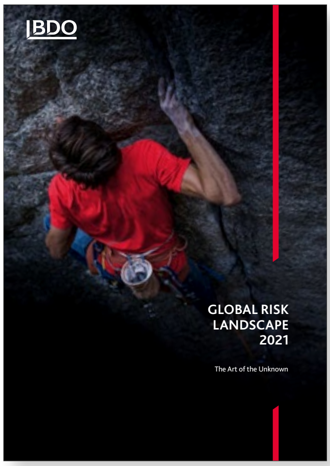
APAC

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.

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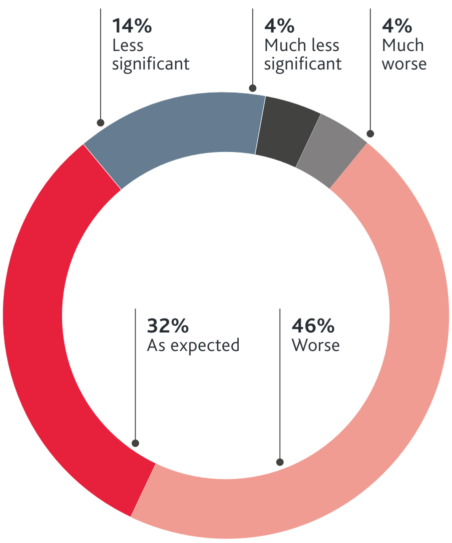
The coronavirus outbreak was already causing concern about business interruption and supply chain security during last year's survey, but the longevity and severity of the pandemic had yet to be appreciated. This year's report looks at how effectively organisations make decisions under pressure in an 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 50 C-suite executives from leading companies across the Asia-Pacific region.

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 perhaps reflects the fact that under half (46%) 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 46%). 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 (34%). In addition, 26% of APAC companies increased their data analysis capabilities, compared to only 13% in Europe, the Middle East and Africa (EMEA).

Other significant pressures stemmed from low employee satisfaction and wellbeing (ranked in the top three by 44%) and internal cultural issues such as low productivity or flexibility (44%). 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% proactively altered working culture to suit a new remote workforce, while 28% reduced headcounts and streamlined resources.

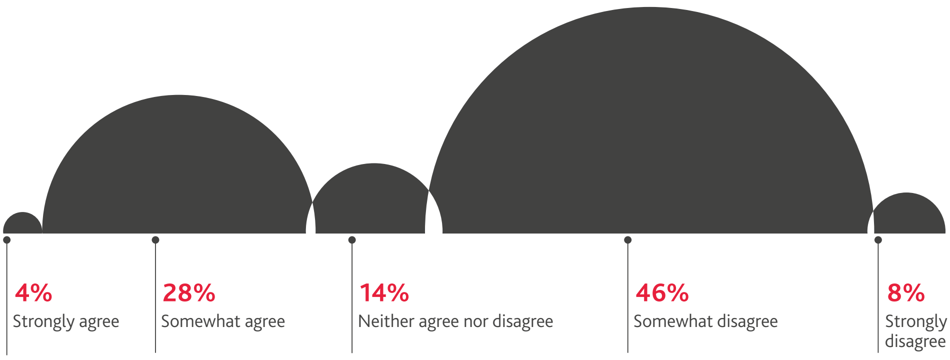
Many companies made other changes in response to the pandemic, such as pivoting cost and business models (24%). However, only 6% of APAC companies felt the need to shore up supply chains, compared to 20% of respondents globally.

Although changes were made, almost a quarter (24%) of APAC respondents admit their company did not adapt to the pandemic as quickly as it could have done. Of these, the vast majority (83%) blame uncertainty and the company making a deliberate choice to wait for more clarity (compared with 60% of respondents globally).

A rapid response depends on an organisation's ability to take decisions quickly. Focusing on cost rather than the bigger picture is most likely to be considered by APAC respondents as the biggest inhibitor to fast decision making at their company (34%). Trying to predict the overall end position was a key inhibitor for 22%.

In some organisations, cultural issues may impede rapid and effective action. Our research suggests APAC is the region most likely to suffer from blame culture – 32% of executives think a blame culture inhibits their company's ability to respond effectively to disruption, compared to 23% of respondents globally. 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 (64%) of respondents consider the acceleration of digital programmes to be an important positive change stimulated by the pandemic.

Some also see impacts in relation to environmental, social and governance (ESG) issues. Although only 8% of respondents say their company implemented more rigorous ESG policies, 32% see improving their environmental credits (for example, by reducing their carbon footprint) as one of the three most important changes stimulated by the pandemic. In addition, 38% highlight that they have refocused on the social purpose of the business and become 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 position align themselves with these and broader societal interests.

RISK MANAGEMENT IN FOCUS

A majority (57%) 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 majority (84%) of all respondents across APAC 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 10% 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. A few companies (4%) are still relying on manual, human methods for their risk management.

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

4%

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

58%

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

28%

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

10%

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. There is also a growing recognition of the importance of CRO's role. This year, the risk officer is a C-suite position in 52% of APAC companies (slightly up from 46% last year) and 34% of respondents say their organisations are considering this for the future. The greater the influence and profile of CROs, the better they can keep driving digital enhancements that support effective risk management.

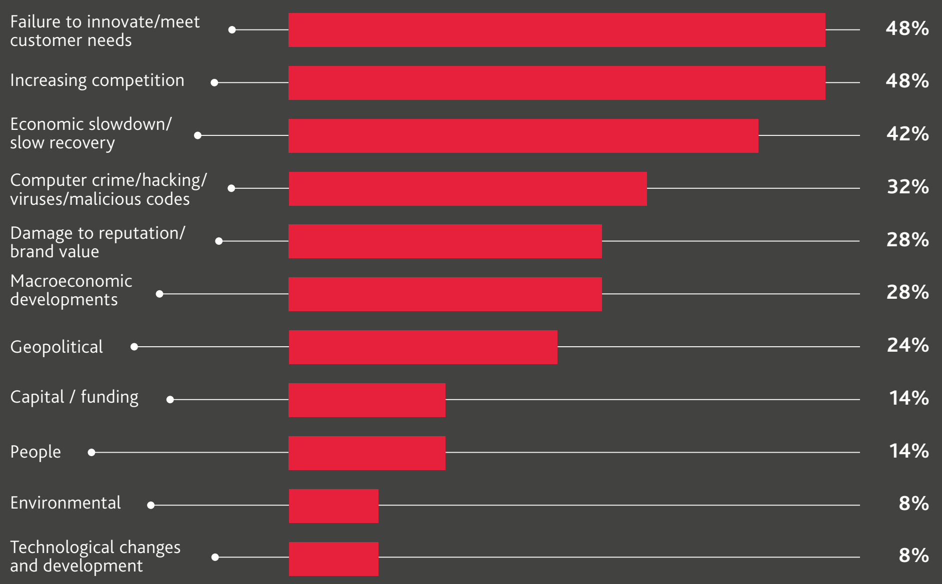
CHANGING RISK CONCERNS

COVID-19 has dominated boardroom discussions, but companies face a wide range of risks whose perceived importance changes year on year. Executives in 2021 are much more concerned about failure to innovate or meet customer needs than they were last year: 48% see this as a top three risk, up from 19%. They are similarly concerned about the risk of increasing competition (48%, up from 20%). Many executives also highlight the risk of economic slowdown or slow recovery (seen as a top three risk by 42%) and macroeconomic developments (28%) – reflecting uncertainty about how quickly economies around the world will recover as they emerge from lockdown.

APAC executives are more concerned about computer crime than counterparts elsewhere (32%, compared to 20% globally), but are relatively less concerned about damage to reputation or brand value (28%, compared to 35% globally).

Respondents from APAC have similar levels of concern to executives elsewhere about risks related to geopolitical factors, capital or funding, people and technological changes and development. However, they are less concerned about environmental risks and about business interruption (4%) – executives have had to cope with that particular risk crystallising already.

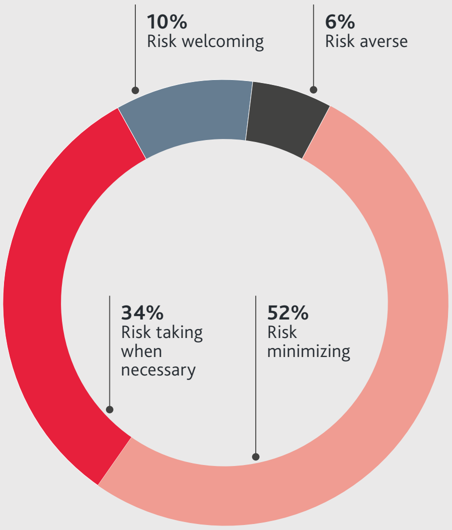
Figure four: Which of the following risks is your company most unprepared for? (Ranked 1, 2 or 3)



FACING THE FUTURE

The COVID-19 pandemic has posed 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 APAC participants, only 10% see their company as risk welcoming.

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



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.