



2021
&
2030

EXECUTIVE PERSPECTIVES ON **TOP RISKS**

COVID-19 global pandemic and its long-lasting effects are top of mind for Manufacturing and Distribution industry group

The continuing global challenges and potential existential threat posed by the ongoing COVID-19 pandemic. Political divisiveness and polarization. Social and economic unrest. Gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. Rapid shift to virtual, remote work environments. Changes in the geopolitical landscape. Shifting customer preferences and demographics. Fragile supply chains. Wildfires and hurricanes. Volatile unemployment levels and record low interest rates. Escalating competition for specialized talent. Immigration challenges. Cyber breaches on a massive scale. Terrorism. Big data analytics. Future of work.

These and a host of other notable risk drivers are all contributing to significant levels of uncertainties, making it extremely difficult to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organizations of all types and sizes, regardless of where they reside in the world. No one is immune to the significant levels of uncertainty, and C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because no one can possibly anticipate everything that lies in the future, organizations must focus on building trust-based, resilient cultures, led by authentic leaders, that can pivot at the speed of change.

In this ninth annual [survey](#), Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2021 and, in a new dimension to this study, over the next 10 years, into 2030. Our respondent group, which includes 1,081 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:¹

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

¹ 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 organization. For each of the 36 risk issues, we computed the average score reported by all respondents.

Commentary – Manufacturing and Distribution Industry Group

As manufacturing and distribution organizations head into 2021 and the second year of a tumultuous period, the COVID-19 global pandemic and its long-lasting effects are, as expected, top of mind for board members and executive management in the industry group. Furthermore, there are a number of common themes found when comparing the priorities for the next 12 months and those for the next decade.

Overview of Top Risk Issues in 2021

The industry group's top risk issue, not surprisingly, is pandemic-related government policies and regulation and their potential impact on business performance. Manufacturing and distribution organizations rate this risk at a higher level of significance than the global response in our study. This is understandable: These companies tend to be multilocation, with facilities located in different regions around the world. One of the most significant challenges they have faced over the past year, and will continue to address in 2021 and beyond, is that there is no one-size-fits-all approach to address various government regulations, health and safety requirements, mandatory operational protocols, and other country- and region-specific guidelines. Managing these issues for each location is a time-consuming challenge, particularly as changes are introduced and manufacturing and distribution organizations continue to navigate uncertainty amid the evolving new normal.

Underscoring the importance of pandemic-related government policies and regulations, this issue is the only "Significant Impact" risk for the industry group, with a score nearly one point higher than the second-ranked risk issue, economic conditions potentially constraining growth opportunities. This risk issue consistently ranks high among the list of concerns for boards and executive management in the industry group, though there are signs of optimism for the next 12 months, especially when contrasted with the global disruption during 2020. Financial results in the most recent third and fourth quarters showed indicators of improved economic stability. While the persistently resurgent COVID-19 pandemic remains a concern and may result in slower growth for manufacturing and distribution organizations in 2021, many within the industry group are cautiously optimistic about long-term economic prospects — at least compared to the turmoil of the past 12 months. Again, though, these views vary by region given the multilocation profile of many organizations in the industry group, as well as within the sub-industries in the group. For example, industrial products companies experienced numerous adverse economic impacts in 2020, while pharmaceutical companies understandably performed better. A final comment on economic concerns: One can argue that much of the economic stress is spawned by the pandemic.

Regarding the third-ranked risk issue, succession challenges and the ability to attract and retain top talent, this remains a critical concern for manufacturing and distribution organizations. Pre-pandemic, the industry group experienced persistent talent challenges resulting from a tight labor market with near-historic lows in unemployment levels, making it extremely difficult to be competitive for highly skilled people. In 2020, after initial rises in unemployment levels midyear, they were trending down as the year came to a close. These trends only increase ongoing talent challenges for manufacturing and distribution organizations that often require talent outside of more highly populated urban locations. Compounding the issue, they need specific talent that is in high demand. The combination of these two factors presents a significant ongoing challenge. These organizations also continue to debate whether to onshore, near-shore or offshore various operations, and how to access the necessary talent based on those decisions.

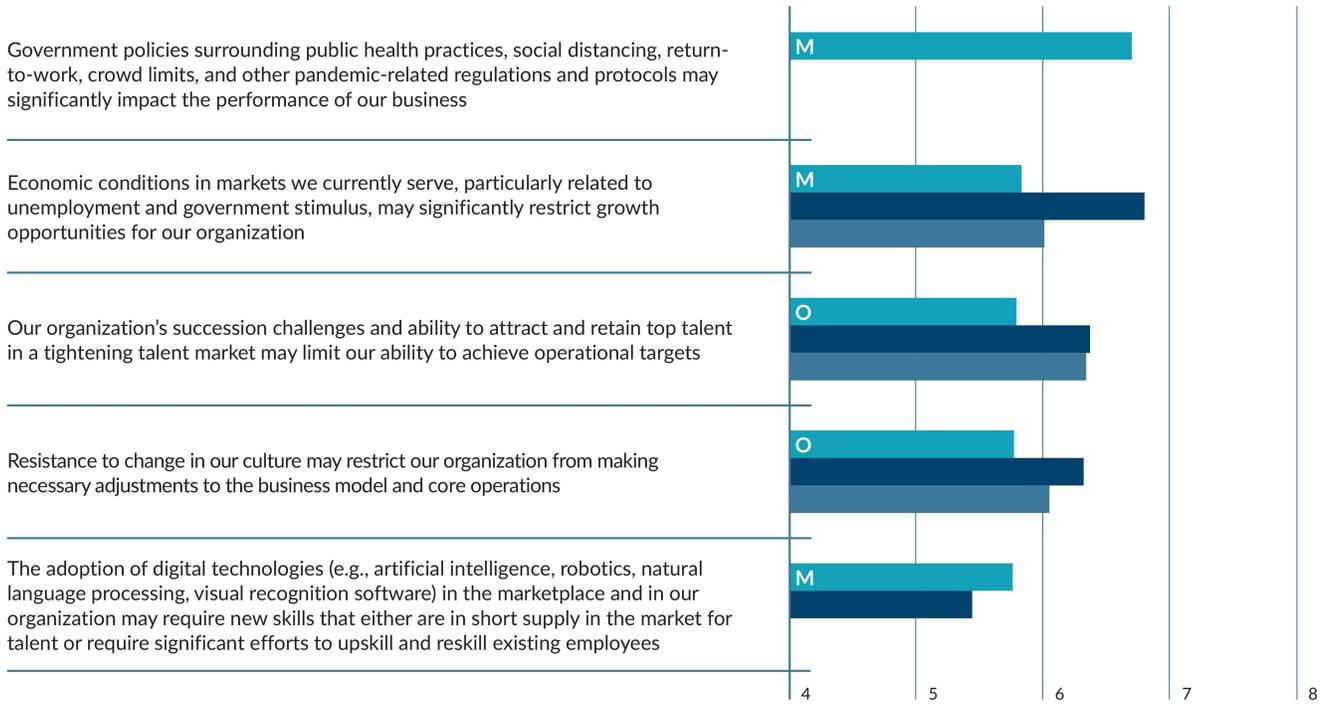
Amid the global market turmoil of the past year, manufacturing and distribution organizations were forced to adapt and pivot operations quickly. Many did so successfully but they, along with other organizations in the industry group that may not have fared as well, are asking themselves about their long-term positioning and the sustainability of needed changes. Do they have the right culture that will embrace changes in their business model and core operations? Have they adopted, or are they pursuing the adoption of, digital technologies to help transform the business, and to drive these efforts, do they have the right talent and skills in the organization? The answers to these and related questions lie in an organization's culture and a mindset, from the board and executive management down into all levels of the organization, to adapt to change successfully when the pace of change continues to increase.

These issues underscore resistance to change and the adoption of digital technologies — including Industry 4.0 advancements — which round out the top five near-term risk issues for the Manufacturing and Distribution industry group. The latter risk issue is particularly noteworthy, as it was not ranked among the top risk issues for the industry group last year. In what amounts to a silver lining amid the pandemic, these organizations expedited their Industry 4.0 initiatives in 2020, with notable success. The key question now for the board and executive management is: Do we have the right talent and skills in our organization to sustain this level of innovation and automation long-term?

Overview of Top Risk Issues in 2030

The top risk issues that boards and executives in the Manufacturing and Distribution industry group see for the next decade certainly reflect a number of the key themes and priorities for 2021 — namely, adoption of digital technologies and Industry 4.0, including the rapid speed of disruptive innovation, and access to talent and skills. Over the next 10 years, the ability of manufacturing and distribution organizations to innovate with new technologies will hinge largely on their ability to attract and retain the right talent to advance these initiatives and the organization. As noted earlier, manufacturing and distribution organizations face multiple challenges with regard to talent and skills. They must identify the skills they need to either acquire outright or nurture and develop within the organization; they must recruit talent into industries that may be perceived to be less enticing to younger generations than other industries (e.g., technology or finance); and they must do so for organizational locations that often fall outside of more highly populated urban areas, which shrinks the pool of potential candidates. Boards and executive management throughout the Manufacturing and Distribution industry group will be focusing significantly on these risk issues in the years to come, as the manner in which they are addressed will likely separate the winners and losers.

• • • Manufacturing and Distribution – 2021



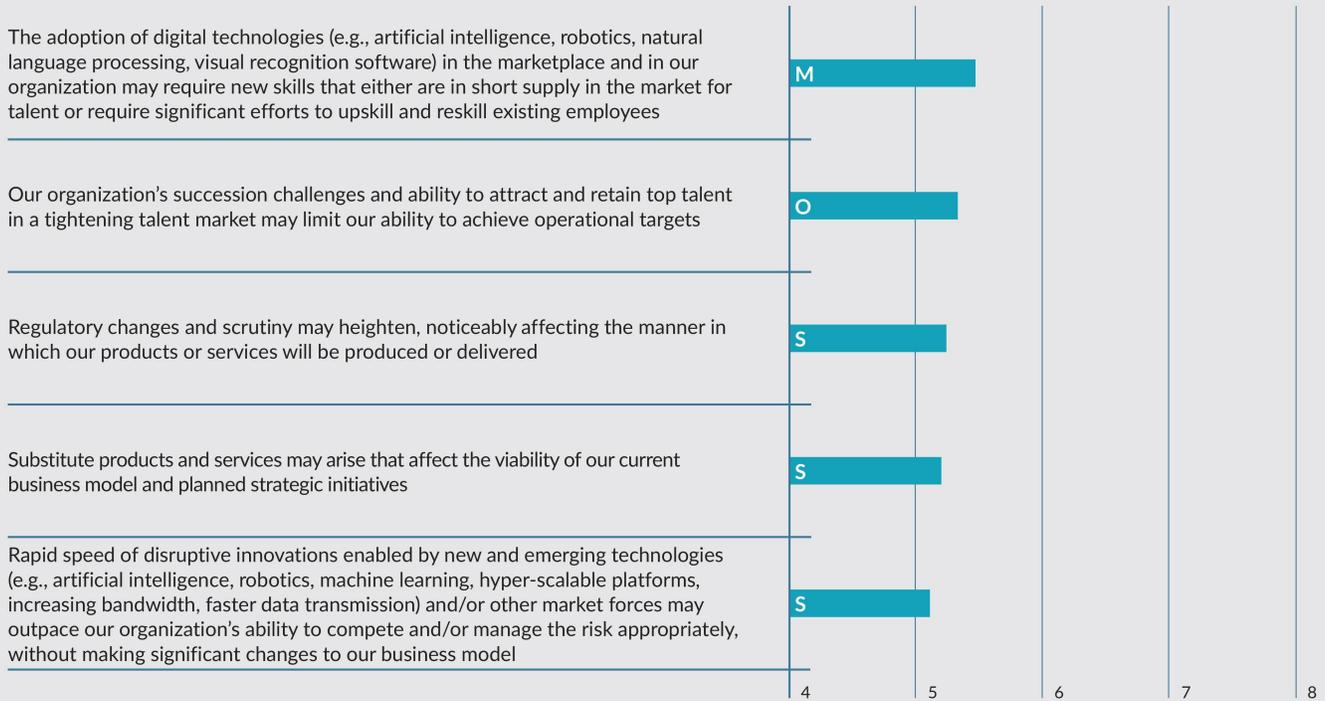
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M Macroeconomic Risk Issue
 S Strategic Risk Issue
 O Operational Risk Issue
 ■ 2021
 ■ 2020
 ■ 2019

“This year’s study reveals three key takeaways for manufacturers and distributors. Currently, there is a strong focus on the impact of COVID on new market behaviors, employee safety considerations, supply chain vulnerabilities and operational resilience in the face of unprecedented economic uncertainty. Second, the outlook for the next decade envisions market and regulatory disruption. Finally, a comparison of the short-term and long-term results for the group discloses a concern with the future of work and the need for talent, whether acquired and retained or developed through upskilling or reskilling existing employees.”

Sharon Lindstrom, Managing Director, Manufacturing and Distribution Industry Leader, Protiviti

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M Macroeconomic Risk Issue S Strategic Risk Issue O Operational Risk Issue ■ 2030

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