprise is taking on as strategic alternatives are considered, and the selected strategy is implemented?
- Given the organization's risk profile, does the board periodically consider whether it has access to the diverse expertise and experience needed — either on the board itself or through access to external advisers — to provide the necessary oversight and advice to management?

Assess impact of leadership and culture on our risk management process

Because culture and leadership significantly impact the organisation's approach to risk oversight:

- Is the board's and the C-suite support for more robust risk management processes evident to key stakeholders across the organization?
  - To what extent is our risk management process helping to foster robust discussion and dialogue about top risk issues among senior management and the board?
  - Is the board asking for more risk management information or is the board relatively uninterested in advancing the organization's risk management processes?
- How have lines of communication about risk issues improved as the organization deals with the pandemic situation? What has led to that improvement and how can the benefits be preserved for the long haul?
- To what extent is there a willingness among the leadership team to be more transparent about existing risk issues when sharing information with one another? What positive aspects of the organization's culture have contributed to this improvement? What aspects continue to limit openness and transparency about risks?
- Do we have an accurate read on how our organization's culture is affecting how employees engage in risk management processes and conversations? If so, how do we know?
- Are warning signs posted by the risk management function, compliance and ethics function, or internal

audit addressed in a timely fashion by executive and operational management?

- Do we have a "speak up" culture that encourages transparency and sharing of contrarian information and bad news? Are our employees convinced that they can "speak up" without fear of repercussions to their careers or compensation? For example, does the process:
  - Encourage an open, positive dialogue for identifying and evaluating opportunities and risks?
  - Focus on reducing the risk of undue bias and groupthink?
  - Give adequate attention to differences in viewpoints that may exist across different executives and different global jurisdictions?
- Is adequate attention given to red flags indicating warning signs of a dysfunctional culture that suppresses escalation of important risk information or encourages unacceptable risk taking?

These and other questions can assist organizations in defining their specific risks and assessing the adequacy of the processes for risk management and board risk oversight. We hope the important insights about the perceived risks on the horizon for 2021 and 2030 provided in this report prove useful. We also hope that the insights serve as a catalyst for an updated assessment of risks and the risk management capabilities in place within all organizations, as well as improvement in their risk assessment processes and risk management capabilities.

In the current environment, in which businesses of all sizes and types are being tested in unprecedented ways by the coronavirus (COVID-19) pandemic, business continuity and resilience has become a critical discussion in boardrooms and C-suites around the world. The pandemic's widespread impact has forced organizations to revisit operational resilience and how to embed resilience practices in day-to-day operations. Operational resilience has taken on new urgency, as the expectations of business leaders to lead resilience efforts, not by assumptions, but with meaningful and substantiated data, intensifies.

As we consider the changing landscape brought on by the pandemic, it is important to remember that other business risks continue to threaten business continuity. Natural and man-made disasters, as well as technology risks, abound. How can organizations stay prepared for these events? How can they develop an operational resilience program that responds to all crisis types and scenarios? To find out answers to these get in touch with us at Protiviti.

Demographics

Following information offers a detailed demographic picture of responses received in ME region based on various parameters –

Industry

INDUSTRY	MIDDLE EAST
Financial Services	23%
Consumer Products and Services	14%
Technology, Media, Telecommunications	6%
Manufacturing and Distribution	23%
Energy and Utilities	24%
Healthcare	1%
Other	9%

Revenue

REVENUE	MIDDLE EAST
Less than $100 million	26%
$100 million - $999.99 million	50%
$1 billion - $9.99 billion	20%
$10 billion or more	4%

Headcount

HEADCOUNT	MIDDLE EAST
Fewer than 100	13%
100 – 499	15%
500 – 999	13%
1,000 - 2,499	23%
2,500 - 4,999	9%
5,000 - 9,999	9%
10,000 - 50,000	15%
More than 50,000	3%

Organization Type

ORGANIZATION TYPE	MIDDLE EAST
Privately held	41%
Publicly held	49%
Government/Not-for-Profit	10%

Executive Position

EXECUTIVE POSITION	MIDDLE EAST
Board Member	10%
Chief Audit Executive	21%
Chief Executive Officer	8%
Chief Risk Officer	10%
Chief Financial Officer	9%
Chief Digital Officer/Chief Data Officer	6%
Chief Information Officer/Chief Technology Officer	12%
Chief Strategy Officer/Chief Innovation Officer	12%
Other	12%

About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2020 Fortune 100 Best Companies to Work For® list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

About NC State University's ERM Initiative

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at NC State University provides thought leadership about ERM practises 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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