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 – Energy and Utilities Industry Group**

Despite an annual risk outlook that has been volatile over the past three years, the overall view for the Energy and Utilities industry group in 2019 appears to be more optimistic than in the recent past, buoyed by stability in commodity prices, efficiencies realized in operations, and a renewed sense that potentially disruptive forces (geopolitical or technological) have not had sustained momentum. Nevertheless, as outlooks from prior years of our study have shown, there remains an awareness that organizations in the industry group are often blindsided, and board members and C-level executives must continue to be prepared to shift with market trends. As Energy and Utilities industry executives look to formulate their strategies going forward, there are some interesting observations of the risks that lie ahead.

In comparing to last year’s results, there are a couple of risks that fell just outside of the top five this year: succession and talent recruiting and retention challenges, and the risks around disruptive technologies. Succession and talent acquisition/retention challenges in the industry are still a priority, but we have seen an increased focus in energy and utility organizations on leadership development programs and human capital management initiatives to ensure there are replacements for the aging workforce. The disruptive technology topic is still an interesting trend that executives need to monitor, but their concerns appear to be easing a bit, as many believe the necessary advancements in various technologies that could disrupt the industry are still several years away from becoming a broader risk issue. Therefore, the risk remains an important issue but is an emerging one to be monitored over time rather than an immediate concern.

Supplanting these two risk issues for 2019 are two risks that historically have been in the top five for the industry group and are closely tied to the ever-changing geopolitical environment: cybersecurity and the risks around economic conditions in various markets. As operations become more “digital,” the cybersecurity threat will continue to be an evolving risk for which the industry needs to stay vigilant. When viewed across the current geopolitical landscape, organizations have an elevated awareness for “bad actors” looking to cause harm, such as hacktivists targeting systems and data or, worse yet, adversaries that seek to obtain access to industrial control systems and create a disruptive event. There is also a realization that, with regard to cybersecurity, there is
only so much the organization can control, as the enemy is constantly learning new ways to exploit vulnerabilities — particularly the people perimeter. But it is good to see that this risk issue has been elevated and should continue to garner the attention and investment necessary to be mitigated.

**Top Risks for 2019**

- **Energy and Utilities**

Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered

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

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

Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization

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Organizations are also increasingly reactive to global political decisions that create widespread impacts to markets across the industry. Just a few examples in 2018 that forced energy and utility organizations to be nimble are decisions regarding Iran crude oil, the trade war between the United States and China, and continued tensions in the Middle East. These geopolitical events often “come out of the blue” and result in emergency board-level discussions to quickly evaluate the organizational impact and strategize on steps that should be taken to mitigate any enterprise and operational risks in the various affected markets. While the U.S. government continues to be viewed as favorable for the industry, the macroeconomic and geopolitical environment appears to be volatile enough to warrant the increased level for this risk.

Closely tied is the risk that the organization’s culture may not encourage the timely identification and escalation of emerging enterprise risks. With the evolving geopolitics and increased regulations and reporting requirements, organizations within the industry group are being forced to review their risk environment from a broader perspective and ensure that mechanisms are in place to identify
and evaluate emerging risks. Additionally, as seen in the top five risk issues and discussed below, energy and utility organizations historically have focused on proven business models and are slower to adopt changes. When considering this historical reality, anything that may bring about a need to rethink the business model due to a newly identified risk issue may receive initial pushback within the organization and not receive the attention it warrants.

The two top risk issues for 2019 have been mainstays in the Energy and Utilities industry group for many years of our study, which is not surprising given the evolving regulatory environment and an industry that values traditional operational practices and thus is reluctant to change.

Regulatory scrutiny and the overall regulatory environment remain a high-risk area for the industry group, particularly considering the recent midterm elections in the United States, as varying restrictions on drilling were on the ballot in many states. Additionally, continued pressure from environmental, social and governance (ESG) activists on operational areas such as hydraulic fracturing, emissions and reducing carbon footprints remain a consistent challenge for the industry group. Other concerns include increased tariffs on many products, such as steel, and resulting trade wars that may impact the geopolitical arena for the industry group around the world. Additionally, many leaders in the industry group are focusing on appeasing their stakeholders as investor momentum shifts toward social responsibility and emission/carbon reduction actions, both of which have broad impacts to the organization’s operations and internal processes as they look to comply and report. Case in point: The recent announcement that Royal Dutch Shell is setting carbon emission targets and linking them to long-term executive compensation illustrates the dynamic environment that players in oil and gas face.

Stability in commodity prices, efficiencies realized in operations, and a perception that disruptive geopolitical or technological forces have not had sustained momentum have improved the overall 2019 outlook for the Energy and Utilities industry group. With this more optimistic view (as compared to the recent past), there remains an awareness that the uncertainty of emerging risks and significant disruptive change lies ahead beyond 2019.

Tyler Chase, Managing Director, Energy and Utilities Industry Leader, Protiviti
Tying this all together is the view that energy and utility organizations tend to operate on “tried and true” strategies and thus have been slower than other industries to adopt changes. We have seen a shift in recent years as these organizations desire to be more efficient in their operations and back office, yet there is still a sentiment that the industry group is based on an infrastructure of mechanical plants and equipment that have a history of predictable performance and is expensive to change. While this might be true today, with a focus from the public on social responsibility and increased demands to be operationally efficient, energy and utility companies need to continue to step outside of their comfort zone and look for ways to decrease costs and adopt emerging technologies.

About Protiviti

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