

The background of the cover is a photograph of a person swimming underwater in a pool. The person is seen from the side, with their arms extended forward. The water is dark, and the scene is lit with vibrant blue and red lights, creating a dramatic and somewhat abstract atmosphere. A solid red vertical bar runs along the right edge of the image.

GLOBAL RISK LANDSCAPE 2019

A culture of complacency

FOREWORD



Foreword by Nigel Burbidge, partner / global chair,
Risk & Advisory Services, BDO

Today's risk professionals need an acute sense of hearing. In a world of increasing noise, distinguishing true risk from hype requires a high level of focus. The BDO *Global Risk Landscape 2019* found that escaping this echo chamber is not easy, with over three quarters (76%) of respondents believing their organisation's risk register is being influenced by "hype cycles".

The Fourth Industrial Revolution has ushered in a world where change happens fast and there is an increasing sense among our respondents of information overload.

There is a dichotomy in this year's research. Despite the real fear from respondents about the overwhelming noise surrounding risks, organisations appear to still be capable of keeping this culture of complacency at bay – not getting distracted from more traditional risks.

However, the perceived new complexity of risk is dangerous. Risk attention is being pulled in many directions, with increasing urgency. This could, one day, lead to an inclination to downplay other risks outside the current focus. Looking only at the risks that demand our immediate attention leads us towards a mindset that can be complacent about other risks and even a state of paralysis.

The increasing complexity of the world means identifying and prioritising risk really is a far harder job than ever. In a global and interconnected environment, it is too big a job for one department to handle and should no longer be

“ Instead of being a task, risk management needs to be part of a company's culture; not a job, but a way of life ”

NIGEL BURBIDGE, BDO

confined to the risk officer. Some industries, as well as funding models such as Private Equity, are leading the way; it's important we learn lessons from them.

Instead of being a task, risk management needs to be part of a company's culture; not a job, but a way of life. An awareness not only of risk but of what to do about risk should be in the DNA of every employee, and it is up to the C-suite to take the lead in ensuring today's hazards do not sit in a risk function silo.

The shift from complacency to engagement means the risk profession needs to launch a communications strategy at all levels. There is a very real danger that the focus on probability and forecasting models is contributing to information overload, which counterintuitively is resulting in organisations failing to prioritise risks correctly.

This report explores how risk priority, and perceived impact, should not be influenced by the novelty or familiarity of a risk. It is time to prioritise risk management itself.

76%

of respondents believe their organisation's risk register is being influenced by "hype cycles"

EXECUTIVE SUMMARY

In an age of intangible risk, are organisations in danger of being overwhelmed by new threats and overlooking traditional risk?

Previous *Global Risk Landscape* reports have explored how risk has moved far beyond traditional concerns like "fire and flood", encompassing more fluid concepts such as reputation and data protection. Faced with such a diverse range of intangible risks, how can organisations prevent themselves falling victim to "hype cycles" triggered into action as a result of outside influences?

The 2019 *Global Risk Landscape* report found that almost three quarters – 74 per cent – of respondents believed that so-called "grey rhino" events (highly obvious risks) are being ignored in favour of "black swans" (events that deviate from what is normally expected). Julia Graham, technical director at risk management association Airmic, says "grey rhinos" are sometimes neglected "because people don't have the confidence to tackle them – but then the risk is likely to charge and trample them".

Ms Graham cites Brexit as a classic "grey rhino": for all the uncertainty and delay, it is a change that is coming and needs to be risk assessed. Of course, whether it is considered risky or not depends on the corporate outlook.

"Some businesses will find it safer to do nothing because they are not sure what to do – no one has dug down into what is the appropriate response," says Nigel Burbidge, partner and global chair of risk and advisory

“ The entrepreneurial mindset will see opportunities where others see risks ”

NIGEL BURBIDGE, BDO

services at BDO. "But the entrepreneurial mindset will see opportunities where others see risks. One issue but two responses: that's the interesting conundrum in risk management."

Threats that sit on a risk register for long periods of time are in danger of being ignored, simply through risk fatigue. It is natural, perhaps, to downplay a risk that fails to materialise, particularly considering the onslaught of demands and increasing complexity and connectedness of risk.

Despite their misgivings, our research revealed that respondents do not allow "older" risks to drop in priority (see figure 4, page 12). 60 per cent of respondents overall believe their organisation fails to re-evaluate risk ownership for risks that have been on the register for more than three years, and this demonstrates that risk complacency is a clear danger for the near future.

"The days of printing off a risk register and putting it in a grey binder on a high shelf are gone," says Ms Graham. "Your ability to understand and manage risk has to change at the same pace as your organisation changes and repurposes itself."

A surprisingly high proportion of companies are influenced by "hype cycles", perhaps mirroring the complacency surrounding existing risks: more than three quarters (76 per cent) believe their company is regularly or on occasion swayed by hype. The two industries most regularly impacted by "hype cycles" are oil and gas and real estate and construction.

The influence of hype is unsurprising, says Mr Burbidge, given today's information overload and the difficulty of modelling

"GREY RHINO" RISKS

A "grey rhino" is a big, obvious risk that is being ignored or downplayed. The danger of such an approach is that a collection of "grey rhinos" can easily turn into a "black swan".

Michele Wucker, an American author and analyst who coined the term "grey rhino" in a bid to help people engage with the subject, outlines the concept in behavioural terms. "It is a very human tendency to not want to admit just how vulnerable we are. Often when we don't feel we have any control over a situation, we pretend something isn't that much of a big deal."

A "black swan" risk, on the other hand, is a random and unexpected event; by its very nature it is unforeseen. But that doesn't mean you can't prepare for it.

74%

believe that "grey rhino" events are being neglected by the board in favour of "black swans"



every eventuality. "There's more and more information and it's travelling more quickly," he says. "It can be very difficult to synthesise what information is relevant to you and your business. To identify risks and come up with a measured response is incredibly hard."

Nearly a quarter (24 per cent) of respondents felt that a risk review should be a reactive rather than proactive event. Almost one in ten (9 per cent) felt it should be undertaken only in reaction to external influence, such as competitors or media, while 15 per cent were happy to review risk only when triggered by a business change such as a merger or new regulation.

With change no longer bound by national borders and social media spreading news (fake or not) faster than ever before, the risk landscape has changed. "Companies tend to treat it in terms of profitability, or growth. But the changes in society mean they are exposed to more risk; an event can trigger a domino effect and problems can spread from one side of the world to the other within a day," says Dr Angus Young, senior lecturer in the Department of Accountancy and Law at Hong Kong Baptist University. "That pushes risk management to the front of corporate thinking."

Views on "grey rhinos" depend on the sector in question, with some more likely to think "black swans" were favoured: this was the

case for 90 per cent of respondents in the healthcare industry, 80 per cent of those in power & utilities and 79 per cent from financial services.

This year's survey has seen significant change in the risks for which respondents felt least prepared (see figure one). Concerns have narrowed from the general to the more specific. Regulatory risk is no longer in the top three, while damage to reputation now heads the list, with computer crime such as hacking or malicious viruses coming in

at number two. Broader macroeconomic developments have been replaced with more granular economic slowdown at number three.

So how can organisations address these issues and avoid being panicked into a response? "The C-suite is getting confused by risk," says Dr Young. "It needs proper training in risk management. Companies must look again at their strategies and ask how well they plan for resilience. That's the new area businesses must learn."

Figure one: Risks businesses are least prepared for, over past three years

	2017	2018	2019
01	Technological changes and development	Regulatory risk	Damage to reputation and brand value
02	Regulatory risk	Macroeconomic developments	Computer crime/hacking/viruses/malicious codes
03	Macroeconomic developments	Environmental	Economic slowdown and slow recovery

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How is media hype impacting organisations' risk management approach?

76%

of respondents believe their organisation is being influenced by "hype cycles"

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Are organisations' risk appetites dependent on size?

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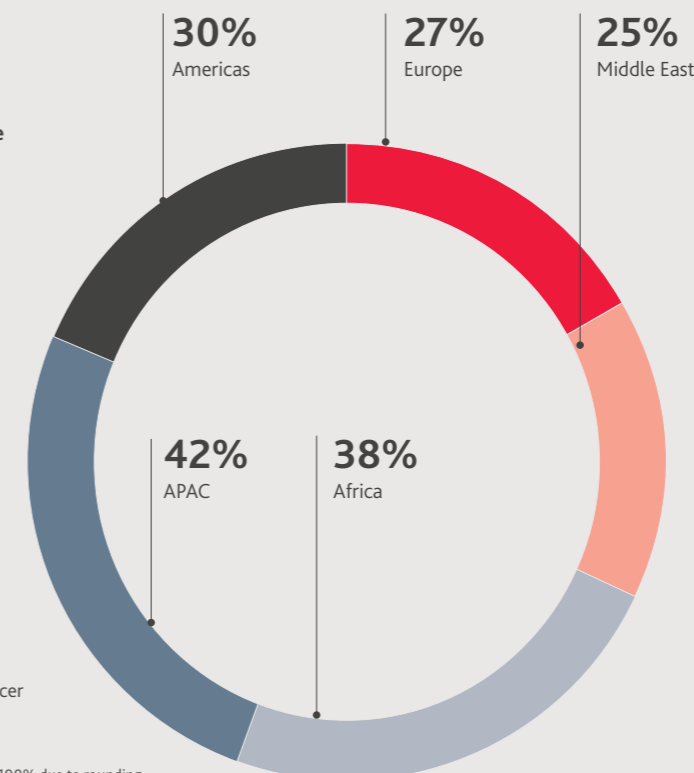
How can organisations better manage risk review and ownership?

60%

of respondents agree that their organisation fails to re-evaluate the risk ownership for risks that have been on the risk register for more than three years

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Regions differ in their risk appetite



Proportion of each region with a risk officer role that is C-suite

Numbers may not add to 100% due to rounding

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PRESS "HYPERCYCLES"

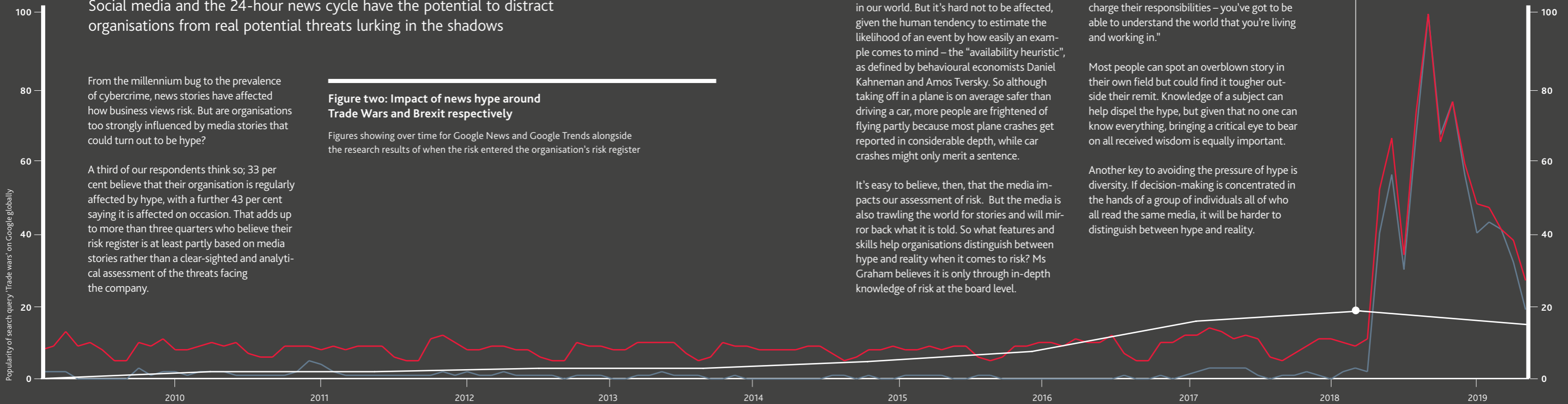
Social media and the 24-hour news cycle have the potential to distract organisations from real potential threats lurking in the shadows

From the millennium bug to the prevalence of cybercrime, news stories have affected how business views risk. But are organisations too strongly influenced by media stories that could turn out to be hype?

A third of our respondents think so; 33 per cent believe that their organisation is regularly affected by hype, with a further 43 per cent saying it is affected on occasion. That adds up to more than three quarters who believe their risk register is at least partly based on media stories rather than a clear-sighted and analytical assessment of the threats facing the company.

Figure two: Impact of news hype around Trade Wars and Brexit respectively

Figures showing over time for Google News and Google Trends alongside the research results of when the risk entered the organisation's risk register



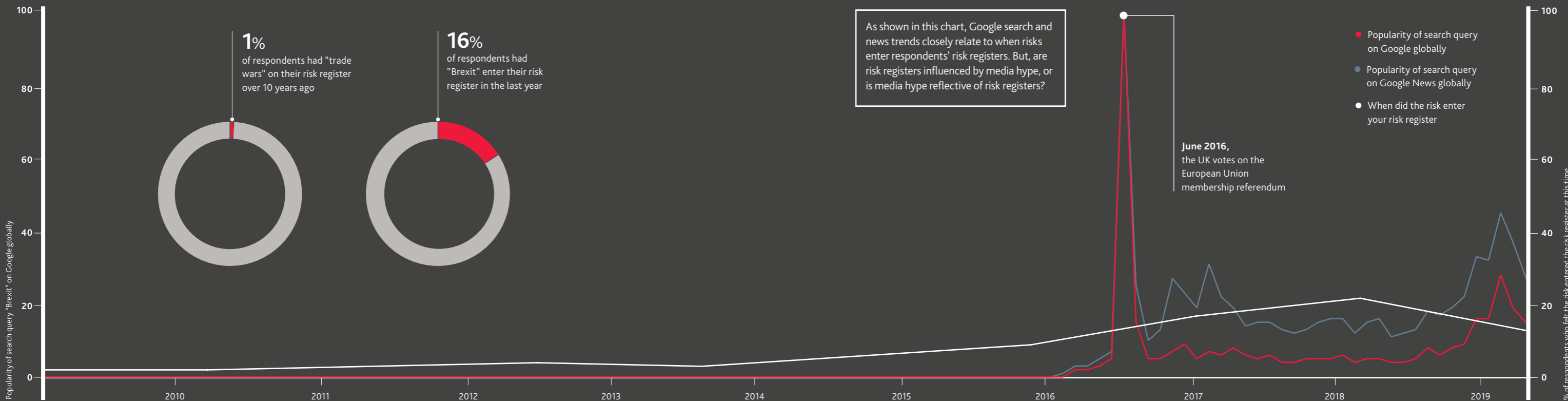
The media's influence on decision-making has always been hotly contested. It is axiomatic that journalists prefer bad news; mostly working to short timescales and looking out for the unusual, the media is a poor guide to the risks in our world. But it's hard not to be affected, given the human tendency to estimate the likelihood of an event by how easily an example comes to mind – the "availability heuristic", as defined by behavioural economists Daniel Kahneman and Amos Tversky. So although taking off in a plane is on average safer than driving a car, more people are frightened of flying partly because most plane crashes get reported in considerable depth, while car crashes might only merit a sentence.

It's easy to believe, then, that the media impacts our assessment of risk. But the media is also trawling the world for stories and will mirror back what it is told. So what features and skills help organisations distinguish between hype and reality when it comes to risk? Ms Graham believes it is only through in-depth knowledge of risk at the board level.

"You would never appoint a director who wasn't financially literate; you also need directors who have literacy in this subject. Risk is just the new finance," she says. "Directors need to get technology fit to be able to discharge their responsibilities – you've got to be able to understand the world that you're living and working in."

Most people can spot an overblown story in their own field but could find it tougher outside their remit. Knowledge of a subject can help dispel the hype, but given that no one can know everything, bringing a critical eye to bear on all received wisdom is equally important.

Another key to avoiding the pressure of hype is diversity. If decision-making is concentrated in the hands of a group of individuals all of whom all read the same media, it will be harder to distinguish between hype and reality.



“The strongest strategy you can use is to set up a robust decision-making process where people are willing to challenge conventional wisdom”

MICHELE WUCKER, AMERICAN AUTHOR AND ANALYST

“Groupthink has gotten us into a lot of trouble because warning signs go unheeded,” says Ms Wucker. “The strongest strategy you can use is to set up a robust decision-making process where people are willing to challenge conventional wisdom.”

A boardroom full of nodding heads is the quickest way to fall foul of hype, so it pays to engage with a variety of professions, ages, genders and ethnicities, all of whom will bring their own version of reality to the table.

Some sectors are more concerned than others; 52 per cent of respondents in the oil and gas industry believe their organisation is *regularly* impacted by “hype cycles”, as do half of those in real estate and construction; conversely, renewables and leisure and hospitality came in well below average, at 18 and 17 per cent respectively. Similarly, there were obvious differences across job role, with chief risk officers feeling their organisation was more vulnerable to hype (see figure three).

It always pays to take a step back and develop a sense of proportion. The end of the world has been nigh for a good few centuries; with a bit of luck it will last for a while yet.

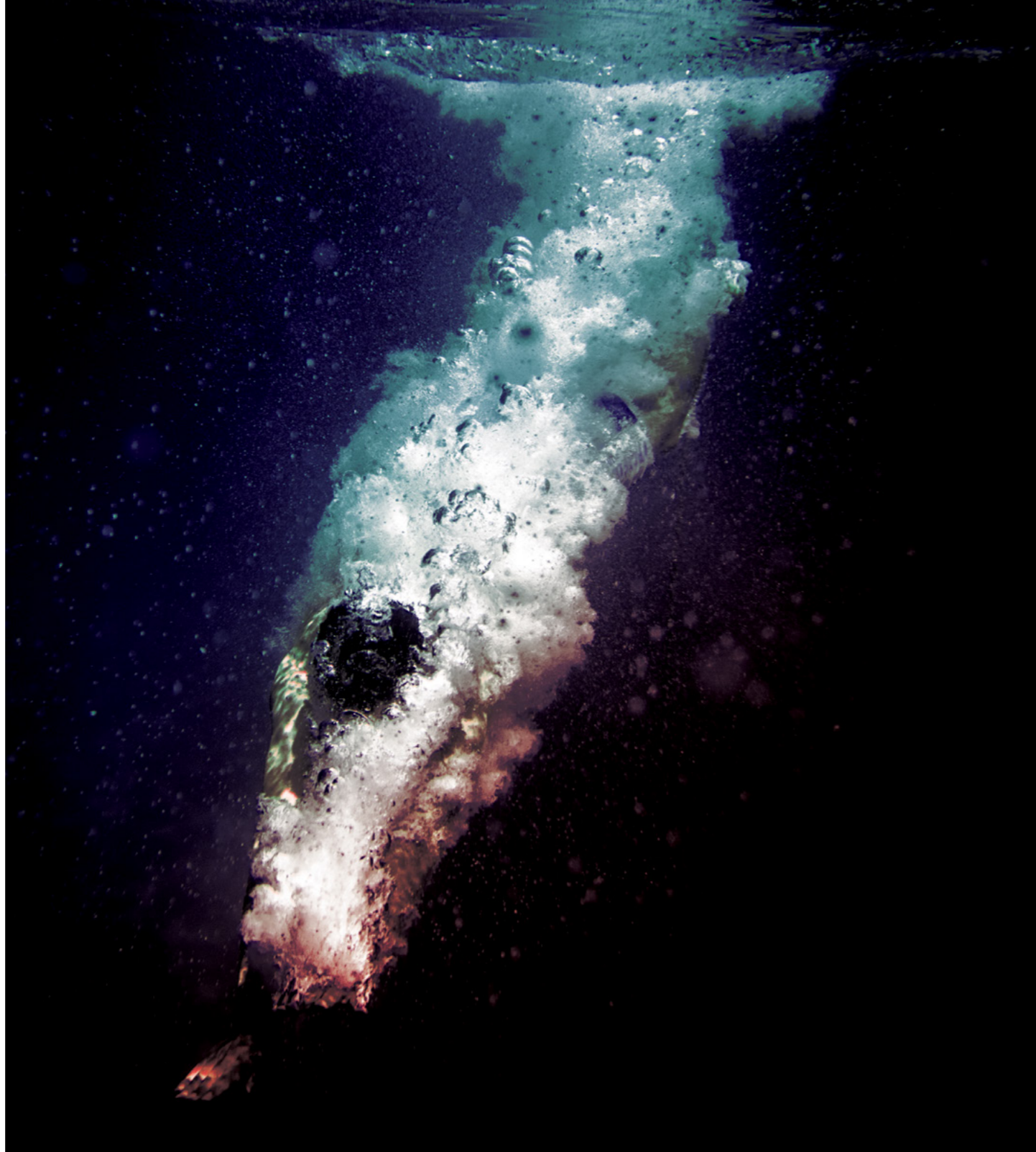
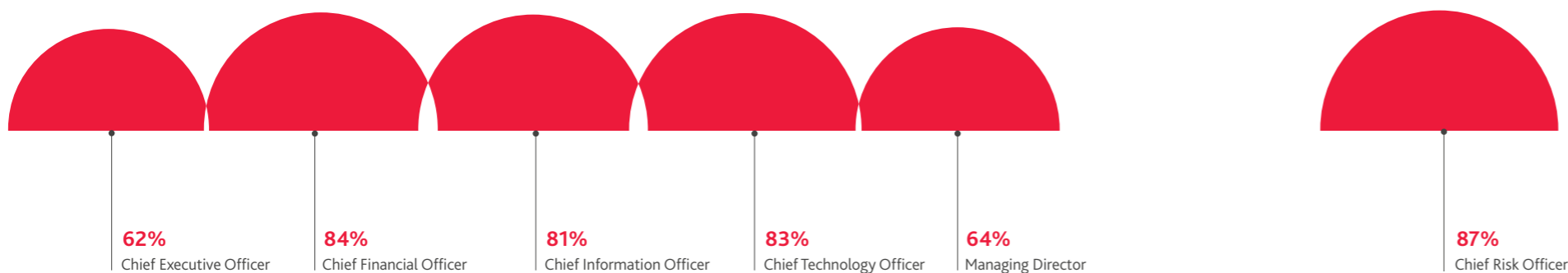


Figure three: Number of respondents who believe their organisation is impacted by “hype cycles” on occasion or more, by job role



Numbers may not add to 100% due to rounding

FACILITATING EFFECTIVE BOARD RISK DISCUSSIONS

In order to ensure risk decisions aren't swayed by hype and emotion, risk professionals need to ensure their conversations with the board are as effective as possible.

Opening a conversation about risk is a little like stepping into a maze with multiple paths for the conversation to take. After all, there is risk in everything an organisation can do, and you don't want the conversation to be led by fear.

But conversely, too little discussion is probably the best way to fall prey to hype – not to mention risking falling foul of regulators or shareholders, both of which are increasingly interested in knowing that the board has made a proper assessment of risk. So how can you facilitate a sensible dialogue and improve your risk communication?

A first step is to acknowledge the time pressures on the C-suite. Members of the board are often absorbing a lot of information in a short space of time and, given the misunderstandings around risk as a strategic tool, may leave risk as simply one item on a busy agenda. Risk officers need first-class communication skills to present the information as clearly as possible, summarised down to the key points – albeit with all the facts and data close at hand. But conveying the information well requires more than just handing over the statistics.

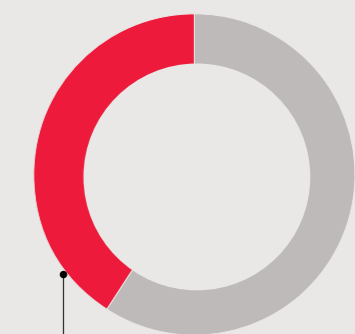
One way of catching a board's attention is to flip the presentation from negative to positive, seeing every risk as also an opportunity. This is a good way of moving on from the quantitative, dashboard type of report into a wider, more qualitative discussion.

A final step is to ensure a proactive commitment to risk man-

agement, so that it becomes a core part of the way the business operates. Drafting a risk appetite statement should be less a job for the risk officer than a job for the CEO. Several businesses are already embarking on this journey to make risk management an engrained part of the organisational DNA.

This requires a two-way dialogue between board and management. Good communication needs an awareness on both sides that what you hear is not necessarily what the other person meant. Does the phrase “we don't like surprises” mean “tell me if there are any problems” or “don't tell me if there are any problems”?

That depends not only on the person speaking but also on the culture within the company; building a resilient culture means building a culture that welcomes challenge and shared ownership when it comes to risk.



41% of chief risk officers believe their organisation is risk-taking when necessary

ATTITUDES TO RISKS OVER TIME

Do risks that lie dormant on an organisation's risk register run the risk of slipping off entirely?

Despite general concern that hype was influencing the risk register, the survey shows that newer risks are not necessarily given higher priority but are in fact still regarded as proportional to their impact. So while the threat of Russian sanctions is the latest concern to appear on the radar, it is the lowest priority on the list.

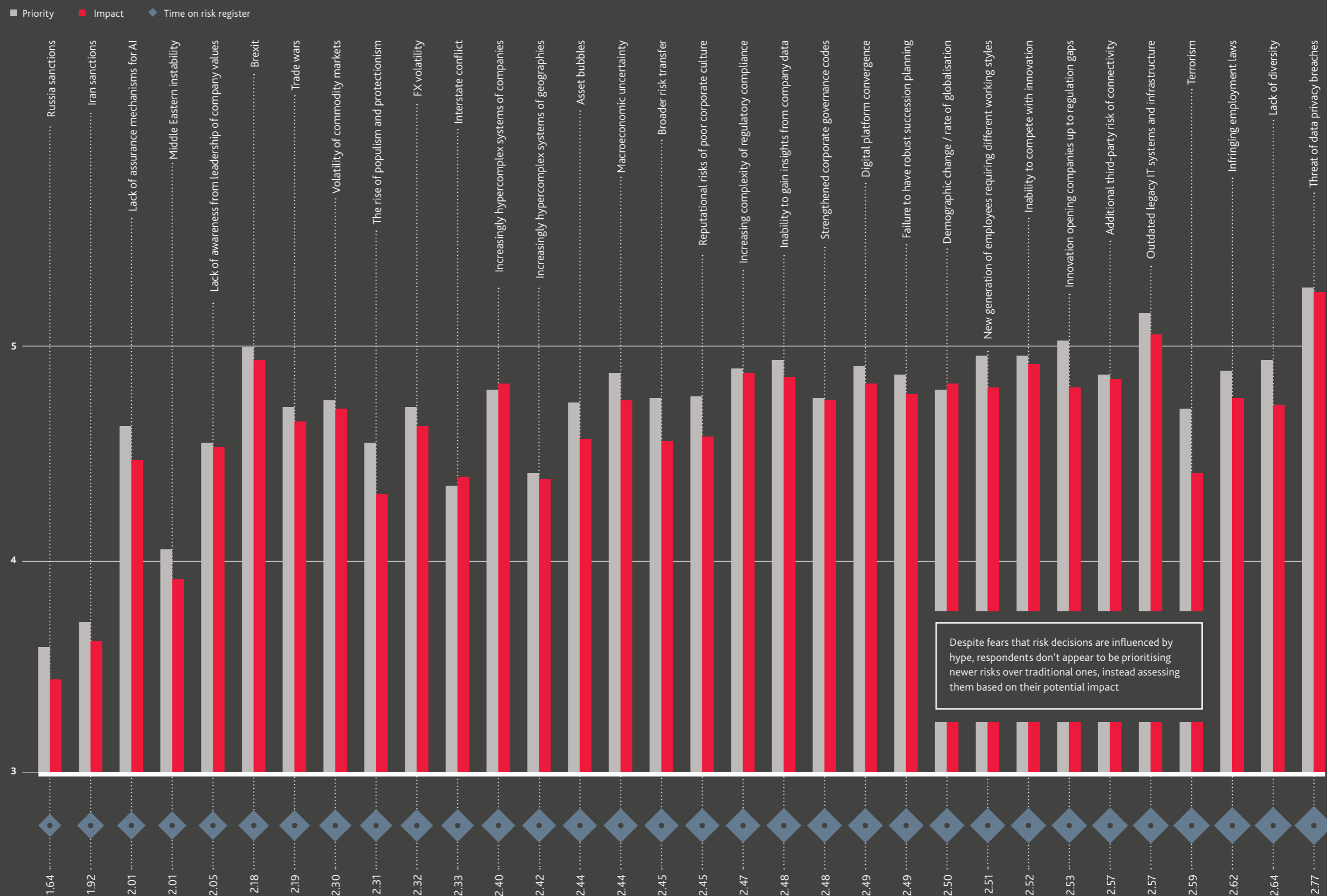
Levels of concern are generally in line with the potential impact, and the time on the risk register doesn't seem to impact this figure. There was, on occasion, a mismatch between priority and impact, which demonstrates that risks are not always being properly assessed. The three risks with the biggest gap between priority and predicted impact are terrorism, the rise of populism and protectionism, and innovation opening companies up to regulation gaps.

More alarmingly, the potential impact of a risk was occasionally awarded a higher figure than the priority; this was the case with increasingly hypercomplex systems of companies and demographic change/rate of globalisation.

"There tends to be a presumption that the response to last year's risks will be the same as last year," says Mr Burbidge. "Attention becomes focused on a new risk, without recognising that existing risks might have changed and so the response should change."

However, the data indicates that organisations are giving risks the priority they warrant. The divergences between "priority" and "impact" could potentially be the result of information overload, or simply indicate the difficulty of proper risk assessment, particularly for complex issues with a global reach.

Figure four: Time the risk is on the risk register against perceived priority and impact



*Priority scores given are out of 10, where 10 = very serious, top of organisation's risk register and 0 = not on register. Impact scores given are out of 10, where 10 = very serious and 0 = no impact. Time on risk register provided in years

RISK APPETITE: POTENTIAL TIPPING POINTS

Professor Abby Ghobadian, professor of management at Henley Business School, discusses how an organisation's attitude towards risk is dependent on several factors

BDO's *Global Risk Landscape 2019* points to key differences, based on revenue, in firms' risk appetites. This begs a simple question: why does risk-taking propensity change between firms of different size?

Although the question is simple, there is no singular or simple answer. Any decision a manager makes on behalf of a firm carries a degree of risk. Some decisions – particularly of a tactical nature – are made routinely: for example, recruitment decisions or scheduling decisions. On the other hand, managers also make strategic decisions: on acquisitions, for example, or geographic expansion. These are less frequent, involve the allocation of substantial resources, are difficult to reverse once implemented, and carry significant risks. But what are the important factors influencing a firm's appetite for risk taking?

The research findings suggest that firms with larger revenue (\$10 billion plus) are significantly more welcoming of risk than firms in other size groups. Interestingly, there is also an increased risk-taking appetite among the smallest group by revenue (\$100 - \$500 million). Strategy academics suggest that a firm's

52%

of CFOs believe their organisation is risk minimising

dynamic capabilities (DC) – sensing, seizing and reconfiguring – are the key drivers of change. Large firms have an advantage when it comes to DC.

Sensing involves scanning the environment for signals heralding change. For example, Sky has a dedicated team looking over the horizon for technological and other change signals. Systematic scanning of the environment requires significant investment and the largest firms are better placed to properly resource such an activity. Seizing is concerned with enacting an opportunity: large firms have a higher risk-bearing capacity because of their resource advantage. Finally, reconfiguring requires expertise and resources more abundant in larger firms.

This line of thinking explains why the largest firms tend to be more risk-welcoming. However, there is not unanimity among scholars regarding this theory. Large firms more often than not are bureaucratic, made up of dominant coalitions, and inflexible. These militate against risk-taking attitudes, which explains why more than two thirds of the largest firms were still not risk-welcoming.

“ Strategy academics suggest that a firm's dynamic capabilities – sensing, seizing and reconfiguring – are the key 'drivers' of change ”

PROFESSOR ABBY GHOBADIAN,
HENLEY BUSINESS SCHOOL

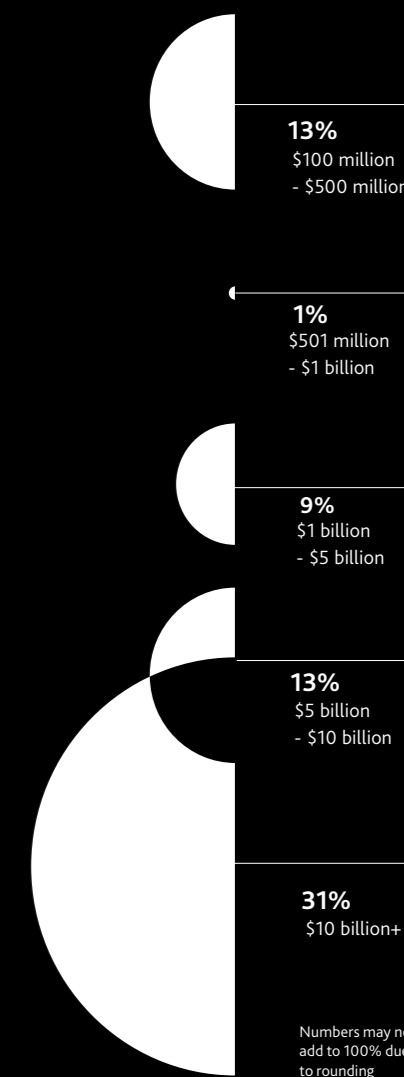
On the other hand, smaller organisations, in terms of number of employees, are more flexible and closer to their markets and customers. Research suggests that small and medium-sized enterprises have a healthy appetite for risk-taking. This explains the increase in risk-welcoming attitudes among the smallest group of firms covered by the survey.

But what accounts for differences in risk-welcoming attitudes among firms of the same size? Cognitive strategy literature suggests that these differences are caused by a firm's top management team (TMT), specifically the cognitive maps formed by their education, experience, number of years in the role, and so on. Some TMTs are more risk averse than others.

Evolutionary economists suggest that differences in risk-taking are the outcome of organisational routines. In this regard one of the key routines is the decision-making process deployed by the firm. Research I have conducted suggests that firms deploying predictive decision-making processes are more likely to end up with business models emphasising efficiency. On the other hand, those deploying non-predictive approaches end up with business models emphasising novelty. The appetite for risk-taking is higher in firms deploying novelty driven business models compared to those deploying efficiency driven business models.

Management practices also significantly affect a firm's risk-taking appetite. For example, both Sky and John Lewis encourage their staff to innovate. If it pays off, then that is excellent. But even if it does not pay off, lessons from failure can then be used as a learning opportunity.

Figure five: Number of respondents who are 'risk welcoming' by organisation revenue



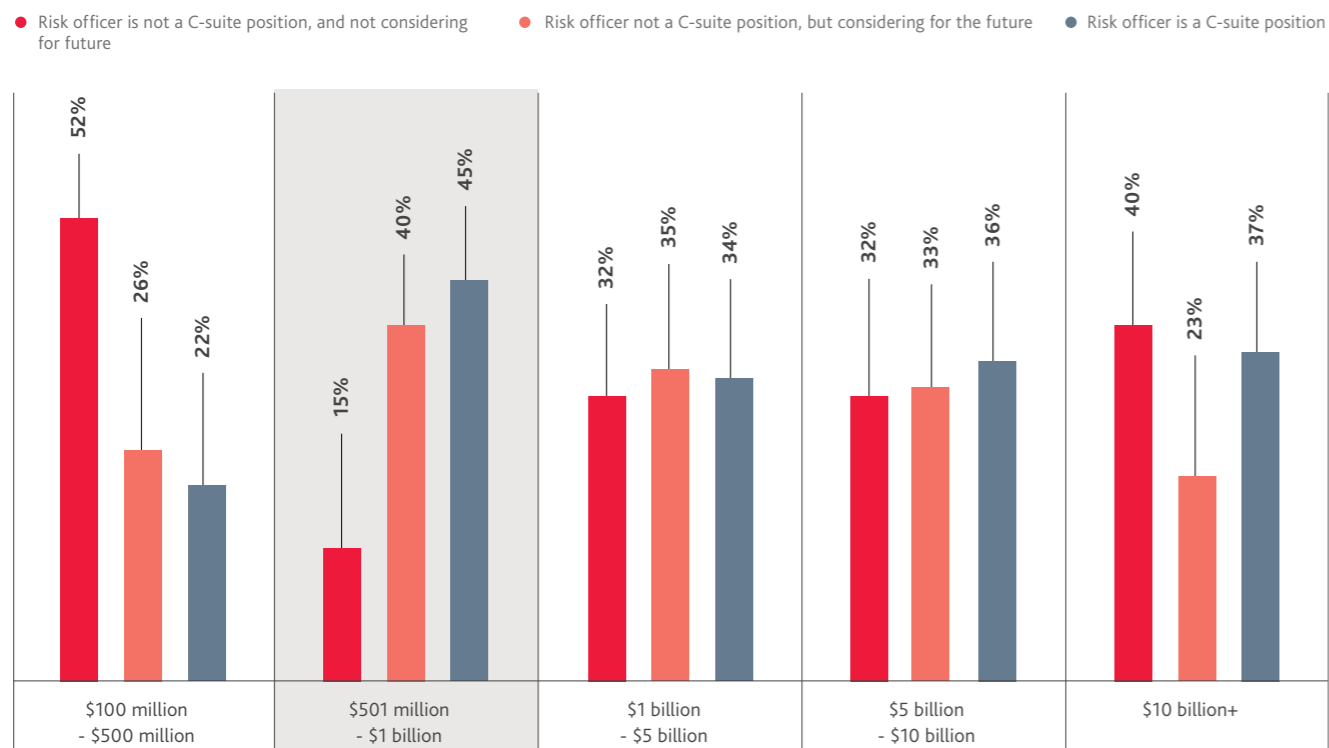
Staff are not faulted for taking initiative. This type of management increases the risk-taking appetite throughout the entire firm.

Strategy development based on logical incrementalism – experimenting by investing within the firm’s affordable loss boundary – is another approach. The shipping firm Bibby Line was established in Liverpool over 200 years ago, at the same time as many other similar firms. It is a good example of logical incremental practice; among the multitude of shipping firms established in Liverpool, only Bibby Line has survived and prospered. Bibby Line is certainly not risk-averse, but has an established management practice for taking risk. John Lewis is a good example of a firm that takes risk within a well-established logical incremental framework.

Formal institutions – rules of the game that are established by formal actors such as the central government, local government, central bank, regulatory bodies, industry bodies and financial institutions – affect firms’ risk-taking appetite. The impact of institutions is some-



Figure six: Level of risk officer, by company revenue



Numbers may not add to 100% due to rounding

times uniform across industries: for example, general taxation or competition rules governing mergers and acquisitions. Sometimes it is non-uniform, such as the tax treatment of capital investment or tax breaks offered to the film industry. Industry and professional rules also affect firms’ risk-taking appetite. Firms operating in dynamic and fast-moving sectors have a greater appetite for risk taking than those working in more stable environments.

Informal institutions – rules of the game established by informal actors such as national culture, industry-specific culture, firm culture, relationships with customers and suppliers – also affect attitude to risk taking. Some national cultures are more entrepreneurial, so firms operating within this type of national culture are more likely to have greater risk-taking appetites. Cultural norms of instigators often persist and affect risk-taking appetite.

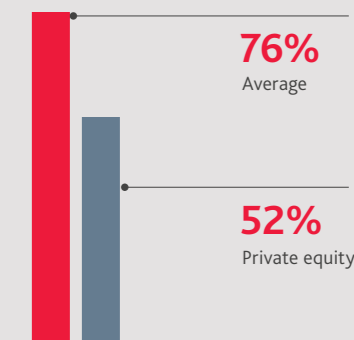
Whilst it is impossible to identify all the potential factors that influence a firm’s risk-taking appetite, based on my own research and published work there are some key salient factors that clearly influence the risk appetite trends that have emerged from BDO’s Risk Landscape 2019.

LESSONS FROM PRIVATE EQUITY

Respondents from the Private Equity (PE) sector stood out in this year’s survey for their confidence in their organisation’s risk management.

They were the least likely to believe that their organisation regularly neglects “grey rhino” events in favour of “black swan” events (14 per cent against the average for the whole survey of 30 per cent). They were also the least likely to believe that industry chatter and “hype cycles” influenced their organisation’s risk register (52 per cent against the survey’s average of 76 per cent).

Respondents that believe their organisation’s risk register is influenced by “hype cycles”



So what gives the industry such high levels of confidence over its peers? Well, PE has been one of the best-performing sectors across different markets in recent years. Money has been pouring into the funds; although 2018 saw a slowdown, the sector still raised \$358 billion that year, according to data from Private Equity International.

That vote of confidence could in itself be enough to generate the high levels of self-assurance, but more telling is the fact that the nature of the business focuses on an understanding and appreciation of risk. Picking and choosing where to invest in struggling businesses demands a high degree of scrutiny – not just of the financial aspects but also of the strategy and personnel.

Interestingly, PE respondents were the most likely to not consider giving their risk officer a role in the C-suite (74 per cent against an average of 36 per cent). Perhaps this is an indication that risk management responsibility sits across the organisation instead?

For investors, PE is an asset class that stands apart, meaning standard risk management tools

14% of respondents from Private Equity believe their organisation regularly neglects “grey rhino” events in favour of “black swan” events compared to 30% of respondents on average

are not applicable. Investment is for the long term and can be illiquid, which often leads to PE being deemed risky compared to publicly traded investments. It is also an investment likely to require active cashflow management over time, as capital is needed.

The end result is a sector where proper risk assessment is a foundation stone of return. Most PE firms are specialists, with detailed knowledge of a particular sector; investors in PE are likely to be sophisticated and experienced, with eyes wide open to the risks.

PE is a clear example of how in-depth knowledge – combined with well-defined risk tolerance – is the difference between less-analysed and well-judged risk.

REGIONAL RISK CULTURE

Business may be global these days, but that's not to say that cultural differences have disappeared. These are often particularly visible when considering risk

"Even the most global of risks crystallize locally and are experienced differently," according to the World Economic Forum's 2018 report, Regional Risks for Doing Business.

From local government to centuries-old cultural norms, there are many reasons why the perception of risk changes across different regions. These differences are clear to see: 27 per cent of European respondents were risk averse, compared to an overall average of just 19 per cent. In the Middle East, 84 per cent of respondents believe their organisation's risk register is influenced by "hype cycles" compared to an average of 76 per cent. Respondents from the Americas were less likely to believe that "grey rhino" events were being neglected in favour of "black swans". Even the role of the risk officer is different: it is a C-suite role in 42 per cent of Asia-Pacific

countries, and in only 25 per cent of Middle East countries (see figure seven).

Dr Michael Willis, programme director for the Master of Accounting programme at the Judge Business School, said differences could be seen in areas such as financial reporting. "Some companies have quite well-developed conversations about climate risk, but are not disclosing [those risks]," he said. "In the US, the reasoning is: why disclose it, when I am going to be sued if I get it wrong?"

A litigious culture can, ironically, work against an open assessment of risk. Emanuel van Zandvoort, BDO partner in risk advisory in the Netherlands, said: "The problem is that if management reports a risk to their supervisory board, they become liable and have to deal with it. So real risks and opportunities are not put in the annual and financial reports, which will

talk about generic risk, but in such a way that investors can't use it to make well-informed decisions. The reports become useless from a risk perspective."

There is a fear of liability among senior management, according to Markus Brinkmann, head of forensic, risk and compliance in BDO Germany: "The motivation for carrying out a risk assessment isn't because it's a valuable management tool. It's a more reactive process, companies have to do it to meet regulatory requirements."

Mr Van Zandvoort agrees that the risk management process overall is too driven by regulatory compliance and too little applied in decision making, though some industries like building and construction or the food sector are beginning to understand the business value of proper risk assessment.

But the understanding of risk is for most companies still immature, he argues, and is driven by short-term thinking; many boards will spend less than 1 hour per year debating their top risks.

"The pressure is always on the short term results because the length of shareholding is short, for some listed companies on average three months," he said. "So the 'long term' is about 12 months."

If there's one similarity between regions, it's a failure to appreciate the strategic value of risk management. Vicky Gregorcyk, US risk advisory services leader for BDO, said: "Many companies are not thinking about strategic risks and that could really compromise a business. The more advanced a company is, the more strategically they are thinking about risk."

"People often only think about the downside of risk – they fail to see the upside and the opportunity to get ahead of the curve."

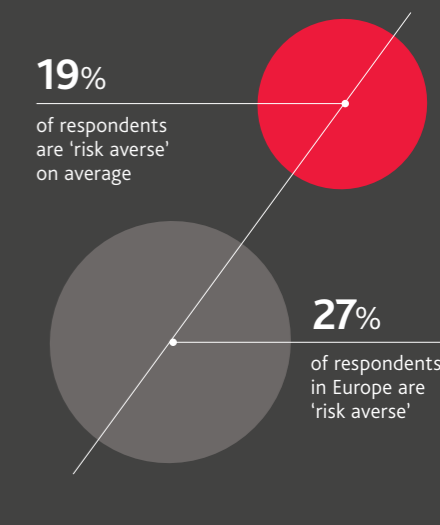
Identification of risks was too often a reactive process, driven either by events like hurricanes or by regulation. "Regulatory bodies understand that risk is something that has to be well managed; they show us the next steps," said Enric

Doménech, BDO partner in risk advisory in Spain. "Companies have made a lot of improvements in the past three to four years and are taking the correct steps to cover their risks."

In Hong Kong, an increasingly active regulatory regime is pushing the risk agenda. Ricky Cheng, director and head of risk advisory for BDO in Hong Kong, said: "We are seeing more active market surveillance and proactive investigations, sending very strong signals to the marketplace. Companies are more aware of compliance regulations."

Regulators are also driving the agenda in Germany, according to Mr Brinkmann. "Mid-sized family-run companies tend not to have a risk management system – they go by experience."

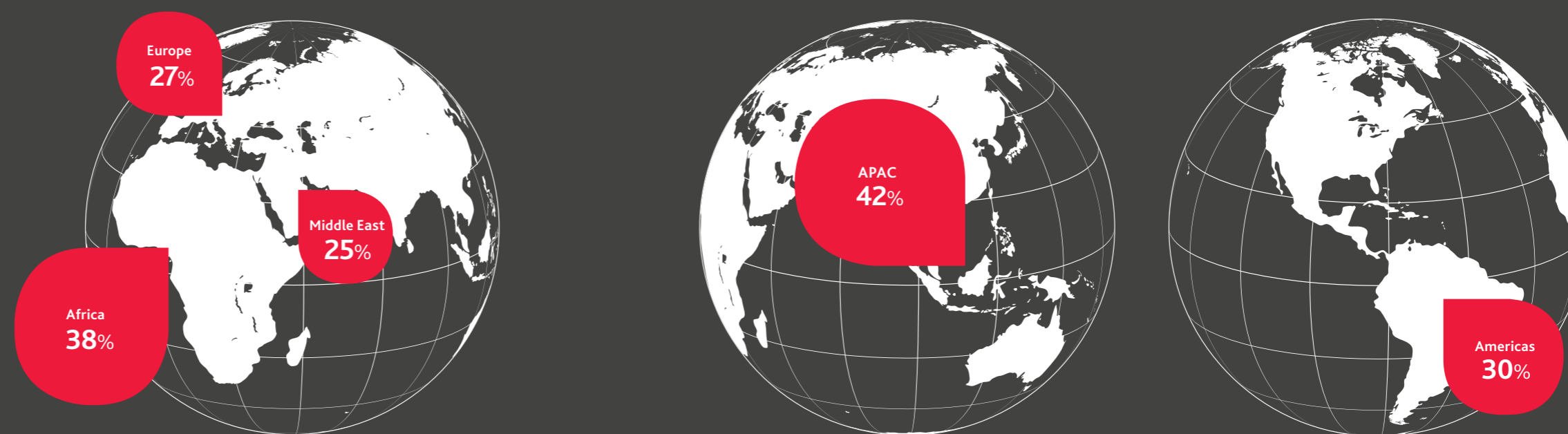
The key to managing regional differences is communicating well, but David Prime, partner in risk advisory at BDO in Canada, said communication was a problem even when it was not crossing country borders. "I see organisations launch risk management programmes but they are not able to derive the value they expect," he said. "They struggle to define and communicate risk appetite, so end up with



an assessment of risk that doesn't get to the nub of the real impact."

In terms of issues across the world, trade barriers and increasing protectionism was the most frequently mentioned concern, but political stability, climate change and talent spotting were also cited several times. Companies may address risks differently, but it seems they can agree on what those risks are.

Figure seven: Percentage of organisations that have their risk officer as a C-suite role, by region



“ The pressure is always on the short term results because the length of shareholding is short ”

EMANUEL VAN ZANDVOORT, BDO

FLEXIBLE RISK REVIEW

The risk review process is one way that organisations can ensure they have a firm grip on the actual threat that risks pose

Given the speed at which the digital age is moving, the risk review should be an increasingly important part of an organisation's arsenal. Despite this, many businesses don't assess their risks on a regular basis: almost one in ten (9 per cent) of respondents felt that risk review should only be undertaken in reaction to external events.

"People get wrapped up in the day-to-day humdrum and end up resorting to the same approach as previous years," says Mr Burbidge. "This problem can occur in a lot of businesses, maybe because departments and risks are siloed, or because people are not engaged with what is happening, or because they live in a comfort zone. People are not energised to think and become complacent."

That complacency leads to risks sitting on the register for too long; 60 per cent of respondents believe their organisation fails to re-evaluate the risk ownership for threats that have been on the register for more than three years (see figure eight).

It is time to change. A risk review can be undertaken in tandem with a risk audit, but where an audit looks backward to ask how well the organisation performed, a review assesses new threats and reassesses existing risks. A prospective and forward-looking risk review can help drive better decision-making, modifying risk response plans to improve the business's future.

With exponential change in society and technology and growing pressure from regulators to increase accountability, organisations need to wake up fast to the need to plan.

"You can't second-guess what the digital age is going to throw at you," says Ms Graham. "This is about moving from prevention to response, so that if something goes wrong you have great teams and models in place, equipped and geared up to respond."

Perhaps unsurprisingly, those who are most risk-welcoming are more likely to think a risk review should only be carried out in reaction



system or advanced analytics." She believes its more cultural, saying its about "a pervasive sense of risk awareness and ownership at every level of the enterprise."

She identifies five steps to ensure employees own risks: communicating the business value of a risk; using layman's language rather than risk terminologies and concepts; providing support rather than policing decisions; incentivising risk ownership through reward programmes; and using analytics to show relevant insights.

"Integrating risk management into the consciousness of an organisation is an exercise in empathy," she argues.

Too many risk professionals are still failing to communicate their skills, according to Ms Wucker, who believes there is a need to bridge the gap. "In a lot of companies, the risk officer does the 'doom and gloom', and the rest of the employees are not empowered to prevent risk. People need better tools for deciding what is a healthy risk, understanding the probabilities of something bad happening and thus the urgency of doing something to protect yourself from it."

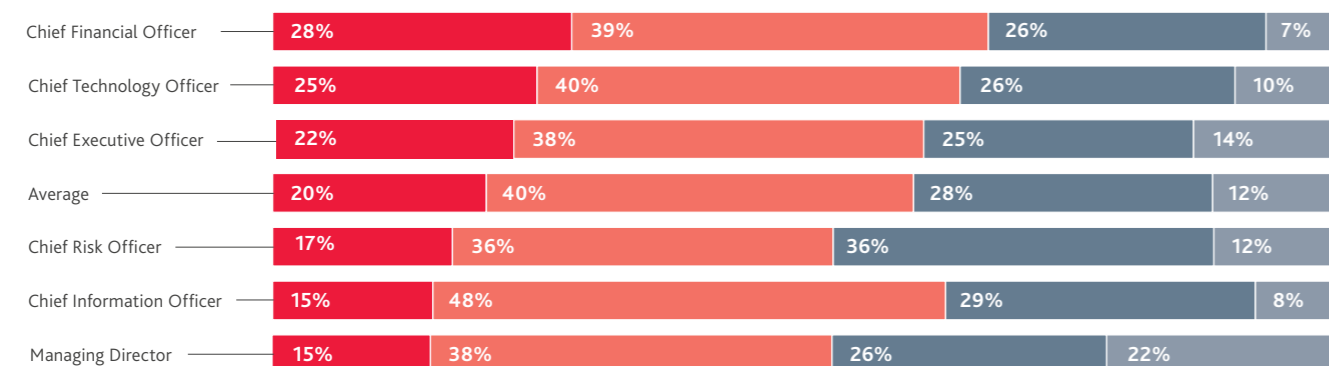
Risk should now be regarded as a more fluid and mature discipline and should become better integrated in the organisation. However, for many senior managers, the tools available are sadly lacking. A report last year from the Cambridge Centre for Risk Studies and the Institute of Risk Management – entitled *Risk Management Perspectives of Global Corporations* – found a lack of maturity in the development of tools to support risks that featured in the top ten list, such as geopolitical or natural catastrophe and climate. When asked to describe the next wave of change in risk management, the word that came up most often was "automation".

Organisations need to leverage internal and external data to proactively manage risk, using the new digital tools of analytics to anticipate risk events and drive business performance. Such a move may impact the skills and talent needed within the risk profession, but will bring a new level of responsiveness and engagement. Organisations undergoing digital transformation will find a dynamic risk function can pave the way to their future, enabling them to take greater risks more confidently.

Figure eight: Risk ownership

"My organisation fails to re-evaluate the risk ownership for risks that have been on the risk register for more than three years"

● Strongly agree ● Somewhat agree ● Somewhat disagree ● Strongly disagree



Numbers may not add to 100% due to rounding

75%

of respondents in the renewables industry felt their organisation fails to re-evaluate the risk ownership for risks that have been on the risk register for more than three years

to external influences (24 per cent), whereas the more risk-averse believe it should be a continual process (52 per cent).

For Dr Young, companies need to look closely at their strategy if they are to futureproof the business: "We teach how to grow a business, but not how to react to bad news. That's the new area that businesses must learn; the 'what ifs', how well they plan for resilience."

A second key is to ensure front-line employees take ownership of the risks. According to Brenda Boulwood, who serves on the board of the American non-profit group, the Committee of Chief Risk Officers, "building a successful risk management programme isn't just about implementing a robust risk

THE CONNECTED RISK CONUNDRUM

A firm understanding of your entire business ecosystem is vital for survival in the digital age

The *Global Risk Landscape 2017* explored how connected risk can fall under the perilous remit of intangible risks. The interconnectivity of risk has only become more exacerbated in the last two years.

"There has never been a more pressing need for a collaborative and multi-stakeholder approach to shared global problems," according to Børge Brende, president of the World Economic Forum (WEF), writing in *The Global Risks Report 2019*, a WEF report.

The report was a clear reminder to risk managers that it is critical to take a holistic

view of an organisation. However, our survey found that few companies are managing to do this at the moment. Nearly two thirds (62 per cent) of respondents believe their organisation's risk register fails to consider the interconnectivity of risks, with 18 per cent strongly agreeing (see figure nine).

"Companies are not prepared," says Dr Young. "Borders no longer insulate against change; distance is no longer a big issue. When an event happens, the interdependency between countries and economies triggers a domino effect."

The interconnected, global nature of risk was seen most clearly more than a decade ago, during the financial crisis of 2007-8. As the ripples spread from subprime mortgages to bank failures to government bailouts, stock markets around the world plummeted; we are still dealing with the consequences today.

But it's not only global businesses that need to consider the interconnectedness of risk. A straightforward health and safety risk assessment is not only about preventing physical harm to individuals; it feeds into business continuity risk, financial risk and reputational risk.

Mapping the journey from trip hazard to corporate collapse may not be easy. Ms Graham says: "What you're describing these days is ecosystems. The old days of a linear supply chain that is very easy to map and understand are very different from today's extremely complicated systems."

Today's suppliers could also be customers or competitors for raw materials. Technology, such as Artificial Intelligence or the Internet of Things, creates new connections that might need specialist analytics to model the risk. The pace of change in the digital age is making the world – and the organisations within it – a lot more complicated.

“ The old days of a linear supply chain that is very easy to map and understand are very different from today's extremely complicated systems ”

JULIA GRAHAM, AIRMIC

Ms Graham believes directors need to do more to understand the complexity of their organisations. "If you can't map and measure it, how can you govern it?" she asks. "A well-informed board will be asking what you do, why do you do it, show me some evidence."

Regulators around the world are pushing accountability, not just at board level but for senior management as well. But directors are not seeing the whole picture, says Dr Young: "They may be fed with too much information or too little – but most of all the problem is that risk doesn't get factored into the discussion. There is no standing order for board meetings to discuss this."

A micro risk can have far-reaching effects, says Dr Young: "The person making a decision at an operational level may not think about the consequences," he says. He explains that risk management needs to be organisation-wide, and not just the remit of risk professionals: "The risk officer isn't dealing at this micro level and doesn't have the control or insight across the company. Risk information gets lost in the gaps in communications between departments – until something explodes."

There is evidence that some in the corporate world are starting to fear the complexity of their organisations, says Ms Graham, and are doing something about it. "In order to govern effectively, some organisations feel they have to take out some of the complexity and discard businesses that don't add enough value."

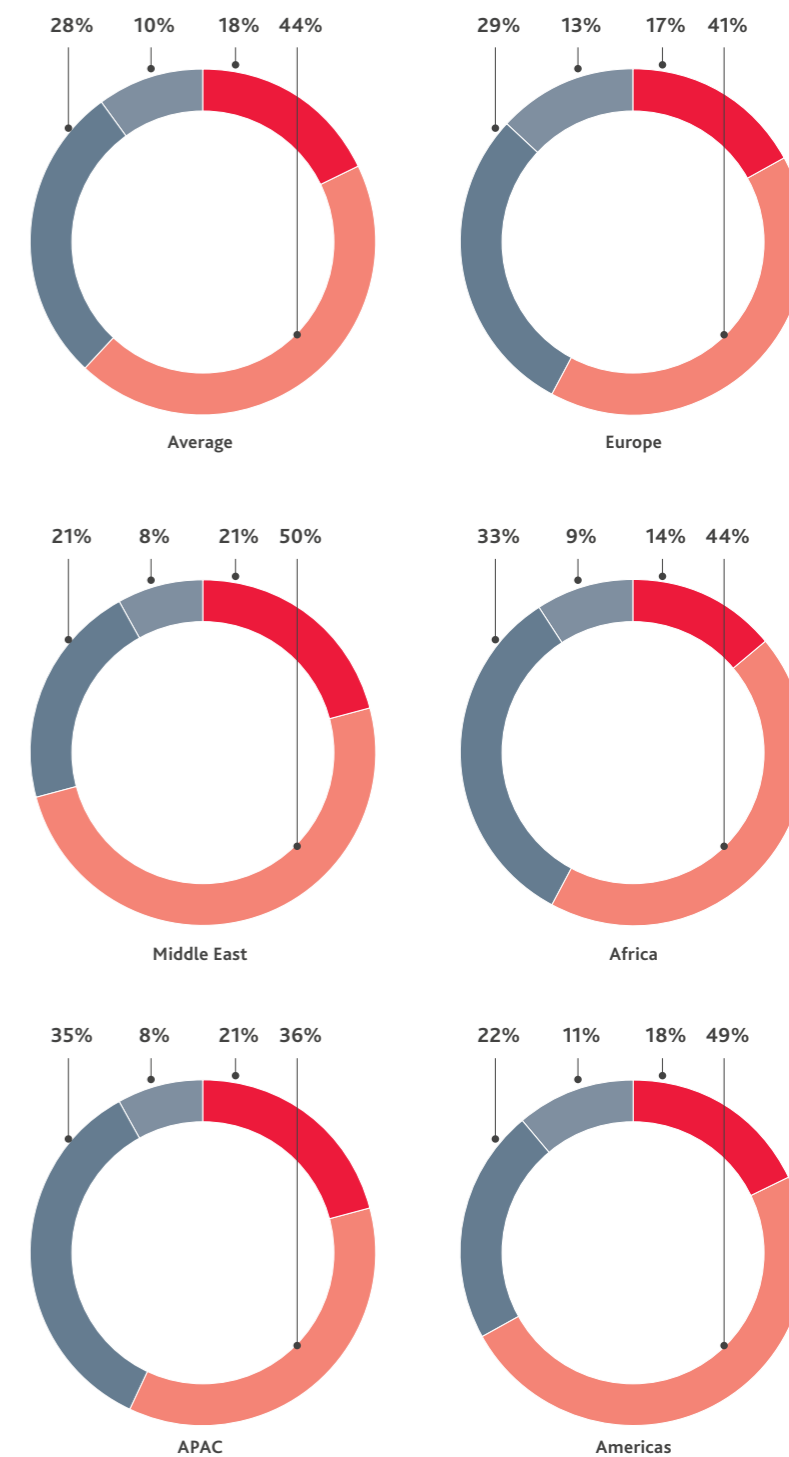
Today's interconnectedness means choices made in one area may have an impact elsewhere: climate change may be largely the result of the behaviour and choices of the richest nations in the world, but it is the poorest that will find it hardest to cope with the consequences of rising sea levels and extreme weather patterns. That disconnect between action and consequence is likely to power some of the most intractable societal issues we face today, fuelling different but no less critical risks for business, such as lack of natural resources and reputational damage.

We cannot eliminate risk. It is up to boards to understand as much as possible about the connections between risks, and then choose their priorities.

Figure nine: Interconnectivity of risks

"My organisation's risk register fails to consider the interconnectivity of risks"

● Strongly agree ● Somewhat agree ● Somewhat disagree ● Strongly disagree



Numbers may not add to 100% due to rounding





LOOKING FORWARD

A culture of resilience will arm businesses for the future

KEEPING COMPLACENCY AT BAY

There is a dichotomy in this year's Global Risk Landscape. Firstly, there is a very real fear from respondents about the overwhelming noise surrounding newer and immediate risks, and the impact this could have on risk review. Despite this, we see that organisations are keeping this culture of complacency at bay – not getting distracted from older or more traditional risks.

This year's survey marked a significant shift in risk concerns. Concerns over lack of preparedness have narrowed from the general to the specific; not just technological changes, but hacking; not the broad sweep of macroeconomic developments, but specifically economic slowdown (see figure one on page six). Risk has grown up. When looking forward, these more focused and granular risks appear to still be a key issue for organisations in the next five years (see figure ten).

This new focus on specific risk demonstrates a tipping point in the world of risk management, with increasing complexity and connectedness of risk having the potential to lead to a culture of complacency. Many organisations are responding to this business environment, showing that they believe the function is considered worthy of a seat on the board. Whilst only a third (32 per cent) of respondents said their risk officers are part of the C-suite, a further third (32 per cent) are considering it for the future.

A CHANGING RISK FUNCTION

This rise in importance will demand additional skills from professionals. Risk officers have long been familiar with number crunching, but the digital age is demanding a higher level of analytical capability, one that can be used to forecast, aid decision-making and help determine corporate strategy. There is a need to upskill, sourcing the right

talent that will be able to deploy the critical thinking and IT skills that will be needed.

This increased skill set is not confined to the risk function; risk is not only embedded within the board's remit but is also stepping out into every function in the organisation. We are all part of the risk department, and we need the training, the culture and the tools to play our part.

The Fourth Industrial Revolution is both enemy and friend in this new landscape. It's clear the world is turning too quickly for the old structured and project-driven ways of working; there is a need for a new

« New risks do not necessarily drive out the old; the risks are increasing rather than changing »

level of agility. Fluid and rapid response is the order of the day, but companies are not always succeeding at this, as shown by the high-priority risks that have not yet made it on to the risk register for a number of respondents. It is simply not good enough for leaders to display a lack of awareness of company values or fail to take into account the reputational risks of poor corporate culture.

Digital tools go some way towards helping, although the landscape of best practice may not yet be clear. Similarly, respondents are concerned that the digital age is likely to bring increased challenges in the future. There is still work to be done embedding technologies such as AI within organisations, but the shift to automation will free up humans to think more creatively. Technology will help provide those all-important insights that help balance risk against opportunity.

BUILDING A RESILIENT CULTURE

Risk is too important to be treated as an annual box-ticking exercise, and risk assessments too valuable a resource to be ignored. Companies that continue to maintain a culture of risk

complacency will soon find themselves lagging behind their competitors with missed business opportunities.

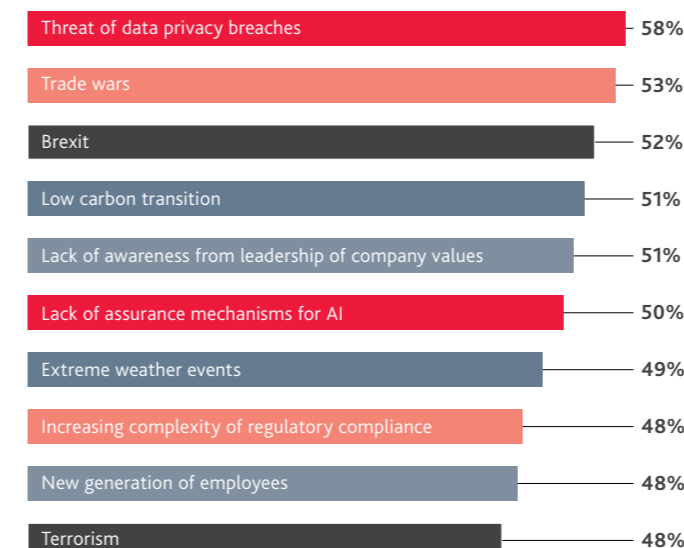
No one is suggesting this is easy. New risks do not necessarily drive out the old; the risks are increasing rather than changing. Traditional fire and flood are still risks that need assessing and mitigating. So along with the wave of noise, space must be found for existing risk management. Our research shows that organisations are generally doing well at keeping an eye on older risks (see figure four on page twelve). But again, this should not be an excuse for complacency; "pre-existing" does not mean "do the same as last year".

So the workload is increasing, as is the complexity. And as risk functions move from telling to communicating, from blaming to supporting and from recording to forecasting, the burden moves from one department to many.

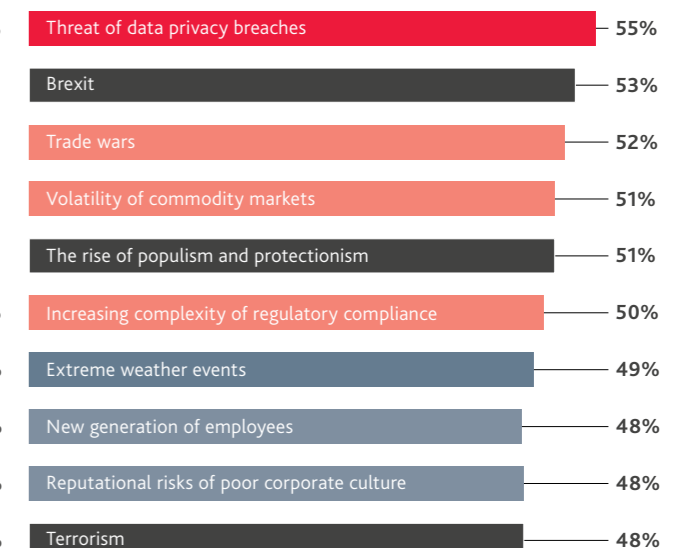
Risk is highly company-specific, so risk ownership by many is critical. Each organisation will have its own definition of risk and its own way of dealing with it. It is as personal as a fingerprint, and it is certainly not a matter for complacency.

Figure ten: Most important risks in 2020 and 2025

TOP RISKS 2020

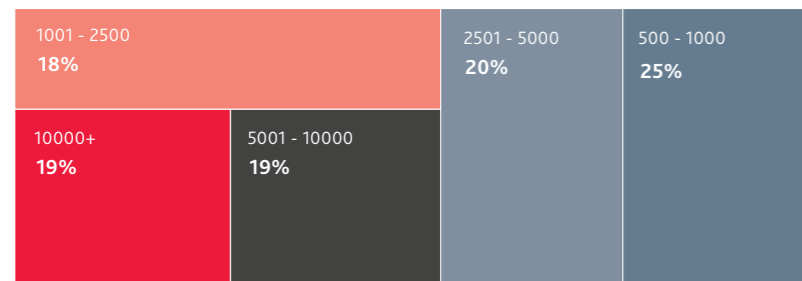


TOP RISKS 2025

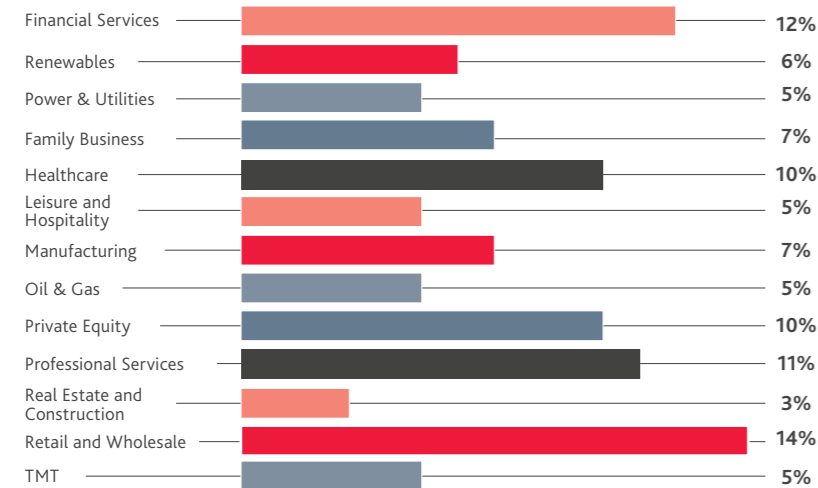


DEMOGRAPHICS AND METHODOLOGY

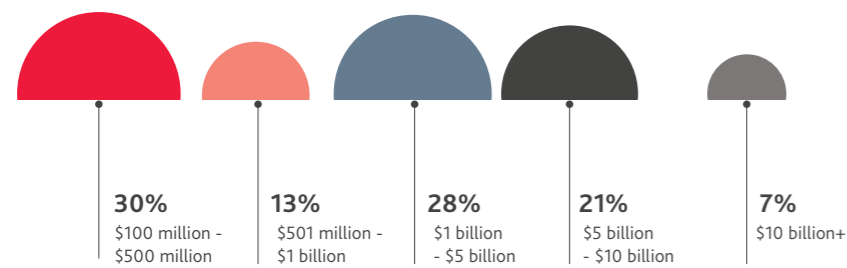
How big is your organisation (staff)?



What is your organisation's primary industry?

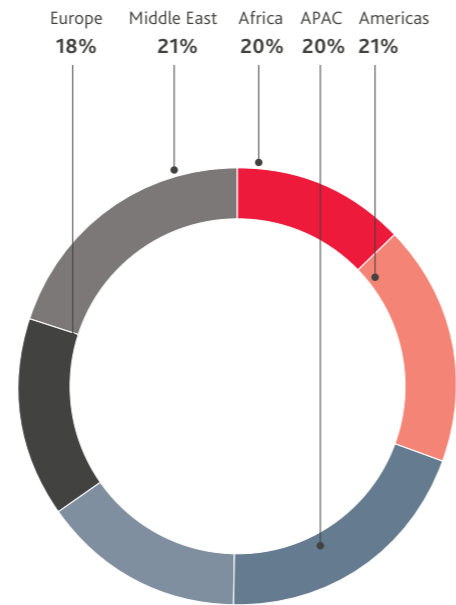


What is your annual revenue?

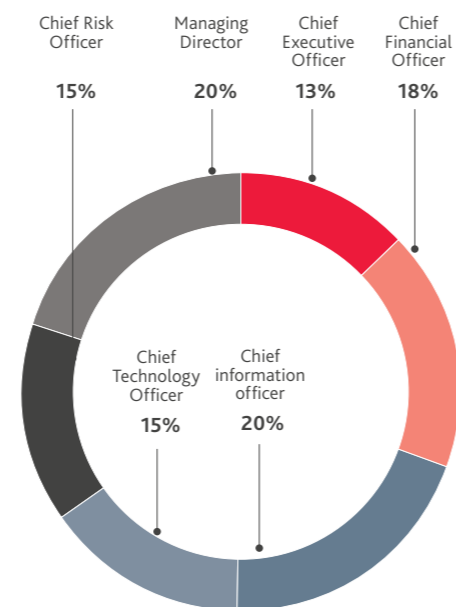


Numbers may not add to 100% due to rounding

Where are you based?



What is your job role?



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