

# BOARD PERSPECTIVES

ISSUE 171

## The Top Risks for 2024: Risk Priorities Are Shifting

Our global survey of C-level executives and directors highlights the influence of economic headwinds, talent issues, emerging technologies, cyber threats and geopolitical events on the 2024 risk landscape.<sup>1</sup>

Our survey captures insights from 1,143 C-level executives and directors, 43% of whom represent companies based in North America, 16% in Europe, 19% in the Asia-Pacific region, and the remaining 22% from Latin America, the Middle East, India and Africa. It was conducted online during September/October 2023 to capture perspectives on 36 risks on the minds of business leaders as they looked forward to the next 12 months.

In the table shown on the next page, we list the 10 highest-rated risk themes noted in our survey 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 summarized next.

<sup>1</sup> *Executive Perspectives on Top Risks for 2024 and a Decade Later*, Protiviti and NC State University's ERM Initiative, December 2023: [www.protiviti.com/us-en/survey/executive-perspectives-top-risks](https://www.protiviti.com/us-en/survey/executive-perspectives-top-risks).

## TOP RISKS FOR 2024

1. Economic conditions, including inflationary pressures, may significantly restrict growth opportunities, impact margins or require new skills
2. Organization's ability to attract and retain top talent, manage shifts in labor expectations, and address succession challenges may limit its ability to achieve operational targets
3. Organization may not be sufficiently prepared to manage cyber threats, including ransomware, which could disrupt core operations or damage the brand
4. Third-party risks arising from reliance on outsourcing and strategic partnership arrangements may prevent meeting organizational targets or impact brand image
5. Regulatory changes and scrutiny may heighten, noticeably affecting the way processes are designed and products or services are produced or delivered
6. Adoption of digital technologies may require new skills that are in short supply, requiring significant efforts to upskill/reskill existing employees
7. Existing operations and legacy IT infrastructure may not be able to meet performance expectations as well as "born digital" competitors or those investing heavily in technology for competitive advantage
8. Current interest rate environment may have a significant effect on the organization's capital costs and operations
9. Anticipated increases in labor costs may affect ability to meet profitability targets
10. Compliance with growing data privacy regulations may require significant resources to restructure how data is collected, stored, shared and used

**Economic concerns zoom to the top risk position.** Economic conditions, particularly inflationary pressures, replaced talent risk and succession issues as the number one risk globally for 2024 (up from second in 2023). Uncertainty continues in the market over central bank policies focused on combating inflation caused by:

- Rising labor costs (driven by robust employment and skilled labor shortages, particularly in countries where birth rates have dropped significantly);
- Outsized government stimulus programs;
- The West's de-risking reliance upon China, regional conflicts and other developments in the geopolitical landscape; and
- Increasing shelter, food and energy prices.

**The bottom line:** The open question is whether these market developments and policies will lead to some form of soft landing, to either a mild or severe recession, or worse, a sustained period of stagnant growth.

**Underlying uneasiness** about the economy are concerns around the current interest rate environment significantly affecting the organization's capital costs and operations. While the rating for almost all risks in our survey decreased year over year looking out 12 months, economic risk declined the least, remaining stable year over year.

***People-related risks remain top of mind; culture takes a back seat – at least for now.***

The number two risk for 2024, finding and keeping the right kind of talent, is particularly relevant in an era when the talent desired is not abundant in the market. Organizations must reinvent their talent strategies to create a magnet for the unique kinds of talent they need.

**Several themes** related to people emerged from our results:

- **The need to reskill and upskill employees** is a challenge now. As the sixth-ranked risk for 2024, the state of labor markets and the expected adoption of digital technologies requiring new skills in short supply necessitate significant efforts to upskill and reskill existing employees over the next decade.

**A key point:** The key to growth for many organizations is rooted in increasing productivity by embracing technology, particularly in countries where the working population is declining, immigration policy is not aligned with this reality and offshoring is giving way to reshoring. These market forces necessitate the need for upskilling the existing workforce.

- **Rising labor costs** continue to be a persistent concern. This is the ninth-ranked risk for 2024.
- **Mirroring broader return-to-work trends** in the market, workplace evolution is less of an issue. Leaders are adapting to a world profoundly affected by the pandemic experience, a world in which many exited the workforce, have rethought work-life balance and/or are reentering the workforce with different priorities.
- **Culture-related risks** have fallen in relative importance. Resistance to change and the organization's culture not sufficiently encouraging timely identification and escalation of emerging risk issues fell out of the top 10 risks this year.

**Our point of view:** The decline in culture-related risks may be due to companies' emphasizing increased organizational resilience and employee risk awareness in a rapidly evolving business environment.

**Cybersecurity is a major concern over the near term.** Cyber threats are the third-rated risk for the next 12 months, elevated from 15th in last year's survey.

- This elevated concern reflects growing recognition of a complex cyber-risk landscape that is impacted by the exponential curve of technological advances.
- But other forces, such as increasing reliance on third parties, also contribute to the threat landscape. So does the geopolitical picture, with its competing national interests, nation-state territorial aspirations and global terrorism being powerful forces that affect cyber-risk assessments in particular regions and countries.

**Third-party risks rise in importance.** Challenges related to existing core operations and legacy IT systems, competitive pressures, and difficulties in attracting talent have motivated organizations to increase their use of joint ventures, alliances and various kinds of third-party relationships to manage some or all aspects of certain processes.

- With greater reliance on third parties to perform critical business services, executives are increasingly focused on the risks that may emerge in light of these relationships.
- Among all 36 risks considered by executives in this year's survey, risks linked to third parties increased the most from the prior year, moving from the 17th position last year to the fourth position for 2024.

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**Concerns over regulatory oversight have heightened for the near term.** Regulatory risk took a dive during the COVID-19 pandemic as myriad other risk concerns were rated higher. The fifth-rated risk overall this year (up from 16th last year), this risk can hit an industry hard — for example:

- The financial services sector is facing potential increased capital and liquidity requirements and compliance costs, resulting in higher borrowing costs and reduced returns.
- Technology companies face increasing accountability for the impact of their innovations and products on consumers and the public, including the social implications of third-party content that misinforms and disinforms.
- Energy and utility organizations face scrutiny on the environmental impact from their production and use of fossil fuels.

**Regulatory concerns are also pervasive** across industries.

- Leaders are closely watching expanding government regulations and agency enforcement related to data privacy, climate disclosures, sustainability reporting, cyber-breach disclosures and expanded attestation requirements.

**Important takeaway:** Interestingly, public companies are the only organizational type reporting a slight increase in the overall magnitude and severity of regulatory risks for 2024. Private companies, not-for-profits and governmental organizations reported a decline in the magnitude and severity of these risks.

*The churn in this year’s survey for 2024 and the escalation of importance of several risks point to multiple sources of uncertainty.* Concerns over exposure to nimbler competitors (including those that are either “born digital” or investing heavily to leverage technology for competitive advantage) and ensuring data privacy and compliance with proliferating identity protection regulations round out the 2024 top 10 risks. These two risks were rated seventh and 10th, respectively – up from 13th and 12th last year.

Six of last year’s top risks looking out 12 months fell out of this year’s top 10 for 2024.

	From (2023)	To (2024)
Resistance to change	4th	14th
Managing uncertainty surrounding supply chain ecosystem	5th	19th
Impact of changes in work environment on culture	6th	15th
Culture not supporting timely escalation of risks	8th	17th
Managing workforce expectations of hybrid work environment	9th	24th
Not sufficiently resilient or agile responding to a crisis	10th	16th

These risk issues were replaced by risks associated with cyber threats, third-party risks, heightened regulatory changes and scrutiny, exposure to nimbler competitors, changes in the interest rate environment, and data privacy risk. This shifting risk profile paints a cloudy picture of the business landscape.

**Geopolitical events drive notable changes in risk perceptions.** A notable trend in our global results this year is what the findings reveal before and after October 7, 2023, when events in Israel and Gaza suddenly erupted.

- Based on the responses submitted prior to this date, no risks were rated at the “Significant Impact” level for 2024 (as defined by our survey methodology), whereas after this date four risks are rated at this level: economic conditions (including inflationary pressures), cyber threats, ability to attract and retain talent, and third-party risks.
- In addition, the scores for most risk issues increased post-October 7, including the risk related to geopolitical shifts, regional conflicts, and instability in governmental regimes or expansion of global terrorism.

**As leaders** look forward to the next 12 months, the message is that economic uncertainty, talent issues, cyber threats, third-party risks, and regulatory and technology issues are commanding the most attention in the C-suite and boardroom.

**We invite interested parties** to read the executive summary of our survey results to learn more.

- Consistent with our surveys in prior years, there are variations in perspectives 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 2024.
- 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.

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## Considerations for Boards

Boards should consider the above 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 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 formulating and implementing strategies and tactics for managing those risks. 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.

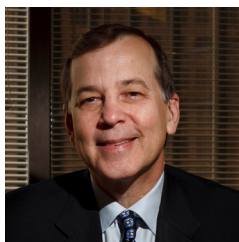
## About the Authors



**Matt Moore**  
*Managing Director, Protiviti*

Matt Moore is global leader of Protiviti's Risk & Compliance practice. He has extensive experience advising clients in matters related to risk management, regulatory compliance, corporate governance and internal controls.

Contact Matt at [matthew.moore@protiviti.com](mailto:matthew.moore@protiviti.com).



**Jim DeLoach**  
*Managing Director, Protiviti*

Jim DeLoach is a founding managing director at Protiviti. Based in Houston, he is well-known for his commentary on many governance topics.

Contact Jim at [jim.deloach@protiviti.com](mailto:jim.deloach@protiviti.com).

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