

ISSUE 136

BOARD PERSPECTIVES: Risk Oversight

THE TOP RISKS IN 2021: A GLOBAL PERSPECTIVE

Our global survey of C-level executives and directors about macroeconomic, strategic and operational risks highlights the influence of the COVID-19 pandemic, the economy, digital technology, talent and organisational resiliency on the risk landscape over the near term.¹

Our survey captures insights from 1,081 C-level executives and directors, 39% of whom represent companies based in North America, 19% in Europe, 17% in the Asia-Pacific region, and the remaining 25% from Latin America, the Middle East, India and Africa. As with our prior surveys, the results captured significant uncertainties by industry, executive position, company size and type, and geographic area. The survey was conducted online near the end of 2020 to capture perspectives on executives' minds as they peered into 2021 to rank 36 risks in terms of relative impact. We delayed the survey launch until after

TOP RISKS FOR 2021

1. Impact of pandemic-related policies and regulation on business performance
2. Impact of economic conditions on growth
3. Pressure of pandemic-related market conditions on demand
4. Adoption of digital technologies may require new skills that are in short supply
5. Privacy, identity management and information security challenges
6. Cyber threats
7. Impact of regulatory change and scrutiny on operational resilience, products and services
8. Leadership succession challenges; ability to attract and retain top talent
9. Resistance to change operations and the business model
10. Ability to compete with "born digital" and other competitors

¹ *Executive Perspectives on Top Risks, 2021 & 2030*, Protiviti and NC State University's ERM Initiative: www.protiviti.com/toprisks.

the November elections in the United States to reduce the likelihood that an uncertain outcome to these elections might influence the results — although the Senate majority still hung in the balance with the Georgia runoffs.

In the table on the previous page, we rank the highest-rated risk themes in order of priority to provide a context for understanding the most critical uncertainties companies across the world face looking forward over the next 12 months. Key takeaways are summarised below.

Prepare for the next decade and embrace the global megatrends, for the future may arrive sooner than you think. There was nothing unpredictable about 2020. Pandemic risk has loomed on the horizon for a long time. Overpopulation, large and dense cities, global travel, and the SARS and Ebola pandemics since the turn of the century: The signs were there. And like many “gray rhino” risks, it has always been a matter of when — not if. Yet, only digitally invested companies were “future-ready” when COVID-19 hit. The only challenges these companies faced, in some cases, were coping with overwhelming demand and managing accelerated growth. The message: Recognise and understand how known megatrends can ultimately impact the customer experience, how people work, the supply chain and industry fundamentals, and act on that knowledge in a timely manner.

The pandemic experience has changed the world. The ongoing COVID-19 pandemic, its effects on governmental public health policies, customer behaviour and business performance, and the economic distress it has wrought on the marketplace are the top three risks on the minds of board members and C-suite executives for 2021. In industries not dependent on the physical concentration of people, digital leaders stood out in pivoting and quickly reacting to the pandemic’s new normal by engaging customers, innovating new products and services, obtaining better market intelligence for decision-making, and maximising operational efficiencies.

Digitally prepared companies will most likely continue to maintain their edge going forward into the next “new normal” as they innovate continuously and their business models evolve. Hoping that markets will revert to where they were before the pandemic is not a viable strategy.

The 2021 risk landscape reflects a broad range of human resources priorities.

Executives are concerned about several interrelated people issues:

- The safety and relevance of their people
- The strength of the executive bench in supporting leadership succession planning
- The organisation’s ability to attract and retain experienced top talent needed to execute complex strategies, improve digital intelligence and maturity, and facilitate the organisation’s resilience in facing the future

In addition, the realities associated with the future of work is the fourth-rated risk. As the future of work evolves through digital transformation and acceleration, companies will need to upskill and reskill displaced workers to take on new job functions and fill talent gaps.

Building organisational resilience and an innovative culture is an imperative. Thriving in a dynamic and unpredictable business environment requires that organisations secure data and information systems and build and sustain an adaptive and innovative culture, as the risks that dominate the rest of the top 10 risk list for 2021 demand. The sustainability, security and reliability of systems and operating infrastructures that have been affected by the realities of conducting business in the current constrained environment continue to be top of mind.

Regulatory change is also a related top 10 concern. It could obstruct some industries’ efforts to implement necessary improvements to operational resilience and products and services to compete successfully in the global marketplace. With the emphasis on climate change and global warming, some industries

face significant changes in fundamentals as companies are forced to commit to net zero carbon goals.

Aside from the top 10 risks, the risks reflecting the greatest year-over-year increases add to the picture.

Risks noted by our survey results as increasing the most in relative significance from 2020 to 2021 are primarily macroeconomic issues, as executives must deal with volatility in capital and labour markets, shifting governmental policies, border restrictions, and distribution challenges affecting supply chains. Social unrest and a risk of increased activism are also presenting more uncertainty in 2021.

The global business environment is viewed as riskier in 2021.

When asked about their overall impressions of the risk environment in 2021, survey respondents collectively signalled that there would be an increase in the potential magnitude and severity of the risk environment for the short term relative to the prior year. Interestingly, when evaluating specific risks, respondents appear less concerned on a risk-by-risk basis, suggesting that they are leery of

potentially unknown risks lurking on the horizon and beyond, making it more difficult to predict the environment in which their companies will operate. Given the continued occurrence of the unexpected, that is not surprising.

We invite interested parties to read the executive summary of our survey results to learn more. Consistent with our studies in prior years, there are variations in views across industry groups and regions of the world. Likewise, there are different perspectives among directors and C-suite executives regarding the magnitude and severity of risks for 2021. This latter finding suggests the need for dialogue at a company's highest levels to ensure there is a reasonable level of consensus on the critical enterprise risks facing the organisation.

As leaders look forward, the message is that economic concerns abound, and companies continue to cope with different forms of disruption — stemming largely from the pace of change in the digital economy.

Questions for Boards

Boards should consider the above risk themes and takeaways in evaluating their risk oversight focus in the coming year in the context of the company's risks inherent in its operations. If senior leadership has not identified or prioritised these issues as matters to consider in managing the business going forward, directors should consider their relevance to the company's strategy and ask why not.

How Protiviti Can Help

We assist boards and executive management with identifying and assessing the enterprise's risks and implementing strategies and tactics for managing risk. Also, we assist public and private companies with integrating their risk assessment process with their core business processes, including strategy-setting and

execution, business planning, and performance management. We provide an experienced, unbiased perspective on issues separate from those of company insiders to help organisations improve their risk reporting to better inform the board's risk oversight process.

Audit Committee Self-Assessment Questions

In these dynamic times, it is best practise for boards and their standing committees and individual directors to self-assess their performance periodically and formulate actionable plans to improve board performance based on the results of that process.

To that end, audit committees should consider the illustrative questions we have made available at www.protiviti.com/US-en/insights/bulletin-assessment-questions-audit-committees.

These comprehensive questions consider the committee's composition, charter, agenda and focus, and may be customised to fit the committee's assessment objectives in light of current challenges the company is facing.

Protiviti (www.protiviti.com) 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 independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2020 *Fortune* 100 Best Companies to Work For® list, Protiviti has served more than 60% of *Fortune* 1000 and 35% of *Fortune* Global 500 companies. The firm also works 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.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.