EXECUTIVE PERSPECTIVES ON **TOP RISKS**

Survey Highlights Value of a Long-Term View of Risk in the Boardroom

Key takeaways:

- *Organisational resiliency is the name of the game, reinforcing the importance of a risk-focused board.*
- *A long-term risk perspective augments the board's short-term risk awareness and governance.*
- *The board owns oversight of risk through established, regularly reported metrics.*

Protiviti and NC State University's ERM Initiative conducted a global survey in September and October of 2021 to capture perspectives on 36 risks on the minds of directors, CEOs and other C-level executives as they looked into 2022 and over the next 10 years. The 1,453 participating respondents were asked to rate 36 individual risk issues as well as offer other perspectives on the risk landscape and their organisations' risk management capabilities.

Accompanying this paper are two lists from the study – the top 10 global risks for both 2022 and 2031. Using these lists as a reference, key takeaways for boards are summarised below:

- The scope of top risks receiving board attention has become more expansive. The spread in severity ratings between the top risk and, say, the 15th-rated risk over the next 12 months has markedly compressed compared to prior years. There's a lot on the plate.
- People and culture are at the top of the agenda. Job markets have been disrupted and executives are concerned about attracting and retaining talent and labour.
    - Inability to attract and retain top talent and maintain the viability of succession plans is the number two risk, both near term and long term.
    - Diversity, equity and inclusion have elevated in importance, breaking into the top 10 risks for 2022 for the first time since this annual survey began 10 years ago.
    - Future of work is a defining business challenge for the next decade, the fourth-rated risk looking out 12 months and the top risk looking out over the next decade for the second straight year.

- Workplace evolution is creating uncertainty around how to operate while sustaining company culture. It is the ninth-rated risk long term.
- Resistance to change is both a top near-term and long-term concern.
- Most ESG matters rate highly, particularly with respect to human capital issues comprising the "S." As for the "E," concerns over climate change impacting strategies and business models are, not surprisingly, greatest in industries heavily reliant on fossil fuels, where it is among the top five risks.

- Economic uncertainty remains significant, and concerns over its long-term impact and volatility have increased as it broke into the top 10 risk list for the next decade, up from 16th the year before.
- Reliable and predictive market intelligence, particularly with respect to the customer experience, will separate winners and losers. Organisations need to access the data that will give decision makers actionable insights to understand and anticipate customer needs and spawn the productivity and innovation initiatives that drive the experience enhancements customers value most. This is a top 10 risk in both 2022 and 2031.
- Cybersecurity and data privacy remain a concern, as do regulatory matters.
- Near-term concerns over restrictive pandemic public health protocols linger, but the rating for these matters reflects the largest year-over-year decline – 8.8%. The impact of social media and supply chain congestion and disruption reflected the largest year-over-year increases – 13.3% and 12.1%, respectively.
- A long-term outlook helps companies be better prepared and more resilient.

TOP 10 GLOBAL RISKS FOR 2022	TOP 10 GLOBAL RISKS FOR 2031
1. Pandemic-related government policies and regulation impact business performance	**1.** Adoption of digital technologies requires new skills or significant efforts to upskill/reskill existing employees
2. Succession challenges, ability to attract and retain top talent	**2.** Succession challenges, ability to attract and retain top talent
3. Pandemic-related market conditions reduce customer demand	**3.** Rapid speed of disruptive innovation outpaces our ability to compete
4. Adoption of digital technologies requires new skills or significant efforts to upskill/reskill existing employees	**4.** Substitute products or services arise that affect our business model
5. Economic conditions, including inflationary pressures, constrain growth opportunities	**5.** Economic conditions, including inflationary pressures, constrain growth opportunities
6. Increasing labour costs impact profitability targets	**6.** Entrance of new competitors and other industry changes threaten market share
7. Resistance to change operations and the business model	**7.** Impact of regulatory change and scrutiny on operational resilience, products, and services
8. Inability to utilise data analytics and "big data" to achieve market intelligence and increase productivity and efficiency	**8.** Resistance to change operations and the business model
9. Cyber threats	**9.** Hybrid work environment and changes in nature of work challenge ability to compete
10. Shifts in expectations about social issues and diversity, equity and inclusion (DEI) outpace organisation's response	**10.** Inability to utilise data analytics and "big data" to achieve market intelligence and increase productivity and efficiency

What does all of this mean for boards? Given the speed of change and the spectre of disruptive events, directors lacking currency with market developments and emerging risks are not well positioned to participate in strategic discussions with CEOs who are trying to operate and grow the business in the digital age. Knowledgeable and prepared directors armed with a long-term view and informed by established metrics reported periodically to the board can contribute significant value to elevate the agility and preparedness of the organisations they serve. Boardroom conversations should facilitate decisiveness in pivoting when unexpected events and large-scale business disruptions occur. Acting with intention at the speed of the market or upon the onset of disruptive events is vital in these volatile times.

Alignment is an important opportunity for boards. A relevant point for directors is the significant disparity in risk perspectives among CEOs and team members in the C-suite. This suggests the need for dialogue at the highest levels of the organisation to ensure that everyone is on the same page about the most important risks that should command the organisation's focus and finite resources.

The executive summary of the study summarises the 2022 and 2031 top risks and offers an analysis of the perceptions about specific risk issues. It also provides key questions as a call to action for board members and executive management to consider that can serve as a diagnostic to evaluate and improve their organisation's risk assessment and management processes.

Given the speed of disruptive change reflected in the survey results, there are three key questions for boards to consider:

1. Are we satisfied that executive management assesses the company's strategy with a comprehensive forward-looking point of view linked to critical strategic assumptions and risks? Are strategic execution monitoring and actionable early warning capabilities in place to inform management timely of new market developments and emerging risks? Do we receive these insights and is our oversight of risk reinforced with established, regularly reported metrics?
2. Would we characterise the company's decision-making processes as "high-velocity, high-quality"? For example, does the process keep things simple, flatten the organisation, respond to disruptive events with speed, and emphasise taking necessary risks, failing fast and listening to feedback?
3. Does the organisation consider "extreme but plausible" events that could disrupt its critical business functions and services as well as the third parties on which the execution of the organisation's business model depends?

For more information, read our *Executive Perspectives on Top Risks Survey* executive summary and full report at www.protiviti.com/toprisks or http://erm.ncsu.edu.