GLOBAL RISK LANDSCAPE 2021

The art of the unknown

FOREWORD

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1 IN 4

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There's a concept in game theory called a "wicked problem". This is a challenge that is hard to complete because of incomplete, contradictory, or changing information. There may be no right or wrong solution.

The term perfectly captures the last year in business.

The global pandemic threw markets into turmoil. Wave after wave of new challenges hit in quick succession. Sudden and unprecedented lockdowns, mass remote working, travel bans, and a deluge of contradictory information have defined the last year. How long will the crisis last? We don't know. A truly wicked problem.

In this worldwide turmoil, some companies managed to steady the ship faster than others. Those who managed to make fast, effective decisions were better able to pivot business models and keep staff up-to-date and motivated. Others suffered from decision paralysis, waiting for news to inform their next steps.

At BDO we work side by side with entrepreneurs and industry leaders, and wanted to pool knowledge about decision-making in a crisis. What are the best methods? This year's *Global Risk Report* has examined the mechanics of decision-making under pressure, and in immense uncertainty.

The chief finding is the importance of an agile mindset. When information is limited and conditions are chaotic, businesses must be ready to react and adapt to the reality of their situation. Our survey shows that this is more likely to happen in organizations that have managed to develop a risk-welcoming attitude. Businesses must accept the existence of unknown risks – and deploy key tools and strategies to manage them effectively.

> *"The bedrock of profitable business is sound decision-making"*

Learning to welcome risk is easier said than done. A quarter of respondents admitted their company did not adapt to the pandemic as fast as it should – and for 60% of these, reacting slowly was a conscious decision. Understandably, senior leaders chose to wait for more clarity on the situation before agreeing next steps. But when the information is as contradictory and fast-changing as it has been during the pandemic, waiting for certainty is risky in itself.

So how does a company develop agile decision-making? Keeping open information channels is critical. In particular, our survey shows the importance of trust in facilitating information flow. Trust empowers employees to speak up without fear of reprisals. To reap the benefits of this, effective business leaders need to foster a high-trust, low-blame company culture.

Now the crisis is passing, it's time to learn the lessons. The bedrock of profitable business is sound decision-making. This report makes a major contribution to that mission.

EXECUTIVE SUMMARY

Organizations that embraced risk during the coronavirus pandemic have coped better with the crisis and survived, even thrived, despite the global calamity

Businesses are used to having to deal with a wide range of risks and uncertainty, but the COVID-19 pandemic wrought disruption on an unprecedented level. Lockdowns across the globe shook the foundations of our world economy.

In our sixth survey on risk, BDO set out to discover how senior business leaders coped with the prolonged uncertainty of 2020, and the main obstacles they overcame to be able to continue their operations.

We surveyed 500 C-suite business leaders globally across a wide range of industry sectors to find out how they adapted their business models and reinvented products and services – or if they suffered from "disaster paralysis".

RISK-AVERSE COMPANIES LOSE OUT

The survey's headline finding is that companies which embrace risk responded better during the pandemic than those who actively avoid it.

More than half (53%) of risk-welcoming businesses said the impact of the coronavirus had been "less significant" or "much less significant" than they expected in April 2020, compared to just 16% of companies that admitted to being risk-averse.

In fact, 52% of risk-averse firms said they experienced worse impacts than initially anticipated, while this was the case for only a quarter (25%) of organizations that welcome risk.

One in four respondents admitted they did not adapt to the pandemic as quickly as they could have, with 60% citing "uncertainty, or lack of clarity" as the reason. This was much higher in companies that thought the impact had been "much worse" than expected (42%), as well as companies that were risk-averse (49%).

The professional services sector felt the least impact from the pandemic, with just 3% of respondents stating the impact had been "much worse" than expected. Family businesses and those in the leisure and retail sectors experienced the brunt of the crisis, with 37%, 22% and 22% saying the impact was worse than they had anticipated.

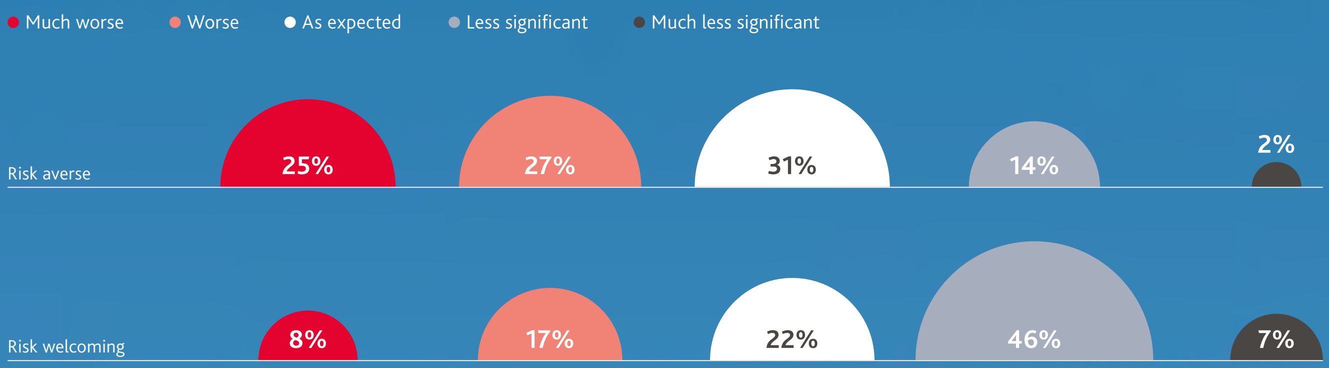
Companies faced many risks in 2020, with geopolitics, economic slowdown and increasing competition all showing major upticks. Geopolitical risks caused the most pressure for all companies in 2020, but for those that said the pandemic's impact had been much worse than expected, inflexible process was the top choice. For the respondents who categorized themselves as risk averse, inadequate technology was the top reason.

The results suggest that anticipating and acknowledging major crises helps companies to react quicker. More than half (53%) of respondents had a global health crisis on their 2020 risk register, and 58% of these said this helped them to manage the risk in reality. A quarter of all respondents said "ignoring or failing to acknowledge the situation" is the greatest inhibitor to fast and effective decision-making.

COPING WITH FUTURE CRISES

How should long-term risk management practices and principles evolve after this extraordinary year? In this report, we set out key themes that companies should

The impact of the pandemic compared to initial expectations, by risk appetite



consider. These include changing blame culture and attitudes to risk; the usefulness of formal risk management practices, such as assessments and frameworks; and the effective use of up-to-date technology in developing data-driven risk assessments.

The data shows that companies with a risk-welcoming mindset respond better to crises. When asked which factors prevented their company from adapting quickly to the situation, 24% of risk-averse companies cited "stubbornness: choosing to continue with pre-pandemic plans". Far fewer of those with different risk mindsets cited the same problem – 15% of risk-takers and 0% of risk-welcomers.

While many factors shape the impact of crises, blame culture can significantly exacerbate problems. Almost a quarter (23%) of all respondents said blame culture stifles their company's ability to respond effectively to disruption.

Sectors where respondents agreed that blame culture is present are also those where the pandemic's impact was much worse than expected. In this report, we look at who is responsible for a company's culture, offer practical solutions to limit a tendency to blame and how to develop a positive, risk-welcoming culture.

Formal risk management practices, such as assessments and frameworks, are invaluable. But has COVID-19 proven them to be too rigid to be effective, when faced with unprecedented disruption? Indeed, 90% of all respondents said the events of 2020 have triggered their organization to completely re-evaluate its risk framework.

24%

of risk-averse companies said that stubbornness prevented their company from adapting quickly to the pandemic

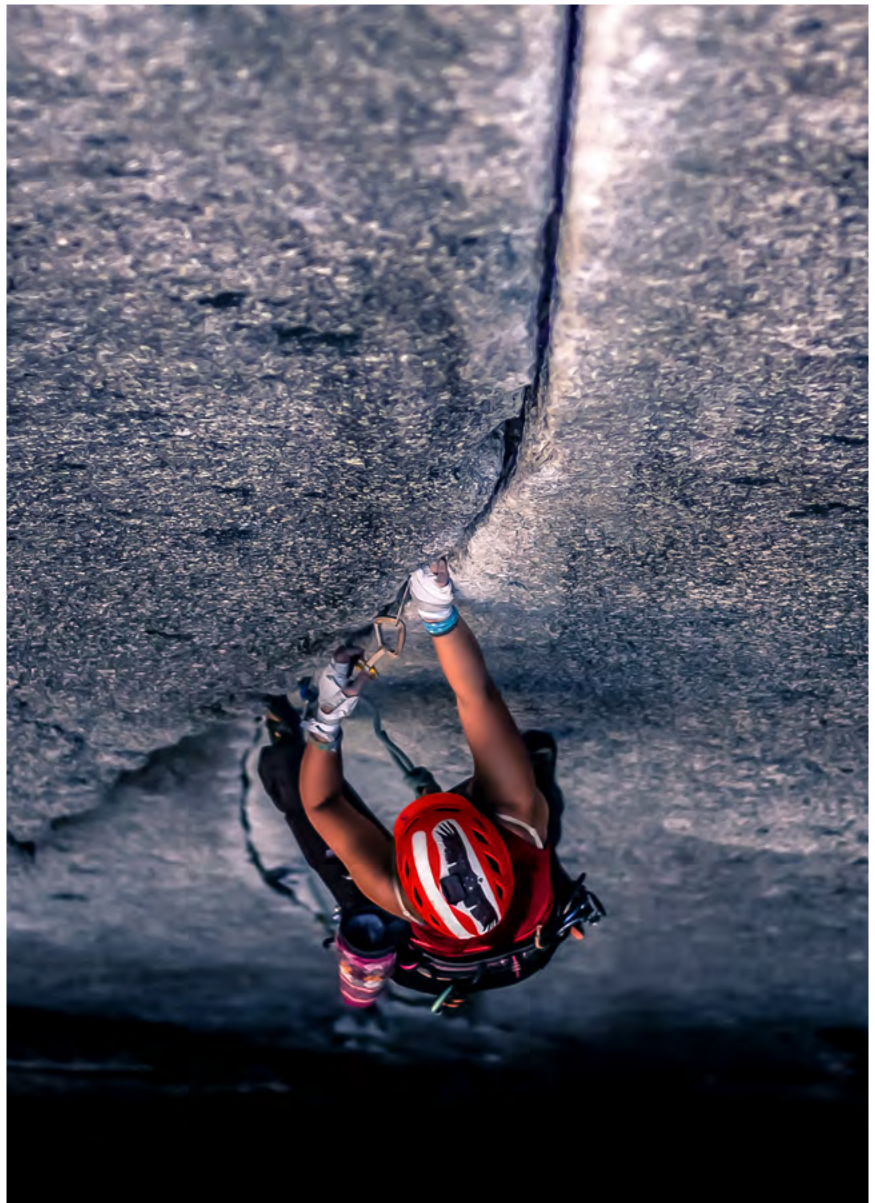
The pandemic has also strengthened the relationship between technology and risk management. The use of up-to-date technology is essential to evolve risk management from being just reactive to proactive and predictive. Yet, only 11% of respondents use technology to forecast future potential risk, while investing in new technology or accelerating digital transformation efforts was the most common change that companies made in response to the pandemic (36% of respondents).

ACCEPTING RISK

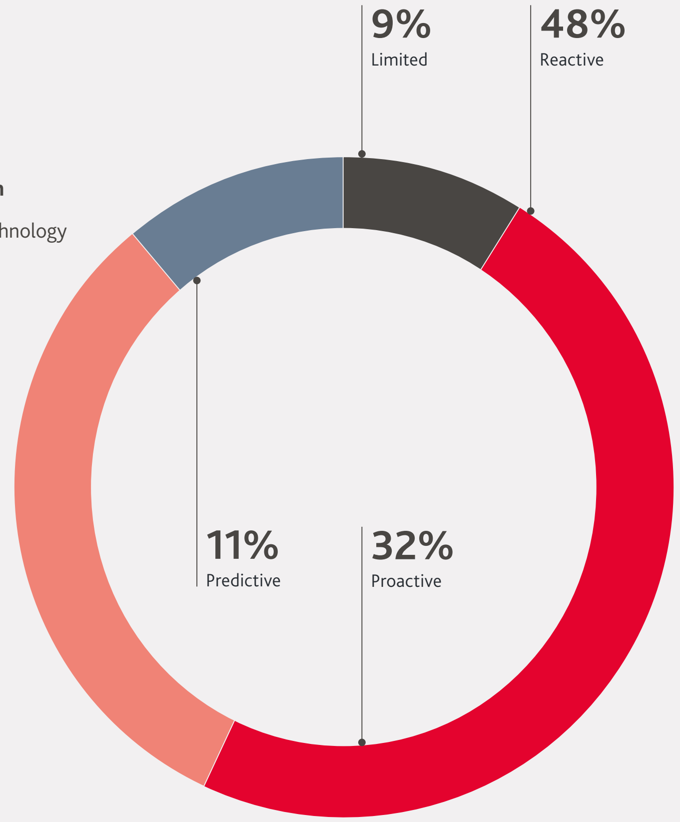
From geopolitical tensions to climate change, companies will inevitably continue to face many risks and uncertainties. In particular, the pandemic has focused companies' attention on environmental, social and governance (ESG) issues, which will last far beyond COVID-19.

As Patrick Verkooijen, chief executive of the Global Center for Adaptation, said in March 2021, the pandemic has been a "wake-up call" for environmental risks and "we are utterly unprepared for the next crisis – the climate emergency".

The COVID-19 pandemic has demonstrated how quickly crises can escalate, and why businesses must be ready to react and adapt. Companies can thrive even in the face of massive uncertainty by altering their risk practices to become more accepting of risk. It is only by seeing crises as positive opportunities to expand their capabilities, rather than falling victim to disaster paralysis, that companies will thrive no matter what hits them.



CONTENTS AND KEY HIGHLIGHTS



THE IMPORTANCE OF A RISK-WELCOMING MINDSET

Agile businesses with a risk-welcoming attitude have been able to adapt to challenging circumstances and beat the pandemic slump

The COVID-19 pandemic exposed huge cracks in many business models. But it has accelerated the development of, or even strengthened, others.

Companies that embraced risk were generally better equipped to deal with the crisis. Not only were risk-welcoming firms less affected than they had expected, 51% of them are "very confident" about managing the COVID-19 risk in the next six months (compared to 14% of risk-averse organizations).

In contrast, businesses that neglected or avoided risk suffered. 25% of respondents cite ignoring or failing to acknowledge the situation as the biggest inhibitor to fast, effective decision-making.

The ability of companies to pivot their business models quickly and smartly during the last year has been key. It's also intrinsically correlated to how well they have handled risk: almost half of respondents who said their companies were risk-averse later conceded they didn't adapt to the new business landscape as fast as they could have.

49%

of risk-averse respondents agreed that their company did not adapt to the pandemic as quickly as it could have

25%

of respondents stated that "ignoring or failing to acknowledge the situation" is the biggest inhibitor to fast, effective decision-making

This is largely down to mindset around the pandemic, says Risk Advisory Services partner at BDO, Emanuel van Zandvoort. "Being risk averse means that companies are less open to uncertainty – including opportunities and change. They see the pandemic as something negative – a risk – and are less capable of seeing the upside," he says.

So which industries were quickest to adapt and realize the opportunity? What was their success down to? What informed senior management's timing and reasoning behind switching to offer new products and services? And how did they manage the continual pressures on their business?

MANUFACTURERS LEAD THE WAY

Manufacturing was at the forefront of this change, with many firms switching at the start to make essential products such as ventilators and personal protective equipment. It paid dividends, with one in four manufacturers reporting the pandemic's impact was less or much less significant than expected after major initial pessimism.

"At the start, we were going into the unknown and firms tended to fear the worst," says Jack Semple, alliance secretary at the Engineering and Machinery Alliance of trade associations. "Firms saw projects being put on hold across the economy, there were strong fears over getting paid and employees were worried. In the event, however, the picture has started to become less gloomy. Invoice payments have held up remarkably well and supplies have got back on track."

Manufacturers also cite "people pressures" like employee wellbeing and satisfaction (16%) as a top-three challenge, perhaps because ensuring staff's health and safety is a more urgent challenge in physical environments like factories, than those which are purely office based. Manufacturers were also less likely than other sectors to report process, operational and digital problems, largely because they are, by their culture, process driven and focused on driving efficiency via technology.

Another sector where the impact was less significant than first predicted was professional services, with 37% of firms claiming the impact had been less significant than expected and 7% much less significant. There is more than one factor driving this result. Firstly, professional services are better geared up than many sectors to interact with clients virtually. Secondly, government-led business support schemes meant more work than usual in areas like compliance.

"In Australia, federal government acted quickly in the provision of significant support. This led to a lot of advice, establishment support and compliance work, which replaced any lost business from traditional sources," says Marita Corbett, national leader, Risk Advisory at BDO Australia. "In addition, a lot of the work we do still needs to be done – it's more a case of timing than cancellation."

And van Zandvoort agrees: "Professional services had a dip in March and April 2020 because many projects were paused, but most of these projects restarted once the first wave was over."

CONTINGENCY VERSUS ADAPTABILITY

Among the sectors affected considerably worse than initially anticipated was the leisure and hospitality industry, with 22% of respondents for whom this was the case. Understandably, many firms hadn't forecast such an unprecedented event – but those that were able to put crisis action plans in place quickly had the best chance of bouncing back.

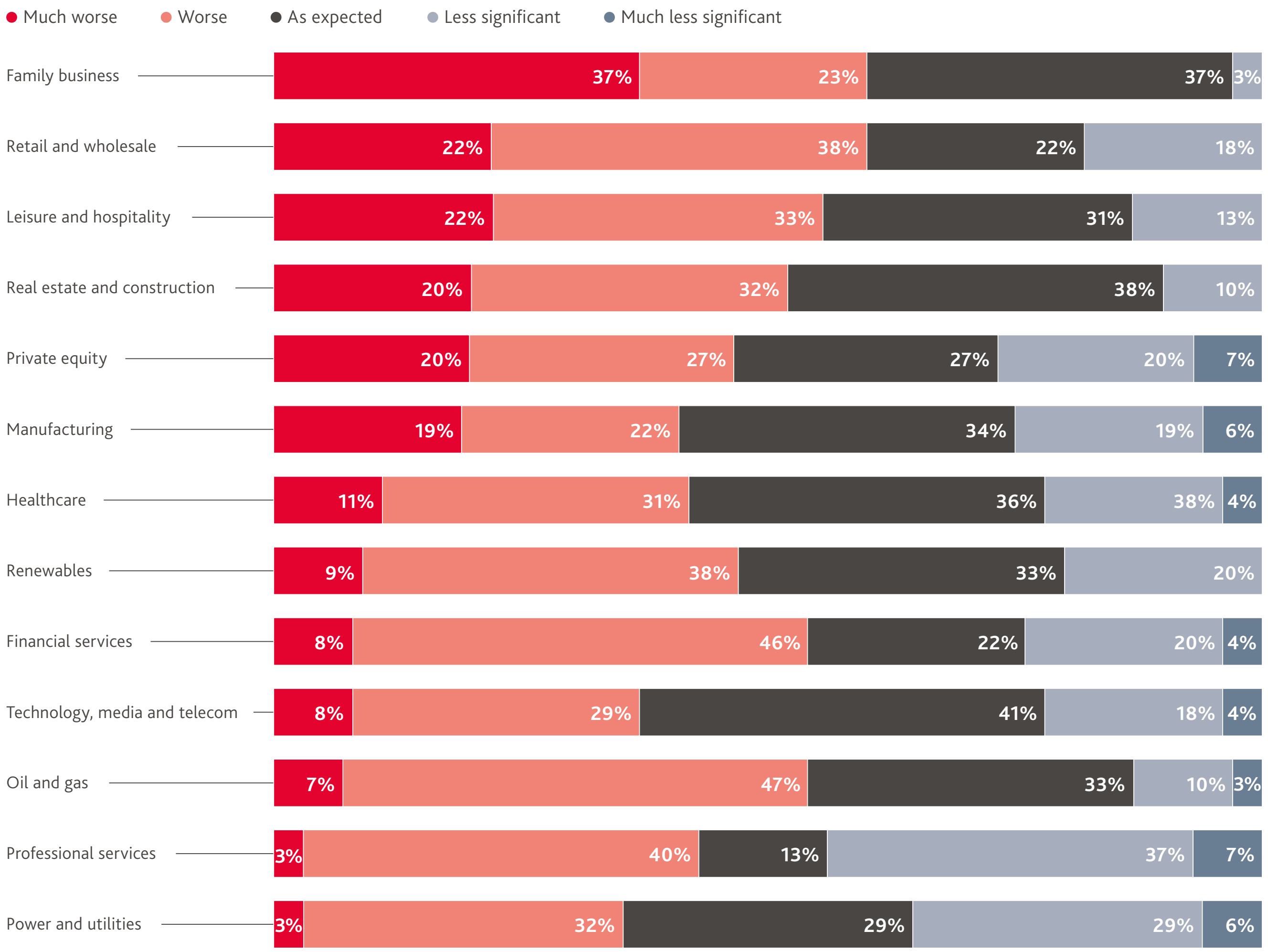
Arnold Donald, chief executive of Carnival Corporation, which had to halt its guest operations from the start, including its global fleet of 105 ships, says that despite having contingency plans in place, the cruise ship sector and wider travel and hospitality was unprepared for an event of this magnitude. Yet, after receiving expert advice, the company implemented a go-forward plan and recommenced cruising in Europe in late-2020 under strict health and safety protocols, he says.

"Our top priorities have been compliance, environmental protection and the health, safety and welfare of our guests, crew, shoreside employees and the communities we visit," says Donald. "In addition, we have worked hard to rebuild our balance sheet and liquidity through a broad number of financial transactions, accumulating several billions in the process, as well as reducing cash flow and costs during the extended pause in guest operations."

Well-rehearsed plans proved essential for Radisson Hotel Group, too. "Prior to 2020, we already had a strong global crisis management process rolled out which allowed us to mobilize essential and focused resources quickly," according to a spokesperson for the hotel group. "During 2020 and 2021, we had to shift some timelines and focus on cash as a priority, but we aim to consolidate the recovery during 2021."

Less impacted or better prepared?

The impact of the pandemic by sector, compared to initial expectations in April 2020



Their forward planning paid off; despite the pandemic, Radisson increased its market share by 1.4% in 2020.

INTEGRATING RISK MANAGEMENT

More surprisingly, given their prior growth, private equity firms were also adversely affected. The reason for this, says Bruce Dahlgren, chief executive of MetricStream, is due to a lack of holistic oversight of all risks within their portfolio.

"Every company within the portfolio manages their risk separately with different processes, and when it gets aggregated it's almost impossible to determine a risk score for the group," says Dahlgren. "It becomes even more difficult when companies have complex supply chains too."

The family business segment also struggled, with the impact worse or much worse than expected for 60% of respondents. While 87% of family businesses believe their risk officer should occupy a C-suite position, only one in five allow them to have final sign-off on risk management practices.

In family businesses, says van Zandvoort: "Risk management is still very implicit and less often formalized in frameworks and processes. They operate on trust, and see risk management as a lack of trust. Moreover, the board and executive committee are more involved in operational decision-making and therefore are less likely to see a need for formal frameworks and systems."

The fix for this is to push forward with formal risk management, but maintain the engagement of the board and executive committee. "Businesses of a certain size or complexity should have an ERM framework in place, but do not necessarily need a risk manager. Risk management should be an integral part of decision-making and not a separate ,and sometimes isolated, function."

ERADICATING BLAME CULTURE

Leaders with a positive mindset, free from blame culture, have steered their organization through the COVID asteroid storm without being hit and broken

"Newark Airport cab stand is broken. There are 75 cabs, and 75 people in line, and it takes an hour. Broken."

The management thinker Seth Godin is an obsessive chronicler of everyday things he regards as sub-standard. On his blog *This Is Broken* he publishes examples. For instance, how at the Museum of Natural History, in Washington DC, the garbage overflows the bins onto the floor every day. Or, the coffee holders on a Ford car mean you can't change gear when used.

The Newark Airport example got him particularly animated: "There is a man in a uniform who will get you in trouble if you just get in a cab. If he just said, 'Everyone, go!' it would work."

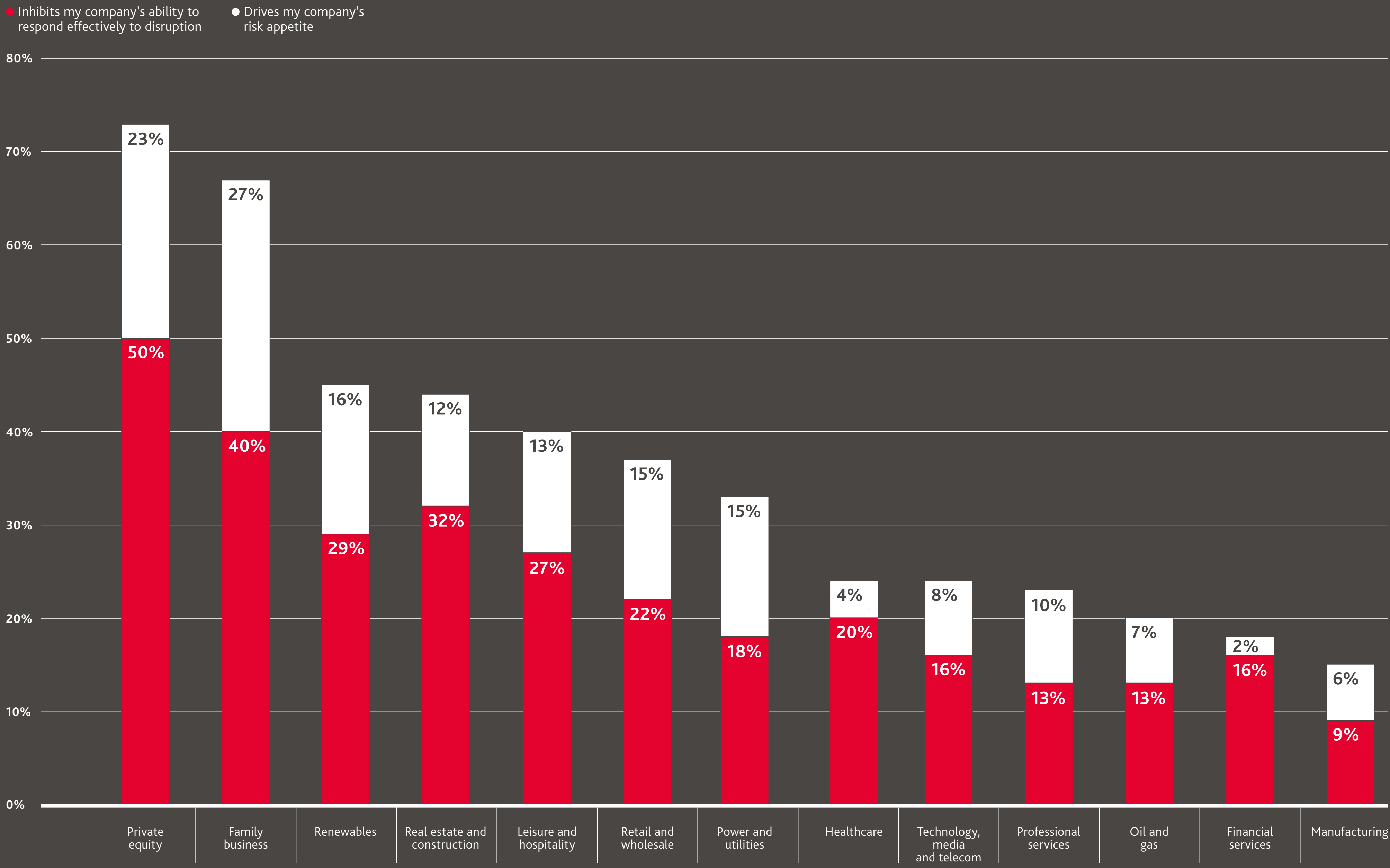
After years of observing broken interactions, Godin came up with a theory of why things go wrong. A key observation was employees saying "Not my job". The man at the cab rank is only told to keep order, not get people in a cab. He might get fired for breaking protocol, so he doesn't. The reason the garbage overflows at the museum is because the janitor is paid to pick up the overflow, but not empowered to buy a larger bin.

In each case the consumer experience could be improved by an employee taking action. Fear of blame prevents them solving the problem. So the experience remains broken.

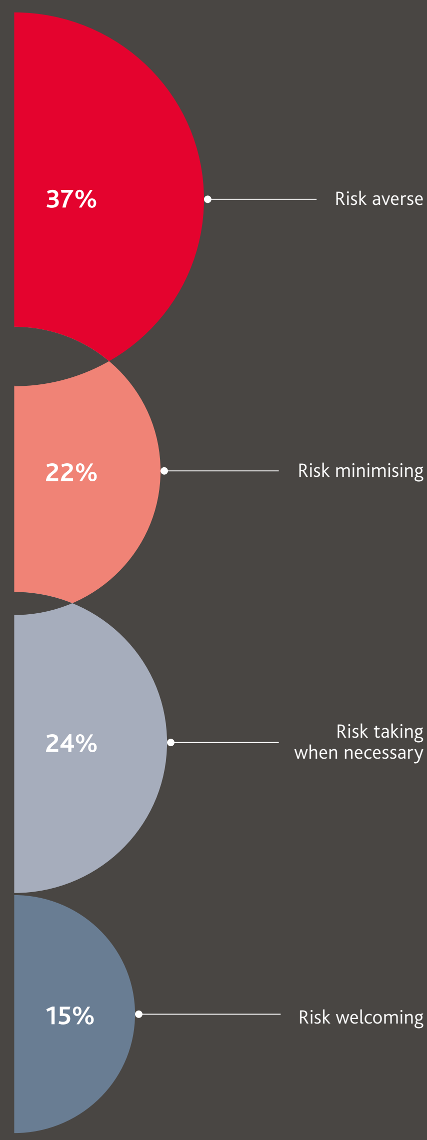
'DIFFERENT PARTS OF THE SAME SHIP'

The connection between blame culture and performance is clear. Some 23% of survey respondents believe a blame culture limits the performance of their company. During the pandemic, the pressure on employees came to the fore. When asked which risks caused the greatest pressure, 45% of respondents cited low employee

The impact of blame culture on risk and responsiveness



Respondents who agreed that blame culture is an inhibitor to their responsiveness, by risk appetite



23%

of respondents agreed that blame culture inhibits their company's ability to respond effectively to disruption

81%

of senior leaders believed that the top risk job should be a C-suite position

29%

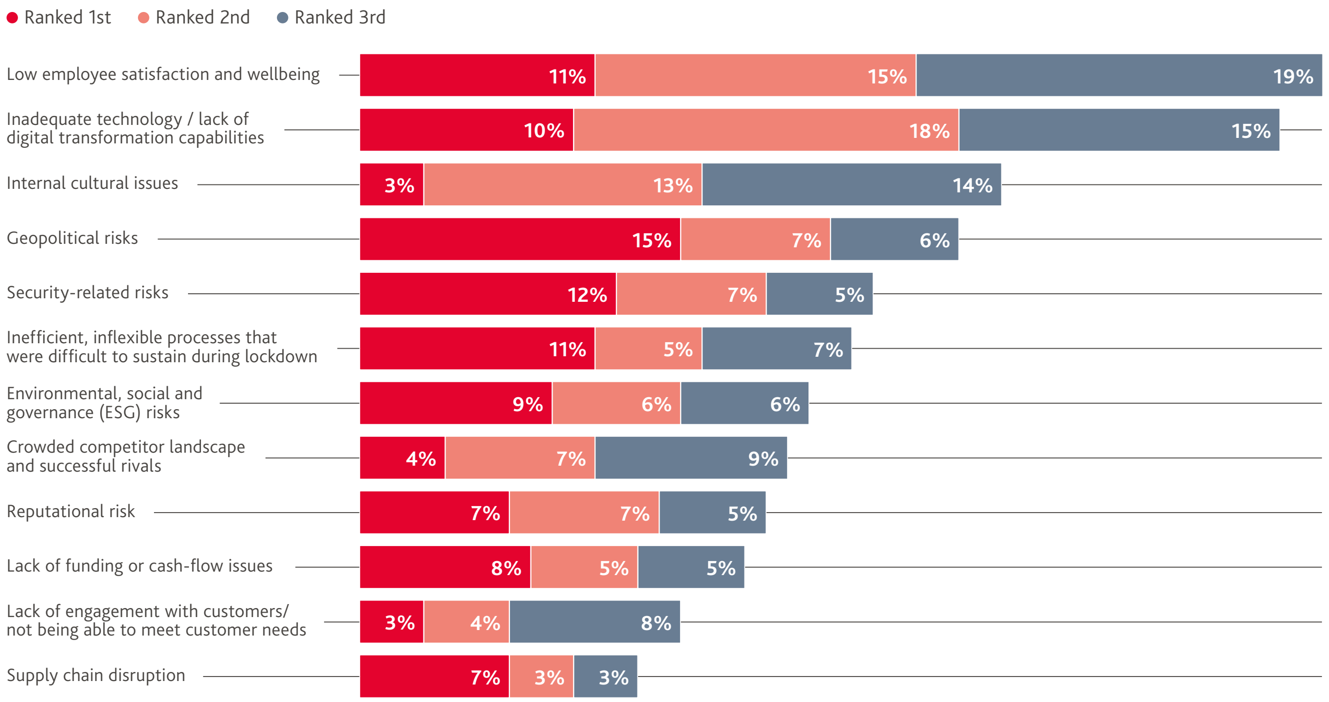
of risk-welcoming respondents said that the final sign-off on risk management practices lies with the with the chief risk officer, compared to just 2% of risk-averse companies

satisfaction and wellbeing, ahead of employee productivity. Companies that cannot support employees will struggle to grow, as staff underperform due to adverse pressure.

European fintech Thought Machine, which makes operating systems for banks, expanded across Asia and Australia during the pandemic. A company principle taught to all inductees is never to say "not my part of the ship". It's a nautical expression. A co-founder began his career in the navy, where sailors live or die on the same vessel. Neglecting one part of the ship is to imperil it all. The company commands: "We are all working on different parts of the same ship. If your part is working, take a breather, then go offer your help to other teams."

Another success story is Moneypenny, an outsourced PA company with 21,000 clients. Chief executive Joanna Swash won *Management Today* CEO of the Year in 2020. Swash says eradicating blame culture is key to long-term performance. "You've got to make people feel safe and secure, and that it's okay to fail," she explains. "Our staff know they can use their judgement in a situation and, if there are problems, they give us lessons to learn from in the future."

The top three pressures caused by the COVID-19 pandemic



Vicky Gregorcyk, leader of Risk Advisory Services for BDO USA, agrees. "A solution to counter a blame culture is a 'full-accountability' culture where everyone takes responsibility," she says. "It also means using failures as an opportunity to learn and grow."

The guidance for staff is to do whatever the client needs. "There is nothing worse than hearing someone say they'll ask their manager. It makes it sound like they've got no control. No autonomy. It's wrong on all levels," says Gregorcyk.

This right to fail includes the leadership. A Moneypenny expansion to New Zealand ended in failure, with the venture axed at an early stage. A ramp-up of American operations was risky, but so far is proving a hit. "We have an attitude of 'Let's be brave and bold. What's the worst thing that can happen?' If we were only going to have an attitude of doing things that were dead certain we would not have grown like this," says Swash.

IT'S THE RESPONSIBILITY OF ALL

Naturally, she has tips for companies wanting to build a similar culture. "It begins in recruitment. We got 8,000 applications for 300 positions last year. We recruit on personality, not skills." The company structure is flat to reduce a top-down mentality: "We are all equal pieces in the jigsaw. The CEO has no special parking space. At the Christmas party the senior staff serve behind the bar and clear up. We could pay people to do it, but the point is to serve your people. That's how you get rid of a blame culture."

The result for Moneypenny? In the weeks of the first lockdown, business volumes fell by half. A year on and headcount almost doubled as the company surged back.

Gregorcyk adds that eradicating blame culture is a company-wide effort. "Everyone is responsible for a company's culture," she says. "Culture is ever-evolving and requires the board of directors, the C-suite, HR, compliance, management and employees to keep their eyes open to how it is operating, not only in policy but also in practice."

Blame culture is a handbrake on growth. It can corrode a reputation. At times it can imperil an entire company. Taking action is risky. Employees often know what needs to be done. If they aren't taking action, it's a sign something is broken.

> *"You've got to make people feel safe and secure, and that it's okay to fail. Our staff know they can use their judgement, and if there are problems, they give us lessons to learn from in the future"*
>
> JOANNA SWASH
> CEO, MONEYPENNY

ARE RISK FRAMEWORKS STILL FIT FOR PURPOSE?

The coronavirus pandemic has tested risk frameworks to the limit

The effectiveness of organizations' internal risk frameworks has been called into question after they were tested to breaking point during the COVID-19 pandemic.

In the wake of the crisis, concerns have been raised about whether they were, in fact, too rigid in the face of such unprecedented disruption.

But risk managers and experts disagree with this analysis.

"There has been a huge amount of investment in internal risk frameworks by organizations to identify, measure and address risks," says Iain Wright, chair of the Institute of Risk Management. "In many ways, last year's experience only serves to reinforce their importance."

The challenge with COVID-19 particularly, says Lizzie Cryan, risk manager for Heathrow, is that it manifested itself in such a wide-ranging manner. And many frameworks had never before been exposed to such a widespread risk, she says.

"Particularly in our industry, because of the pandemic's nature it is a far-reaching, long-tail risk that has caused widespread disruption throughout the supply chain," says Cryan. "As such, risk frameworks have never been tested before to this magnitude, so it has been a massive learning curve for all of us."

53%

of respondents had "global health crisis" on their risk register for 2020

Of those

58%

agreed that it had helped them to manage the risk in reality

90%

of all respondents agreed that 2020 triggered them to re-evaluate their risk framework entirely

PRIORITIZING FUTURE RISKS

James Crask, resilience advisory lead for the UK and Ireland at Marsh, says the key takeaway is the need for greater focus on future risk. But with so many potential threats, it's about prioritising the most important, he says.

"Many organizations hadn't necessarily prepared for such an event that impacted on all of their geographies at once on such a scale as the pandemic has done," says Crask. "This meant the controls they had in place didn't work as well as perhaps they should have done than if they had considered the risk more broadly, which is a note of caution for the future."

He argues frameworks need to be rigid to an extent to enable a consistent approach to managing risk. The risk register, he adds, also needs to be used in conjunction as a tool to inform better decisions, rather than in isolation.

> *Risk frameworks aren't broken - but the focus needs to be on how they are applied*
>
> JAMES CRASK, MARSH

"The risk frameworks aren't broken," says Crask. "Rather the focus needs to be on how they are applied."

It wasn't that risk frameworks were too rigid either, says Julia Graham, chief executive of Airmic. Instead, they weren't initially designed to respond to emerging risks such as the pandemic, which require completely different tools and interventions.

"An effective risk radar is vital, so risk managers have the tools that can keep an organization informed and up to date when something is happening at speed," says Graham. "However, no matter how good the tools, people are always more important. Resilient companies are likely to have fast and agile risk management and crisis management in place, empowered with the ability to respond with agility, flexibility and adaptability to keep up with events."

PROBABILITY VERSUS IMPACT

Our survey found 53% of respondents had a global health crisis on their risk register for 2020, indeed pandemics have been on the World Economic Forum's *Global Risks Report* top ten risks for the past decade. Of those respondents, 58% agree it had helped them manage the risk.

Yet, 90% of all respondents say last year's event has prompted them to re-evaluate their risk framework completely. That's because many were taken by surprise by the pandemic's extent. Now that it's on their radar, businesses must prepare for the likelihood of similar future events.

"One major reason why events have still taken organizations by surprise is the pandemic is a low-probability but high-impact event," says Graham. "A significant factor that many business have struggled with is the sheer speed at which events took place, the changing profile and level of impact it has had across the world."

RISK, TECHNOLOGY AND TRANSFORMATION

Technology, notably predictive analytics, has helped many organizations unlock a positive response to the challenges of a global pandemic

Research shows effective risk management relies on technology – and no event has highlighted the need for predictive analytics more than the COVID-19 pandemic.

"We're in an era in which large-scale, disruptive and divisive events are not only more frequent, but are being communicated about faster than ever before. Businesses and their leaders are increasingly being defined by their response during and after these critical moments," says Helen Sutton, senior vice president, EMEA and APAC sales, at Dataminr, which uses artificial intelligence (AI) to provide real-time information alerts to clients.

As a result, businesses need to respond to risks and emerging crises with greater agility and precision than ever before and are therefore seeking out technologies that bridge those gaps in response and risk management planning.

Our research confirms this view as 42% of respondents cited inadequate technology as a top-three risk that applied extra pressure on them during the pandemic. For risk-averse respondents, this was the number-one pressure point.

ACCELERATION OF DIGITAL

At the same time, 57% of all respondents saw the acceleration of digital transformation as one of the top three positive changes stimulated by the pandemic.

When asked what changes their organization made in response to the pandemic, the top response was investing in new technology or accelerating digital transformation efforts, cited by 36% of respondents. For Enric Domenech, Risk & Advisory Services lead at BDO Spain, this finding is not surprising. "The pandemic underlined how important it is to react and adapt at speed," he says. "Flexible process must be combined with adequate technology for rapid reaction."

Interestingly, those who invested in technology during the pandemic found themselves cushioned from the impact to a greater degree. Some 73% of the firms that said the pandemic's impact was "much less significant than expected" had prioritized digital transformation.

> *"Flexible process must be combined with adequate technology for rapid reaction"*

Technology can enable near real-time automated processing of interactions to assess for risk, says Jason Lane-Sellers, director of fraud and identity at data and analytics provider LexisNexis Risk Solutions. If applied appropriately, this means that operations can shift their approach to enable proactive assessment and intervention.

"Due to the volume and scale this automation provides, it can also mean that the utilization of technologies such as machine learning can move risk assessment to be predictive in nature, to provide better risk prevention and improved capability in changing environments," he says.

Conversely, we witnessed the collapse of companies that may have failed to leverage the data available to them. These included major bricks-and-mortar retail chains. With access to consumer, category and market trend data sooner, there may have been opportunities to redesign those businesses.

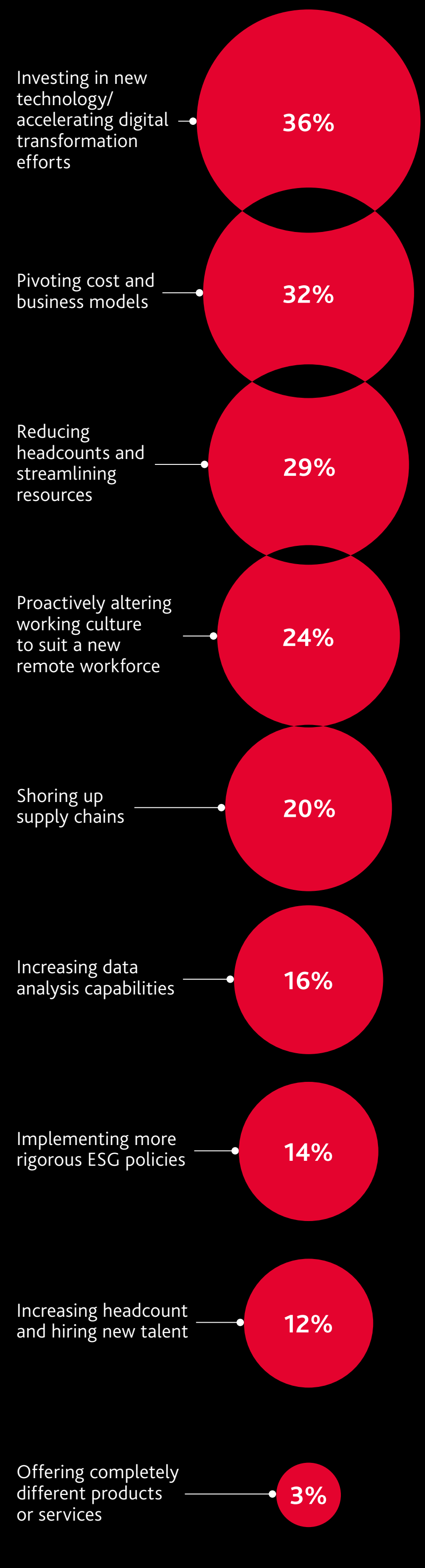
"For those that had already begun to invest in this area, they will have had more of a chance to regroup quickly and make better decisions to capitalize on micro-opportunities as they presented themselves," says Matt Andrew, UK managing director and partner at data science firm Ekimetrics.

Andrew says one client that did invest in such forecasting was Accor, Europe's biggest hospitality brand. He said they were able "to take quick and nuanced decisions that saw them continue to market profitably throughout 2020, despite being in one of the worst hit sectors with ongoing uncertainty across a number of markets".

MISSING AN OPPORTUNITY

Despite this precarious position, only 11% of respondents said they currently use technology in a predictive way to forecast future potential risk. This implies organizations are still improvizing when it comes to their risk management function.

Positive strategy changes made in direct response to the pandemic



These companies are missing an opportunity to deploy predictive analytics to understand the impact of future events, says Richard Speigal, Business Intelligence Centre of Excellence lead at UK building society Nationwide. "Obtaining and analysing accurate data to model scenarios and plan future business risk is key to making informed business action that improves outcomes," he says.

Speigal says Nationwide deployed Qlik analytics dashboards to enable teams to compare and analyse potential business outcomes before making decisions. For example, during the pandemic, the insights enabled the business to predict a continued increase in call centre demand.

"We identified branch staff who were experiencing decreased in-person demand and were able to redirect calls to them, which helped us maintain team levels in-branch and continue to offer high levels of customer service despite the increase in demand," he adds.

Also in the financial services sector, there is demand for better risk management to deliver responsible and robust financial solutions.

Uma Rajah, co-founder and chief executive of UK prime property finance lending and investing platform CapitalRise, says advances in risk management technology have enabled fintechs to revolutionize the old-fashioned, manual processes used historically by lenders. As a result, the alternative lending market has grown exponentially over the past decade and established itself as an attractive alternative to traditional bank lending.

"The use of sophisticated risk management technology can lead to better quality risk decisions which can drive lower default rates and result in cheaper sources of capital for borrowers," she says.

KNOW YOUR ORGANIZATION

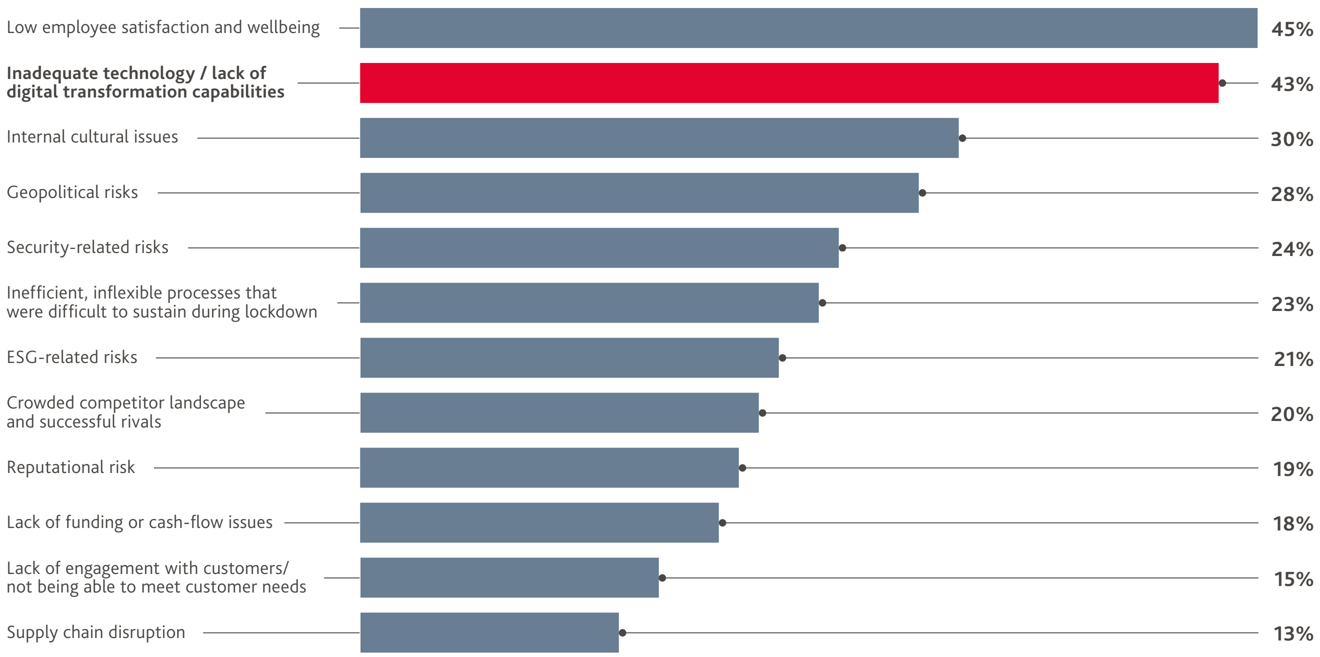
"Everything in business is risk," says Mike Elliott, chief executive at internet of things management platform Over-C, which advises football and rugby clubs, shopping centres and gyms on avoiding risk by transforming their premises into "smart" venues.

"Whether you're reopening your business after a pandemic, expanding into new markets or launching new products and services, there is always a risk profile. The best way to deal with risk is to better understand your organization and its strengths and weaknesses, which requires good data analysis. Collecting and understanding data will help form risk insights and inform decision-making and ability to deal with certain risks," he says.

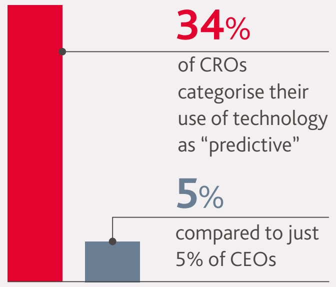
The results indicate risk management is not only a driving force behind technological innovation and improvement, but also that technology is essential in the evolution of risk management: from reactive to proactive to predictive.

The good news is that computing power and technologies like cloud computing and AI mean data can be far more accessible than ever before. But organizations can't rely on technology alone. They must be sure they are set up culturally and organizationally to use the insights they uncover and be prepared to act. Before it's too late.

The top three most significant pressures caused by the pandemic



CROs AND TECHNOLOGY



Technology advocates are emerging from unexpected C-suite roles.

Behind only chief financial officers (CFOs) in terms of driving general digital transformation, chief risk officers (CROs) are leading on deeper technological advancements like data analysis. More than three times the number of CROs consider their use of technology as "predictive" compared to the average across all respondents (34% to 11%). Only 5% of chief executive officers say the same.

When asked what changes their company made as part of its response to the pandemic, 40% of CROs and 47% of CFOs said they accelerated their digital transformation efforts. This is compared to just 29% of chief technology officers and 36% of chief information officers.

"The CFO and CRO roles have migrated over the last decade, from being on opposite sides of the argument to being boardroom allies," says Mohamed Chaudry, CFO of online food delivery service Foodhub.

"This alignment has been driven by an understanding that technology is at the forefront of being able to provide both competitive advantage and critical data insights."

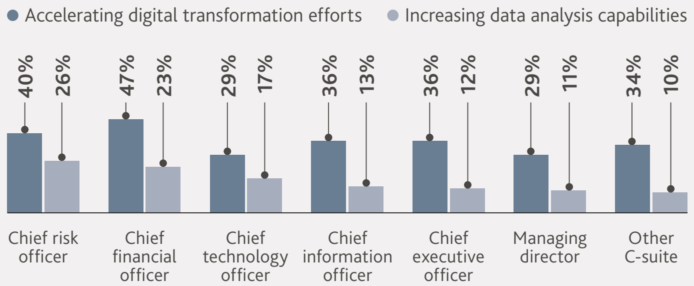
As the two roles have become increasingly focused on technology, these unlikely partners are at the forefront of driving transformation.

"This allows the organization to not only clearly articulate and demonstrate differential and return on investment to customers, but also understand the long-term impact of these engagements on the profit and loss, and company valuation," says Chaudry.

Indeed, his counterpart in risk, CRO Martin Hawkes, says that throughout the pandemic, Foodhub has utilized technology and data to assist the restaurant industry.

"This has enabled us to not only survive, but often thrive through providing data and tools that increase the restaurant's engagement with consumers, to help drive food orders and the productivity of restaurants in terms of streamlining the ordering and food delivery process as well as food production," says Hawkes.

What changes did your company make as part of its response to the pandemic?



THE PANDEMIC'S SILVER LININGS

Despite the widespread shock and impact of the coronavirus outbreak, some organizations have experienced unexpected benefits

Many people thought that the COVID-19 pandemic would signal a reverse of recent progress on sustainability, as happened during the financial crisis a decade ago. However, the reverse appears to be true.

The all-encompassing nature of the outbreak highlighted how interconnected the global economy is and the need to take a worldwide approach when it comes to considering risks. It has made companies realize that they must adopt a new approach to doing business, one that considers all their stakeholders.

Our research showed that companies feel that despite the upheavals of COVID-19, companies have found a silver lining in the ability to refocus on environmental, social and governance (ESG) factors. In our survey, 24% of respondents cited "improved environmental credits" as their top benefit of COVID-19, and 20% said they had "refocused on social purpose", which means the top two spots were occupied by ESG factors.

BENEFIT OF COMMITTING TO ESG

It is increasingly clear that ESG issues are not just an optional extra for corporates, they are material factors for all businesses when it comes to managing risks and identifying new opportunities.

"The pandemic has served as the first real proof-point for sustainability, underlining the fact that ESG investing doesn't come at a cost, but can future-proof investments, all while helping to shape a better future," says Fiona Reynolds, chief executive of Principles for Responsible Investing.

Yi Sun, an analyst at the World Business Council for Sustainable Development (WBCSD), says companies that deal well with ESG issues are less vulnerable to shocks and more resilient to systemic risks. Oliver Dudok Van Heel, head of client sustainability and environment at law firm Freshfields Bruckhaus Deringer, says: "Companies that have strong sustainability credentials benefit from greater loyalty from key stakeholders including employees, customers and suppliers."

The pandemic has acted to accelerate companies' commitment to environmental issues, the Dutch bank ING found. In part this is because many governments have linked their post-pandemic stimulus programs with the imperative to tackle climate change. At the same time, renewable energy has reached cost parity with rival forms of power generation and it is becoming obvious that there are growing risks to remaining wedded to fossil fuels.

As an added bonus, investing in renewables will create many jobs as countries and regions focus on "building back better". All of this makes it easier and more desirable for companies to tackle environmental and climate issues.

SHIFTING TOWARDS SOCIAL

Meanwhile, the other key impact of the pandemic has been to highlight a whole host of social issues and their importance to businesses. These include not just the health and safety of workers but employee welfare more generally. Issues of gender and racial diversity, and income inequality, also came to the fore.

And these concerns were not just confined to a company's own employees as there are calls for greater transparency in how workers in a company's supply chain are treated. ING reports that employee health and welfare is now the top priority for companies.

In part this is because they want to do the right thing and support their staff, for both moral and business reasons. But equally, there is nowhere for them to hide now on these issues. Consumers, employees, investors and governments are all demanding more action on ESG issues and there is greater transparency than ever before thanks to the power of social media and the increased availability of big data tools.

Companies should expect a paradigm shift in the future, says BDO's Emanuel van Zandvoort. "Employees, especially younger generations, will demand clear values, policies and performance measures on ESG themes to stay engaged with the business. ESG may become potentially more important than earnings and income," he says.

BOUNCING BACK WITH ESG

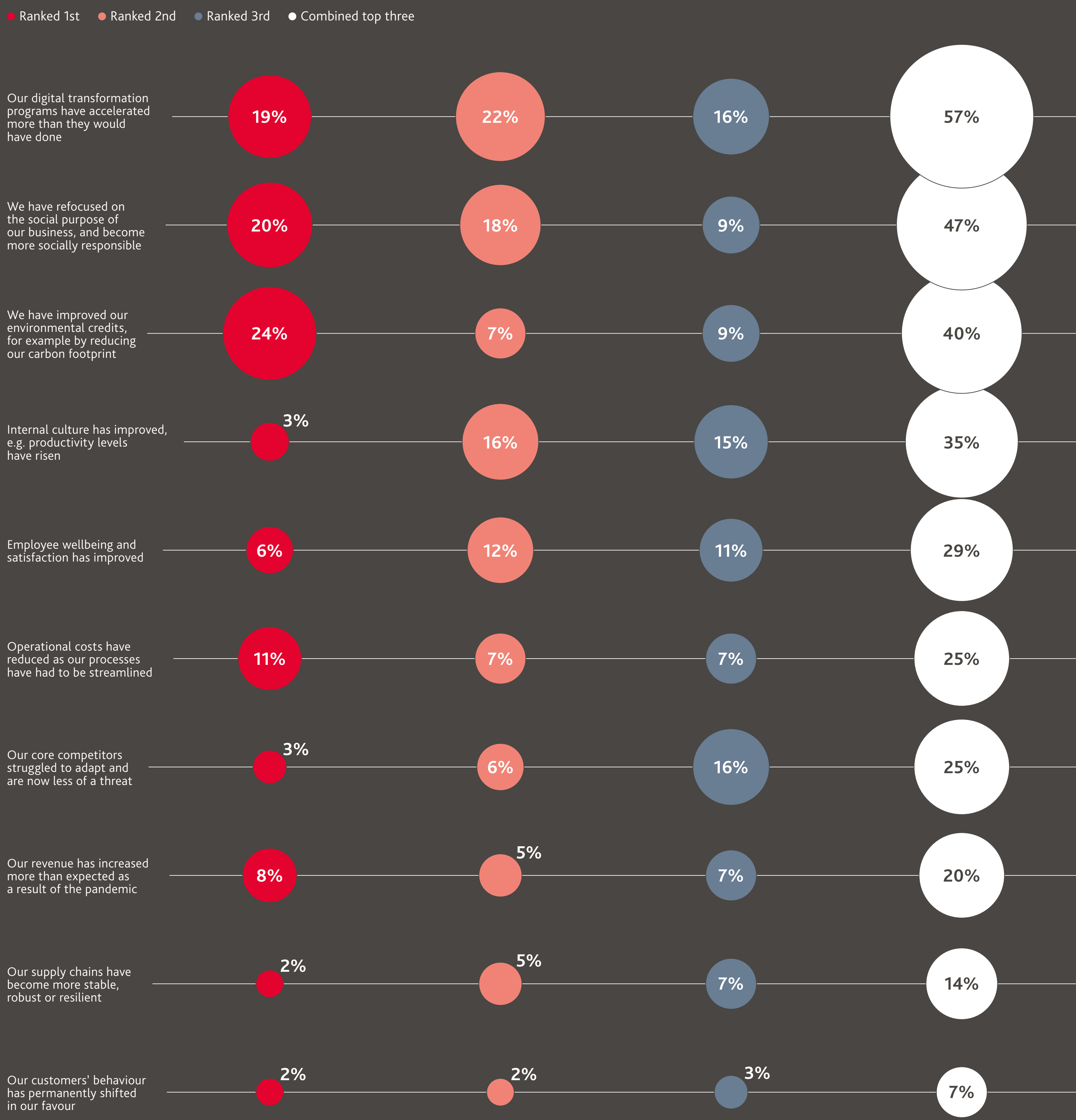
Although it is difficult to predict how the pandemic will play out, taking a forward-looking, risk-focused approach will enable companies to become more resilient during and after COVID-19, say Bloomberg legal analysts Dylan Bruce and Sansanee Dhanasarnsombat.

"Most companies will experience some level of challenge and difficulty in response to the COVID-19 pandemic, but those companies with established ESG strategies and infrastructures may be the first to bounce back. Companies that internalize the experiences of the pandemic, and apply lessons learnt to the next crisis, will continue building resiliency to external environmental and economic factors," they add.

Peter Bakker, WBCSD chief executive, points out that unless we use the return to "normal" to create a truly better focus, we will miss a massive opportunity to do better. "We need to strengthen the links between sustainability, biodiversity loss, climate change, inequality, health, and big shocks to the system that are happening today," he says. "Never waste a good crisis: we have both the collective responsibility and the opportunity to act to be part of the solution, to take the lessons we can draw from this crisis into the core of the future of business."

It is this opportunity, coupled with the risks of failing to act, that is driving businesses to embrace the ESG agenda.

Silver linings: the most important positive changes stimulated by the pandemic



EMBRACING FUTURE RISK

Organizations that plan for and manage risk will be the winners in a post-COVID economy, no matter what the future holds

Nobody can predict exactly what business environment will be left behind after the pandemic – but it is certain that risks faced by companies will continue to evolve.

COVID-19 represented an extreme case of economic disruption, and our survey shows that it has brought major risks to the top of C-suite agendas.

Four in ten respondents listed the risk of a slow economic recovery among their main worries. Increased competition and macroeconomic developments were cited by around one third. This represents a significant increase on 2020, when the same cross-section of respondents were interviewed just as the pandemic was spreading across the world.

On the other side of the coin, the risks that worried business leaders two years ago look less frightening today. Access to funding, computer hacking and business interruption all dropped considerably in our ranking.

It is not surprising, as governments and businesses turn their attention from the immediate impact of COVID-19 and to the potential longer-term implications, that C-suites across all industries are wary of any more big risks hovering on the horizon.

TURNING RISK INTO OPPORTUNITY

Leaders must keep in mind the impressive displays of agility and flexibility that businesses have shown during the pandemic. Such change inevitably creates macro opportunities, alongside macro risks.

In Europe, for example, governments are using recovery money to address old issues that have hampered productivity and job creation in the region for decades.

Spain, which will receive $140 billion until 2026, has listed among its priorities the production of connected and electric cars, the digitalization of the tourism industry and the boosting of research on artificial intelligence. Italy intends to use its $205-billion investment to implement badly needed reforms in areas like the tax system, judiciary and anti-trust laws.

“We need to transform our economies as structural changes speed up around us,” said Christine Lagarde, head of the European Central Bank, during a conference in May 2021. “We must redirect activity towards the green and digital sectors as quickly as possible, which will help raise Europe's growth potential.”

Even the hospitality sector, which struggled more than many during the pandemic, is optimistic about future opportunities, particularly around government support.

“We remain positive and will need to continue making quick decisions,” says a spokesperson for Radisson Hotel Group. “We cannot underestimate the power of the public and private sector coming together to help to rebuild the hospitality industry. We are already seeing positive signs with the Digital Green Certificate proposed by the European Commission which is a major step towards recovery”.

Similar strategies to turn risk into opportunity are happening worldwide. In Asia, whole sectors like retail, education and healthcare are going through a process of automation that has been accelerated by COVID-19. In South America, traditional retailers have invested heavily to pump up their online sales channels and counter an army of start-up challengers. Brazilian company Via Varejo's pioneering sales service means consumers can now purchase a fridge via WhatsApp, while Chile's Cenconsud saw online sales increase fourfold after adapting its digital business to pandemic-driven trends.

TWO SIDES OF THE SAME COIN

Risk and opportunity can switch places, fast. In the United States, the slow economic recovery that is worrying business leaders is quickly giving way to economic growth. As a result, contingency plans implemented to help companies tread water during a sluggish period must now be recalculated to tackle a completely different set of concerns.

“New conditions require new approaches,” warned former US Treasury Secretary Lawrence Summers in a *Washington Post* op-ed. “Now, the primary risk to the US economy is overheating — and inflation.”

Conversely, risks that have lost some of their urgency in recent years can easily make a dramatic and sudden comeback. The Ever Given accident at the Suez Canal and the continuing semiconductor shortage of 2021 will likely catapult supply chain and business interruption issues up a few notches in internal risk mapping. A growing number of successful ransomware attacks against governments and multinational groups may also add some extra urgency to tackling cyber risks.

Ricky Cheng, head of Risk Advisory at BDO Hong Kong, explains that risk and uncertainty go hand in hand and a good risk management strategy accepts this. “The post-COVID economy is still full of economic uncertainties,” says Cheng. “Some organizations may be thinking of expanding their business during this initial stage of recovery – but management should be mindful of over-optimistic planning.

“There is still a long way to go before the economy returns to its pre-COVID level. Businesses can manage this by always having a reservation strategy – then they can take an optimistic stance when making business decisions”.

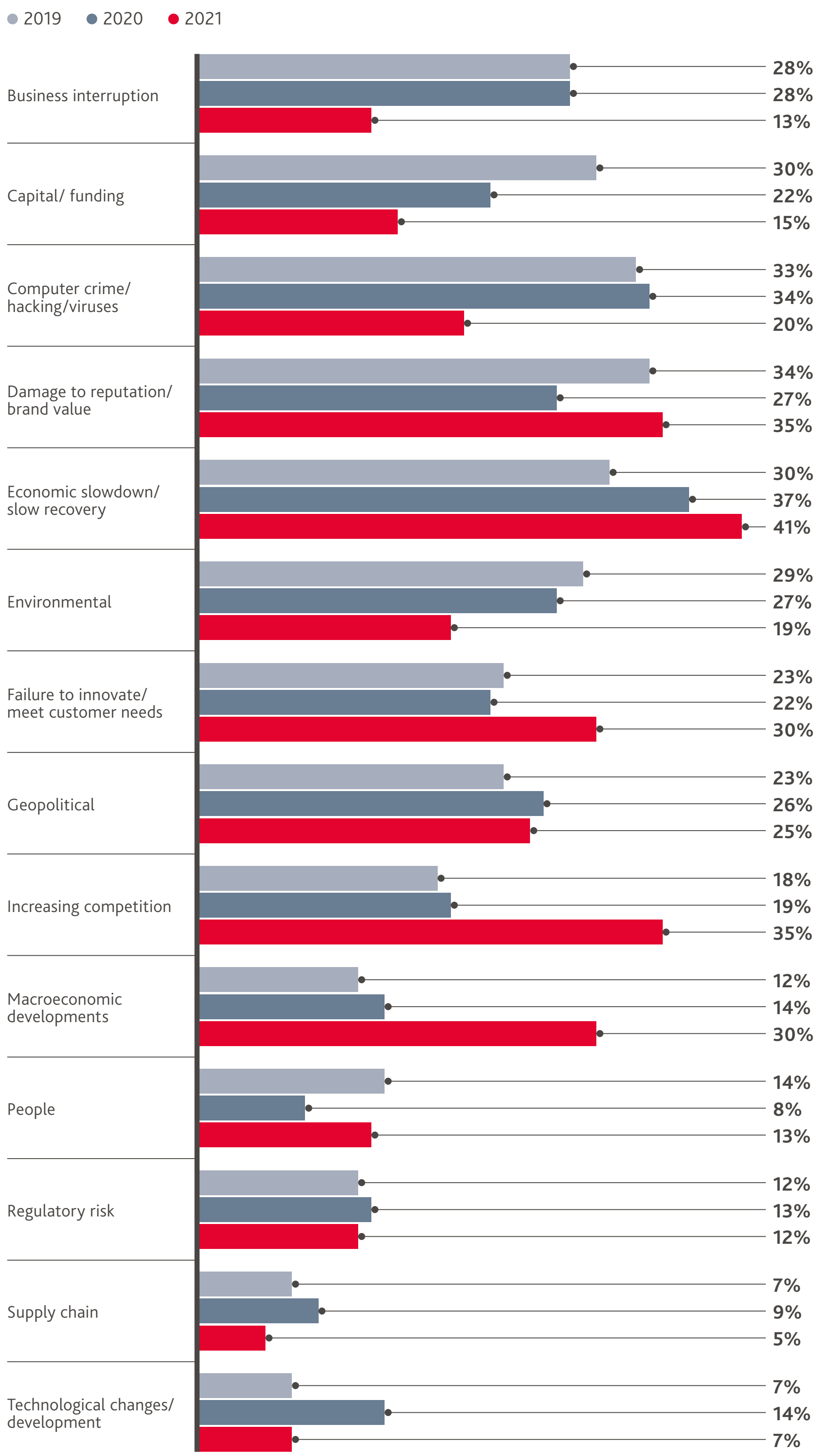
Agile, robust risk management is essential for companies doing business today. Risks are not static, and most fade in and out of focus year on year – yet rarely disappear altogether. Identifying the most urgent risks, without losing sight of those that could create new challenges in the future, is a laborious task, but its benefits match the necessary investments in talent and technology.

The pandemic has taught us companies that make a sustained effort in identifying and managing risks are better prepared to face such unusual situations than their risk-averse, or even risk-ignoring, counterparts. Companies that can truly say they embrace risk will be well prepared for the challenges of the future, no matter how catastrophic they may be.

> *“Management should be mindful of over-optimistic planning”*
>
> RICKY CHENG,
> BDO HONG KONG

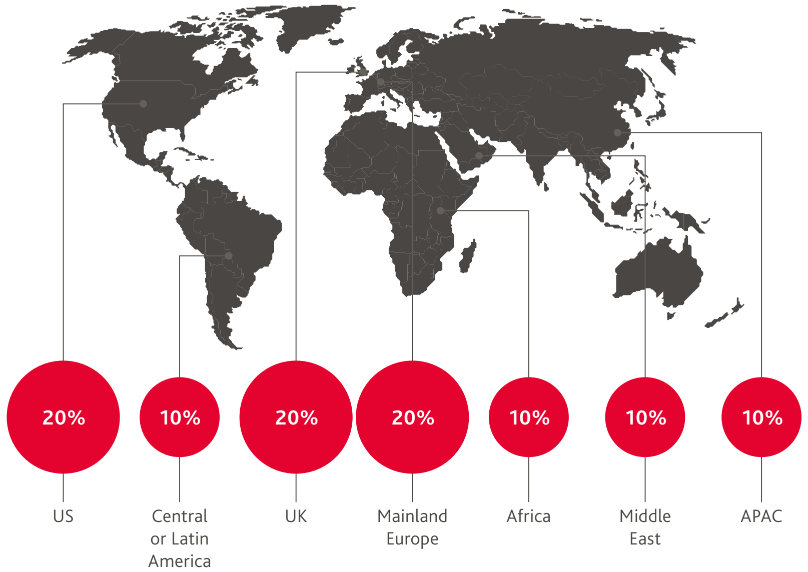
Which risks is your company least prepared for?

How the top three have changed year on year

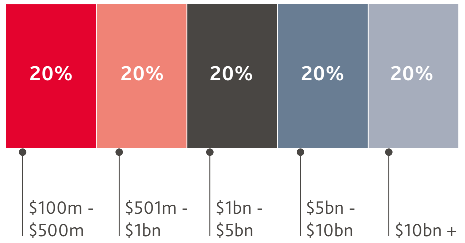


DEMOGRAPHICS AND METHODOLOGY

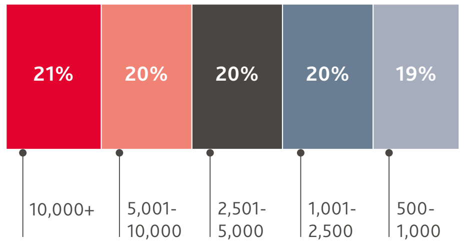
Company location



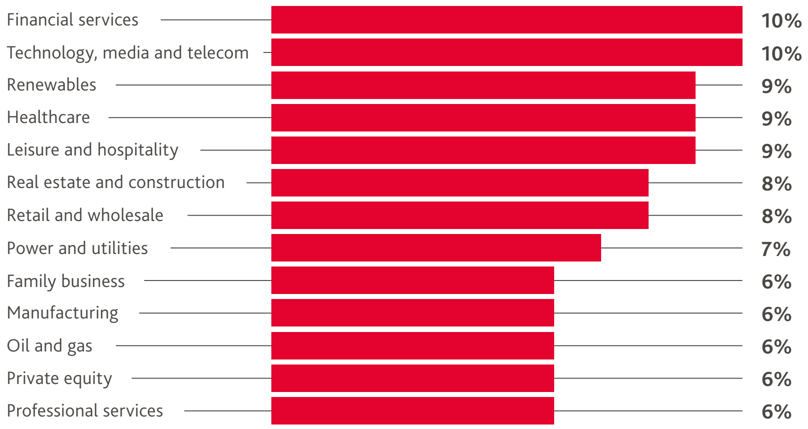
Annual turnover



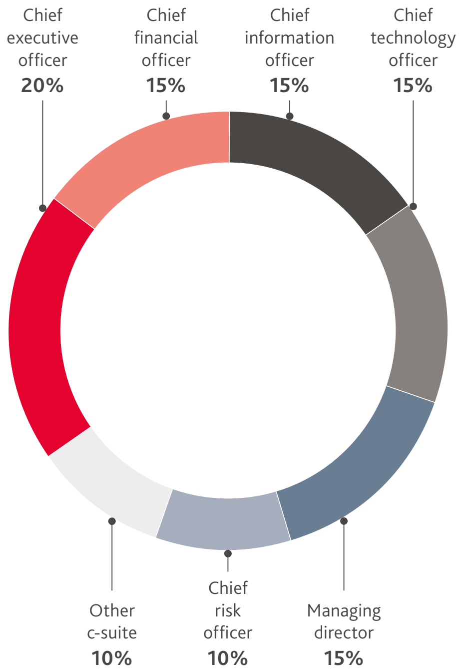
Number of employees



Organization's primary industry



Job title or nearest equivalent



Numbers may not add up to 100% due to rounding

Risk appetite