

Summary — Manufacturing and Distribution Industry Group Results

Executive Perspectives on Top Risks for 2018: Key Issues Being Discussed in the Boardroom and C-Suite

Research Conducted by Protiviti and North Carolina State University's ERM Initiative

Technological advancements. Disruptive innovations threatening core business models. Recurring natural disasters with catastrophic impact. Soaring equity markets. Turnover of leadership in key political positions. Potential changes in interest rates. Cyber breaches on a massive scale. Terrorism. Elections in Europe. Threats of nuclear engagement. A strong U.S. dollar. These and a host of other significant risk drivers are all contributing to the risk dialogue happening today in boardrooms and executive suites.

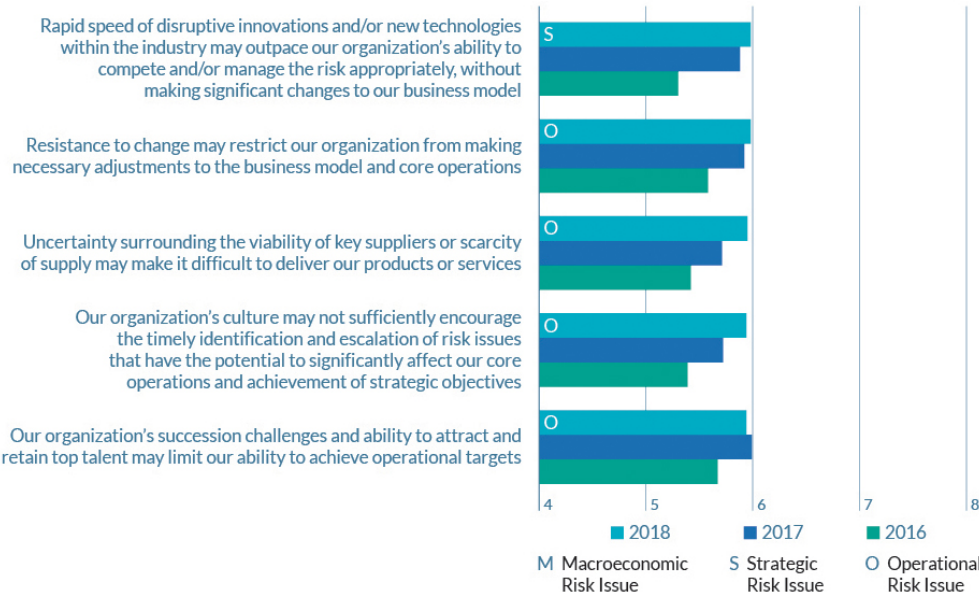
Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures from boards, volatile markets, intensifying competition, demanding regulatory requirements, fear of catastrophic events and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities and response mechanisms to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

In this sixth annual survey, Protiviti and North Carolina State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives. Our respondent group, which includes 728 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months of 30 risk issues across these three dimensions:

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

Manufacturing and Distribution Industry Group – Top Risks for 2018

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Commentary — Manufacturing and Distribution Industry Group

This year’s list of top risks for Manufacturing and Distribution organizations is fundamentally different from 2017. Last year, a majority of the top risk issues were macroeconomic, whereas for 2018 most are operational. For the coming year, boards and executive leadership are likely to be much more focused on their internal operations.

Overall, board members and C-suite executives with Manufacturing and Distribution organizations see a higher magnitude and severity of business risks impacting their goals for 2018 relative to 2017. While still lower than two years ago, the perceived impact would likely be even higher if they were projecting over the next two to three years, as digital transformation and other disruptions take further hold across all industries.

Not surprisingly, the rapid speed of disruptive innovations and new technologies represents the top risk issue, along with resistance to change in the organization. Digitalization is viewed as the fourth industrial revolution and is the new buzzword for Manufacturing and Distribution companies, thus the increased rating over the last two years. New business models must emerge to keep pace, introducing significant changes to organizations. Companies are moving from solely selling products to bundling their products with services to retain or gain market share, or even guaranteeing satisfactory outcomes to potential

customers. For example, a manufacturer of industrial machines may embed diagnostic technology to bundle maintenance services with their products to decrease downtime for their customers.

With regard to resistance to change in the organization, this risk concern has increased slightly from last year, but more significantly from 2016. Manufacturing and Distribution organizations understand that changes are needed in the short- and long-term to remain competitive. Their ability to embrace these changes could be the difference between a successful future and being left behind.

While always on the industry's radar, the uncertainty surrounding the viability of key suppliers or scarcity of supply is now a top five risk issue, having increased noticeably in significance since 2016. The optimism created by digitalization and a pro-business environment is countered by the pervasive challenge of being able to produce goods in a highly dependent global supply chain, which has been impacted by natural disasters this year, as well as bracing for potential changes in global trade agreements.

Like most other industry groups, the organization's culture and ability to identify and escalate issues is a top risk for Manufacturing and Distribution companies, ranking very close to the other risks in the top five. Culture remains a much-discussed topic in the boardroom. Directors are particularly focusing on whether the organization's tone at the top is reaching down into the rest of the organization to achieve a strong tone in the middle and operational excellence at the bottom, which is where culture problems can create lasting reputation and brand damage.

As for succession challenges and the ability to attract and retain top talent, this is the only consistent top five risk issue year-over-year for Manufacturing and Distribution companies — and it is interrelated to the above risks. Board members and C-suite executives with Manufacturing and Distribution companies are well aware that they need the right talent in their organizations to support digital transformation, embrace important long-term changes the organization needs, and build and sustain the right organizational culture. Low unemployment rates are exacerbating a competitive market. At the same time, the organization itself needs to be committed to disruptive innovation to attract and retain talent. No one wants to work for a company with its best days behind it.

For further results and a copy of the overall survey report, visit

www.protiviti.com/toprisks.

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