

2022  
&  
2031



# EXECUTIVE PERSPECTIVES ON TOP RISKS

## Supply chain risk is the dominant issue for the Manufacturing and Distribution industry group in 2022 and 2031 – but there’s more

*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:<sup>1</sup>

- **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

<sup>1</sup> 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 – Manufacturing and Distribution Industry Group

For organizations in the Manufacturing and Distribution industry group, the story for the coming year is about supply chain concerns, resource and talent challenges, culture and hybrid work environments, and digital transformation. Longer-term, looking out over the next decade, the supply chain and people-related issues remain notable risks, and there also are greater concerns compared to the near term with regard to competition and disruptive innovations in the marketplace.

### Overview of top risk issues in 2022

As expected, supply chain concerns, including the viability of key suppliers and the scarcity of supplies, uncertainty around shipping and delivery, and increasing prices represent the top risk issue for organizations in the Manufacturing and Distribution industry group. While not a surprise, the rise in this risk concern is dramatic — not only is its risk score a full point higher than the prior year, but this top-ranked risk issue for 2022 did not even appear in the top 10 list for the past two years.

The reasons are evident: Every organization experienced supply chain challenges at the onset of the pandemic that have lingered longer than first predicted. In fact, the pandemic has magnified systemic longer-term challenges in the supply chain, including but not limited to just-in-time inventory models with razor thin margins for error. As materials and finished goods move from vendors to factories to customers, there are more opportunities for bottlenecks that can have a domino effect in creating major problems.

Starting in 2020, the falling dominoes have included, but haven't been limited to, labor challenges (e.g., shortages of truck drivers and warehouse workers, as well as furloughed staff who elected not to return), both intermittent and prolonged plant shutdowns around the world due to COVID-19-driven variants and surges, delayed logistics (e.g., ship, rail, trucking), and materials shortages coupled with rising commodity prices. Throughout 2021, these issues remained and created ripple effects that hampered recovery among manufacturers. Clearly these challenges are expected to remain through much of 2022, though many experts predict that the situation is at its worst today and, by later in 2022, there should be marked improvements on several fronts in the supply chain.

Executive teams also are struggling with how to establish effective and efficient remote/on-site working models, thus raising this risk from ninth in 2021 to second on this year's list. Also of note: A new risk included in this year's survey, related to changes in the overall work environment, including shifts to hybrid work environments impacting an organization's culture and way of doing business, landed in the top 10 for the industry group. As manufacturing and distribution organizations approach the two-year mark in the pandemic, they are in the midst of trialing various work-from-home/return-to-work scenarios as they attempt to balance stakeholder expectations with those of their employees. As in many industries, the path to reach this evolving "new normal" has not been easy to define as management weighs productivity, operational considerations and possible vaccination mandates against employee concerns and even a potential exodus of talent. Short- and long-term effects of these dynamics on culture and operations are still to be determined.

These issues also are tied to the third-ranked risk issue related to government policies surrounding public health practices and various pandemic-related regulations. Compared with this point last year, global manufacturing companies have had some time to navigate the initial uncertainties created by the pandemic and digest local regulations and protocols in the various geographic regions in which they operate. That said, this remains a highly rated risk issue considering the evolving nature of regional requirements, including but not limited to return-to-workplace guidelines and potential vaccination mandates, all while pandemic spikes and variants continue to emerge.

A prevailing story for most industries over the past year has been the tight labor market and challenges in recruiting and retaining skilled talent. Manufacturing and distribution organizations have not been immune to these issues, as indicated not only in the results for 2022 but also in survey findings from prior years. In most regions over the past several years, unemployment rates in the manufacturing industry have hovered below overall unemployment levels. Manufacturers also face long-term challenges with hiring people in the locations where they are needed, as remote work is not always an option and manufacturing facilities typically are not located in more populous urban areas. And more of these organizations have prioritized finding workers with new skillsets that can focus on technology innovations transforming the industry. In addition, manufacturing and distribution organizations are experiencing higher talent attrition, similar to most other industries. These are among the many factors further compounding challenges to hire and retain a skilled workforce.

Interestingly, while economic conditions remain a top five risk issue for 2022, it fell from its typical first or second place position to fifth on this year’s list. The risk score has also dropped more than one point compared to the 2020 mark. Still, most of the top five risks for the Manufacturing and Distribution industry group are contributing to perceptions around economic uncertainty. There also are significant near-term concerns about global inflation and resulting higher prices for commodities, goods and services. While inflation is placing pressure on manufacturing and distribution organizations (as it is in most industries), there is a general belief that current inflationary trends are temporary, which may be why there is slightly less concern about economic conditions compared with views in prior years.

*Manufacturing and Distribution - 2022*

Uncertainty surrounding our organization’s core supply chain including the viability of key suppliers, scarcity of supplies, volatile shipping and delivery options, or stable prices in the supply chain ecosystem may make it difficult to deliver our products or services at acceptable margins

Ongoing demands on or expectations of a significant portion of our workforce to “work remotely” or increased expectations for a transformed, collaborative hybrid work environment may negatively impact the effectiveness and efficiency of how we operate our business

Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of our business

Our organization's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets

Economic conditions (including inflationary pressures) in markets we currently serve may significantly restrict growth opportunities or impact margins for our organization



**Legend**

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

## Overview of top risk issues in 2031

Assessing the results of the 10-year risk outlook, an immediate takeaway is that risk scores have risen notably compared with our prior year results for the next decade. It's likely that the longer-than-anticipated tail of the pandemic is shaping the view that the outlook for the next 10 years could be riskier than expected at the onset of the crisis in early 2020.

Interestingly, in the 10-year view of risk issues, supply chain uncertainties and their potential impacts remain atop the list (similar to the 2022 risk outlook). Even though the current supply chain challenges and disruptions are anticipated to be relatively short-term in nature, some industry experts view them as having an extended tail, highlighting the overall fragility of the manufacturing industry's complex global supply chain and its impact on day-to-day operations. With expectations that current supply chain constraints will not moderate until later in 2022, manufacturing and distribution organizations likely are focusing on how to build longer-term resiliency into their supply chains. This may involve introducing changes to certain aspects of their supply chain or operations, such as more diversified sourcing, increased safety stock and new physical locations, to mitigate the long-term risks of recurring supply chain disruptions, especially in a fast-changing global business environment.

Another prevalent 10-year theme relates to people. Similar to the view of top risks for 2022, succession challenges and the ability to attract and retain talent is perceived to be a key challenge for the next decade. Falling just below the top five for 2031 is the risk issue related to changes in the overall work environment, including shifts to hybrid models, and how they may lead to challenges to sustaining the organization's culture. In addition, risk issues related to the adoption of digital technologies and the rapid speed of disruptive innovations tie back to a greater need for new skills, as well. These issues underscore how talent acquisition and retention, together with culture, are expected to be ongoing challenges over the next decade.

There also are long-term concerns related to competition. The scores for risk issues related to strategic shifts in the market – adoption of digital technologies, substitute products and services, rapid speed of disruptive innovations – show notable increases compared with our prior year results. Staying competitive in a changing business climate and embracing new technologies and so-called Industry 4.0 approaches will be key priorities for boards and executives in the Manufacturing and Distribution industry group.

In closing, there are notable trends in the scores for the risk related to climate change policies and regulations, along with rising expectations among key stakeholders related to these issues.

While not in the top 10 industry group risk issues for 2022 or 2031, the risk scores show an upward trend in both the 12-month and 10-year outlooks. The impact of climate change on strategies and business models and other ESG issues represent growing concerns for boards and executives in manufacturing and distribution organizations. We anticipate the significance of these issues will continue to increase in the form of higher risk scores in the coming years.

Manufacturing and Distribution – 2031

Uncertainty surrounding our organization’s core supply chain including the viability of key suppliers, scarcity of supplies, volatile shipping and delivery options, or stable prices in the supply chain ecosystem may make it difficult to deliver our products or services at acceptable margins

The adoption of digital technologies (e.g., artificial intelligence, automation in all of its forms, natural language processing, visual recognition software, virtual reality simulations) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill our existing employees

Our organization’s succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets

Substitute products and services may arise from competitors that may enhance the customer experience and affect the viability of our current business model and planned strategic initiatives

Rapid speed of disruptive innovations enabled by advanced technologies (e.g., artificial intelligence, automation in all of its forms, hyper-scalable platforms, faster data transmission, quantum computing) and/or other market forces may outpace our organization’s ability to compete and/or manage the risk appropriately, without making significant changes to our business model



Legend

M Macroeconomic Risk Issue    S Strategic Risk Issue    O Operational Risk Issue    ■ 2031    ■ 2030

*“Within the Manufacturing and Distribution industry group, the pandemic has had some unique effects that are making recovery and a return to ‘normal’ operations especially challenging. Supply chain pressures over the past year have been well-documented, yet there are related challenges that are contributing to bottlenecks in numerous interconnected areas throughout manufacturing and distribution organizations. Worker shortages, intermittent plant shutdowns amid COVID-driven peaks and valleys, logistics delays, microchip shortages, and even the more limited availability of commodities like wood have had serious ripple effects that boards and executive management continue to address. Couple this with navigating vaccination requirements in different jurisdictions, establishing hybrid work models in an industry where in-person work is frequently required, and planning and implementing Industry 4.0 transformation, it’s no surprise to see uncertainty within the industry group for 2022 and the next decade.”*

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