ONRISK

A GUIDE TO UNDERSTANDING, ALIGNING, AND OPTIMIZING RISK

2022

IIA

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INTRODUCTION

*"**How complicated** and unpredictable the machinery of life really is."*

— Kurt Vonnegut

In the 18 months since the COVID-19 pandemic first shuttered the world, organizations have learned to embrace the unexpected. Board members, C-suite executives, and chief audit executives — the key players in risk management — now know that low likelihood/high impact risks must be given greater consideration. This realization has jolted boards into greater awareness of risk management weaknesses, energized senior management to build more nimble and resilient organizations, and positioned internal audit to deliver broader value.

Indeed, the pandemic has spawned changes in how we see our trusted institutions, the value and priorities we place on our time, and our commitments to long-held social contracts about work, diversity, and the health of the world around us. It is too early for definitive answers to which of these changes will be fleeting or permanent. However, one thing is certain. This once-in-a-century test of core social, business, political, and economic beliefs will forge changes both subtle and profound.

While historic, the lingering pandemic and its related fallout is not the only factor likely to influence risk in 2022. Growth in social upheaval, a significant shift in regulatory attitudes at the federal level, continuing economic and political volatility, continuing effects of climate change, and the marked acceleration of environmental-, social-, and governance-related issues will combine to make the coming year one filled with unpredictability and opportunity.

*"**COVID-19** has been a wake-up call for organizations to create a plan for the unexpected. These 'Hollywood type' risk scenarios are now something that should be discussed to some extent within organizations."*

– C-suite, Technology

*"**Risk today** has become very volatile and random. You see these things occurring globally in the news and there seems to be less correlation between the cause and effect."*

– Board, Retail

THE ONRISK APPROACH

The *OnRisk* approach is grounded in an innovative methodology that uniquely brings together the perspectives of the major stakeholders in organizational governance — the board, executive management, and chief audit executives. Alignment of these stakeholders' views on personal knowledge, organizational capability, and risk relevance is a significant step toward achieving strong risk management in support of effective governance.

The methodology employs qualitative interviews of 30 board members, 30 C-suite executives, and 30 CAEs from 90 different organizations. The research provides a robust look at risks facing organizations and allows for both objective data analysis and subjective insights based on responses from risk management leaders.

Collective ratings for each group are assigned a value based on the percentage of respondents who rate particular aspects of each risk at a 6 or 7 on a 7-point scale. For example, if 7 in 10 board members rated their organizations' risk management capability on data privacy at a 6 or 7, the score would be 70%.

Further details regarding the *OnRisk* methodology, how to use and leverage this report, and explanations of the Stages of Risk developed in conjunction with the *OnRisk* approach can be found later in this report.

TOP RISKS, 2022

The 12 risks below, carefully selected from a wide assortment of risks likely to affect organizations in 2022, were vetted through in-depth interviews with board members, executive management, and CAEs. Some of the risks included are unchanged from *OnRisk 2021*, some have been updated, while others have been added. For example, the 2021 risk for sustainability is broken out in 2022 to include Environmental Sustainability, Social Sustainability, and Organizational Governance. All of the risks in *OnRisk 2022* should have universal applicability to organizations, regardless of size, industry, or type. Risks not included in this analysis may have particular relevance to some organizations, depending on their specific circumstances. The risks are presented in order of relevance, as rated by *OnRisk 2022* respondents.

CYBERSECURITY: The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption and reputational harm.

TALENT MANAGEMENT: The increased need for and acceptance of remote operations, including working from home, as well as continued dynamic labor conditions, are redefining how work gets done. This risk examines the challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.

ORGANIZATIONAL GOVERNANCE: Governance encompasses all aspects of how an organization is directed and managed — the system of rules, practices, processes, and controls by which it operates. This risk examines whether organizations' governance assists or hinders achievement of objectives.

DATA PRIVACY: The growing list of regulations from jurisdictions around the world is making data privacy increasingly complex and dynamic. This risk examines how organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.

CULTURE: With an increasing percentage of professional employees working remotely full or part time, organizations are challenged to maintain, enhance, or control their organizational culture. This risk examines whether organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.

ECONOMIC AND POLITICAL VOLATILITY: The ongoing impacts of the pandemic combined with the normal dynamics of macroeconomic cycles have the potential to create volatility in the markets in which organizations operate. This risk examines the challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.

CHANGE IN REGULATORY ENVIRONMENT: Fundamental changes in government appetite for regulation can have a significant impact on organizations, including those not considered heavily regulated. This risk examines the challenges organizations face in a dynamic and ambiguous regulatory environment.

SUPPLIER AND VENDOR MANAGEMENT: For an organization to be successful, it has to maintain healthy and fruitful relationships with its external business partners and vendors. This risk examines organizations' abilities to select and monitor third-party relationships.

DISRUPTIVE INNOVATION: We are in an era of innovative business models, fueled by disruptive technologies. This risk examines whether organizations are prepared to adapt to and/or capitalize on disruption.

SOCIAL SUSTAINABILITY: Increasingly, there is a recognition that organizations have significant influence on individuals who they employ, who work in their value chain, who consume their products and services, and who live in their communities. This risk examines the ability of organizations to understand and manage the direct and indirect impacts their actions have on individuals and communities.

SUPPLY CHAIN DISRUPTION: The disruption to business-as-usual operations globally, rooted in the global pandemic, has highlighted the need for resilience in supply chains in support of organizations' achievement of strategic objectives. This risk examines whether organizations have built in the flexibility to adapt to current and future supply chain disruptions.

ENVIRONMENTAL SUSTAINABILITY: Organizations are facing increased pressure from stakeholders, including shareholders, regulators, customers, and employees, to evaluate and disclose how they are impacting the environment in which they operate. This risk examines the ability of organizations to reliably measure, evaluate, and accurately report on their environmental impacts.

KEY OBSERVATIONS

The qualitative interviews for *OnRisk 2022* provide a snapshot of how the principal drivers of risk management interact, which risks pose the greatest challenges to their organizations, and how alignment on risk management efforts impacts success. Analysis of the results identified six key observations that shed light not only into how risks are understood, but also how the ability to manage risk is perceived. In-depth examinations of these observations are found later in this report.

- **There are notable variations among risk management players on certain risks.** Overall, there is general alignment on organizational capability, risk relevance, and personal knowledge. However, there are noteworthy variations in several key risk areas.
- **Significant gaps exist between risk relevance and organizational capability ratings on several risks.** The gap between how risk management players rate risk relevance versus organizational capabilities is alarmingly wide for Talent Management, Disruptive Innovation, Data Privacy, Cybersecurity, and Culture.
- **Risks to pay attention to going forward.** Five risk areas emerged as top of mind for respondents: Cybersecurity, Talent Management, Culture, Disruptive Innovation, and Economic and Political Volatility. Of note, four of the five also had the largest gaps between risk relevance and organizational capabilities, suggesting risk players know where work needs to be done.
- **Perceptions of risk relevance vary greatly across ESG components.** While alignment among the three groups is relatively strong on these risks, Organizational Governance holds far greater relevance for respondents than do Social Sustainability and Environmental Sustainability.
- **The pandemic revealed opportunities to improve organizational risk management.** COVID-19 may not have improved the ability to predict risks, but it increased confidence for many in reacting to risks. For others, it provided a wake-up call on how they manage risk and the added challenges associated with managing risk in decentralized or siloed conditions.
- **Senior executives and boards desire broader scope for internal audit services.** Respondents feel that their current assurance services are adequate but suggest some improvements in assurance reporting. This offers an opportunity to demonstrate the value of independent assurance across a wider spectrum of risks.

KEY OBSERVATIONS EXPLAINED

The six key observations are examined in depth in the following pages. As noted previously, the qualitative interviews for *OnRisk 2022* were designed to elicit candid perspectives on the nature and understanding of risk management through the eyes of its three principal drivers. The analysis and examination of those views reveal important insights into interactions and alignment among respondents and informative conclusions about how those interactions and alignments impact risk management.

NOTABLE VARIATIONS IN CAPABILITY AND RELEVANCE FOR CERTAIN RISKS

While overall ratings from the three respondent groups appear to reflect general alignment, deeper analysis of organizational capability and risk relevance ratings for each group finds noteworthy variations in several risk areas, particularly Disruptive Innovation.

Senior executives tended to be more confident about organizational capability for most risk areas examined except for Disruptive Innovation, where just 2 in 10 respondents rated capability as high (Figure 1). This created the largest variation between two respondent groups on capability — 23 percentage points between the C-suite and the board.

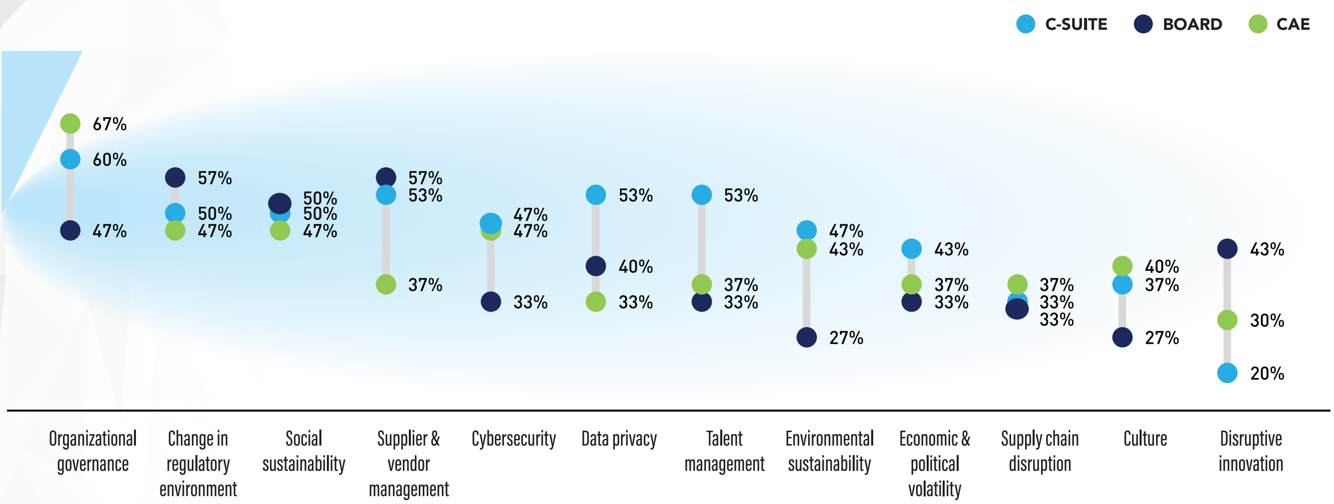
Boards are not as confident as senior executives on their organization's capability to manage certain risks. For Talent Management and Environmental Sustainability, the capability rating was 20 points lower for board respondents compared to their C-suite counterparts. It was 13 points lower for Organizational Governance.

Meanwhile, CAEs were less confident in their organization's ability to address Supplier and Vendor Management risk. Their ratings were 20 points lower than board respondents and 16 points lower than the C-suite.

Figure 1:

ORGANIZATIONAL CAPABILITY RATINGS BY ROLE PER RISK AREA

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



Note: *OnRisk 2022* interview question: Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest ("not at all") and 7 being the highest ("extremely"). Risk areas were sorted from highest to lowest average scores. *n* = 90.

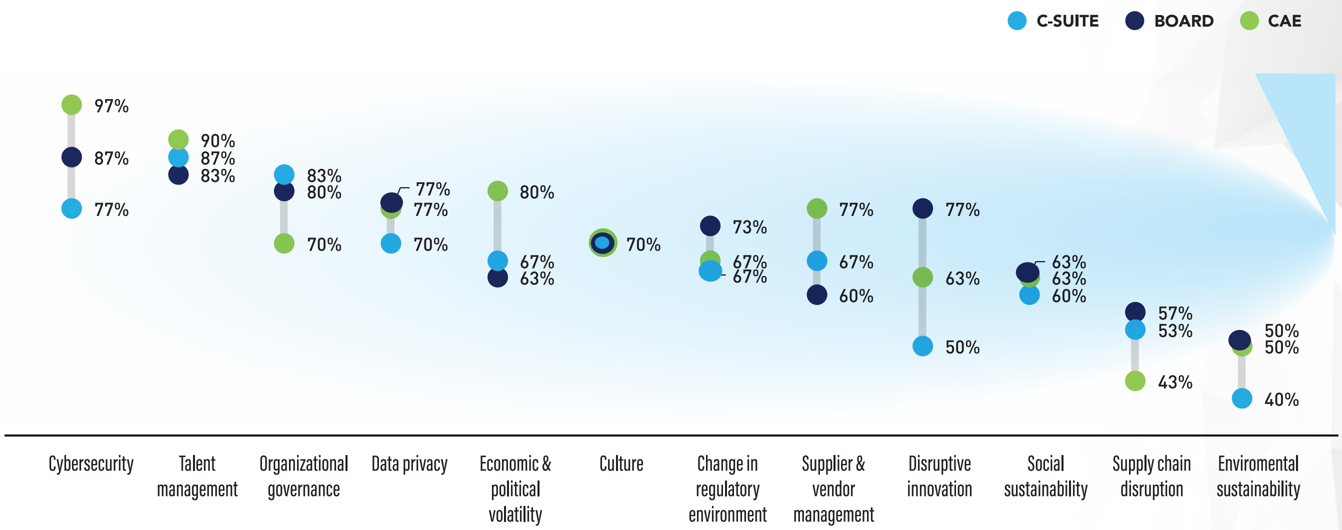
Similar variations were noted in risk relevance ratings (Figure 2). Boards were significantly more likely to rate Disruptive Innovation as a highly relevant risk (77%) than were senior executives (50%). This 27-point variance was the greatest between any two respondent groups in the risk relevance ratings.

Nearly every CAE (97%) rated cybersecurity as a highly relevant risk to their organization, but board respondents lagged by 10 percentage points (87%) and the C-suite lagged by 20 percentage points (77%). CAEs also were more likely to describe Supplier and Vendor Management as highly relevant — 17 points higher than the board and 10 points higher than the C-suite. A similar 17-point difference is noted between CAE and board ratings for Economic and Political Volatility.

Figure 2:

RISK RELEVANCE RATINGS BY ROLE PER RISK AREA

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



Note: *OnRisk 2022* interview question: How relevant are each of the following risks to your current organization? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest ("not at all") and 7 being the highest ("extremely"). Risk areas were sorted from highest to lowest average scores. *n* = 90.

SIGNIFICANT GAP IN RELEVANCE AND CAPABILITY RATINGS ON SEVERAL RISKS

While some ratings variation among individual respondent groups was expected, an analysis of the combined ratings for the three respondent groups uncovered additional insights. The analysis identified large gaps between higher risk relevance and lower organizational capability in several areas. This Relevance-Capability Gap reflects potentially significant risk management vulnerabilities.

Chief among these is Cybersecurity, which continues to exasperate organizations large and small, public and private, for-profit and nonprofit. This ubiquitous and dynamic risk was rated as the most relevant by respondents, along with Talent Management (Figure 3). Yet, on average, organizational capability lagged significantly. Large disparities also are noted for Talent Management, Disruptive Innovation, Culture, Data Privacy, and Economic and Political Volatility.

"As we have witnessed with the pipeline hack this year, these cybersecurity attacks can have a huge trickle-down effect. All industries are susceptible to cybersecurity risk to some extent."

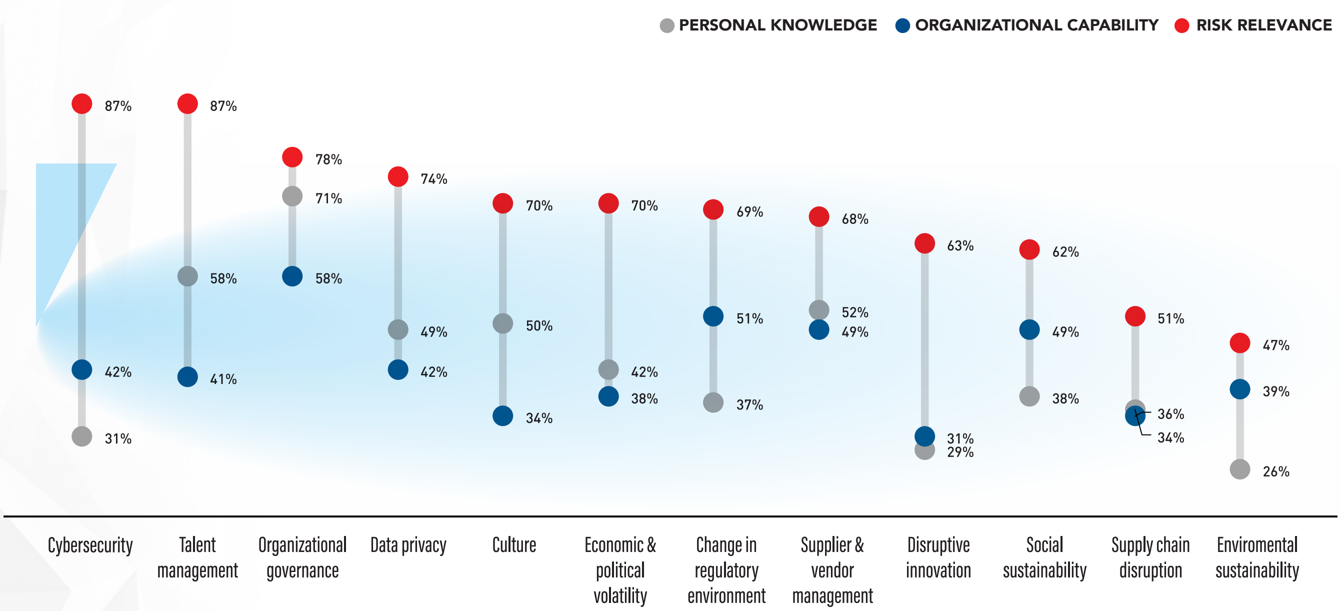
– Board, Manufacturing

For these risks, the relationship between relevance and capability varies. A highly relevant risk may be more difficult to manage because it is unpredictable and not easily controllable, due to, for example, external factors that may augment risk velocity. This appears to be the case for three of the six risks with the largest disparities: Cybersecurity, Disruptive Innovation, and Economic and Political Volatility. However, for Talent Management, Culture, and Data Privacy — risks that can be managed internally through controls and processes — the gaps may reflect more uncertainty coming out of the pandemic rather than a lack of control.

Figure 3:

AVERAGE RATINGS PER RISK AREA

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



Note: *OnRisk 2022* interview questions: How knowledgeable are you about each of the following risks? How relevant are each of the following risks to your current organization? Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest ("not at all") and 7 being the highest ("extremely"). All respondents. n = 90.

For example, the Relevance-Capability Gap for Talent Management may reflect uncertainty as organizations emerge from nearly 18 months of pandemic-induced isolation. This unease about workforce management ranges from the challenge of devising effective return-to-work strategies to more profound changes in the employer/employee social contract.

One healthcare C-suite executive credited the pandemic for an epiphany in this area. “The biggest thing on our minds right now is dealing with remote work and getting some of our employees back into the office, getting vaccinated, etc. The pandemic has definitely shown me that I was too rigid in my thought process in terms of remote work risk.”

Respondents expressed different approaches to managing risks that they cannot directly influence. For example, one financial company board member noted regulatory change is one that is relevant and carefully monitored, but largely out of the organization’s control. “Change in regulatory environment, for example, is very important to us. We’re very careful about the way that regulations affect us. It’s hard to do, and it’s not something anyone can really control.”

Meanwhile, a board member at a different financial services company said the firm chooses to focus on what can be governed. “We pay attention to risks that we can control. There is an importance of understanding your market and competitors when considering relevant risks that we might have less control over.”

As noted earlier, there is general alignment in personal knowledge, organizational capability, and risk relevance ratings among the respondent groups. However, the variance between relevance and capability is clearly evident in average ratings assigned by each respondent group (Figure 3).

RISKS TO PAY ATTENTION TO GOING FORWARD

Respondents identified five risks they expect to increase in relevance in the next three to five years: Cybersecurity, Talent Management, Disruptive Innovation, Culture, and Economic and Political Volatility. Each of these fall into risk areas identified as having large Relevance-Capability Gaps. This concurrence could be viewed as troubling — organizations have fallen far behind on their capabilities to manage future risks — or encouraging — risk players intuitively recognize capability weaknesses and understand they must act to correct them.

CYBERSECURITY: The 45-point Relevance-Capability Gap for Cybersecurity (see Figure 3) reflects the near-constant struggle to keep up with the evolving and vexing nature of cyber risks. Cyber hackers are constantly looking for new weaknesses to exploit and novel ways to cash in on their criminal behavior. Ransomware and other denial-of-service type attacks are growing in number and sophistication, and the consequences are having broader impacts, as reflected in the cyberattack that temporarily halted operations of a major U.S. oil distribution system in May of 2021.

TALENT MANAGEMENT: Talent Management is expected to remain a top risk for the foreseeable future. At 46 points, this risk had the largest Relevance-Capability Gap of all risks examined this year, edging out Cybersecurity. Concerns about the pandemic’s impacts on the labor market and the traditional employer/employee social contract continue to keep this risk front and center in the minds of risk managers.

As noted in *OnRisk 2021*, “This significant disruption to talent management, as well as its impact on morale, productivity, and workplace culture, will have both short- and long-term implications for organizations.” Two areas offered as evidence of potential disruption have quickly come to fruition.

The work-from-home phenomenon fundamentally changed how organizations recruit and manage talent. While having a majority of the workforce operating in remote settings posed significant immediate challenges in technology, cybersecurity, and logistics, it all but eliminated the limitation of geographic considerations when identifying and hiring the right talent. As one manufacturing C-suite executive noted, “Talent management might become more challenging with the different generational gaps now becoming emphasized in the workforce. Where are we going to find the best talent?”

RISKS TO PAY ATTENTION TO GOING FORWARD

(Continued)

Yet, the work-from-home experiment also appears to have had a profound impact on attitudes about work/life balance among various parts of the labor force. According to a June 2021 article in *Forbes* magazine[1], expectations for many have changed in the year spent working from home. For instance, the article notes evidence that many are reconsidering career paths, citing increases in law and medical school applications jumping 20% and 18%, respectively.

A growing number of employees are leaving their jobs voluntarily. Dubbed "The Great Resignation," this fallout from the pandemic promises to have long-term effects on the workforce. The United States saw nearly 4 million people quit their jobs in April 2021 alone, according to U.S. Bureau of Labor Statistics data, the largest single-month spike on record. Another 3.6 million left their jobs voluntarily in May. The phenomenon is not limited to the United States.[2]

According to the BBC[3], a Microsoft survey of more than 30,000 global workers showed that 41% of workers were considering quitting or changing professions this year. The same report found a five-fold increase in remote job postings on LinkedIn since the start of the pandemic and that more than 46% of workers say they plan to move because they feel they can now work remotely.[4]

As organizations focus on getting workers back into office settings, they should carefully weigh the tightening labor market and how it relates to worker expectations in salaries, benefits, and work/life balance.

CULTURE: The distributed workforce created by the pandemic is feeding significant concern about workplace culture. The Relevance-Capability Gap for this risk is 36 points.

Building or sustaining a company culture virtually poses significant challenges, and organizations now face the question of whether to return to pre-pandemic work arrangements or find ways to adapt to greater percentages of offsite workers. The work-from-home experience has led to positive changes, including organizations witnessing increased trust, a flattening of hierarchies, and more rapid and agile decision-making. Yet, logistical challenges with communication, worker interaction, collaboration, fostering relationships, and consensus-building remain. Fundamental shifts in the employee/employer social contract (see section on talent management) further complicate this vexing risk.

*"**We all 'live' culture,** but understanding how to manage it and change it is a different beast altogether."*

– CAE, Finance

ECONOMIC AND POLITICAL VOLATILITY: The continuing political and economic fallout from the pandemic drives this risk, pushing its Relevance-Capability Gap to 32 points.

According to a July 2021 U.S. Congressional Research Service report, emergence from the pandemic will be uneven globally, meaning continued economic volatility, particularly in developing countries.

"The economic impact of the pandemic is expected to lessen in developed economies where vaccinations are facilitating a return to pre-pandemic levels of activity. In developing countries, however, outbreaks of new viral variants could prolong the pandemic and dampen prospects of a recovery," according to the report.

What's more, a resurgence of COVID-19 cases brought on by new virus variants could prolong or create temporary setbacks in the recovery.[5]

*"**Things were a breeze** until 2008-2009. Now 2020-2021 into 2022, we're expecting a lot of volatility…I don't have strong feelings about where the economy is going, but we're planning more now for major impacts like product shortages, delays, disruptions like that."*

– C-suite, Finance

1: Kreznar, Christian, "Employers, Don't Fear The 'Great Resignation'—It's Already Here," *Forbes*, June 3, 2021.
2: Economic News Release, "Table 4. Quits levels and rates by industry and region, seasonally adjusted," U.S. Bureau of Labor Statistics, Washington, D.C., https://www.bls.gov/news.release/jolts.t04.htm
3: Morgan, Kate, "The Great Resignation: How employers drove workers to quit," BBC, July 1, 2021.
4: Microsoft 2021 Work Trend Index, https://www.microsoft.com/en-us/worklab/work-trend-index/hybrid-work
5: "Global Economic Effects of COVID-19," *U.S. Congressional Research Service*, July 9, 2021, Washington, D.C.

Historically, political volatility has followed economic shocks, most recently in the wake of the 2007-2008 international financial crisis. In April, International Monetary Fund Managing Director Kristalina Georgieva warned that preexisting inequalities that have been exacerbated by the pandemic might lead not only to macroeconomic instability, but also greater polarization, the erosion of trust in governments, and growing social unrest.[6]

DISRUPTIVE INNOVATION: Disruptive Innovation presents one of the greatest risk management challenges for organizations, which is reflected in the considerable misalignment between boards and the C-suite as it relates to risk relevance and organizational capability. This also contributes greatly to the overall 32-point gap between risk relevance and organizational capability for the combined respondent ratings. Frustration at the board level is evident. Some respondents recognize they are not prepared for managing such challenges, including one healthcare board member who said, "We're not innovative, change is very slow to happen. Everything is about bandaging… a preparedness and ability to adapt is not there."

A retail board member expressed frustration relating to not being able to see beyond the risk horizon. "If we knew what [the disruptive innovation] would be, we would be working on it. But we don't know what is coming." However, the movement among senior executives toward building organizations that are more nimble and responsive to fast-moving and emerging risks could contribute to improvements in this risk area. The Netflix vs Blockbuster story provides a stark example of how recognizing and leveraging disruption can mean the difference between spectacular success and stunning failure.

Blockbuster pioneered and dominated video rental services through a vast network of brick-and-mortar stores. Indeed, it dismissed an offer to merge with the Netflix mail-order video service in 2000. However, just six years later, Netflix dominated online video rentals, with 6.3 million subscribers compared to 2 million subscribers for Blockbuster. In 2008, Netflix leadership again showed that it recognized how technology could disrupt its business model significantly and responded. It signed a deal to stream movies for Starz, and by 2010, it held a 20% share of North American viewing traffic after signing additional deals with Sony, Paramount, Lionsgate, and Disney. That same year, Blockbuster filed for bankruptcy.

6: Hammond, Andrew, "The world is facing even greater political upheaval in post-pandemic world," *Arab News*, April 8, 2021.

PERCEPTIONS OF RISK RELEVANCE VARY GREATLY ACROSS ESG COMPONENTS

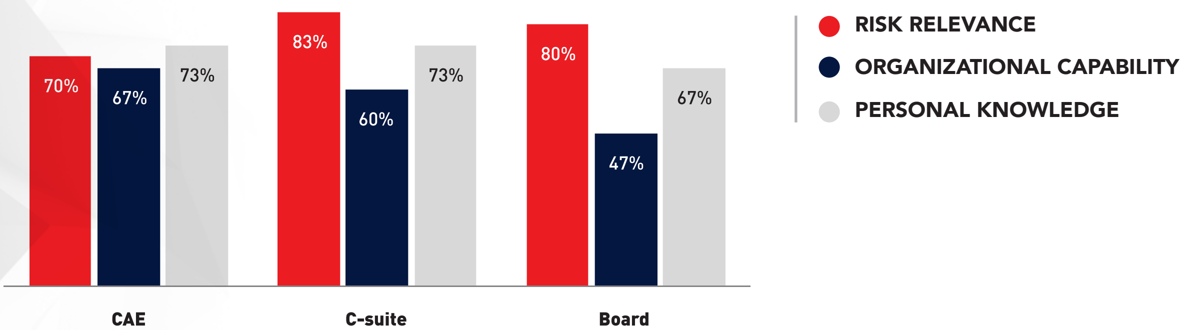
***OnRisk 2022* breaks out the three risk areas associated with ESG** — Environmental Sustainability, Social Sustainability, and Organizational Governance. Respondent ratings and responses clearly indicate Organizational Governance dominates over Social Sustainability and Environmental Sustainability in the minds of survey participants (Figure 4). In all three *OnRisk* measures — personal knowledge, organizational capability, and risk relevance — respondents rank Organizational Governance among the highest of all risks examined and well ahead of Social Sustainability and Environmental Sustainability risks.

Figure 4:

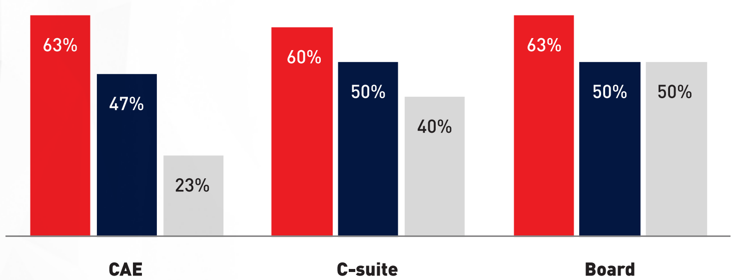
ESG MEASURES – COMPARING RELEVANCE, KNOWLEDGE, AND CAPABILITY TO ROLE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7

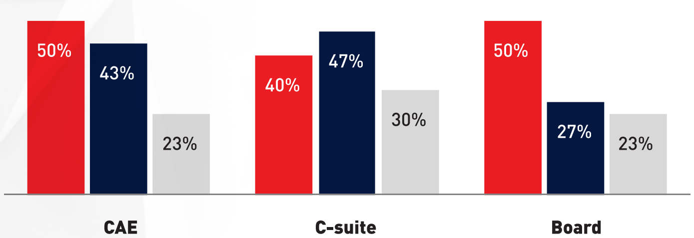
ORGANIZATIONAL GOVERNANCE



SOCIAL SUSTAINABILITY



ENVIRONMENTAL SUSTAINABILITY



Note: *OnRisk 2022* interview questions: How knowledgeable are you about each of the following risks? How relevant are each of the following risks to your current organization? Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest ("not at all") and 7 being the highest ("extremely"). *n* = 90.

This high ranking may be influenced by the broad relevance of Organizational Governance. Indeed, most organizations recognize the need and value of having strong risk controls across a spectrum of risks that affect the achievement of goals. It also may reflect often heroic and aligned efforts to respond to governance challenges created by the pandemic and the need for strong leadership to overcome those challenges. Further, it indicates a growing awareness of the benefits of risk alignment among key risk management players, which supports stronger organizational governance.

One manufacturing C-suite executive linked alignment with success. "We came to the conclusion that we were aligned… It showed how we are in line with most things, which I think helps us be successful." Other comments reflect a growing awareness of the value of strong organizational governance and the dangers of weak governance:

*"**For a lot of public companies,** capability could be higher. Just look at some of the issues that arise…if everyone was really good at it, we wouldn't be seeing so much breakdown in the structures at public companies."*

– Board, Finance

*"**We've now created** a separate risk committee amongst our board. This has helped us to end up with some great documents regarding our organization's handle on different risks."*

– Board, Finance

*"**How you plan** for all of the other risks can be [attributed] to organizational governance... it's extremely important and covers everything."*

– C-suite, Manufacturing

(See additional analysis of how the pandemic revealed opportunities to improve organizational risk management on page 19)

Advocates of corporate sustainability are quick to point to social and environmental sustainability being critical components to overall sound organizational governance. However, risk relevance rankings by *OnRisk* respondents did not reflect such clear associations. Indeed, Social Sustainability and Environmental Sustainability ranked in the bottom quartile in risk relevance. Despite widespread concern about climate change, fewer than half of respondents identified Environmental Sustainability as a highly relevant risk within their organizations. To be sure, comments from some respondents reflected a narrow scope of context relating to environmental sustainability.

*"**People at our work eat, drink, use the bathroom,** but we're not producing toxins that they have to dump somewhere, so it's not something that enters the conversation.*

- C-suite, Technology

There has been growing awareness of ESG risks — as reflected in the growing number of organizations producing ESG reports and growing investor pressure for such reporting — but changes appear as likely to be driven by short-term considerations versus fundamental recognition of sustainability's value. For example, Social Sustainability has become a focal point in the last 18 months due to global events and growing social activism, but Environmental Sustainability still lags.

Respondents believe a mix of real and artificial change is occurring and most think their organization is driving real change. However, comments from some respondents reflect a mix of short-term consideration and parochial mindsets.

One manufacturing C-suite executive associated the ESG movement more with marketing than with overall sustainability. "We have to have enough awareness to get through the door, get this bid, and get the job, but so far it seems like more of a gimmick for customers than a real market driven desire."

However, others understand the value of managing environmental impacts, including a healthcare industry board member who lamented that such considerations must compete with other risks. "Most organizations want to have good environmental sustainability policies, procedures, and programs, but it is not always front and center when dealing with all these other risks."

PERCEPTIONS OF RISK RELEVANCE VARY GREATLY ACROSS ESG COMPONENTS

(Continued)

Other respondents expressed a more expansive view and understanding of how ESG components can work in concert within an organization.

*"**Sustainability is going to be an absolute imperative** in order to preserve, maintain, and grow wealth. This is like any other investment in business. These investments need to be made in order to protect and sustain the value that's being created."*

– Board, Finance

*"**We need to have leaders** that are open-minded to social sustainability change, that are willing to change and put in the work, or else change isn't going to happen."*

– CAE, Education

Organization size and maturity also were cited as potential limits to managing ESG risks. Limited resources make ESG risks — particularly those relating to E and S — lower priorities.

One C-suite executive from a nonprofit lamented, "I wish that we could be better with ESG, but it's just not a priority. We're a small business, so things like cybersecurity, organizational governance take precedence and environmental and social sustainability take the backseat. Some organizations are fortunate enough to have a team dedicated to ESG or even an employee working on it, but we're stretched too thin as it is."

The lack of clear direction or standards for measuring and reporting ESG also was cited as a deterrent. According to one finance CAE, "Having some sort of measurement for ESG would help to drive real change. You need to be taken accountable and show that real things are happening, and then also document and report on what is happening."

However, a manufacturing industry CAE believes that companies that focus too much on reporting are missing the real benefit of ESG risk management. "The problem is that companies focused on reporting could be more artificial… they could be just checking the box, putting out reports to say they did it so that their stakeholders are happy. There needs to be more initiatives and actual activity occurring."

PANDEMIC REVEALED OPPORTUNITIES TO IMPROVE ORGANIZATIONAL RISK MANAGEMENT

COVID-19 forced most organizations to focus to some degree on how risk management efforts are aligned across their organizations. The pandemic may not have improved their ability to predict risks, but it increased confidence for many in reacting to risks. For some, it provided an opportunity to assess or reassess resilience. For others, it provided a wake-up call on how they manage risk and the dangers of decentralized or siloed conditions.

One nonprofit board member described how the pandemic proved to be eye-opening. "It has made us aware that there are scenarios that might happen in the future that we have to manage, and now we're hyper aware of shortfalls of our risk approach."

A retail industry board member, meanwhile, saw the good and bad in the pandemic-induced introspection. "It showed us that we weren't really good at predicting risk, but I think we reacted very well. It made us aware of scenarios that might happen in the future and how we will handle them."

PANDEMIC REVEALED OPPORTUNITIES TO IMPROVE ORGANIZATIONAL RISK MANAGEMENT

(Continued)

OnRisk respondents also expressed concerns about alignment with third-party providers and partners. According to one education CAE, "There is the concern that third parties are not aligned on objectives, reporting, especially with risks like cybersecurity. Organizations should improve how they monitor third-party agreements, contract management, relationship building…a lot of time they're just 'getting it done,' and not reflecting."

As the world slowly emerges from more than a year of shuttered economies, homebound workforces, strained or disrupted supply lines, and sobering death tolls that top 4 million globally, early focus on post-COVID-19 risk management appears to be primarily short-term concerns.

"It definitely has impacted our perspective when it comes to risk. But I don't think we have any concrete plans in place to change our risk strategy or anything long term yet. We're focusing on getting our hybrid system set up and maintaining the health and safety of our employees," said one government sector CAE.

Meanwhile, one technology C-suite executive described the struggle to simply keep the doors open. "We're still in survival mode…we haven't thought about permanent impacts of the pandemic. We never thought this would happen, so we're just trying to get by." For some, the pandemic offered a valuable lesson about how risks manifest across the organization. "COVID has taught us that we need to be more centralized and have an overarching strategy and guidance in place when it comes to risk management," said one education sector CAE.

The complexity and dynamics of post-COVID-19 employer/employee relationships ranked high for many *OnRisk* respondents. The pandemic highlighted the importance of managing talent and culture. According to one real estate senior executive, "Our worry is about losing the culture with the new people. They never really got to experience [culture] because they go right from being hired to working from home."

Long-term planning sessions are not top of mind for many, but respondents say they will focus more on contingency plans down the line.

"The reality is that most companies don't have contingency plans at all. Now companies are going to have to work toward understanding contingency plans and the importance of assigning teams and positions to handle unexpected risk," said one municipal board member.

SENIOR EXECUTIVES AND BOARDS DESIRE BROADER SCOPE FOR INTERNAL AUDIT SERVICES

For many organizations, the COVID-19 experience raised awareness of not just the value of risk management alignment among key players, but also of the potential to leverage risk assurance beyond financial and compliance risks. *OnRisk* respondents expressed growing interest in expanded assurance over operational and enterprise risk, as well as the need to proactively address risks. These developments point to opportunities to leverage internal audit services even more, particularly in highly relevant risk areas such as Cybersecurity, Talent Management, and Organizational Governance. Overall, respondents feel that their current assurance services are adequate but suggest some improvements in assurance reporting.

*"**There was a time where we were misaligned** because the auditor was focused on financial risks and not enterprise risk. An organization needs to cover both."*

– C-suite, Healthcare

As understanding and appreciation of enterprise risk management grows, so do demands on internal audit to expand its scope, identify shortfalls in risk coverage, monitor emerging risks, report clearly and concisely to stakeholders, and employ greater use of technology to provide robust risk management assurance.

One retail industry board member said it's time to broaden how internal audit is viewed within organizations. "Some people think that internal audit is too reactive and just dependent on the current needs at the moment. I think it's good to have internal audit thinking about the process, getting ahead, and identifying gaps."

A technology C-suite executive called on internal audit to expand its services to cover emerging risk areas. "Currently, our internal audit doesn't hit on some of these risks like environmental sustainability and change in regulatory environment."

Not all respondents feel internal audit is critical to adequate risk management assurance. According to one information technology C-suite executive, "We don't have internal audit, but we have external audit, and I believe it is adequate for what we need." While some organizations rely exclusively on external audit for risk management assurance, there are inherent risks in this myopic approach.

Relying on risk management assurance from external audit, which historically primarily focuses on financial reporting and compliance, is in itself risky. One technology C-suite executive articulated a more sophisticated approach to risk management, which adds needed perspective:

"We have a formal ERM process, with a person that leads annual reviews for the entire organization. Risks get rated, gaps get identified, and then the likelihood and significance as well as tolerance is determined. Two hundred risks are assessed and grouped together in different categories. I think because we have this process and our audit function is so tuned-in to risk, we have sufficient assurance."

OnRisk respondents said they want to see more consistency in assurance reporting, as well as better ways to communicate findings, including more data and analysis and tailored detail based on audience. One financial industry board member stressed the need to effectively present relevant and actionable risk information, "Some risk reports are maybe too detailed, which makes it difficult for extracting insights. Detail is good, but there should be summaries of relevant info for stakeholders, board members, etc."

Additionally, internal audit must demonstrate its ability to execute and add value during crises. According to one manufacturing C-suite executive, "I think of the fire drill analogy. It's easy to walk out calmly, single file, when you know there's no fire. Would we behave exactly as we did in real life?"

CAE respondents to the OnRisk survey recognize the opportunity and need for internal audit to improve:

"You cannot do things alone…*you have to have partnerships, that is how everybody succeeds. Rather than reporting and managing in silos, you should be consistent across the organization."*

–CAE, Government

"We need to determine key risk indicators, *measure those, reflect, re-address, re-report…it's a cycle."*

– CAE, Technology

"There's always room for improvement *in building more data analytics and assessing risk with more factual data."*

– CAE, Finance

INSIGHTS AND ACTIONS – BOARD

The wisdom of board members expanding their personal knowledge of risks beyond financial and compliance issues has never been more evident. Swift technological changes, disruptive innovation, dynamics of organizational governance, the pandemic, and its resulting economic and political shocks provide ample impetus for board members to expand how they view their risk management role.

In the coming year, boards should:

IMPROVE THEIR KNOWLEDGE OF ECONOMIC AND POLITICAL VOLATILITY. As noted earlier, this risk area could have profound long-term impacts that could reshape how business is done. (See "Risks to pay attention to going forward – Economic and Political Volatility" on page 12).

- *Board members should develop an understanding of how volatility in both the economy and politics could impact how their organizations operate.*
- *Boards should consider directing executive management to include volatility scenarios in crisis management plans and test such scenarios and responses.*

PUSH EXECUTIVE MANAGEMENT AND INTERNAL AUDIT ON ESG RISK MANAGEMENT. Organizations should prepare for enhanced regulatory requirements and/or investor expectations on ESG reporting. The U.S. Securities and Exchange Commission and other regulators have clearly signaled interest in greater regulation in this area. Beyond ESG reporting, boards should push for an enterprisewide approach to managing ESG risks.

- *Request an ESG risk assessment for the organization.*
- *Ask executive management what frameworks are used to determine adequacy of the organization's ESG reporting.*
- *Ask internal audit to perform assurance or advisory services such as those relating to assessing the design and operating effectiveness of supporting ESG controls.*

PUSH FOR MORE INFORMATION ABOUT CULTURE AND TALENT MANAGEMENT.

- *Consider asking for an independent assessment of the organizational culture.*
- *Demand that executive management keep the board apprised of relevant talent management decisions and changes resulting from the pandemic.*

EMPHASIZE THE IMPORTANCE OF ORGANIZATIONAL GOVERNANCE.

- *Continually and consistently emphasize the importance of risk alignment among key risk management players.*
- *Reject siloed or decentralized approaches to risk management.*
- *Promote internal audit's role in providing independent assurance over this risk area.*

INSIGHTS AND ACTIONS – C-SUITE

Executive management faces a myriad of risk management challenges complicated by the 18-month battle against COVID-19. From business continuity and crisis management to long-term implications on talent management and culture, the impacts of the pandemic will have long, lingering effects on risks and risk management.

In the coming year, executive management should:

BEEF UP ITS KNOWLEDGE OF ECONOMIC AND POLITICAL VOLATILITY. As noted earlier, this risk area could have profound long-term impacts that could reshape how business is done. (See "Risks to pay attention to going forward – Economic and Political Volatility" on page 12).

BUILD AND PLAN TO MATURE PROCESSES AND CONTROLS AROUND ESG REPORTING.

- *Leverage internal audit's understanding of enterprise risk management and proven risk frameworks to help build effective ESG internal controls.*
- *Don't wait for external auditors to give guidance or wait for regulators to establish rules.*
- *Direct internal audit to provide assurance on the effectiveness of existing ESG controls, particularly as they relate to ESG reporting.*

PROACTIVELY EDUCATE BOARDS ON TALENT MANAGEMENT AND CULTURE.

- *Carefully implement and measure relevant talent management decisions, such as work arrangement preferences, and their effect on employee morale, productivity, and retention efforts.*
- *Obtain internal audit's input on return-to-workplace plans and related range of risks, including impact to culture.*

INSIGHTS AND ACTIONS – CAEs

In the midst of one of the most volatile and dynamic periods in a century, stakeholders are signaling the need for greater assurance on risk management. Internal audit must respond.

In the coming year, CAEs should:

ANTICIPATE EMERGING ESG REPORTING REQUIREMENTS.

- *Get ahead of any new requirements by understanding processes and controls in their own organization.*
- *Advocate for adoption of established sustainability frameworks.*
- *Leverage COSO's Internal Control – Integrated Framework to begin evaluation of controls around non-financial reporting.*

IMPROVE THEIR KNOWLEDGE OF ORGANIZATIONAL RISK AREAS WITH HIGH RELEVANCE-CAPABILITY GAPS.

- *Identify any risk on the* OnRisk *list or company list where personal knowledge falls below a HIGH rating.*

ACT AS A CONDUIT BETWEEN BOARD AND EXECUTIVE MANAGEMENT WHEREVER MISALIGNMENT EXISTS.

- *Perform organizational risk analysis, leveraging the* OnRisk *methodology.*
- *Determine alignment on risk areas that are most relevant for the organization.*
- *Concisely share relevant highlights from* OnRisk 2022 *with the board and executive management to foster dialogue on how the examined risks relate to their organization.*

SUPPORT GREATER FOCUS ON CULTURE AND TALENT MANAGEMENT RISKS.

- *Be cognizant of potential misalignment as the organization transitions to a post-pandemic world.*
- *Provide assurance or advisory services related to Culture or Talent Management. For example, support board or executive management in the analysis of data resulting from employee surveys, exit interviews, or diversity and inclusion initiatives.*

METHODOLOGY

Qualitative surveys measure organization alignment

The *OnRisk 2022* report continues The IIA's groundbreaking approach in collecting stakeholder perspectives on risk and risk management in support of good governance and organizational success. The qualitative research provides a robust look at the top risks facing organizations in 2022. The report presents both objective data analysis and subjective insights based on responses from risk management leaders.

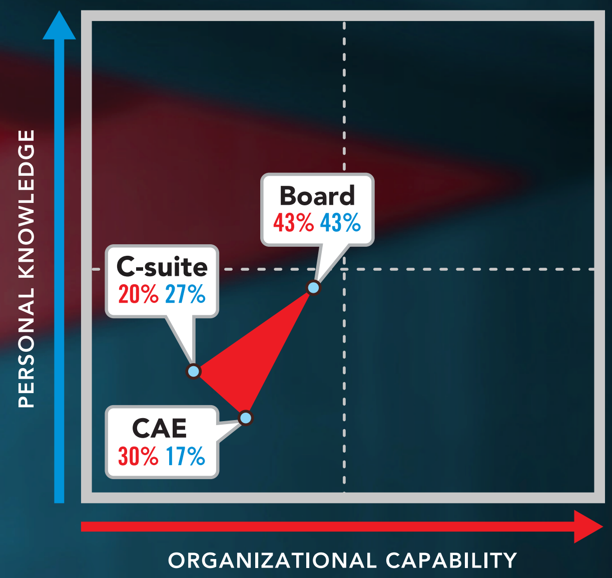
The qualitative survey is based on a total of 90 in-depth interviews with professionals in North American (U.S. and Canada) boardrooms, C-suites, and internal audit functions. The respondents came from 90 different organizations. As part of the interviews, respondents were asked to evaluate 12 key risks on three scales: Their personal awareness and knowledge of each risk, their perception of their organization's capability to address each risk, and their views of the relevance of each risk to their organization. The ratings were based on a seven-point scale, with "Not at all knowledgeable," "Extremely incapable" and "Not at all relevant" being the lowest ratings (1) and "Extremely knowledgeable," "Extremely capable" and "Extremely relevant" being the highest ratings (7).

The combined responses for the knowledge and capability ratings were then used to plot the position of each respondent group for each risk, where the X axis delineates perceived organizational capability, and the Y axis delineates personal knowledge of the risk (Figure 5). The triangle created by connecting each plot point offers a graphical depiction of alignment for each risk.

Figure 5:

KNOWLEDGE AND CAPABILITY ALIGNMENT

Percentage who gave a rating of 6 or 7 on a scale 1 to 7



HOW TO USE THIS REPORT

Explanation of graphics

Based on in-depth interviews with 90 professionals, the personal knowledge and organizational capabilities of each of the three respondent groups were measured and plotted for each risk. The simple quadrant mapping provides an effective and consistent tool to reflect those views (Figure 6).

The four quadrants of the graph correspond to the magnitude of each of the two measures. For example, responses with a high average in knowledge and capability would be plotted in the top right quadrant. Conversely, responses with a low average for knowledge and capability would be plotted in the lower left quadrant. As described earlier, the averages are determined based on the percentage of respondents who provided a top 2 answer for each rating. (See "The OnRisk Approach" on page 4).

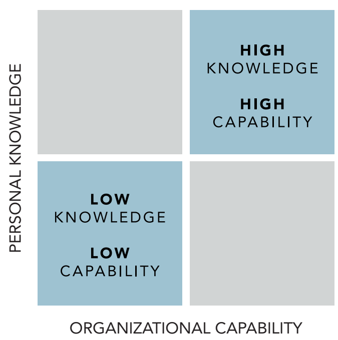


Figure 6: **KNOWLEDGE AND CAPABILITY QUADRANTS**

Position plotting

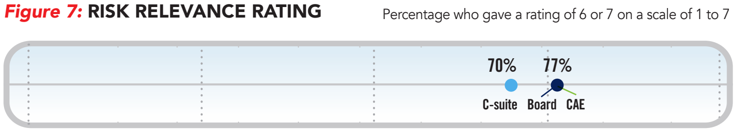
Positions for each of the three respondent groups are plotted on the quadrant map not only to identify the relative knowledge and capability on each risk, but also to graphically illustrate any misalignment among the groups that may exist. The resulting triangles — referred to simply as alignment triangles in this report — provide a strong indicator of how well a risk is understood and managed. The size, shape, and location of each triangle also provides insights on what is driving any misalignment (See related sidebar).

Risk Relevance graphic

Each respondent group's rating on risk relevance is plotted on a single axis, providing a clear depiction of variations in the risk relevance rankings by board members, C-suite, and CAEs (Figure 7).

Figure 7: **RISK RELEVANCE RATING**

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



Alignment Triangles:

What do they mean?

The alignment triangles created by plotting each respondent group's perspectives on each risk offer insights into how the risk is currently being managed. The shape of each triangle can provide valuable information, as well.

SHORT AND NARROW

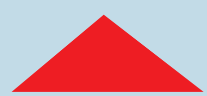
Triangles with this basic shape suggest strong alignment on what each group knows about a risk, but significant disagreement by one respondent group about the organization's capability for addressing the risk.

TALL AND NARROW

Conversely, triangles with this basic shape suggest significant range of knowledge among respondent groups, but strong alignment on their views on organizational capability.

SHORT AND BROAD

This basic shape suggests disagreement by more than one respondent group, with the most significant disagreement relating to the organization's capability to address the risk.



TALL AND BROAD

This basic shape suggests misalignment by more than one respondent group, with significant disagreement on both knowledge and capability.

SMALL AND SYMMETRICAL

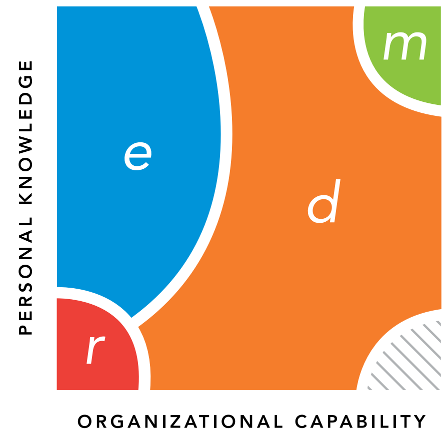
This shape suggests strong alignment of all three respondent groups on knowledge and capability. Depending on the location of the triangle, this could reflect a risk that is well understood and managed (top right quadrant) or one that is not well understood or managed (lower left quadrant).

RISK STAGES MODEL

In today's dynamic, technology-driven world, risks can emerge and mature, sometimes at breakneck speeds. The risks discussed in this report are grouped into one of four stages — Recognize, Explore, Develop, or Maintain — as they relate to the potential impact on organizations and what actions organizations should be taking to address them. The Risk Stages Model (Figure 8) reflects how risk management evolves within the organization on the same scale as the risk rankings — Personal Knowledge and Organizational Capability.

Additionally, the relevance of each risk should be understood as unique to each organization. Where each risk ranks in relevance depends on various factors, including the organization's size, industry, and type, as well as competition, maturity, position in the marketplace, supply chain, liquidity, and others. As noted earlier, there are likely risks not included in this analysis that have particular relevance to some organizations depending on their specific circumstances. Because of this unique aspect, risk relevance is not depicted in the Stages of Risk.

Figure 8:
RISK STAGES MODEL



Stages of Risk Explanation

RECOGNIZE

A risk is perceived as emerging and knowledge of the risk among stakeholders is low. Risk response strategies are not implemented or are not assumed to be effectively designed given the low understanding of the underlying risk. Monitoring processes have not been contemplated. Inherent risk levels are not well understood.

Personal Knowledge – Low
Organizational Capability – Low

EXPLORE

Knowledge of the risk is growing among some stakeholders, but not by all. The risk may be perceived as emerging or dynamic. Risk response strategies have been contemplated, but not fully implemented. Monitoring processes have not been contemplated or are not implemented. Inherent risk levels are generally understood.

Personal Knowledge – Mid to High
Organizational Capability – Low

DEVELOP

Risk knowledge is high, at least with executive management teams. Risk response strategies may be developed or in process of being implemented. Monitoring processes may be in contemplation but are not likely to have been fully implemented. Residual risk is generally understood.

Personal Knowledge – Mid to High
Organizational Capability – Low to High

MAINTAIN

Risk is well understood by all relevant stakeholders and is not perceived to be changing significantly. Risk response strategies have been developed and implemented consistent with the perceived relevance of the risk. Monitoring processes are utilized to ensure risk response strategies are operating effectively as designed. Residual risk levels are understood and believed to be at an acceptable level for the organization.

Personal Knowledge – High
Organizational Capability – High

THE RISKS

This section examines key observations related to individual risks. Each risk page provides a risk definition and brief overview based on the qualitative interviews; maps alignment among key risk management players on personal knowledge, organizational capability, and relevance; shares insightful quotes from interviewees on the risk; and identifies changes in the developmental stages of each risk from the previous year, where applicable.

CYBERSECURITY

Definition:

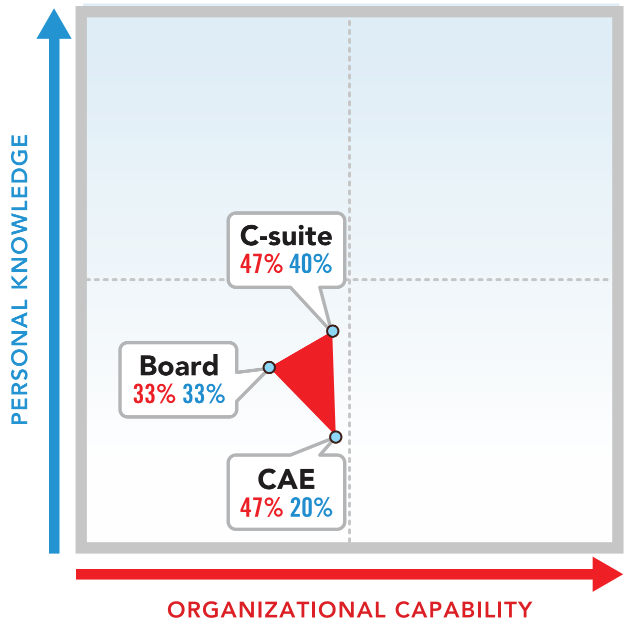
The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption and reputational harm.

Analysis:

Nearly all respondents see Cybersecurity as being highly relevant to their organization. However, personal knowledge of this highly impactful risk remains particularly low amongst all players, particularly CAEs. This low level of knowledge likely stems from the ever-evolving nature of cyber threats. Overall, a low percentage of respondents across all groups rated the capability of their organizations to manage Cybersecurity as high. In particular, few board members perceive their organization as being highly capable of managing Cybersecurity.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Remained in Develop

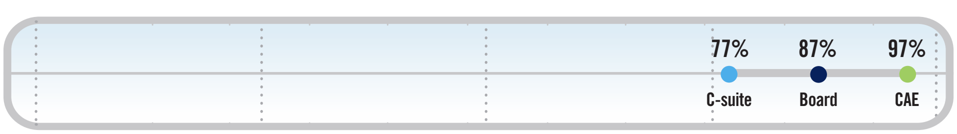
Quotes:

"Cybersecurity risk is an ever-evolving risk. The architecture and planning processes that have been used to deal with [cybersecurity] have become more complex as technology has become more prevalent." –Board, Finance

"As we have witnessed with the pipeline hack this year, these cybersecurity attacks can have a huge trickle-down effect. All industries are susceptible to cybersecurity risk to some extent." –Board, Manufacturing

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7 – *Cybersecurity*



TALENT MANAGEMENT

Definition:

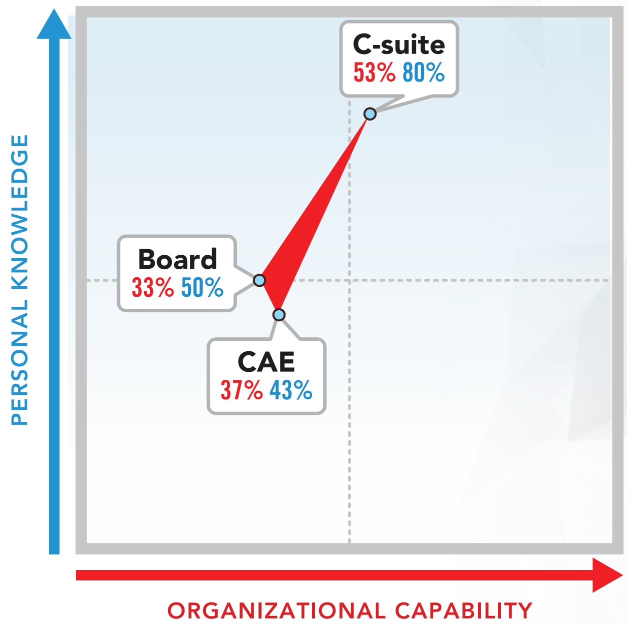
The increased need for and acceptance of remote operations, including working from home, as well as continued dynamic labor conditions are redefining how work gets done. This risk examines the challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.

Analysis:

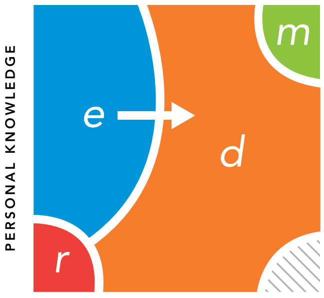
Despite all key management players seeing Talent Management as one of the most relevant risks to their organizations, perceptions of both personal knowledge and organizational capability remain relatively low for board members and CAEs. Senior executive perceptions of their personal knowledge and their organizations' capabilities in this space are much higher.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE



Moved from Explore to Develop

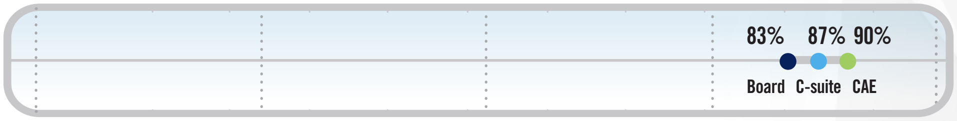
Quotes:

"Companies are working so hard to survive…all strategies are out the window. When you don't get to see employees face-to-face, it's challenging."
–Board, Government

"Hiring in this remote environment has allowed us to consider hiring without a geographic limitation. The question we are now asking ourselves is; do we hire a higher quality candidate to work fully remote, or do we hire a lesser candidate who is able to come into the office?" –CAE, Automotive

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– Talent Management



ORGANIZATIONAL GOVERNANCE

Definition:

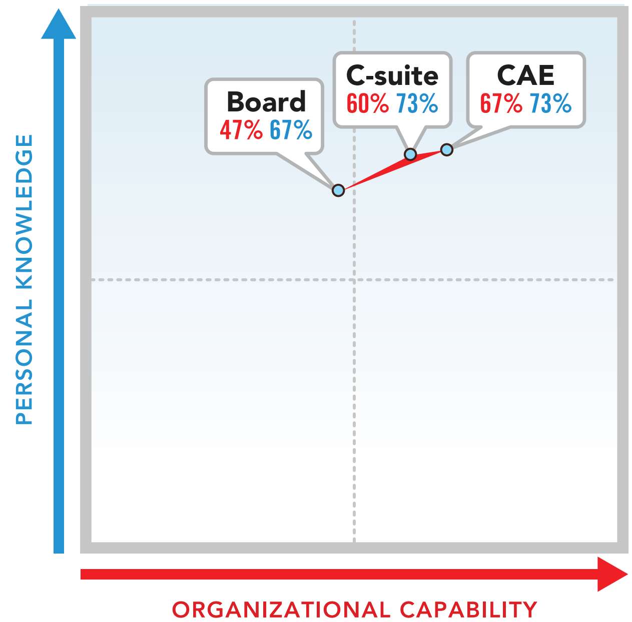
Governance encompasses all aspects of how an organization is directed and managed and the system of rules, practices, processes, and controls by which it operates. This risk examines whether organizations' governance assists or hinders achievement of objectives.

Analysis:

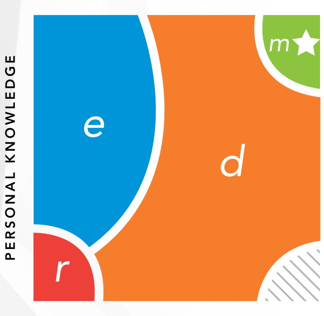
Personal knowledge is high across all three risk management players of this relatively mature risk, which is widely regarded as highly relevant. However, significant misalignment exists on organizational capability to manage this important component of ESG. Fewer board members than senior executives rated their organizations as having high organizational capability for this risk area.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE



Remained in Maintain

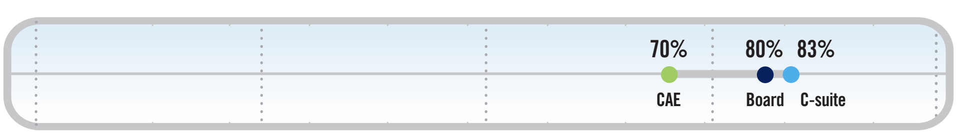
Quotes:

"How you plan for all of the other risks can be [attributed] to organizational governance... it's extremely important and covers everything." *–C-suite, Manufacturing*

"For a lot of public companies, capability could be higher. Just look at some of the issues that arise…if everyone was really good at it, we wouldn't be seeing so much breakdown in the structures at public companies." *–Board, Finance*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7 – *Organizational Governance*



DATA PRIVACY

Definition:

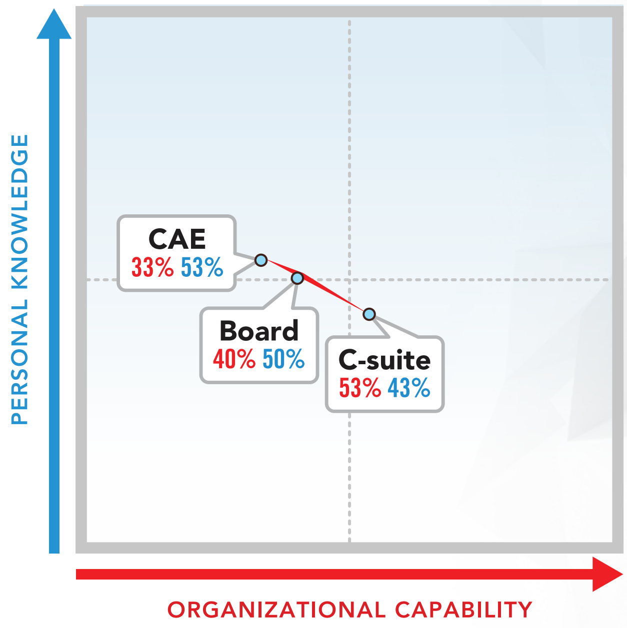
The growing list of regulations from jurisdictions around the world is making Data Privacy increasingly complex and dynamic. This risk examines how organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.

Analysis:

Despite having lower personal knowledge and lower perceptions of organizational relevance of this increasingly regulated risk, members of the C-suite have a higher perception of organizational capability than do either board members or CAEs.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Develop - New to OnRisk

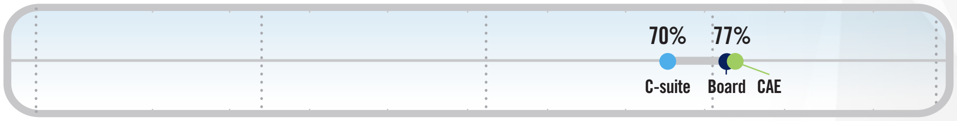
Quotes:

"It's critical to have procedures in place to analyze, collect, and store data that are common practices throughout the organization." *–CAE, Government*

"I hear a ton about data privacy compared to 10 years ago, and I think it will grow in importance." *–C-suite, Healthcare*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– ***Data Privacy***



CULTURE

Definition:

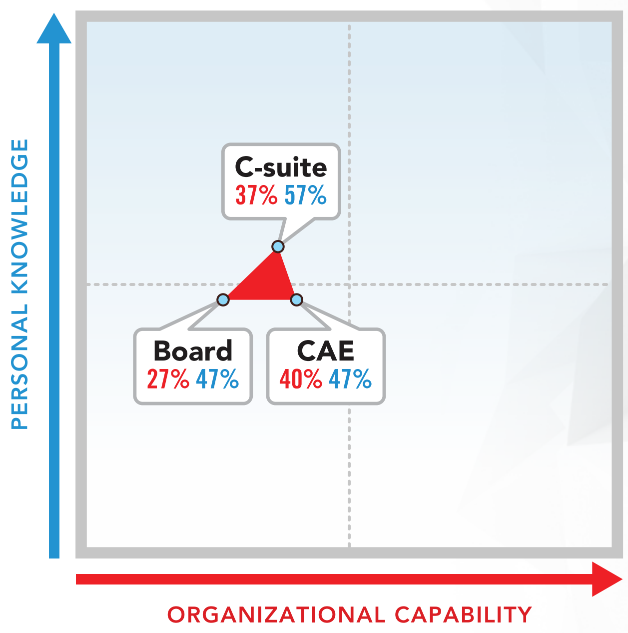
With an increasing percentage of professional employees working remotely full or part-time, organizations are challenged to maintain, enhance, or control their organizational culture. This risk examines whether organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.

Analysis:

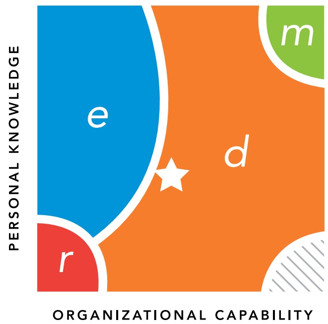
There is strong alignment across all key risk management players regarding the relevance of Culture to organizational success. However, a gap exists between the number of board members who have high personal knowledge of this risk and senior executives who do. Similarly, fewer board members perceive their organizations as having a high capability to manage this risk, which is increasingly important to organizations as they emerge from the global pandemic.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE



Remained in Develop

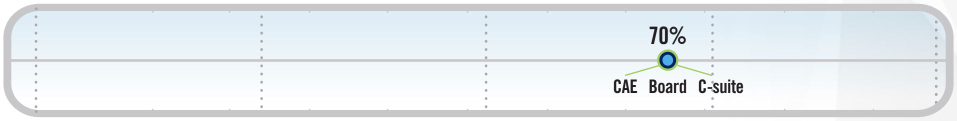
Quotes:

"We all 'live' culture, but understanding how to manage it and change it is a different beast altogether." *–CAE, Finance*

"Our worry is about losing the culture with the new people. They never really got to experience [culture] because they go right from being hired to working from home."
–C-suite, Real Estate

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– ***Culture***



ECONOMIC AND POLITICAL VOLATILITY

Definition:

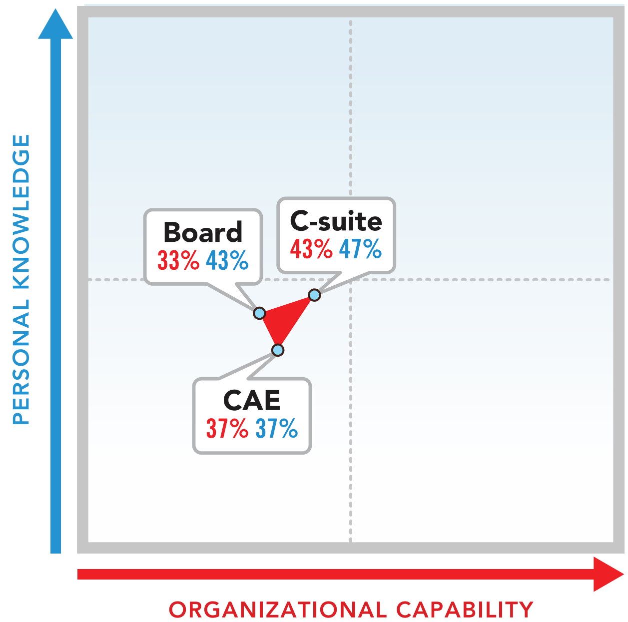
The ongoing impacts of the pandemic combined with the normal dynamics of macroeconomic cycles have the potential to create volatility in the markets in which organizations operate. This risk examines the challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.

Analysis:

Overall, there is fairly strong alignment among executive management, board members, and chief audit executives across risk relevance, personal knowledge, and organizational capability. However, while more than two-thirds of all respondents saw the potential effects resulting from Economic and Political Volatility as having a high impact on their organizations, personal knowledge surrounding this risk and perceptions of organizational capability remain relatively low.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

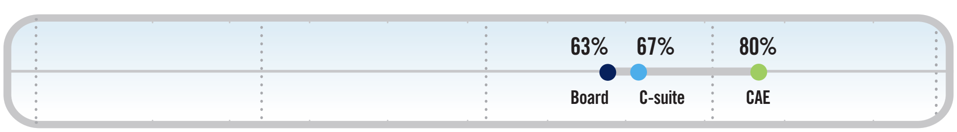
Remained in Develop

Quote:

"Things were a breeze until 2008-2009. Now 2020-2021 into 2022, we're expecting a lot of volatility…I don't have strong feelings about where the economy is going, but we're planning more now for major impacts like product shortages, delays, disruptions like that." *–C-suite, Finance*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– Economical and Political Volatility



CHANGE IN REGULATORY ENVIRONMENT

Definition:

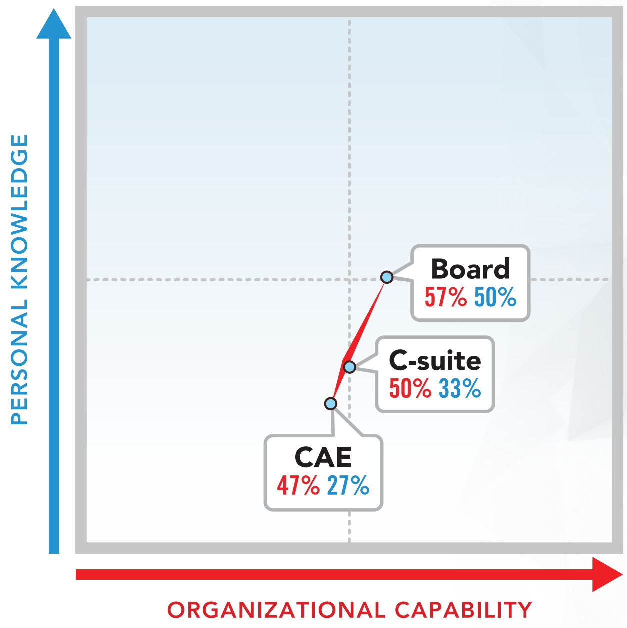
Fundamental changes in government appetite for regulation can have a significant impact on organizations, including those not considered heavily regulated. This risk examines the challenges organizations face in a dynamic and ambiguous regulatory environment.

Analysis:

Despite general alignment on the increasing risk relevance of a changing regulatory environment, personal knowledge related to this risk is low, particularly for chief audit executives and C-suite. While personal knowledge is higher for this risk among board members, it is still lower than several other risks. Board members are somewhat more confident in the ability of their organizations to manage this important risk.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Develop – New to OnRisk

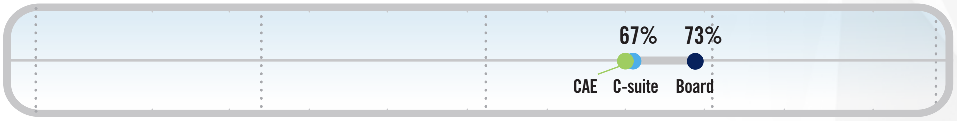
Quotes:

"This could be a big issue for us and there is a real risk here. It is important for folks to keep their eyes on changing regulations." –*CAE, Finance*

"A lot of companies are reluctant to take a step forward unless forced to." –*C-suite, Healthcare*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– ***Change in Regulatory Environment***



SUPPLIER AND VENDOR MANAGEMENT

Definition:

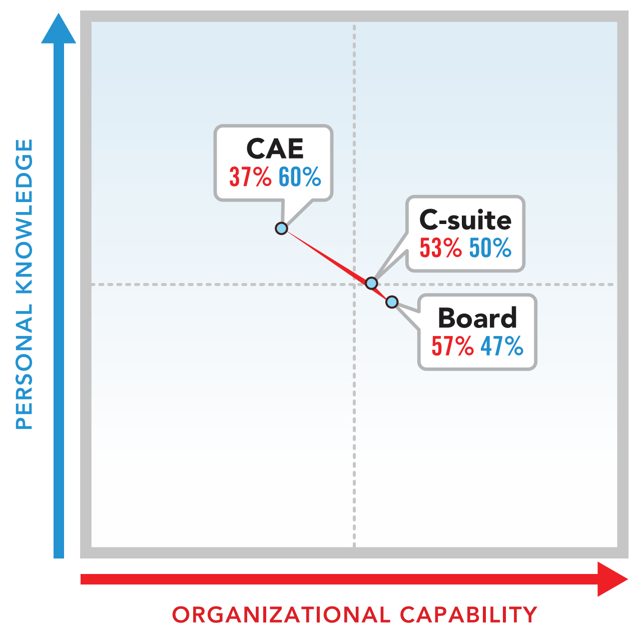
For an organization to be successful, it has to maintain healthy and fruitful relationships with its external business partners and vendors. This risk examines organizations' abilities to select and monitor third-party relationships.

Analysis:

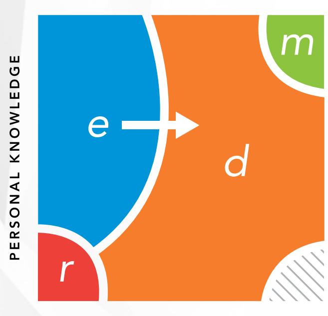
While more CAEs have high personal knowledge of this critical risk in an increasingly interconnected business environment, fewer perceive their organizations as having a high capability to manage this risk. This gap between CAEs and their stakeholders may be driven by a higher percentage of CAEs viewing this risk as being highly relevant to their organizations, likely stemming from publicly reported cyber threats, compliance-related issues, and other disruptive events arising from third-party relationships.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE



Moved from Explore to Develop

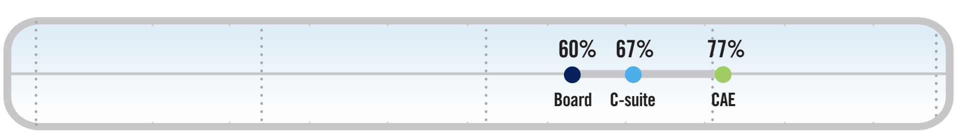
Quotes:

"The challenge is how do we keep this relationship with these long-time vendors, and at the same time how do we go out and find what we need if that vendor cannot provide it." *–C-suite, Manufacturing*

"Our organization has really strong relationships…but I gave it a lower capability score because data privacy, protection, cybersecurity…those things are harder to manage with our suppliers." *–CAE, Technology*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7 – ***Supplier and Vendor Management***



DISRUPTIVE INNOVATION

Definition:

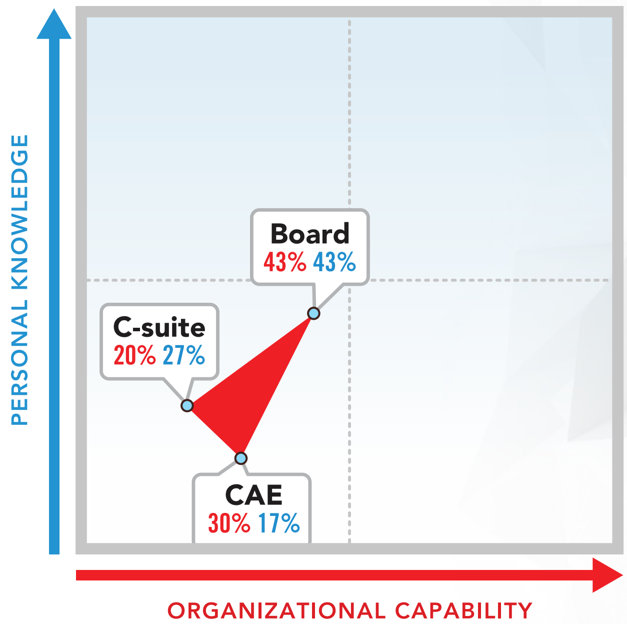
We are in an era of innovative business models, fueled by disruptive technologies. This risk examines whether organizations are prepared to adapt to and/or capitalize on disruption.

Analysis:

There is a fairly wide gap between the percentage of board members who see this risk as highly relevant compared to C-suite executives who do. Further, more board members perceive their personal knowledge of this very important risk as being high. However, board members may be overconfident in organizations' capability to manage Disruptive Innovation as more board members see their organizations as having high capability to manage this risk than do members of the C-suite.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Remained in Recognize

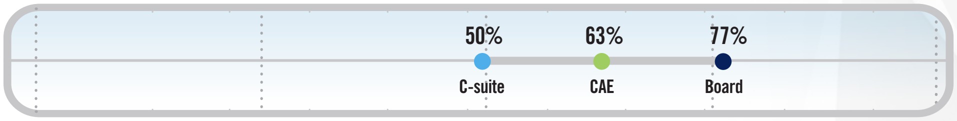
Quotes:

"It's a matter of awareness and research…some [innovations] come and go but others hang around, like cryptocurrency." *–C-suite, Nonprofit*

"We're not innovative, change is very slow to happen. Everything is about bandaging… a preparedness and ability to adapt is not there." *–Board, Healthcare*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– Disruptive Innovation



SOCIAL SUSTAINABILITY

Definition:

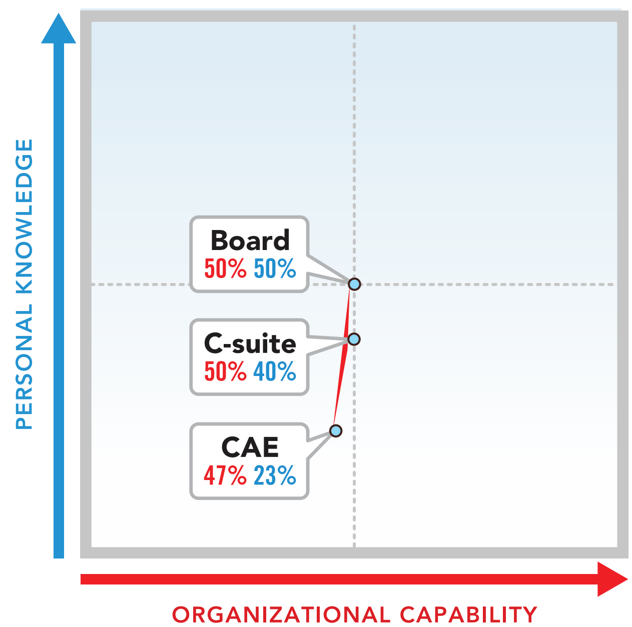
Increasingly, there is a recognition that organizations have significant influence on individuals who they employ, who work in their value chain, who consume their products and services, and who live in their communities. This risk examines the ability of organizations to understand and manage the direct and indirect impacts their actions have on individuals and communities.

Analysis:

Among the key risk management players, there is very strong alignment on the risk relevance and perception of organizational capability for this fast-emerging risk that touches all industries. However, the CAE group significantly lags behind its stakeholder groups related to personal knowledge of this risk.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

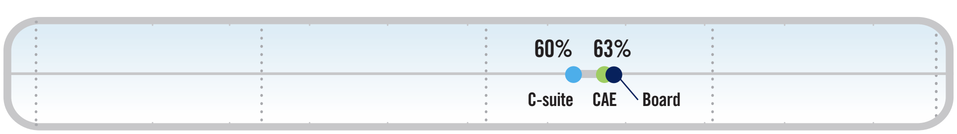
Develop – New to OnRisk

Quote:

"Sustainability is going to be an absolute imperative in order to preserve, maintain, and grow wealth. This is like any other investment in business. These investments need to be made in order to protect and sustain the value that's being created."
–Board, Finance

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– ***Social Sustainability***



SUPPLY CHAIN DISRUPTION

Definition:

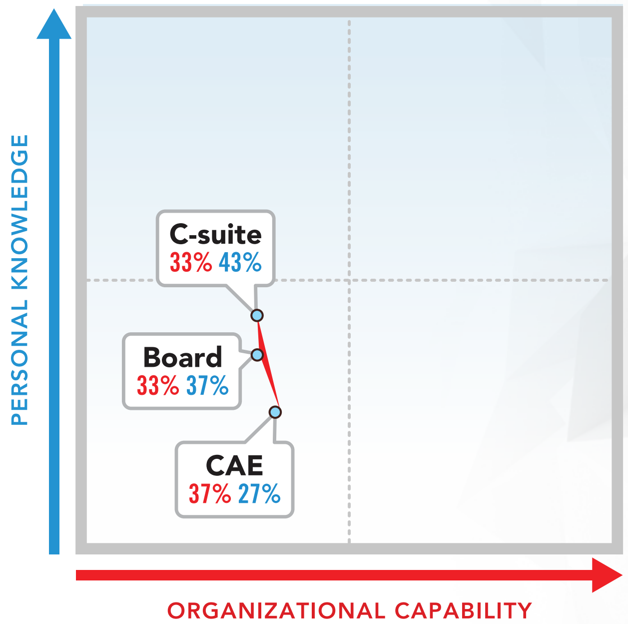
The disruption to business-as-usual operations globally, rooted in the global pandemic, has highlighted the need for resilience in supply chains in support of organizations' achievement of strategic objectives. This risk examines whether organizations have built in the flexibility to adapt to current and future supply chain disruptions.

Analysis:

There is strong alignment among board members and senior executives with regard to the risk relevance of Supply Chain Disruption, with slightly more than half of these stakeholders seeing it as a highly relevant risk to their organizations. The CAE group lags behind in personal knowledge of this increasingly important risk in the global economy, which may be a result of fewer CAEs seeing this risk as highly relevant to their organizations.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Explore – New to OnRisk

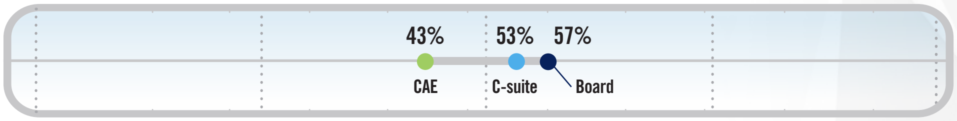
Quotes:

"Borders closing down, and things like the Suez Canal getting plugged up have made us more in tune with supply chain issues."
–CAE, Finance

"It used to just be what we thought about when we pulled up to the gas pump… now it's of importance across many industries."
–Board, Finance

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– Supply Chain Disruption



ENVIRONMENTAL SUSTAINABILITY

Definition:

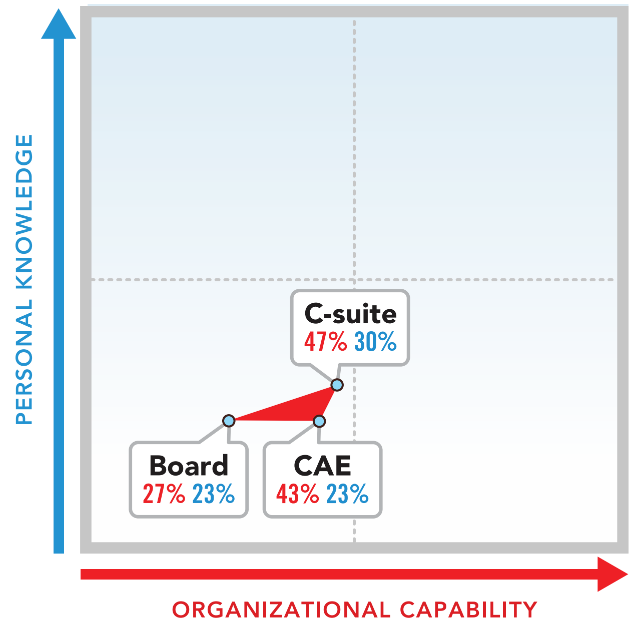
Organizations are facing increased pressure from stakeholders, including shareholders, regulators, customers, and employees, to evaluate and disclose how they are impacting the environment in which they operate. This risk examines the ability of organizations to reliably measure, evaluate, and accurately report on their environmental impacts.

Analysis:

While there is fairly strong alignment in this area, relatively few respondents, particularly senior executives, see this quickly emerging risk as one that could be highly relevant to their organizations. Personal knowledge across all groups was also quite low. Fewer board members believe that their organizations have high capability to manage Environmental Sustainability risks.

KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



RISK STAGE

Develop – New to OnRisk

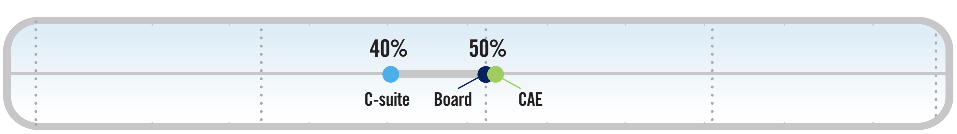
Quotes:

"There is the issue of measurement for every organization. There's a lack of standardized measurement and reporting in this area which creates confusion."
–CAE, Healthcare

"Most organizations want to have good environmental sustainability policies, procedures, and programs, but it is not always front and center when dealing with all these other risks." *–Board, Healthcare*

RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7
– ***Environmental Sustainability***



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