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

Research conducted by Protiviti and North Carolina State University’s ERM Initiative


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, changing workplace dynamics, shifting customer preferences, uncertainty regarding 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, assess and manage the organization’s key risk exposures, with the intent of reducing them to an acceptable level.
In this seventh 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 825 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

**Commentary – Manufacturing and Distribution Industry Group**

Boards and executive management in manufacturing and distribution organizations view a substantially different risk landscape in 2019 versus the prior year, with four of the five top risk issues changing year over year. However, our results indicate that last year’s top risk issues for the industry group did not drop in significance — in fact, the risk ratings for each of them actually rose. What we do find is that the scores for the 2019 top risks increased substantially, suggesting manufacturing and distribution organizations are focusing on more tactical operational areas to ensure they can prosper over the long term.

Succession challenges and the ability to attract and retain top talent has been a consistent top five risk issue for manufacturing and distribution organizations for the past several years. However, its risk score and ranking as a “Significant Impact” risk issue indicate it is being viewed with more urgency for 2019.

The U.S. unemployment rate was 3.7 percent for October 2018 (a 49-year low), versus 4.1 percent a year ago and 4.9 percent two years ago. It is no wonder that this risk is top-of-mind for board members and executive management in this industry group. In fact, the unemployment rate is even lower (an estimated 3.2 percent) in the manufacturing sector, making it tougher to find skilled workers, especially for today’s automated and technologically advanced processes. In certain geographies, manufacturing industry retirements are exacerbating the challenge, causing companies to look closely into incentives that may draw more candidates. And closely related to these challenges, another top five risk issue for the Manufacturing and Distribution industry group involves anticipated increases in labor costs — potentially affecting the ability to meet profitability targets.

With regard to addressing existing operations and legacy IT infrastructure, this risk issue has steadily crept up over the past two years, finally landing in the top five for 2019. While last year’s top five risk regarding the rapid speed of disruptive innovations and new technologies is not ranked as high this year, the broader issues of business and digital transformation and innovation still reflects the impact of that reality on the current state: Outdated legacy systems and/or disconnected/decentralized systems may put manufacturing companies behind their peers,
considering the pace of IT change and competitor migrations to next-generation systems to better support the business. Organizations recognize the significant efforts (and costs) to update and upgrade. So the question is not if, but when, to make these improvements to keep pace with the competition and, in particular, born-digital companies that think and operate innovatively at their core.

Top Risks for 2019

- Manufacturing and Distribution

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

Our existing operations and legacy IT infrastructure may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are “born digital” and with a lower cost base for their operations, or established competitors with superior operations

Evolving changes in global trade policies may limit our ability to operate effectively and efficiently in international markets

Our organization may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand

Anticipated increases in labor costs may affect our opportunity to meet profitability targets

Not surprisingly, changes in global trade policies potentially limiting the ability to operate effectively and efficiently in international markets remains a top five risk issue. The severity of this risk’s rating, once again at the “Significant Impact” level, is consistent with two years ago, when manufacturing organizations were apprehensive about which direction a new U.S. administration might take with economic policy and global trade relationships. Early on, the Trump administration was more focused on healthcare, a new tax code and border protection rather than trade, likely driving down the anticipated significance of this risk issue last year. But throughout 2018, near weekly headlines about new trade agreements, tariffs and trade wars has brought this risk back to the forefront. This makes sense, given that certain sectors, including those reliant on aluminum and steel, are experiencing the impact of the tariffs on their operations. Given the current uncertainty of how the trade wars will play out, we expect this risk to remain high heading into 2019. But longer term, this risk is likely to moderate as nations reach agreements on trade policies and practices.
Board members and executive management in the Manufacturing and Distribution industry group also see cyber threats as a “Significant Impact” risk issue. Although historically considered a lower-priority target industry for cyber attackers, manufacturing organizations increasingly present a broader risk to cyber threats due to Industry 4.0 and the Industrial Internet of Things. In addition, the higher risk rating this year likely reflects the fact that many manufacturers fall short in their cybersecurity planning. Furthermore, the above-mentioned risk regarding existing operations and legacy IT infrastructure possibly not meeting performance expectations leaves them more vulnerable to cyber attacks.

Overall, board members and executive management in the industry believe the magnitude and severity of risks their organizations will face in 2019, with respect to reaching or exceeding profitability or funding targets, are slightly higher than 2018. Since three of the top five risk issues are operational in nature, with potential direct impact to the bottom line, these results explain why these risks are growing concerns.

**People, trade, cyber and efficiency issues are top-of-mind for Manufacturing and Distribution organizations, but digital innovation opportunities are, as well. Deploying digital capabilities to transform customer fulfillment, quality management, decision-making velocity, cybersecurity, asset management, predictive maintenance, energy usage optimization and resource conservation can improve the business model, sustain competitive advantage and reduce risks.**

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