NC STATE Poole College of Management
Enterprise Risk Management Initiative

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Executive Perspectives on Top Risks for 2017

Key Issues Being Discussed in the Boardroom and C-Suite

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

Executive Summary

Introduction

The impact of the Brexit vote in the U.K., increased volatility in commodity markets, polarization surrounding the 2016 presidential election in the United States, terrorist events, asset bubbles in China, continued discussion about fair wages and income equality that includes calls for raising the minimum wage, and ongoing instability in the Middle East and the unprecedented Syrian immigration in Europe are only some of the drivers of uncertainty affecting the global business outlook for 2017. Entities in virtually every industry and country are reminded all too frequently that they operate in what appears to many to be an increasingly risky global landscape. Rapidly escalating concerns about political and economic stability, data breaches and related cyberattacks, and continued incidents of terrorism vividly illustrate the reality that organizations of all types face risks that can suddenly propel them into global headlines, creating complex enterprisewide risk events that threaten brand, reputation, and, for some, their very survival. 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 in a digital world.

Protiviti and North Carolina State University's ERM Initiative are pleased to provide this executive summary that highlights key findings in our full report focusing on the top risks currently on the minds of global boards of directors and executives. This executive summary highlights results from our fifth 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 year.

Our respondent group, comprised primarily of board members and C-suite executives, provided their perspectives about the potential impact in 2017 of 30 specific risks across these three dimensions:[1]

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

This executive summary provides a brief description of our methodology and an overview of the overall risk concerns for 2017, followed by a review of the results by type of executive position. It concludes with a discussion of questions executives may want to consider as they look to strengthen their overall risk management processes.

Our full report (available at **erm.ncsu.edu** or **protiviti.com/toprisks**) contains extensive analysis of key insights about top risk concerns across a number of different dimensions, including a breakdown by industry, size of company, type of ownership structure, geographic locations of company headquarters (i.e., based in either North America, Europe, Asia-Pacific or other regions), and whether the organization has public debt.

[1] Our report about top risks for 2016 and 2015 included 27 specific risks. Three additional risks were added for the 2017 survey. See Table 2 for a list of the 30 risks addressed in this study.

About the Survey

We surveyed 735 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 30 unique risks on their organization over the next 12 months. They rated the impact of each risk on their organization using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 30 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact. We also grouped risks based on their average into one of three classifications:

Classification	Risks with an average score of
Significant Impact	6.0 or higher
Potential Impact	4.5 through 5.99
Less Significant Impact	4.49 or lower

With regard to the respondents, 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 2017. Respondents to the survey serve in a number of different board and executive roles.

Executive Position	Number of Respondents
Board of Directors	16
Chief Executive Officer	78
Chief Financial Officer	100
Chief Risk Officer	136
Chief Audit Executive	132
Chief Information/Technology Officer	115
Other C-Suite[2]	93
All other[3]	65
Total Number of Respondents	**735**

In our full report, (available online at **erm.ncsu.edu** and **protiviti.com/toprisks**), we analyze variances across different sizes and types of organizations, industry, and respondent position, in addition to differences between U.S.-, Europe- and Asia-Pacific-based organizations. Page 14 provides more details about our methodology. This executive summary highlights our key findings.

[2] This category includes titles such as chief operating officer, general counsel and chief compliance officer.

[3] These 65 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.

Executive Summary

Brexit. Turmoil in the Middle East and the resulting surge in immigration. Changes in national political leadership. Depressed oil prices. Monetary policies and concerns about inflation and inflated asset prices in China. Global terrorism. Escalating healthcare costs. Rapidly developing innovations from the digital technology revolution. Expanding regulation and oversight. A strong U.S. dollar. 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, intensifying competition, demanding regulatory requirements, fear of catastrophic events and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

Key Findings

01 Survey respondents indicate that the overall global business context is noticeably more risky than in the two prior years, with respondents in the United States indicating it is about the same as in prior years, whereas respondents in other parts of the world are signaling greater concern about the overall risk environment in 2017 relative to last year. The overall risk scores for *all* of the top 10 risks are higher than prior years, suggesting that respondents sense the level of risk is increasing across a number of dimensions. A majority of respondents rated each of the top 10 risks as a "Significant Impact" risk, and for two of the top 10 risks the overall average score exceeded 6.0 (on a 10-point scale), placing them as "Significant Impact" risks on an overall basis.

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02 Surprisingly, despite this heightened overall concern about elevated risks, there does not appear to be a significant increase in the likelihood that organizations will devote additional time or resources to risk identification and management over the next 12 months. While there is an overall moderate level of interest in enhancing risk oversight processes, that level is lower than the prior two years. On the surface, this result seems paradoxical, but it could indicate that organizations either are facing resource constraints in an increasingly risky business environment or are satisfied with the sufficiency of prior year investments.

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03 There is consistency between last year and this year as to which risks made the top 10 list of risks out of the 30 risks included in the survey, with some differences in rank among the risks. There continue to be concerns about operational risk issues, with five of the top 10 risks representing operational concerns. Three of the top 10 risks relate to strategic risk concerns, with two related to concerns about macroeconomic issues. This year's emphasis on operational risks is consistent with our results in the previous two years.

With respect to the top five risks overall:

- **Economic conditions in domestic and international markets –** This risk represents the top overall risk and the level of concern is noticeably higher when compared to the two prior years. Seventy-two percent of our respondents rated this risk as a "Significant Impact" risk.
- **Regulatory change and heightened regulatory scrutiny –** This risk continues to represent a major source of uncertainty among the majority of organizations. Sixty-six percent of our respondents rated this risk as a "Significant Impact" risk. This risk was the overall top risk in the prior four years we conducted this survey, but it was edged out by concerns related to economic conditions looking forward to 2017.
- **Managing cyberthreats –** Threats related to cybersecurity continue to be of concern as respondents focus on how events might disrupt core operations. This risk continues to be the top operational risk overall and it is a top five risk for each of the four size categories of organizations as well as four of the six industry groupings we examine.
- **Rapid speed of disruptive innovation –** New to the list of top five risks for 2017 is the risk of the speed in which disruptive innovation or new technologies might emerge that outpace an organization's ability to keep up and remain competitive. With advancements in digital technologies and rapidly changing business models, respondents are focused on whether their organizations are agile enough to respond to sudden developments that alter customer expectations and change their core business model. That concern is elevated for 2017 (fourth overall) relative to prior years.
- **Privacy and identity protection –** Respondents ranked this risk as a top five risk for the first time in 2016 and it continues as a top five risk for 2017. The inclusion of this risk in the top five is consistent with the increasing number of reports of hacking and other forms of cyber intrusion that compromise sensitive personal information.
- **Greater magnitude and severity of risks expected in coming year –** Most C-suite executives perceive the magnitude and severity of risks being higher in 2017 relative to prior years. Interestingly, board members report the lowest threat level when compared to any of the C-suite executive groups. These findings suggest that there are differing views of the top risk exposures facing their organizations – board members appear to be the most optimistic, as they rated 18 of the 30 risks at the lowest impact level, while chief executive officers (CEOs) and chief financial officers (CFOs) rated none of the 30 risks at the lowest level. The noted differences in risk viewpoints across different types of executives seem to be a concern at the global level, given that we find similar kinds of differences in viewpoints continue to be present when examining different regions of the world separately. These findings suggest there is a strong need for discussion and dialogue to ensure the organization is focused on the right emerging risk exposures.
- **CEOs and CFOs see riskier environment –** Interestingly, CEOs and CFOs perceive a riskier environment overall relative to other members of management based on the average risk scores for each of the 30 risks they rated. They rate none of the risks at the lowest impact level (a rating of 4.49 or lower on our 10-point scale). Chief information officers (CIOs) rate the most number of risks (12 of 30 risks) at the "Significant Impact" level.

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 these risks. This executive summary provides insights as to what the key risks are for 2017 based on the input of the participating executives and board members.

The list of top 10 global risks for 2017, along with their corresponding 2016 and 2015 scores, appears in Figure 1 on the following page.

• • • *Figure 1: Top 10 Risks for 2017*

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

- The risk of succession challenges and the ability to attract and retain talent continues to be an overall top 10 risk, but it is especially prevalent for smaller sized organizations (those with revenues under $100 million), 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 to implement their growth strategies.
- With uncertainties surrounding Brexit, political dynamics from the U.S. November 2016 elections, falling commodity prices, and the direction of central bank monetary policies around the world, respondents continue to be focused on challenges for their organizations resulting from anticipated volatility in the global financial markets and currencies. This risk has been consistently increasing each year over the past three years, signaling that it is of growing concern.
- Interestingly, respondents continue to highlight the need for attention to be given to the overall culture of the organization to ensure it is sufficient to encourage the timely identification and escalation of risk issues. This risk issue was added to our 2015 risk survey, and it has been included in the top 10 risks each year since then, with the level of concern even higher for 2017. Coupled with that, respondents also highlighted another cultural concern related to overall resistance to change within the organization. Respondents continue to indicate concern about the organization's lack of willingness to make necessary adjustments to the business model and core operations that might be needed to respond to changes in the overall business environment and industry. These issues can be lethal if they result in the organization's leaders becoming out of touch with business realities.
- Rounding out the top 10 risks are concerns about an organization's ability to sustain customer loyalty and retention due to evolving customer preferences and other demographic shifts. When paired with the concerns about the speed of disruptive innovation, this issue of changing customer demographics and their related preferences might combine to threaten an organization's core business model. As a result, it is not surprising that many organizations are focusing their marketing programs on understanding customer behavior and attitudes, with an aim toward building and sustaining profitable customer loyalty.

In addition to our analysis of the top 10 risk results for the full sample, we conducted a number of sub-analyses to pinpoint other trends and key differences among respondents. Additional insights about the overall risk environment for 2017 can be gleaned from these analyses, which we highlight in a number of charts and tables in our full report. Following are some significant findings:

- For the 27 of 30 risks included in both last year's and this year's survey, not one of the risk scores decreased from 2016 to 2017. In all cases, the overall risk score for each risk increased over the prior year, suggesting an overall increase in risk concerns across all dimensions for 2017 relative to last year. When we look at the results across different regions of the world (i.e., North America, Asia-Pacific and Europe), we find that this overall finding is primarily driven by respondents outside North America. Respondents in the Asia-Pacific region rated all 27 risks higher in 2017 relative to 2016, and respondents in Europe rated 24 of 27 risks higher in 2017 relative to 2016. However, respondents in North America only rated 9 of the 27 risks higher for 2017 compared to 2016. This suggests that the overall environment may be perceived as riskier outside North America for 2017.

- Three of the top five risks for 2017 with the greatest increase in risk ratings from 2016 relate to macroeconomic risk concerns. Concerns about overall economic conditions, anticipated change in global trade policies, and uncertainty surrounding political leadership in national and international markets rose noticeably over prior years. The state and health of global market conditions are attracting significant attention.
- Challenges related to difficulties in obtaining affordable insurance coverages for certain risks represented the operational risk with the greatest increase in risk impact score over the prior year. The strategic risk with the greatest increase in risk impact score relates to the concern about regulatory changes and heightened regulatory scrutiny. Interestingly, that risk has been the highest-ranked risk for the past several years we have conducted our surveys.
- CEOs and CFOs rated none of the 30 risks at the lowest impact level ("Less Significant Impact" – a rating of 4.49 or lower), suggesting that they have overall concerns about a number of risks. CEOs and CFOs ranked concerns about economic conditions and regulatory change as "Significant Impact" risks. In addition, CFOs ranked two additional risks as "Significant Impact": sustained low fixed interest rates having a significant effect on the organization's operations, and the impact of disruptive innovations and/or new technologies obsoleting the organization's business model.
- CEOs identified three strategic risks as top risk concerns: regulatory change and scrutiny, strategic impact of cyber-related events, and opportunities for organic growth. In contrast, CFOs and CIOs rated more macroeconomic risks as their top five risks, while chief audit executives (CAEs) rated more operational risks in their top five. Furthermore, other C-suite executives (a group that includes chief operating officers, general counsels, etc.) rated more risks in their top five relative to strategic and macroeconomic risks. This disparity in viewpoints emphasizes the critical importance of the management team engaging in risk discussions among themselves and with the board, given an apparent lack of consensus about the organization's most significant emerging risk exposures.
- All organizations, except the smallest (those with revenues less than $100 million), rated some of their top five risks as "Significant Impact" risks. The largest organizations (those with revenues of $10 billion or higher) rated three of their top five risks as "Significant Impact" risks while the next category of large firms (those with revenues between $1 billion and $9.9 billion) rated all top five risks as "Significant Impact" risks. Thus, the environment for large organizations appears to be the riskiest relative to entities in the other size categories. Unease over operational risks were common among all sizes of organizations (although the specific operational risks differ), and concerns about those risks are generally higher for 2017 relative to 2016. These findings emphasize the reality that there is no "one size fits all" list of risk exposures across all organizations.
- With respect to industry groupings, the Financial Services industry has seen a steady increase in overall risk perceptions over the last three years, likely due to anxiety over increasing regulatory

scrutiny, concerns about cyber risk, and a continued low interest rate environment with no end in sight over the foreseeable future. Respondents in the Financial Services industry group rated six of 30 risks as "Significant Impact" risks, followed by the Technology, Media and Communications industry group, where five of the 30 risks are rated that highly. The Energy and Utilities industry group also saw one of the largest increases in overall risk concerns.

- While both U.S.-based and non-U.S.-based organizations perceive the overall level of risk magnitude and severity as high, non-U.S.-based organizations scored their overall risk environment higher than U.S.-based organizations. Both groups of respondents identified regulatory issues and economic conditions as top five risk concerns, with respondents in the Asia-Pacific and European regions especially concerned about risks related to economic conditions. U.S.-based firms rated more operational risks as their top five risk concerns, while non-U.S. firms rated macroeconomic and strategic risks in their top five. U.S.-based firms are more concerned about cybersecurity and ensuring privacy/identity management, and addressing succession challenges, while non-U.S.-based firms are more concerned about anticipated changes in trade policy, volatility in global financial markets and currencies, and disruptive innovations and new technologies. All five top risks for non-U.S.-based organizations are rated at the highest level – "Significant Impact" risks – whereas only one of the top five risks for U.S.-based organizations was at that level.

The full report on this study (available online at **erm.ncsu.edu** and **protiviti.com/toprisks**) 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, industry and geography, as well as by respondent role. In addition, on page 12 of this executive summary, we pose key questions as a call to action for board members and executive management to consider that can serve as a diagnostic to evaluate and improve their organization's risk assessment process.

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.

On page 12 of this executive summary, we pose key questions as a call to action for board members and executive management to consider that can serve as a diagnostic to evaluate and improve their organization's risk assessment process.

• • • *Table 1: Perceived Impact for 2017 Relative to Prior Years – by Role*

Macroeconomic Risk Issues	Board	CEO	CFO	CRO	CAE	CIO/ CTO	Other C-Suite
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	●	●	●	●	●	●	●
Anticipated increases in labor costs may affect our opportunity to meet profitability targets	●	●	●	●	●	●	●
Sustained low fixed interest rates may have a significant effect on the organization's operations	●	●	●	●	●	●	●
Anticipated changes in global trade policies may limit our ability to operate effectively and efficiently in international markets	●	●	●	●	●	●	●
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	●	●	●	●	●	●	●
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 or expansion of global terrorism may restrict the achievement of our global growth objectives	●	●	●	●	●	●	●

Strategic Risk Issues	Board	CEO	CFO	CRO	CAE	CIO/ CTO	Other C-Suite
Regulatory changes and regulatory scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered	🔴	🔴	🔴	🔴	🔴	🔴	🔴
Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model	🟡	🟡	🔴	🟡	🟡	🔴	🔴
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	🟢	🟡	🟡	🟡	🟡	🔴	🟡
Shifting expectations may trigger shareholder activism for our organization that may significantly impact our organization's strategic plan and vision	🟢	🟡	🟡	🟢	🟢	🔴	🟡
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	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization	🟡	🟡	🟡	🟡	🟡	🟡	🟡
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	🟢	🟡	🟡	🟡	🟡	🟡	🟡
Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives	🟢	🟡	🟡	🟡	🟡	🟡	🟡

Operational Risk Issues	Board	CEO	CFO	CRO	CAE	CIO/ CTO	Other C-Suite
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	Yellow	Yellow	Yellow	Red	Red	Yellow	Red
Ensuring privacy/identity management and information security/system protection may require significant resources for us	Yellow	Yellow	Yellow	Red	Red	Red	Yellow
Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Yellow
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	Teal	Yellow	Yellow	Yellow	Yellow	Red	Yellow
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	Teal	Yellow	Yellow	Yellow	Yellow	Red	Yellow
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	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	Teal	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Risks arising from our reliance on outsourcing and strategic sourcing arrangements, technology vendor contracts, and other partnerships and/or joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image	Teal	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services	Teal	Yellow	Yellow	Teal	Teal	Yellow	Yellow
Our organization may face greater difficulty in obtaining affordable insurance coverages for certain risks that have been insurable in the past	Teal	Yellow	Yellow	Teal	Teal	Yellow	Yellow

A Call to Action: Questions to Consider

This report provides insights from 735 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, and on an overall basis, respondents rated each of the 27 of 30 risks included in prior year surveys as higher in 2017 relative to 2016 and 2015, suggesting that there continues to be a number of uncertainties in the marketplace for 2017.

The message is that the rapid pace of change in the global business environment provides a risky environment for entities of all types in which to operate. The unique aspect regarding disruptive change is that it represents a choice – which side of the change curve do organizations want to be on? This is an important question because, with the speed of change and constant advances in technology, rapid response to new market opportunities and emerging risks can be a major source of competitive advantage. Conversely, failure to remain abreast or ahead of the change curve can place an organization in a position of becoming captive to events rather than charting its own course.

Accordingly, in the interest of evaluating and improving the risk assessment process in light of the findings in this report, we offer executives and directors the following diagnostic questions to consider when evaluating their organization's risk assessment process:

- Given the pace of change experienced in the industry and the relative riskiness and nature of the organization's operations:
  - Is the risk assessment process frequent enough?
  - Does the process involve the appropriate organizational stakeholders?
  - Is the business environment monitored over time for evidence of changes that may invalidate one or more critical assumptions underlying the organization's strategy?
  - Are risks evaluated in the context of the organization's strategy and operations? Is adequate consideration given to macroeconomic issues?
  - Is the process supported by an effective methodology and risk criteria?
  - Does the process encourage an open, positive dialogue for identifying and evaluating opportunities and risks? Is attention given to reducing the risk of undue bias and groupthink?
  - Does the assessment process give adequate attention to differences in viewpoints that may exist across different executives and different global jurisdictions?
  - Is the board informed of the results on a timely basis? Do directors agree with management's determination of the significant risks?
- Following completion of a formal or informal risk assessment:
  - Are risk owners identified for newly identified risks?
  - Is there an effort to source the root causes of certain risks that warrant a better understanding? Does the process look for patterns that connect potential interrelated risk events?
  - Are effective risk response action plans developed to address the risk at the source? Are the risk owners accountable for their design and execution?
  - When there is evidence that one or more critical assumptions underlying the strategy are becoming, or have become, invalid, does management act timely on that knowledge?
  - Is implementation of risk responses monitored by the risk owners?
  - Do decision-making processes consider the impact on the organization's risk profile?

- Is the board aware of the most critical risks facing the organization? 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 management periodically evaluating changes in the business environment to identify the risks inherent in the organization's 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?
- Are significant risk issues warranting attention by executive management and the board escalated to their attention on a timely basis? 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 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 strategic alternatives are considered during strategy setting and the selected strategy is executed?

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 executive summary and our full report provide important insights about perceived risks on the horizon for 2017 and serve as a catalyst for an updated assessment of risks and risk management capabilities within organizations, as well as improvement in the assessment processes in place.

Methodology

We are pleased that participation from executives was strong again this year. Globally, 735 board members and executives across a number of industries participated in this survey. We are especially pleased that we received responses from individuals all over the world, with 407 respondents (55%) based in the United States and 328 respondents (45%) based outside the United States (151 respondents [20.5%] were based in the Asia-Pacific region and 136 respondents [18.5%] were based in Europe). In 2016 our responses by region were 47% U.S.- and 53% non-U.S.-based organizations. As a result, this report again provides a perspective about risk issues on the minds of executives at a global level.

Our survey was conducted online in the fall of 2016. Each respondent was asked to rate 30 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 30 risk issues, 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 past 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 we also review results for various subgroups (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 30 risk issues rated by our respondents, arrayed across three categories – Macroeconomic, Strategic and Operational.

Table 2: List of 30 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
- Anticipated changes in global trade policies 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 or expansion of global terrorism may restrict the achievement of our global growth objectives
- Anticipated increases in labor costs may affect our opportunity to meet profitability targets*
- Sustained low fixed interest rates may have a significant effect on the organization's operations*

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 business 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 regulatory scrutiny may heighten, noticeably affecting 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 planned strategic initiatives
- Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base
- Shifting expectations may trigger shareholder activism for our organization that may significantly impact our organization's strategic plan and vision*

** Represents a new risk issue added to the 2017 survey.*

Operational Risk Issues

- Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services
- Risks arising from our reliance on outsourcing and strategic sourcing arrangements, technology vendor contracts, 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 in obtaining affordable insurance coverages for certain risks that have been insurable in the past

Research Team

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
- Brian Christensen
- Jim DeLoach
- Kevin Donahue

ABOUT PROTIVITI

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 70 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

ABOUT NORTH CAROLINA STATE UNIVERSITY'S ERM INITIATIVE

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**).

The full report from North Carolina State University's ERM Initiative and Protiviti, *Executive Perspectives on Top Risks for 2017*, is available at erm.ncsu.edu and protiviti.com/toprisks.

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