Executive Perspectives on Top Risks 2023 & 2032

PE-owned companies weigh in on their top risks for 2023 and the next decade, from labour and global supply chain issues to resilience and culture

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When it comes to the risk landscape for 2023 and the next 10 years, people, talent and culture top the list of concerns for organisations worldwide – specifically, succession challenges and the ability to attract and retain top talent, as well as being resilient and prepared to adapt to disruptive changes in the market and business environment. Other concerns include overall economic conditions, including inflationary pressures, and global supply chains and how they will be maintained and continue to help companies be successful.

Executives and board members from companies owned in whole or part by private equity (PE) firms see these same risks on the horizon. But there are notable variations. Globally, succession challenges and the ability to attract and retain talent ranks at the “Significant Impact” level, which is 6.0 or above on our survey’s 10-point scale. Beyond that, another 27 of the 38 risks in our survey are also at the “Significant Impact” level, while PE firm leaders don’t identify the other 10 risks as significantly. PE-owned firms see a riskier environment than other survey respondents in each of the areas cited in their top 10 risks, which includes resistance to change, business resiliency, succession challenges, building and managing a hybrid work environment successfully, and issues related to organisational culture.

These results are not surprising. PE-owned companies may be more inclined to perceive a riskier environment in those areas because they are aware that their stakeholders, including the PE firms that own them as well as other investors, are looking at these same risks and seeking answers as to how portfolio company management is addressing them effectively. For example, management within a PE-owned company is likely fielding questions from their PE firm about steps they are taking to attract and retain the talent necessary to ensure the company has the people and skills to be successful and achieve their business and growth objectives, particularly amid a continued tight talent market.

Risk outlook for 2023 – key takeaways

Board members and executives from PE-owned companies rate resistance to change in the culture, resilience to manage an unexpected crisis, succession challenges and the ability to attract top talent, and changes in the overall work environment, including shifts to a hybrid work model, as top risk concerns for the coming year. As indicated in the top 10 risks table, resistance to change in culture is the top-rated risk in 2023 for PE-owned firms, though barely ahead of resilience and agility concerns. In the face of the disruption that lies ahead, there are concerns about organisations' agility to pivot in response to change – an incongruence that can lead to strategic failure. We are in an era of rapid change, and this risk points to a need for trust, transparency and effective strategic communications.

Risk category	Top 10 2023 risk issues	Rating
Operational	**1.** 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	6.42
Strategic	**2.** Our organisation may not be sufficiently resilient and/or agile to manage an unexpected crisis (including a catastrophic event) significantly impacting our operations or reputation	6.41
Operational	**3.** 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	6.41
Operational	**4.** Changes in the overall work environment including shifts to hybrid work environments, expansion of digital labour, changes in the nature of work and who does that work, and M&A activities may lead to challenges to sustaining our organisation's culture and business model	6.34
Operational	**5.** Our organisation's culture may not sufficiently encourage the timely identification and escalation of risk issues and market opportunities that have the potential to significantly affect our core operations and achievement of strategic objectives	6.34
Operational	**6.** Our approach to managing 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 our ability to retain talent as well as the effectiveness and efficiency of how we operate our business	6.29
Operational	**7.** 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	6.27
Operational	**8.** The rising threat associated with catastrophic natural disasters and weather phenomena (e.g., wildfires, floods, extreme heat/cold, cyclones/hurricanes/typhoons) may create significant operational challenges that threaten our assets, employees, and our ability to deliver products and services to our customers	6.24
Macroeconomic	**9.** Government policies surrounding public health practices (in response to the pandemic) and stimulus to drive recovery and national resilience may significantly impact the performance of our business	6.23
Macroeconomic	**10.** Economic conditions (including inflationary pressures) in markets we currently serve may significantly restrict growth opportunities, impact margins or require new skill sets for our organisation	6.22

Even amid an uncertain economy, inflationary conditions and fears of a possible recession, people, talent and culture issues stand out as critical concerns for the board and portfolio company C-suite. Talented people and culture are related – the latter attracts the former and, effectively led, the best and brightest people engender innovative cultures that can compete and win in the digital age. Finding and keeping talent is the top risk globally for all organisations, and the same holds true for PE-owned firms. This is another indication that the future of work continues to be a defining business challenge, both now and for the next decade.

Interestingly, anticipated increases in labour costs do not rank in the top 10 list of risks for PE-owned firms, while this risk issue ranks third on the global list of top risks. However, the rating from the PE group of respondents (6.18) is actually higher than the rating in the overall response (5.92) on our 10-point scale, indicating that even though this particular issue doesn't rank in the top 10 for PE-owned organisations, it is still of significant concern to their management.

Touching on supply chain issues, uncertainty around the global supply chain remains a critical risk for PE-owned companies, same as is seen in the overall survey results. It's natural that these companies are concerned about the viability of key suppliers, energy sources, unpredictable shipping and distribution, logistical issues, and price stability in the supply chain ecosystem, as they elevate concerns about the ability to deliver products or services at acceptable margins.

Overview of top risks for PE-owned companies in 2032

With regard to the outlook for the next decade, similar to 2023, PE-owned organisations perceive a riskier outlook compared with global respondents in our survey. Of the 38 risk issues, 21 are rated at the "Significant Impact" level by PE organisations versus three from the global responding group.

The rapid embrace of digital and virtual technologies and other digital platforms for product and service deliveries continues to expand in the global economy, and that trend likely will continue over the next decade. This is creating concerns among many boards and executives in PE-owned companies who believe they may not have the talent and skills needed to develop, support and leverage those technologies to compete effectively.

People, talent and culture remain top of mind. We also see the elevated interest in the rapid speed of disruptive innovations as well as the adoption of digital technologies such as AI, automation in all its forms, and the organisation's ability to bring in the talent and skills required for these technologies. The rapid embrace of digital and virtual technologies and other digital platforms for product and service deliveries continues to expand in the global economy, and that trend likely will continue over the next decade. This is creating concerns among many boards and executives in PE-owned companies who believe they may not have the talent and skills needed to develop, support and leverage those technologies to compete effectively.

Globally, many industry groups and executives see a riskier environment a decade out versus over the next year, where the opposite holds true for PE-owned companies, which appear to view the next 12 months as fraught with greater risk versus the next decade. This is understandable given that many PE-owned firms have an exit plan that would involve a merger or acquisition in the near term – for example, one to three years versus a decade out – which explains why the outlook for 2032 is less concerning for them.

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In closing

Ongoing global uncertainty and changes in corporate culture and the future of work continue to trigger heightened risk concerns for executives and boards, with the overall severity and magnitude of risks rated at the highest level we have observed in the 11 years this study has been conducted. Leaders in PE-owned organisations continue to rate far more risk issues at a "Significant Impact" level today, even above our previous year's survey. While these leaders likely face more short-term performance pressure compared to their peers at non-PE-owned companies, they also know that few, if any, of their top risk concerns will dissipate anytime soon. Taking a long-term view of risks is vital in navigating the near term and being resilient and prepared for future risks.

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* executive summary and full report at www.protiviti.com/toprisks or http://erm.ncsu.edu.

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