

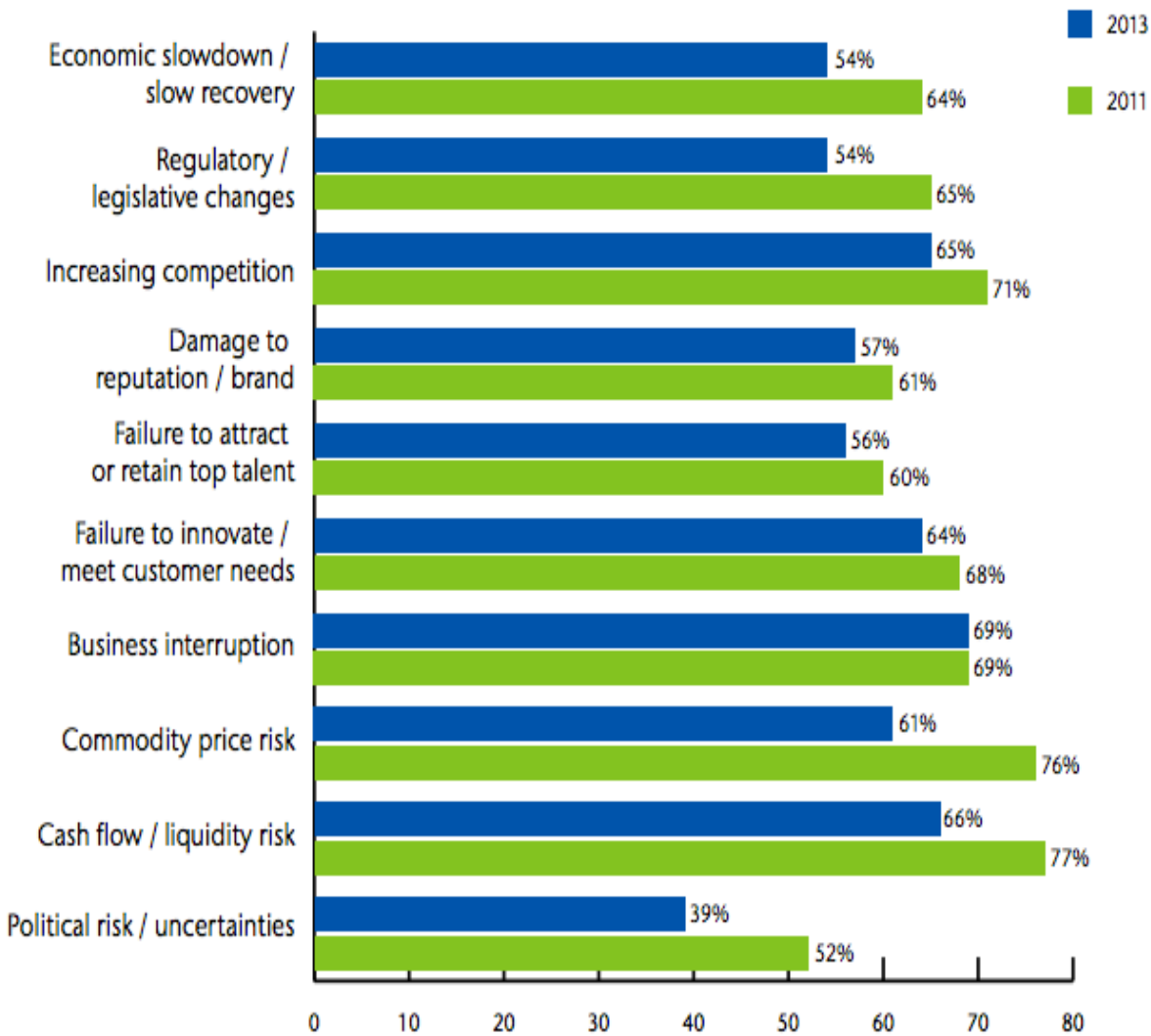
Companies in 2013 Are Less Prepared for Major Risks Than They Were in 2011

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Reported Readiness for Top 10 Risks



Source: 2013 Aon Global Risk Management Survey

[chart](#)

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Gloomy news: Companies across the world are now less prepared to deal with risks than they were two years ago. Even worse: Though companies have had nearly five years to respond to the global economic slowdown — which they cite as the biggest risk to business — they are increasingly unable to confront the revenue problems it has created.

This is according to the [2013 Global Risk Management Survey](#) released today at the RIMS 2013 Annual Conference & Exhibition by insurance broker Aon. To formulate its findings (displayed in the above chart), Aon compiled the “risk readiness” scores from companies’ responses to its survey and compared them to the results of its 2011 report.

“Risk readiness means a company has a comprehensive plan in place to address risks or has undertaken a formal review of those risks,” states the report. “In comparison with that of 2011, overall readiness for the top 10 risks has dropped by 7% to 59%. In fact, of the top 10 risks, all but business interruption has registered a decrease in overall readiness. Given the attention and scrutiny that risk management practices have received from stakeholders since the financial crisis, **this is a disturbing trend and a bit surprising.**”

As noted, companies still don't know how to navigate the economic slowdown.

Aon offers some advice: "Since concerns over the world's economy will not go away soon, organizations need to embrace it for the long-term and from a global perspective. We are no longer sitting on an island by ourselves. What happens on the other side of the world can have a direct impact on every organization, whether it has international operations or not."

Top 10 Risks by Year

2011	2013	2016 *
1 Economic slowdown	Economic slowdown/slow recovery	Economic slowdown/slow recovery
2 Regulatory/legislative changes	Regulatory/legislative changes	Regulatory/legislative changes
3 Business interruption	Increasing competition	Increasing competition
4 Increasing competition	Damage to reputation/brand	Failure to innovate/meet customer needs
5 Commodity price risk	Failure to attract or retain top talent	Failure to attract or retain top talent
6 Damage to reputation	Failure to innovate/meet customer needs	Political risk/uncertainties
7 Cash flow/liquidity risk	Business interruption	Commodity price risk
8 Distribution or supply chain failure	Commodity price risk	Damage to reputation/brand
9 Third-party liability	Cash flow/liquidity risk	Weather/Natural disasters
10 Failure to attract or retain top talent	Political risk/uncertainties	Cash flow/liquidity risk

* Projected

Source: 2013 Aon Global Risk Management Survey

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[chart\)](#)

It isn't just the international exposures that threaten revenue, however.

In another startling trend, companies are increasingly losing money due to regulatory and legislative changes. A staggering 54% of companies reported income loss (in the last 12 months) due to regulatory and legislative changes — a huge jump from 22% in 2011.

In addition to surveying companies and breaking down how they are responding to individual risks, Aon also analyzed how businesses are using risk management while creating strategy.

The short answer: They are not.

Only 22% of respondents consider "improved business strategy" to be one of the primary benefits of investing in risk management. While there has never been a time when risk management was heavily used to create strategy, this is actually a 1% dip from the 2011 report, in which 23% listed improved business strategy as a primary benefit.

Javier Gimeno, a professor of strategy at INSEAD, a business school in France and contributor to the report, highlighted the concern these findings raise. He notes that many of the top risks cited by companies are strategic in nature. And to deal with these types of threats, companies must re-think their strategy-formulating process. It must incorporate risk management.

"The practice in many companies is still sequential: strategy development comes first...and risk management takes strategy as a given and manages the ensuing risks," he wrote. "That may lead to strategies that are not sufficiently flexible or adaptive. When strategic risk management is embedded as an integral part of the strategy process, the strategies can become more robust to uncertainty, and more flexible and exploratory."

He concludes with some advice for companies that want to be better prepared for the 50 top risks

(see chart below).

“Developing capabilities for strategic risk management by top management teams and boards should be an important priority in these uncertain times.”

Top 50 Risks Facing Companies

Rank	Risk
1	Economic slowdown / slow recovery
2	Regulatory / legislative changes
3	Increasing competition
4	Damage to reputation / brand
5	Failure to attract or retain top talent
6	Failure to innovate / meet customer needs
7	Business interruption
8	Commodity price risk
9	Cash flow / liquidity risk
10	Political risk / uncertainties
11	Exchange rate fluctuation
12	Technology failure / system failure
13	Third-party liability
14	Distribution or supply chain failure
15	Capital availability / credit risk
16	Weather / natural disasters
17	Property damage
18	Computer crime / hacking / viruses / malicious codes
19	Growing burden and consequences of corporate governance / compliance
20	Counter party credit risk
21	Lack of technology / infrastructure to support business needs
22	Inadequate succession planning
23	Failure of disaster recovery plan / business continuity plan
24	Crime / theft / fraud / employee dishonesty
25	Injury to workers
26	Workforce shortage
27	Merger / acquisition / restructuring
28	Environmental risk
29	Loss of intellectual property / data
30	Failure to implement or communicate strategy
31	Interest rate fluctuation
32	Globalization / emerging markets
32	Natural resource scarcity / availability of raw materials
34	Directors & Officers personal liability
34	Understaffing
36	Product recall
37	Corporate social responsibility / sustainability
38	Climate change
39	Absenteeism
40	Social media
40	Asset value volatility
42	Share price volatility
43	Unethical behavior
44	Pandemic risk / health crisis
45	Outsourcing
46	Terrorism / sabotage
47	Pension scheme funding
48	Sovereign debt
49	Harassment / discrimination
49	Kidnap and ransom / extortion

Source: 2013 Aon Global Risk Management Survey

National Law Review, Volumess III, Number 113

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