

2022
&
2031



EXECUTIVE PERSPECTIVES ON TOP RISKS

The war for talent and regulatory changes are top concerns for the Energy and Utilities industry group in 2022 and 2031

Massive disruptions in the global supply chain. Challenges in attracting and retaining talent to address needs all across the enterprise. COVID-19 variants. Cyber attacks and ransomware. Wildfires and flooding. Geopolitical tensions in specific regions and shifts on issues related to climate change. Long-overdue shifts in expectations related to diversity, equity and inclusion. Political divisiveness and gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. More permanent shifts to hybrid and remote work environments. Shifting customer preferences and demographics. Big data analytics.

The global marketplace is dramatically impacted by these and a host of other notable risk drivers triggering significant levels of uncertainties that make it extremely difficult for an organization's leaders to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. As no one is immune to uncertainty, C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because it is impossible to anticipate everything of significance that lies in the future, organizations must focus on building trust-based, resilient cultures that can pivot at the speed of change.

In this 10th annual [survey](#), Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2022 and over the next 10 years, into 2031. Our respondent group, which includes 1,453 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 organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization 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 organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Energy and Utilities Industry Group

There's a noticeable mindset shift among energy and utilities executives about what top risks will be in focus for the industry as COVID-19 concerns continue to ease. In our 2021 survey, the top five risks were all strategic and macroeconomic risks. But now, the industry seems to be looking inward and focusing on operational issues, as it did in 2019, when almost every top five risk cited by respondents was operational in nature.

Sustaining leadership succession and the institutional memory

As we move into 2022, it's clear from our latest survey that energy and utilities executives are concerned they may not have the team around them to help navigate the ever-changing energy landscape. The top risk for 2022 is concern around "succession challenges and ability to attract and retain top talent." While it's been a top five risk for this industry in the past, it has never ranked at the top of the list until now.

There's a great war for skilled talent underway, and it's top of mind for executives across industries. However, businesses in the energy and utilities industry are particularly concerned about the aging of their skilled workforce and how quickly they can replace this talent and train new talent. Many worry that they lack the appropriate talent for leadership succession planning. Adding to these challenges is the fact that many younger professionals don't see the industry as a place to build a career; they worry about negative environmental impacts and the uncertainty around the overall energy transition. The industry's need for specialized, technical skill sets in areas such as environmental, social and governance (ESG), digital, and renewables is also a factor for its talent challenges. As older workers retire, the vital institutional memory erodes.

Unclogging the supply chain

Also climbing into the top five risks for 2022 to the second spot is the "uncertainty surrounding the organization's core supply chain." Its appearance in the top five in this year's survey isn't surprising given the supply chain challenges and disruptions that have hampered many industries during the pandemic. But the energy industry is especially vulnerable to supply chain risk given that its value chain is highly service-, feedstock-, parts- and equipment-oriented, and organizations typically run lean on inventories to balance out their operational costs.

The continued globalization and increased reliance on third parties within the industry combined with the constant chase of cost reductions has resulted in lean and cost-effective — yet highly exposed and fragile — supply chains. Studies have shown that companies with leading supply chain capabilities have proven over the past 25 years that they outperform on shareholder returns. As a result, many energy and utilities businesses are now realizing the importance of fortifying their supply chain resilience and enhancing their supply chain capabilities to maintain operations and avoid operational disruptions. They also recognize that these efforts are essential to their ability to achieve future growth and strong financial performance.

Impact of the regulatory environment and climate change

The next two risks in the top five for 2022 focus on energy and utilities companies staying ahead of the ever-changing regulatory environment. "Regulatory changes and scrutiny," which ranks third, relates to executives' concern about the overall regulatory changes that can have a detrimental impact to operations. The oil and gas industry is acutely sensitive to this risk. While the industry is adept at navigating the changing regulations around operational areas like emissions, there is still a concern among executives that the volume and velocity of regulations will increase, making it challenging for organizations to hit their strategic goals.

With the growing need for better ESG reporting, energy and utilities businesses have already started ramping up monitoring and compliance efforts. This proactive approach will help the industry to react quickly to new regulations, and organizations are well-advised to continue strengthening their internal compliance and data gathering for the reporting requirements. If any energy and utilities businesses need more motivation to increase their focus in this area, consider that respondents to this year's survey see heightened "regulatory changes and scrutiny" as the top risk for their industry in 2031.

Ranking third among the top five risks for 2022 is a "growing focus on climate change policies, regulations and expanding disclosure requirements" impacting the strategy and business model. Respondents also project this risk will be the second-most concerning issue for the industry in 2031 — right behind regulatory changes.

The impact of climate change policies and reporting has been a focus across the Energy and Utilities industry group for several years. However, its risk rating moved significantly higher from 2021; in fact, this risk didn't even rank among the top five for this industry group in our 2019 survey which focused on looking forward to 2020. However, in last year's survey report, we noted that the results envisioned increased emphasis on this risk for the industry, given the focus on climate change by the Biden administration in the United States and governments in other countries around the world and the increased attention on ESG by investors. The leadership role energy and utilities organizations can play in helping all countries reach their climate-related goals, such as reducing greenhouse gas emissions and other activities that will continue to evolve the regulatory frameworks under which such organizations must operate, is likely a driving factor for a "growing focus on climate change policies, regulations and expanding disclosure requirements" ranking second on the 2031 list of top risks for this industry.

Managing resistance to change

"Resistance to change" rounds out the top five risks for the Energy and Utilities industry group in 2022, and it's been a mainstay in the top risks rankings for many years. This is an industry group that prides itself on tried-and-true practices and the systems and other infrastructure it has built over decades to help support its complex and critical operations. But the industry also worries that making changes — especially changes that lead to undoing or wholly rethinking the hard work it has accomplished to date — will be very costly and disruptive.

That said, leading organizations are adopting new ways of thinking. Some have already made the necessary investments toward modernizing their operating environments and taking advantage of new digital technologies. This, in turn, is starting to shift the mindset in the overall industry toward embracing a more innovative and adaptable culture. This is a good thing, as it will help organizations tackle their top risk: attracting new talent.

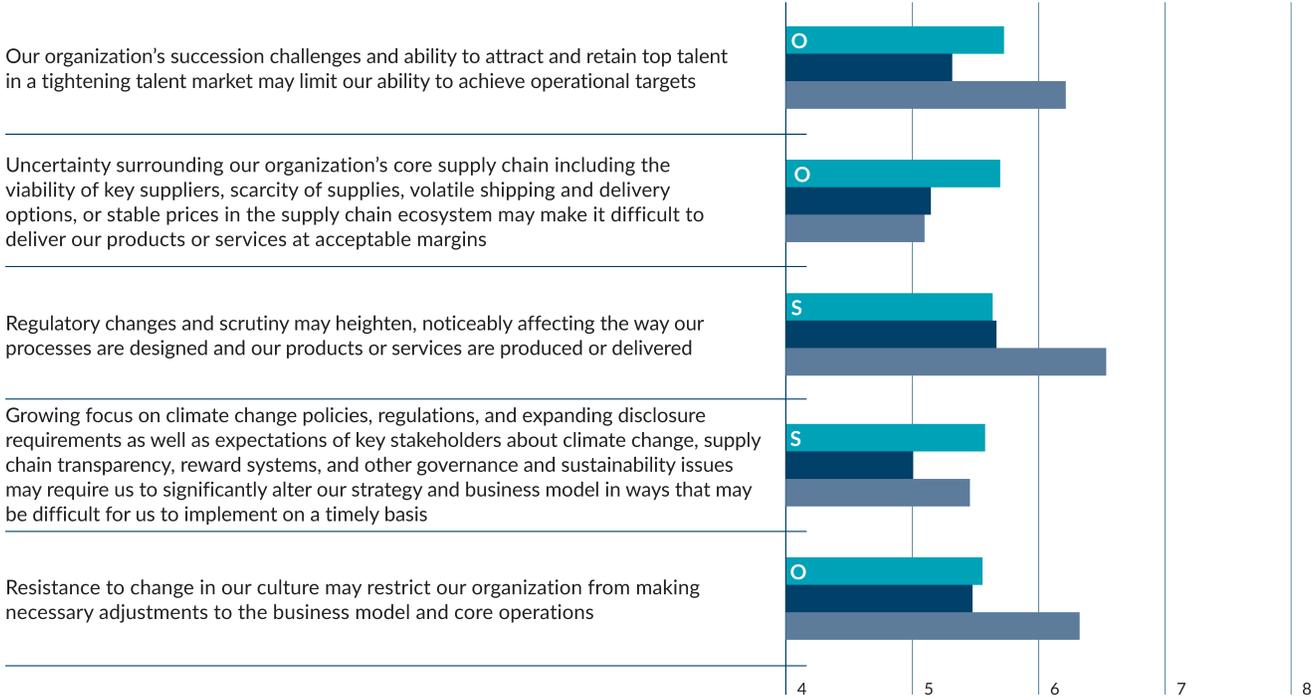
Having the right talent, skills and technologies are three critical components to enhancing the customer experience and driving customer satisfaction. So, it's also not a coincidence that leaders in the Energy and Utilities industry group have been focusing on driving improvement in these areas. Aligning these critical components will be long-term challenges for the industry, as the list of anticipated top risks for 2031 suggests. That underscores the importance of energy and utilities companies continuing to focus on improving their organizational culture and easing resistance to change going forward.

Growing recognition of the interdependency among risks

Finally, we noted an overall compression of the gap between risk ratings for the top risks in our survey. In prior years, the difference between the number one risk and the 15th risk, for example, would have been 1 point to 1.5 points. But this gap has narrowed to half a point or less. This indicates that many energy and utilities companies are shedding the idea of risk independence — that any one risk exists as a stand-alone. Instead, they're seeing their risks as more interdependent: If one occurs, the likelihood of others occurring is higher.

Given the events of the past year, including the COVID-19 pandemic, supply chain upheaval, natural disasters and more, it makes sense that there are more risks, and more challenges on the agenda for boards and the C-suite to track and address. They're grappling with more interdependent issues now than perhaps they were only three years ago, when there was a clearer hierarchy to their top risks.

Energy and Utilities – 2022



Legend

M Macroeconomic Risk Issue S Strategic Risk Issue O Operational Risk Issue 2022 2021 2020

Overview of top risk issues in 2031

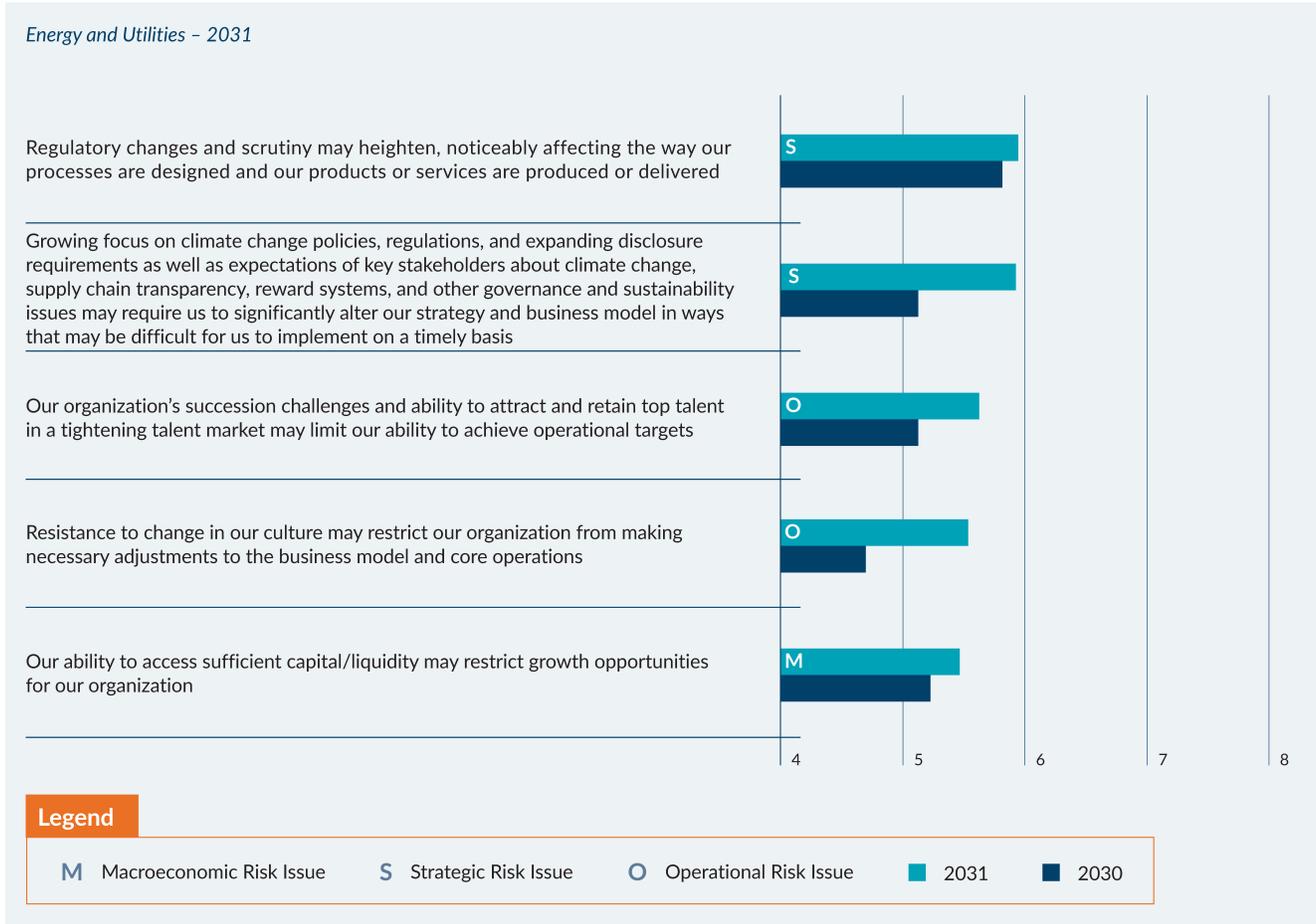
Looking ahead to 2031, we see various risks shifting in order of importance for energy and utilities businesses. Four of the top five risks over the next decade to 2031 are also in the top five list for 2022. As noted earlier, regulatory concerns take the top spot, followed closely by the impact of climate change. Succession and talent challenges rank third among forecasted risks for the industry in 2031.

While still a high ranking, the downward shift of “succession challenges and ability to attract and retain top talent” suggests that industry executives believe the risks in the regulatory and climate arenas will endure, and have more impact, than those related to “people matters.” This assertion can be supported by the fact that climate-related risk ranked higher year-over-year from 2021 and 2022, and, in 2031, sits even higher up the list.

Rounding out the top five risks for 2031 is “resistance to change,” at number four, and “access to sufficient capital,” which holds the fifth spot. This last risk, which is macroeconomic, ranked third on the 2030 list in last year’s survey; however, its continued placement among the top five risks in the decade to come underscores the energy and utility industry’s concern that it may face long-term challenges in its ability to attract enough capital and investment to sustain its operations.

“Leaders in the energy and utilities space are realizing that the build-out of digital technologies, skills and resources, combined with a strong view for the future, are critical to their long-term success. Those that are lagging are going to have a hard time catching up.”

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