

EXECUTIVE PERSPECTIVES ON TOP RISKS

2024 & 2034



The economy, talent and cyber threats drive concerns for manufacturing and distribution leaders beyond supply chain

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The combined analysis of risk insights from global executives for both 2024 and a decade out reveals several interrelated challenges that may result in significant events with the potential to test an organisation's business agility and resilience.

Changes in the profile of top risks from the prior year disclose a number of shifting conditions that may disrupt markets, including events triggered by intensifying geopolitical conditions. Many of those events are expected to have long-lasting impacts on business models and the competitive balance in a nuanced global marketplace. Board members and C-suite leaders who recognise these shifting realities and address them through robust, enterprisewide risk analyses that are aligned with business strategy possess a differentiating skill that positions their organisation's readiness and ability to adjust and pivot in the face of inevitable disruptive change as well as or better than their competitors.

In this 12th annual survey, Protiviti and NC State University's ERM Initiative report on the top risks currently on the minds of board members and executives worldwide. The results of this global survey reflect their views on the extent to which a broad collection of risks is likely to affect their organisations over the next year – 2024 – and a decade later – 2034. Our respondent group, which includes 1,143 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:¹

- **Macroeconomic risks** likely to affect their organisation's growth opportunities
- **Strategic risks** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organisation in executing its strategy

¹ Each respondent rated 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organisation. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Manufacturing and Distribution Industry Group

In an ever-evolving and rapidly changing business landscape for manufacturing and distribution organisations, executives and boards are challenged to navigate myriad risks, particularly as their businesses continue to play catch-up on numerous fronts in areas such as innovation and digital transformation. The risks these organisations face, both short- and long-term in nature, represent a complex array of external and internal factors ranging from talent management, cyber threats and supply chain dynamics to economic and inflationary concerns, regulatory changes and scrutiny, and technological advancements.

Overview of top risk issues in 2024

For the coming year, economic conditions, including inflationary pressures, represent the most significant risk for manufacturing and distribution organisations. Despite positive trends in demand and production over the past several months, the looming spectre of inflation remains a concern amid broader global uncertainty. Of note, the Manufacturing Purchasing Managers' Index (PMI) has been showing an uptick in recent months, indicating a positive trajectory, but the industry understandably remains cautious. Notably, this concern is expected to decrease in significance over the next decade, dropping to the fifth position in terms of long-term risks for 2034.

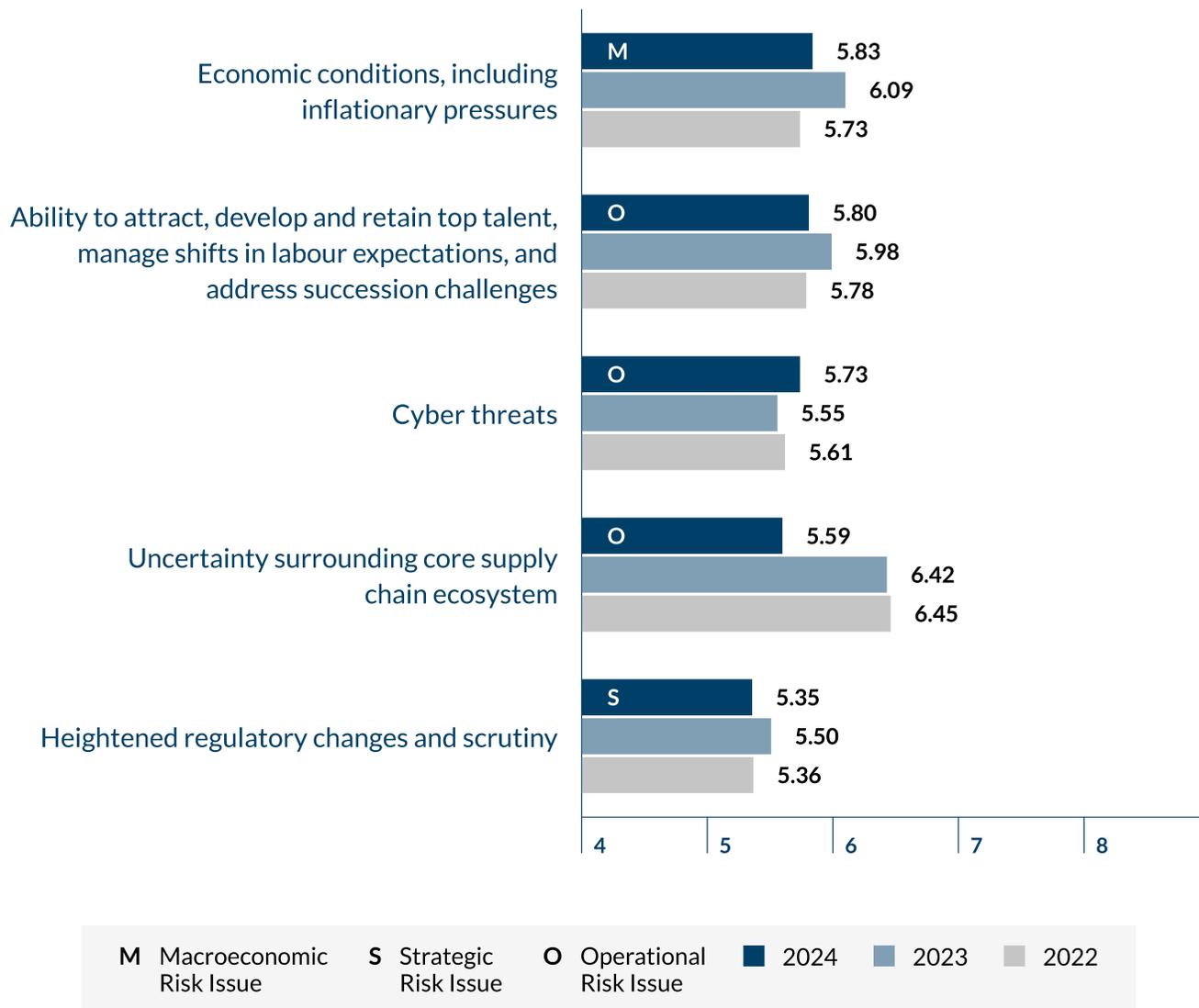
The challenge of attracting, developing and retaining top talent remains high on the list of risks manufacturing and distribution organisations face — an ongoing situation compounded by shifts in expectations among workers as well as succession challenges. Skills shortages continue to fuel low unemployment rates (in the range of 3%) throughout the industry. Specific manufacturing-heavy regions also continue to experience scarce talent availability — a persistent issue for organisations that have locations in more non-urban areas, making it difficult to compete with job opportunities in more popular urban areas.

In a related finding, rising labour costs appear to be of less concern, having dropped in importance on the list of top risks for the industry group. Further, the decline is more pronounced than in other survey results, indicating a shift in the industry's focus from labour cost concerns to broader challenges such as talent management, cybersecurity and supply chain resilience.

A growing number of bad actors see manufacturing environments as opportunities to execute ransomware attacks because they can be deployed in industrial environments that tend to be older and run on limited hardware that lacks readily available protections, such as anti-malware, anti-virus and on-device monitoring solutions.

Similar to most other industries, cyber threats have resurfaced as a top concern for manufacturing and distribution organisations, likely due to perceived vulnerabilities in operational technology (OT) systems as well as the proliferation of IoT-connected devices and technologies within industrial environments. Manufacturers historically have not been viewed as prime targets for cyber attacks. Consequently, vulnerability management has not been a focus in the same way that it has for organisations in other industries (for example, financial services and retail). However, a growing number of bad actors see manufacturing environments as opportunities to execute ransomware attacks because they can be deployed in industrial environments that tend to be older and run on limited hardware that lacks readily available protections, such as anti-malware, anti-virus and on-device monitoring solutions. This increases the industry's cyber risk profiles even more.

Manufacturing and Distribution – 2024



Additionally, manufacturers that produce IoT-connected goods must ensure the security of their products to their markets to minimise brand and reputation risk of a breach.

Another key point: New SEC-required cyber disclosures have elevated the importance of cybersecurity for publicly held companies in the industry, bringing added attention to the potential disruption of production processes.

Concerning supply chain risks, the uncertainty surrounding the core supply chain ecosystem has shifted from being the top concern in recent years to the fourth position for 2024. Factors contributing to this change include the industry’s recovery from severe pandemic-related supply chain disruptions, significantly lower shipping costs globally relative to the height of the pandemic, and greater investments in building supply chain resiliency and innovation. These are positive outcomes based on lessons learned in the pandemic era. Despite the moderation in perceived risk level, however, supply chain dynamics remain a significant risk, and organisations must continue to adapt to ongoing challenges, especially as the global business and geopolitical landscape continues to shift.

The manufacturing and distribution industry also faces heightened regulatory changes and scrutiny (the fifth-ranked risk issue for 2024), with increased focus on ESG regulations and disclosure requirements, including cybersecurity, as noted earlier. Among the more notable new ESG requirements is the Corporate Sustainability Reporting Directive, which requires new, standardised and detailed sustainability reporting by companies operating in the European Union. This shift aligns with global trends and expectations for companies to operate sustainably and transparently. Among the challenges for manufacturing and distribution organisations is navigating these complex regulatory landscapes while maintaining operational efficiency.

Though not in the top five for the Manufacturing and Distribution industry group, other risk issues that landed in the top 10 are worth noting. An inability to leverage rigorous data analytics for market intelligence and increased productivity ranks sixth. This is understandable considering that many organisations in the industry group must manage disaggregated and decentralised data sets, along with older, legacy technology systems (making technical debt another challenge). As a result, extracting valuable, meaningful insights from this data presents a significant hurdle.

Another notable risk issue for 2024 is the adoption of digital technologies requiring new skills that are in short supply. This risk presents challenges on several fronts. New technologies have brought about transformative benefits for manufacturing and distribution companies in terms of operational efficiency and financial performance. However, this paradigm shift also necessitates unique skillsets that, as noted earlier, are in short supply. This challenge is particularly acute for these companies because, on average, they tend to lag behind other sectors in the adoption of new technologies and innovations. In addition, as manufacturing and distribution organisations seek to expand their digital transformation efforts, they must navigate an increasingly complex ecosystem of partners. Moving to cloud-based solutions and integrating more technology into operations prompts greater reliance on third parties. While these changes bring strategic advantages, they also call for comprehensive risk management.

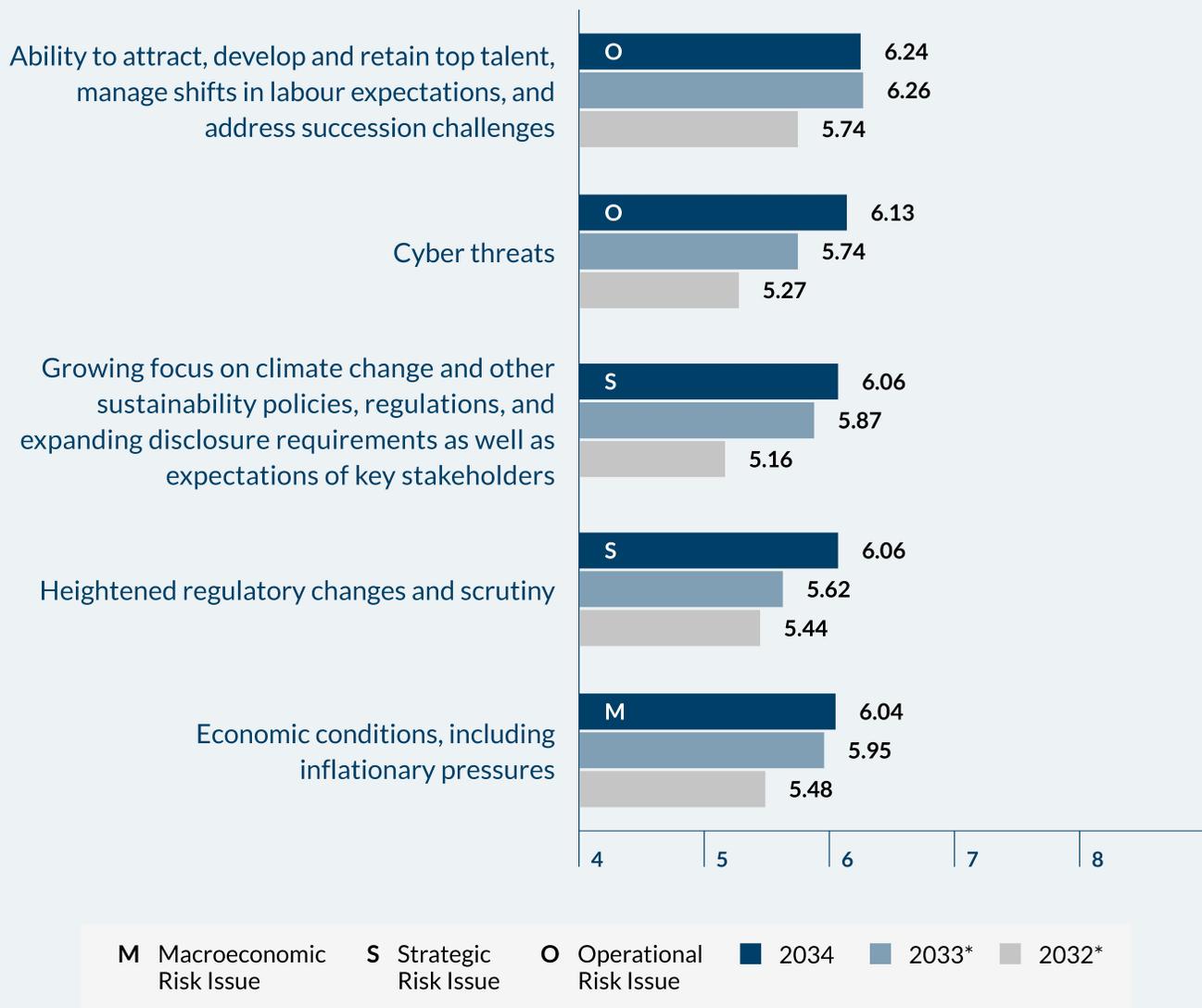
Geopolitical risks are another pressing concern. Current global events are exacerbating geopolitical uncertainties with regional conflicts and instability in governmental regimes or expansion of global terrorism complicating the risk landscape for manufacturing and distribution organisations with international operations. The interconnected nature of their supply chains means that political instability has far-reaching implications.

Interestingly, and consistent with results for other groups analysed in our survey, resistance to change drops on the 2024 list of top risks for manufacturing and distribution organisations, rounding out the top 10. However, given the volatility in the business environment and technology-driven transformation underway in many companies (e.g., Industry 4.0), it's imperative for leaders in these organisations to continue monitoring workplace culture to ensure teams are open to and embracing the use of emerging technologies and new ways of working.

Overview of top risk issues in 2034

Looking ahead to 2034, talent management emerges as the top risk issue, mirroring current trends but projected to grow over the next decade. The challenge lies not only in attracting, developing and retaining top talent, but also in managing shifting worker expectations and addressing succession challenges against demographic changes, perception issues around manufacturing jobs' desirability compared to other sectors like retail or services, the aforementioned location of available jobs in more rural and remote locations globally, and evolving skill requirements resulting from technological advancements and ongoing transformation initiatives.

Manufacturing and Distribution – 2034



* This data was reported as 2032 and 2031 results, respectively, in our prior year reports. We have shifted our terminology to reflect a decade out, thus have revised these year references in the interests of clarity.

Over the next decade (and as is the case for most other industries), cyber threats are expected to increase for manufacturing and distribution organisations, necessitating a dual focus on OT security and IoT devices — both those used in manufacturing facilities as well as those produced and distributed by manufacturers. The increased connectivity brought about by Industry 4.0 creates more entry points for cyberattacks, while the emergence of sophisticated attacks and lack of preparedness heightens the risk. These threats will only grow long-term as technological advances fuel greater capabilities among bad actors to attack and penetrate organisations’ technology systems. Cybercriminals already are becoming more sophisticated in targeting intellectual property and sensitive commercial data, as well as disrupting production lines — all of which carry serious financial ramifications.

The global focus on climate change and sustainability is expected to become a paramount concern for manufacturing and distribution organisations over the long term. The industry increasingly is coming under the spotlight as global efforts to combat climate change intensify. Particularly within energy-intensive sectors such as materials (cement, iron and steel) and chemicals, the responsibility for reducing carbon emissions is becoming significant.

Over time, manufacturing and distribution organisations expect to face greater scrutiny and potentially more climate-related regulations. This is one factor driving the high ranking of heightened regulatory changes and scrutiny in the 2034 risk outlook. As noted earlier, an evolving landscape of ESG regulations and increased disclosure requirements adds further complexity to the compliance efforts most manufacturers and distributors are undertaking. These organisations must navigate this intricate regulatory environment while ensuring their operations align with sustainability goals.

A number of technology-related concerns permeate the top 10 long-term risk issues for the industry group, including the adoption of digital technologies requiring new skills in short supply, the rapid speed of disruptive innovations, and existing operations and legacy IT infrastructure unable to meet performance expectations as well as “born digital” competitors. These challenges underscore the gap board members and executives in the industry may perceive with regard to how their organisations are planning for and incorporating emerging technologies to help drive their businesses, as well as perceived skills and talent shortages.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,143 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 36 unique risks on their organisation over the next 12 months and over the next decade. Our survey was conducted in September and October 2023. Respondents rated the impact of each risk on their organisation using a 10-point scale, where 1 reflects “No Impact at All” and 10 reflects “Extensive Impact.” For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our Executive Perspectives on Top Risks Survey executive summary and full report at www.protiviti.com/toprisks or <http://erm.ncsu.edu>.

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