Executive Perspectives on Top Risks 2023 & 2032

ESG risks, sustainability reporting and its related operational activities are on executives' radar this year and in 2032. We break down the findings.

by Chris Wright
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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 organizations 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.

There is also a growing focus on climate change and policies related to environmental, social and governance (ESG) regulations and expanding disclosure requirements, as well as expectations among governments, current and potential employees, and other stakeholders about "green" initiatives, supply chain transparency, reward systems, and other governance and sustainability issues. Executives are concerned that performance shortfalls (including lack of progress on ESG goals/expectations) may trigger activist shareholders who seek significant changes to our organization's strategic plan and vision. In fact, the one strategic risk that increased noticeably in 2023 compared to the previous year reflects concern about the organization's ability to meet stakeholder expectations, including shifting expectations related to ESG issues.

ESG considerations vary in emphasis. As noted above, people, workplace and culture-related risks are top of mind. Hence, many matters pertaining to the "S" of ESG received significant play in this year's survey, as they did last year. As for the "E," climate change concerns continue to be greatest in those industries heavily reliant on market acceptance of fossil fuels. Among the notable ESG sub-themes:

- Diversity, equity and inclusion (DEI) risk is rated about the same year-over-year but has declined in relative importance. Concerns over the ability to align policies and processes around recruiting, retention, career advancement and reward systems with priorities surrounding diversity, equity and inclusion are relatively the same this year compared to last year but are not as significant overall relative to other risks. This risk is the 24th-rated risk overall for 2023, compared with ranking 10th for 2022. It ranks 31st for 2032 compared with 15th for 2031.

- Climate change risk has increased but is a priority primarily for fossil fuels-based companies. Concerns over the growing focus on climate change and related ESG policies, regulations and expanding disclosure requirements have increased overall this year. However, at this time, most respondents do not anticipate changes to their organizations' strategies and business models from climate-related matters with as much concern as they view the implications of other risks. This risk increases looking over the longer term, ranking 20th 10 years out in this year's survey (19th last year). Concerns related to climate change are greatest in industries concentrated in fossil fuels generation and use. For example, a new question to our survey this year, "The rising threat associated with catastrophic natural disasters and weather phenomena may create significant operational challenges that threaten our assets, employees, and our ability to deliver products and services to our customers," ranked first in a list of top risks for energy and utilities companies, both in 2023 and in 2032. A related point: A lack of focus on climate matters could present talent retention challenges for younger generations.

Call to action

The near-term challenge related to ESG is navigating uncertainties in the marketplace while keeping an eye on positioning the organization and its values, reputation and brand for the long term. To that end, the following steps merit consideration:

- **Keep DEI and ESG top of mind.** Monitor employee sentiment on DEI and other ESG matters to identify and assess the broad range of human capital risks to inform decision-making processes on taking corporate stances on contentious issues.
- **Prioritize with a balanced perspective.** Give the rising cost of capital its due consideration when evaluating and prioritizing ESG initiatives. At the same time, be mindful of regulatory and stakeholder interests as the focus on preserving financial vibrancy intensifies. View ESG considerations the same way you view everything else involving allocation of capital and the future. For example, what is the strategic opportunity, what are the risks and how is return on capital measured?
- **Consider ESG a fiduciary responsibility.** Don't view ESG as all and only about climate change and reporting. Rather, view it through the lens of a leader's fiduciary responsibility to ensure the long-term viability and well-being of the company by addressing the opportunities and risks posed by relevant ESG matters.
- **Tie ESG into the enterprise risk management (ERM) discipline.** Think of sustainability priorities as a compendium of risks to the organization (e.g., climate change, talent retention, succession, supply chain, DEI, workforce planning, cyber, and board composition and culture, to name a few) that relate to the "E," the "S" and the "G" in ESG. Add these risks to the scope of enterprise risk assessments and integrate them into strategy setting, performance management and, if critical to the enterprise, periodic reporting to the executive team and board.
- **Get it together in the proper order.** Don't let the reporting tail wag the operational dog. First understand where you stand, then assess what you want to accomplish, and then (and only then) define how you'll report on activities and outcomes.
- **Establish accountability for results.** Set goals and create accountability around ESG imperatives and rank those imperatives by level of importance considering the ongoing storyline the company narrates to the street. Follow up and recalibrate regularly while keeping an eye toward delivering expected financial results.

Risk category	Top 10 2023 risk issues	Rating
Operational	**1.** 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	6.11
Macroeconomic	**2.** Economic conditions in markets we currently serve may significantly restrict growth opportunities	5.98
Macroeconomic	**3.** Anticipated increases in labor costs may affect our ability to meet profitability targets	5.92
Operational	**4.** Resistance to change may restrict the organization from making necessary adjustments to the business model and core operations	5.87
Operational	**5.** Uncertainty surrounding core supply chain ecosystem may make it difficult to deliver our products or services at acceptable margins	5.79
Operational	**6.** Changes in the overall work environment may lead to challenges in sustaining our culture and the conduct of the business	5.75
Macroeconomic	**7.** Adoption of digital technologies may require new skills in short supply, requiring significant efforts to reskill/upskill employees	5.74
Operational	**8.** Our organization's culture may not sufficiently encourage the timely identification and escalation of risk issues	5.73
Operational	**9.** Approach to managing demands on or expectations of a significant portion of workforce to work remotely or as part of a hybrid work environment may negatively impact our ability to retain talent	5.71
Strategic	**10.** Our organization may not be sufficiently resilient and/or agile to manage an unexpected crisis	5.70

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– Chris Wright, ESG Steering Committee Leader, Protiviti

Risk category	Top 10 2032 risk issues	Rating
Operational	**1.** 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	6.18
Macroeconomic	**2.** Adoption of digital technologies may require new skills in short supply, requiring significant efforts to reskill/upskill employees	6.11
Strategic	**3.** Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces may outpace our ability to compete	6.04
Operational	**4.** Resistance to change may restrict the organization from making necessary adjustments to the business model and core operations	5.98
Operational	**5.** Ensuring privacy and compliance with growing identity protection expectations may require significant resources	5.86
Operational	**6.** Existing operations and legacy IT infrastructure may not be able to meet performance expectations as well as "born digital" competitors	5.85
Operational	**7.** Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plans	5.84
Macroeconomic	**8.** Economic conditions in markets we currently serve may significantly restrict growth opportunities	5.84
Strategic	**9.** Regulatory changes and regulatory scrutiny may heighten, noticeably affecting how products or services will be produced or delivered	5.83
Macroeconomic	**10.** Anticipated increases in labor costs may affect our ability to meet profitability targets	5.82

In closing

The largest risk increases tell a story of a changing world. Looking out 12 months, the five largest year-over-year increases are interest rate risk, geopolitical shifts and regional conflicts, risks related to global trade and market forces reshaping globalization, shareholder activist risk pursuant to performance shortfalls (including with respect to ESG expectations), and political uncertainty. Looking out 10 years, the five largest increases are risks related to geopolitical shifts and regional conflicts, activist shareholder risk, global trade and changing assumptions underlying globalization, adjusting to a remote and hybrid work environment, and political uncertainty. The world is changing now, with more change to come. Addressing issues on the ESG spectrum – from diversity, equity and inclusion, to reporting transparency, to strengthening supply chains against rising climate and resource risks – can help shore up companies against these bigger waves of uncertainty.

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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