

Trendsetter Barometer™

A survey of leading privately held companies in the US

Private-company CEOs—managing greater risk in pursuit of growth

Highlights

- 48% of the private-company CEOs and CFOs surveyed say they feel pressure to take on greater risk to pursue growth.
- 87% of leading private companies, however, believe that they are already taking sufficient risks to capitalize on opportunities.
- International marketers are feeling the most pressure to take on risk in pursuit of growth (50% vs. 45% of domestic-only companies), but also feel more satisfied with their risk management (80% vs. 74%).
- 84% of private companies say it is important for them to improve their risk management.
- 77% think they've done a good job detecting financial risk in recent years.

As the economy steadily improves, leading private companies in the United States are looking for growth opportunities. With that goal comes the pressure to take on greater risk, both at home and abroad.

PricewaterhouseCoopers' Q1 2010 *Private Company Trendsetter Barometer* survey of 235 private-company chief executive officers who were interviewed from February through May of this year shows that nearly half of them feel pressure to take on greater risk in pursuit of growth, with most also saying it is important that their companies improve their risk management functions within the next few years.

Some see greater risk on the horizon

Of the leading private-company executives surveyed, 37 percent expect that the risks their companies face over the next two to three years will be greater than the risks they faced over the last few years. Forty-five percent think the risks will remain about the same.

As for the risks companies are voluntarily taking on for the sake of growth opportunities, most of the executives surveyed think those risks have been adequate, even though many of them feel obligated to take on yet more risk still.

Top-cited risks for the next two to three years:

- M&A
50%
- Supply chain integrity
43%
- New products/services
41%
- High financial leverage
36%
- Financial misrepresentation
35%
- International expansion
35%

Room for improvement

Private companies consider it either extremely or very important that they improve key aspects of their risk management in the next few years:

- Quantity and timeliness of information
71%
- Availability of information
65%
- Quantifying risks
59%
- Culturally embedding risk management
57%
- Identifying/measuring potential risk management benefits
55%
- Overcoming conflicting corporate priorities
51%
- Integrating risk management with business processes
51%
- Lack of risk management knowledge/skills across the company
51%

Private-company risk management confidence prevails

Overall, private companies are split between being very confident and somewhat confident that they will be able to manage risk effectively over the next two to three years.

Glancing back at recent history, most of the private-company CEOs surveyed (77 percent) think they've been effective at detecting financial risk in the past two to three years, with 60 percent feeling very confident that they will be able to effectively manage that category of risk over the next few years (36 percent are somewhat confident). Where private companies seem less optimistic is regarding their ability to effectively manage operational risk and strategic/business risk.

International marketers less apprehensive than their domestic-only counterparts

Although international marketers (companies operating abroad) attach somewhat greater importance to improving their risk management than do their domestic-only counterparts (88 percent versus 82 percent), they have generally been more satisfied with their risk management functions over the last few years than domestic-only companies (80 percent versus 74 percent).

Risks flagged more by international marketers concern supply-chain integrity, new products/services, product piracy, and monetary hedging.

"Now that companies have weathered the economic storm, they're looking to grow again," says Ken Esch, a partner in PricewaterhouseCoopers' Private Company Services practice. "But many of them feel the domestic market is tapped out, so they are

looking for growth opportunities in international markets. That generally means taking on more risk, especially for companies entering foreign jurisdictions for the first time—places where they may know little about the local business practices or regulations."

Interestingly, international marketers are more confident than their domestic counterparts about managing operational risk (52 percent very confident versus 44 percent). And compared with their domestic-only peers, international marketers are also less concerned about risks around financial misrepresentation, high financial leverage, and asset misappropriation.

As for risks around international expansion in general, international marketers appear much more alert to these than their domestic-only counterparts (48 percent versus 25 percent—and 62 percent for companies operating in emerging markets), which one might expect, since international marketers have direct experience in foreign markets.

"Assessing potential foreign operations or business partners, and the attendant risks, is often a challenge," says Esch. "Domestic companies that haven't made such an assessment—and many of them might not have the in-house expertise to do so—are less likely to have as full an appreciation of international-market risks as companies that are actively doing business abroad."

This may account, in part, for why international marketers are somewhat more confident than domestic-only companies (some of which may be contemplating international expansion) about the ability to respond to and mitigate risk (39 percent very confident versus 45 percent).

Just identifying the risks can be a challenge in itself. “Markets such as India and China, for instance, can be extremely complex, and even opaque, at first glance,” notes Esch. “Different foreign jurisdictions require compliance with their own sets of regulations and tax laws, as well as conformity with other market restrictions. It can therefore be difficult for a company to get its arms around exactly what the risks are when deciding whether to expand into international markets.”

Larger companies more focused on improving risk management

More large private businesses than smaller companies stated a need to improve their risk management (90 percent versus 81 percent). That said, more smaller companies feel pressure to take on greater risk (52 percent versus 45 percent)—and yet they do not especially see a need to ramp up their risk management efforts.

Of the private companies surveyed, those that did not think it was important to improve their risk management over the next few years (15 percent) were smaller businesses (averaging \$55.2 million in revenues).

The consensus: risk remains manageable

While clearly noting areas for improvement, the majority of leading private companies surveyed say that leadership has a good understanding of their company’s risk profile and tolerance (87 percent), and they believe that risk management is also adequately understood across their enterprise. All in all, private companies feel well-poised to identify and manage the risks ahead.

In the eye of the beholder: Among leading private companies, international marketers view some risks differently from their domestic-only counterparts.

| Type of risk | Percentage of companies concerned about these risks over the next 2-3 years | |
|--------------------------------|---|---------------|
| | International marketers | Domestic-only |
| M&A | 49% | 50% |
| Supply chain integrity | 49% | 38% |
| New products & services | 52% | 31% |
| High financial leverage | 24% | 41% |
| International market expansion | 48%* | 25% |
| Financial misrepresentation | 25% | 43% |
| Product piracy | 36% | 15% |
| Cybercrime | 24% | 29% |
| Asset misappropriation | 21% | 28% |
| Monetary hedging | 23% | 15% |

*62% for US companies operating in emerging markets

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* tracks the business issues and best practices of privately held US growth businesses. The first quarter 2010 results incorporate the views of 235 chief executive officers (CEOs/CFOs) of leading US privately held growth companies, averaging 178.4 million in revenue/sales and including large, \$300+ million private companies.

Profile of management panel demographics:

| | |
|-----------------------------------|-----------|
| Average number of employees..... | 594 |
| Average revenues | \$148.4 M |
| Average enterprise revenues | \$178.4 M |
| Average five-year growth..... | 79% |

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

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