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

BDO's Global Risk Landscape 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?

21% Less significant
4% Much less significant
22% Much worse
26% As expected
28% Worse

FOR MORE INFORMATION:
MARKUS BRINKMANN
Partner, Head of Forensic, Risk and Compliance, BDO Germany
markus.brinkmann@bdo.de

ENRIC DOMÉNECH
Partner, Head of Risk & Advisory Services, BDO Spain
enric.domenech@bdo.es

EMANUEL VAN ZANDVOORT
Partner, Risk Advisory Services, BDO Netherlands
emanuel.van.zandvoort@bdo.nl
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.
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.
Service provision within the international BDO network of independent member firms (‘the BDO network’) is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA and the member firms is a separate legal entity and has no liability for another such entity’s acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

www.bdo.com

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.

Companies must learn to live with uncertainty and unexpected crises such as the COVID-19 pandemic. Changing business culture is a long-term project, but all businesses can benefit from effective risk management frameworks supported by technology and predictive data analysis. Risks are not static. Existing risks evolve, new ones emerge. The more that businesses can improve their understanding of risks through use of new technology and accurate data, the more they can improve their ability to adapt when the next crisis occurs.

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

14% Risk welcoming
10% Risk averse
31% Risk taking when necessary
44% Risk minimizing