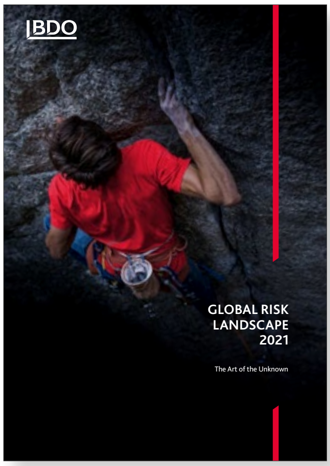
AMERICAS

Executives that embrace risk, maximize 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.

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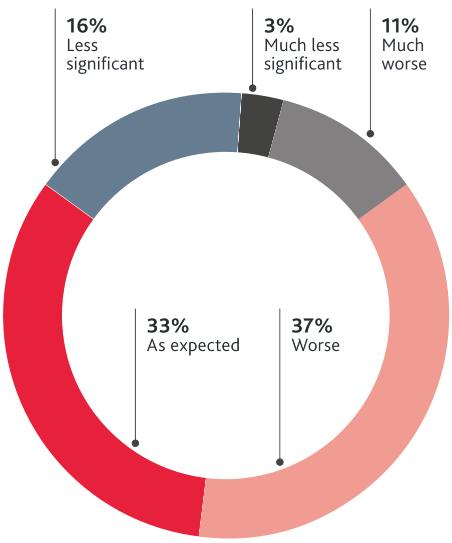
The Coronavirus outbreak was already causing concern about business interruption and supply chain security during last year's survey, but the longevity and severity of the pandemic were yet to be determined. This year's report looks at how effectively organizations make decisions under pressure in an environment characterized 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 quickly. So how can organizations become more forward-looking in their risk management? What future risks are they particularly concerned about?

To explore such issues, BDO surveyed 150 C-suite executives from leading companies across the Americas. Our research suggests there is scope for companies to enhance their risk management and decision-making mechanisms, increase organizational agility and ultimately improve their performance during times of uncertainty and fast-changing environments.

In our survey, 48% of executives say the impact of the COVID-19 pandemic has been worse or much worse than initially expected in April 2020. This perhaps reflects the fact that under half (49%) 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?



PRESSURE POINTS

Risks linked to the COVID-19 pandemic imposed numerous pressures on companies, particularly in relation to the inadequacy of technology or lack of digital transformation (ranked in the top three pressures by 47%). As a consequence, businesses stepped up their investment activity in this area. The most common change made by companies in response to the pandemic was to invest in new technology or accelerate digital transformation efforts (43%), above the global average (36%). In addition, 22% of companies in the Americas increased their data analysis capabilities (compared to only 13% in Europe, the Middle East and Africa (EMEA)).

Another significant pressure stemmed from the risk of low employee satisfaction and wellbeing (ranked in the top three by 42%). Many companies quickly recognized the need to address employees' health and welfare in order to mitigate this risk. Pressures due to the risk of internal cultural issues such as low productivity or flexibility were also highlighted by 33%. People and culture pressures reflected the need for many businesses to adopt mass remote working almost overnight and adjust their working practices and processes accordingly. Among companies surveyed, 21% proactively altered their working culture to suit a new remote workforce.

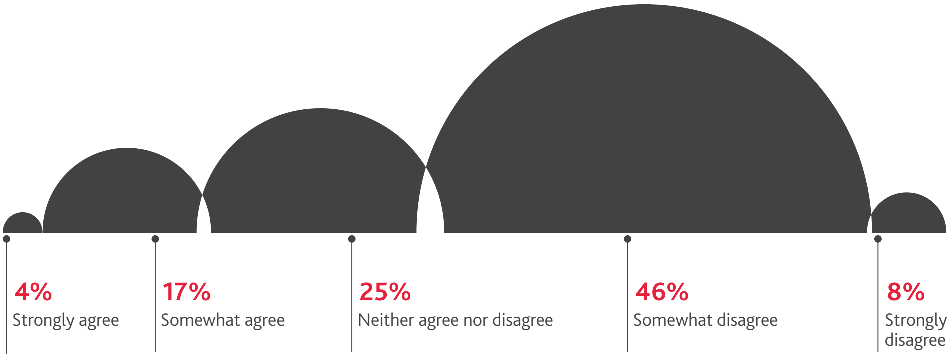
Many companies made other changes in response to the pandemic, such as pivoting cost and business models (39%), reducing headcounts (28%) and shoring up supply chains (22%).

Respondents in the Americas appear more satisfied with the speed of such changes than their counterparts elsewhere: only 19% of companies admit their company did not adapt to the pandemic as quickly as it could have, compared to 27% of respondents in EMEA and 24% in the Asia-Pacific region. Among those Americas participants critical of the speed of adaption, 68% blame uncertainty and the company making a deliberate choice to wait for more clarity.

A rapid response depends on an organization's ability to make 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 21% cite focusing on cost rather than the bigger picture.

In some organizations, cultural issues may impede rapid and effective action. In the Americas, 21% of 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.

Figure two: Do you agree that blame culture inhibits your company's ability to respond effectively to disruption?



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 (55%) of respondents consider the acceleration of digital programs to be an important change stimulated by the pandemic.

Some also see impacts in relation to environmental, social and governance (ESG) issues. One in 10 participants in the Americas says their company implemented more rigorous ESG policies; 41% of respondents highlight that they improved their environmental credits (for example, by reducing their carbon footprint) as a result of the pandemic. In addition, 39% refocused on the social purpose of the business and becoming more socially responsible – although this is lower than the global average (47%) and particularly the result in EMEA (51%). Many governments are keen to link economic recovery with green and sustainable activities, creating opportunities for businesses that align themselves with these and broader societal interests.

RISK MANAGEMENT IN FOCUS

A majority (64%) 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 (91%) of all respondents across the Americas say the events of 2020 have triggered their organization to re-evaluate its risk framework entirely. This does not mean their current frameworks are unfit for purpose, but suggests a widespread realization 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 organizations 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 11% of companies use technology in a predictive way to forecast future, potential risk. Most organizations 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 9% relying on manual, human methods.

Figure tree: How would you categorize your company's use of risk management technology?

9%

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

47%

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

32%

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

11%

PREDICTIVE – we use technology to forecast future, potential risk

Our global research and experience with clients suggests that chief risk officers (CROs) and Chief Audit Executives (CAEs) are playing key roles in supporting digital transformation, as well as seeing the potential of predictive technology. This is encouraging because CAEs also play a vital part in identifying the risks that organizations face and supporting effective risk management.

CHANGING RISK CONCERNS

COVID-19 has dominated boardroom discussions, but companies face a wide range of risks whose perceived importance changes every year. Economic slowdown or a slow recovery is the risk executives think their company is most unprepared for (seen as a top three risk by 44%, compared to 31% last year). This reflects fears about the ongoing challenges to economies emerging from lockdown, as does respondents' vastly greater concern about macroeconomic developments (27%, compared to 15% last year).

This year executives are also more concerned about risks related to reputational or brand damage, increasing competition, geopolitical factors and regulatory risks.

In contrast, respondents are far less concerned about computer crime (which topped the risk rankings last year) and about capital or funding (which falls out of this year's top 10). They are also somewhat less worried about risks relating to failure to innovate or meet customer needs, environmental risks and business interruption – executives have had to cope with that particular risk crystallizing already.

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

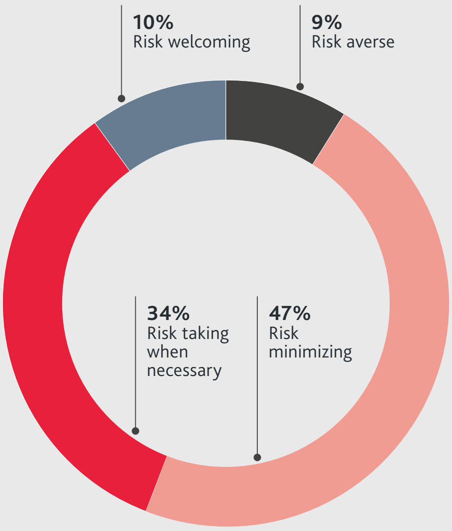
Economic slowdown/slow recovery	44%
Damage to reputation/ brand value	33%
Increasing competition	33%
Macroeconomic developments	27%
Geopolitical	25%
Failure to innovate/ meet customer needs	23%
Business interruption	22%
Computer crime/hacking/ viruses/malicious codes	21%
Environmental	18%
Regulatory risk	14%

FACING THE FUTURE

The COVID-19 pandemic has posed numerous 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 participants from the Americas, only 10% 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?



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