

ISSUE 137

BOARD PERSPECTIVES: Risk Oversight

THE TOP RISKS FOR THE NEXT DECADE: A GLOBAL PERSPECTIVE

Our global survey of C-level executives and directors on macroeconomic, strategic and operational risks highlights their views regarding a disruptive risk landscape over the next decade through 2030.¹

Our global survey captures insights from 1,081 C-level executives and directors across multiple industries, with broad geographic representation. As with our prior surveys, the results captured significant uncertainties by industry, executive position, company size and type, and geographic area. Our survey was conducted online near the end of 2020 to capture perspectives on executives' minds regarding the risks over the short term — 2021 — as well as over the long term, with a 10-year horizon to 2030.

TOP RISKS FOR 2030

1. Adoption of digital technologies may require new skills that are in short supply
2. Impact of regulatory change and scrutiny on operational resilience, products and services
3. Rapid speed of disruptive innovation may outpace the ability to compete
4. Leadership succession challenges; ability to attract and retain talent
5. Privacy, identity management and information security challenges
6. Substitute products or services may arise that affect our business model
7. Sustaining customer loyalty and retention may be difficult as preferences and demographic shifts evolve
8. Ability to compete with “born digital” and other competitors
9. Ability to utilise data analytics and “big data” to achieve market intelligence and increase efficiency
10. Cyber threats

¹ *Executive Perspectives on Top Risks, 2021 & 2030*, Protiviti and NC State University's ERM Initiative: www.protiviti.com/toprisks.

In the table provided on the previous page, we rank the highest-rated risk themes in order of priority to provide a context for understanding the most critical uncertainties companies face looking forward over the next decade to 2030.² Key takeaways are summarised below.

Facing the next decade with confidence requires positioning the organisation for a disruptive future. When they look to 2030, business leaders are concerned about the future of work, impactful regulatory change, rapid speed of disruptive innovation, talent development, substitute products and services, fleeting customer loyalty, and competing with “born digital” competitors. A trust-based culture, effective utilisation of data analytics and the ability to pivot in the face of disruptive change will all prove vital to sustaining the organisation’s relevance over the next decade.

The future of work looms large on the horizon. When they think a decade out, leaders are concerned about the changing nature of work. Specifically, this issue is whether their organisations can successfully upskill or reskill countless millions of employees whose job functions will be displaced by the widespread adoption of artificial intelligence (AI), automation in all its forms, natural language processing, visual recognition software, virtual reality simulations and other digital advances. The objective is to enable displaced employees to perform new job functions created by these same technologies that will be essential to operating successfully in the digital economy. As AI disrupts customer interactions with businesses, these new job functions will likely involve interpreting and acting on customer data to drive improvements in processes, products and services.

Companies that formulate how and where they need to skill their workers, and are also intentional as to how they will execute their plan to do so and to achieve the business outcomes they expect, are most likely to have a competitive advantage. On a macroeconomic scale, if the

private sector is unsuccessful in upgrading skills in the workplace, the ripple effects throughout global markets will be huge. The future of work is the fourth-ranked risk in 2021 and the top risk for 2030, making it one of the defining business challenges of the next decade.

That said, human resource concerns run deeper than the shifting nature of work. Another long-term concern relates to sourcing and retaining the top talent needed to compete and thrive in a disruptive environment. Talent wins. Companies need talent to reimagine their market positioning, integrate emerging digital technologies into the business, execute complex strategies, and reinvent business models that will sustain the organisation’s relevance and growth over the next decade.

That reality triggers a related strategic concern that companies will not be able to keep pace with the rapid speed of disruptive innovation. It takes talent to do that. Without the best and brightest people, it is impossible to face a disruptive future with confidence.

No one expects the risks of data security and cybersecurity to diminish. Data privacy and cyber threats again are among the top 10 risks to business in 2021 and are also on the top 10 list for 2030. Cyber threats remain a moving target, and data privacy concerns promise to become even more complex as the digital age continues to advance. There is no reason to believe these realities will change.

Regulatory risk is elevated when viewed over a longer time horizon. The potential for regulatory change and greater scrutiny of how products and services are provided is second on the list of the top 10 risks for 2030. In the 2021 outlook, it is only the seventh-rated risk. That difference in ranking may be due to executives’ expectation of future environmental legislation as well as laws and regulations that will drive social change, increase taxes, and be the impetus for developing alternative products and services.

² For 2021 top risks, see *Board Perspectives: Risk Oversight*, “The Top Risks in 2021: A Global Perspective,” Issue 136: www.protiviti.com/US-en/insights/newsletter-bpro136-top-risks-2021.

The latter point gives rise to yet another risk, which relates to the emergence of alternative products or services that could affect the viability of current business models. It's disrupt or be disrupted — adapt or be swept aside.

Four risks on the top 10 list for 2030 are not on the top 10 list for 2021. The common risks for the near term and long term include the future of work, regulatory concerns, talent risk, cybersecurity and privacy issues, and the ability to compete with “born digital” players. However, four of the 2030 top 10 risks are not on the 2021 list. Three are strategic issues; the fourth is an operational risk about having sufficiently robust data analytics and “big data” skills to achieve the intelligence needed to differentiate companies in the marketplace.

The overarching theme underpinning the 2030 top risk list reflects executive concerns with facing a decade that only promises unprecedented, accelerated change such that disruptive innovations over the next 10 years may drastically alter customer behaviour. Customer loyalty is likely to prove fleeting as preferences and demographic shifts evolve. New markets and competitors offering alternative products and services are expected to expand customer choice in ways that could affect the viability of current business models and planned strategic initiatives.

These market developments can erode brand image and market share of incumbent organisations that fail to pivot and adjust to change successfully.

The message for the next decade: Fasten your seat belts. One of the 36 risks rated by the survey participants is associated with the rapid speed of disruptive innovations enabled by new and emerging technologies (e.g., AI, automation, machine learning, hyper-scalable platforms, and increasing bandwidth through 5G data transmission) and/or other market forces outpacing an organisation's ability to compete and/or manage change appropriately without making significant changes to its business model.

That risk was ranked 18 in 2021 but jumped to the third-ranked risk for 2030. Clearly, leaders are expecting disruptive change over the next decade. And why not? Look at the change that's occurred over the previous decade. It's been a wild ride!

A trust-based, innovative culture made possible by authenticity and empathy at the top, acting with intention, a high digital intelligence in the workforce, a strong customer focus reinforced with data analytics, a meaningful commitment to diversity and inclusion, and the fostering of transparency will facilitate organisational resilience.

We encourage interested parties to read the executive summary of our survey results to learn more. Consistent with prior years, there are variations in views among boards and C-suite executives and across geographic regions and multiple industry groups regarding the magnitude and severity of risks for 2030.

Questions for Boards

The board of directors may want to consider the above risks in 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 formal risk assessment process, directors should consider their relevance to the company's business and ask why not.

How Protiviti Can Help

We assist boards and executive management with identifying and assessing the enterprise's risks and implementing strategies and tactics for managing risk. 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.

Audit Committee Self-Assessment Questions

In these dynamic times, it is best practise for boards and their standing committees and individual directors to self-assess their performance periodically and formulate actionable plans to improve board performance based on the results of that process.

To that end, audit committees should consider the illustrative questions we have made available at www.protiviti.com/US-en/insights/bulletin-assessment-questions-audit-committees. These comprehensive questions consider the committee's composition, charter, agenda and focus, and may be customised to fit the committee's assessment objectives in light of current challenges the company is facing.

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2020 *Fortune* 100 Best Companies to Work For® list, Protiviti has served more than 60% of *Fortune* 1000 and 35% of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on <https://blog.nacdonline.org/authors/42/>. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.