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The Top Risks 10 Years Out: Global Risks Are Persistent

Our global survey of C-level executives and directors highlights their views regarding a disruptive risk landscape over the next 10 years.[1]

Capturing insights from 1,134 C-level executives and directors across multiple industries, our latest Top Risks Survey presents the most important uncertainties by industry, executive position, company size and type, and geographic area across a spectrum of macroeconomic, strategic and operational risks. The survey was conducted online during the September and October 2023 time frame to gather executive perspectives on risks in the near term — 2024 — as well as 10 years out to 2034.

In the table provided, we rank the highest-rated risk themes, shown in order of priority, to provide a context for understanding the most critical uncertainties companies face looking forward to 2034. Key takeaways follow.

[1] *Executive Perspectives on Top Risks for 2024 and a Decade Later*, Protiviti and NC State University's ERM Initiative, December 2023: www.protiviti.com/us-en/survey/executive-perspectives-top-risks.

TOP RISKS FOR 2034

1. Organisation may not be sufficiently prepared to manage cyber threats, including ransomware, which could disrupt core operations or damage the brand.
2. Organisation's ability to attract and retain top talent, manage shifts in labour expectations and address succession challenges may limit its ability to achieve operational targets.
3. Adoption of digital technologies may require new skills that are in short supply, requiring significant efforts to upskill and reskill existing employees.
4. The rapid speed of disruptive innovations enabled by new and emerging technologies or other market forces may outpace the organisation's ability to compete without significant changes to the business model.
5. Regulatory changes and scrutiny may heighten, noticeably affecting the way processes are designed and products or services are produced or delivered.
6. Third-party risks arising from reliance on outsourcing and strategic partnership arrangements may prevent meeting organisational targets or impact brand image.
7. Economic conditions in the company's markets may significantly restrict growth opportunities.
8. Existing operations and legacy information technology infrastructure may not be able to meet performance expectations as well as "born digital" competitors or those investing heavily in technology for competitive advantage.
9. Anticipated increases in labour costs may affect the ability to meet profitability targets.
10. An inability to utilise data analytics and "big data" may prevent achieving market intelligence and increasing productivity and efficiencies.

Many short-term risks are likely to have a lingering impact for the long term. Eight of the top 10 risks for 2024 are top 10 risk concerns in 2034, with shifts in relative importance within the top 10.

- This signals the need for thinking robustly about responses to these risks now, given their relative importance over the near and long term.
- Furthermore, eight of the top 10 risks looking out 10 years from last year are on the top 10 list for 2034. This suggests that these risks are persistent and provide a directional blueprint to prepare for the future.

Long-term risks are increasing. Our survey respondents also rated nine of the top 10 risks higher for 2034 than they did when looking out a decade in last year's survey. The persistence and elevated significance of these risks, continued occurrence of unexpected events, and the spectre of intensifying geopolitical tensions create a nuanced view of the future.

Cybersecurity is the most pressing risk issue. When combining near- and long-term views, cyber threats arguably stand out as the most significant risk issue for boards and C-suite leaders.

- For the next decade, cyber threats jumped from the 13th-ranked risk in last year's study to the top-rated risk for 2034. The long-term risk rating for cyber threats increased more than 11% — by far the largest risk rating increase noted in the survey. Cybersecurity is one of the top three long-term risks in seven of the eight global regions included in our survey.
- It is likely that technologies such as artificial intelligence (AI), including generative AI, and cloud computing are raising significant security-related questions in the boardroom and C-suite. So, too, is the anticipated emergence of quantum computing and concerns about how organisations will secure their data and operations in a post-quantum world.
- Increasing geopolitical tensions and reliance on third parties are also contributing to the cyber-threat landscape.

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The rapid speed of disruptive innovations is on global leaders' radar. Advances in AI, automation in all its forms, quantum computing and other technologies are driving waves of disruption that will impact business models and alter customer experiences.

- This is a top five risk for four of the eight regions we examined, with a fifth region noting a variant — the ease of entrance of new competitors to the market.
- It is interrelated with other risk concerns, such as shortages of talent to manage the adoption of digital technologies (as discussed below), dependence on legacy IT systems and overarching cyber concerns.

People-related risks are also top of mind. Finding and keeping talent is the second-highest-ranked risk looking out over the long term. Shortages of new skills in the market necessitate significant efforts to upskill and reskill existing employees. This is the third-ranked risk. Additionally, increases in labour costs represent the ninth-ranked risk for 2034.

There are many drivers of talent risk:

- Talent and skilled labour shortages are key contributors to inflationary pressures.
- Shortages are prevalent in countries with declining populations. For example, the United Nations projects double-digit declines in the populations of Eastern Europe, Japan and Italy through 2050. Immigration policy is a means of combating population decline, but efforts to transition policy face resistance.
- The COVID-19 pandemic has added to the pressure as many employees have rethought work-life balance and a significant number of people have left the workforce. Those reentering the workforce do so with different priorities.
- Realising that growth cannot be driven by increased headcount, leaders are leaning more on technology to help increase productivity. Digitisation and new technologies offer a foundation for success for those companies with the foresight to begin their transformation now. These realities make upskilling and reskilling a strategic imperative.

Businesses successful at deploying forward-looking lead indicators and integrated analytics are more likely to be anticipatory and prepared — and leaders know it.

Increasing concerns about offshoring are driving efforts to friendshore, nearshore and reshore. The way supply chains transition can affect people-related risks.

The inability to utilise rigorous data analytics creates a significant pause for organisations focused on their long-term positioning. Finding ways to leverage insights from the volume of data available to organisations and arm decision-makers with time advantage in disruptive markets is a priority. Businesses successful at deploying forward-looking lead indicators and integrated analytics are more likely to be anticipatory and prepared — and leaders know it. This risk is rated 10th overall for 2034.

Third-party risks rise in importance. As reliance on third-party relationships increases, cyber threats and regulatory compliance risks (e.g., data privacy regulations) come into play. Organisations must ensure their third-party vendors — as well as vendors further downstream — are complying with current laws and regulations.

- Third-party risks held the 15th spot in our previous 10-year outlook. On the list of top risks for 2034, they rank sixth.
- The geopolitical climate impacts third-party risks, with the West de-risking its reliance on China and laws and regulations restricting business activities and operations in certain countries.

The threat of regulatory risk looms for the long term. Heightened regulatory changes and scrutiny increased relative to other risks, as directors and C-suite leaders expressed uncertainty over the likelihood of forthcoming changes in the regulatory landscape. This issue is the fifth-ranked risk for 2034, up from ninth in last year's 10-year outlook. The extent of uncertainty varies by industry, as some are more heavily regulated, such as financial services and healthcare, and others are facing the likelihood of increased regulation, such as technology.

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The economy and sustaining competitiveness complete the picture. Uncertain economic conditions and the limiting obstruction of ageing technical architecture and the inability to compete with "born digital" players are the remaining top 10 risks for 2034.

A key point: In an uncertain economic climate, the natural reaction for many leaders is to either put on hold or slow medium-term transformation, innovation and modernisation programs. However, for the short to medium term, companies might be best served by embracing technology to increase productivity in the face of the skilled labour shortages discussed earlier.

Sustainability risks have elevated. The growing focus on climate change and sustainability policies, regulations and disclosure requirements, as well as expectations of key stakeholders, increased from the 22nd-ranked risk looking out 10 years to 13th this year. This risk is a top five risk in Europe and the Middle East.

- Typically associated with existential planetary threats, climate- and sustainability-related risks are garnering more attention at a micro level by individual organisations relative to other risks they face.
- The increasing regulatory focus in this area (e.g., the Corporate Sustainability Reporting Directive in the European Union and expected regulations in the U.S.) is not the only factor intensifying this risk. Customer expectations, lenders and the capital markets are also key drivers.

Between the lines: It is important for leadership teams in regions such as the U.S., where some perceive environmental, social and governance (ESG) matters as polarising, not to construe the regional view as a global perspective. This is particularly important for organisations operating in Europe.

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- Geopolitical risk saw the third-largest elevation in ranking relative to other risks compared to the prior year, behind cybersecurity and third-party risks.
- Russia's aggression in Ukraine, the war in the Middle East, the proliferation of disinformation and propaganda, the declining trust in U.S. institutions, and the convergence of China, Russia, Iran and North Korea in opposition to Western democracies provide a combustible mix.

In our economically interdependent and geopolitically splintered world, fragmentation has manifested itself in recent years. Despotic leaders and emboldened terrorist organisations are asserting themselves all over the globe.

- If fragmentation continues, expect higher import prices, segmented markets, diminished access to technology and to both skilled and unskilled labour, and reduced global productivity.
- Multilateral cooperation in critical areas such as climate change mitigation may prove to be more difficult.

- Fragmentation could also lower entry barriers by creating opportunities for new players to find a niche and operate profitably, as well as stimulate further reshoring, nearshoring and friendshoring in the name of de-risking.

The question that leaders in every organisation face in the global marketplace is:
Are we being disrupted and, if so, how and when would we know?

More disruptive times lie ahead. Six of the top 10 risks looking out 10 years are rated at the "Significant Impact" level (versus only three last year).

- The dynamic risk landscape and its elevated risk levels sustain the ongoing narrative that the 2020s are indeed a decade in which disruption will manifest itself in many ways.
- Evolving business models, rapid product innovation, changing customer value propositions, disintermediation of distribution channels and new skill requirements have increased in importance.
- Outdated strategies, technical-debt-laden architectures, conventional management playbooks and old-school employee skills will be swept away.

Important takeaway: The question that leaders in every organisation face in the global marketplace is: *Are we being disrupted and, if so, how and when would we know?*

Considering the interconnected risks discussed above, boards and C-suite executives can take the following steps:

- Take a portfolio view when overseeing emerging risks to address their interrelated nature.
- Resist the short-termism of focusing solely on today's priorities and not undertaking appropriate initiatives to prepare for tomorrow's realities.
- When focusing on overall risks, pay attention to regional variations (as disclosed in our survey) that may create potential blind spots.
- Evaluate what can be done now and over the next three to five years to prepare for longer-term risks. In addition, don't equate long-term projections of future risks to truth. Instead, look for opportunities to reshape the potential impact of key risks through actionable steps over the near and intermediate terms.

- Ensure a robust dialogue in the C-suite and boardroom to formulate an enterprisewide view of the risks the company faces.

Following these suggested action steps can help boards and C-suite executives better position their companies to be resilient in the face of the interconnected risk landscape of the decade to come. A resilient and agile culture positions leaders to face the future confidently.

- Organisations embracing the long view with a trust-based culture, effective use of data analytics and the ability to pivot at the speed of change are more likely to sustain their relevance.
- Scenario analyses, early warning systems, action triggers, decision prompts, response plans and innovative cultures that facilitate acting on relevant market trends enable leaders to "reality test" their assumptions about markets and be more decisive and agile in adjusting the strategy and business model.

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Considerations for Boards

The board of directors should want to consider the above risks when evaluating the company's strategic outlook in the context of the risks inherent in its operations. If management has not identified these issues in the company's formal risk assessment process, directors should consider their relevance to the company's business and ask why not.

In addition, the disruptive global business landscape elevates the importance of the currency of the board's experience, expertise and skill sets. Significant change in the opportunities and risks the company faces may merit an update to the board composition skills matrix (or its equivalent), as mapped by the governance or nominating committee (or its equivalent). Any update should be considered against the skills possessed by current members of the board. Any gaps should be considered when evaluating new director candidates as well as determining the need for advisers to the board.

How Protiviti Can Help

We assist boards and executive management with identifying and assessing the enterprise's risks and formulating and implementing strategies and tactics for managing them. We also assist public and private companies with integrating their risk assessment process with their core business processes, including strategy-setting and execution, business planning, and performance management.

We provide an experienced, unbiased perspective on issues separate from those of company insiders to help organisations improve their risk reporting to better inform the board's risk oversight process.

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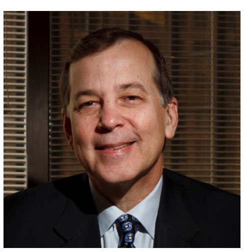

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