

Europe

Executives that embrace risk, maximise the benefits of technology and empower their people can build agile businesses fit for the future.





Report 2021 highlights the pressures companies have faced during the COVID-19 pandemic with the result that risk management frameworks are under scrutiny.

The coronavirus outbreak was already causing concern about business interruption and supply chain security during last year's survey, but the longevity and severity of the pandemic had yet to be appreciated. This year's report looks at how effectively organisations make decisions under pressure in an environment characterised by sustained uncertainty and change.

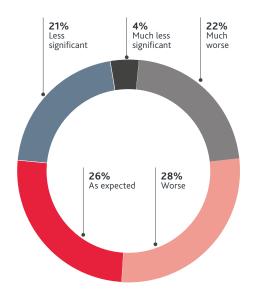
The COVID-19 pandemic demonstrates how crises can escalate rapidly and the need for businesses to be able to react and adapt fast. So how can organisations become more forward-looking in their risk management? What future risks are they particularly concerned about? To explore such issues, BDO surveyed 200 C-suite executives from leading companies across Europe.

Our research suggests there is scope for companies to enhance their risk management and decision-making mechanisms, increase organisational agility and ultimately improve their performance during times of uncertainty and fast-changing environments.

In our survey, 50% of executives say the impact of the coronavirus pandemic has been worse or much worse than initially expected in April 2020. This may reflect the fact that

only 52% of companies had a pandemic or international health crisis identified on their risk register for 2020.

Figure one: How has the reality of the pandemic impacted your business, compared to your initial expectations back in April 2020?



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PRESSURE POINTS

Risks linked to the COVID-19 pandemic imposed numerous pressures on companies, particularly in relation to low employee satisfaction and wellbeing (ranked in the top three pressures by 46%). Internal cultural issues such as low productivity or flexibility were also highlighted by 24%. People and culture pressures reflect the need for many businesses to adopt mass remote working almost overnight and adjust their working practices and processes accordingly. Among companies surveyed, 30% reduced headcounts and streamlined resources and 28% proactively altered working culture to suit a new remote workforce.



Another significant pressure stemmed from the perceived inadequacy of technology or lack of digital transformation (36%). As a consequence, businesses stepped up their investment activity. In Europe, the most common change made by companies in response to the pandemic was to invest in new technology or accelerate digital transformation efforts (34%).

Many European companies made other changes in response to the pandemic, such as pivoting cost and business models (30%) and shoring up supply chains (27%). However, European participants were relatively less likely to increase data analysis capabilities (14%), perhaps reflecting investments already made in this area.

Although changes were made, over a quarter (26%) of European respondents admit their company did not adapt to the pandemic as quickly as it could have done. Of these, 51% blame uncertainty and the company making a deliberate choice to wait for more clarity, even though this is not best practice in risk management.

A rapid response depends on an organisation's ability to take decisions quickly. Almost a quarter (24%) of respondents say that ignoring or failing to acknowledge the situation is a key inhibitor to fast decision making in their company, while 20% cite focusing on cost rather than the bigger picture.

In some organisations, cultural issues may impede rapid and effective action. A quarter of European executives perceive a blame culture to be inhibiting their company's ability to respond effectively to disruption. In such businesses, employees do not feel empowered to address issues themselves.

BUSINESS OUTCOMES

A crisis can drive organizational change and new business outcomes with potentially long-lasting impacts, and the COVID-19 pandemic is no exception. The majority (60%) of respondents consider the acceleration of digital programmes to be an important change stimulated by the pandemic.

Some also see impacts in relation to environmental, social and governance (ESG) issues. European participants were more likely to implement more rigorous ESG policies (15%) than those in the Americas (10%) or APAC (8%), but trailed those in the Middle East and Africa (22%). In our survey, 41% of European respondents highlight that they have improved their environmental credits (for example, by reducing their carbon footprint) as a result of the pandemic. Over half (54%) have refocused on the social purpose of the business and becoming more socially responsible. Many governments are keen to link economic recovery with green and sustainable activities, creating opportunities for businesses that position align themselves with these and broader societal interests.

RISK MANAGEMENT IN FOCUS

Over half (55%) of the companies with a pandemic or international health crisis on their risk register think this helped them manage the coronavirus risk as it emerged.

Despite this, the vast majority (90%) of all European respondents say the events of 2020 have triggered their organisation to re-evaluate its risk framework entirely. This does not mean their current frameworks are unfit for purpose, but suggests a widespread realisation that lessons can be learned from the pandemic – an event that emerged rapidly and had a high impact on every geography at once. Risk frameworks in many organisations could potentially be used more effectively to support decision making and to help identify the most important future threats.

Technology can play a key role by enabling predictive analysis. Only 16% of companies use technology in a predictive way to forecast future, potential risk. Most organisations are therefore missing an opportunity to model scenarios and understand the impact of potential future events. Some are way behind the curve in their use of risk management technology, with 10% relying on manual, human methods.

Figure two: How would you categorise your company's use of risk management technology?

10%

LIMITED – we rely on manual, human methods of risk management

40%

REACTIVE – we use technology to crunch numbers and speed up our existing processes

34%

PROACTIVE – we use technology to address perceived risk before it actually occurs

16%

PREDICTIVE – we use technology to forecast future, potential risk

Our global research suggests that chief risk officers (CROs) are playing key roles in driving digital transformation and seeing the potential of predictive technology. CROs are also often high profile. This year, the risk officer is a C-suite position in 67% of European companies and 20% of respondents say their organisations are considering this for the future. There may be some variations and different approaches to the CRO role by industry. For example, in financial services businesses, the CRO is a role required by regulation. In businesses outside financial services, there may be advantages from positioning risk management as part of performance management, with no separate board position.

VARIED RISK CONCERNS

COVID-19 has dominated boardroom discussions, but companies face a wide range of risks. Our latest research shows that economic slowdown or a slow recovery is the risk executives think their company is most unprepared for (seen as a top three risk by

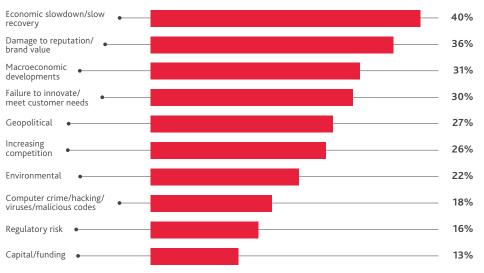
40%). This clearly reflects fears about the ongoing challenges to economies emerging from lockdown, as does respondents' strong concern about macroeconomic developments (31%) and geopolitical factors (27%).

Executives are also highly concerned about risks related to reputational or brand damage, failure to innovate or meet customer needs, and increasing competition.

Environmental risks also feature in the top 10 list of 'most unprepared for' risks. So does the risk of computer crime – reflecting the increasing number of cyber incidents year on year. Many companies are also concerned about regulatory risk and funding concerns.

People risks fall just outside the top 10, reflecting the many actions businesses have already taken to maintain employee wellbeing and motivation during the pandemic. Similarly, business interruption is not a major concern – businesses have had to cope with this risk crystallising already.

Figure three: Which of the following risks is your company most unprepared for? (Ranked 1, 2 or 3)

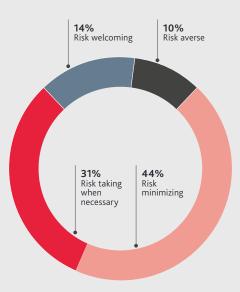


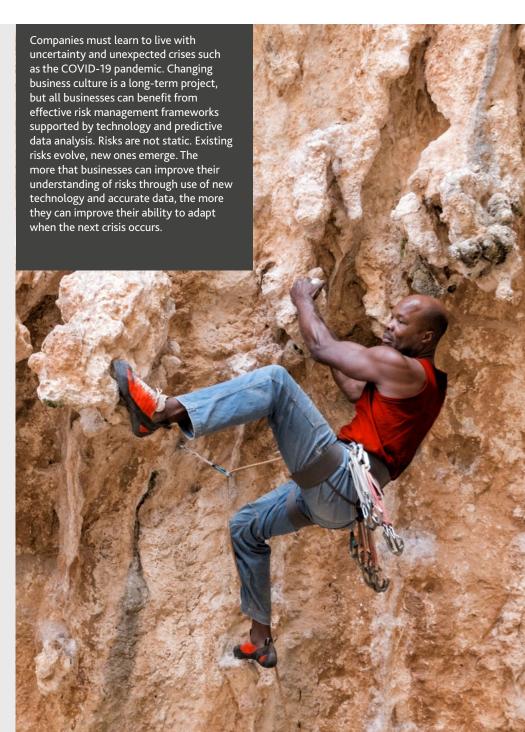


FACING THE FUTURE

The COVID-19 pandemic has posed many challenges for companies, but many have responded effectively – pivoting business models, increasing investment in digital technology and putting effort into supporting staff wellbeing. Our global research also shows that companies that embrace and welcome risk tended to cope better, often experiencing a less significant impact from the coronavirus. However, among European participants, only 14% see their company as risk welcoming.

Figure five: How would you categorize your company's level of risk appetite?





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