2025 EDITION

EXECUTIVE PERSPECTIVES ON TOP RISKS

for the Near- and Long-Term

protiviti®
Global Business Consulting

COOs address talent management challenges and economic uncertainty with flexible operations models

By David Petrucci

Boards of directors and senior executive teams face a complex web of uncertainties. These may generate opportunities for strategic advantage or risks leading to unexpected disruption and performance shortfalls. An ability to anticipate risks that may be on the horizon before they become imminent can help leaders navigate unfolding developments – particularly those that are uncontrollable – that may impact their organization's value and growth objectives.

Our 13th annual **Executive Perspectives on Top Risks Survey** contains insights from 1,215 board members and C-suite executives around the world regarding their views on the top risks they see on the near- and long-term horizon. Specifically, our global respondent group provided their perspectives about the potential impact over the near-term (two to three years ahead) and long-term (over the next decade) of 32 risk issues across these three dimensions:

- **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

Commentary – perspectives of Chief Operating Officers

The top near-term and long-term risk concerns of chief operating officers (COOs) include rising labor costs, uncertain economic conditions, talent and labor availability, regulatory uncertainty, the rapid speed of disruptive innovations, and the long-term supply of skills needed to leverage artificial intelligence (AI) and other advanced technologies. These risk perspectives align with the top risk concerns of board members, CEOs and CFOs. This alignment is good news, and important to sustain, given the magnitude of operational changes and improvements COOs are implementing to mitigate risks amid rapid political and market shifts around the world.

The risk assessments of COOs reflect the abundant, interrelated nature of the challenges they confront today:

- Tariff concerns
- National security and the availability of raw materials
- Consumer credit
- Changing value-creation models
- Costs-of-goods-sold (COGS) spikes
- AI-driven disruptions and opportunities
- Public-to-private labor transition in the U.S. and elsewhere

These challenges are driving COOs to prioritize cost optimization, operational execution improvements and revenue enablement. Given the magnitude of the threats their operations confront, these improvements must be comprehensive. Rather than reducing processing costs by, say, 2%, COOs are focused on reducing total operations costs by 20%. Rather than taking costs out of individual functions and processes, COOs are embracing data-driven optimization at the enterprise level.

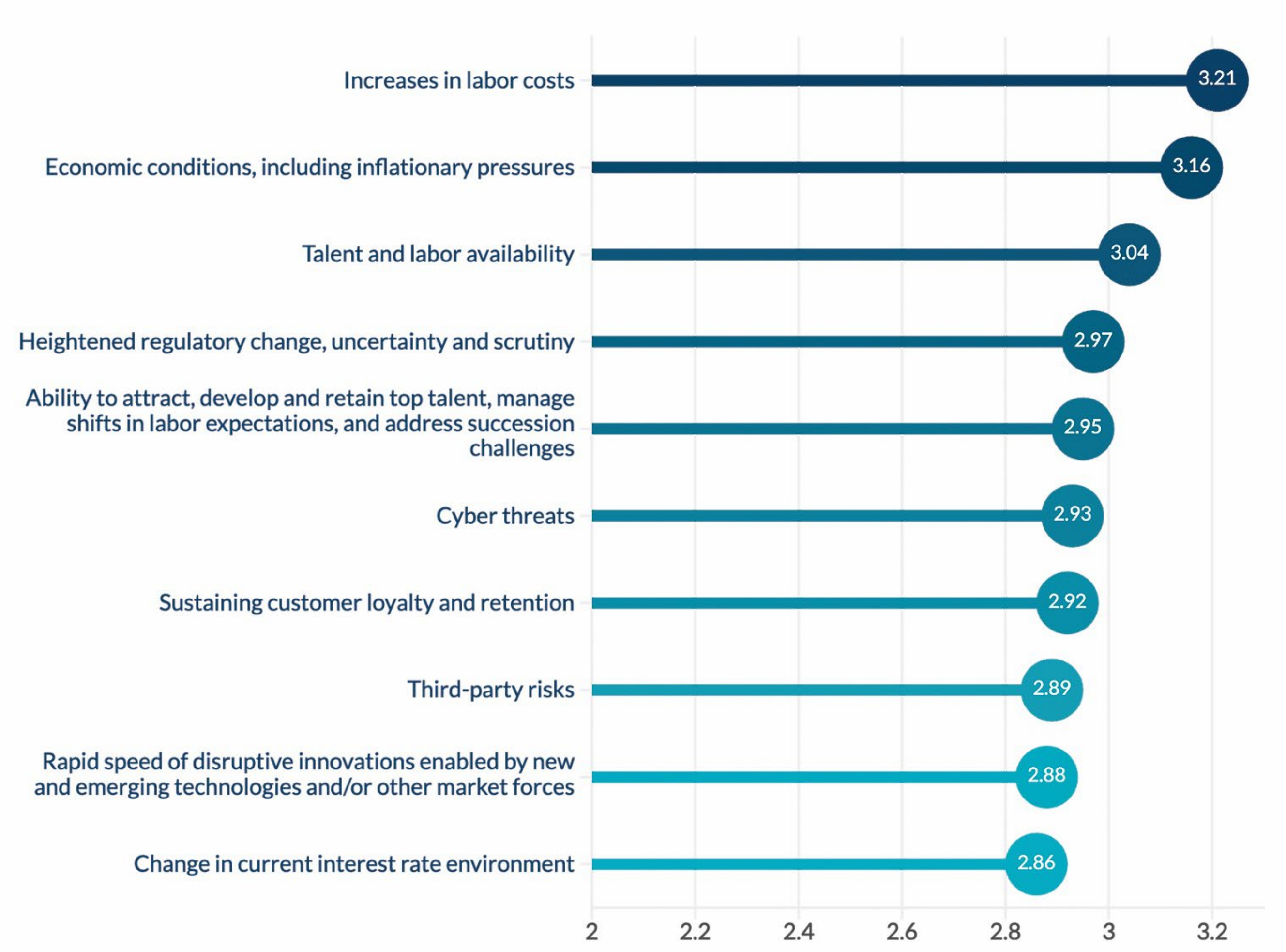
The short-term risk landscape: Spotlight on talent and economic issues

COOs identify increases in labor costs, economic conditions including inflationary pressures, and talent and labor availability as their top three risk concerns over the next two to three years. These risks also place atop, or just beyond, the top five risk concerns of board members and CEOs.

In addition to rising labor costs and talent availability, COOs rate the ability to attract, develop and retain top talent, manage shifts in labor expectations, and address succession challenges as another highly rated risk. Other prominent near-term risk concerns include heightened regulatory change, uncertainty and scrutiny; cyber threats; sustaining customer loyalty and retention; third-party risks; the rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces; and changes in the current interest rate environment.

Current COO concerns about economic conditions and rising labor costs tie directly to the prevalent need to control and reduce the cost of goods sold. Labor costs are a major component of COGS; so, too, are many of the implications from recent tariff measures and countermeasures. As costs associated with global trade policy uncertainty spike today, COOs and other C-suite leaders are taking a longer view of the implications and organizational responses. Cost optimization efforts, which more boards are clamoring for, figure prominently in these responses. In this environment, COOs want to look at broad-spectrum cost reductions that simultaneously enhance revenue enablement, often via the use of advanced automation, including AI.

Chief Operating Officers – near-term outlook



It is important for operations leaders to replace discrete cost-reduction efforts within functions, processes and subprocesses with a more holistic view of enterprise cost optimization. These data-centered approaches elevate overall enterprise performance measures (e.g., revenue enablement and the ease of doing business with trading partners) over plant-floor processing metrics (e.g., cost per invoice and DPO).

Regarding talent, COOs express concerns regarding high costs and low supplies. Automation can help address both challenges. Different flavors of AI (generative, agentic and physical) can help organizations redirect existing teams to higher-value work and functions. In the United States, as new policies drive the onshoring and reshoring of high-value and national-security-related manufacturing, COOs will confront new talent challenges in cities and towns where labor supplies are insufficient. Factory automation and AI-based task automation can help fill these skills and labor gaps.

Cyber threats represent a top near-term risk for board members and C-suite leaders globally. The constant effort to keep pace with an ever-evolving threat landscape, including persistent threats from an increasingly volatile geopolitical environment, weighs on business leaders. For their part, COOs are considering how accessibility to sensitive information is managed, assessing their company's value as a target, and gauging the potential fallout from a high-profile cyberattack. This work extends beyond operations to the entire supplier base, where cyber threats and third-party risks increasingly intersect.

These challenges are driving COOs to prioritize cost optimization, operational execution improvements and revenue enablement. Rather than taking costs out of individual functions and processes, COOs are embracing data-driven optimization at the enterprise level.

As the use of cyberwarfare increases and evolves, organizations are integrating new national security mandates and requirements into their cybersecurity and third-party risk management capabilities. Early detection and swift responses to these threats are paramount. If an unfriendly nation blocks a key supply source for making a pharmaceutical product, a hypersonic missile or another critical-infrastructure component, COOs need early indications of those chokepoints along with the ability to respond quickly by activating their SWAT teams to resolve the problem, regardless of whether the breakdown involves a tier-one or tier-five supplier. COOs also need to know what, and who, is in a "black box." *Is that tier-four supplier associated with, or compromised by, a country that poses a national security risk?*

Sustaining customer loyalty and retention marks another highly rated near-term strategic risk concern of COOs, who are responsible for both customer-facing and back-office execution. A company's ability to enhance and sustain customer loyalty increasingly hinges on the resilience, visibility and performance of supply chain operations. A growing number of customers are willing to pay a premium for reliability and guarantees. When a company cannot deliver that reliability to customers due to a supplier's underperformance, the company cannot use the supplier. This emphasis on resilience continues to elevate the importance of assessing how easy it is to do business with a trading partner: *Can we get quotes on a timely basis? Does my supplier or vendor offer self-service and self-visibility models? Do they quickly communicate accurate information so we can take action when needed? Do we do the same for our customers?*

Long-term risks: What the next decade holds

COOs' 10-year risk outlooks mirror their near-term concerns with a couple of notable exceptions.

The top risk concerns COOs expect to pose challenges in 2035 include economic conditions, the rapid speed of disruptive innovations, talent and labor availability, the supply of AI and other advanced technology skills, cyber threats, the impact of demographic change, and regulatory change, uncertainty and scrutiny. These issues include a balanced collection of macroeconomic and operational risks. Since neither AI skills nor demographics qualify as top 10 near-term risk concerns, COOs clearly expect both challenges to intensify in the coming decade.

While some risk and compliance officers advocate a cautious approach to AI investment and use, COOs tend to view these tools as valuable enablers of cost efficiency, operational flexibility and talent strategies. While AI governance is an absolute requirement, COOs have an opportunity to shape and, in some cases, lead the organization's AI strategy while implementing solutions and tools in support of cost optimization, revenue enablement and supply chain resilience. In addition to stout governance guardrails, the success of these AI investments depends on access to AI skills.

Macroeconomic risk concerns

Risk	Percentage
Economic conditions, including inflationary pressures	38%
Talent and labor availability	34%
Impact of expected demographic changes	25%

Strategic risk concerns

Risk	Percentage
Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	37%
Adoption of AI and other emerging technologies requiring new skills in short supply	27%
Heightened regulatory change, uncertainty and scrutiny	25%

Operational risk concerns

Risk	Percentage
Cyber threats	26%
Ability to attract, develop and retain top talent, manage shifts in labor expectations, and address succession challenges	22%
Resistance to change restricting organization from adjusting business model and core operations	22%

Call to action for COOs

Many COOs are well-positioned to lead on AI and other enterprisewide change initiatives. The role of the COO has undergone a major transformation in recent years, to the point that, compared to most of their C-suite colleagues, many operations leaders have as much, if not more, control to initiate sweeping change and transformation efforts.

As they do so, COOs should consider pursuing the following actions to mitigate threats and maximize opportunities:

- Elevate enterprisewide cost optimization over functional and process-focused cost reduction initiatives.
- Embrace a data-first approach to cost optimization.
- Focus on "ease of doing business" as a competitive differentiator.
- Treat AI and advanced automation investments as bulwarks against economic volatility and talent cost and supply constraints.
- Equip customers with more self-service and self-visibility capabilities.
- Maintain visibility into third-party "black boxes."
- Integrate national security risks and related mandates into cybersecurity and third-party risk management activities.

About the Executive Perspectives on Top Risks Survey

We surveyed 1,215 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 32 unique risks on their organization over the next two to three years and over the next decade, into 2035. Our survey was conducted online from mid-November 2024 through mid-December 2024. For the near-term outlook, each respondent was asked to rate 32 individual risks on a five-point Likert scale, where 1 reflects "No Impact at All" and 5 reflects "Extensive Impact." For each of the 32 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

We also asked executives to share their perspectives about long-term risks (over the next 10 years – 2035) by selecting the top two risks from each of the three dimensions (macroeconomic, strategic and operational). For each of the 32 risks, we calculated the percentage of respondents who included that risk as one of their two top risks for each dimension.

Read our Executive Perspectives on Top Risks Survey executive summary and full report at www.protiviti.com or http://erm.ncsu.edu.

About the author

David Petrucci is a managing director with Protiviti and leader of the Supply Chain and Operations practice. He has more than 30 years of operational improvement and innovation experience working across industry, technology and consulting organizations. His specialty is developing new business and organizational models at the intersection of business and technology. David started his career in product development and manufacturing, working in the auto industry for Delphi, Valeo, Tenneco and Honda.