

Executive Perspectives on Top Risks

2023 & 2032

People problems upstage data privacy and economic challenges in latest top risks survey of TMT leaders

2022 has been an exigent year for the technology, media and telecommunications (TMT) industry. Many companies continued transformations accelerated during the COVID-19 pandemic, even as they faced an intensifying regulatory environment, geopolitical turmoil and supply chain disruptions.

Heading into the new year, companies again are adjusting for more uncertainty and headwinds. The biggest challenges facing TMT companies include difficulty retaining a strong workforce, including senior management; fending off economic headwinds, particularly inflation; ensuring data security and privacy compliance; and finding people with the right skillset to meet the rapid pace of digital transformation. Additionally, many TMT executives are concerned about resistance to change in culture impacting their business model and core operations.

These are the top-5 risks identified by TMT respondents in the annual top risk survey. The survey shows that the TMT industry has shaken off risks related to the pandemic, but what now prevails in C-suite discussions are concerns related to people management, which occupy two of the top ten risks identified by industry executives.

The “people” problem

The TMT industry has a “people problem” – one that is complicated by the global economic downturn, disruptive and fast-paced digital innovation, as well as cultural change. The top risk survey indicates a lack of skilled talent available for hire and challenges retaining current talent including at the highest ranks of the organization, have been a growing concern in the last five years.

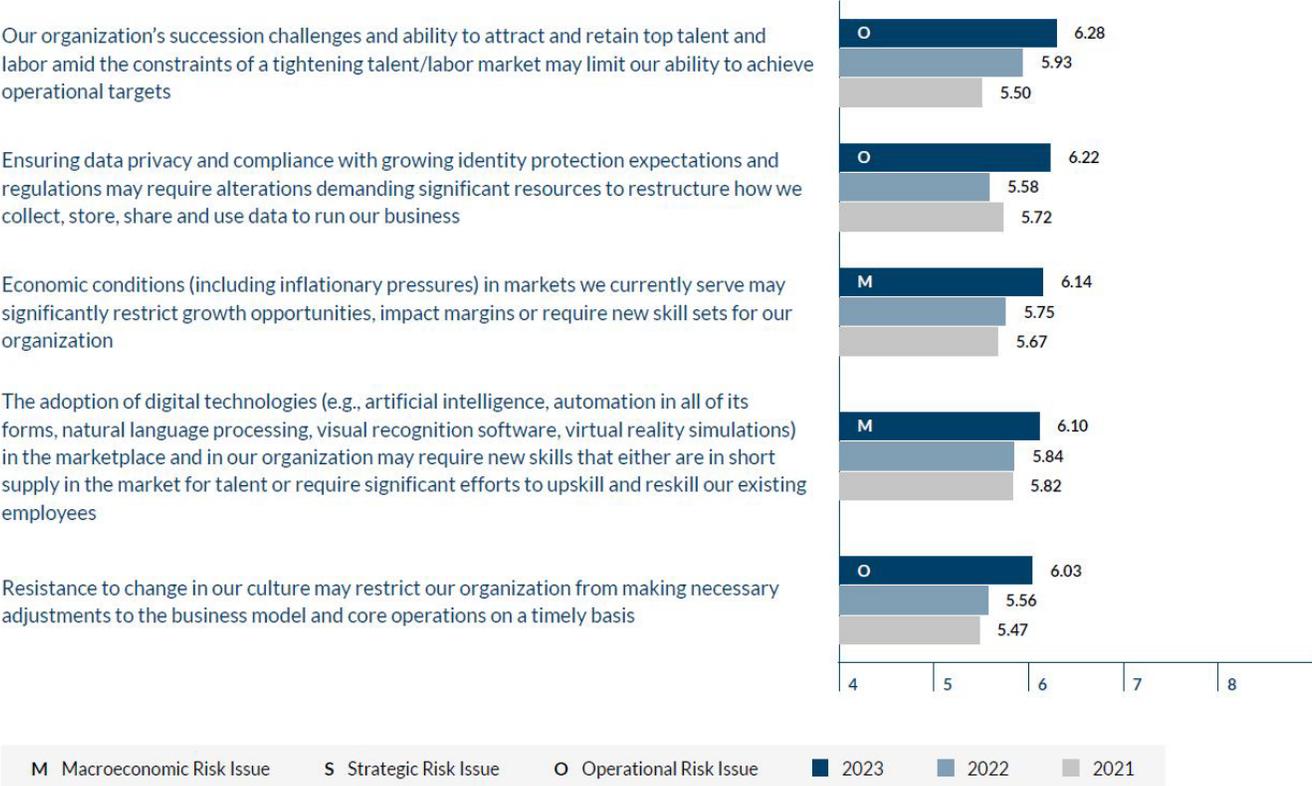
Last year, for instance, after not even making the top five list of key risks the prior year, the talent shortage made a dramatic appearance as the No. 2 risk concern, upstaged only by restrictive regulations related to the pandemic. In the latest survey, succession challenges and the ability to attract and retain top talent is at the very top of the list, though it comes at an interesting time for the industry.

In recent months, a number of TMT organizations have announced layoffs and hiring freezes, citing inflation, rising cost of wages and benefits, and a need to eliminate less value-added resources to focus on profitability.

The changing labor model spurred by the pandemic likely has something to do with this. The shift to remote and virtual work models during the pandemic reduced geographic barriers to talent recruitment. As an example, top technology talent, such as engineers, programmers, developers and sales staff can be recruited from anywhere in the world, and do not need to live in proximity to traditional tech hubs like San Francisco, New York and Seattle. This ease with which employees and senior management are able to move between jobs appears to be driving some of the people management challenges that some TMT companies now face.

Going into 2023, it is important for TMT leaders to understand the multiple factors involved with retaining talent during a potential recession. They need to consider these key questions: How do you determine the skills/experiences your organization needs during and after the recession? How well do you communicate to your employees during these uncertain times, including during potential downsizing? What type of employee experience are you creating for the people that you do retain?

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Compliance concerns

Ensuring data privacy and compliance with growing identity protection expectations and regulations is the second top risk issue identified by TMT respondents in the 2023 survey. This risk underscores the growing pressure TMT companies are under to bolster their organizations' compliance capabilities, refresh privacy programs, and identify and mitigate increased areas of risk brought on by changes to business processes, adoption of emerging technologies and business operational models. There are also reputational and legal concerns associated with this risk, as well as major cost implications. The necessary alterations require significant resources to restructure how organizations collect, store, share and use data to run their business.

This top risk concern is only going to worsen, as regulators globally introduce measures that will push organizations to identify and remediate potential gaps in policies and processes related to data privacy. In the United States, for example, a new federal privacy legislation, the [American Data Privacy and Protection Act \(ADPPA\)](#), is making its way through Congress and has bipartisan support.

There is also the stringent new Trans-Atlantic Data Privacy (TADP) framework, which the United States and the European Union (EU) agreed to in 2022, addresses data privacy and protection of EU citizens' data. The [Digital Services Act](#), which the European Council signed into law in September 2022, aims to protect the digital space against the spread of illegal content, and carries significant financial penalties and enforcement actions against infringing companies. The EU's [Artificial Intelligence Act](#) is another one; deemed the first legislation globally that aims to regulate the use of artificial intelligence across all sectors, it proposes state-of-the-art security and privacy-preserving requirements for companies developing high-risk AI systems.

Digital disruptions

Many TMT leaders fear their organizations may not have the right skills to take advantage of emerging digital technologies, especially during this period of economic instability, high inflation and talent shortage.

This explains the No. 4 top risk pick, which concerns 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 within organizations. Keeping up with digital disruption requires assembling the right talent, putting in significant efforts to upskill and reskill existing employees, and focusing on change management.

Other risk issues are entangled here as well. For example, in the event of a recession, companies are likely to cut research and development budgets, and startups building emerging technologies will struggle to raise venture capital. Companies with deeper pockets may invest in struggling startups, by either acquiring the business or picking off their talent. Either way, there would be disruption all around, even for the buyers.

Culture challenges

The scenarios cited above also entail big risks for the companies with deeper pockets. Conflicting corporate cultures is one of the major reasons many merger and acquisition transactions fail or do not measure up to expectations. It is no surprise that TMT executives identified resistance to culture as the No. 5 risk issue. The concern here is that culture resistance would restrict organizations from making necessary adjustments to the business model and core operations on a timely basis.

Other top 10 risks

Outside the top-five risks, TMT executives cited resilience to unexpected crises; volatility in global financial markets and currency; third-party risks; and supply chain disruptions, among their top ten risks. Asked to identify risks they expect over the next decade, the TMT respondents cited the rapid speed of disruptive innovations enabled by advanced technologies; the competitive threat from substitute products and services; data privacy and compliance expectations and regulations; and resistance to changes in culture. Interestingly, the No. 1 risk issue for 2023, succession challenges and talent retention, falls to No. 5 in TMT leaders' 10-year prediction.

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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, blockchain, digital currencies and the metaverse) 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

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

Ensuring data privacy and compliance with growing identity protection expectations and regulations may require alterations demanding significant resources to restructure how we collect, store, share and use data to run our business

Resistance to change in our culture may restrict our organization from making necessary adjustments to the business model and core operations on a timely basis

Our organization's succession challenges and ability to attract and retain top talent and labor amid the constraints of a tightening talent/labor market may limit our ability to achieve operational targets



M Macroeconomic Risk Issue S Strategic Risk Issue O Operational Risk Issue ■ 2032 ■ 2031 ■ 2030

About the Executive Perspectives on Top Risks Survey

We surveyed 1,304 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 38 unique risks on their organization over the next 12 months and over the next decade. Our survey was conducted online in September and October 2022 to capture perspectives on the minds of executives as they peered into 2023 and 10 years out.

Respondents rated the impact of each risk on their organization using a 10-point scale, where 1 reflects “No Impact at All” and 10 reflects “Extensive Impact.” For each of the 38 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact. We also grouped risks based on their average into one of three classifications:

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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