

Summary — Consumer Products and Services Industry Group Results
**Executive Perspectives on Top Risks for 2018: Key Issues
Being Discussed in the Boardroom and C-Suite**

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

Technological advancements. Disruptive innovations threatening core business models. Recurring natural disasters with catastrophic impact. Soaring equity markets. Turnover of leadership in key political positions. Potential changes in interest rates. Cyber breaches on a massive scale. Terrorism. Elections in Europe. Threats of nuclear engagement. A strong U.S. dollar. These and a host of other significant risk drivers are all contributing to the risk dialogue happening today in boardrooms and executive suites.

Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures from boards, volatile markets, intensifying competition, demanding regulatory requirements, fear of catastrophic events and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities and response mechanisms to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

In this sixth annual survey, Protiviti and North Carolina State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives. Our respondent group, which includes 728 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months of 30 risk issues across these three dimensions:

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces 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

Consumer Products and Services Industry Group – Top Risks for 2018

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Commentary — Consumer Products and Services Industry Group

The top risk issues for 2018 identified by respondents from Consumer Products and Services organizations reflect the fiercely competitive and ever-changing business environment that these companies need to understand to thrive. Although we see a slight reduction in the magnitude and severity of risks that organizations in the industry group will be facing next year, there are significant increases in the scores of the top risk issues for the industry group, most notably around resistance to change, succession challenges and organizational culture, all of which rank as “Significant Impact” risk issues. The rapid speed of disruptive innovation, which includes digital transformation, jumped substantially as well, and hovers just below the “Significant Impact” risk level for 2018.

With regard to the overall impression of the risk environment, the slight drop in the risk score for 2018 is understandable, as last year there was substantial uncertainty globally that tied to the U.S. presidential election.

Disruptive innovation remains a major issue for organizations in this industry group, especially retailers. The industry is changing. Large digital players have begun to take over what traditionally was territory for brick and mortar businesses. Consumer Products and Services organizations, and retail companies in particular, are facing significant challenges to

their long-term viability. In this environment, it is clear why board members and C-suite executives view resistance to change and succession challenges to be among their top risk issues. These organizations must embrace and implement change to compete with new digital and omnichannel players. To that end, succession plans and identifying the right talent with the right acumen to develop and implement new approaches is critical. Leaders are asking who can shepherd the organization to unlock the right omnichannel approaches and compete with industry disruptors.

Organizations in this industry group have experienced their share of transformation over the past two years, with some companies restructuring or going out of business. There is clear recognition that some companies need to change and foster the right culture not only to embrace new strategies, but also to build the type of positive work environment that will attract and retain the right talent.

As an example, too many retailers are focusing on what was successful 10 to 15 years ago, rather than what can be successful today and in the future, considering that the bulk of retail customers fall into younger age brackets that have become accustomed to a different way of shopping. Those organizations that adapt will be able to excel in the long-term, as it is clear that certain major organizations have solved the omnichannel puzzle and are disrupting the industry. Boards and C-suite executives understand that new ways of thinking are required to respond to the rapid speed of disruptive innovation and new technologies. The good news is that many Consumer Products and Services organizations have a strong foundation of business and revenue. In large part, they are experiencing struggles in specific areas and markets as opposed to enterprisewide.

Cyber threats remain a critical risk issue for this industry group. Consumer Products and Services organizations recognize cyber security is an everyday part of their business. Yet, it is possible that some companies are becoming too comfortable with their cyber security and privacy measures. Managing cyber threats needs to be a constant area of focus and investment of time and resources, given the ever-changing threat landscape. The risk to reputation and brand is huge for any organization, but is especially true for these companies.

One severe, high-profile security breach or hacking incident could mean the end of the organization. Boards and executives recognize that there should be a mandate to focus on this. It is understandable that cyber security is not viewed with quite the same significance as a risk issue as are resistance to change, succession challenges, organization culture and disruptive innovation, but it remains a highly important priority, especially as cyber attacks become more widespread and sophisticated.

For further results and a copy of the overall survey report, visit

www.protiviti.com/toprisks.

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