

# EXECUTIVE PERSPECTIVES ON TOP RISKS

2024 & 2034



## Latest Top Risks Survey Suggests Long-Standing Resistance to Change in the Energy and Utilities Industry May Finally Be Fading

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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

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<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 — Energy and Utilities Industry Group

*Resistance to change has long been a hallmark of the energy and utilities industry. But forward-thinking leaders are realising that the only status quo that will allow their businesses to evolve operationally, digitally and culturally to meet new demands and expectations, drive innovation, and help shape the energy industry of the future is one of continuous change and strategic risk-taking.*

Energy and utilities companies have been under increasing pressure for years to modernise their operations and evolve to new business models that focus on sustainability. But transformation has been a slow and challenging process for many of these organisations, largely because of substantial capital investments in the field with operations that serve the needs of the business for many years. A proof point is the presence among the top 10 risks for this sector, year after year, of the operational risk “Resistance to change in our culture may restrict our organisation from making necessary adjustments to the business model and core operations on a timely basis.”

However, in our latest survey, things are markedly different. In 2023, resistance to change ranked sixth, but on the 2024 list, it has tumbled to 12th. Looking further out into the future, we see an even more dramatic drop in the level of concern for this risk. Industry leaders ranked it second last year on their list of top risks for the next decade — but this year, it has plummeted to 22. That this risk is no longer viewed as a key concern, especially over the longer term, suggests that many energy and utilities executives now see change as the “new normal” for their companies and industry.

The recent pandemic’s disruption is certainly one factor for this shift in attitude towards change — particularly, the need to adapt to it and to drive it as a way to increase agility and resilience. But there is also recognition in this industry that the shift towards more renewable and sustainable activities will continue and likely accelerate, and companies must respond effectively to that. Some energy and utilities businesses have already created a roadmap for how they want and need to make an energy transition over time, and thus have more confidence about pursuing change.

Rapid advancements in technology and a need to be more agile are also breaking down the resistance to change within energy and utilities companies. More to the point, there is greater acceptance in their organisational cultures that this type of change is inevitable — and necessary. Many companies in the industry are well along with their digital transformation efforts and are looking to evolve further to take advantage of the latest trends, like AI. And as they, and their competitors, start to realise bottom-line benefits from their investments, resistance to change as an operational risk will continue to fade.

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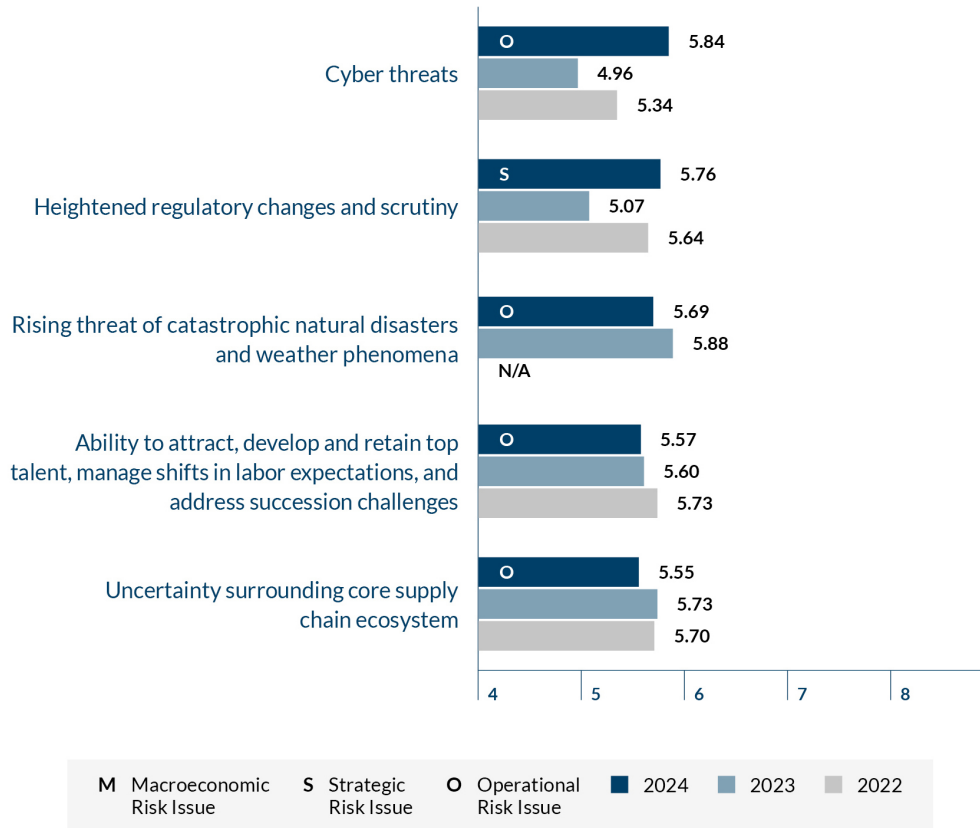
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## **Cyber threats and increased regulatory pressure top the risk leaderboard for 2024**

In our previous Top Risks Survey, we found that operational issues were a priority focus for energy and utilities leaders in 2023. The same is true for 2024, although the top-five lineup now includes a strategic risk in the No. 2 spot: heightened regulatory changes and scrutiny. That this risk has catapulted into the top five from 16th place in 2023 indicates that industry leaders are likely wondering what the outcome of this election cycle could mean for the future regulatory landscape.

## Energy and Utilities – 2024



Mandates related to ESG issues — particularly, greenhouse gas emissions reporting — are also top of mind for leaders in the industry. They also see this as an ongoing challenge for their organisations: They rank this risk fourth among the top concerns for the industry in 2024, pulling it up from eighth place on the 10-year outlook list last year.

One operational risk that has skyrocketed into the top five for 2024 is cyber threats, up from 17th place last year. This is an acknowledgement by energy and utilities executives that their critical infrastructure businesses are, and will remain, a focus for adversaries.

Ransomware is an ongoing concern for this industry, as are supply chain attacks. And while businesses in this industry have transformed digitally to a large degree, particularly in their back-office operations like finance and accounting, many still rely heavily on legacy technology, like SCADA systems, for industrial operations, which can

be vulnerable to attack. The adoption of new technology to be more connected to the field also creates new security risks for energy and utilities companies.

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### **Supply chain uncertainty has lessened — but remains a key concern**

Rounding out the top five risks for 2024 is “uncertainty surrounding our organisation’s core supply chain.” This risk dropped from second place on last year’s list, which suggests that pandemic-driven supply chain disruption in areas such as production and delivery has eased. Many companies in the energy and utilities industry have also made a concerted effort in recent years to modernise their supply chain and make it more resilient. That includes developing formal supply chain capabilities and investing in new technologies to increase visibility and predictability.

What hasn’t changed for the industry, though, is how reliant energy companies are on their supply chains in general. We have reported this in previous Top Risks Survey reports, but it is worth underscoring once again that supply chain risk is both significant and persistent for the energy industry because its value chain is highly service-, feedstock-, parts- and equipment-oriented.

Another factor contributing to uncertainty about supply chain viability may stem from the fact that many companies in the energy and utilities industry are embracing new business models and innovating new products and services. Thus, they may be facing the need to alter the makeup of their supply chain ecosystem to support those initiatives and work with new and untested partners.

### **Worries about changing workplace dynamics and weather-related risks have also eased**

In our previous Top Risks Survey, it was clear that evolving workforce dynamics were weighing heavily on the minds of many executives in the energy and utilities industry. But a year later, it appears those worries have largely subsided.

Challenges in sustaining culture due to change in the overall work environment, like the shift to hybrid work, is an operational risk that has diminished, dropping from fourth place on the 2023 list to 14th for 2024. Also, the risk of managing demands on or expectations of the workforce to work remotely or as part of a hybrid work environment fell from fifth place last year to 25th in this year’s survey.

However, it is worth noting that the leaders of energy and utilities businesses are still concerned about the risk pertaining to their organisation’s ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges. The ranking of this risk changed only slightly from last year’s survey, moving from third to fourth place. This indicates that many energy and utilities companies are still struggling to recruit an ample supply of talent to replace retiring workers and take on new jobs that require specialised skills and digital savvy. Another ongoing challenge is attracting younger professionals, many of whom prioritise working for sustainable companies, to take a job in an industry that they associate with unfavourable environmental impacts.

Energy and utilities executives are also somewhat less concerned than they were a year ago about their companies facing operational challenges due to extreme weather threats. The No. 1 risk cited by these leaders last year was the rising threat associated with catastrophic natural disasters and weather phenomena creating

significant operational challenges that threaten a company's assets, employees, and ability to deliver products and services to customers. This year it ranks third, after cyber threats and regulatory changes.

This risk's slight slide within the top-five ranking may be another indicator that energy and utilities companies are coming to grips with the idea of change — and disruption — as their new status quo. Extreme weather events are, unfortunately, the new normal. In 2023, we saw historic heat, wildfires and storms, all of which had impacts on critical energy infrastructure in one way or another. And the reality is, no matter how much an oil and gas company or an electric utility does to increase its resilience and protect its infrastructure, no measure is 100% foolproof against the unpredictable forces of nature.

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### **Looking ahead: The top risks for 2034 at a glance**

The energy and utilities executives who responded to our latest Top Risks Survey anticipate that their businesses will be focused on managing a mix of operational and strategic risks in 2034.

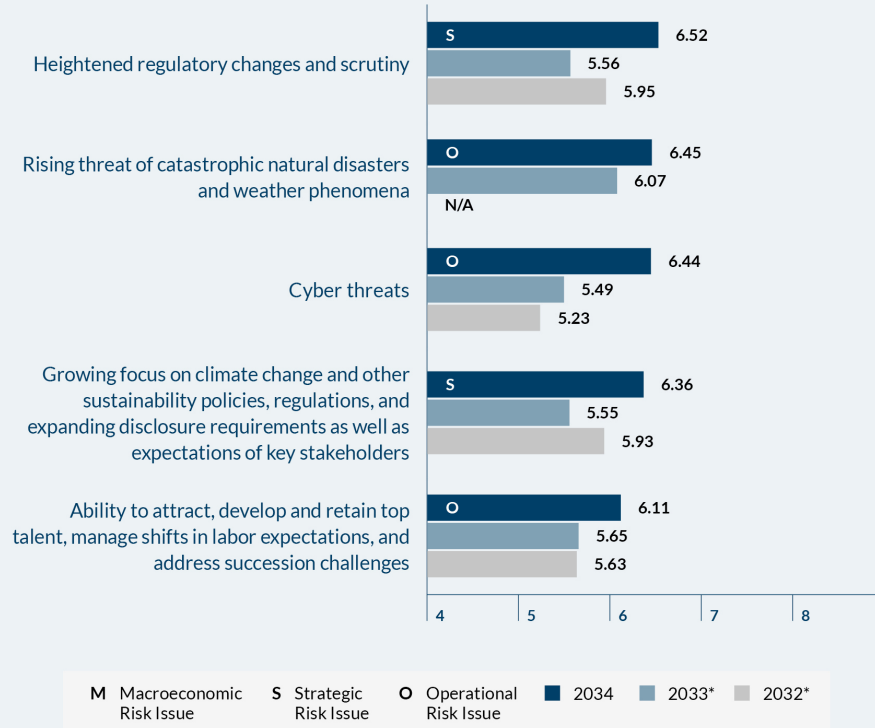
The two strategic risks are related to regulatory pressures: heightened focus on regulatory changes and scrutiny and growing focus on climate change and other sustainability policies, regulations and expanding disclosure requirements as well as expectations of key stakeholders. These findings signal that industry leaders expect their industry, which is already highly regulated, is poised to become even more so as the focus on climate change, sustainability and other issues continues to intensify.

Cyber threats, an operational risk, ranks third among the top five risks for 2034, moving up from 11th on last year's list looking out 10 years. Leaders in the energy and utilities industry clearly understand that their businesses will likely remain a favoured target for cyber attackers, including nation-state actors. However, that the cyber threats risk does not rank first, as it does on the 2024 list, may be a sign that these executives are hopeful they will have better cyber defences in place by 2034 — including intelligent, AI-powered solutions that can keep pace with rapidly evolving threats.

The rising threat of catastrophic natural disasters and weather phenomena is another key concern for 2034, but it has dropped to second place after ranking first on last year's list. Industry leaders also foresee continued challenges in attracting talent; this operational risk moves up to the fifth spot from sixth place in the previous year's top risks ranking.

Notably, we see risks related to the adoption of digital technologies and the ability to use data analytics for competitive advantage falling out of the top five list for energy and utilities companies in 2034. In fact, the latter risk ranks 14th, dropping from fourth place. Concerns about the rapid speed of disruptive innovation, which was fifth last year, is still in the top 10 — ranking seventh.

## Energy and Utilities – 2034



\* This data was reported as 2032 and 2031 results, respectively, in our prior year reports. We have shifted our terminology to reflect a decade out, thus have revised these year references in the interests of clarity.

These findings suggest executives with energy and utilities companies may be confident that their organisations will have undergone significant transformation by 2034. But given how quickly things change with technology and how much the energy industry itself is changing, they may also worry that their businesses will still be at risk of falling behind and failing to compete effectively.

Another sign of that emerging concern is the presence of the following strategic risk in the No. 8 spot, up from 25th on last year’s list: Substitute products and services may arise from competitors that enhance the customer experience and affect the viability of our current business model and planned strategic initiatives. This isn’t surprising given the growing investments in clean energy innovation and a belief that newer advancements will need to be made in order to provide the amount of clean energy needed. Maintaining an openness to change and having the agility to adopt new technologies over the next decade may be exactly what energy and utilities businesses need to do to keep that potential risk at bay — or, at least, minimise its impacts.

## 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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