

EXECUTIVE PERSPECTIVES ON TOP RISKS

for the Near- and Long-Term

Economic uncertainty and talent shortages take center stage for manufacturers and distributors

By Sharon Lindstrom

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 Manufacturing and Distribution industry group leaders

The manufacturing and distribution (M&D) sector is no stranger to disruption. In an industry that depends on intricate supply chains, global markets and technological evolution, uncertainty is a given. Each year, our Top Risks Survey provides a snapshot of the challenges M&D executives anticipate in both the near- and long-term. Results from our latest study reveal that while some risks evolve, many remain persistent, reinforcing the need for proactive, strategic leadership.

The short-term risk landscape: Four pressing challenges for manufacturers

Over the next two to three years, leaders in manufacturers and distributors believe they will face a complex web of risks that will test their ability to remain competitive and resilient. From macroeconomic pressures and workforce shortages to technological disruption and operational vulnerabilities, the industry faces challenges that demand both agility and forward thinking. These challenges fall under one of four categories.

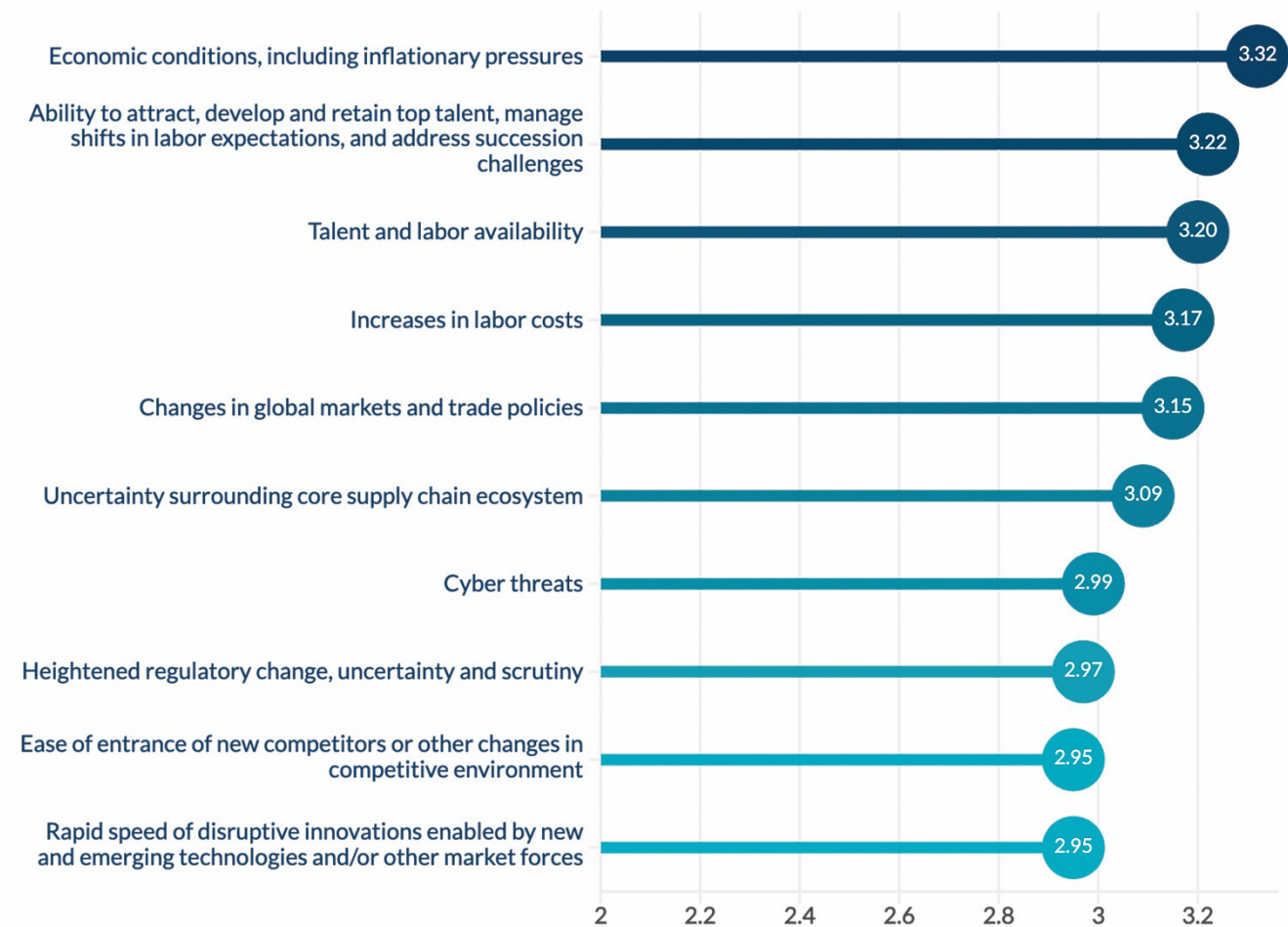
1. Macroeconomic pressures and regulatory uncertainty

At the top of this year's list of concerns is the overall global economic environment, including inflationary pressures. For the second consecutive year, this was ranked as the number one risk facing the industry, reinforcing the extent to which global financial conditions are weighing on manufacturers and distributors. Ongoing economic uncertainty is dampening growth, and manufacturing-heavy economies – such as those in Germany, China, Japan, Mexico and the United States, among many others – are feeling the strain most acutely. While businesses remain focused on maintaining stability, inflation-driven higher costs, rising production expenses and fluctuating demand are making long-term planning increasingly difficult.

Understandably, trade policy is another growing concern, having surged from the 12th spot last year to fifth in this year's survey. The timing of this increase aligns with renewed conversations around tariffs and shifting trade agreements. The current U.S. administration has imposed a series of blanket and targeted tariffs on key goods and countries while also using tariff threats as leverage in negotiations on issues such as immigration and drug control. Given the M&D sector's deep reliance on global and complex supply chains, these shifts translate directly into higher production costs and pricing pressures, with companies scrambling to adjust their strategies accordingly.

Regulatory uncertainty remains another thorn in the side of manufacturers and distributors, ranking eighth this year. While some markets have increased their regulatory oversight – especially in areas like environmental, social and governance (ESG) standards and data privacy – others, such as the United States, are moving toward deregulation. This dual trend creates an environment of ambiguity where companies must navigate heightened expectations in some regions while adapting to relaxed standards in others. For manufacturing and distribution leaders, this push-and-pull complicates compliance strategies, making it harder to predict future regulatory obligations.

Manufacturing and Distribution industry group – near-term outlook



2. The growing talent crisis

If economic conditions are the biggest external pressure on manufacturers and distributors, workforce challenges are the most immediate internal concern. The ability to attract, retain and develop skilled talent ranks as the second-highest near-term risk, underscoring a crisis that has been brewing for years. With nearly a quarter of the U.S. manufacturing workforce over the age of 55, the industry is on the verge of a massive wave of retirements. By 2030, the U.S. Census Bureau projects that one in five Americans will be older than 65, exacerbating the sector’s hiring challenges.¹ This demographic shift forces manufacturers and distributors into direct competition – not just with each other but with other industries – for a shrinking pool of skilled workers.

Labor availability itself emerged as a new top concern, ranking third in this year’s survey. For instance, in the United States, the overall unemployment rate stood at 4% as of early 2025,² yet manufacturing’s

¹ U.S. Census Bureau, “By 2030, All Baby Boomers Will Be Age 65 or Older,” December 10, 2019.
² Bureau of Labor Statistics, “THE EMPLOYMENT SITUATION — JANUARY 2025,” February 7, 2025.

unemployment rate was even lower, at 3.4%, with some subsectors like machinery manufacturing seeing rates as low as 1.1%. Compounding this challenge, Industry 4.0 is increasing the demand for highly technical skills, creating a mismatch between available talent and the needs of modern manufacturing. With fewer young workers entering this industry, companies must rethink their workforce strategies, focusing on reskilling, upskilling and automation.

Adding to these challenges is the rising cost of labor, which climbed from 11th place last year to fourth in this year's rankings. The combination of an aging workforce, lower birth rates and tightening immigration policies means that workers have significant bargaining power. Recent labor contract negotiations have reinforced this trend, with unions securing meaningful wage increases. Given the heavily unionized nature of manufacturing, these cost pressures are unlikely to ease in the near future.

3. Technological disruption and the rise of new competitors

While workforce shortages present a significant challenge, technological advancements are reshaping the industry in ways that could both alleviate and exacerbate talent challenges. The ease with which new competitors can enter the market has become an increasingly pressing concern, jumping from 22nd place last year to ninth in the latest rankings. Emerging technologies such as artificial intelligence (AI), digital twins and the Internet of Things (IoT) are creating opportunities for new players to challenge legacy firms.

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The rapid pace of innovation also brings risks. Disruptive technologies ranked 10th in this year's survey, up from 18th last year, highlighting the growing pressure to keep pace with advancements. Manufacturers that fail to invest in automation, AI-driven quality control and predictive analytics risk falling behind more agile competitors. However, balancing investment in innovation with financial stability remains a delicate challenge.

4. Operational vulnerabilities: Supply chain and cybersecurity risks

Beyond macroeconomic pressures, talent shortages and technological disruption, manufacturers and distributors continue to face core operational challenges. Supply chain uncertainty, which ranks sixth this year, remains a critical issue despite some post-pandemic improvements. The deeply interconnected

nature of global supply chains means that manufacturers remain vulnerable to disruptions caused by tariffs, reliance on third-party suppliers and legacy infrastructure. While investments in Industry 4.0 and data analytics hold promise for improving visibility and resilience, these solutions are not yet widespread enough to eliminate risk.

Cyber threats also remain a major concern, ranking seventh this year. While this is slightly lower than last year’s third-place ranking, cyber threats continue to loom large – particularly for companies relying on operational technology (OT) networks. In 2023, a whopping 70% of ransomware attacks targeted manufacturing firms, a trend that is unlikely to change.³ With automation and AI adoption increasing, securing digital infrastructure is critical for manufacturers looking to protect their operations from costly disruptions.

Long-term risks: What the next decade holds

While some risks fluctuate year to year, our latest survey reveals that many of today’s top concerns for the manufacturing and distribution industry group will persist over the next decade. These long-term risks fall into three key areas: macroeconomic, strategic and operational – each presenting unique challenges for manufacturers as they navigate an evolving global landscape.⁴

Macroeconomic risk concerns

Risk	Percentage
Talent and labor availability	38%
Economic conditions, including inflationary pressures	37%
Changes in global markets and trade policies	27%

Talent and labor availability remains the most pressing long-term concern, as an aging workforce, lower birth rates and shifting immigration policies shrink the talent pool. Manufacturers and distributors must compete with other industries for skilled workers, making workforce development and automation essential to maintaining productivity.

Economic conditions, including inflation and trade policies, will also shape the next decade. Global supply chains face continued disruptions as countries reevaluate trade agreements and tariffs. Some manufacturers are exploring regionalized supply chains to mitigate these risks, but restructuring production networks requires significant investment. Those that adapt early will gain a competitive advantage.

³ Dragos, “2023 OT Cybersecurity Year in Review Report,” 2023.

⁴ Respondents were asked to identify the “top two” risks in each category (macroeconomic, strategic, operational) separately. That is, respondents identified six risks (two in each category) as “top two” risks. For each category, the three risk issues receiving the most responses by percentage are shown.

Strategic risk concerns

Risk	Percentage
Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces	31%
Heightened regulatory change, uncertainty and scrutiny	24%
Adoption of AI and other emerging technologies requiring new skills in short supply	23%

The rapid pace of disruptive innovation will continue to be a challenge for manufacturers and distributors. Advances in automation, AI and smart factories will lower barriers to entry, intensifying competition. Companies that fail to modernize or rein in technical debt may struggle against more technologically agile, “born digital” newcomers.

Meanwhile, regulatory uncertainty remains a persistent issue. While deregulation in the United States is easing some compliance concerns in the near-term, there is greater uncertainty as to how this will play out over the next decade. In addition, ESG expectations and regulatory requirements are still growing in different regions around the world. Investors, customers and global markets are demanding sustainable practices, pushing manufacturers to balance profitability with long-term sustainability efforts.

Operational risk concerns

Risk	Percentage
Uncertainty surrounding core supply chain ecosystem	32%
Ability to attract, develop and retain top talent, manage shifts in labor expectations, and address succession challenges	26%
Cyber threats	23%
Third-party risks	23%

Supply chain uncertainty remains a major long-term challenge. While manufacturers and distributors have made progress in fortifying logistics networks post-pandemic, disruptions from tariffs, geopolitical conflicts and supplier dependencies will continue to create vulnerabilities. Investments in predictive analytics, AI-driven forecasting and supply chain diversification will be critical.

Cyber threats are another growing long-term operational risk, especially with increased automation and IoT-connected manufacturing processes. While cybersecurity ranks lower for the manufacturing and distribution industry group compared to other industries, the expansion of smart factories and digital systems makes manufacturers more vulnerable to cyberattacks – a risk many may be underestimating.

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



Sharon Lindstrom is a Managing Director with over 35 years of experience in providing risk consulting services to companies primarily in the manufacturing industry. As a founding managing director of Protiviti, she leads the firm’s global Manufacturing and Distribution Industry practice, supporting the industrial products, automotive, materials/chemicals, construction, and distribution/logistics sectors.

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