Executive Perspectives on Top Risks
– Key Issues Being Discussed in the Boardroom and C-Suite

Research conducted by Protiviti and North Carolina State University’s ERM Initiative


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, changing workplace dynamics, shifting customer preferences, uncertainty regarding 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, assess and manage the organization’s key risk exposures, with the intent of reducing them to an acceptable level.
In this seventh 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 825 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

**Commentary – Consumer Products and Services Industry Group**

With many baby boomers retiring in the foreseeable future and ongoing industry disruption, Consumer Products and Services organizations are clearly concerned about the competition for talent and succession planning. Increasing in significance notably from the prior year, succession challenges and the ability to attract and retain top talent is at the top of risk issues on the minds of Consumer Products and Services industry leaders for 2019. This continues a trend revealed last year, which also showed a significant jump for this risk issue. In fact, while it was a “Potential Impact” risk issue in 2017, it has been a “Significant Impact” risk issue the past two years.

This issue relates closely to an ongoing interest among these organizations to enhance corporate culture and focus on building and enhancing customer experience. It has been well-documented that consumer products organizations, and retailers in particular, must think and operate differently to be successful in an ever-changing digital business environment. Consumers have increasingly high expectations for superior customer experience, from near real-time delivery of products ordered online to offering beneficial on-site expertise in retail stores.

Sustaining customer loyalty and retention also ranks as a top five risk for the industry group, as retailers, in particular, explore new and innovative ways to keep their customers engaged and loyal. Bottom line, the status quo is no longer sufficient.

In light of this, succession challenges, and especially the ability to attract and retain top talent, is a key issue as Consumer Products and Services organizations seek to put in place the right leadership and talent to bring in innovative ways of thinking to cultivate and manage their organizations in this new landscape.
Top Risks for 2019

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.

Our existing operations and legacy IT infrastructure may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are “born digital” and with a low cost base for their operations, or established competitors with superior operations.

Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations.

Our organization may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand.

Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base.

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This risk issue and resistance to change (another top-five risk for this industry group) reflect what is being called the ongoing “retail apocalypse.” Some retailers are thriving in this dynamic environment, delivering high levels of service and capabilities – both online and in their physical stores. Others are struggling and have yet to figure out the right formula for innovation and driving revenue and sales. Here again, the right leadership and new ways of thinking are of paramount importance, requiring strong succession planning as well as recruiting and fostering the talent needed to move the organization forward rather than resist changes to dated strategies and practices.

This landscape is also reflected in our top five list of risk issues, all of which are considered “Significant Impact” risks by industry board members and executives, and all of which have increased year-over-year in significance.

Competing against “born digital” companies, the second-highest rank risk issue for 2019, has been a simmering challenge for several years, but has now become a critical matter for leadership in the Consumer Products and Services industry group to address. With numerous factors at play, “born digital” companies have an obvious big advantage when it comes to competing for market share. For instance, the cost of upgrading or replacing aging legacy systems is considerable, as is offering...
customers a seamless omnichannel experience to keep them coming back for more and excited about the brand.

It doesn’t help matters that more Consumer Products and Services organizations are becoming wary of making seemingly open-ended investments that may not achieve the desired results. They believe that at some point there will be an economic slowdown, possibly limiting their ability to move quickly to make necessary infrastructure improvements. They also are concerned that they may not be able to make these investments fast enough to compete with born-digital organizations that already operate in digital and innovative ways on a daily basis. These organizations do not need to transform – they already are digital. It’s very possible that as this dynamic continues to unfold, so-called legacy organizations that continue to fall behind in market share, technology and innovations will become acquisition targets.

Yet for these legacy, or traditional, organizations, competing against born-digital players is not a “no win” proposition. There are long-established companies that are ramping up their technology infrastructure and online services, as well as acquiring digital assets to compete in the digital world. There is a strategy for success, but it needs to be planned and executed well.

With regard to cyber threats, the only surprise in this finding is that this risk issue has not been ranked higher in prior years. Looking at the history of cyber attacks, consumer products and retail organizations were among the first entities to be considered primary targets. Whereas today organizations in virtually any industry should consider themselves targets for hackers, early on it was retailers that were attacked on a regular basis. And for the foreseeable future, consumer products and retail organizations remain a top, if not the top, target for cyber attacks. As evidence of this, look no further than the recent breach announced by a major hotel chain, in which 500 million customer records containing highly personal information were breached.

Consumer Products and Services companies are undergoing a sea change made possible with disruptive digital technologies. But at the root of this change is the old adage updated to today’s optics – customers are, and always will be, kings and queens! They want it all and industry players who are determined to survive and thrive in this brave new world must adapt to shifting customer preferences, wherever they lead.

Richard Childs, Managing Director, Consumer Products and Services Industry Leader, Protiviti
Consumer products and retail companies cannot thrive without customer loyalty and retention. This strategic risk issue is at the core of why the other top five risks – all operational – are top of mind for these companies. The potential cost of reputational damage due to a cyber attack is a more critical issue than ever before – far more than, for example, actual dollar losses, or costs for credit monitoring services for customers affected by a data breach. A data breach can permanently and irreparably damage the customer’s trust and brand loyalty the organization worked so hard to build. Board members and executives throughout the industry recognize that cyber risk can cripple their organizations and scare away their customers.

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