

Executive Perspectives on Top Risks

2023 & 2032

Supply chain, talent and economic risks stand out for Manufacturing and Distribution industry group in 2023, with emerging tech and innovation key themes for 2032

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The level of uncertainty in today's global marketplace and the velocity of change continue to produce a multitude of potential risks that can disrupt an organisation's business model and strategy on very short notice. Unfolding events in Eastern Europe, changes in government leadership in several countries around the globe, escalating inflation, rising interest rates, ever-present cyber threats, competition for talent and specialised skill sets, continued disruptions in global supply chains, rapidly developing technologies ... these represent just a sampling of the complex web of drivers of risks that may threaten an organisation's achievement of its objectives. Uncertainty and risk are here to stay. Keeping abreast of emerging risk issues and market opportunities is critical to improving organisational resilience.

The need for robust, strategic approaches to anticipating and managing risks cannot be over-emphasised. Boards of directors and executive management teams who choose to manage risks on a reactive basis are likely to be left behind those who embrace the reality that risk and return are interconnected and recognise the benefits of proactively managing risks through a strategic lens. Those leaders who understand how insights about emerging risks can be used to navigate the world of uncertainty nimbly increase their organisation's ability to pivot when the unexpected occurs. That can translate into sustainable competitive advantage.

In this 11th 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 2023 and over the next 10 years, into 2032. Our respondent group, which includes 1,304 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 38 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 38 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 38 risk issues, we computed the average score reported by all respondents.

Commentary – Manufacturing and Distribution Industry Group

In assessing the global risk landscape for manufacturing and distribution organisations in 2023 and 2032, familiar themes emerge: global supply chain challenges; the economy; and labour costs coupled with succession challenges and the ability to attract and retain top talent. Other issues, though not ranked among the top five risk concerns for these organisations, still represent significant priorities, such as organisational culture, operating successfully amid shifts to hybrid work environments or remote work arrangements, and resistance to change in these and other areas that could impact the organisation's ability to achieve its long-term objectives. It's also important to note that most of these risk issues fall under the umbrella of ongoing innovation and transformation efforts as manufacturing and distribution organisations continue to go through the growing pains of Industry 4.0.

Overview of top risk issues in 2023

Organisations in the Manufacturing and Distribution industry group reflect trends in their assessment of the risk landscape for 2023 similar to that of most other organisations worldwide. They view the risk landscape to be riskier for the next 12 months compared with their perceptions in last year's survey for 2022. Ratings for three of the top five risk issues for the industry group have increased year-over-year, with the fifth-ranked risk issue being new to this year's survey: uncertainties from reliance on international markets for key elements of the supply chain creating significant challenges. And within the top 10 risks, just two show a year-over-year decline: uncertainty surrounding the core supply chain and concerns about expectations among the workforce to work remotely impacting the organisation's ability to retain talent. In addition, whereas just one risk issue ranked at the "Significant Impact" level in 2022, this year there are three risk issues at that level, with the fourth falling just below 6.0.

Not surprisingly, supply chain concerns continue to represent the top risk issues for board members and executives in the industry group. In fact, two supply chain-related risk issues in the survey both land in the top five for 2023. Uncertainties surrounding the organisation's core supply chain making it difficult to deliver products or services at acceptable margins is the top risk issue, similar to 2022, with uncertainties from reliance on international markets for key elements of the supply chain (as noted earlier, a new risk issue to this year's survey) also in the top five.

Pandemic-driven supply chain issues have been well documented. While from a global, cross-industry perspective, some supply chain challenges are slowly becoming less intensive, critical short- and long-term challenges for manufacturing and distribution organisations remain, from access to critical raw materials to often fragile logistics. These issues directly impact customers of manufacturing and distribution organisations and, as a result, the bottom line.

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At the same time, whereas two years ago the focus was on pandemic-related supply chain issues, today the focus is more on effects on the supply chain resulting from geopolitical issues, including but not limited to Russia's war on Ukraine and China-U.S. relations. These developments and the uncertainty they create are contributing to the staying power of supply chain risk as the top concern for this industry group. Moreover, as we discuss in more

detail below, uncertainties surrounding the organisation's core supply chain still ranks as the second-highest-rated risk issue for manufacturing and distribution organisations looking a decade out to 2032.

Building resiliency and innovation into manufacturing and distribution supply chains by leveraging re-shore and near-shore decisions and enabling data transparency across the supply chain will help move these organisations from reactive to proactive by adopting a stronger risk mindset with regard to their supply chain management. Many manufacturing and distribution organisations continue to grapple with how they manage their supply chains, perceiving and operating it as a cost centre — i.e., cost of goods sold — as the dominant measure driving decisions and behaviours. However, manufacturing and distribution organisations, more than ever, will benefit from a more holistic approach to managing their supply chains. The geopolitical events cited earlier have brought into clear focus the shortcomings in fragility of cost-focused supply chain risk management models and the need to restructure them to become more flexible, responsive and reliable. Manufacturing and distribution companies that successfully construct and implement such a holistic supply chain model will afford themselves the opportunity to maintain business operations and customer satisfaction in the event of future business interruptions, both large and small.

A final note regarding the focus on supply chain costs: Keep in mind that when disruptions strike, a just-in-time inventory strategy fails to provide an accurate tabulation of the cost of goods sold. It does not account for expenses related to business continuity management, logistics adjustments, delays and unhappy customers, and long-term damage to brand reputation and the customer experience. It also tends to neglect the significant value derived from designing and operating more reliable and resilient supply chains. Indeed, a focus on resiliency and optimisation can pivot the view of supply chain from a cost centre to a revenue driver.

Overall economic conditions, including ongoing inflationary pressures, represent the second-highest-ranked risk issue for the industry group, moving into the "Significant Impact" risk category for 2023. Given the ongoing concerns regarding inflation and potential recessionary trends, which directly impact costs for materials and transportation, leadership within manufacturing and distribution organisations are keeping a close eye on the markets and potential impact on their organisations and global supply chains in the coming year.

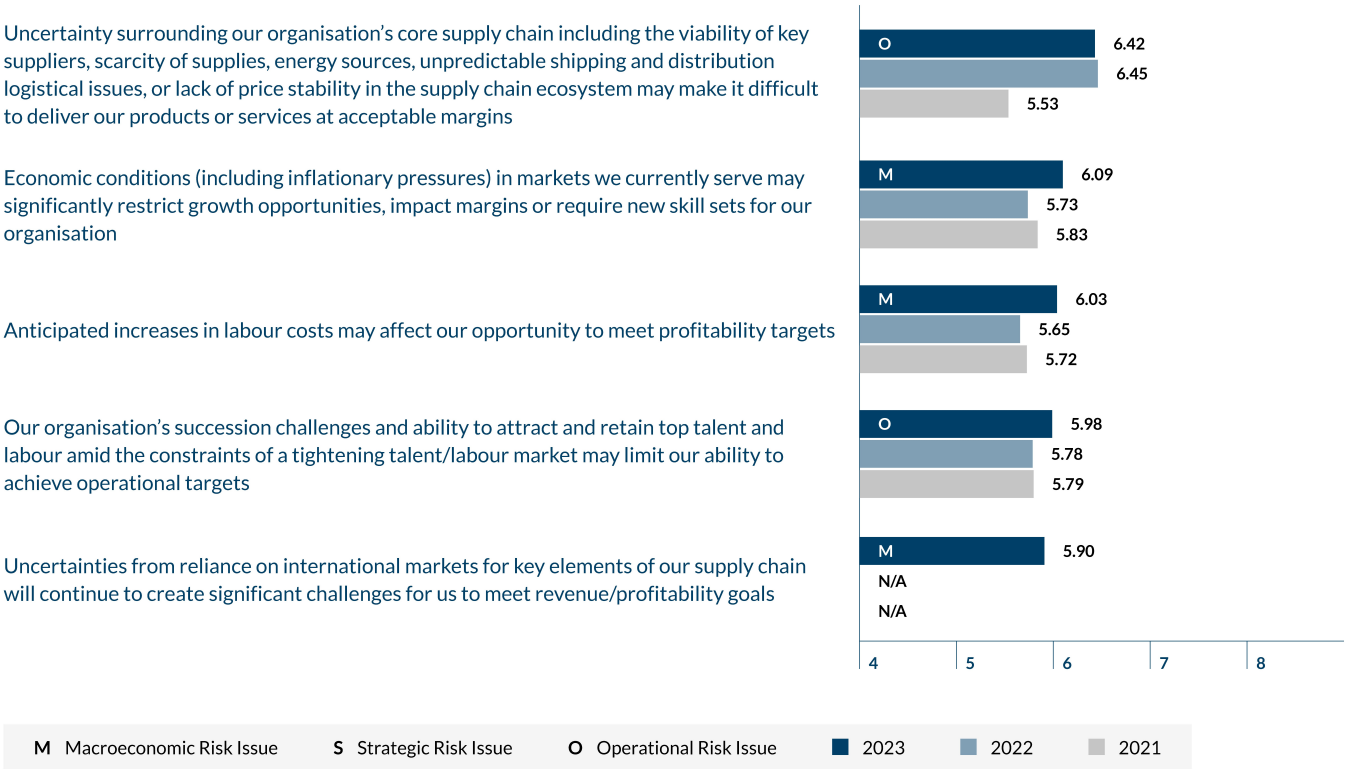
Labour, talent and skills also are critical areas of concern for manufacturing and distribution organisations. To no surprise, anticipated increases in labour costs jumped significantly in score year-over-year, after seeing a slight drop between 2021 and 2022. This risk jumped from ranking seventh in our 2022 study to third this year and is rated at the "Significant Impact" level. Increases in wages resulting from the so-called Great Resignation, together with the current inflationary environment, have had a major impact on manufacturing and distribution organisations' margin management.

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Closely related to risks regarding the cost of labour, organisational succession challenges and the ability to attract and retain top talent continues to be a concern for these organisations. It has consistently ranked in the top five list of risks over the past several years, due in great part to the historical labour and skills shortages across the Manufacturing and Distribution industry group. Factoring in the upskill in talent needed for manufacturing and distribution organisations to succeed long-term in Industry 4.0, the so-called fourth Industrial Revolution, as well as the ongoing challenge of attracting top talent to manufacturing and distribution locations often situated away

from more desirable urban centres, it is very likely this risk issue will persist in the industry group for the foreseeable future. Underscoring this point, as noted below, challenges with the ability to attract and retain top talent is the top-ranked risk issue for the industry group in 2032.

Manufacturing and Distribution – 2023



A number of critical risk issues fall just below the top five but remain highly relevant, one of which is the risk of not being sufficiently resilient or agile to manage an unexpected crisis. Manufacturing and distribution organisations have experienced successive waves of uncertainty over the last several years. While these events have elevated organisational resiliency, they also have fostered an environment of constant change that has created fatigue among management and employees alike. Being “agile” is not just related to the IT organisation and environment, but also whether the organisation is truly “business agile” as a way to respond to significant events proactively versus reactively.

It is interesting to note that three of the top 10 risk issues for manufacturing and distribution organisations relate specifically to culture. The world has shifted. As a result, board members and leadership within these organisations are seeking to understand whether their culture and people are shifting with it. Such changes are not new in the industry group. Since evolving from operating in a farming economy to an industrial machine economy, these companies have had to reinvent their business models and cultures historically. They now face greater demand for hybrid and remote work models, emerging technologies (including AI and machine learning), ESG and DEI programs, and other initiatives that directly affect the organisation’s culture.

Overview of top risk issues in 2032

Interestingly, the 10-year outlook in this year's survey is significantly riskier than this same outlook from last year's study. Whereas in the 2031 view from last year's survey there were no risk issues rated at the "Significant Impact" level, all of the top five risks for 2032 are ranked at this level.

In comparison with perceptions for 2023, there are some similar themes in the risk outlook for a decade out. Familiar risks including succession challenges and the ability to attract and retain top talent, supply chain challenges, and resistance to change in the culture are perceived to be significant concerns for 2032.

Manufacturing and Distribution – 2032

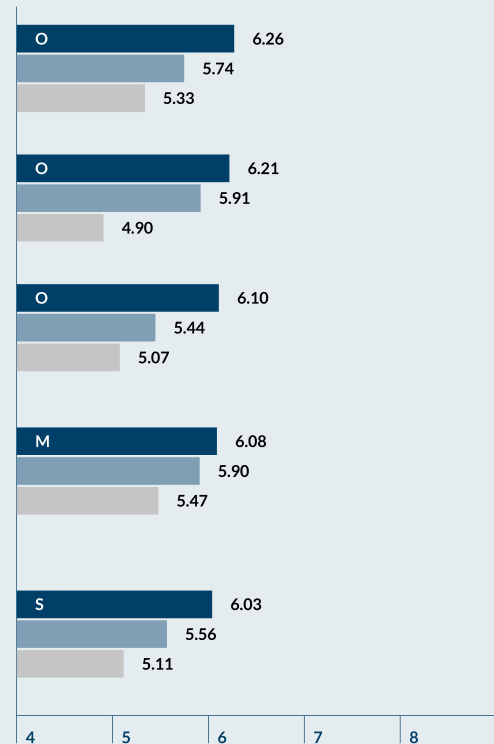
Our organisation's succession challenges and ability to attract and retain top talent and labour amid the constraints of a tightening talent/labour market may limit our ability to achieve operational targets

Uncertainty surrounding our organisation's core supply chain including the viability of key suppliers, scarcity of supplies, energy sources, unpredictable shipping and distribution logistical issues, or lack of price stability in the supply chain ecosystem may make it difficult to deliver our products or services at acceptable margins

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

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 organisation 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

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 organisation's ability to compete and/or manage the risk appropriately, without making significant changes to our business model



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

The notable difference is seen in two of the top five risk issues that relate to technology: specifically, the adoption of digital technologies requiring new skills, and the rapid speed of disruptive innovations enabled by advanced technologies outpacing the organisation's ability to compete. Whereas these two risk issues are ranked 11th and 22nd, respectively, for 2023, they land in the top five for 2032. They also appeared in the top five in last year's study, though we see significant jumps in risk scores in this year's study. This is a strong indicator that while innovation, transformation and the adoption of digital technologies may not be as much of a near-term concern for boards and C-suite leadership within manufacturing and distribution organisations, they do represent a significant concern over the next decade from the standpoint of ensuring the long-term success of their organisations. At the same time, leaders within manufacturing and distribution organisations likely have concerns about managing the technical debt that has accumulated over time from retaining and maintaining legacy systems. These systems inhibit innovation and growth initiatives to implement new applications, cloud-based systems and a host of emerging technologies.

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 organisation 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 organisation 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 for 2023 and 2032* executive summary and full report at www.protiviti.com/toprisks or <http://erm.ncsu.edu>.

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