



2022  
&  
2031

# EXECUTIVE PERSPECTIVES ON TOP RISKS

## A Call to Action: Questions to Consider

The research report from Protiviti and NC State University's ERM Initiative, *Executive Perspectives on Top Risks for 2022 and 2031*, provides insights from 1,453 board members and executives about risks that are likely to affect their organizations in the short term (over the next 12 months) and over the next decade (2031). Our respondents reveal that the scope of global risks has become more expansive and the number of different risks rated as top risk concerns is only growing in nature and type. While some risks critical in the prior year remain top of mind for 2022, there are noticeable shifts in what comprise the top 10 list of risks for 2022 and how they differ from those anticipated in the next decade, reminding executives that risks are constantly emerging and evolving.

The ongoing events continue to present major challenges as we move into 2022. The level of uncertainty in today's marketplace is rapidly evolving and presenting new risks that many previously thought were unimaginable. The ever-changing risk landscape and the overall perceived magnitude and severity of risks should prompt boards and senior executives to closely scrutinize the approaches they use to keep an eye on risks emerging around the corner.

Unfortunately, some organizations continue to manage risks the way they have for many years, even though the profile of risks is evolving as business transforms in light of the pandemic and rapidly advancing digital economy, as well as, for many organizations, the transition to permanent hybrid work environments. Their risk profile is most certainly not yesterday's risks, and a focus on financial and compliance risks using static analog age tools without any conception of the organization's risk appetite leaves decision-makers across the organization to their own devices. Soon those organizations may realize, once it's too late, that their level of investment in risk management and willingness to engage in robust tools are inadequate.

Boards of directors and executive management teams cannot afford to manage risks casually on a reactive basis. Hopefully the experiences of navigating the complexities of the ongoing pandemic, social unrest and the extreme polarization of viewpoints revealed by the events triggered by a formidable airborne pandemic that levied a once-in-a-century blow on the global economy have highlighted for executives and boards weak points in their organizations' approach to risk management and preparedness for the unexpected. Immature, ad hoc approaches to risk management will soon be outpaced by the rapid pace of disruptive innovation and technological developments in an ever-advancing digital world. The focus today is on agility and resilience as much as it is on prevention and detection.

Given the disruptive environment, now may be an opportune time for boards and C-suites to closely examine how their organization approaches risk management and oversight in the digital age to pinpoint aspects demanding significant improvement. Managing today's risks using outdated techniques and tools may leave the organization exposed to significant, undesirable and potentially disruptive risk events that could obviate its strategy and business model and threaten its brand and reputation — even its very survival.

Accordingly, in the interest of evaluating and improving risk management capabilities 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 and risk management processes:

### **Carry forward risk management lessons learned from the pandemic**

Because many organizations have benefited from the “all-hands-on-deck” approach to how their leadership teams have come together to quickly assess emerging situations and respond to them as never seen before, many are pausing to find ways to carry forward the positive lessons from the past 18 months:

- How has the level of open dialogue among executives about risks improved over the recent past and what can we do to preserve that level of transparency and focus going forward?
- The pandemic forced organizations to address risks it imposed on them and their longstanding approaches for delivering core products and services. That reality forced the integration of risk insights with the strategies of the business. What have we learned from our management of risks triggered by the pandemic about the importance of focusing attention on risks that are most critical to our core business operations and strategic initiatives? What changes have we made to our business model that should be preserved for the long term?
- Who are the key business leaders and groups (committees, councils, task forces) across the organization that were involved in helping navigate the unfolding risks our organization faced during the pandemic? To what extent do those groups need to be formalized so that they continue to provide risk management leadership and inform decision-making for the future?

### **Ensure our risk management approach is sufficiently robust**

Because risks are constantly changing, the risk management process needs to be repeatable, clearly defined and adequately resourced to ensure business leaders receive the information they need to stay abreast of emerging issues:

- What insights have the ongoing pandemic and other related risk issues revealed about limitations in our organization's approach to risk management?
  - To what extent was the risk of a pandemic on our risk radar prior to early 2020? How did that help us prepare for what we have faced?
  - How prepared was our organization to deal with the challenges we have experienced?
  - How effective was our organization's business continuity plan in addressing the enterprisewide impact of COVID-19? If there were holes in the plan, have we addressed them?
  - Did our employees have all the technology and tools they needed? Did urgent efforts to adopt new tools and technologies and transition to a virtual workplace achieve acceptable productivity and returns?
  - Did our transition to a work-from-anyplace virtual environment create information security issues? If so, have we addressed those issues?
  - Was our culture resilient enough to pivot in response to the pandemic's effects on our customers, employees, third-party relationships and supply chain?

- What do we now understand that we wish we had known prior to the pandemic? Why didn't we better anticipate those issues?
- Is the process supported by an effective, robust methodology that is definable, repeatable and understood by key stakeholders?
  - How well does our approach to risk identification foster consideration of risks that may have a higher-level strategic impact and that may be triggered by external events or competitor actions that are beyond our organization's control?
  - Does the process delineate the critical enterprise risks from the day-to-day risks of managing the business so as to focus the dialogue in the C-suite and boardroom on the risks that matter most?
  - Do we engage all the right stakeholders in the risk identification process? Would most stakeholders describe our approach to risk management as one that is stale and requiring a refresh? Would they consider it to be siloed across disparate functions in the organization? Is our approach primarily focused on internal, operational types of risks using a bottom-up approach to risk identification? Is it more ad hoc than structured?
  - How extensively do we evaluate the effectiveness of responses that are intended to help prevent risk events from occurring and that might reduce the impact of risk events should they occur?
- Is there a process for identifying emerging risks? Does the risk identification process allow the board and management enough time to adequately consider response plans to these risks?
- To what extent does our management dashboard system include robust key risk indicators that help the leadership team monitor shifts in relevant external trends? Does the dashboard cover the most critical enterprise risks? Does it provide an effective early warning capability that enables the organization to act as an early mover in response to market opportunities and emerging risks?

### Evaluate whether our risk focus is positioned to provide strategic value

Given the pace of change experienced in the industry and the relative riskiness and nature of the organization's operations:

- To what extent are we centering our focus on risks in the context of our organization's execution of the strategy, achieving its business objectives, sustaining its operations, and preserving its brand image and reputation?
- To what extent is our leadership's knowledge of top risks enhanced by the organization's risk management process serving as a value-added input to the strategy-setting process?
- Does our risk management process consider a sufficient time horizon to pick up looming strategic and emerging risks ("gray rhinos"), e.g., the longer the horizon, the more likely new risk issues will present themselves?
- To what extent is our focus on external risks linked to geopolitical shifts, emerging disruptive innovations and changes in macroeconomic factors?
- In our ongoing assessment of risk, do we consider the effects of changes in internal operations, personnel, processes, technologies, suppliers and third-party vendors?
- Does our risk management process consider extreme as well as plausible scenarios? Do we have meaningful discussions of potential "black swan" and "gray rhino" events? Do we deploy scenario analysis techniques to understand better how different scenarios will play out and their implications to our strategy and business model? Are response plans updated for the insights gained from this process?
- Are we encouraging the identification of opportunities to take on more risk on a managed basis? For example, is risk management integrated with strategy-setting to help leaders make the best bets from a risk/reward standpoint that have the greatest potential for creating enterprise value?

- Do the board and senior management receive risk-informed insights, competitive intelligence and opportunities to secure early-mover positioning in the marketplace, fostering more effective dialogue in decision-making processes and improved anticipation of future exposures and vulnerabilities?

### Clarify accountabilities for managing risks

Following completion of a formal or informal risk assessment:

- Are risk owners assigned for newly identified risks? To what extent are owners held accountable for managing their assigned risks?
- Are effective risk response action plans developed to address the risk at the source? Are risk owners accountable for the design and execution of those responses?
- To what extent does the organization need to elevate its oversight and governance of its business continuity planning and operational resilience activities? To what extent are these efforts limited to certain aspects of the organization (e.g., information technology, supply chain operations) and not enterprisewide?
- Is there an effort to source the root causes of certain risks that warrant a better understanding? Does the sourcing process look for patterns that connect potential interrelated risk events?
- Are we monitoring the business environment over time for evidence of changes that may invalidate one or more critical assumptions underlying the organization's strategy? If so, when there is evidence that one or more critical assumptions underlying the strategy are becoming, or have become, invalid, does management act in a timely fashion on that knowledge to revisit the strategy and undertake necessary mid-course adjustments?
- Do decision-making processes consider the impact of a particular decision on the organization's risk profile?
  - Have we sufficiently communicated the relative value and importance of considering risk in decision-making across the enterprise?
  - Is the board sufficiently involved in the decision-making process, particularly when it involves acquisition of new businesses, entry into new markets, the introduction of innovative technologies or alteration of key assumptions underlying the strategy?
  - Is there actionable, current risk information that is widely shared to enable more informed decision-making across the organization?
- Are significant risks related to the execution of the strategy and business model monitored over time to consider whether changes have occurred requiring corrective action and whether the organization continues to operate within established risk tolerances in meeting key business objectives?

### Communicate an enterprise view of top risks and board risk oversight

With respect to communicating and overseeing the risk profile:

- Is the board informed of the results of management's risk assessment on a timely basis? Do directors agree with management's determination of the significant risks?
- 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 emerging risks or significant changes in the organization's risk profile?
- With respect to the most critical risks facing the organization, do directors understand at a high level 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 strategic alternatives are considered and the selected strategy is implemented?
- Given the organization’s risk profile, does the board periodically consider whether it has access to the diverse expertise and experience needed — either on the board itself or through access to external advisers — to provide the necessary oversight and advice to management? For example, are there digital savvy and experienced directors on the board?

## Assess impact of leadership and culture on our risk management process

Because culture and leadership significantly impact the organization’s approach to risk oversight:

- Is the board’s and the C-suite’s support for more robust risk management processes evident to key stakeholders across the organization?
  - To what extent is our risk management process helping to foster robust discussion and dialogue about top risk issues among senior management and the board?
  - Is the board asking for more risk management information and focused on advancing the organization’s risk management capabilities?
- To what extent is there a willingness among the leadership team to be more transparent about existing risk issues when sharing information with one another? What positive aspects of the organization’s culture have contributed to this improvement? What aspects continue to limit openness and transparency about risks?
- Do we have an accurate read on how our organization’s culture is affecting how employees engage in risk management processes and conversations? If so, how do we know?
- Are warning signs communicated by the risk management, compliance and ethics, or internal audit functions addressed in a timely fashion by executive and operational management?
- Do we have a “speak up” culture that encourages transparency and sharing of contrarian information and bad news? Are our employees convinced they can “speak up” without fear of repercussions to their careers or compensation? For example, does the process:
  - Encourage an open, positive dialogue for identifying and evaluating opportunities and risks?
  - Focus on reducing the risk of undue bias and groupthink?
  - Give adequate attention to differences in viewpoints that may exist across different executives and global jurisdictions?
- Is adequate attention given to red flags indicating warning signs of a dysfunctional culture that suppresses escalation of important risk information or encourages unacceptable risk taking?

These and other questions can assist organizations in defining their specific risks and assessing the adequacy of the processes informing their risk management and board risk oversight.

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