Europe

BDO's Global Risk Landscape Report 2023 examines the 'risk multiplier' effect and how global businesses should be moving toward a more risk-welcoming approach.

Across Europe, more businesses are taking a bold approach to risk management—this year's BDO Global Risk Survey revealed that 70% of European respondents describe their organisation as "proactive" in dealing with risk. This represents a significant increase on last year's 48% figure. Concurrently, the percentage of European respondents who say their organisation is "risk averse" has dropped by half from 22% in 2022 to 11% in 2023.

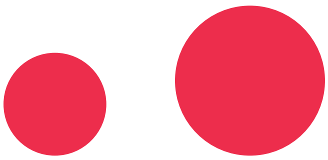
FIGURE ONE: PERCENTAGE OF EUROPEAN RESPONDENTS WHO SAY THEIR ORGANISATION IS

'RISK AVERSE ' HAS COLLAPSED FROM

22% to **11%**

a 50% drop.

'PROACTIVE' IN DEALING WITH RISKS HAS INCREASED FROM



48% to **70%**

a 22% increase

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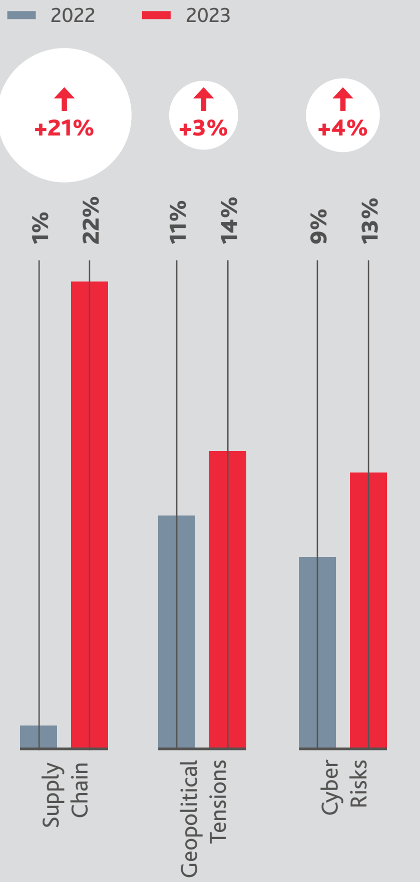
FIGURE TWO: TOP THREE RISKS YOUR ORGANISATION IS UNPREPARED FOR



Supply chain, geopolitical and environmental risks intersect with each other in different ways, such as the risk of natural disasters and geopolitical challenges disrupting fragile global, 'just-in-time' supply chains. There is widespread acceptance in Europe for characterising risks in terms of the relationships between the risks, rather than the risks themselves (78%). Furthermore, 86% of respondents in Europe believe risks are becoming more interconnected and complex.

FIGURE THREE:

78%

of respondents in Europe agreed the Global Risk Landscape is better characterised by the relationships between risks rather than individual risks themselves

86%

of respondents in Europe believe risks are becoming more interconnected and complex

Emanuel Van Zandvoort, Partner Risk Advisory Services—BDO Netherlands, says people are more aware of the risk multiplier effect, possibly because of the impact of major events.

"There's a concept called VUCA—volatile, uncertain, complex and ambiguous—we are now understanding that the world is getting more volatile, uncertain and complex and there are a lot of interrelations between risks."

says Van Zandvoort. "You see the international impact of the conflict in Ukraine on supply chains, and gas and energy prices, for example, which creates more awareness about these interrelated risks."

Introducing technology, assessment and a strategic approach were ranked as the top three steps businesses in Europe are taking to understand and manage risk multipliers, with 61% implementing early warning systems, 58% conducting risk assessments, and 46% implementing strategies to target specific multipliers.

While 39% of respondents are conducting audits to identify risk multipliers, Van Zandvoort cautions that companies should spend more time on risk management, and make use of external sources and expertise, as well as internal experience.

Only 28% of respondents bring together expertise from across the organisation to help understand and manage risks, indicating that many businesses may still take a siloed approach to risk management.

FIGURE FOUR: THE STEPS BUSINESSES IN EUROPE ARE TAKING TO UNDERSTAND AND MANAGE RISK MULTIPLIERS

39%
Conduct audits to identify all potential risk multipliers

58%
Conduct risk assessments to assess risks and their multiplier effect

46%
Implement strategies designed to target the specific risk multipliers

61%
Implement early warning systems to detect and respond to risks spilling into other areas of the business

28%
Bring together expertise from across the organisation to help understand and manage risk multipliers and their impact

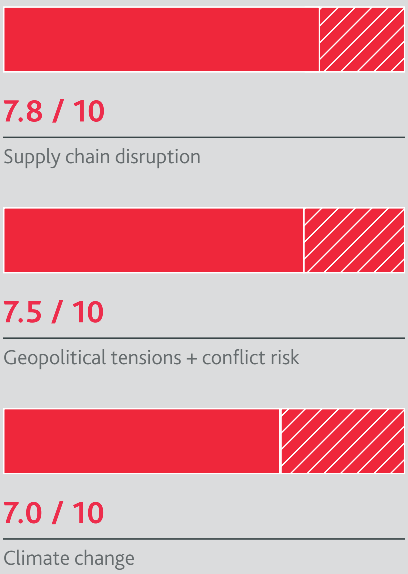
GLOBAL PERMA-CRISIS AWAKENS BUSINESS LEADERS TO RISK MULTIPLIERS

European businesses are managing risks associated with Russia's War in Ukraine, tensions between the US and China, climate change and supply chain issues which were exposed during the COVID-19 pandemic.

Survey respondents feel their organisations are unprepared for supply chain, geopolitical and environmental risks. In particular, 54% of European respondents said, "global supply chain disruption and the recent pandemic has brought home the importance of risk multipliers to my organisation's leadership."

With supply chain risks not only cited as the biggest challenge for European respondents but rising sharply in 12 months from 1% to 22%, it is not surprising that intersecting risks, such as climate change and ESG regulations, along with Russia's conflict in Ukraine, are being amplified. When asked to rate existential risks to their organisations out of 10, supply chain disruption averages the highest at 7.8, followed by geopolitical tensions and conflict risk (7.5) and climate change (7).

FIGURE FIVE: WHEN ASKED TO RATE EXISTENTIAL RISKS TO THEIR ORGANISATIONS OUT OF 10, EUROPEAN RESPONDENTS SCORED



Russia's War in Ukraine has had multiple impacts on European supply chains, such as increased energy prices as the continent moves away from Russian oil and gas companies. This increases transport and other operational costs, which has a knock-on effect of increased prices for goods and services. Trade has been disrupted because Ukraine's agricultural export supply chains have been affected by the conflict, along with sanctions on Russia, which force companies to rethink the way they source products and raw materials.

With 74% of European respondents "somewhat or strongly" agreeing that climate change is a significant short-term risk, 61% say it poses a significant long-term risk and 75% are putting plans and processes in place to manage the impact of climate change, it is clear this threat, along with associated ESG risks, is being taken seriously. However, with 34% of respondents describing the threat of climate change to businesses as "over exaggerated" and 65% saying their organisation prioritises ESG regulatory compliance over protecting the business from climate risks, it is clear that not all companies are embracing a proactive approach to environmental threats.

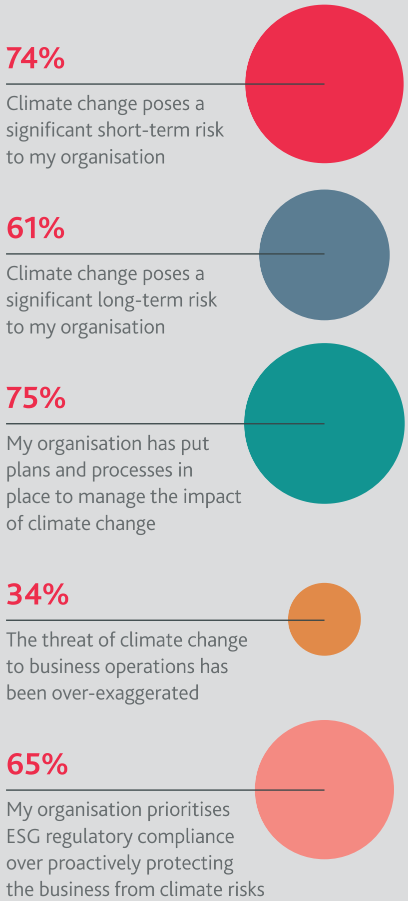
Climate risks intersect with supply chain risks, which, in turn, amplify workforce, cyber security and regulatory risks.

"It's not just the quality of supply chains, but the ethics involved – labour conditions, information security, compliance with local rules and regulations," he continues. "It's driven by ESG regulations, so companies have to prepare for that [and] society is asking for more transparency, especially for listed companies."

Reputational risks also intersect with supply chain risks, according to Van Zandvoort: "Companies are much more aware now that something in your supply chain can have a huge effect on your reputation – maybe that's your biggest asset as a company, poor supply chain practices can have a huge impact on brand, along with a financial impact, so there are multiple effects."

This reflects the survey, with 10% of respondents saying that damage to reputation/brand value was the number one risk their business was unprepared for, representing a five-fold increase on last year.

FIGURE SIX: TO WHAT PERCENT DO EUROPEAN RESPONDENTS AGREE WITH THE FOLLOWING STATEMENTS



"

IT'S NOT JUST THE QUALITY OF SUPPLY CHAINS, BUT THE ETHICS INVOLVED."

EMANUEL VAN ZANDVOORT

Partner, Digital Risk Services, BDO Netherlands

FIGURE SEVEN:

10%

of European respondents said damage to reputation / brand value was the number one risk their business was unprepared for

However, there is a disconnect between European companies acknowledging the risk multiplier effect and strategies for mitigating intersecting threats. While it is encouraging that 61% of respondents implement early warning systems to respond to risks that can spill over into other areas of the business, only 28% bring together expertise from across the business to help understand and manage risk multipliers and their impact.

With supply chain risks, Van Zandvoort says that COVID-19 was not the only cause of supply chain issues in Europe, it increased awareness about dependency on certain partners and suppliers. He adds that geopolitical issues can be a "root cause" of other issues, such as material and energy costs, while ESG requirements are "becoming more specific."

"The good thing about ESG is that companies are required to set clear and measurable targets to contribute to a better world," he says. "There will soon be clear rules and requirements on how to be more transparent, to measure your efforts and emissions, but the future will tell [if companies] are really concerned about environmental development, climate change or if they are more concerned about ESG requirements, regulations and the cost of compliance."

If a focus on regulatory compliance, rather than adopting proactive, risk-welcoming risk management strategies, becomes the norm in Europe, along with 72% of businesses in the region favouring a siloed approach over bringing together cross-organisational expertise, this could hinder businesses. It is one thing to acknowledge the risk multiplier concept, but if risk management remains more compliance-focused, it will become harder for risks to be seen as opportunities.

The survey demonstrates the need for organisations to move away from approaching risks in isolation. Instead, Enric Domenech Head of Risk Advisory – BDO Spain, encourages businesses to "take a more holistic approach. Considering the multiplier effect different risks can have on processes, businesses and locations." Enric says it is essential for organisations to have "experts—or a collaboration of external professionals—in place to address multiple, intersecting and cascading threats, such as operational, compliance, technological, cyber, climate and ESG-related risks, and to establish risk control mechanisms." This is the best way to make the paradigm shift to a proactive, risk-welcoming approach in a constantly changing environment.

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