



Three Risks for 2019 That Technology, Media and Telecommunications Companies Don't Want to Underestimate

It's a basic expectation that leaders of technology, media and telecommunications (TMT) companies will keep an eye towards the future – watching for and anticipating change, as well as identifying opportunities to create it. Still, even when it's obvious that change is imminent, many businesses fail to mount an appropriate and timely response that ensures they can adapt. That's true even for companies that are focused on research, development and ongoing innovation, and proactively changing their business models and adjusting long-term strategies to avoid being disrupted.

The fear of not being able to respond effectively to change is reflected in the findings of the *Executive Perspectives on Top Risks 2019* survey report from Protiviti and North Carolina State University's ERM Initiative.¹ For the third consecutive year, the following risk ranked first for firms in the TMT industry group: *Rapid speed of disruptive innovations enabled by new and emerging technologies 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.*

With that finding in mind, here's a look at three risks that leaders of these companies will want to keep in focus throughout 2019 as they remain vigilant about disruptive innovation and change. They will want to avoid underestimating the potential short- and long-term impacts of these risks on their organisation as well as their industry. (Note: These risks relate to some of the findings outlined in our industry summary of the 2019 top risks survey results.²)

¹ *Executive Perspectives on Top Risks 2019*, December 2018, Protiviti: www.protiviti.com/toprisks.

² *Top Risks 2019 – Technology, Media and Telecommunications Industry Group Results Summary*, Protiviti: www.protiviti.com/US-en/insights/top-risks-2019-tmt.

Risk #1: The Speed of Emerging Technology

The pace of disruptive innovation has many business leaders concerned that their organisations will get left behind. It's hard to truly appreciate just how rapidly many new technologies are emerging. The good news is that we already know which technologies are likely to cause the most disruption in the near term: artificial intelligence (AI), machine learning and robotics.

Of that group, AI deserves special attention. According to a global research study Protiviti sponsored and helped produce, *Competing in the Cognitive Age*, a “sizable majority of companies are fast tracking AI applications and expecting to see significant gains in profitability, productivity, revenue and shareholder value in as little as two years.”³

Evidence of that fast-tracking was evident at the CES trade show in Las Vegas earlier this year. AI was everywhere. It was frequently referred to as one of the key “ingredient technologies” that will be embedded into every product and service over the next decade. So, it's a good bet that most TMT companies will be leveraging AI very soon, if not already. For many organisations, AI will be a core part of their future business strategy.

How to respond: We see many of our clients applying advanced AI in core business areas — including their back-office operations, like finance — and they are creating measurable value from those efforts, from increased customer retention to reduced costs. Research for the AI survey suggests that in the next two years, most businesses will be applying AI to practically every function, including risk management, product development, and sales and business development.

TMT companies should proactively identify use cases for AI, machine learning and/or robotics. Developing a clearly defined business case will ensure digital projects have a well-thought-out cost/benefit analysis and can help identify transformation opportunities within internal operations. The rush to create AI-driven offerings that are customer-facing often pose a risk of failure because changes aren't effectively supported internally.

Before launching projects involving new technology like AI, companies should fully consider the scalability of those projects. Could innovation happen across the enterprise once the technology is introduced? Are there any potential points of friction? Conducting a digital maturity assessment can help answer those questions, as it can give insight into what capabilities and competencies need improvement so that digital transformation initiatives can succeed.⁴

³ *The Cybersecurity Imperative: Managing Cyber Risks in a World of Rapid Digital Change* is a research report from a joint effort of ESI ThoughtLab, WSJ Pro Cybersecurity, Protiviti and a group of prominent organisations to conduct rigorous global research and analysis involving a survey of 1,300 global executives across multiple industries, advisory meetings and interviews with leading experts and practitioners, and analytical tools to benchmark approaches and assess performance impacts. Learn more at <http://go.dowjones.com/cybersecurity-imperative> and www.protiviti.com/US-en/insights/aiml.

⁴ *Assessing Your Digital Maturity*, Protiviti: www.protiviti.com/US-en/insights/digital-maturity-assessment-video.

Risk #2: The Consolidation Trend

Corporate consolidation, especially amongst tech firms, is accelerating. Through mergers and acquisitions (M&A) deals, tech heavyweights (and some multimedia giants, too) are getting bigger and broadening their reach.⁵ Major players like Facebook, Google and Apple have been busy snapping up smaller competitors and other disruptive innovators, particularly promising AI startups.⁶ And new companies are positioning themselves as acquisition targets to take advantage of this trend.

Some observers suggest that the consolidation trend will cause the number of pure technology companies to shrink significantly over the next decade — and even more so in the decades to follow.⁷ At the very least, we'll likely see the size and composition of many companies' workforces changing dramatically over the next decade or so because of automation and AI.

The World Economic Forum's Future of Jobs Report estimates, for example, that 75 million current job roles may be displaced by the shift in the division of labour between humans, machines and algorithms (although 133 million new job roles may emerge at the same time, according to the report).⁸ And leading AI expert Kai-Fu Lee, in a recent *60 Minutes* interview, said he expects AI technology to be capable of displacing about 40 percent of the world's jobs over the next 15 years.⁹

All of these dynamics have leaders of TMT companies, large and small, pondering serious questions, including: *Where will we fit into that future landscape? Will we even exist?*

How to respond: First, for organisations aiming to grow and transform through M&A transactions, the consolidation trend underscores a need for access to M&A expertise. For example, businesses may want to ensure that they have board members who can provide oversight to ensure M&A pursuits align with the company's growth strategy and that the M&A process is well-managed.¹⁰

⁵ "AT&T-Time Warner Win Could Mean More Multimedia Megadeals," *The Protiviti View*, June 22 2018, Protiviti: <https://blog.protiviti.com/2018/06/22/att-time-warner-win-mean-multimedia-megadeals>.

⁶ "Google and Apple Are in a Tight Race to Acquire the Most Promising AI Startups," Deena Zaidi, *VentureBeat*, March 10, 2018: <https://venturebeat.com/2018/03/10/google-and-apple-are-in-a-tight-race-to-acquire-the-most-promising-ai-startups>.

⁷ "There Will Be 30 Technology Companies in 2030, 10 in 2050, and Then There Will Be None," Steve Andriole, *Forbes*, May 25, 2017: www.forbes.com/sites/steveandriole/2017/05/25/there-will-be-20-technology-companies-in-2030-10-in-2050-and-then-there-will-be-none/#6e061812132b.

⁸ "5 Things to Know About the Future of Jobs," Vesselina Stefanova Ratcheva and Till Leopold, World Economic Forum, Sept. 17, 2018: www.weforum.org/agenda/2018/09/future-of-jobs-2018-things-to-know.

⁹ *Facial and Emotional Recognition: How One Man Is Advancing Artificial Intelligence*, Scott Pelley, *60 Minutes*, January 13, 2019, CBS News: www.cbsnews.com/news/60-minutes-ai-facial-and-emotional-recognition-how-one-man-is-advancing-artificial-intelligence.

¹⁰ "10 Keys to Effective Board Oversight of M&A," *Board Perspectives: Risk Oversight* (Issue 92) June 2017, Protiviti: www.protiviti.com/sites/default/files/united_states/insights/board-perspectives-risk-oversight-10-keys-board-oversight-ma-issue92-protiviti.pdf.

Establishing a formal corporate development (or business development) function also can be beneficial, as the team can help the company identify M&A targets and assist in guiding transactions. A business development team can also look for partnership opportunities, which is another potential avenue for future growth. At CES, there was a lot of talk about the value of partnerships — combining companies' different skill sets, mindsets and more to achieve a specific goal — as a long-term strategy for driving innovation and competitive advantage.

Lastly, no matter how a TMT company wants to grow over time, there are some core elements that it should be strengthening to help ensure it can survive in this rapidly changing environment. First is adaptability, which involves adjusting quickly to disruptive changes that upend the status quo. Another core strength is flexibility, which is all about moving fast, and even changing direction, to meet change — and not get run over by it or miss it completely. And perhaps most important is the ability to innovate. An innovative company creates change. Its innovations can help to position it as a leader, and also make it a very attractive acquisition target or strategic partner for other innovative companies.

Risk #3: The Talent Crunch

The talent crunch in tech isn't just about the lack of skilled talent available for hire. It's also about retention challenges, including at the highest ranks of the organisation. We're seeing senior executives moving from traditional tech companies to startups. (A recent case in point: Intel's chief strategy officer being named the chief executive of autonomous car startup Zoox.¹¹)

Business leaders have a lot to think about in this market. They are under pressure to build teams that will drive the organisation forward and help it apply new technologies like AI and robotics — not an easy task in a tight labour market. And, as professionals, they need to keep their options open, looking for the right new player (or disruptor) they could potentially lead and help to grow.

How to respond: TMT companies of all sizes will likely continue to face a shrinking pool of available talent in the years to come. Building a healthy company culture is one way they can improve the odds of attracting and retaining the workers they need to succeed — including professionals with skills in emerging tech, like AI.¹² They also may want to consider making succession planning a higher and ongoing priority for the business, as there is a good chance that they could lose some of their best and most senior people with little or no warning.

¹¹ "Zoox Hires Intel Chief Strategy Officer Aisha Evans as Its CEO," Cromwell Schubarth, *Bizwomen*, Jan. 15, 2019: www.bizjournals.com/bizwomen/news/latest-news/2019/01/zoox-hires-intel-chief-strategy-officer-aisha.html?page=all.

¹² "Corporate Culture: Are You Curious Enough?" *The Bulletin* (Volume 6, Issue 12), June 2018, Protiviti: www.protiviti.com/US-en/insights/bulletin-vol6-issue12.

Another strategy for combatting the talent crunch: Assembling a management team that is focused on fresh thinking and excited about change and disruption. Top talent wants to work for dynamic industry leaders who are curious and always looking to see what's around the next corner.

We also see many TMT companies embracing new labour models, not only to ensure they can access skilled talent when they need it, but also to free their core teams from non-mission critical work. Relying on external resources, like managed business services providers, to resolve work backlogs, address performance issues and more allows organisations to dedicate their best people to the front lines of innovation for their business. And that's exactly where in-demand talent wants to be.¹³

Interconnected Risks — and Opportunities

The three risks outlined above are interconnected in that they all relate to change — which is unfolding at an unprecedented pace in both technology and business. TMT companies must be careful not to underestimate the importance of managing these risks proactively. Their ability to take advantage of new and disruptive technology, define their place in an evolving industry landscape, and cultivate and maintain a highly skilled and engaged workforce today may well dictate whether they exist tomorrow.

¹³ Managed Business Services, Protiviti: www.protiviti.com/US-en/managed-business-services.

How Protiviti Can Help

Protiviti partners with leaders to help them achieve greater confidence in these changing environments. We seek to understand the unique strengths, risks and opportunities of your organisation and where you want to take your business. We then collaborate with you to build custom solutions that maximise your chances for success, deploying a tailored, multidisciplinary team of professionals who fit your situation and company culture. Whilst the process is never simple, our goal is to help you face the future with confidence.

About Protiviti

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and its independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 70 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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