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The Top Risks for 2023: A Global View

The global survey of C-level executives and directors, focused on macroeconomic, strategic and operational risks, highlights the influence of the economy, people and culture issues, supply chain risks, and technology impacts on the 2023 risk landscape.[1]

The survey captures insights from 1,304 C-level executives and directors, 47% of whom represent companies based in North America, 13% in Europe, 19% in the Asia-Pacific region, and the remaining 21% from Latin America, the Middle East, India and Africa. The results identified significant uncertainties by industry, executive position, company size and type, and geographic area. The survey was conducted online in the September — October 2022 time frame to capture perspectives on 38 risks on the minds of business leaders as they looked forward to 2023.

In the list on the next page, we rank the 10 highest-rated global risk themes in order of priority to provide a context for understanding the most critical uncertainties companies face over the next 12 months. Key survey takeaways are summarised below.

Overall, 2023 is viewed as the riskiest year in more than a decade. The survey participants rated on a 10-point scale their impressions of the magnitude and severity of the risks with respect to achieving their objectives and reaching or exceeding profitability (or funding) targets. The respondents' collective year-over-year responses indicate that the risk environment for 2023 is riskier than what they were anticipating for 2022 and 2021. In fact, the 2023 risk environment is the most perilous noted in the 11 years we have conducted this survey. All risks were rated higher for 2023, with just three exceptions.

[1] *Executive Perspectives on Top Risks 2023 and 2032*, Protiviti and NC State University's ERM Initiative, December 2022, available at www.protiviti.com/us-en/survey/executive-perspectives-top-risks-2023-and-2032.

TOP RISKS FOR 2023

1. The organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit its ability to achieve operational targets.
2. Economic conditions in the company's markets may significantly restrict growth opportunities.
3. Anticipated increases in labour costs may affect the ability to meet profitability targets.
4. Resistance to change may restrict the organisation from making necessary adjustments to the business model and core operations.
5. Uncertainty surrounding the core supply chain ecosystem (e.g., viability of key suppliers and energy sources; shipping and distribution logistics; price stability) may affect the company's ability to deliver products and services at acceptable margins.
6. Changes in the overall work environment (e.g., shifts to a hybrid workplace, evolving labour markets, changes in the nature of work) may lead to challenges to sustaining organisational culture and business operations.
7. Adoption of digital technologies may require new skills that are in short supply, requiring significant efforts to upskill or reskill existing employees.
8. The organisation's culture may not sufficiently encourage timely identification and escalation of market opportunities and risk issues that could affect core operations and achievement of strategic objectives.
9. The approach to managing demands on or expectations of a significant portion of the workforce to be able to work remotely or as part of a hybrid work environment may impact talent retention.
10. The organisation may not be sufficiently resilient and/or agile to manage an unexpected crisis that significantly impacts business operations or reputation.

Once again, people and culture are at the top of the agenda. Talented people and culture are related, as the latter attracts the former. And, when effectively led, the best and brightest workers engender innovative cultures that can compete and win in the digital age. Several important subthemes for the next 12 months are summarised below:

- **Finding and keeping talent is the top risk.** The number one risk overall for 2023 pertains to the ability to attract and retain top talent and address succession challenges in a tightening market. Globally, this is the only risk issue at the "significant impact" level, meaning it was rated 6.0 or higher.

- **Rising labour costs are a significant concern.** With companies struggling to staff open positions amid workforce mobility, higher demand for greater flexibility and more benefits, as well as hot-running inflation, the risk of anticipated increases in labour costs ranks third for 2023, up from sixth in 2022. This issue has the potential to be stubbornly persistent.
- **Resistance to change is an escalating issue requiring attention.** Concerns with resistance to change represent the fourth-ranked risk overall for 2023; in last year's survey, it held the seventh spot. With disruptive change being the norm in the marketplace, this risk is a huge red flag for business leaders.
- **The need to upskill and reskill remains a near-term priority.** With labour shortages and newly adopted technologies impacting businesses, leaders see a need to focus on aligning the skills of the workforce with evolving business processes, customer preferences and markets. This alignment is vital to realising the value proposition of digital innovations. This is the seventh-rated risk for 2023, down from the fourth-ranked risk in last year's survey for 2022.
- **Culture has increased in significance relative to other risks.** In addition to resistance to change (as discussed above), the risk that the organisation's culture may not sufficiently encourage the timely identification and escalation of significant market opportunities and emerging risk issues is the eighth-ranked risk for the next 12 months, up from 11th in our previous survey. Resilience in the face of an unexpected crisis is also an elevated concern. The risk of the organisation not being sufficiently agile in managing an unwanted surprise, such as a catastrophic event, significantly impacting business operations or reputation ranks 10th in 2023, moving up from 18th last year.
- **Workplace evolution is a near-term issue.** Concerns over whether the organisation can manage the ongoing demands on or expectations of a significant portion of the workforce either to work remotely or be a part of a transformed, collaborative hybrid work environment is the ninth-ranked risk for 2023; last year, it was 12th. Leaders are having to deal with this issue in a flexible manner as workplace design continues to evolve. It is not a top 10 risk looking out 10 years to 2032.

Economic issues remain significant. Not surprisingly, concerns that economic conditions (including inflationary pressures) will significantly restrict growth opportunities or impact margins is the second-rated risk overall for 2023, up from fifth place in 2022. With a tough global economic climate anticipated in 2023 as growth projections are cut and segments of the world's economy are forecast to contract, economic headwinds may continue for an indeterminate period. The uncertainty over central bank policies amid persistent inflation, rising labour costs and supply chain disruptions, along with the spectre of a possible global recession on the horizon, contribute to clouded perceptions regarding the economy — both now and in the future.

Year-over-year churn in the top risks list reflects a dynamic environment. In comparing this year's survey results with last year's results, five of the top risks for 2022 fell out of the top 10 risks list this year and, correspondingly, five risks not included in the top 10 last year made the 2023 list. These changes are summarised in the following table.

Top 10 2022 risks that fell below the top 10 for 2023:	2023 Rank
Inability to manage data analytics and "big data"	14
Cyber threats	15
Government policies impacting business performance	21
Shifts in perspectives about diversity, equity and inclusion (DEI)	24
Market conditions imposed by the COVID-19 pandemic	38
The risks ranked outside of the top 10 last year that made it into the top 10 this year:	**2023 Rank**
Supply chain uncertainties	5
Impacts of workplace changes on culture and the business model	6
Market opportunities/risk issues identified/escalated untimely	8
Impact of hybrid work environment on talent retention	9
Lack of resilience in managing an unexpected crisis	10

Supply chain issues are elevated in the near-term. Uncertainty surrounding the viability of key suppliers and energy sources, unpredictable shipping and distribution logistical issues, and concerns over price stability in the supply chain ecosystem are impacting the ability to deliver products or services at acceptable margins. This risk ranks fifth overall for 2023, up from 16th in 2022 and 30th in 2021. However, its fall to the 21st spot looking 10 years out suggests survey participants believe the fundamentals underpinning this risk will normalise long-term.

The survey results show that risk management, as a discipline, is becoming more critical for success, with board members and executives expressing an overall higher likelihood to invest in strengthening risk management in 2023.

Cybersecurity and data privacy remain significant priorities. Near-term for 2023, risks associated with data privacy and cyber threats were ranked 12th and 15th, respectively. They were rated 21st and ninth, respectively, in last year's survey. The scores for these two risks increased year over year compared to our prior year results for 2022, indicating that they remain critical concerns for the board and C-suite.

Environmental, social and governance (ESG) considerations vary in emphasis. As noted above, risks related to people, workplace design and culture are top of mind. Hence, many human capital management matters pertaining to the "S" in ESG received significant play in this year's survey, as they did last year. DEI risk is rated higher year over year but has declined in relative importance. As for the "E," climate change concerns have increased year over year but continue to be greatest in those industries that are heavily reliant on market acceptance of fossil fuels. At this time, most respondents do not perceive the risk of potential alterations in their organisations' strategies and business models from climate change issues with as much concern as they view the implications of other risks.

The largest risk increases tell a story of a changing world. Looking out 12 months, the five largest year-over-year increases are interest rate risk, geopolitical shifts and regional conflicts, shareholder activist risk pursuant to performance shortfalls (including with respect to ESG expectations), risks related to global trade and changing assumptions underlying globalisation, and political uncertainty. The world is changing now — with more change to come.

The risk of regulatory changes and scrutiny continues to loom large. While the risk of the regulatory environment affecting the processes, products and services of the business increased year over year for 2023, it declined in relative significance to other risks. This risk ranks 16th overall for 2023, down from 12th place overall for 2022. Notwithstanding that regulatory compliance risks are implicit in other risks our study examined, survey participants continue to perceive the potential for other emerging issues in the regulatory landscape that might affect the manner in which processes are designed and products or services are produced or delivered.

Over the next 12 months, talent, succession and culture issues, economic uncertainty, supply chain challenges, and the impact of digital transformation initiatives are expected to command the most attention in the C-suite and boardroom.

The COVID-19 pandemic has reached an endemic state. Risks related to the pandemic have declined this year — specifically, market conditions imposed by and in response to COVID-19 and emerging variants.

We invite interested parties to read the executive summary of our survey results to learn more. Consistent with our studies in prior years, there are variations in views across industry groups and regions of the world. Likewise, there are different perspectives among directors and C-suite executives regarding the magnitude and severity of risks for 2023. This suggests the need for dialogue at the highest levels of the organisation to help ensure there is consensus regarding the critical enterprise risks that should command the organisation's attention.

For sure, it is a dynamic world. As leaders look forward to the next 12 months, the message is that talent, succession and culture issues, economic uncertainty, supply chain challenges, and the impact of digital transformation initiatives are expected to command the most attention in the C-suite and boardroom. Boards should consider these risk themes and takeaways in evaluating their risk oversight focus for the coming year in the context of the company's risks inherent in its operations. If senior leadership has not identified or prioritised these issues as matters to consider in managing the business going forward, directors should consider their relevance to the company's strategy and business model and ask why not.

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 those risks. We also help 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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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* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.

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