THE TOP RISKS FOR 2022: A GLOBAL PERSPECTIVE

Our global survey of C-level executives and directors highlights the influence of COVID-19, people and culture issues, the economy, and digital transformation on the near-term risk landscape.[1]

Our latest top risks survey captures insights from 1,453 C-level executives and directors, 43% of whom represent companies based in North America, 20% in Europe, 20% in the Asia-Pacific region, and the remaining 17% 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 2021 time frame to capture perspectives on 36 risks on executives' minds as they looked forward to 2022.

In the following table, we rank our survey's highest-rated risk themes in order of priority to provide a context for understanding the most critical uncertainties companies face over the next 12 months. Key takeaways follow.

Pandemic-related concerns continue to linger in the near term. New variants of the coronavirus and the inability to vaccinate enough people in some countries or provide sufficient doses of vaccines to other countries have prolonged the pandemic, hamstringing recovery efforts and dampening economic growth sentiments. The root cause for two of the top five risks overall for 2022 are pandemic-related and involve leadership concerns about government policies significantly impacting business performance and pandemic-imposed market conditions continuing to affect consumer behavior and demand for products and services.

Near-term priorities appear to be shifting. Many of the same risks remain top of mind this year as last year; however, the way

[1] *Executive Perspectives on Top Risks, 2022 & 2031*, Protiviti and NC State University's ERM Initiative, December 2021: www.protiviti.com/toprisks.

TOP 10 GLOBAL RISKS FOR 2022	
1. Impact of government public health policies and protocols on the business	6. Anticipated increases in labor costs may affect ability to meet profitability targets
2. Succession challenges and inability to attract and retain top talent may limit operations	7. Resistance to change may restrict ability to pivot and adapt
3. Pandemic-influenced market conditions may affect customer demand and relationships	8. Inability to utilize sufficiently advanced data analytics to achieve market intelligence
4. Adopted digital technologies may require significant, frequent efforts to upskill/reskill employees	9. Inability to manage cyber threats that can significantly disrupt operations
5. Economic conditions may significantly restrict the organization's growth opportunities	10. Shifts in perspectives and expectations about diversity, equity and inclusion

executives are prioritizing risks is changing. Three risks in the top 10 for 2021 do not appear among the top 10 risks for 2022 — concerns pertaining to regulatory matters, competition with "born digital" companies and data privacy now place 12th, 15th and 21st, respectively. Risks new to the top 10 list for 2022 center around talent challenges, including concerns about anticipated increases in labor costs, the inability to utilize sufficiently advanced data analytics and "big data," and adjusting to shifts in perspectives and expectations relating to diversity, equity and inclusion (DEI), which were rated 23rd, 11th and 16th in last year's survey, respectively. Also, there are shifts within the top 10 risks, the most notable being talent management and succession, which jumped to second after holding the eighth spot in last year's survey.

People and culture are at the top of the agenda. The number two risk overall for 2022 pertains to succession challenges and the ability to attract, retain and develop top talent in a tightening market. Company culture also remains a priority. Resistance to change represents the seventh-rated risk overall for 2022, which is concerning in an environment of disruptive change. Talented people and culture are related, as the latter attracts the former and, effectively led, the best and brightest workers engender innovative cultures fit for purpose in the digital age. Important themes related to people and culture include:

- **Rising labor costs is the sixth-ranked risk for 2022.** The pandemic has spawned increased mobility in the workforce — including but not limited to changing locations and industries. Companies have open positions they're struggling to staff. People are less willing to work for minimum wage and want more benefits and flexibility. This risk zoomed upward from 23rd in 2021 to sixth place for 2022. Clearly, executives are concerned about attracting and retaining talent and labor, and must meet the table stakes the market requires to do so.
- **DEI has elevated in importance.** Shifts in perspectives and expectations about social issues and priorities surrounding DEI — the 10th-rated risk overall for 2022 — are forcing assessment of policies and processes around recruiting, retention, career advancement and reward systems. It's also requiring companies to engage the investor community and address rising expectations in environmental, social and governance (ESG) reporting.
- **The future of work is a priority now.** Similar to last year, this risk is the fourth-ranked issue looking out 12 months. The state of labor markets is such that significant efforts are necessary to upskill and reskill existing employees as new technological investments come online and displace existing job functions while creating new ones.

- **Most ESG issues rate highly, particularly with respect to the "S."** As noted above, people, culture and workplace issues are all significant risks, according to our survey. DEI-related challenges are a top 10 risk overall for 2022. There are risks associated with organizational culture, including resistance to change. Although the effects of climate change on strategy and the business model didn't make the top 10 list for 2022, it was one of the five risks reflecting the largest increases in severity between years.

The economy continues to have a near-term impact. Concerns related to overall economic issues in domestic and international markets remain in the top five risks for 2022. The economic impact, including concerns about inflation, continue to represent significant challenges for leaders in many industries. Uncertainties associated with central bank policies around interest rates, the effects of slow-to-recover supply chains on the economic rebound from pandemic lows, the hamstringing effects of coronavirus variants on the economy, escalating fuel, food and other costs, and a slowdown in the Chinese economy are factors contributing to these concerns.

Also, ongoing debates and apparent gridlock in the United States about various government spending initiatives have created uncertainties about the magnitude and impact of potential spending programs and the associated escalation of government debt on the economy. Some of this uncertainty has been removed with the passage of the infrastructure bill.

Cyber risk remains a top risk. If the above matters aren't enough, the top 10 risks for 2022 include cybersecurity issues. The rush to "go virtual" in all aspects of operations may have inadvertently created unknown security weaknesses, particularly on the human perimeter. Cybersecurity has been a top risk for a long time, and it continues to be top of mind as nation-states, cybercriminals and others evolve new attack strategies.

Social media and supply chain risks increased the most year-over-year. The risk increasing the most year-over-year in terms of severity pertains to social media developments and rapidly emerging platform technological innovations significantly impacting operations, customer interactions, regulatory compliance and brand management. Closely behind is the impact of supply chain congestion and disruption, moving this risk from 30th last year to 16th this year. Operational concerns about supply chains continue as first-, second- and third-tier suppliers struggle to rebound production levels to pre-pandemic volumes, backups continue to clog seaports, shortages in warehouse workers hamper distribution and a strained ground transportation system create further bottlenecks — all by-products of the pandemic. With inventories eliminated, the outlook for short-term improvements isn't promising.

Overall, executives view 2022 as slightly less risky than 2021. In response to our survey's question about the overall riskiness of the environment, the respondents' collective response is interesting. It suggests that board members and executives perceive the risk environment for 2022 as somewhat less risky than they did when looking forward to 2021, but still slightly higher than pre-pandemic conditions two years ago in anticipation of 2020.

The year 2020 was a tough experience for everyone and the unprecedented challenges most certainly influenced the outlook for 2021. The outlook for 2022 is likely influenced by the progress made addressing the virus during 2021. The COVID-19 pandemic may not be behind us yet, but many people have been vaccinated, and we are learning to live with the virus as it evolves to an endemic state.

Dialogue and engagement are needed. Consistent with prior years, the survey for 2022 found differing perspectives among directors and C-suite executives on risks' magnitude and severity. Of particular interest is the dramatic increase in overall risk concerns of CEOs relative to board members and other C-level executives. This increase in CEO risk expectations is likely the result of how quickly business conditions and market expectations are changing, as well as how CEOs may be feeling the pressure associated with these market dynamics more acutely than others. Directors should make it a priority to understand their CEO's point of view on the risk landscape as well as stress the need for dialogue and engagement among the organization's key stakeholders in periodic risk assessments.

We invite interested parties to read the executive summary of our survey results at www.protiviti.com/toprisks 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 2022. This suggests the need for dialogue at the highest levels of the organization to ensure that everyone is on the same page regarding the critical enterprise risks that should command the organization's attention.

As leaders look forward, the message is that talent, succession and culture issues and economic concerns abound as companies continue to cope with different forms of disruption.

Considerations for Boards

Boards should consider the above risk themes and takeaways in evaluating their risk oversight and governance focus for the coming year in the context of the company's risks inherent in its operations. If senior leadership hasn't identified or prioritized these issues as matters to consider in managing the business going forward, directors should consider their relevance to the company's strategy 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 them. Also, we assist public and private companies in 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 organizations improve their risk reporting to better inform the board's risk oversight process.

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Named to the 2021 Fortune 100 Best Companies to Work For® list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent 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* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.