Summary — Energy and Utilities 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


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
Energy and Utilities Industry Group – Top Risks for 2018

- Regulatory changes and regulatory scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered
- Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization’s ability to compete and/or manage the risk appropriately, without making significant changes to our business model
- Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations
- Our organization’s succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets
- Our organization’s culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives

Commentary — Energy and Utilities Industry Group

Historically in our survey, the Energy and Utilities industry group tends to have relatively consistent results. However, there are a number of notable changes for 2018. Specifically, succession challenges and organizational culture have jumped into the top five list of risks for 2018, while economic conditions and opportunities for organic growth dropped from the top five.

In assessing the results for how board members and C-suite executives in this industry group view the overall risk environment their organizations will be facing in 2018, there was a significant drop from 2017. This is likely a result of welcome stabilization in oil prices globally, providing some comfort to oil and gas operators as well as other organizations in the broader Energy and Utility industry group.

Regulatory changes and regulatory scrutiny remains the top risk issue for Energy and Utility organizations, though there is a notable drop in the risk score for 2018 compared to the prior year. This is understandable given a new U.S. administration that is viewed to be favorable to these organizations. Yet, there remains a substantial level of uncertainty, as regulatory change unfolds slowly, which can have a detrimental effect if the regulations impact
operations. That said, at least in the short-term, decreases in the pace of regulations have provided breathing room for this industry group.

Similar to other industries, the rapid speed of disruptive innovation and new technologies now represents a “Significant Impact” risk issue for Energy and Utility organizations. This issue has increased significantly over the past two years and is likely due to the industry’s relatively slow adoption of digital trends in comparison to other industries, along with the recent rapid evolution of digital technologies. Energy executives are increasingly becoming more comfortable and those organizations that make swift changes first will reap the benefits and move ahead of their competitors by adopting new technologies such as smart meters, connected sensors, field automation technology, mobile capabilities, advanced analytics and modeling.

Closely related to the rapid speed of disruptive innovation is resistance to change that can restrict the organization’s ability to adjust the business model and core operations. For Energy and Utility companies, changes the organization needs to make can be viewed as fundamental business shifts. The industry has a “tried and true” mentality and can be slow to adapt to new technologies and other innovations, as noted above. Couple that with persistently low commodity prices and many organizations remain unwilling to implement major changes due to the investments required.

With regard to succession challenges and the ability to attract and retain talent, this is another key risk issue that has increased over the last few years for Energy and Utility companies. There are a few likely factors for this, including the competition for top talent in emerging markets and the scarcity of new talent. Growth in other industries in recent years (such as technology) has impacted the hiring pool of top engineers, accountants and other professionals. Additionally, the drop in commodity prices starting in 2014 resulted in key professionals leaving the industry, and recent statistics have also shown that fewer college students are seeking careers in the industry.
Organizational culture and the ability to identify and escalate risk issues in a timely manner has reached the “Significant Impact” level for 2018, whereas just two years ago its risk score was much lower in the survey. Like organizations in other industry groups, there is growing awareness of the need to have the right culture in the company to attract and retain the right talent, as well as to avoid reputation and brand damage that can create long-term harm to the organization. Only recently have organizations taken on more enterprise risk management (ERM) efforts to challenge their thinking from a higher-level strategic position for the business (that is, not having mechanisms in place to identify something that is deemed low impact but really has reputational effects that could damage the company).

For further results and a copy of the overall survey report, visit www.protiviti.com/toprisks.

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