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Technology, Media and Telecommunications Industry Perspectives

Your monthly blog and industry news round-up

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Reflections on London Tech Week

An estimated 55,000 attended **London Tech Week**, an annual series of conferences, held June 11-15 this year. That number alone says a lot about the vitality of the tech market in the UK, and London in particular. But that just scratches the surface of the potential we see in the burgeoning UK tech market.

Protiviti was a Bronze sponsor of the LeadersIn Tech Summit, the headline thought leadership event at the conference, where Protiviti Managing Director and Global Head of Digital, Jonathan Wyatt, led a well-attended Think Tank session titled "Barriers to Growth." Among the topics of the session were Protiviti's 36 core attributes of **digital readiness**.

There are excellent reasons why this major London tech event generated such amount of buzz and excitement. Consider some of these top-line statistics:

- In 2017, tech firms in London attracted £2.45 billion in venture capital funding — about 80 percent of the £2.99 billion invested in Britain as a whole, according to data compiled by PitchBook.
- Compared with other major tech hubs in Europe, London claimed more investment than Paris, Berlin and the next seven most-invested cities combined.
- Artificial intelligence is an area of significant growth, as firms within this space raised £488 million in 2017 — double the amount raised in the prior year.
- The number of mergers and acquisitions increased significantly, climbing from 21 in 2011 to 74 in 2017.

London’s rise as a hotbed for technology is not accidental. The city’s government is known for being supportive of early-stage companies, including through tax schemes and other incentives. The fact that London is an international city with English as the primary language is also a plus. Perhaps most importantly, London has a deep pool of technology talent, fed by nearby universities, on which companies have been able to draw.

This last point cannot be overemphasized. There is a global shortage of tech talent — not only for startups, but also for legacy companies undergoing digital transformation. This shortage has forced tech companies to deploy their precious human resources on core activities like product development and customer acquisition, while strategically outsourcing back-office functions whenever possible.

Talent acquisition and retention was one of the key areas, along with the need to be operationally agile and quick, that Jonathan discussed in his session. Many informal conversations revolved around talent as well.

One of the last concerns of attendees of London Tech Week was Brexit, which seems to be having very little effect — positive or negative — on London’s tech boom. This seems to be one of those instances where demand for the products and services being created by cutting-edge tech transcends the political environment in which the innovation occurs. This is very encouraging.

AT&T-Time Warner Win Could Mean More Multimedia Megadeals

One day after a federal judge ruled in favor of **AT&T’s $85 billion acquisition of Time Warner**, Comcast announced a $65 billion cash offer for the entertainment businesses of 21st Century Fox. And on Wednesday, Disney outbid Comcast and **struck a merger deal** with Fox. A regulatory approval of the Disney deal is pending.

Content producers, such as Time Warner and Fox, find themselves increasingly in demand as multimedia giants seek to increase customer offerings and expand their content creation capabilities amid formidable competition from Google and Facebook. At present, Google and Facebook together account for about two-thirds of the online advertising market – but that share is being eyed by the likes of AT&T, Disney and Comcast as the line between content producing and content delivery continues to blur.

The rapid speed of disruptive innovation represents the most significant risk in the technology, media and telecommunications industry, **according to board members and C-suite executives worldwide**. Many traditional telecom providers that have been slow to react to digital transformation, including but not limited to the acquisition and distribution of content, are at risk of being left behind or overtaken by new market entrants.

Given consumers' voracious appetite for pay TV and other entertainment services, including the ability to custom-tailor viewing choices based on personal preference, and the constant demands to keep up with digital transformation, it's logical to anticipate more telecom and media companies merging in order to thrive long-term.

The AT&T-Time Warner ruling, which required no mandatory divestitures, suggests a favorable climate for vertical mergers, rather than horizontal market share expansions.

It remains to be seen whether these two megadeals are the beginning of a trend. M&A lawyers hasten to point out that it takes more than one or two cases to set the tone for merger activity, and that every transaction is unique. However, conditions certainly appear to be favorable. And **it does not hurt to be ready** should an opportunity arise.

For Emerging Tech Firms, More Action Today on Risks and Controls Means Less Pain Tomorrow

Growth is a top focus for emerging technology companies. But that pursuit can become so all-consuming that these businesses often pay little or no attention to laying a solid corporate governance foundation to sustain their long-term success. That includes implementing sound processes to manage risks and internal controls and teaching their employees to be risk-aware.

There are other reasons emerging technology companies tend to push risk and control identification and management to the back burner. For one, they may think they don't need to worry about these activities until they become more established or start planning for an initial public offering (IPO). They also may believe that risk and control solutions, and guidance from the experts who provide them, are only available to larger and more mature companies.

However, it is never too early for startup companies to adopt flexible and scalable approaches for identifying and managing risks and controls. Not only are highly innovative and cost-effective risk and control solutions available to these organizations today, but they also can be designed to evolve as the businesses grow.

What Can Happen When Risks and Controls Are an Afterthought

When emerging technology firms think and act proactively to address corporate governance, risks and internal controls, they will be well-positioned to gain an edge on their competition — both established companies and "born digital" firms. They also will be better prepared to meet potential challenges on the horizon and avoid making the types of costly mistakes that become all too clear with hindsight. Attempting to solve significant risk and control issues after they become real problems is a costly endeavor that undermines a company's ability to stay nimble and focused on innovation.

Three Areas Tech Startups Can Target for Improvement — Starting Today

Emerging technology companies that want to begin building a corporate governance foundation, and identify and better mitigate risks, can look to the following three areas as a start:

- **Cybersecurity:** IT attacks are not only becoming more frequent but also more sophisticated and stealthy. For example, **periodic penetration testing** conducted by an independent resource across various IT assets, including the application and network layers, can help tech startups identify security gaps and other vulnerabilities. It also will help them stay informed about adversaries' latest techniques for compromising users and systems. Reviewing their current state of cybersecurity also allows emerging technology firms to set and prioritize opportunities for improvement so they can work toward their desired state.
- **Data security and privacy management**: Protecting systems and sensitive data — **the so-called "crown jewels"** — helps companies avoid costly breaches, loss of intellectual property, business disruption and reputation damage. Proactive and formal measures, including acceptable use policies and records retention and destruction processes; activities such as continuous monitoring; and strong IT security controls for protecting confidential information, are all necessary for ensuring **data security and privacy management**. Independent experts can assist fast-growing companies with implementing solutions that make the most sense for their business, and can test the effectiveness of these measures.
- **Management of vendor, client and third-party risks**: While **recent research by our company** suggests that organizations in all industries are making progress toward improving how they manage **vendor, client and third-party risks**, including cybersecurity risks, there is still room for improvement. Technology startups have an opportunity to develop effective, scalable and compliant programs for these risks from the outset. They can also take steps to ensure they are not presenting risks to those they collaborate with or provide services to. Here again, startups can look to reputable resources for assistance with developing vendor risk management programs, performing customer due diligence, effectively responding to client security assessment questionnaires, and more.

Key Facts

76 — Percentage of internal audit functions in technology organizations that utilize data analytics in the audit process.

61 — Percentage of these organizations that receive a high level of value from employing analytics in the audit process.

Source: *Analytics in Auditing Is a Game Changer*, 2018, Protiviti: **www.protiviti.com/IACN**.

Steps That Can Provide More Protection Today — and Lead to More Opportunities Over Time

Emerging technology companies should embrace leading practices, even for issues they may not be facing now but likely will in time. Doing so will help to position them for long-term success, and potentially ease future pain by allowing them to avoid certain potential risks. They also will be better prepared to handle risks that are likely inevitable, such as cyber risks and new regulations.

Adopting flexible and scalable solutions for cybersecurity, data security and privacy management, and vendor, client and third-party risk management will also help technology startups to keep moving, innovating and growing fast — all while building the corporate governance structure needed to support their future success. And if pursuing an IPO is among their goals, they will have already made an invaluable head start on the long and arduous **public company transformation** process.

If your business is an emerging technology company that seeks to take a proactive approach to addressing risks and controls, subscribe to **our technology industry blogs** *to receive more tips and insights in the future.*

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 its 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.

Contact

Gordon Tucker
Managing Director
Leader, Technology, Media and Telecommunications Industry Practice
+1.415.402.3670
gordon.tucker@protiviti.com

protiviti