



WHITE PAPER

Risk in 2020: Insights for Kiwi businesses

The latest edition of our Global Risk Landscape report tackles business interruption, organisational integrity, economic slowdown, and much more. Find out how Kiwi businesses are affected and what you can do to build resilience.

FOREWORD

In 2020, BDO's Global Risk Landscape report is in its fifth year, and is aptly subtitled: "The integrity index." Surveying 500 C-Suite executives across Europe, the Middle East, Africa, Asia Pacific, and the Americas, the report takes the temperature of C-suite individuals across the world, and provides a reliable read on business' current challenges and the greatest risks they're facing.

In this white paper, we draw out and discuss the key results of the survey. These are two-fold. First, we discuss business integrity and its impact on reputation. This focus is derived from last year's survey result, in 2019, "damage to reputation and brand value" was the top risk businesses were unprepared for. Second, we explore the top three risks that businesses are currently facing, and discuss how to best manage these risks.

While the key risks for businesses around the world have changed year-on-year, integrity continues to play a part in affecting business' ability to draw customers, especially in a time where social media puts pressure on business transparency. Not to mention the increasing expectation for organisations to have a stance on various socio-political issues. How are businesses treating their employees amidst the challenges posed by a global pandemic? Are leaders displaying emotional intelligence and social skills during these difficult times? How does reputation have a direct impact on business operations – positive or negative?

We unpack these themes and more.



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WHY IS BUSINESS OR BRAND REPUTATION IMPORTANT?

In this day and age, the threat to corporate reputation is constant and relentless, and it's a challenge that businesses always need to grapple with and manage. Publicity is now paramount to business success and continuity. Businesses need to be reputationally sound and operate in an ethical way, or their customers will take their custom elsewhere. That is, if you don't walk the walk, people have the power to quickly find out and choose to walk away.

According to the report, 70 per cent of the respondents said they have experienced an event that posed a threat to their reputation. This was particularly acute for family businesses (91%) and manufacturing businesses (89%). As for the adverse effects caused by these events, decrease in shareholder price & value and customers taking their business elsewhere were the top two risks, followed by damage to company culture, low staff morale, a drop in productivity, financial losses, and low employee retention.

Most New Zealand businesses fall under the family business category, as many of our large, multi-national corporations originated from mum-and-dad family businesses. In fact, 97 per cent of all NZ businesses are considered small businesses. The threat of reputational damage is very much alive for Kiwi businesses.

The question is, what exactly poses a risk to Kiwi business' reputation?

HAS YOUR ORGANISATION EVER EXPERIENCED AN EVENT THAT POSED A THREAT TO ITS REPUTATION?



THIS RISK WAS PARTICULARLY ACUTE FOR TWO OF NEW ZEALAND'S ECONOMIC ENGINES:



THE GREATEST RISKS TO REPUTATION FOR NZ BUSINESSES

LACK OF SUCCESSION PLANNING

According to the global report, 39 per cent of respondents identified that succession planning was a major risk to business reputation in the next one to two years.

“Incidentally, failure to have robust succession planning is something Kiwi businesses struggle with, mostly because of our strong entrepreneurial mindset.”

Kiwi ingenuity is rooted in less bureaucratic, less formal structures, and instead driven by a “just got to get it done” mantra. Not only that, we have a reasonably young economy, and most of our more prominent businesses were established in the last 30 or 40 years, that is, the last lifetime.

Owner-parents continue to be heavily involved in their businesses, and are currently facing the task of handing over to reins to the next generation. Succession planning, however, is something that needs to be managed carefully. If done haphazardly, the damage to reputation and subsequent loss of business can be permanently damaging. New leadership groups, for example, often implement drastic changes that put the business at risk of losing an existing customer base that’s been built up over decades.

So how do we avoid this from happening? It all comes down to having a well-planned out and well-executed strategy and staying committed to the organisation’s purpose. It’s critical to make sure that the next generation or group of leaders that take over push the business forward while staying aligned behind that purpose. Change within succession needs to be managed in the best way possible, and ideally happens gradually over a long period of time (within 3-5 years) as too much change over a shorter period can create problems.



POOR CORPORATE CULTURE

Almost half of respondents (47 per cent) reported that poor corporate culture was a huge risk to business reputation. Here at home, we’ve always been big on supporting local businesses and companies that have sustainable practices. Recent events, including a global pandemic, climate change, and more, have only heightened Kiwis’ affinity for these types of businesses. Social license issues such as sustainability and environmental measures, then, are very much front and centre. Kiwis are becoming more and more vigilant in ensuring the businesses they transact with and buy from operate in the most socially conscious way.

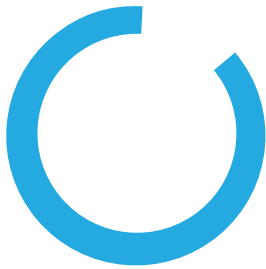
“Information is at our fingertips, and consumers around the globe are now very informed and educated. There’s no way to place a veil over your business and pretend. Between 24-hour news cycles and social media, it could take just one issue or event to destroy your reputation and ability to succeed.”

Despite this very real risk of reputational damage, many companies still manage to operate unethically in some aspects of their operations while keeping up an honourable façade.

This is a practice dubbed as “integrity washing”.



THE RISE OF INTEGRITY WASHING



87%

believed that their organisation was culpable of integrity washing

“ Integrity washing is: Pretending to have corporate integrity while acting dishonestly and without values. ”

Integrity washing is, as defined in the report, the practice of “pretending to have corporate integrity while acting dishonestly and without values.” The concept of “integrity washing” revealed surprising findings. A staggering 87 per cent believed that their organisation was culpable of integrity washing, and 49 per cent agreed that so long as they are perceived to have integrity, they do not prioritise putting it into practice. 62 per cent of the respondents who did believe that their business had the highest level of organisational integrity still believed that integrity washing is committed.

Largely speaking, Kiwi businesses are grappling with the same issues as their international counterparts. Keeping customers and attracting new ones is a challenge, especially in this post-COVID world where a lot of businesses are shutting down or pivoting to adjust to the new environment. Operating at less than 100 per cent integrity or using suspicious practices over the next few years in a much more competitive environment means drastic customer loss. It’s a tough space to be in, and there’s a lot to consider.

This is why having a risk management plan is so important.





THE IMPORTANCE OF RISK MANAGEMENT

The key takeaway for this white paper is that risk management is more important than ever. Us Kiwis, however, don't place much importance on preparing for risk. Our Kiwi ethos of "she'll be right" and aversion for bureaucratic rules makes risk management an after-thought.

"The fact is that risk and strategy are two ends of the same issue. Having a strategy is essential, so it naturally follows that identifying the issues or challenges that might stop you from achieving your goals is the next step."

Eliminating or transferring risk, as well as limiting the impact of risk if it were to occur, will protect your business in the long run.

WHAT DOES A RISK MANAGEMENT PLAN LOOK LIKE?

A risk management plan doesn't have to be overly complex or something that stifles your business, it just needs to be something that has value and is built for purpose. The needs of a local business versus a multinational corporation will be different. Your risk management plan includes the identification and documentation of risks and their impacts, and lays out how your business will manage these risks with specific steps. Monitoring and reporting is also key here, as risk changes over time. A plan must be adjusted accordingly as the business, and the environment surrounding it, changes.

Ultimately, it's far better to have some framework in place and have a bit of a plan than to have nothing at all. With a plan in place that anticipates potential challenges, organisations are better equipped at weathering the storms and mitigating the impacts.

TOP RISKS IN 2020

The top three business risks that respondents say their organisation is most unprepared for are: economic slowdown/slow recovery (37%), computer crime (34%), and business interruption (28%). These are all applicable to New Zealand business and should be addressed in every business owner's risk management plan if they hope to survive and thrive over the coming year.

TOP THREE RISKS THAT BUSINESSES FEEL MOST UNPREPARED FOR IN 2020:

 — **37%**

Economic slowdown/slow recovery

 — **34%**

Computer crime

 — **28%**

Business interruption

ECONOMIC SLOWDOWN/SLOW RECOVERY

This comes as no surprise. The COVID-19 pandemic has put intense pressure on businesses and the people who depend on them. A lot of businesses have been forced to accept more risk (due to lockdowns and massive changes to the way we work) and are now operating in riskier environments. Therefore, there's all the more need for a robust and well thought-out, structured approach to managing risk.

COMPUTER CRIME

We're generating more data than we ever have, and businesses hold sensitive data and information that give them competitive advantages. It's important to ensure that your business is adequately protected against privacy and data breaches while staying in line with the increasing regulations in the cyber security space. If a business is found to be negligent, there are serious penalties against the business or its directors.

Prevalent cyber-attack risks include phishing scams, CEO fraud, and data hacks that capitalise on the shift towards remote working, all of which can result in a damage bill that can run into the millions.

BUSINESS INTERRUPTION

In New Zealand, as we've recently learned, the threat of further lockdowns is very real. For businesses that can operate remotely, this may not be an issue. However, some businesses do not have this option, or might not have the right technology to implement it, so these organisations must have their finger on the pulse and implement the necessary strategies to mitigate this risk.

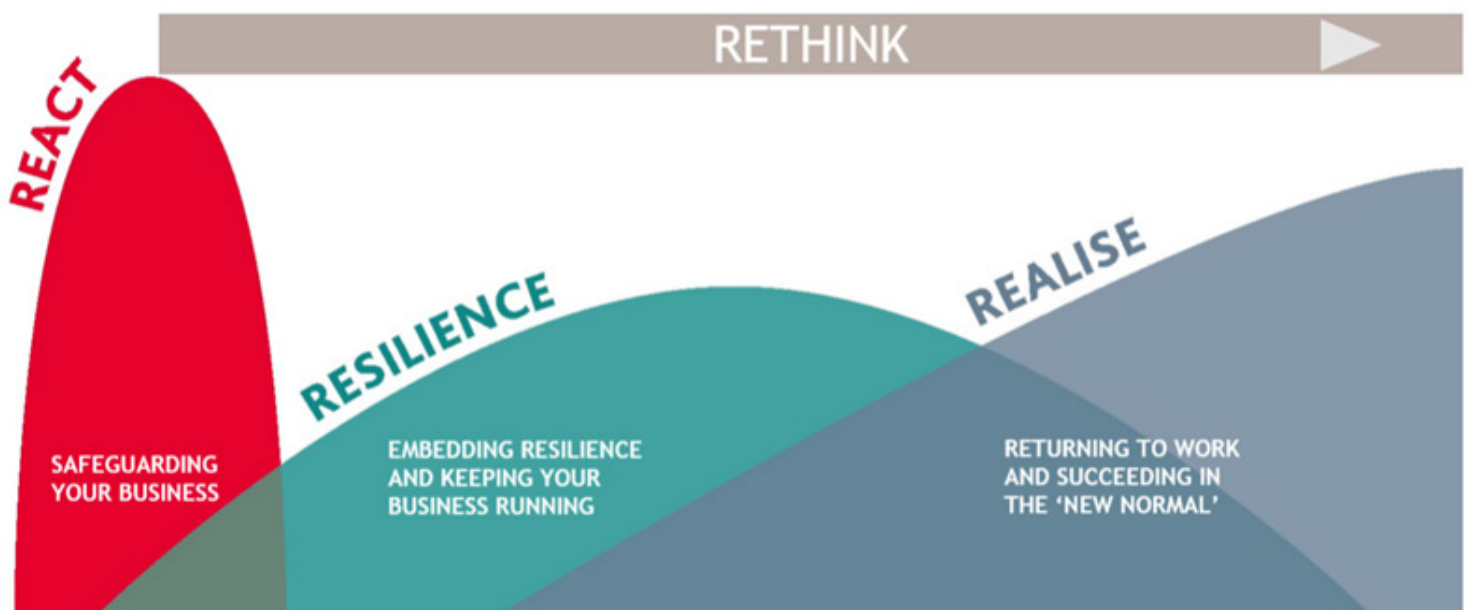
Mitigation is the most important factor when dealing with a crisis. 60 per cent of respondents believe that preparation is the most important way to deal with disruptive events. We must take risks seriously and act now before the next event occurs, so we are as prepared as possible when/if it does occur.

WHERE DO WE GO FROM HERE?

Events over the last few months show why risk management is important, and that businesses can quickly get stuck if they don't have a plan. The world has changed and portions of our economy and how we live life have changed over the last few months. Businesses must reset their focus/plan over the next few years, and risk management needs to be targeted toward the issues that might prevent the achievement of that plan.

As the dust settles, focus must shift from securing survival, to building resilience. BDO's Rethink model—React, Resilience, Realise—helps business rethink their focus in this post-COVID world.

First, businesses must react by safeguarding their business, earning maximum revenue, and getting government support. The next step is to build resilience. This is where risk management is important and must happen sooner rather than later. It's about keeping your business running and shaping it so that it can be the best form of business in your industry/sector as it can be to service future demands. Lastly, realise. This step involves realising the value of your new and improved business and setting up a new normal. This can happen now, next year, or within the next couple of years, depending on the nature of your business.



ADDITIONAL RESOURCES



BDO GLOBAL RISK LANDSCAPE REPORT 2020



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WHAT ARE YOUR BUSINESS RISKS? FINDINGS FROM THE BDO GLOBAL RISK LANDSCAPE REPORT WEBINAR



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WAIKATO

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