

# 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 2022** analyses the unprecedented disruption global supply chains have experienced since 2020, and what this means for business risk.

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There can be few things that are riskier than having a war break out on your doorstep, particularly when the aggressor is a nuclear superpower. Yet this is the position facing European business leaders in 2022, with Russia's War in Ukraine piling further uncertainty onto an outlook already clouded by lingering coronavirus concerns and a deep supply chain crisis.

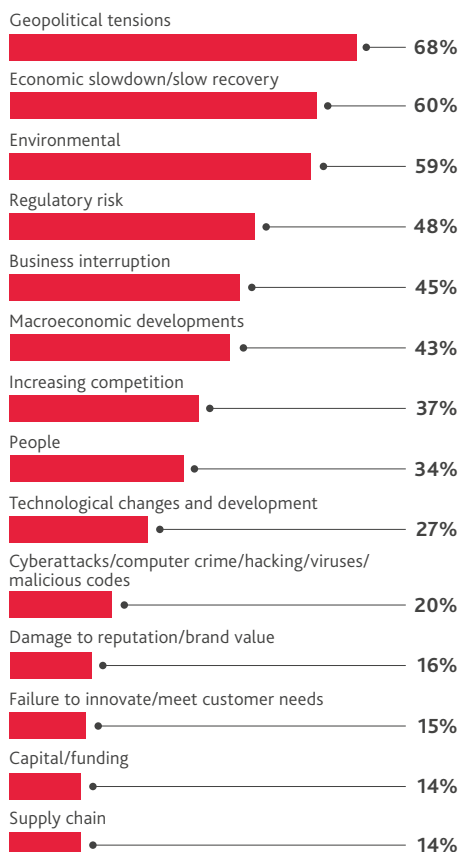
Unsurprisingly, our 2022 sample of 100 European C-suite executives rated 'geopolitical tensions' as the risk they were most unprepared for, ahead of fears for a slow economic recovery from COVID-19 or threats to the environment.

Indeed, in most European markets the impact of the coronavirus pandemic—which was front of mind last year—has become a secondary concern thanks to high vaccination and immunisation rates across the continent.

In its place, European leaders more than those in any other part of the world are worried about the effects of spiralling input costs arising from the Ukraine crisis.

These cost increases are resulting in worrying levels of inflation across Europe and have in some cases taken the shine off post-coronavirus spending packages that were due to put economies back on an even keel as the health risks of coronavirus came under control in 2022.

**Figure one: Which risks are your company most unprepared for? (Ranked 1, 2, 3, 4 or 5)**



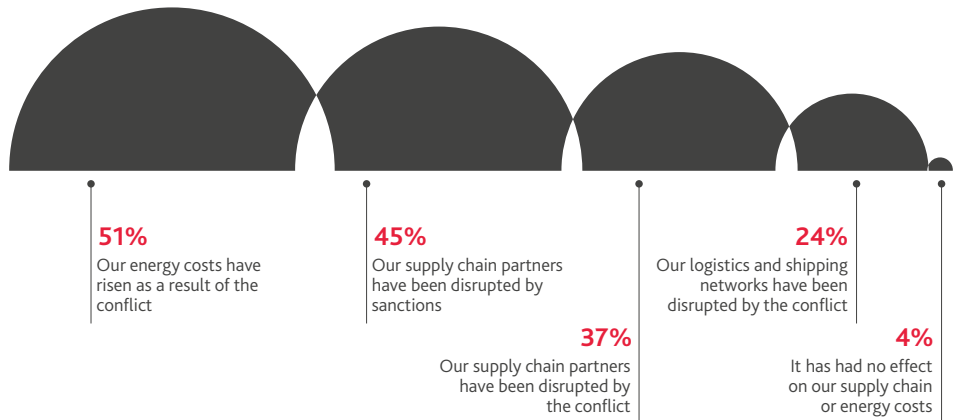
## PRESSURE POINTS

Before the coronavirus pandemic, many global supply chains had been optimised for efficiency, cutting costs and delays to the bone to improve financial performance. But this strategy relies on supply chains that work efficiently almost all the time. The last two years have shown that does not always happen.

In Europe, business leaders are already aware of the need to balance efficiency with resilience. At the time of our global research, more companies were already favouring resilience (41%) over efficiency (12%).



Figure two: How has Russia's War in Ukraine affected your business?



Another challenge for European economies is the impact of supply chain shortages on manufacturing capability. European manufacturers rely heavily on supply chains from Asia that have been hit by delays, curbing the ability of sectors such as automotive manufacturing to ramp up production in the face of rising demand.

This problem is not unique to Europe and has not put European leaders off remaining committed to globalisation. The next five years are expected to see increasing development of global supply chains rather than a move to more regionalised supplier relationships. Europe's need to maintain multiple sources of supply has been highlighted by the European gas crisis.

Fruit of an excessive reliance on Russian supplies, this is a textbook case of how complacency can rapidly lead to existential risk when an apparently reliable supply is compromised.

It appears to have caught many business leaders off guard, making European executives more likely than those in any other region to consider their companies as reactive when dealing with risk.

But the conflict also seems to have heightened awareness of the security implications of fossil fuel dependency, at least to the extent that European leaders are more likely than those in any other region to rank environmental risks as the major threat to their business (cited by 12% of the sample, versus a global average of 9%).

European leaders have an above-average perception of climate change and natural disasters as a potential risk to supply chains. Respondents to the survey in Europe ranked climate change and natural disasters at 3.06 on a one-to-five scale, higher than any other region bar the Americas.

Europe's supply chains and service industries are also suffering from another fight on the margins of the geopolitical tensions in Ukraine.

The struggle for talent has left many companies poorly equipped to take advantage of a post-pandemic rebound in the economy, with summer 2022 flight cancellations and airport queues in the UK and elsewhere highlighting the difficulties some businesses are having in recruiting to pre-pandemic levels.

Skills shortages are particularly a challenge in highly specialised fields such as digital technology. This is a problem for European businesses that are looking at technologies such as automation precisely to reduce their dependence on traditional workers or streamline processes—90% of executives in Europe say they are hiring digital supply chain talent.

Similarly, a lack of digital skills can leave businesses open to cyber threats, which have increased significantly in recent years. Globally, concern over the impact of cyberattacks has rocketed in the last year, although European executives seem less worried about this issue than their global peers.

Only 42% said they had ramped up cybersecurity to mitigate supply-side risk from Russia's War in Ukraine, compared to a global average of 51%, and a mere 13% considered cyberattacks as a number one risk to the business, against a global average of 22%.

Figure three: In general, how long do you predict global supply chain disruption will continue?

5%

Up to another 6 MONTHS

35%

Between 6 MONTHS AND 1 YEAR

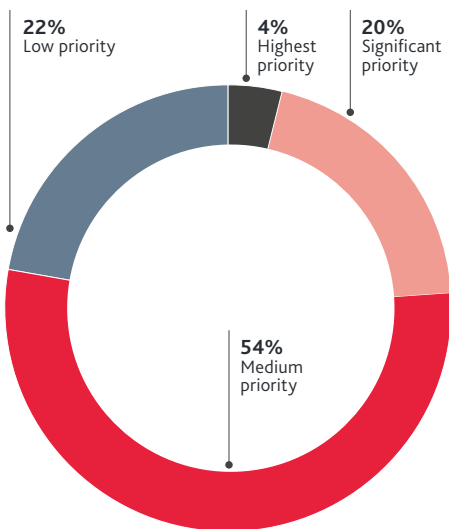
57%

From 1 TO 2 YEARS

3%

From 2 TO 4 YEARS

Figure four: How much of a priority is climate change and natural disasters for your supply chain?



#### BUSINESS OUTCOMES

European companies will continue optimising supply chains for resilience in the coming half decade. This is despite understanding of the supplier ecosystem already being high, with 38% of companies—more than any other region—having full understanding of the locations of and key threats faced tier-one suppliers.

European leaders also have an above-average level of knowledge of lower-tier suppliers, with 39% claiming visibility up to tier three (compared to a global average of 32%). Nevertheless, 64% of European businesses are planning to diversify their supply chains in the next 18 months.

And 35% are planning to invest in technology for supply chain analytics, while 21% will be introducing dual sourcing of raw materials and 27% are looking to hire more digital talent to improve resilience and flexibility of supplies.

Overall, the research shows that European business leaders are perhaps less exposed to supply chain resilience issues than peers in the Middle East or Americas, but more so than those in Africa and Asia Pacific.

This is reflected in the fact that European leaders are slightly less likely than average to think the risks of complex supply chains outweigh the benefits, or that we have entered a period of de-globalisation where the drivers of global integration are being reversed.

#### RISK MANAGEMENT IN FOCUS

Building supply chain resilience costs money and—if challenges relent in the short term—may end up not delivering a return on investment. Supply chain resilience also requires a risk-aware culture that can help organisations establish and maintain strong defences against new risks, as well as responding more quickly to operational threats.

When looking to improve resilience, leaders should be aware that previous supply chain risk assessments may not accurately reflect today's broad range of disruption factors, which ranges from availability of raw materials and commodities to shortages in port and logistics personnel.

The new full-scope, medium-to-long-term supply chain risk landscape requires strategies based on alternatives rather than availability and accessibility. In this environment, the role of risk leaders is growing in importance.

Risk leaders not only need exceptional analytical skills but increasingly also highly developed commercial, strategic, leadership and communication abilities. Our research revealed risk leaders bring a new appreciation of the risk landscape to the business. For example, they are more confident than CEOs in the robustness of company plans around supply chain disruption.

#### RISK AND VALUATIONS

Some results from our survey, such as lower-than-average proportion of businesses pivoting towards green energy sources, can be interpreted in terms of the relative maturity of European markets. Many European businesses already include green energy in their mix, for example, leaving fewer with a need to pivot.

Despite this—and a generally higher level of awareness than in other regions—climate change and natural disasters remain low on the list of priorities for European businesses, notwithstanding clear signals that this is a growing threat.

With company valuations already becoming a challenge due to a lack of 'standard' reporting periods in recent years, leaders may want to consider how best to incorporate such long-term threats into their business models—so they can prove tomorrow's struggles will not be as problematic as today's.



## FACING THE FUTURE

The supply chain crisis has posed many challenges for companies, but many have responded effectively – pivoting business models, increasing investment in digital technology and putting effort into understanding supplier dynamics. 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 11% see their company as risk welcoming.

Companies must learn to live with uncertainty and unexpected risks such as the supply chain crisis. 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. Risk awareness should be strengthened within companies, and more attention given to early warning systems. 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: Please categorise your company's level of risk appetite.

