

2022
&
2031



EXECUTIVE PERSPECTIVES ON TOP RISKS

Public Sector Outlook: Outdated Technology and Processes Underscore Long-Term Concerns

Stress on operations stemming from the pandemic. Cultural resistance to change. Need to attract and retain talent in a more expensive job market and to upskill the current workforce to perform in the digital environment. Cyber and data privacy concerns. Legacy operations and IT systems ill-suited for a digital world.

Public sector organizations face many of the same risks as their private sector counterparts and are further challenged by outdated technology and processes which heighten concerns about cybersecurity, data privacy and future performance capabilities.

Public sector organizations – which include government, education and not-for-profits – are impacted by these and many more risks. These organizations were already facing significant digital transformation challenges – and then COVID-19 arrived, and these same organizations were enlisted, indeed counted on, to take on massive responsibility for the welfare of citizens across the globe. Few, if any, public sector organizations were truly prepared for the magnitude of the effort they would need to undertake while at the same time continuing to provide business-as-usual services. Most exerted great effort and managed the best they could with the tools and the information they had, but the effort clearly disclosed cracks that should be addressed before the next unanticipated event unfolds.

In their [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 three dimensions:

- **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

As a point of reference, the survey was conducted in September and October 2021. The following commentary presents the results and themes specifically related to the subset of respondents from the public sector (specifically, government, education and not-for-profit organizations). Refer to Tables 1 and 2 for listings of the top 10 risks for 2022 and 2031. These are the aggregated results of the 188 public sector respondents and may not apply equally to all sub-segments of the public sector, e.g., a privately funded college may have very different views from a publicly funded university and educational organizations as a group may view risks differently than government agencies.

The short-term risk agenda for the public sector

Unlike many of their peers in the private sector, for public sector leadership, economic concerns (apart from those that directly affect the labor market) do not rank highly for public sector organizations that provide essential services and are government-funded (in the case of public education or even many not-for-profits that received significant government funding and support). Rather, strategic and operational risks dominate the top risk issues. Across these two dimensions, however, there are similarities with the private sector, most notably the people and culture themes that permeated survey results across most sectors.

For 2022, five of the top 10 risks for the public sector relate to people and culture (their corresponding ranking is noted below):

- 1. Succession challenges and the ability to attract and retain top talent may limit our ability to achieve operational targets.
- 3. Adoption of digital technologies may require new skills or significant effort to upskill/reskill personnel.
- 4. Resistance to change may restrict the organization from making necessary adjustments to the business model or operations.
- 8. Anticipated changes in labor costs may affect ability to meet profitability targets.
- 10. The organization’s culture may not encourage the timely identification and escalation of risk issues.

These are difficult issues for all organizations, but they perhaps are even more challenging for government organizations, where agency leaders are generally appointed for their technical expertise rather than their transformation experience. Rules governing areas such as use of funds, procurement and personnel inherently may make the workplace less flexible and agile than the private sector. And traditionally, the penalties for failure have far outweighed the potential rewards for taking bold actions. But government must change to meet the expectations of its constituents. This will require more than just enacting laws that require transformation. It will require development of a change roadmap and the commitment of time and resources necessary to effect the change – the same path taken by the private sector with recognition

Table 1

Top 10 Risks for 2022 – Public Sector

1. Succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets
2. Pandemic-related government policies and regulations may impact business performance
3. Adoption of digital technologies may require new skills or significant effort to upskill/reskill
4. Resistance to change may restrict the organization from making necessary adjustments to the business model or operations
5. The organization may not be sufficiently prepared to manage cyber threats/attacks and minimize the resulting disruption and damage
6. Market conditions imposed by and in response to COVID may impact customer demand for our products and services
7. Regulatory changes and scrutiny may heighten, affecting internal processes and how products and services are produced and delivered
8. Anticipated changes in labor costs may affect ability to meet profitability targets
9. Ensuring data privacy and growing identity protection expectations and regulations may require significant effort/changes to how we collect, store, share and use data to run the business
10. The organization’s culture may not encourage the timely identification and escalation of risk issues

by leadership and overseers that transformation is just as important as meeting business-as-usual responsibilities.

Two of the remaining top 10 risks for the public sector relate to preparedness for dealing with cyber attacks and ensuring data privacy and identity protection expectations are met. Recognition of cyber threats is a top-ranked risk in the overall survey, which is not surprising given the number of high-profile cyber and ransomware attacks that have occurred over the last few years. While data privacy concerns do not rank in the top 10 for the overall global survey results, its inclusion for the public sector is expected given the massive amounts of legally protected information collected, maintained and used by public sector organizations and agencies.

Two other of the remaining top 10 risks relate to the pandemic: the impact of pandemic-related policies and procedures on business operations and the impact of the pandemic on customer demand for the organization's products and services. Both risks are also in the top 10 for the broader population of respondents.

The final top 10 risk for the public sector relates to the impact of regulatory changes and scrutiny on how products and services are offered. While not among the top 10 risks for the overall population of respondents, this is an expected and present risk for any highly regulated sector.

The 10-year view

There are two parallels between the 2031 and 2022 results, although the risk ratings assigned for 2031 suggest that the public sector respondents expect a riskier environment 10 years out – which is not surprising or particularly alarming since less certainty often means a higher perception of risk:

- People and culture issues still account for the largest number (4) of the top 10 risks.
- Concerns related to cyber risks and data privacy challenges as well as regulatory changes and scrutiny remain in the top 10.

There are, however, three new risks that emerge in the 2031 view (their corresponding ranking is noted):

3. The rapid speed of disruptive innovations may outpace our organization's ability to compete and adjust the business model.
8. Legacy IT infrastructure and insufficient digital expertise may result in inability to make adjustments and meet performance expectations.
10. Substitute products and services may affect the viability of the business model.

Table 2

Top 10 Risks for 2031 – Public Sector

1. Adoption of digital technologies may require new skills or significant effort to upskill/reskill
2. Succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets
3. Rapid speed of disruptive innovations may outpace our ability to compete and adjust the business model
4. Regulatory changes and scrutiny may heighten, affecting internal processes and how products and services are produced and delivered
5. Ensuring data privacy and growing identity protection expectations and regulations may require significant effort/changes to how we collect, store, share and use data to run the business
6. Resistance to change may restrict the organization from making necessary adjustments to the business model or operations
7. The organization may not be sufficiently prepared to manage cyber threats/attacks and minimize the resulting disruption and damage
8. Legacy IT infrastructure and insufficient digital expertise may result in inability to make adjustments and meet performance expectations
9. Anticipated changes in labor costs may affect ability to meet profitability targets
10. Substitute products and services may affect the viability of the business model

These three risks are inextricably linked: Disruption is happening faster, outdated processes and technologies make it more difficult to deal with the disruption, and competitors therefore pose a bigger threat. “Born digital” players that are invested heavily in technology have reshaped the customer experience – and public sector customers are increasingly demanding an improved customer experience. The message seems clear and simple: Delaying transformation enabled by artificial intelligence, automation in all its forms, hyperscalable platforms, faster data transmission and other technologies will only make the problems bigger.

Even before COVID-19, public sector leaders were struggling with the extraordinary challenges of technological change and its impact on their businesses and operations. COVID-19 turned the world upside down, causing inescapable commotion, altering expectations around how organizations and their stakeholders interact, and even changing how, where and when workers want to work – resulting in an upheaval of the battleground where the ongoing all-out war for scarce talent is fought. COVID-19 also taught leaders that they need to be better prepared for the unexpected.

As COVID-19 (hopefully) becomes less of a headline, public sector organizations need to reflect on what they would have liked to have done differently, and what changes they will need to make not only to meet the demands of the next crisis, but also to prosper in the digital world. Time will tell whether the lessons learned impact future agility and preparedness in the sector.

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Protiviti’s Public Sector practice, in collaboration with our parent company, Robert Half, provides consulting expertise and insights to the public sector and contractors that serve the public sector in key areas affecting their businesses and operations, including internal audit and controls, technology systems and data management, risk management (including fraud prevention and identification), operational resilience, and digital transformation. In addition, we provide both temporary and permanent staffing and managed services solutions to assist governments and other public sector organizations in managing their resource needs.

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