

Executive Perspectives on Top Risks

2023 & 2032

Resilience, talent and culture represent top risk concerns for organisations in Australia and New Zealand

The level of uncertainty in today's global marketplace and rapid change in the macro environment continues to influence the nature, scale and duration of risks managed by organisations. Continuous monitoring of the risk environment can minimise the level of disruption to an organisation's operation at short notice and enable the identification of strategic opportunities.

Unfolding events in Eastern Europe, changes in government leadership in several countries around the globe including Australia, escalating inflation, rising interest rates, natural disasters, ever-present cyber threats, competition for talent and specialised skill sets, continued disruptions in global supply chains, rapidly developing technologies ... these represent just a sample of the complex web of risk drivers that may threaten organisation's ability to achieve its objectives. Keeping abreast of emerging risks and market opportunities is critical to improving organisational resilience towards the future.

The need for robust and strategic approaches to anticipate and manage risks cannot be over-emphasised. Boards of directors and executive management teams that are not sufficiently informed to make risk based decisions have detrimental impacts on the future of the organisation. Leaders who appreciate the interconnectedness of risk and return and recognise the benefits of proactive management of emerging risks through a strategic lens can navigate the world of uncertainty nimbly, increasing their organisation's ability to pivot when the unexpected occurs. In short, robust risk management can be 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

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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 – Results from Australia/New Zealand HQ Organisations

In assessing the global risk landscape for Australia and New Zealand (ANZ)-based organisations in 2023 and 2022, several key themes stand out, including resilience, talent and culture, supply chains, impacts of natural disasters, and more.

Overview of top risk issues in 2023

Respondents representing organisations in ANZ see culture and talent as critical issues for the coming year, with the organisation's culture preventing the timely identification and escalation of high impact risks and market opportunities. Resistance to change is a major concern among respondents who continue to worry that their organisation's overall culture may reflect a reluctance to make needed adjustments to the business model and core operations fast enough to address shifting marketplace conditions. In the face of the disruption that lies ahead, board members and executives are concerned about their organisations' agility to pivot in response to change — an incongruence that can lead to strategic failure. In this era of rapid change, this risk points to a need for trust, transparency and effective strategic communications.

Similar to the global results, succession challenges and the ability to attract and retain talent is a top-rated risk. Even amid an uncertain economy, inflationary conditions and fears of a possible recession, people and culture issues are critical concerns for the board and C-suite. Talented people and culture are related, as the latter attracts the former and, effectively led, the best and brightest engender innovative cultures that can compete and win in the digital age.

Following are some observations and commentary comparing the ANZ and global survey results:

- ANZ executives remain more concerned about the impacts of the pandemic and the aftermath compared to their counterparts around the world. In 2022, the top risk for all respondents, including those in Australia and New Zealand, related to government policies around the pandemic. For 2023, this risk ranked ninth in the ANZ region and 21st globally. This may indicate that globally, boards of directors and executives believe the pandemic is in the past, whilst the ANZ region remains conservative about future potential restrictions resulting from the strict rules implemented by the Australia and New Zealand governments over the past few years. Compared with the global response, ANZ leaders also are significantly more concerned about being able to meet the expectations of their stakeholders when it comes to the health and safety of employees, customers, suppliers and the communities in which they operate. In addition, compared with their global counterparts, ANZ executives have a higher level of concern about adapting their business model to embrace the evolving “new normal” created by the pandemic and emerging social change.
- Culture-related issues remain top of mind for board members and executives in ANZ and around the world. In last year's survey, ANZ leaders ranked organisation culture second, while it was 15th globally. For 2023, concerns that the organisation's culture may not sufficiently encourage the timely identification and escalation of risk issues is the top-ranked risk for ANZ-based organizations and is a top 10 issue globally, as well. This is a sign that a culture of robust risk remains a significant concern. Other culture-related risks landed among the top-ranked risk issues in ANZ, as well, including resistance to change restricting strategic adjustments to business models and lack of resiliency or agility to manage an unexpected crisis.
- ANZ executives expressed significantly greater concerns about the risks of catastrophic natural disasters and weather phenomena – a new risk issue added to this year's survey – compared with their global counterparts. In fact, two of the top five risk issues for ANZ organisations relate to crisis management, response and resilience. These results are unsurprising given the severe and possible prolonged impacts that may arise

from events, such as devastating bushfires, earthquakes and floods, in the ANZ region over the past few years.

- ANZ executives are concerned about economic conditions such as inflation, interest rate increases and higher labour costs. However, in comparison to their global counterparts, they have rated their concerns less. This is despite ANZ organisations experiencing increased inflation and interest rates, similar to other companies around the world. In particular, talent shortages and rising costs of labour are key regional concerns.
- The survey highlighted that executives globally are more concerned about supply chain uncertainty. However, ANZ leaders appear to be less concerned about this risk. This could be associated to survey results in respect to lower concerns in respect to economic conditions and/or geographic factors.
- Global executives hold greater concerns in respect to adopting digital technologies and the associated impacts on the workforce in comparison to ANZ leaders. This could be due to ANZ organisations working through more pressing short-term concerns, such as public health requirements and cultural shifts.

Australia/New Zealand HQ Organisations – 2023

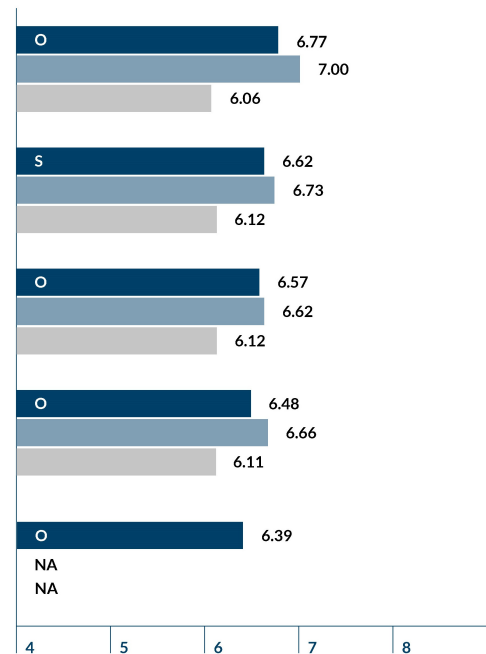
Our organisation’s culture may not sufficiently encourage the timely identification and escalation of risk issues and market opportunities that have the potential to significantly affect our core operations and achievement of strategic objectives

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

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

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

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



M Macroeconomic Risk Issue S Strategic Risk Issue O Operational Risk Issue ■ 2023 ■ 2022 ■ 2021

Overview of top risk issues in 2032

Looking out over the next decade, several of the top-rated risk issues are similar to those for 2023, including culture and resilience. With regard to culture, this perceived risk issue highlights the difficulty board members and executives see in instituting cultural shifts in their organisations – challenges that appear to be more significant than concerns such as competing with “born digital” companies. ANZ leaders should recognise that a key step to changing the organisation’s culture is to have clearly defined accountability and/or roles and responsibilities around risk management, with commensurate reporting. Other important factors include ensuring that individual rewards and recognition are tied to the right risk-related behaviours.

Similar to the survey’s global results, the 10-year outlook among board members and executives in Australia- and New Zealand-based organisations presages disruptive times ahead, with overarching concerns about innovation and advancing technologies. Executives indicate they are monitoring emerging innovations and their organisation’s ability to attract, afford and retain the skills needed to embrace inevitable change – particularly changes to technology infrastructures to compete with “born digital” organisations and to leverage advanced data analytics to garner market insights needed to be competitive. These risks sustain the ongoing narrative that the 2020s is indeed a decade of disruption.

The following set out key observations comparing the ANZ and global survey results:

- ANZ leaders and executives globally share similar views about the adoption of digital technologies – for both groups, this represents a top five risk issue when looking out 10 years. Interestingly, while leaders around the world also are concerned about the rapid speed of disruptive innovations (which ranks third in the global results for the 2032 outlook), this risk ranks 12th for ANZ executives. On the other hand, ANZ leaders are more concerned about expanding developments of social media and their impact on the business than are board members and executives globally.
- Cyber threats appear to be a more significant long-term concern for ANZ executives (ranked seventh in the 2032 risk outlook) compared with their global counterparts (14th). However, both groups rank data privacy as a critical risk issue over the next decade. Of note, in the global survey response, the risk scores for data privacy and cyber threats increased year-over-year compared to our prior year results, underscoring that these risk issues remain critical concerns for the board and C-suite. That these risks are not ranked as high for 2023 as they are looking out 10 years once again suggests business leaders currently perceive more pressing short- and long-term issues that their businesses are facing.
- Prior to the pandemic, regulatory change and scrutiny regularly topped the list of concerns on the minds of ANZ executives. These concerns have since dropped for these leaders (ranked 30th in the 2032 outlook), though they remain more significant for board members and leaders around the world (ranked sixth).
- Other long-term risks that are ranked significantly higher by global executives versus ANZ leaders include economic conditions and increased labour costs (ranked fifth and 10th, respectively, by global leaders) versus ANZ executives (ranked 35th and 27th, respectively). In addition, ANZ leaders appear to have greater confidence in their products and services not being at risk of becoming irrelevant due to substitute offerings from competitors (ranked 32nd), compared with their global counterparts (eighth).

FIGURE 30B

Australia/New Zealand HQ Organisations – 2032

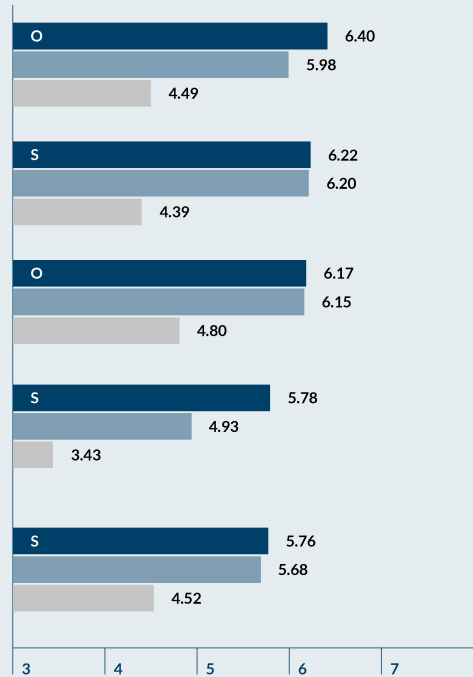
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Our organisation may not be sufficiently resilient and/or agile to manage an unexpected crisis (including a catastrophic event) significantly impacting our operations or reputation

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

Rapidly expanding developments in social media and platform technology innovations may significantly impact how we do business, interact with our customers, ensure regulatory compliance and/or manage our brand

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

In Closing

Looking at both the 12-month and 10-year horizon as viewed by ANZ board members and executives, they clearly see a complicated business landscape. A broad array of risks are raising concerns, from succession planning, macro and micro economic conditions, organisational culture and resilience, cyber threats, data privacy, and the adoption of digital technologies to the rising threat of natural disasters and rapidly expanding developments in social media and platform technology innovations.

The ever-changing risk landscape and the overall perceived magnitude and severity of risks should prompt boards and senior executives to scrutinize closely the approaches they use to keep an anticipatory eye on emerging risks. The need for greater transparency about the nature and magnitude of risks undertaken in executing an organisation’s corporate strategy continues to be high as expectations of key stakeholders regarding strategic relevance, risk management and risk oversight remain strong.

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. More than 100 board members and executives in the survey (n=109) were from Australia- and New Zealand-based organisations.

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.

Read our *Executive Perspectives on Top Risks Survey for 2023 and 2032* executive summary and full report at www.protiviti.com/au-en/survey/executive-perspectives-top-risks-2023-and-2032 or <http://erm.ncsu.edu>.

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