

# EXECUTIVE PERSPECTIVES ON TOP RISKS

2024 & 2034



## Risk landscape is shifting for private equity firms and portfolio companies

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The combined analysis of risk insights from global executives for both 2024 and a decade out reveals several interrelated challenges that may result in significant events with the potential to test an organisation's business agility and resilience.

Changes in the profile of top risks from the prior year disclose a number of shifting conditions that may disrupt markets, including events triggered by intensifying geopolitical conditions. Many of those events are expected to have long-lasting impacts on business models and the competitive balance in a nuanced global marketplace. Board members and C-suite leaders who recognise these shifting realities and address them through robust, enterprisewide risk analyses that are aligned with business strategy possess a differentiating skill that positions their organisation's readiness and ability to adjust and pivot in the face of inevitable disruptive change as well as or better than their competitors.

In this 12th annual survey, Protiviti and NC State University's ERM Initiative report on the top risks currently on the minds of board members and executives worldwide. The results of this global survey reflect their views on the extent to which a broad collection of risks is likely to affect their organisations over the next year – 2024 – and a decade later – 2034. Our respondent group, which includes 1,143 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:<sup>1</sup>

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

<sup>1</sup> Each respondent rated 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organisation. For each of the 38 risk issues, we computed the average score reported by all respondents.

# Commentary – Private Equity Industry Group

While the top 2024 and 2034 risk concerns of executives and board members from private equity (PE) firms and their portfolio companies track closely with the risk priorities identified by leaders globally in other industry sectors, the volatility that roiled the PE market in 2023 is evident in how leaders in the industry have shifted their risk priorities for the coming year as well as over the long term.

Among the top 10 risk issues PE respondents identified in 2023, only three concerns – the economy (including inflationary pressures), attracting and retaining top talent and addressing succession challenges, and changes in sustaining workplace culture – remain top 10 risk issues for 2024. PE executives and board members also recast their long-term concerns. Their decade-out risk view – into 2034 – contains only three holdovers from last year’s 10-year risk view: talent retention and succession challenges, adoption of digital technologies requiring new skills in short supply, and the rapid speed of disruptive innovations.

These shifts in short- and long-term risk perspectives shed light on how PE and portfolio company leadership teams are likely to prioritise their time, expertise and investments. The risk-rating variability also reflects the fundamental changes the PE market has undergone in the past 12 months. Persistently high interest rates, increasing regulatory scrutiny across the globe, widening valuation gaps among buyers and sellers, significant changes to acquisition financing approaches, swings in currency exchange rates, and less favourable exit conditions are among many factors contributing to a volatile, uncertain climate in the PE sector. Amid these challenges, PE and portfolio company leadership teams are contending with a range of operational challenges, including cyber threats (inside the organisation and among third-party suppliers), an ongoing talent crunch and aging legacy IT systems.

## Risk outlook for 2024 – key takeaways

Board members and executives from PE firms and PE-owned companies rate as their top risk concerns in the coming year economic conditions, including inflationary pressures; their ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges; changes in the interest rate environment; third-party risks; and data privacy.

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As our top 10 risks table shows, talent, data security and privacy, and IT-related risks represent widespread concerns. In addition to attracting and retaining talent, PE leaders view skills constraints as an obstacle to adopting artificial intelligence applications and other new digital technologies. PE respondents also raise questions about the ways in which work environment (and location) changes may negatively affect organisational culture.

While cyber threats understandably rate as a top 10 risk issue, PE respondents also identify data privacy and compliance with expanding identity protection expectations as a concern. The fact that third-party risks qualify as a top five issue underscores a heightened focus on cybersecurity given that a large and growing portion of vendor risk relates directly to the quality of third- and fourth-party cybersecurity capabilities. As the technical sophistication of cyber threats continues to advance this year, and certainly over the coming decade, portfolio companies and their third parties should prepare for the near certainty that their cyber defences will be breached at some point.

Modernising legacy IT systems also represents a common, costly and crucial priority within PE-owned companies, and respondents express concerns that a failure to do so will hinder the organisation’s ability to meet performance objectives while competing against more agile, “born digital” competitors. Core modernisation is also an important enabler of an advanced data analytics capability.

Risk category	Top 10 2024 risk issues	Rating
<b>Macroeconomic</b>	1. Economic conditions, including inflationary pressures	5.86
<b>Operational</b>	2. Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	5.66
<b>Macroeconomic</b>	3. Change in current interest rate environment	5.61
<b>Operational</b>	4. Third-party risks	5.53
<b>Operational</b>	5. Ensuring privacy and compliance with growing identity protection expectations	5.51
<b>Macroeconomic</b>	6. Adoption of digital technologies requiring new skills in short supply	5.50
<b>Strategic</b>	7. Sustaining customer loyalty and retention	5.49
<b>Operational</b>	8. Cyber threats	5.47
<b>Operational</b>	9. Challenges in sustaining culture due to changes in overall work environment	5.45
<b>Operational</b>	10. Inability to utilise rigorous data analytics to achieve market intelligence and increase productivity and efficiency	5.44

## Overview of top risk issues in 2034

In their outlook for the next decade, last year's respondents identified organisational culture, pandemic-driven workplace adjustments and supply chain disruptions as their top long-term risk issues. Many of those concerns appear to have abated in the past 12 months. This year, respondents have a notably different set of long-term concerns, with fairly minimal crossover.

Risk category	Top 10 2034 risk issues	Rating
Operational	1. Cyber threats	5.84
Operational	2. Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges	5.72
Macroeconomic	3. Economic conditions, including inflationary pressures	5.71
Macroeconomic	4. Adoption of digital technologies requiring new skills in short supply	5.66
Macroeconomic	5. Increases in labour costs	5.60
Strategic	6. Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	5.59
Operational	7. Third-party risks	5.59
Strategic	8. Ease of entrance of new competitors or other changes in competitive environment	5.59
Strategic	9. Heightened regulatory changes and scrutiny	5.57
Strategic	10. Growing focus on climate change and other sustainability policies, regulations, and expanding disclosure requirements as well as expectations of key stakeholders	5.55

PE board members and executives identify cyber threats, the rapid speed of disruptive innovation fuelled by emerging technologies, third-party risks, new competitors, and heightened regulatory changes and scrutiny (especially requirements related to climate policies and disclosures) as their top risk issues for the next decade (into 2034). Regulatory concerns make sense given the sweeping climate disclosure requirements that have materialised in the past 12 months, such as the European Union's Corporate Sustainability Reporting Directive (CSRD), as well as pending climate disclosure requirements from the U.S. Securities and Exchange Commission for public companies in the United States. Such developments in these and other jurisdictions seem likely to continue in the decade ahead – and they likely will impact organisations beyond these regions. For example, while relatively few PE-owned companies have direct CSRD compliance obligations, many will be compelled to provide detailed CSRD reports in response to trading partners' requests (as part of the CSRD's double materiality assessments).

As was the case last year, PE respondents also indicate that several aspects of talent management will loom large as 2034 risk challenges. The ability to attract and retain top talent (especially those with digital skills), manage fluctuations in labour expectations and fortify succession planning rates second on the list of top risks for 2034 (as well as for the coming year). Board members and executives in PE firms and portfolio companies also view increasing labour costs as a long-term challenge – this issue ranks in the top five for 2034.

Cyber threats understandably rate as the highest 2034 risk issue. Economic conditions, including inflationary pressures, are not far behind.

## In closing

Throughout 2023, after more than a decade of low financing costs, PE firms and portfolio companies confronted an environment of high interest rates and other economic headwinds that forced boards and C-suite leaders to make major adjustments to how they secured credit, deployed earn-out clauses and expanded into other asset classes. These leadership teams also made extensive changes to their risk management priorities. Their views of the risk landscape for 2024 and the next decade indicate they see continued uncertainty in the market, coupled with threats related to cybersecurity, talent and emerging technologies, that will create ongoing challenges.

## About the Executive Perspectives on Top Risks Survey

We surveyed 1,143 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 36 unique risks on their organisation over the next 12 months and over the next decade. Our survey was conducted in September and October 2023. Respondents rated the impact of each risk on their organisation using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at [www.protiviti.com/toprisks](http://www.protiviti.com/toprisks) or <http://erm.ncsu.edu>.

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