

Summary — Technology, Media and Communications 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.

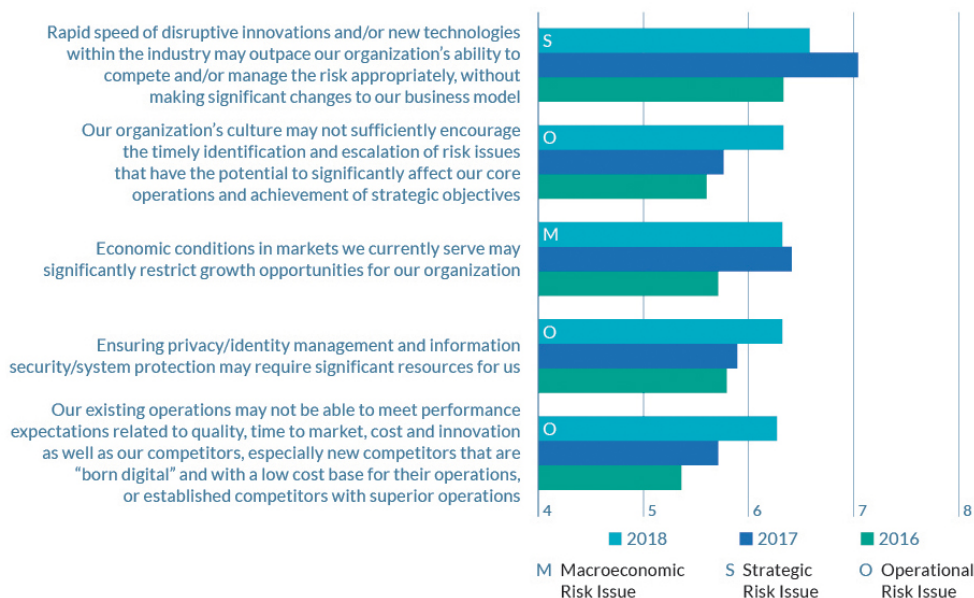
Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures from boards, volatile markets, intensifying competition, demanding regulatory requirements, 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

Technology, Media and Communications Industry Group – Top Risks for 2018

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Commentary — Technology, Media and Communications Industry Group

Again this year, the rapid speed of disruptive innovation and new technologies outpacing an organization's ability to compete and manage that risk appropriately ranks as the top risk issue for the Technology, Media and Communications industry group. This confirms that innovation, emerging technologies and digitalization remain front-and-center priorities for board members and C-suite executives.

Digital transformation is a pervasive theme and a top risk issue for Technology, Media and Communications companies, as evident in the risk issues for rapid speed of disruptive innovation, organizational culture and existing operations not being able to meet performance expectations. The risk to an organization of being disrupted by companies "born digital" is a constant threat for this industry group.

For example, "born digital" players launch on cloud-based systems and have no need to transition to legacy systems. They have agile processes in place to facilitate faster decision-making and action. Consider the challenges of digital transformation by a company that has possibly decades of legacy systems and processes in place, compared with a digital native company that does not need to undergo any such transition. Digital native companies can dedicate their talent to focus constantly on strategy and product innovation.

Corporate culture made a significant jump in the risk score this year and is a key part of innovation and digital transformation. Culture is often the critical ingredient that enables organizations to attract and retain top talent to foster growth more effectively.

However, the importance of corporate culture extends well beyond innovation. In 2017, the National Association of Corporate Directors (NACD) Blue Ribbon Commission published a report on culture as a corporate asset. In its report, the NACD notes that corporate culture can no longer be considered as a “soft issue” by management and boards. A company’s culture has a lasting impact on organizational performance and reputation, and the oversight of culture must be a key board responsibility, as it is inextricably linked with strategy, CEO selection and risk oversight.¹

There have been several recent, well-documented culture issues within Technology, Media and Communications companies. Boards understand that if a company’s brand or reputation is harmed due to a bad culture, the impact will be swift and possibly irreversible. Conversely, a strong corporate culture is a tremendous asset to the organization in terms of recruiting, retention, reputation and brand image. The position of the organization’s culture as a top risk issue for 2018, together with its significant increase in score, strongly suggests that board members and C-suite executives see the need to determine how culture can be better supported, possibly even as a higher priority than achieving short-term financial gains. Boards and management should consider culture-related measures and approaches that make sense in achieving improvements within their organization.²

With regard to privacy and information security, organizations in this industry group remain aware of the risks and dangers that breakdowns in these areas pose. Unfortunately, there are still organizations that look at privacy and security as a cost/benefit equation, rather than an issue that could create lasting long-term damage in an organization in the event of a breach or hack. It is important not to look solely at the short-term financial costs or benefits around security, but rather view security as a long-term investment in the organization.

¹ Source: NACD Blue Ribbon Commission Report on Culture as a Corporate Asset, 2017, www.nacdonline.org/Store/ProductDetail.cfm?ItemNumber=48252.

² For more on this topic, see “Board Oversight of Reputation Risk,” *Board Perspectives: Risk Oversight*, Issue 83: www.protiviti.com/US-en/insights/bpro-issue-83.

From multi-factor authentication to facial recognition, new technologies may facilitate even greater security. Companies need to see the value in these investments to ensure their organizations, as well as the data of their customers and clients, remain safe and secure. When boards and executives consider the deep long-term brand damage that can come from a privacy or security breach, they will recognize that sufficient resources need to be devoted to identifying and managing these risks.

Finally, economic conditions remain a vital risk issue for Technology, Media and Communications organizations to monitor and address. There is significant uncertainty in the global market, created by issues including, but not limited to, Brexit in the European Union, potential changes in trade agreements between the United States and other nations, and the possibility of recessionary market trends.

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

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