

What to Put on Your Risk Radar Screen

Here's a top 10 list of risk "hotspots" to worry about in 2012.

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IT security, global expansion, and excess cash top the list of 10 risks companies should be particularly concerned about in 2012, according to the Corporate Executive Board (CEB).

The research firm comes up with a list of so-called risk hotspots every year, based on discussions with clients, surveys, and observations about what's going on in the corporate world. The CEB offers its tally as a starting point for senior executives to use with their boards and internal-audit teams to discuss how their company should do risk assessments in the coming year.

For the latest list, the first two items make intuitive sense. Companies have been on a long-term track to mitigate the risk of outside sources attacking their technology systems, as the means for carrying out such damage continue to proliferate. "Companies are trying very hard to eliminate vulnerabilities in their systems that may impact financial performance," says Kate Guerra, senior director of research at the CEB.

As for expansion, setting up stakes in emerging markets — an increasingly common practice by U.S. companies — with new employees and new regulations obviously creates potential problematic areas, such as an increased likelihood of fraud prevention and internal controls falling apart between U.S. headquarters and far-flung operations.

But it may be less apparent why the CEB's third item — an excessive cash buildup — is on the list. The risk is making its first appearance since the CEB started putting the list together (for a comparison between 2008 and the current list, see the chart below). An executive trying to grapple with the volatile credit markets of late 2008 would have scoffed at such an idea, since a hefty cash cushion at that time would have been an enviable asset. Not so much now, however, when many companies don't know what to do with the cash they're sitting on, according to the CEB. Key stakeholders will worry if executives appear blasé about their cash position by not putting much, if any, of it to good use. "Investors can have a hard time differentiating between companies with a sound cash strategy and those with a lazy balance sheet," Guerra says. In other words, many CFOs may need to get defensive when it comes to their cash strategy in 2012, considering that a quarter of them have no plans to deploy cash in the next 12 months, according to the most recent Duke University / *CFO Magazine* Global Business Outlook Survey.

Other risks on this year's CEB list include corporate culture (which could be hampered by expansion into emerging markets), compliance (as new regulations continue to crop up out of the Dodd-Frank Act and from international governments), strategic change management, third-party relationships, and human resources (for companies that may not have the right talent to meet their goals).

Rounding out the list is a new item, social media, which the CEB views as a tool beyond Twitter and Facebook. Rather, the firm views social media as the use of internal collaborative tools, such as Gmail's Documents feature, for sharing information among employees or clients. While these services can be useful, they also bring risk to a company's ability to protect its data, the CEB notes.

Ring In Another Year of Risks

Going into the New Year, executives will have a different priority list for their top risks, compared with 2008. On the cusp of the financial crisis, companies were highly concerned about their international expansion and third-party partnerships (or the extended enterprise), but they also spent significant time worrying about risks tied to project management and taxes—topics that have since fallen out of the top 10.

RANKING IN 2008

1. International operations
2. Project management
3. Extended enterprise
4. Data privacy
5. Fraud
6. Compliance
7. IT
8. Business continuity management
9. Shared services
10. Tax management

RANKING IN 2012

1. Information security
2. International operations
3. Excess cash
4. Corporate culture
5. Compliance
6. Strategic change management
7. Third-party relationships
8. Cost-reduction pressures
9. HR
10. Social media

Source: Corporate Executive Board