



# Executive Perspectives on Top Risks for 2015

Key Issues Being Discussed in the Boardroom and C-Suite

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

**NC STATE** Poole College of Management  
Enterprise Risk Management Initiative

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Risk & Business Consulting.  
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THOUSANDS OF SATELLITES ORBIT THE EARTH, GATHERING AND DISTRIBUTING DATA AND INFORMATION, FACILITATING EFFECTIVE COMMUNICATIONS, AND PROVIDING A CLEARER VIEW OF THE LANDSCAPE AND HORIZON. THIS IS, IN MANY RESPECTS, ANALOGOUS TO THE MISSION OF BOARDS AND EXECUTIVE MANAGEMENT, WHO SEEK TO GATHER AS MUCH INTELLIGENCE AS POSSIBLE TO ENSURE THEY HAVE A CLEAR VIEW OF THE HORIZON FOR THEIR ORGANIZATIONS.

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## INTRODUCTION

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There are encouraging signs of an improving business climate in most industries, as exhibited by strong equity markets; lower unemployment rates; a resurgence in consumer confidence, manufacturing and construction activity; and falling oil and gas prices, among other factors. However, the global business environment continues to evolve rapidly, creating opportunities and challenges for all types of organizations. Entities in virtually every industry and country are reminded, all too frequently, that they operate in a risky world. Recent data breaches affecting major retailers, financial institutions and other high-profile companies, as well as numerous governance lapses, vividly illustrate the realities that organizations of all types face risks that can suddenly propel them into global headlines, creating complex enterprisewide risk events that threaten reputation and brand. The rapid and steep decline of oil prices was not anticipated by many players in the energy industry, reminding everyone that they need to expect the unexpected. Boards of directors and executive management teams cannot afford to manage risks casually on a reactive basis, especially in light of the rapid pace of disruptive innovation and technological developments.

Protiviti and North Carolina State University's ERM Initiative are pleased to provide this report focusing on the top risks currently on the minds of global boards of directors and executives. This report contains results from our third annual risk survey of directors and executives to obtain their views on the extent to which a broad collection of risks are likely to affect their organizations over the next 12 months.

Our respondent group, comprised primarily of board members and C-suite executives, provided their perspectives about the potential impact in 2015 of 27 specific risks across these three dimensions:<sup>1</sup>

- **Macroeconomic risks** likely to affect their organization's growth opportunities over the next 12 months
- **Strategic risks** the organization faces that may affect the validity of its strategy for the pursuit of growth opportunities over the next 12 months
- **Operational risks** that might affect key operations of the organization in executing its strategy over the next 12 months

In presenting the results of our research, we begin with a brief description of our methodology and an executive summary of the results. Following this introduction, we discuss the overall risk concerns for 2015, including how they have changed from 2014 and 2013, followed by a review of results by size of organization and type of executive position, as well as a breakdown by industry, by type of ownership structure (i.e., public company, privately held, not-for-profit and government), geographic location of their headquarters (i.e., U.S.-based or outside the United States), and whether they have rated debt outstanding. We conclude with a discussion of the organizations' plans to improve their capabilities for managing risk.

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<sup>1</sup> Our report about top risks for 2013 included 20 specific risks, while our 2014 report included 22 risks. We added five additional risks to the survey for 2015. See Table 1 for a list of the 27 risks addressed in this study.

## METHODOLOGY

We are pleased that participation from executives was strong again this year. Globally, more than 275 board members and executives across a number of industries participated in this survey, which was conducted in person and online in the fourth quarter of 2014. Each respondent was asked to rate 27 individual risk issues using a 10-point scale, where a score of 1 reflects “No Impact at All” and a score of 10 reflects “Extensive Impact” to their organization over the next year.

For each of the 27 risk issues included, we computed the average score reported by all respondents. Using mean scores across respondents, we rank-ordered risks from highest to lowest impact. This approach enabled us to compare mean scores across the three years to highlight changes in the perceived level of risk.

Consistent with our prior studies, we grouped all the risks based on their average scores into one of three classifications:

- Risks with an average score of **6.0 or higher** are classified as having a “**Significant Impact**” over the next 12 months.
- Risks with an average score of **4.5 through 5.9** are classified as having a “**Potential Impact**” over the next 12 months.
- Risks with an average score of **4.4 or lower** are classified as having a “**Less Significant Impact**” over the next 12 months.

We refer to these risk classifications throughout our report, and also review results for various demographic groups (i.e., company size, position held by respondent, industry representation, organization type, geographic location and presence of rated debt). With respect to the various industries, we grouped related industries into combined industry groupings to facilitate analysis, consistent with our prior years’ reports.

The following table lists the 27 risk issues rated by our respondents, arrayed across three categories – Macroeconomic, Strategic and Operational.

**Table 1: List of 27 Risk Issues Analyzed**

### Macroeconomic Risk Issues

- Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address
- Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities
- Potential changes in trade restrictions or other government sanctions may limit our ability to operate effectively and efficiently in international markets
- Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization
- Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization
- Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization\*
- Geopolitical shifts and instability in governmental regimes may restrict the achievement of our global growth objectives\*\*

\* Represents a new risk issue added to the 2014 survey.

\*\* Represents a new risk issue added to the 2015 survey.

## Strategic Risk Issues

- 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 operating model
- Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business\*\*
- Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered
- Shifts in social, environmental and other customer preferences and expectations may be difficult for us to identify and address on a timely basis
- Ease of entrance of new competitors into the industry and marketplace may threaten our market share
- Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation
- Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement
- Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization
- Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon
- Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base\*\*

## Operational Risk Issues

- Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services
- Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image\*
- Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets
- Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand
- Ensuring privacy/identity management and information security/system protection may require significant resources for us
- Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors
- Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan
- Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations
- 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\*\*
- Our organization may face greater difficulty obtaining affordable insurance coverages for certain insurable risks\*\*

\* Represents a new risk issue added to the 2014 survey.

\*\* Represents a new risk issue added to the 2015 survey.

## EXECUTIVE SUMMARY

*Cybersecurity risks. Uncertainties in political regimes in certain parts of the world. Technological innovation. Expanding regulation and oversight. Falling oil prices. Geopolitical conflicts.* These and a host of other significant risk drivers are all contributing to the risk dialogue 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, intense 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 to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

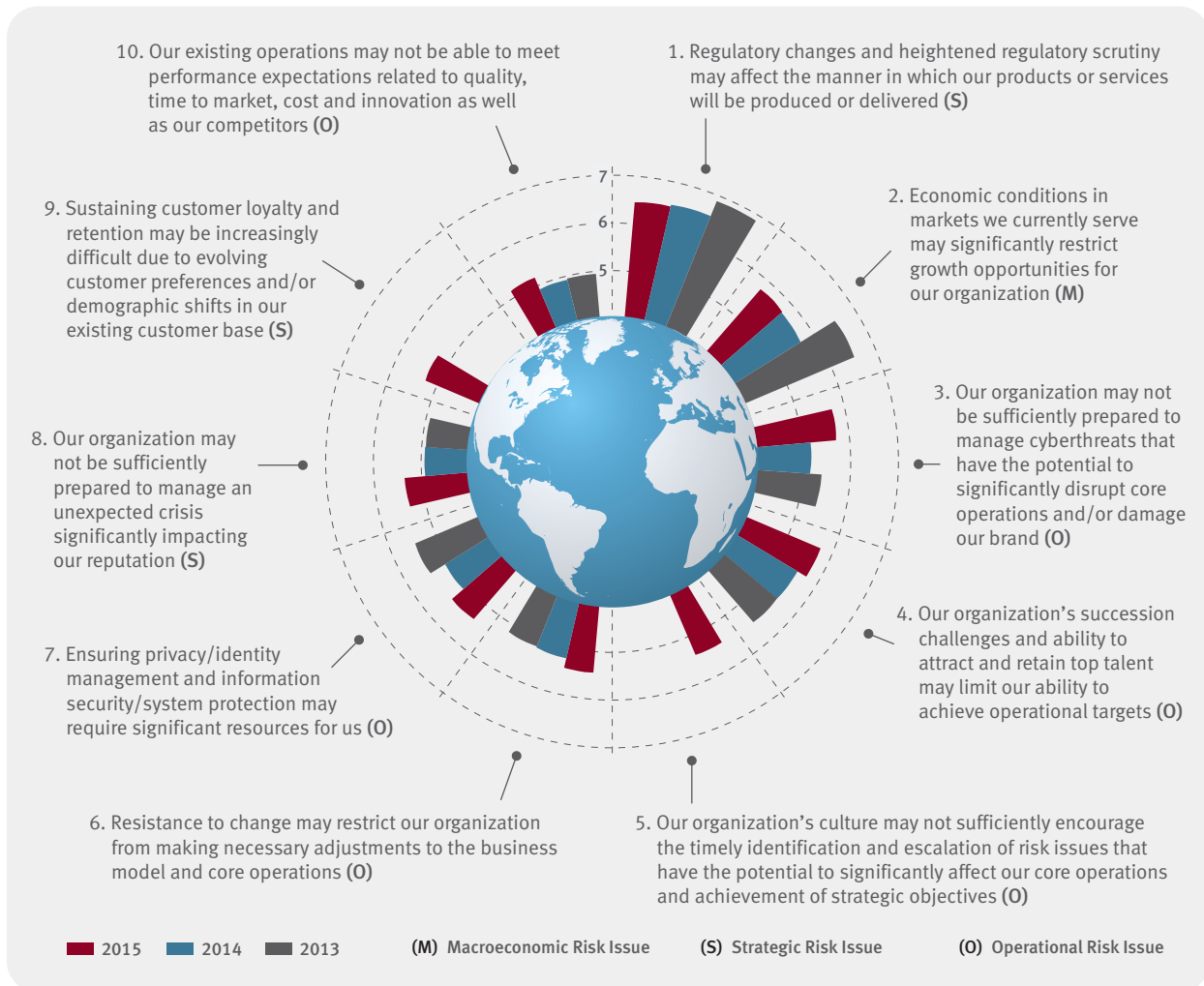
### Key Findings

- **Overall, survey responses suggest a global business environment in 2015 that is somewhat less risky for organizations than it was in the previous two years** – Most respondents indicated their organizations are more likely to invest additional resources toward risk management in 2015 compared to both 2014 and 2013. This seems consistent with the view that expectations for more effective risk oversight are on the rise for most organizations.
- **The top 10 risks overall vary in nature** – There are growing concerns about operational risk issues, with six of the top 10 risks representing operational concerns. Three of the top 10 risks relate to strategic risk concerns, with only one related to concerns about macroeconomic issues. In our two prior surveys, respondents expressed greater concerns over strategic risk issues.
- **With respect to the top five risks overall:**
  - **Regulatory change and heightened regulatory scrutiny** – This risk continues to represent the top overall risk for the third consecutive year for most organizations.
  - **Economic conditions in domestic and international markets** – While stabilized at 2014 levels, this risk is again highly ranked.
  - **Concerns about cyberthreats disrupting core operations** – With little surprise, this risk is now a top five concern for 2015, as well as the top operational risk overall and for the largest organizations.
  - **Succession challenges and the ability to attract and retain talent** – This risk made the top five risk list for all sizes of organizations, likely triggered by a tightening labor market (though the decline in unemployment rates has been relatively modest), and the respondents' perception that significant operational challenges may arise if organizations are unable to sustain a workforce with the skills needed for growth.
  - **Organization's culture not supporting timely risk identification and escalation** – Respondents ranked this risk (new to this year's survey) as a top five risk concern.
- **Boards of directors, CEOs and other members of the executive team report differing views of the top risk exposures facing their organizations** – These findings suggest there is a strong need for discussion and dialogue to ensure the organization is focused on the right emerging risk exposures.
- **CFOs and CAEs perceive a riskier environment** – They rate a greater number of risks to be "Significant Impact" risks compared to board members and other C-suite executives.

One of the first questions an organization seeks to answer in risk management is, "What are our most critical risks?" The organization's answer to this question lays the foundation for management to respond with appropriate capabilities for managing the risks. This survey provides insights across different sizes of companies and across multiple industry groups as to what the key risks are for 2015 based on the input of the participating executives and board members.

The list of top 10 risks for 2015, with indications of their 2014 and 2013 scores, appears in Figure 1 below. Table 2 on page 7 lists the top 10 risks with the percentage responses for the three risk classifications (Significant Impact, Potential Impact, Less Significant Impact).

Figure 1: Top 10 Risks



In addition to our Key Findings, other notable findings this year with regard to those risks making the top 10 include the following:

- Related to risks of managing cyberthreats, respondents also continued to express concern about their organization's ability to adequately resource efforts needed to ensure privacy/identity management and information security on an ongoing basis. The level of concern returned to levels of concern from two years earlier.
- Two new risk categories added to the 2015 survey made the top 10 list of concerns for the full sample. In addition to the risk related to the organization's culture noted in the Key Findings above, respondents ranked the risk related to sustaining customer loyalty and retention as a top risk area.
- Other top risks, while not perceived as having a "Significant Impact" overall, include risks related to concerns about the organization's resistance to change restricting needed adjustments to the business model, and inability to meet performance expectations related to quality, time to market, cost and innovation as effectively as competitors.

In addition to our analysis of the top 10 risk results for the full sample, we conducted a number of subanalyses to pinpoint other trends and key differences among respondents. Additional insights about the overall risk environment for 2015 can be gleaned from these analyses, which we highlight in a number of charts and tables later in this report. Following are some significant findings from our subanalyses:

- The five risks for 2015 with the greatest increase in risk ratings from 2014 relate primarily to operational risk concerns. In contrast, those risks that decreased the most from 2014 to 2015 relate mostly to macroeconomic risk issues. While concerns about macroeconomic issues are decreasing, it is important to note that the risk related to economic conditions in markets served is second in the list of top 10 risks.
- Interestingly, Chief Financial Officers (CFOs) and Chief Audit Executives (CAEs) perceive the overall environment to be riskier relative to the perceptions of other members of the executive team and board. CFOs have an overall impression that the magnitude and severity of risks facing the organization are increasing, while other executives perceive a reduction in those risk dimensions.
- Among the mix of types of risks, boards of directors identified four strategic risks as their top five risk concerns, with the remaining risk related to macroeconomic issues. In contrast, CEOs responded exactly the opposite by reporting macroeconomic risk concerns as four of their top five risks, with their final top five risk related to a strategic risk issue. Furthermore, other executives rated more operational risks in their top five list of concerns relative to strategic and macroeconomic risks. This disparity in viewpoints emphasizes the critical importance of both the board and management team engaging in risk discussions, given a lack of consensus about the organization's most significant emerging risks.
- Consistent with our survey results from prior years, the environment for the largest organizations appears to be the riskiest relative to the other size categories. Concerns about operational risks were common among all sizes of organizations (although the specific operational risks differ), and concerns about those risks are generally higher for 2015 relative to 2014. These findings emphasize the reality that there is no “one size fits all” list of risk concerns.
- With respect to industry groupings, the Technology, Media and Communications industry appears to be the industry with the highest overall level of risk concern, with five of the 27 risks rated as “Significant Impact” risks. Most of those concerns relate to strategic risk issues. Surprisingly, respondents in the Healthcare and Life Sciences industry indicated the greatest reduction in overall risk concerns across the three years.
- U.S.-based and non-U.S.-based organizations both identified regulatory issues, economic conditions and succession challenges as top five risk concerns. Only U.S.-based firms included cyberthreats as a top five risk issue. Two risks related to organizational culture – culture failing to support risk identification/escalation and culture related to resistance to change – were among the top five risks for non-U.S.-based organizations.

The remainder of this report includes our in-depth analysis of perceptions about specific risk concerns. We identify and discuss variances in the responses when viewed by organization size, ownership type and industry, as well as by respondent role.

Our plan is to continue conducting this risk survey periodically so we can stay abreast of key risk issues on the minds of executives and observe trends in risk concerns over time.

**Table 2: Top 10 Risks (by “Impact” percentage)**

<b>Risk Description</b>	<b>Significant Impact (6 – 10)</b>	<b>Potential Impact (5)</b>	<b>Less Significant Impact (1 – 4)</b>
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	67%	11%	22%
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	56%	12%	32%
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	53%	14%	33%
Our organization’s succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets	56%	13%	31%
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	51%	10%	39%
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	49%	14%	37%
Ensuring privacy/identity management and information security/system protection may require significant resources for us	52%	8%	40%
Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	46%	17%	37%
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	48%	10%	42%
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	46%	13%	41%



## OVERALL RISK CONCERNS FOR 2015

Before asking respondents to assess the importance of each of the 27 risks, we asked them to provide their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months. We provided them with a 10-point scale where 1 = “Extremely Low” and 10 = “Extensive.” The table below shows an overall reduction in the perceptions of the magnitude and severity of risks across the three years we have conducted the survey.

	2015	2014	2013
Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?	6.0	6.4	6.7

The above data shows there appears to be somewhat less overall concern about the risk environment in general relative to prior years, suggesting that the turmoil from the recent financial crisis continues to subside.

Figure 1 (shown earlier) summarizes the top 10 risks for 2015. While some of the risks in our list of top 10 risk concerns for 2015 were top risk concerns noted in our reports from prior years, there are some notable changes in top risk issues for the upcoming year. There also are a number of differences when reviewing specific breakdowns of the results – for example, boards of directors are mostly concerned about macroeconomic risks, while CEOs are focused primarily on strategic risks. Interestingly, respondents indicate growing concerns about operational risk issues, with six of the top 10 risks representing operational concerns as compared to only four operational issues in the top 10 in 2014. Only one of the top 10 risk issues for 2015 relates to macroeconomic concerns, while three others related to strategic risk issues. Thus, operational risks dominate the 2015 top 10 risk challenges.

Similar to prior years, a concern that **regulatory changes and heightened regulatory scrutiny** may affect the manner in which an organization’s products and services will be produced or delivered remains the top risk for 2015. While the level of concern about this risk is not as high as the prior year, this risk is at the top of the list for all three years that we have conducted this survey, suggesting companies continue to have significant anxiety that regulatory challenges may affect their strategic direction. The stakes are high since, without effective management of regulatory risks, organizations are reactive, at best, and noncompliant, at worst, with all of the attendant consequences. Even marginally incremental regulatory change can add tremendous cost to an organization, and the mere threat of change can create significant uncertainty that can hamper hiring and investment decisions. The pace of regulatory and legislative change can affect an organization’s operating model to produce or deliver products or services, alter its costs of doing business, and affect its positioning relative to its competitors. That this risk remains top-of-mind suggests the cost of regulation and the influence of regulation on business models remain high in many industries.

Consistent with the prior year’s survey, respondents continue to indicate a similar level of notable concern about overall **economic conditions restricting growth** in markets their organizations serve. While equity markets saw a strong surge in the third and fourth quarters of 2014, uncertainties continue to exist, e.g., the volatility in oil and gas prices, concerns about the impact to U.S. and European markets of economic sanctions in Russia, questions about the possibility of slowdowns in China, strengthening of the U.S. dollar and broader currency volatility, uncertainty regarding the impact of potential actions by central banks in many countries in the global marketplace, and the unknown effect on U.S. economic policy resulting from the shift in power in the U.S. Senate that took effect in January 2015. Potentially, it suggests concern over a “new normal” for businesses learning to operate in an environment of slower

organic growth. In rating this risk, executives and directors may be mindful that the pace of economic growth could shift, dramatically and quickly, in any region of the global market. As a result of this continuing concern, companies may be aggressive in seeking new markets and new ways of serving customers to stimulate fresh sources of growth.

With little surprise, concerns about the risk of **cyberthreats disrupting core operations for organizations** moved into the top five list of risk concerns. Given publicity about data breaches at major retailers, global financial institutions and other high-profile companies, most executives recognize the need for “cyber resiliency,” realizing it is not a matter of if a cyber risk event might occur, but more a matter of when it will occur. With the apparent level of sophistication of perpetrators and the impact breaches can impose, most organizations recognize the significant risk threat linked to their reliance on technology for executing their global strategies.

Also included in the top five risks is concern about **succession planning and acquiring and retaining talent**. Similar to 2014, this risk remains fourth in the list of top 10 risks. However, the overall score on the 10-point scale was higher this year relative to last year. The war for talent continues as a concern, while a significant shortfall of workers looms on the horizon in many developed countries. This risk translates into succession issues that may not be addressed adequately. To that end, organizations are considering alternative staffing models that provide more flexibility, such as part-time arrangements and contractors for retaining or replacing talent.

Among the five new risks we added to this year’s survey, two made the top 10 list for 2015. Respondents expressed overall concern that their **organization’s culture may not encourage the timely identification and escalation of risk issues** that might significantly affect core operations. Despite the recognition that there are a number of top risk concerns along operational, strategic and macroeconomic dimensions, there appears to be an overall lack of confidence that processes are in place for individuals to raise risk concerns to the leadership of the organization. The collective impact of the tone at the top, tone in the middle and tone at the bottom on risk management, compliance and responsible business behavior has a huge effect on timely escalation of risk issues to the people that matter. Therefore, timely identification and escalation of key risks are not easy, which is likely why this risk was ranked highly.

The other new risk making the top 10 list relates to concerns about increasing difficulty in **sustaining customer loyalty and retention as customer preferences and demographics evolve**. The rapid pace of change and disruptive innovations are leading to drastic changes in the marketplace. In reaction to those changes, customer preferences are shifting rapidly, making it difficult to retain customers in an environment of slower growth. Not only is preserving customer loyalty more cost-effective than acquiring new customers, but loyal customers also are more likely to purchase higher margin products and services over time. Loyal customers reduce marketing costs as well as costs associated with educating customers. That is why sustaining customer loyalty and retention is a high priority for customer-focused organizations.

Interestingly, two risks from prior years also moved into the top 10 risks for 2015. Uncertainties about the organization’s **preparedness to manage an unexpected crisis** are leading to concerns about the impact that might have on the organization’s reputation. As business leaders observe other organizations forced to navigate an unfolding crisis, they are wise to look inward to assess how prepared their organizations are to respond to a similar sudden event. With the speed and global reach of the media, especially social media, reputations built over decades can unravel overnight. Additionally, concerns about the **ability of existing operations to meet performance expectations related to quality, time to market, cost and innovation** made the top 10 list for the first time this year. With the speed of change and the advancement of technologies, rapid response to changing market expectations can be a major competitive advantage for organizations that are nimble and able to avoid bureaucratic processes that slow down the ability to change. Furthermore, performance gaps can be deadly if left unaddressed over a long period of time. Poor performance in relation to competitors is simply not sustainable.

Rounding out the top 10 risks:

- **Resistance to change may restrict necessary adjustments to the business model and core operations** – In these uncertain times, it makes sense to increase the organization’s ability to change and adapt to a rapidly evolving business environment. Therefore, response readiness is important, as is the agility and resiliency of the organization. Early movers to exploit market opportunities and respond to emerging risks are more likely to survive and prosper in a rapidly changing environment.
- **Privacy/identity management and information security/system protection** – Technological innovation is a powerful source of disruptive change, and no one wants to be on the wrong side of it. Cloud computing, social media, mobile technologies and other initiatives to use technology as a source of innovation and an enabler to strengthen the customer experience present new challenges for managing privacy, information and system security risks.

While only one of the top 10 risks – regulatory change – is rated as a “Significant Impact” risk (i.e., an average risk score of 6.0 or higher) for this year, the overall risk scores for most of the other risks in the top 10 list where we have prior years’ data were rated riskier by respondents in 2015 relative to 2014 and 2013. This suggests an overall increase in concerns about these risk issues for the upcoming year relative to prior years.

Of note, four risks from the 2014 top 10 list dropped out of this year’s top 10:

- Uncertainty surrounding political leadership in national and international markets will limit growth opportunities
- Organic growth through customer acquisition and/or enhancement presents a significant challenge
- Anticipated volatility in global financial markets and currencies will create challenging issues for our organization to address
- Uncertainty surrounding costs of complying with healthcare reform legislation will limit growth opportunities for our organization

We also compared the average scores for 2015 for the total population of 22 risks that we examined in 2014 to identify those risks with the largest changes in scores from 2014 to 2015.<sup>2</sup> The five risks with the greatest increase in risk scores are shown in Table 3 on the following page. Three of the five 2015 risks with the biggest year-over-year increase relate to operational risks and two relate to strategic issues. The fact that none of the biggest increases in risks relate to macroeconomic issues suggests that respondents are sensing more stability in the global marketplace as they look ahead into 2015. Instead, concern is growing for issues related to operational matters, such as the ability to capitalize on “big data” capabilities to manage core operations and the strategic plan, risks related to cyberthreat interruptions, and the organization’s ability to meet shifting expectations in the marketplace better than competitors. Among the increasing strategic risk issues, respondents reflect growing concerns about their ability to manage the reputational and brand impacts triggered by an unexpected crisis, and they are concerned about the rapid speed of disruptive innovations and/or new technologies within the industry.

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<sup>2</sup> Recall we added five new risks for 2015 to comprise our list of 27 risks.

**Table 3: Top 5 Increasing Risks**

Risk Description	Type of Risk	2015	2014	Increase
Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	Strategic	5.34	4.83	0.51
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan	Operational	4.99	4.48	0.51
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	Operational	5.70	5.26	0.44
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	Operational	5.17	4.88	0.29
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 operating model	Strategic	5.16	4.87	0.29

We also examined those risks with the greatest reduction in risk impact scores from 2014 to 2015 (see Table 4). Four risks that dropped the most for 2015 relate to macroeconomic risk issues, consistent with what we observed in our prior year study. With some encouraging signs of improvements in the economy, respondents continue to perceive there to be less uncertainty tied to macroeconomic issues for 2015 relative to 2014 and 2013.

**Table 4: Top 5 Decreasing Risks**

Risk Description	Type of Risk	2015	2014	Decrease
Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization	Macroeconomic	3.97	5.01	-1.04
Potential changes in trade restrictions or other government sanctions may limit our ability to operate effectively and efficiently in international markets	Macroeconomic	3.74	4.33	-0.59
Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities	Macroeconomic	5.15	5.59	-0.44
Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address	Macroeconomic	4.65	5.08	-0.43
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization	Strategic	4.86	5.28	-0.42

## THREE-YEAR COMPARISON OF RISKS

Because we have conducted this survey for three consecutive years, we have the ability to analyze the overall three-year trends for 20 of the 27 risks surveyed this year, and we are also able to compare 2014 and 2015 trends for the two risks we added to our 2014 study.

As discussed previously, to help identify differences in risk concerns across respondent type, we group all the risks based on their average scores into one of three classifications. Consistent with our two prior studies, we use the following color-coding scheme to highlight risks visually using these three categories. Table 5 that follows summarizes the impact assessments for each of the 27 risks for the full sample, and it shows the color code for the 20 risks examined in all three years. Recall that we added two risks to the 2014 study and five more risks to the 2015 study (for a total of 27 risks considered in 2015). Thus, we show only the 2014 and 2015 results for the two risks added in 2014 and show only the 2015 results for the five added in 2015.

- Significant Impact – Rating of 6.0 or higher
- Potential Impact – Rating of 4.5 - 5.9
- Less Significant Impact – Rating of 4.4 or lower

For the most part, the relative significance of the risks has remained consistent for all three years, as observed by the consistency in color reflected for most risks across the three years reported. Interestingly, only one risk – concerns about regulatory change and regulatory scrutiny – is classified as a “Significant Impact” risk across all three years of the study. Two additional risks that were considered “Significant Impact” risks two years ago – uncertainty surrounding political leadership and economic conditions – appear to be of less concern in both 2014 and 2015.

Ten of the 20 risks where we have data for all three years remain consistently at the “Potential Impact” level (i.e., in yellow) across all three years, suggesting that a number of risk concerns repeatedly fall into a category of risks to keep an eye on given they might potentially emerge as a more significant issue. Only three of the 20 risks with data for 2013, 2014 and 2015 are consistently at the “Less Significant Impact” level (i.e., all green circles). Collectively, these findings suggest there are a number of risk concerns on the horizon that may be worthy of proactively monitoring over time. Only two of the 20 risks shifted up in 2015 from the “Less Significant Impact” to the “Potential Impact” level in either 2013 or 2014. Those relate to concerns about growth through acquisitions and concerns about the inability to use data analytics and “big data.”

**Table 5: Perceived Impact over Next 12 Months – Full Sample**

Macroeconomic Risk Issues	2015 Rank	2015	2014	2013
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	2	<span style="color: yellow;">●</span>	<span style="color: yellow;">●</span>	<span style="color: red;">●</span>
Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities	12 (tie)	<span style="color: yellow;">●</span>	<span style="color: yellow;">●</span>	<span style="color: red;">●</span>
Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address	17	<span style="color: yellow;">●</span>	<span style="color: yellow;">●</span>	<span style="color: yellow;">●</span>
Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization	22	<span style="color: green;">●</span>	<span style="color: yellow;">●</span>	<span style="color: green;">●</span>

Geopolitical shifts and instability in governmental regimes may restrict the achievement of our global growth objectives	23		N/A	N/A
Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization	24			N/A
Potential changes in trade restrictions or other government sanctions may limit our ability to operate effectively and efficiently in international markets	25			
<b>Strategic Risk Issues</b>				
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	1			
Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	8			
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	9		N/A	N/A
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 operating model	11			
Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business	12 (tie)		N/A	N/A
Shifts in social, environmental and other customer preferences and expectations may be difficult for us to identify and address on a timely basis	14			
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization	16			
Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement	18			
Ease of entrance of new competitors into the industry and marketplace may threaten our market share	19			
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	20 (tie)			
<b>Operational Risk Issues</b>				
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	3			
Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets	4			
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	5		N/A	N/A
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	6			
Ensuring privacy/identity management and information security/system protection may require significant resources for us	7			
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	10			
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan	15			
Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image	20 (tie)			N/A
Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services	26			
Our organization may face greater difficulty in obtaining affordable insurance coverages for certain insurable risks	27		N/A	N/A

## ANALYSIS ACROSS DIFFERENT SIZES OF ORGANIZATIONS

The sizes of organizations, as measured by total revenues, vary across our 277 respondents, as shown below. The mix of sizes of organizations represented by respondents is relatively similar to the mix of respondents in our prior years' surveys:

Most Recent Revenues	Number of Respondents
Revenues \$10 billion or greater	42
Revenues \$1 billion to \$9.99 billion	84
Revenues \$100 million to \$999 million	80
Less than \$100 million	69
Those not reporting revenues	2
<b>Total Number of Respondents</b>	<b>277</b>

Consistent with the full sample, organizations of all sizes sense an overall reduction in the magnitude and severity of the risk environment, as illustrated by the table below. We asked respondents to provide their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = "Extremely Low" and 10 = "Extensive." While all sizes of organizations reflect a reduction in overall risk concerns, respondents representing the largest organizations noted the largest reduction relative to two years ago. While a number of risks are on the minds of executives, the overall level of risk concerns in relation to their organization's business model appears to be improving over time as the economy moves further from the financial crisis that began to unfold in 2008.

<i>Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?</i>	2015	2014	2013
Organizations with revenues \$10 billion or greater	5.7	6.4	6.9
Organizations with revenues between \$1 billion and \$9.99 billion	6.0	6.5	6.7
Organizations with revenues between \$100 million and \$999 million	5.9	6.1	6.5
Organizations with revenues less than \$100 million	6.0	6.7	6.7

Consistent with our findings related to the overall top 10 risks for 2015 for the full sample, concerns about the potential impact of regulatory changes and heightened regulatory scrutiny affecting the manner in which products and services will be produced or delivered continue to be noticeably high for all sizes of organizations. Across all sizes of organizations, respondents rated this risk as the top risk concern, with all scoring it in the "Significant Impact" category with a score above 6.0. Except for the very largest organizations, this risk is the only one considered to be a "Significant Impact" risk issue for 2015 for the other three size categories of organizations. Thus, uncertainty surrounding regulations and greater oversight continues to be top-of-mind for executives in all sizes of organizations.

Succession challenges and the ability to attract and retain top talent are a top five risk concern for all sizes of organizations. Respondents sense that operational challenges may increase if organizations are unable to recruit and secure a workforce with the skills needed for growth. This finding is interesting in light of the current unemployment levels and the growing trend of recent college graduates struggling to secure long-term employment. Perhaps there is a mismatch in skills possessed by potential employees and the skills required in today's high-paced, global and technologically innovative business environment.

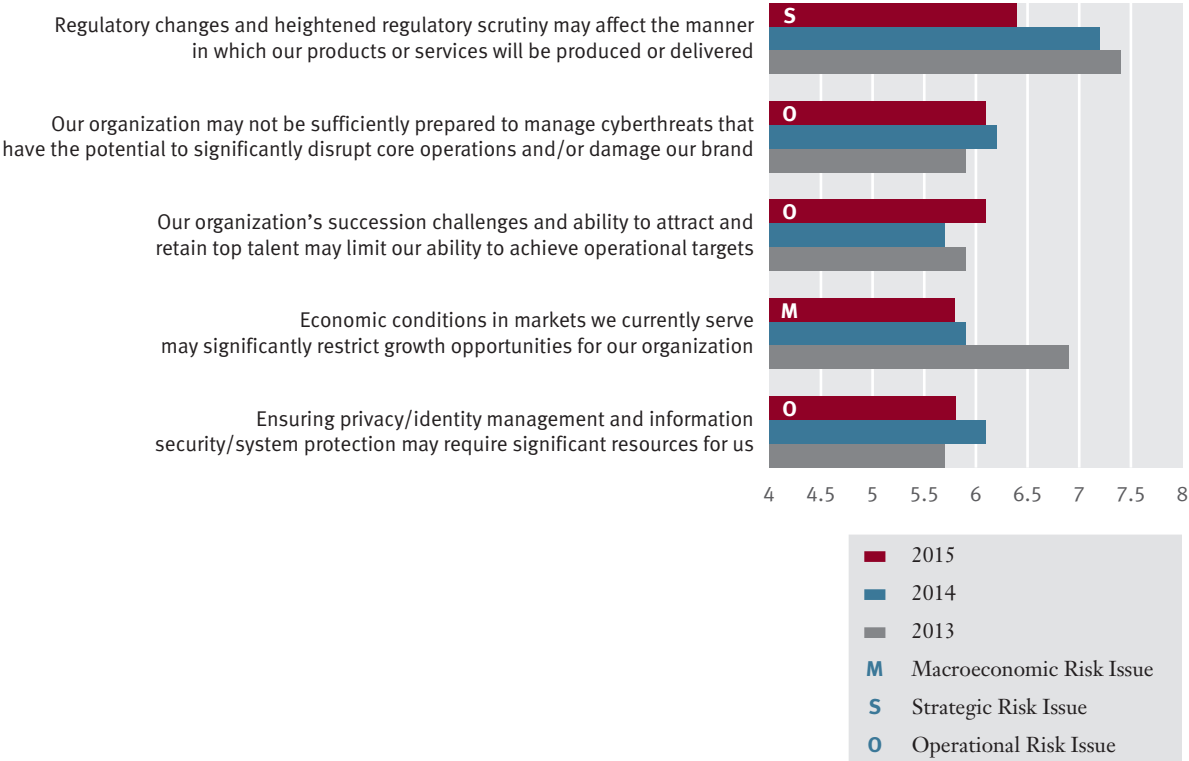
Concerns about economic conditions in markets they serve remain in the top five lists for all organizations, except those with revenues between \$100 million and \$999 million. Clearly, the regulatory and economic environment and the potential for further change to that environment are of paramount concern to many organizations, influencing their decisions to expand, invest and hire.

Not surprisingly, concerns about cyberthreats made the top five lists for the two largest size categories of organizations, a finding consistent with 2014. Given the size and visibility in the marketplace and the increased awareness of cyberthreats that might also threaten information security, larger organizations are signaling heightened concerns about these potential risks. Larger organizations may be more apt to regard themselves as higher risk because of the perception that their size elevates their profile to a target of choice. Furthermore, both the largest and smallest organizations also ranked concerns about ensuring privacy/identity management and information security/system protection as a top five risk issue for 2015.

The two smaller categories of organizations (those with revenues under \$1 billion) noted concerns about their level of preparedness to manage an unexpected crisis significantly impacting their reputation. Both included that risk as one of their top five risk issues. Perhaps publicity surrounding some high-profile company crises (e.g., data breaches among large retailers and financial services firms) are highlighting the need for better preparedness for when disaster strikes. Larger organizations may have invested in developing and testing crisis management plans and now all other organizations are realizing their need for similar investments despite their smaller size and more limited resources.

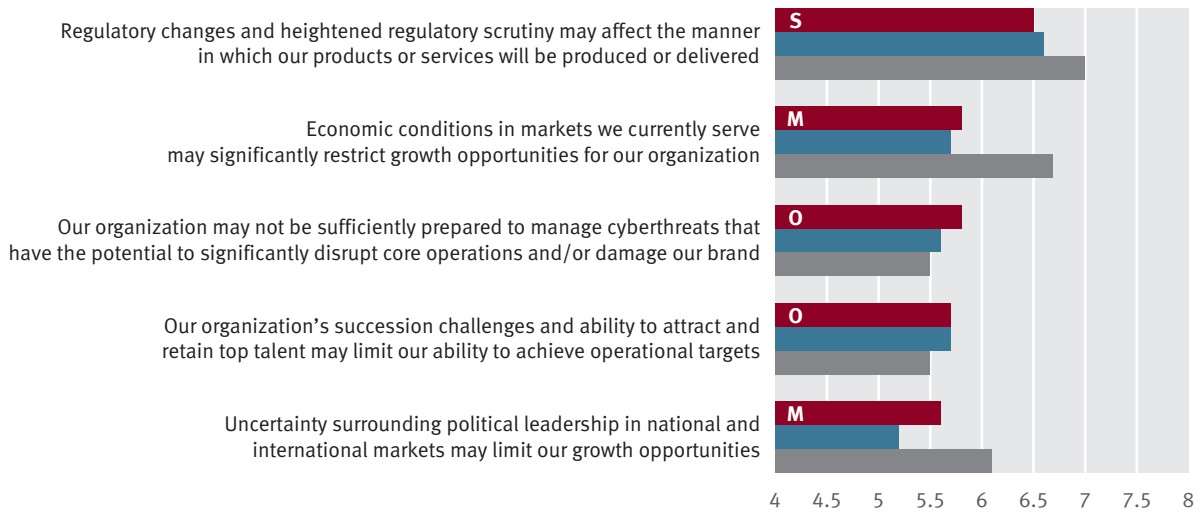
Out of the 27 risks, the largest organizations rated three as “Significant Impact” risks, while the other size categories of firms rated only regulatory changes as a “Significant Impact” risk. The accompanying charts summarize the top-rated risks by size of organization. Only the top five risks are reported.

**Organizations with Revenues \$10 Billion or Greater**

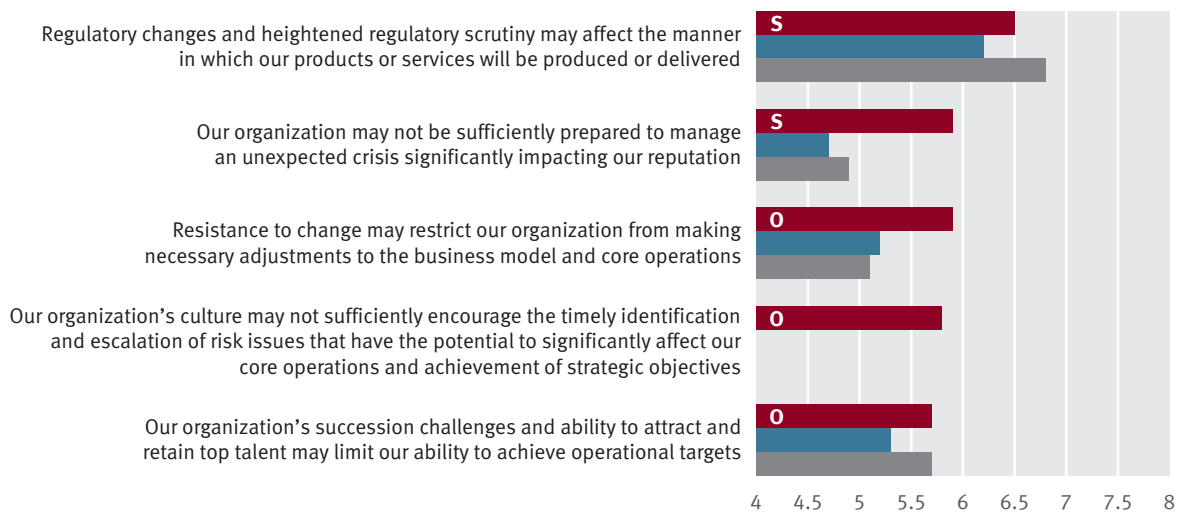




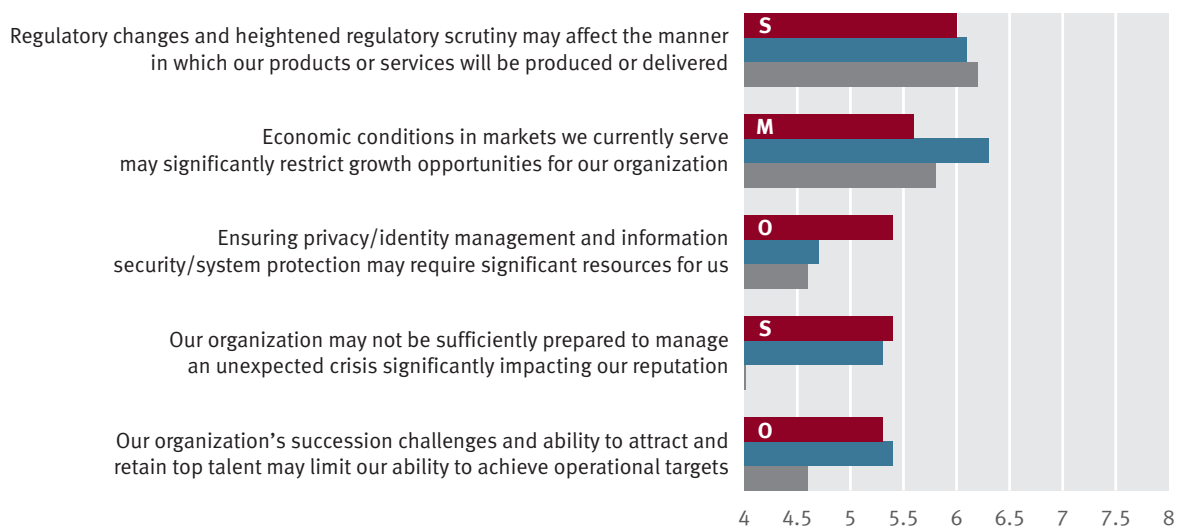
### Organizations with Revenues Between \$1 Billion and \$9.99 Billion



### Organizations with Revenues Between \$100 Million and \$999 Million



### Organizations with Revenues Less Than \$100 Million



## ANALYSIS ACROSS EXECUTIVE POSITIONS REPRESENTED

We targeted our survey to individuals currently serving on the board of directors or in senior executive positions so that we could capture C-suite and board perspectives about risks on the horizon for 2015. Respondents to the survey serve in a number of different board and executive positions. The remaining respondents represent individuals currently serving in a variety of executive positions.

Executive Position	Number of Respondents
Board of Directors	16
Chief Executive Officer	20
Chief Financial Officer	19
Chief Risk Officer	87
Chief Audit Executive	70
Other C-Suite <sup>3</sup>	30
All other <sup>4</sup>	35
<b>Total Number of Respondents</b>	<b>277</b>

To determine if perspectives about top risks differ across executive positions, we also analyzed key findings for boards of directors and the five executive positions with the greatest number of respondents: chief executive officer (CEO), chief financial officer (CFO), chief risk officer (CRO), chief audit executive (CAE) and other C-suite executives.<sup>5</sup>

Similar to our analysis of the full sample and across the different sizes of organizations, we analyzed responses about overall impressions of the magnitude and severity of risks across the above types of respondents. Again, the scores in the table below reflect responses to the question about their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = “Extremely Low” and 10 = “Extensive.”

<i>Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?</i>	2015	2014	2013
Board of Directors	5.7	6.3	7.2
Chief Executive Officer	6.1	5.9	6.9
Chief Financial Officer	6.9	6.8	6.6
Chief Risk Officer	5.7	6.5	6.6
Chief Audit Executive	6.2	6.4	6.5
Other C-Suite	6.5	6.5	6.6

<sup>3</sup> This category includes titles such as chief compliance officer, chief operating officer, general counsel and chief information officer.

<sup>4</sup> These 35 respondents either did not provide a response or are best described as middle management or business advisers/consultants. We do not provide a separate analysis for this category.

<sup>5</sup> We grouped individuals with equivalent but different executive titles into these positions when appropriate. For example, we included “Vice President – Risk Management” in the CRO grouping and we included “Director of Finance” in the CFO grouping.

For most types of respondents, the overall impression about the magnitude and severity of risks in the environment is decreasing across the three years examined. However, Chief Financial Officers are sensing a different risk environment relative to their peers. For each of the three years examined, their overall impression about the risk environment is that it is increasing in riskiness, while others mostly sense a lightening up of the overall risk environment. Interestingly, boards of directors are the least concerned relative to other types of respondents, as reflected by their average response score of 5.7. Furthermore, while CEOs seemed less concerned in 2014 relative to 2013 about the overall risk environment, their assessment is higher in 2015 relative to 2014. These differences in perspectives suggest there may be value in explicitly discussing and analyzing factors that might be influencing overall impressions about the risk environment among key leaders of organizations, including the board of directors.

As discussed previously, to help identify differences in risk concerns across respondent type, we group all the risks based on their average scores into one of three classifications. Consistent with our two prior studies, we use the following color-coding scheme to highlight risks visually using these three categories. Below and on the following page, Table 6 summarizes the impact assessments for each of the 27 risks for the full sample and for each category of executive using the following color code scheme:

- Significant Impact – Rating of 6.0 or higher
- Potential Impact – Rating of 4.5 - 5.9
- Less Significant Impact – Rating of 4.4 or lower

**Table 6: Perceived Impact over Next 12 Months**

Macroeconomic Risk Issues	Board	CEO	CFO	CRO	CAE	Other C-Suite
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	●	●	●	●	●	●
Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities	●	●	●	●	●	●
Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address	●	●	●	●	●	●
Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization	●	●	●	●	●	●
Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization	●	●	●	●	●	●
Geopolitical shifts and instability in governmental regimes may restrict the achievement of our global growth objectives	●	●	●	●	●	●
Potential changes in trade restrictions or other government sanctions may limit our ability to operate effectively and efficiently in international markets	●	●	●	●	●	●

Strategic Risk Issues	Board	CEO	CFO	CRO	CAE	Other C-Suite
Regulatory changes and heightened regulatory scrutiny may affect the manner in which our products or services will be produced or delivered	●	●	●	●	●	●
Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	●	●	●	●	●	●
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 operating model	●	●	●	●	●	●
Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business	●	●	●	●	●	●
Shifts in social, environmental and other customer preferences and expectations may be difficult for us to identify and address on a timely basis	●	●	●	●	●	●
Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement	●	●	●	●	●	●
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization	●	●	●	●	●	●
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	●	●	●	●	●	●
Ease of entrance of new competitors into the industry and marketplace may threaten our market share	●	●	●	●	●	●
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	●	●	●	●	●	●
Operational Risk Issues						
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	●	●	●	●	●	●
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	●	●	●	●	●	●
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	●	●	●	●	●	●
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan	●	●	●	●	●	●
Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image	●	●	●	●	●	●
Ensuring privacy/identity management and information security/system protection may require significant resources for us	●	●	●	●	●	●
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	●	●	●	●	●	●
Our organization may face greater difficulty in obtaining affordable insurance coverages for certain insurable risks	●	●	●	●	●	●
Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services	●	●	●	●	●	●

Interestingly, CFOs and CAEs perceive the overall risk environment to be riskier relative to the perceptions of other members of executive management and the board. CFOs rated five of the 27 risks as “Significant Impact” risks, while CAEs rated four of the 27 risks as “Significant Impact” risks, as reflected by the red circles. Most of those top-rated risks relate to operational risk concerns rather than macroeconomic or strategic risks.

In contrast, most executives, and the board members, rated only one of the 27 risks at the “Significant Impact” level (CEOs rated two at that level). Board members and CEOs appear to be the most optimistic about risk issues, as reflected by their ratings of 15 and 16 of the 27 risks, respectively, at the lowest impact level (reflected by the green circles). To illustrate, each of the five operational risks rated “Significant Impact” by CFOs were rated “Less Significant Impact” by CEOs and directors. This interesting disparity of views at the highest levels of the organization suggests CFOs are sharply focused on operational issues, perhaps due to how they are being evaluated and rewarded.

Consistent with the analyses of results for the full sample and across the four size categories provided earlier in this report, almost all executives, except board members and CFOs, rated risks related to regulatory changes as their top risk concern. The average scores for that risk exceeded 6.0, which meets our definition of a “Significant Impact” risk for all executive categories, except for boards and CFOs, who rated that risk below 6.0 – the threshold established for “Significant Impact.” Collectively, this suggests that most members of the executive team have heightened concerns about uncertainties linked to the overall regulatory environment. In addition to regulatory concerns, CEOs also rated uncertainty surrounding political leadership in national and international markets as a “Significant Impact” risk.

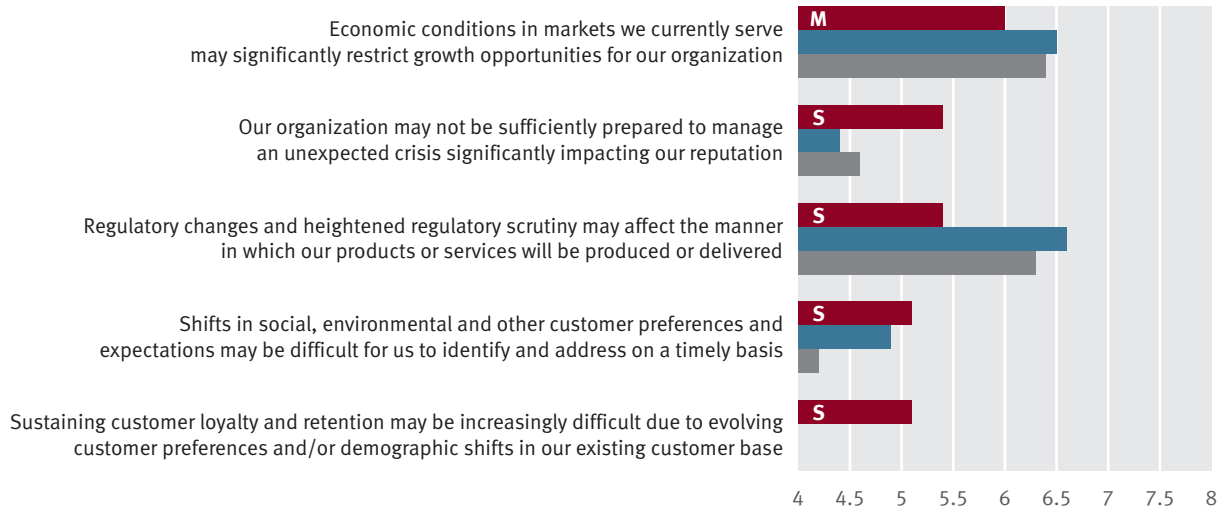
CFOs and CAEs expressed anxiety related to succession challenges and the ability to attract and retain top talent, more so than other executives surveyed. Despite reports of underemployed and unemployed individuals in the national press, the need for talent – ranging from financial management and accounting to IT and other skilled professionals – appears to be strong and increasing.

These same executives also expressed concerns that the organization’s risk management culture may not sufficiently encourage the timely identification and escalation of risk issues. Both CFOs and CAEs consider this to be a “Significant Impact” risk, while the board and CEO see this in an opposite way as a “Less Significant Impact” risk. Because CFOs and CAEs are called upon regularly by audit committees to involve themselves in, or even lead or significantly influence, the organization’s enterprise risk management process (though not in Financial Services organizations), they have a “front-row view” of the organization’s approach to risk management. They may be the executives who are most knowledgeable of the realities of the organization’s overall risk culture, and thus their viewpoints may be hugely informative to the rest of management. Understanding their concerns now is vital, before it is too late and the organization is forced to address a significant risk event anticipated by personnel on the front lines.

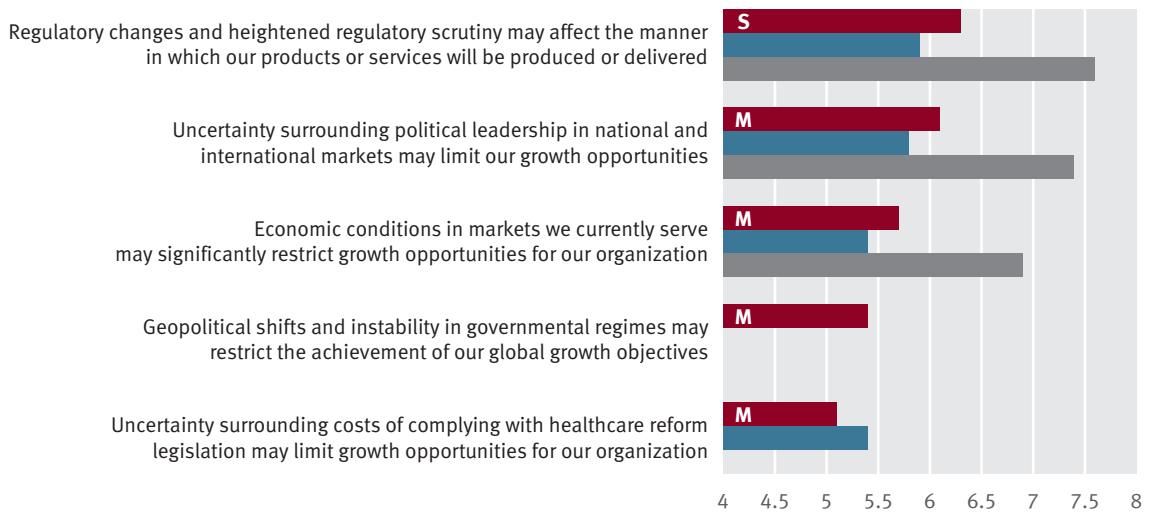
The charts on the following pages highlight the top five risks identified by each executive position. Of particular note is the observation that four of the top five risk concerns on the minds of board members relate to strategic risk concerns, while four of the top five risks for CEOs relate to macroeconomic risk concerns. In contrast, other members of the executive management team are focused mostly on operational risk concerns, with all five of the top risks ranked by CFOs addressing operational risks. This disparity in viewpoints emphasizes the critical importance of both the board and the management team engaging in risk discussions, given a lack of consensus about the organization’s most significant risks. Without clarity of focus, the executive team may not be appropriately addressing the most important risks facing the organization, thereby leaving the organization potentially vulnerable to certain risk events. The disparity may also reflect CEOs taking more of a “big picture” view as other executives focus more on operational issues.

In 2015, two of the top five risks assessed by CEOs are “Significant Impact” risks whereas none were rated that high by CEOs in 2014.<sup>6</sup> All top five risks rated by CFOs equal or exceed the “Significant Impact” threshold, suggesting that CFOs are especially concerned about the operating risk environment.

### Board Members

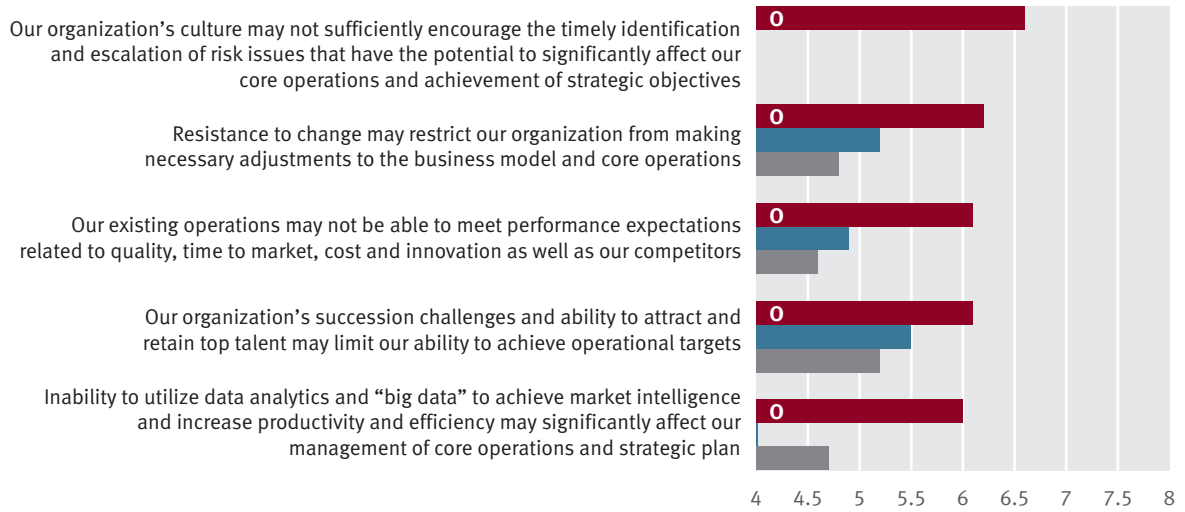


### Chief Executive Officers



<sup>6</sup> For the current year survey, 20 CEOs provided input about their assessments of each of the 27 risks, as compared to 55 CEOs and 11 CFOs who participated in the 2014 and 2013 surveys, respectively. It is possible that the higher risk assessments for 2013 are impacted by the small sample size in that initial year. However, we believe reporting this information provides some insights about the overall change in direction of risk assessments by CEOs from 2013 to 2015.

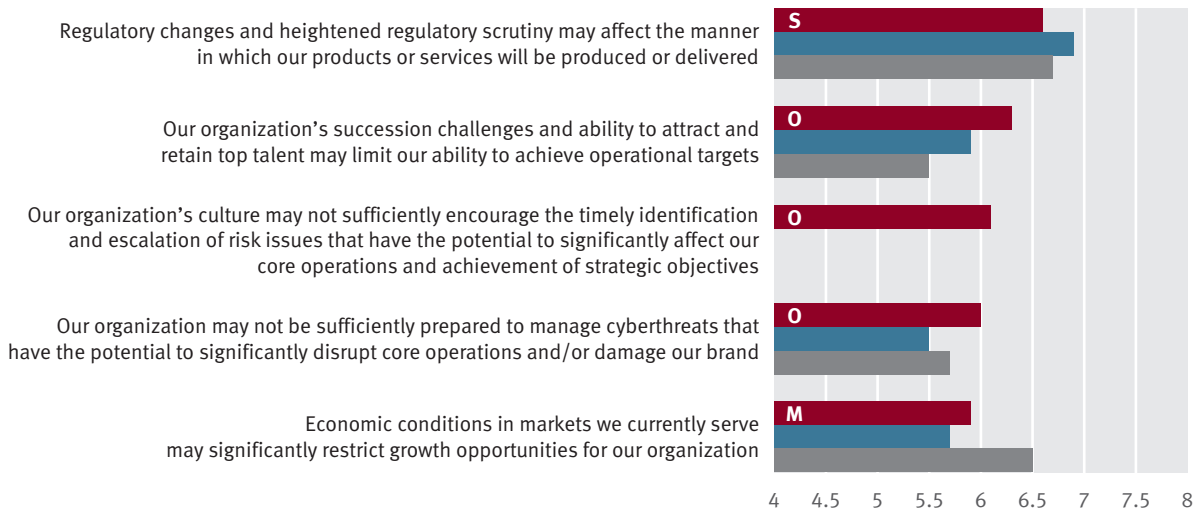
### Chief Financial Officers



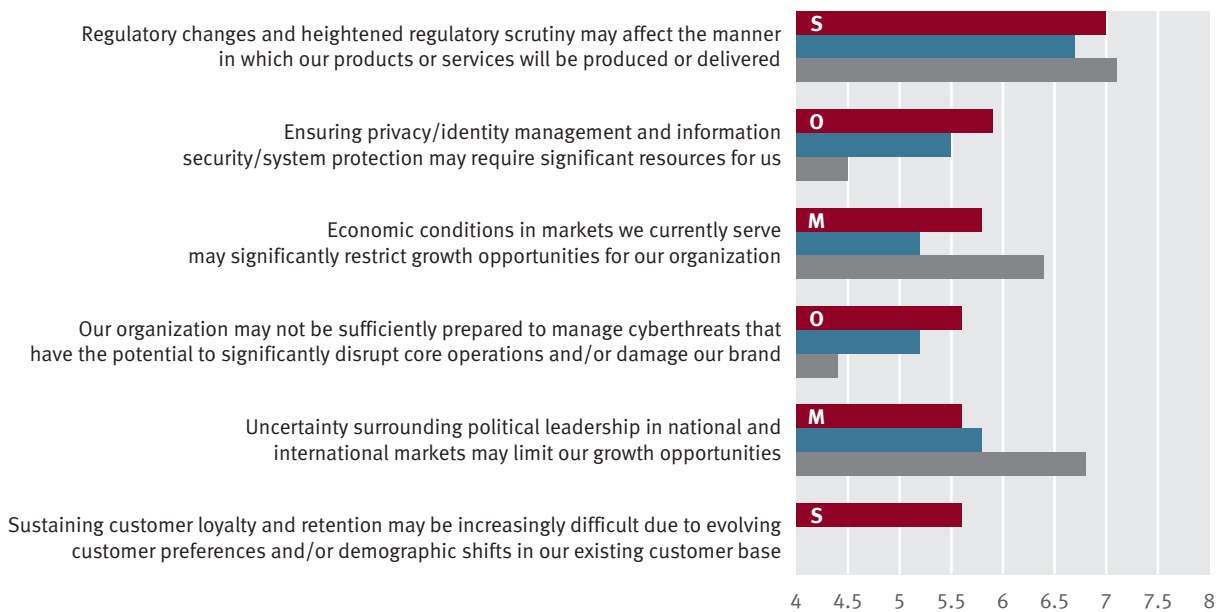
### Chief Risk Officers



### Chief Audit Executives



### Other C-Suite Executives





## INDUSTRY ANALYSIS

Respondents to our survey represent organizations in a number of industry groupings, as shown below:

Industry	Number of Respondents
Financial Services (FS)	92
Consumer Products and Services (CPS)	66
Industrial Products (IP)	30
Technology, Media and Communications (TMC)	21
Healthcare and Life Sciences (HLS)	14
Energy and Utilities (EU)	30
Other industries (not separately reported)	24
<b>Total Number of Respondents</b>	<b>277</b>

We analyzed responses across these six industry groups to determine whether industries rank-order risks differently. Similar to our analysis of the full sample and across the different sizes of organizations and types of respondents, we analyzed responses about overall impressions of the magnitude and severity of risks across the above industry categories. Again, the scores in the table below reflect responses to the question about their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = “Extremely Low” and 10 = “Extensive.”

<i>Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?</i>	2015	2014	2013
Financial Services (FS)	5.7	6.1	6.5
Consumer Products and Services (CPS)	6.2	6.2	6.5
Industrial Products (IP)	6.2	6.3	7.0
Technology, Media and Communications (TMC)	5.8	6.9	7.0
Healthcare and Life Sciences (HLS)	5.5	7.3	7.1
Energy and Utilities (EU)	6.4	6.6	6.0

Interestingly, respondents in the Healthcare and Life Sciences (HLS) industry reflect the greatest reduction in overall risk concerns across the three years. While both 2014 and 2013 survey results reflected the highest level of overall risk concern for the Healthcare and Life Sciences industry, the overall environment appears to be less risky for them now compared to the two earlier years. This result may be a reflection of a better understanding of the implications of the Affordable Care Act now that the initial year of implementation is behind us, thereby reducing some overall anxiety about the related uncertainties.

The overall risk environment appears to also have lessened each year since 2013 for the Financial Services, Industrial Products, and Technology, Media and Communications industries, which saw reductions in overall risk scores in both 2014 and 2015 from the 2013 levels. Hopefully, this is not an indication of complacency within these industries. Interestingly, the level of overall risk concern is mostly tracking in line with 2013 and 2014 levels for the other three industries.

The Energy and Utilities industry appears to be the industry that perceives the greatest magnitude and severity of risks on the horizon. Volatility in oil and natural gas prices, controversies surrounding hydraulic fracturing technologies, the status of the proposed Keystone Pipeline project, and offshore wind generation may be driving strategic concerns for the industry.

Table 7 provides an overview of the significance and differences across industries in executive perspectives about each of the 27 risks rated in this study (categorized as macroeconomic, strategic and operational risk issues).

- Significant Impact – Rating of 6.0 or higher
- Potential Impact – Rating of 4.5 - 5.9
- Less Significant Impact – Rating of 4.4 or lower

**Table 7: Perceived Impact over Next 12 Months**

Macroeconomic Risk Issues	FS	CPS	IP	TMC	HLS	EU
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	●	●	●	●	●	●
Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address	●	●	●	●	●	●
Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities	●	●	●	●	●	●
Potential changes in trade restrictions or other government sanctions may limit our ability to operate effectively and efficiently in international markets	●	●	●	●	●	●
Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization	●	●	●	●	●	●
Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization	●	●	●	●	●	●
Geopolitical shifts and instability in governmental regimes may restrict the achievement of our global growth objectives	●	●	●	●	●	●
Strategic Risk Issues						
Regulatory changes and heightened regulatory scrutiny may affect 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 operating model	●	●	●	●	●	●
Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business	●	●	●	●	●	●
Shifts in social, environmental and other customer preferences and expectations may be difficult for us to identify and address on a timely basis	●	●	●	●	●	●
Ease of entrance of new competitors into the industry and marketplace may threaten our market share	●	●	●	●	●	●
Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation	●	●	●	●	●	●
Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement	●	●	●	●	●	●
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization	●	●	●	●	●	●
Substitute products and services may arise that affect the viability of our current business model and strategic initiatives on the horizon	●	●	●	●	●	●
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	●	●	●	●	●	●

Operational Risk Issues	FS	CPS	IP	TMC	HLS	EU
Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets	●	●	●	●	●	●
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	●	●	●	●	●	●
Ensuring privacy/identity management and information security/system protection may require significant resources for us	●	●	●	●	●	●
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	●	●	●	●	●	●
Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services	●	●	●	●	●	●
Our reliance on outsourcing, strategic sourcing and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image	●	●	●	●	●	●
Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors	●	●	●	●	●	●
Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plan	●	●	●	●	●	●
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	●	●	●	●	●	●
Our organization may face greater difficulty in obtaining affordable insurance coverages for certain insurable risks	●	●	●	●	●	●

Consistent with the full sample, all but one of the six industry groups rated uncertainty linked to regulatory changes and heightened regulatory scrutiny as a “Significant Impact” risk for 2015, as exhibited by the red circles for that risk in Table 7. Three industry groups also identified challenges associated with economic conditions as a “Significant Impact” risk. Seven other risks were rated as “Significant Impact” risks by only one industry group each, while 18 of 27 risks were not rated as “Significant Impact” risks by any industry group.

The Technology, Media and Communications industry identified five of the 27 risks as “Significant Impact” risks, with most other risks rated in the middle category of “Potential Impact” risks. Three of those five risks for the Technology, Media and Communications industry relate to strategic risk concerns, including risks related to the rapid speed of disruptive innovation, risks related to social media and other IT-based applications that might impact brand and how they do business, and risks related to regulations. Of note, the Industrial Products industry is the only one that views the risk related to the organization’s culture to be a “Significant Impact” risk. It is interesting that other industries, particularly Financial Services, do not view this risk to be more significant given the recent spate of cultural lapses that have been reported.

In addition to “Significant Impact” concerns related to regulatory changes and overall economic conditions, the Consumer Products and Services (CPS) industry also rated cyberthreats as a “Significant Impact” risk. Most likely, the impact of recent data breaches at several major retailers has sensitized other Consumer Products and Services retailers to that issue. The Financial Services, Consumer Products and Services, and Technology, Media and Communications industries had the most number of risks rated in the middle range of “Potential Impact,” as reflected by the number of yellow circles for 2015. Overall, there are a number of risk issues that respondents believe might emerge along all three dimensions of macroeconomic, strategic and operational risk issues.

While the overall level of risk concerns appears to have lessened for the Healthcare and Life Sciences industry, respondents did rate the uncertainty surrounding costs of complying with healthcare reform

legislation as limiting growth opportunities as a “Significant Impact” risk. But, now that the Affordable Care Act in the United States has been in effect for a short while, there appears to be less overall risk concern among Healthcare and Life Sciences industry group respondents relative to the prior year. Last year, respondents in that industry rated six of the 22 risks (which included all of their top five risks) as “Significant Impact” risks, but for 2015 they rated only two of the 27 risks as “Significant Impact” risks. Thirteen of the remaining risks are in the middle risk range of “Potential Impact” risks for the industry. Healthcare and Life Sciences industry respondents rated 12 of the 27 risks as “Less Significant Impact” risks.

The Financial Services and Energy and Utilities industries only rated one risk – regulatory changes and regulatory scrutiny – as a “Significant Impact” risk. Relative to other industries, the Energy and Utilities industry reported the most number of risks at the “Less Significant Impact” level, as evidenced by 16 of the 27 risks rated with green circles.

The bar charts on the following pages report the top five risk exposures in rank order for each of the six industry groups. Recall that a risk with an average score of 6.0 or higher is considered a “Significant Impact” risk, while risks with average scores between 4.5 and 5.9 are “Potential Impact” risks and risks with average scores below 4.5 are “Less Significant Impact” risks.

A noticeable observation from these results is the magnitude of concern about risks associated with regulatory change and increased regulatory scrutiny observed by respondents in the Financial Services industry and the Healthcare and Life Sciences industry. The average scores for that risk are 7.02 and 7.36 for the Financial Services and Healthcare and Life Sciences industries, respectively. While the scores for regulatory change and increased regulatory scrutiny were lower than those in the prior year (7.3 and 8.2, respectively), both are still above 7.0 and significant in impact. Out of all the risks assessed in this report, rarely does the average risk score exceed 7.0, which highlights the relative significance of regulatory concerns for these two industries.

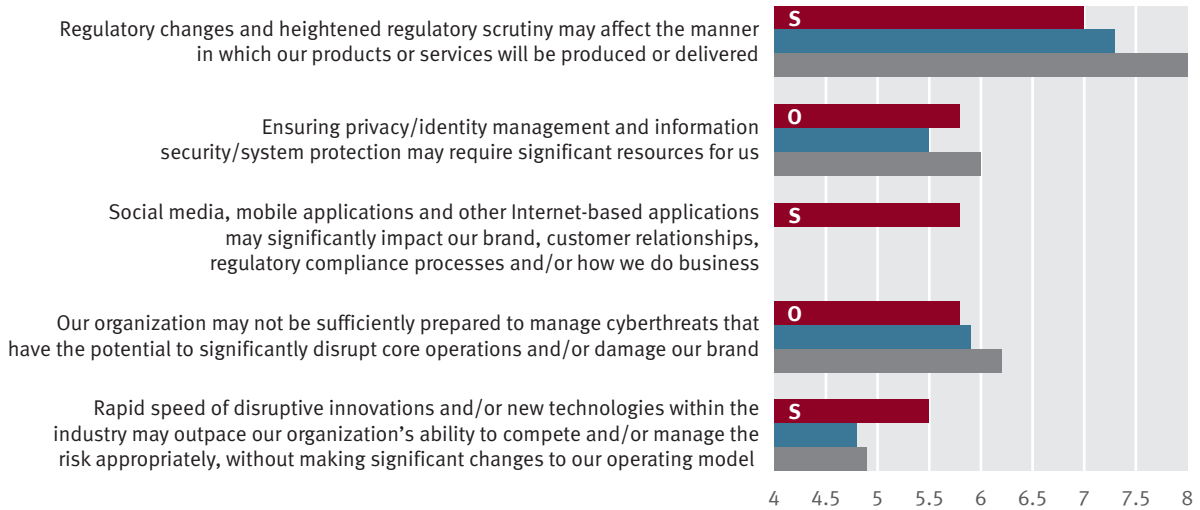
Regarding the direction of change in risk scores from 2014 to 2015, many scores for 2015 are lower relative to two years ago (2013) for the top five risks across all industries, suggesting the level of risk concern is not as significant as two years ago. However, four of the top five risk scores for 2015 are higher than 2014 scores for the Technology, Media and Communications and the Consumer Products and Services industries, and three of the five top risk concerns are higher in 2015 relative to 2014 for the Industrial Products industry. In contrast, all top five risk scores in the Healthcare and Life Sciences industry are lower than the corresponding 2014 scores.

There are also differences in categories for the top five risks across the six industries examined. Both the Financial Services and Technology, Media and Communications industries include three strategic risks in their top five risk concerns. In contrast, the Industrial Products, Energy and Utilities, and Healthcare and Life Sciences industries ranked three operational risk concerns in their list of top five risk concerns. The emphasis on strategic risks in the Financial Services industry is somewhat different than the prior two years, when respondents in that industry seemed more concerned about macroeconomic and operational risks. With some stabilization in macroeconomic conditions and the organization’s underlying business processes, executives in financial services organizations may now be facing challenges in developing new strategic directions in light of the current world realities.

Operational risks have been in the top five risk list for the Energy and Utilities and Healthcare and Life Sciences industries in the past two years; however, this year sees an increase in operational concerns. Industrial Products organizations indicate the greatest shift toward operational risk concerns this year relative to 2013 and 2014, when none of the top five risks were related to operational risks for organizations in that industry.

These noted differences in risk issues across the different industries highlight the importance of understanding industry drivers and emerging developments to effectively identify the most significant emerging risk concerns. Following each bar chart by industry, we provide additional commentary about industry-specific risk drivers.

## Financial Services



The global regulatory environment remains highly dynamic, leading to regulatory change and scrutiny again topping the list of risks facing Financial Services institutions in 2015. Based on this year's findings, there is a sense that Financial Services organizations believe they are making progress in managing this risk. For the second consecutive year, the overall risk rating/impact of regulatory risk declined, which is likely a reflection of the cumulative results of several years of focusing on enhancing regulatory risk management capabilities.

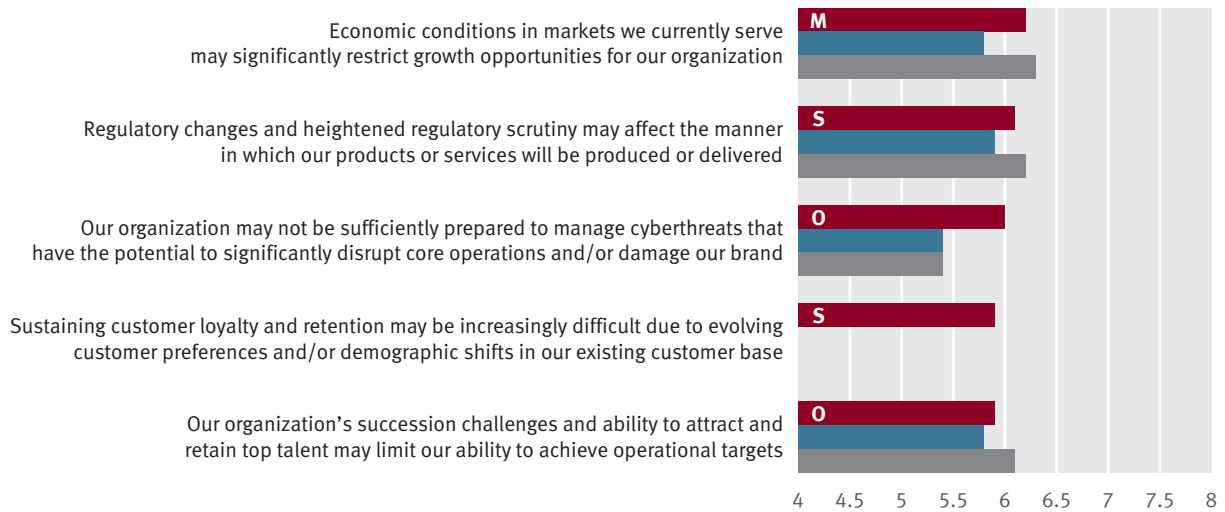
However, the overall regulatory environment is far from benign, with continued scrutiny of consumer protection in the United States, along with the 2014 release of the OCC's "Minimum Standards/Heightened Expectations" guidance, setting forth the roadmap for continuous improvement of risk and compliance management programs. Globally, anti-money laundering remains in the spotlight, along with consumer privacy/data protection and various market conduct matters.

The impact of technology, both as a threat and an opportunity, continues to be top-of-mind for Financial Services executives. The results show that cyberthreats, along with privacy and identity management, represent critical risks compared to the previous years' results. This is not surprising – seemingly on a daily basis, new data breaches or near misses are reported, involving the theft and possible misuse of information from hundreds of thousands, if not millions, of customers. From an opportunity perspective, the impact of innovation with usage of digital currency such as Bitcoin, along with the introduction of products such as ApplePay, is driving the need for ongoing assessment of capabilities, product/service offerings and even alliances with third parties. Another sign of the impact of ongoing technological change is the high ranking of social media/mobile application risk for Financial Services organizations – this is the first year we have included this risk type in our survey.

Views on the perceived risk of technological changes and technology/data-based risks have crowded out concerns regarding global economic conditions and volatility that were evident in prior years of the survey. Another trend is the reduction of concerns among Financial Services organizations over the ability to grow organically through customer acquisition. Financial institutions are continuing to shift their focus toward growth after several years of "battening down the hatches" from a regulatory compliance, capital and risk management capability enhancement perspective. The risks tied to these growth channels, given the aforementioned technological evolutions and potential disruptors, remain top-of-mind for survey participants.



## Consumer Products and Services



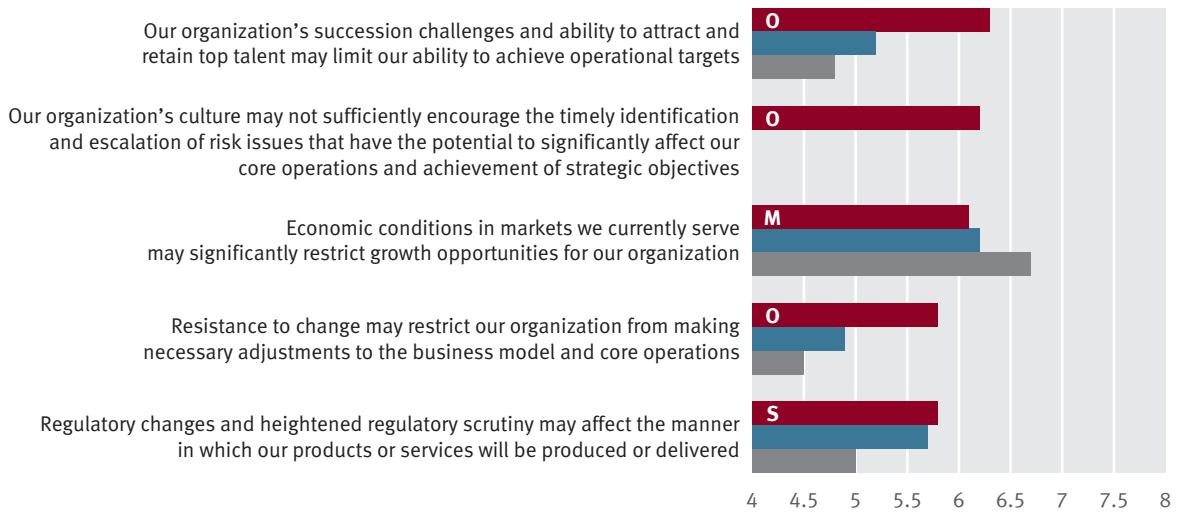
Economic conditions in a world of continuing innovation and change represent the top risk in 2015 for Consumer Products companies. Ever-smarter consumers, more and more of whom are shifting to crowdsourcing to obtain goods and services, require Consumer Products and Services companies to increase their focus on existing market share. This, in turn, threatens to hamper growth opportunities, because new products and services are required to sustain, rather than grow, the business. Of note, customer loyalty also ranks in the top five risks for the industry in 2015, further emphasizing the focus on market share.

Consumer Products companies continue to address the “showroom” syndrome (where consumers view and “touch” products in stores before purchasing them online) by competing through omni-channel strategies. This operating model is expensive and highly competitive, demanding capital priorities in an industry with slow economic growth.

The regulatory environment also remains a top risk for Consumer Products and Services organizations, with increased pressure from regulators for these companies to protect consumers and their data. In addition, an increasing number of consumer-driven companies, in an effort to deliver the best customer experience possible, are expanding their goods and services into areas traditionally provided by other industries. Consumer Products and Services companies are venturing into entertainment, devices, financial services, communications and even healthcare, not only blurring the line with other industries, but also requiring compliance with regulations for them.

Cyberbreaches have become a common headline in the news, as more and more well-known organizations become victims of data theft. These high-profile losses are costly to clean up and damaging to a company’s reputation. Millions of dollars invested in building customer loyalty vanish at cyberspeed when news of a breach reaches the public. Unfortunately, consumer-focused companies lead other industries in data and privacy losses. Most news reports focus on the personal data lost in cyberattacks, which is significant, but just as significant is the loss of strategic focus and corporate privacy. It’s no wonder that boards and executives are asking with greater frequency whether their organizations have done enough to protect their systems and data.

## Industrial Products



Two external risks – regulatory change and scrutiny, and economic conditions in markets served – continue to rank highly for Industrial Products companies. For example, over the past decade in the United States, manufacturing organizations have had to both adopt and adapt to requirements of Sarbanes-Oxley, Dodd-Frank (specifically related to conflict minerals), the California Supply Chain Transparency Act, and the U.S. Foreign Corrupt Practices Act, among other laws and regulations. Outside the United States, there is continuing and growing focus on anti-bribery and anti-corruption mandates (such as the UK Bribery Act), as well as environmental measures with which Industrial Products organizations must comply. Regulatory changes are the new norm across the global marketplace.

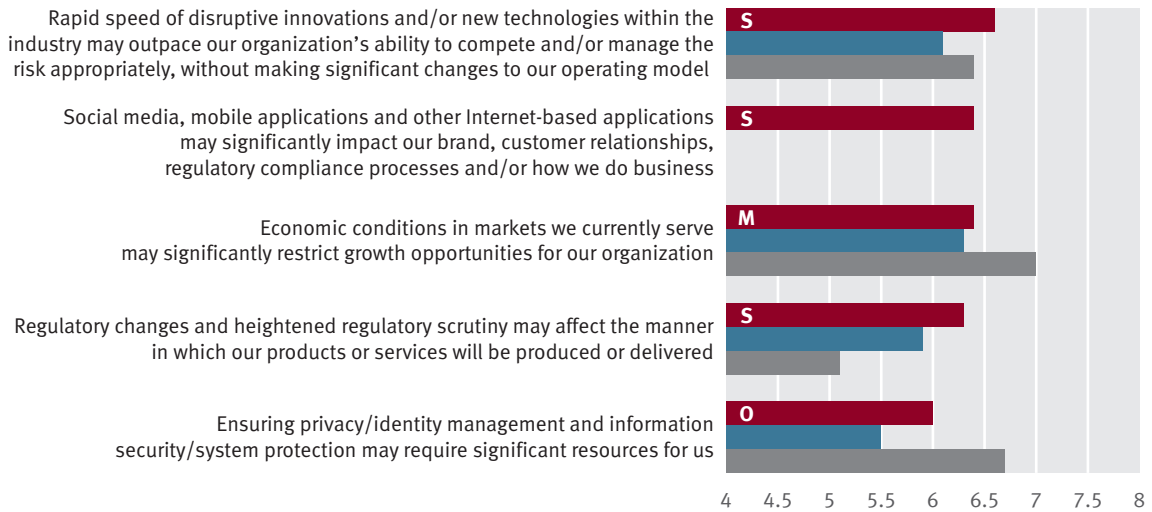
With regard to economic conditions, there continues to be an incremental but positive post-recession recovery for Industrial Products companies globally, boosting confidence. But the looming threat of a double-dip recession in certain countries and regions weighs on the minds of boards and executives in the industry.

Of note, two other risks have increased in significance for 2015 compared to the two prior years of our study: succession planning and the ability to attract and retain top talent, and resistance to change. As a result of overall improvements in the economy, together with the aging workforce and demand for specialized skills in certain industry sectors, the war for talent has returned.

Resistance to change is a challenge for many Industrial Products organizations due to the increasing speed of technology, innovation and the fast pace of change to stay competitive. For Industrial Products companies, the pent-up demands of M&A activity, ERP upgrades and post-recession capital expenditures compound the demands on human resources.

Of note, a new risk issue, organizational culture to identify and escalate risks, ranks among the top risk areas. Similar to other organizations, Industrial Products companies are challenged with creating a risk-tolerant environment where communication and discussion of risks are encouraged, rather than avoided, to enable timely responses to emerging risks.

## Technology, Media and Communications



As this year's survey results demonstrate, organizations in the Technology, Media and Communications industry continue to see increasing risks related to the potential impact of unforeseen and disruptive innovations. The speed of change throughout the industry in service and product delivery across a variety of platforms and devices can significantly alter the business models of established industry leaders. Consumers are far less loyal to a particular company and much more comfortable shifting their business to the better product and service.

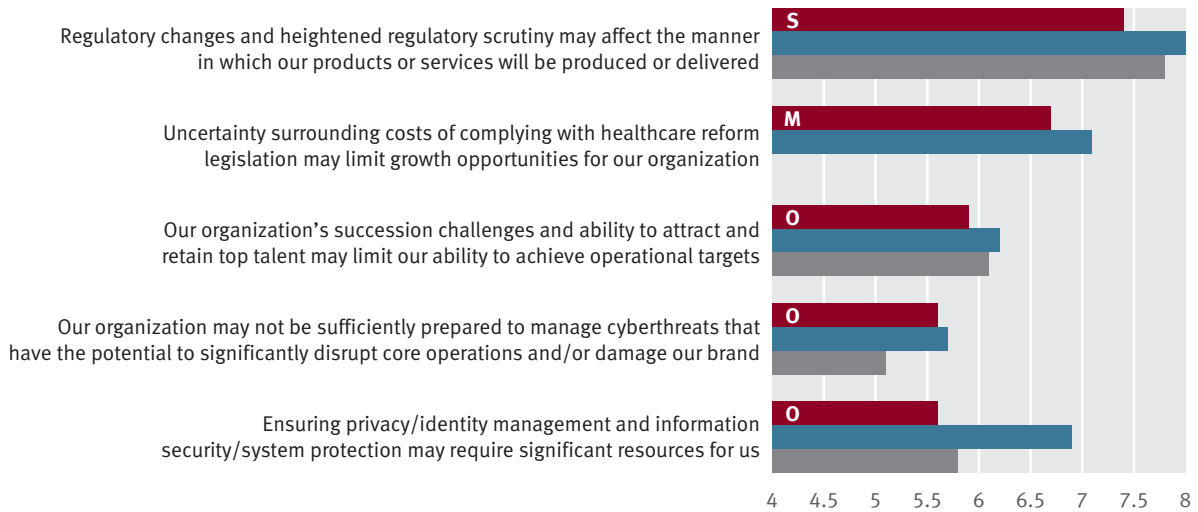
While economic conditions remain a top five risk, the overall volatility of this risk has moderated as economic conditions, particularly in the United States, appear to be stabilizing.

Regulatory changes and the corresponding heightened scrutiny from regulators, along with continued concerns about investments required to address reputational risks relating to privacy and information security breaches effectively, remain among the top risk issues for 2015. Given the number of high-profile issues in both of these areas, it stands to reason that companies lack complete confidence they have identified and mitigated the risks associated with these two areas to the fullest extent possible.

Finally, a new risk relating to the impact of social media, mobile and Internet-based applications made the top five risk list for 2015. Companies increasingly are realizing the amount of sensitive data and corporate information that have the potential to be shared across platforms. In many cases, this information is housed outside the security protections embedded within corporate networks. Whether it is the unapproved sharing of corporate email messages or the release of confidential intellectual property, the risk of the release of information that can harm a company's reputation, customer relationships and other key corporate enterprise assets is a real, and increasing, risk.



## Healthcare and Life Sciences



As indicated by the top risk issue, this industry group continues to face intense regulatory demands. The following commentary focuses on healthcare providers. With the continued scrutiny of government program auditors, reimbursement risk remains high. To complicate matters, and also as shown in our survey results, significant uncertainty exists around complying with healthcare reform requirements in the United States. It is difficult to project whether cuts and policy changes will continue, or when and how fast the industry will move to a true performance-based reimbursement system and understand clearly what is required to capitalize on available incentives once it is clear that policy mandates will be enforced. Training and retaining top performers who have a sufficient understanding of this complex regulatory and reimbursement landscape remains a top priority for healthcare organizations.

Fortunately, more healthcare providers understand how technical and complex the payment system has become. They also recognize how critical it is to secure every dollar earned. There are a myriad of ways in which reimbursement can be threatened – providers are striving to provide the best possible care while maintaining a positive bottom line. Deficiencies and avoidable mistakes in provider operations undermine the effectiveness of the revenue cycle and compliance environments. As a result, many healthcare providers fail to realize as much as five percent in net revenue due to a lack of effective internal controls for mitigating financial, regulatory and operational risks.

According to the results of another Protiviti study, three out of four healthcare organizations are undergoing a major IT transformation.<sup>7</sup> Within the industry, the risk of this type of transformation is even more acute considering that it introduces new and disruptive technologies to a heavily regulated environment. Adapting to these technologies simply to sustain growth is daunting, but healthcare organizations also must consider how to thrive amid significant challenges. For example, in the United States these challenges include healthcare reform, looming HIPAA compliance audits, security breaches, social media misuse, increased fraud regulations, recoupment of Meaningful Use funds, ICD-10 uncertainty, resource shortages, vendor shortfalls, misaligned business intelligence and data analytics efforts, initiatives to provide more agile service while reducing costs, and scrutiny of electronic health records utilization.

New technologies also are creating new privacy and identity management challenges. Innovation in healthcare is pushing the boundaries of how care is provided. In turn, healthcare organizations are finding their sensitive data is being accessed and utilized in new ways. This proliferation of data onto a vast array of portable devices, cloud providers and other technologies makes the IT and data environment difficult to control, from basic blocking and tackling to cutting-edge solutions for complex problems.

<sup>7</sup> *Today's IT Organization – Delivering Security, Value and Performance Amid Major Transformation: Assessing the Results of Protiviti's 2014 IT Priorities Survey*, 2014, [www.protiviti.com/ITPriorities](http://www.protiviti.com/ITPriorities).

## Energy and Utilities



Regulatory compliance is at the top of the risk ranking for this industry group for the third consecutive year. Continued expansion of hydraulic fracturing to reach abundant shale oil reserves has brought increased public scrutiny as well as heightened regulatory oversight. Companies in the industry continue to view health and safety of employees and preservation of the environment as the first priority in operating their business and protecting their reputation. The cost of regulatory compliance is significant and the reality is that political pressures will continue to drive these costs higher. However, the industry as a whole is focused on improving its image in this regard and is focused on the environmental impact of their operations.

While economic conditions potentially restricting future growth ranks second as a risk to Energy and Utility companies, it very likely would have ranked at the top had we conducted our survey one to two months later, when the precipitous fall in crude oil prices became fully evident.\* The 50 percent drop in crude oil prices over the past six months may render many drilling plans uneconomical. While energy companies are better prepared than they were a decade ago to handle such price pressures, they will be forced to adjust their future operating strategies. Drilling programs will be curtailed, especially for high-cost ventures such as shale and deep water projects, and the focus will turn to reducing costs and increasing production efficiencies. Despite these measures, falling oil prices will impact the bottom line of exploration and production companies significantly, and as a result, they likely will defer some drilling plans. This reduction in capital spending also will have a negative impact on the energy service industries.

Interestingly, cyberthreats made the greatest leap on the risk scale for the industry. This risk, which was not included on the list of top five risks last year, is garnering the attention of executive management and boards of directors in most energy companies. Security and privacy issues continue to be headline news, and energy companies view cyberattacks as a significant threat to their operations and intellectual property.

\* The survey was conducted in Q4 2014.

## ANALYSIS OF DIFFERENCES BETWEEN PUBLIC AND NON-PUBLIC ENTITIES

Participants in the survey represent three types of organizations: publicly traded companies (109 respondents), privately held for-profit entities (99 respondents), and not-for-profit and governmental organizations (69 respondents).

We analyzed responses across three types of organizations to determine whether organizational type rank-order risks differently. Similar to our analysis summarized earlier in this report, we analyzed responses about overall impressions of the magnitude and severity of risks across the three organizational type categories. Again, the scores in the table below reflect responses to the question about their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = “Extremely Low” and 10 = “Extensive.”

<i>Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?</i>	2015	2014	2013
Public Companies	6.3	6.6	6.8
Privately Held For-Profit Companies	5.8	6.3	6.2
Not-for-Profit and Governmental Organizations	5.7	6.5	7.1

All types of organizations agree that the overall magnitude and severity of risks facing the organization are on the decline from prior years, with the greatest decline observed for not-for-profit and governmental organizations. As in 2014, public companies assess the overall environment as riskier than other types of organizations, though it is a more dramatic difference than reported last year.

Consistent with the overall survey response, both public and private companies have concerns about regulatory changes, which they each rated as the top risk concern for 2015. Both public and privately held for-profit entities are concerned about the impact economic conditions might have on their ability to grow, and they identified concerns related to succession planning as a top five risk issue for this year.

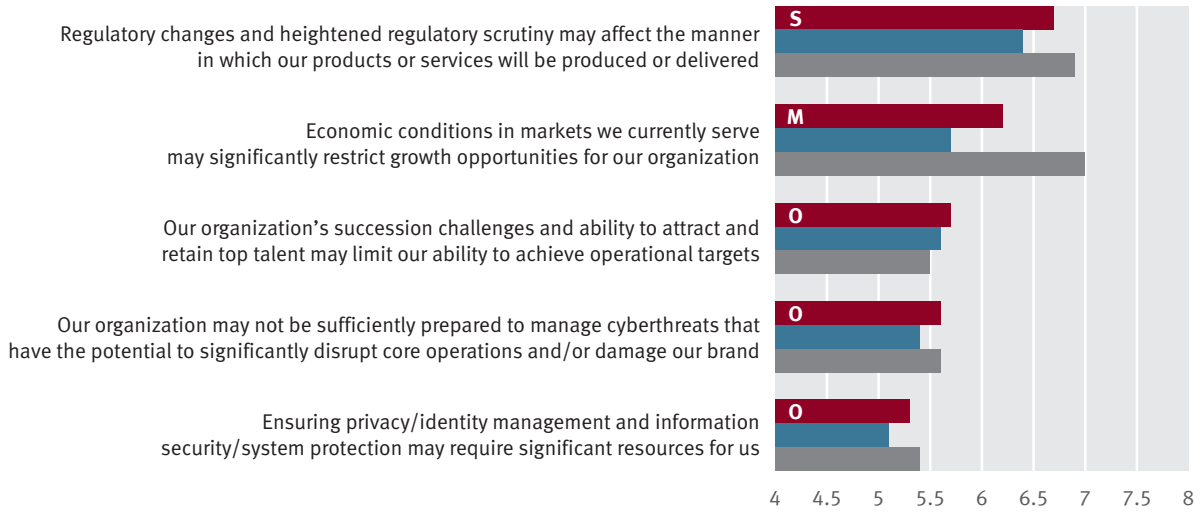
All types of organizations are concerned about cyberthreats given that the risk was noted as a top five risk for public companies, private companies, and not-for-profit and governmental entities. Given the reliance on technology and the Internet to conduct business for almost all enterprises, concerns about cyber risks cannot be ignored.

While on an overall basis respondents from not-for-profit organizations do not feel the general risk environment is less severe in 2015 relative to the two prior years (see table above), they still believe that specific risks they face create significant challenges for their organizations. When asked about specific risks, they rated all of the top five risks as “Significant Impact” risks (i.e., average scores of 6.0 or higher). There appear to be notable concerns about risks in the not-for-profit world, especially in light of their core operations. In contrast, two of the top five risks are rated as “Significant Impact” risks by public companies, while only one risk is rated at that level by privately held for-profit entities.

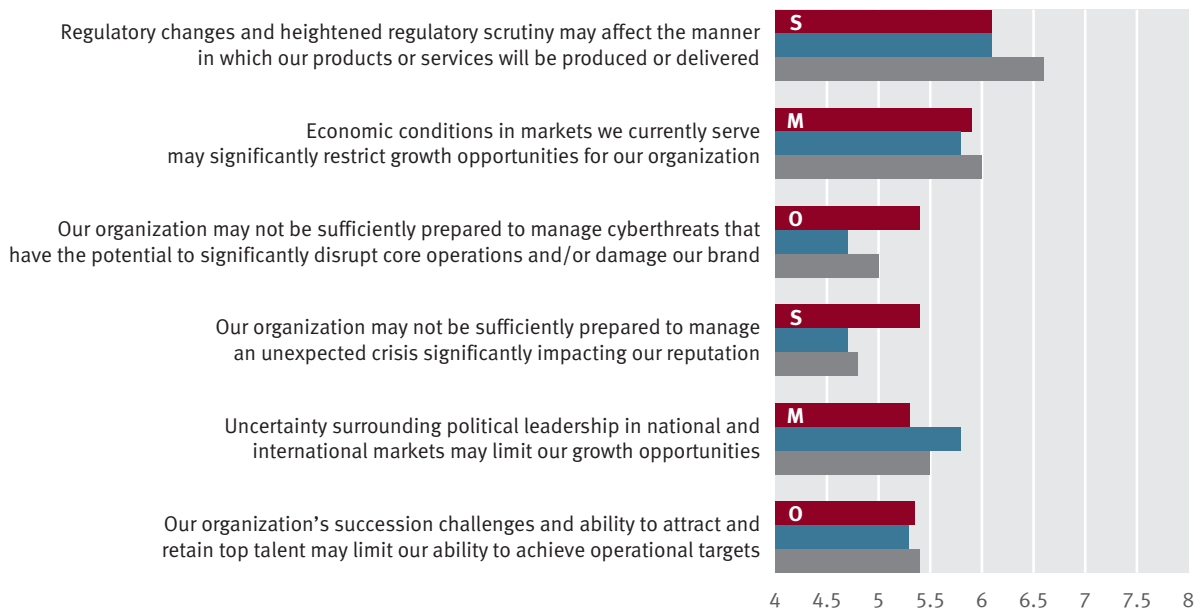
Operational risk concerns dominate the list of top five risks for not-for-profit and governmental organizations, indicating a significant concern about the organizations’ ability to effectively manage and provide core business processes necessary for operations. Similarly, public companies included three operational risk concerns in their list of top five risk concerns. Privately held for-profit companies had an equal number of macroeconomic, strategic and operational risk concerns in their top risk concerns.

While the 2015 risk scores for the top five risks are mostly lower than the scores from two years ago (i.e., 2013), most of these risks are scored higher this year than in 2014.

## Public Companies



## Privately Held For-Profit Companies<sup>8</sup>



<sup>8</sup> The bar graph for privately held for-profit entities reports data about six risks given there were ties in scores for two risks out of the 27 risks surveyed.

## Not-for-Profit and Governmental Organizations



## ANALYSIS OF DIFFERENCES BETWEEN U.S. AND NON-U.S. ORGANIZATIONS

Participants in the survey are predominantly U.S.-based organizations (185 respondents); however, 89 respondents represent organizations based outside the United States.<sup>9</sup>

We analyzed responses across these two types of organization to determine whether organizational type rank-order risks differently. Similar to our analysis summarized earlier in this report, we analyzed responses about overall impressions of the magnitude and severity of risks across the two organizational type categories. Again, the scores in the table below reflect responses to the question about their overall impression of the magnitude and severity of risks their organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months, using a 10-point scale where 1 = “Extremely Low” and 10 = “Extensive.”

<i>Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?</i>	2015	2014	2013
U.S.-Based Organizations	5.9	6.3	6.7
Organizations Based Outside the U.S.	6.1	6.7	6.8

Globally, organizations agree that the overall magnitude and severity of risks facing the organization are on the decline from prior years, with the greatest decline observed for U.S.-based organizations.

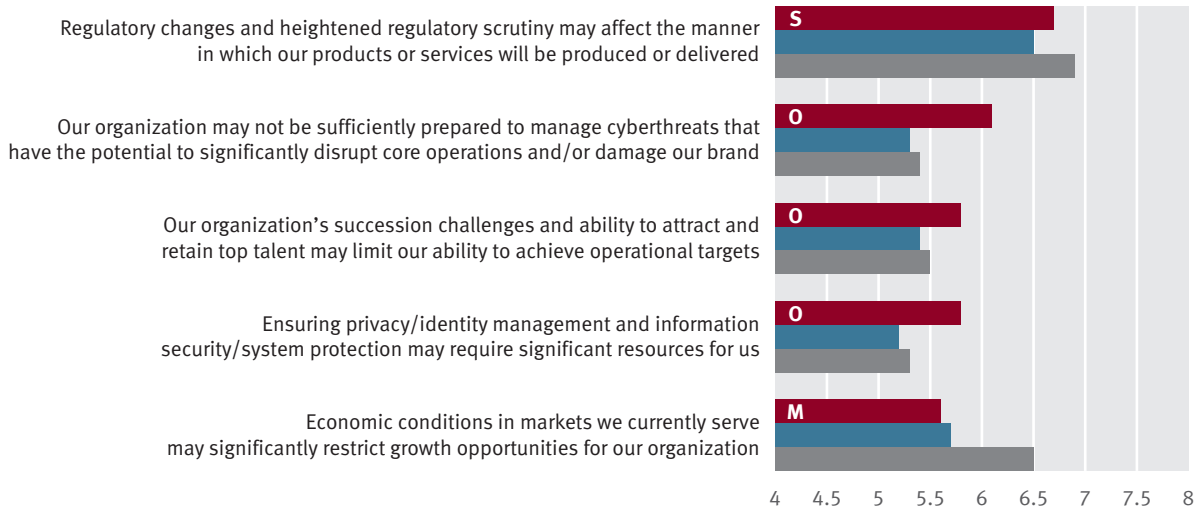
The U.S. respondents believe that risks related to regulatory changes and heightened regulatory scrutiny represent the top risk concern, ranking this along with concerns about cyberthreats as “Significant Impact” risks. In contrast, organizations outside the U.S. continue to rank economic conditions as a “Significant Impact” top five risk concern. For both U.S. and non-U.S. organizations, three of the top five risk concerns relate to operational risks.

Two risks related to organizational culture – culture failing to support risk identification/escalation and culture related to resistance to change – also were in the top five risks for non-U.S.-based organizations. The concept of a “risk culture,” and culture in general, as a key dimension within any risk framework is prominent in certain regions, particularly in the EU and United Kingdom, and has received significant focus in the media and in government policy.

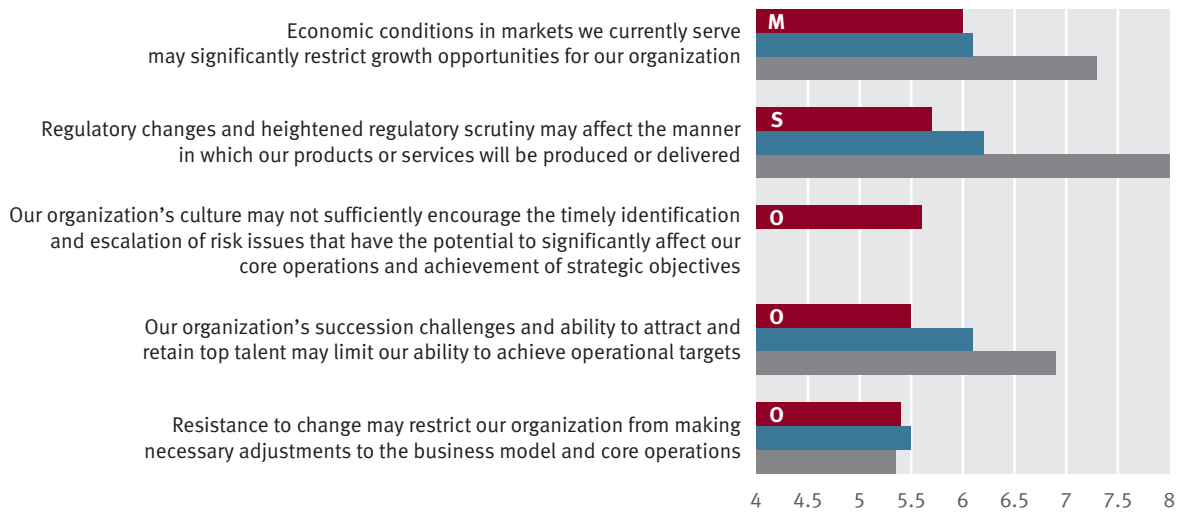
While the average risk scores differ between U.S. and non-U.S. organizations, three of the risks included as top five risks are the same for U.S.-based and non-U.S.-based organizations, suggesting the types of risks organizations face are similar at a global level. Regardless of geographic location, organizations face challenges related to regulatory scrutiny, economic conditions, and succession and talent acquisition/retention.

<sup>9</sup> Three of the respondents did not indicate the location where their organization is based.

## U.S.-Based Organizations



## Organizations Based Outside the U.S.



# ANALYSIS OF DIFFERENCES BETWEEN ORGANIZATIONS WITH AND WITHOUT RATED DEBT

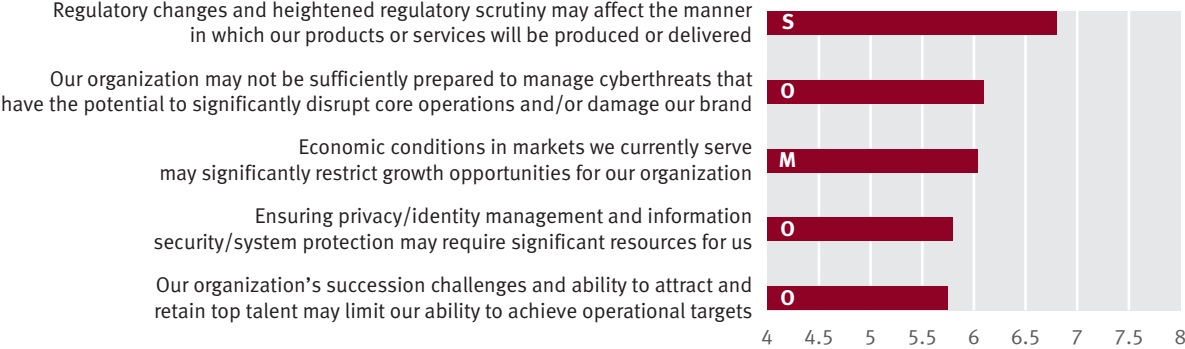
For 2015, we also asked participants to indicate whether their organizations have rated debt outstanding, whereby the major credit rating agencies evaluate the overall riskiness of the enterprise and the organization’s risk oversight processes as part of the entity’s overall credit score. We are particularly interested in observing how organizations with rated debt perceive their overall risk environment in light of the explicit focus of rating agencies on the management and governance processes, including enterprisewide risk management.

Ninety-eight participants in the survey represent organizations with rated debt outstanding while 154 respondents represent organizations without rated debt.<sup>10</sup> The 98 organizations in our study with rated debt outstanding include 64 public companies, 16 private companies and 18 not-for-profit organizations. While we do not have the respective data for the two prior years, we separately report the survey results for 2015 for rated debt outstanding organizations and those without rated debt in the bar charts below.

Both types of organizations rank the risk related to regulatory changes and regulatory scrutiny as the top risk concern at the “Significant Impact” level. Consistent with other data previously summarized in this report, operational risks dominate the list of top five risk concerns for organizations with and without rated debt outstanding.

The results for organizations with rated debt outstanding include the same top five risks as organizations that represent publicly traded companies, even though 35 percent of organizations with rated debt outstanding represent private companies or not-for-profit organizations. This suggests that pressures to meet debt market expectations are similar to pressures in equity markets.

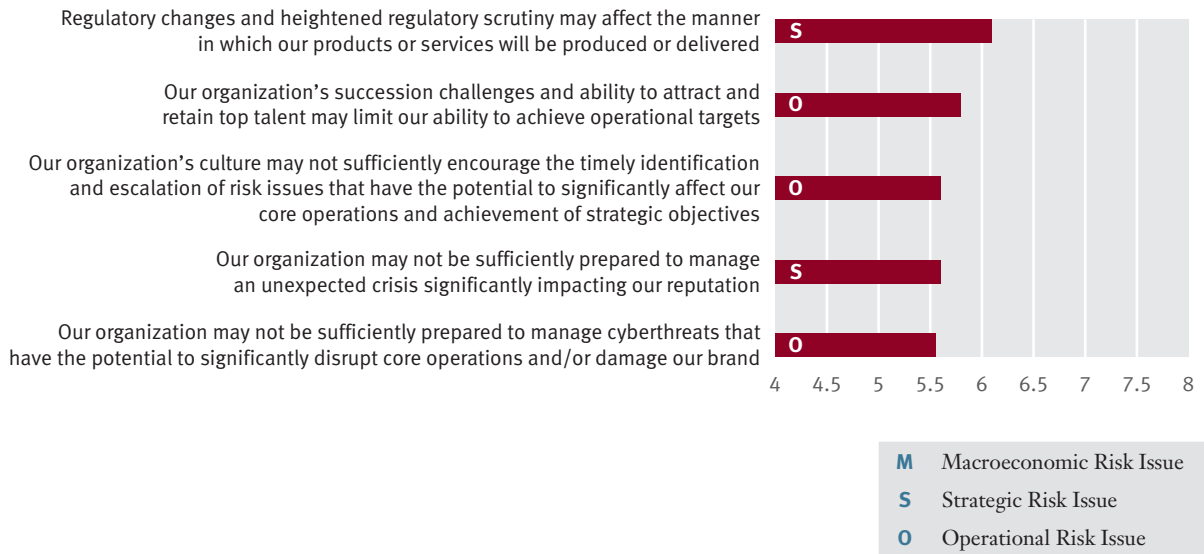
### Rated Debt Outstanding



<sup>10</sup> Twenty-five respondents did not indicate the status of rated debt outstanding.



## Unrated Debt



## PLANS TO DEPLOY RESOURCES TO ENHANCE RISK MANAGEMENT CAPABILITIES

In light of the risk environment, we asked executives to provide insights about whether the organization plans to devote additional resources to improve risk management over the next 12 months. We used a 10-point scale whereby 1 signifies “Unlikely to Make Changes” and 10 signifies “Extremely Likely to Make Changes.”

The likelihood of deploying more resources to risk management increased in 2015 from 2014 for the full sample, as represented by the average score of 6.2 for 2015, compared to 5.7 for 2014 and 5.8 for 2013. Overall, organizations are sensing a need for enhanced risk oversight processes.

Likelihood that organization plans to devote additional resources to risk management over the next 12 months	Full Sample		
	2015	2014	2013
	6.2	5.7	5.8

This finding is particularly interesting in light of the finding (reported earlier but repeated in the table below) that on a full sample basis there appears to be an overall decline in respondent impressions about the magnitude and severity of risks facing the organization.

Overall, what is your impression of the magnitude and severity of risks your organization will be facing with respect to reaching or exceeding profitability (or funding) targets over the next 12 months?	Full Sample		
	2015	2014	2013
	6.0	6.4	6.7

Thus, despite some reductions in overall risk concerns, organizations are sensing the need to invest resources to enhance their overall risk oversight capabilities.

The Financial Services and Consumer Products and Services industries show the greatest increase in likelihood to invest more in risk oversight in 2015 relative to 2014. That finding is not surprising given the continued regulatory scrutiny and recent data breach events in these industries. The Healthcare and Life Sciences industry group continues to note a desire for enhanced risk management capabilities, as signaled by its 6.2 score in the table below.

Likelihood that the organization plans to devote additional resources to risk management over the next 12 months																				
Full Sample			Financial Services			Consumer Products and Services			Industrial Products			Technology, Media and Communications			Healthcare and Life Sciences			Energy and Utilities		
2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
6.2	5.7	5.8	6.9	5.9	7.0	6.0	5.5	5.7	5.4	5.3	5.4	5.6	5.5	5.5	6.2	6.1	5.5	5.8	5.7	4.5

We also analyzed responses to this question across different sizes of organizations – those with revenues between \$100 million and \$999 million signaled they are most likely to deploy additional resources to risk management. Surprisingly, the greatest increase in likelihood to invest in risk management appears to be for the smaller organizations. Most likely, larger organizations have been investing in risk management capabilities for a period of time. Now, expectations may be trickling down to smaller organizations, as indicated by the notable increase in likelihood summarized in the table below. In fact, smaller organizations may be playing catch-up in terms of improving their risk management capabilities.

Likelihood that the organization plans to devote additional resources to risk management over the next 12 months														
Full Sample			Revenues Less than \$100M			Revenues \$100M - \$999M			Revenues \$1B – \$9.9B			Revenues \$10B or higher		
2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
6.2	5.7	5.8	6.0	5.3	6.1	6.7	5.4	5.8	5.9	5.8	5.3	6.4	6.4	6.7

All types of organizations indicate an increased likelihood that they will be devoting additional resources to risk management over the next 12 months. This is not surprising, especially for not-for-profit and governmental organizations, given those organizations identified more “Significant Impact” risks than other types of organizations. Not-for-profits focus on preserving brand reputation, and governmental organizations at all levels focus on identifying and managing risk as well as preserving the public trust. Risks to these organizations can relate to a variety of issues, including fraud, waste, misuse of assets, inadequate monitoring of investments, incomplete or unreliable information, and violation of legal requirements, not to mention reputation loss.

Likelihood that the organization plans to devote additional resources to risk management over the next 12 months											
Full Sample			Publicly Traded Companies			Privately Held, For-Profit Enterprises			Not-for-Profit and Governmental Organizations		
2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
6.2	5.7	5.8	6.2	5.5	5.6	6.1	5.6	5.8	6.6	6.0	6.4

Interestingly, boards of directors and CEOs indicate a substantial increase in likelihood to invest additional resources in risk management relative to other executives. This finding may reflect the reality that most of the expectations for effective risk oversight from regulators, stock exchanges and rating agencies are directed at boards of directors who, in turn, place expectations on the CEO. Chief Audit Executives also indicate a higher likelihood of increased investment in risk oversight relative to 2014. This may also be driven by the fact that most boards of directors delegate responsibility for oversight of the risk management processes to audit committees. Given the interaction of audit committees with CAEs, the increase in investment in risk management noted by CAEs may be a reflection of the increase in investment desired by the board of directors. While Chief Risk Officers did not reflect an increase, as a group they continue to rate highly the need to invest additional risk management resources.

Likelihood that the organization plans to devote additional resources to risk management over the next 12 months																	
Full Sample			Board Members			Chief Executive Officers			Chief Financial Officers			Chief Risk Officers			Chief Audit Executives		
2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
6.2	5.7	5.8	6.5	5.1	5.1	6.2	5.0	6.7	5.7	5.7	6.0	6.5	6.5	6.3	6.2	4.9	5.4

## QUESTIONS TO CONSIDER

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This report provides insights from 277 board members and executives about risks that are likely to affect their organizations over the next 12 months. Overall, most rate the business environment as significantly risky, although improving relative to 2014 and 2013. For most risks, the overall scores are lower in 2015 than the scores for those risks in the two prior years, suggesting an overall improvement in the risk environment.

But relatively speaking, it's still a risky environment. Because of the rapid pace of change in the global business environment, executives and boards of directors can benefit from a periodic assessment of risks on the horizon to best position their organizations for a proactive versus reactive response to risks that emerge and potentially impact their ability to achieve profitability and funding objectives. Following are some suggested questions that executives and boards should consider as they evaluate their risk assessment process:

- Is management periodically evaluating changes in the business environment to identify the risks inherent in the corporate strategy? Is the board sufficiently involved in the process, particularly when such changes involve acquisition of new businesses, entry into new markets, the introduction of innovative technologies or alteration of key assumptions underlying the strategy?
- Does management apprise the board in a timely manner of significant risks or significant changes in the organization's risk profile? Is there a process for identifying emerging risks? Does it result in consideration of response plans on a timely basis?
- Is the board aware of the most critical risks facing the company? Are board members cognizant of management's risk concerns? Does the board agree on why these risks are significant? Do directors understand the organization's responses to these risks? Is there an enterprisewide process in place that directors can point to that answers these questions and is that process informing the board's risk oversight effectively?
- Is there a periodic board-level dialogue regarding management's appetite for risk and whether the organization's risk profile is consistent with that risk appetite? Is the board satisfied that the strategy-setting process appropriately considers a substantive assessment of the risks the enterprise is taking on as it formulates and executes its strategy?
- Are risks evaluated in the context of the strategy and incorporated as a key consideration in decision-making processes over time?
- Does the organization's risk culture facilitate an open, positive dialogue on identifying and evaluating opportunities and risks, including the escalation of significant risk issues warranting attention by executive management and the board?

These and other questions can assist organizations in defining their specific risks and assessing the adequacy of the processes informing risk management and board risk oversight. We hope this report provides important insights about perceived risks on the horizon for 2015 and serves as a catalyst for an updated assessment of risks and risk management capabilities within organizations.

## RESEARCH TEAM

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This research project was conducted in partnership between Protiviti and North Carolina State University's Enterprise Risk Management Initiative. Individuals participating in this project include:

### North Carolina State University's ERM Initiative

- Mark Beasley
- Bruce Branson
- Don Pagach

### Protiviti

- Pat Scott
- Carol Beaumier
- Jim DeLoach
- Kevin Donahue

## ABOUT PROTIVITI

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Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 40 percent of FORTUNE 1000® and FORTUNE Global 500® companies. Protiviti and its independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies.

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## ABOUT NORTH CAROLINA STATE UNIVERSITY'S ERM INITIATIVE

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The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at North Carolina State University provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance, host executive workshops and educational training sessions, and issue research and thought papers on practical approaches to implementing more effective risk oversight techniques ([www.erm.ncsu.edu](http://www.erm.ncsu.edu)).

**NC STATE** Poole College of Management  
Enterprise Risk Management Initiative

[www.erm.ncsu.edu](http://www.erm.ncsu.edu)

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