

EMEA

Executives need to maintain a clear but evolving business purpose to sustain organisational integrity



BDO's Global Risk Landscape Report 2020 reveals that businesses are highly vulnerable to events that threaten their reputation – yet many could be more proactive in protecting their brand and building integrity.

At a time when lives are dominated by uncertainty about economies and health systems, trust is increasingly important. For businesses, integrity is vital. Their perceived trustworthiness is an asset – one that can be damaged in many ways.

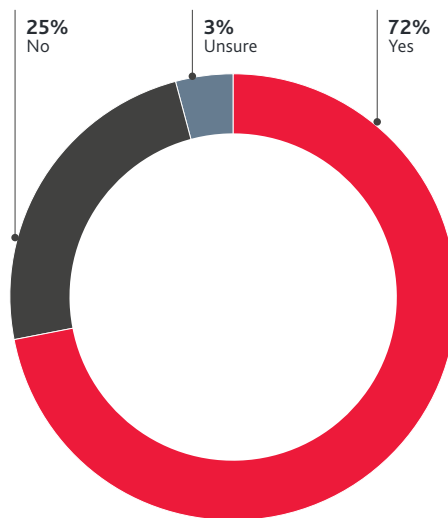
So what threats do businesses see to their reputation from technology and people? What factors do they think most important for building future integrity? To answer such questions, BDO surveyed 300 C-suite executives from leading companies across Europe, the Middle East and Africa (EMEA).

Our research suggests some companies may need to step up their activities in terms of protecting their reputations. Less than half (45%) of EMEA respondents think their organisation's reputational crisis strategy is proactive, while 36% admit to being reactive. Even though 57% see effective preparation or mitigation for a potential crisis as the most critical factor for minimising reputational damage.

The risk of some future event tarnishing a brand is a real one: 72% of EMEA respondents believe their organisation has already experienced an event that posed a threat to

its reputation. Damage can potentially be suffered in a variety of ways, but particularly in terms of shareholder price (25% see this as the most important impact) and loss of customers (25%).

Figure one: Has your organisation ever experienced an event that has posed a threat to its reputation?



FOR MORE INFORMATION:

MARKUS BRINKMANN

Partner, Head of Forensic, Risk and Compliance
BDO Germany

markus.brinkmann@bdo.de

ENRIC DOMÉNECH

Partner, Head of Risk & Advisory Services
BDO Spain

enric.domenech@bdo.es

EMANUEL VAN ZANDVOORT

Partner, Risk Advisory Services
BDO Netherlands

emanuel.van.zandvoort@bdo.nl

RICHARD WALKER

National Head of Risk Advisory Services
BDO South Africa

RWalker@bdo.co.za

By running this annual survey we see how executives' worries respond to an increasingly fast-changing world. This year, economic slowdown has leapt up the rankings of risks EMEA executives think their business is least prepared for. Concerns about economic slowdown are clearly linked to the COVID-19 outbreak, as are worries about business interruption. Companies have had to make rapid changes to infrastructure and working practices, with some forced to replace overseas supplies at short notice – potentially triggering a longer-term rethink about globalisation and the security of global supply chains. Computer crime ranks second, reflecting its high prominence on the agendas of most risk, audit and board committees, particularly in South Africa.



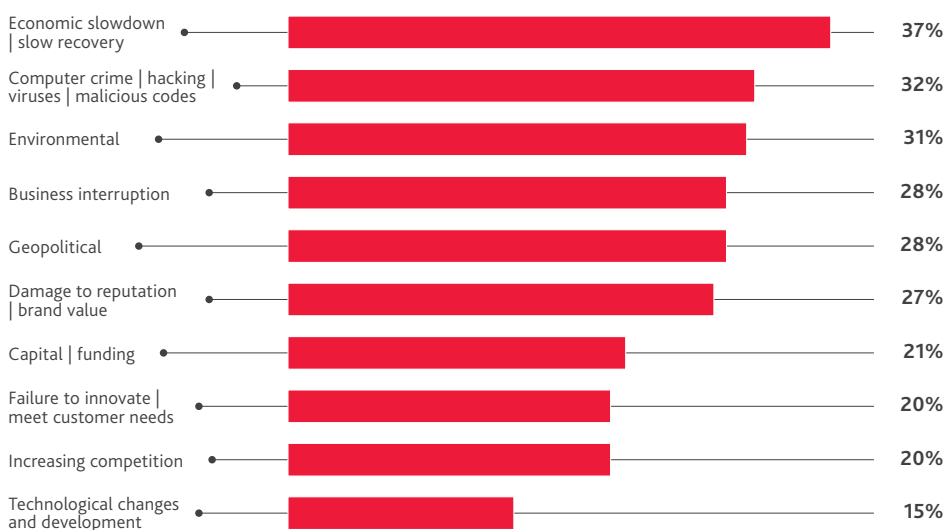
Figure two: Risks businesses globally are least prepared for over the past 4 years

	2017	2018	2019	2020
01	Technological changes and development	Regulatory risk	Damage to reputation brand value	Economic slowdown slow recovery
02	Regulatory risk	Macroeconomic developments	Computer crime hacking viruses malicious codes	Computer crime hacking viruses malicious codes
03	Macroeconomic developments	Environmental	Economic slowdown slow recovery	Business interruption

Last year executives were most concerned about environmental issues, now ranked third – although EMEA is the only region where environmental issues appear in the top three. In EMEA, 88% of respondents say their industry has been endangered by an increased focus on environmental governance.

This has triggered a perceived need for increased transparency around environmental practices (59%), changes to investments (50%), a review of the supply chain (45%), changes to the business purpose (42%) and support for carbon offset projects (42%).

Figure three: Which of the following risks are you most underprepared for?



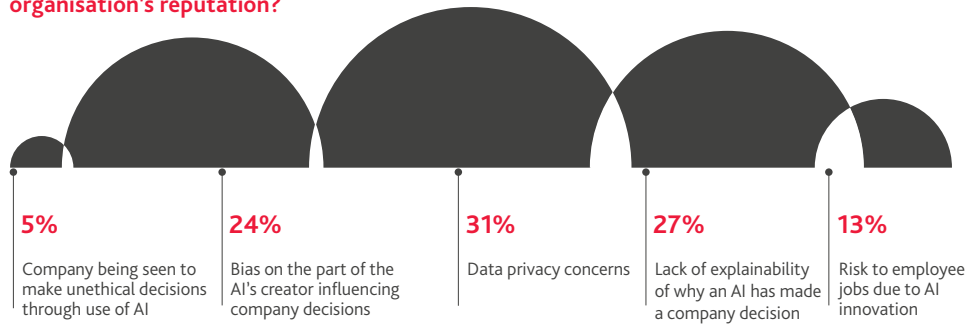
Executives are aware that reputational damage can be caused in numerous ways linked to both people and technology. From a people perspective, respondents are particularly concerned about the impact of a poor corporate culture, a new generation of employees requiring different working styles and a lack of robust succession planning. Our research also shows the importance of getting people 'buy-in' for maintaining an organisation with integrity: 74% of respondents think employee resistance or a change-averse mindset is a barrier to implementing a culture of integrity and empowering employees to be agents for change.

The actions of business leaders are considered particularly important for corporate reputations: 76% of respondents think consumer trust in their organisation is influenced by the reputation of its leadership, or the cult of personality of its CEO. The vast majority (83%) think that when leaders become more visible, this introduces a reputational risk. Even so, 86% think their leader should take a stand on ethical issues.

EMEA executives also see many organisational risks linked to technology, but particularly the threat of data privacy breaches (29% give this a top three risk ranking looking ahead

one to two years). There is also concern about lack of assurance mechanisms for artificial intelligence (AI) (26%). It's clear that as technology becomes more sophisticated and able to support decisions with less human involvement, the need for transparency around its use becomes more vital to protect business integrity and brand. Drilling further into risks posed to their organisation's reputation by the adoption of AI, respondents are most concerned about data privacy, followed by a lack of ability to explain why an AI has made a company decision and bias on the part of the AI's creator influencing company decisions.

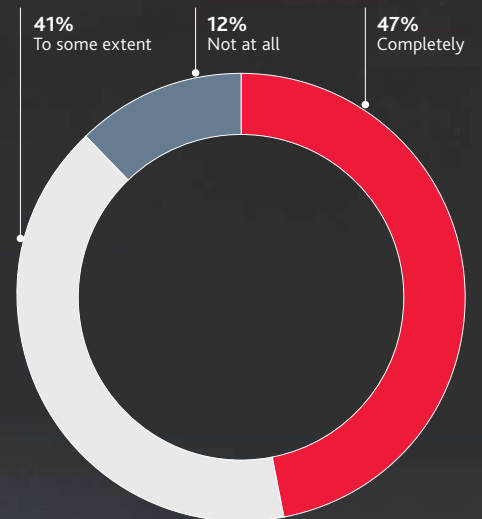
Figure four: In which areas do you feel the adoption of AI poses a risk to your organisation's reputation?



Given all the risks to reputation and business integrity, EMEA executives may have some misplaced confidence in how firmly integrity underpins their organisations' activities. When asked to score their organisation's current level of business integrity, 34% of respondents awarded the maximum ten out of ten, with a mean score for EMEA of 9.07. Companies in Europe scored themselves lowest (8.70), while companies located in Africa scored themselves highest (mean of 9.33). This high scoring may reflect aspiration more than reality. In South Africa, for example, the integrity of organisations (both public and private) and stakeholder trust in them is at an all-time low due to governance failures and corruption. The situation is exacerbated by a lack of leadership to drive a culture underpinned by ethics. In addition, the skills shortage across the continent means that businesses may not have the right people in the right jobs to drive integrity and trust through corrective behaviours and the right culture.

These high scores are eye-catching, particularly because 88% of EMEA respondents think their organisation is to some extent guilty of 'integrity washing' – where being perceived to be active on certain issues is more important than the steps actually being taken. Furthermore, 47% agree completely that their organisation is culpable and that 'so long as we are perceived to have integrity we do not prioritise putting this into practice'. Over half (56%) believe this of companies in general.

Figure five: To what extent is your organisation culpable of 'integrity washing'?

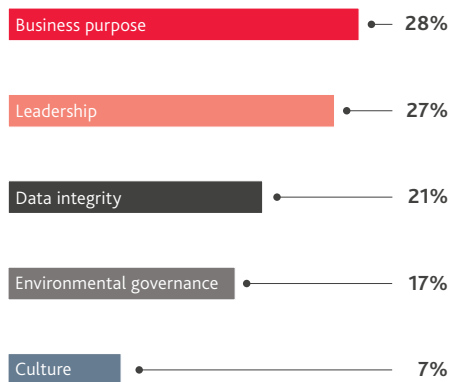


Respondents have high confidence in their organisation's proficiency in areas that should encourage integrity. For example, the vast majority of EMEA respondents believe their organisation is proficient at regulation (87%), anti-bribery and corruption (77%), governance (76%) and internal audit (75%). In addition, 61% think their organisation's data maturity is extremely mature, although 38% think there is further work to be done.

If senior executives have a false sense of security, one reason may be that the risk function is not always represented at the highest level. Only 31% of risk officers currently have a C-suite position, although 33% of EMEA organisations are considering this for the future.

Where organisations identify the potential to improve their perceived integrity, focusing on establishing a transparent business purpose could bring rewards. Business purpose creates the driving force behind strategic decisions and should align with everything the organisation does. EMEA executives rank business purpose as the most important element for their organisation to be seen as having integrity in five years' time, just ahead of leadership. Culture surprisingly lags substantially behind.

Figure six: What element is most important for your business to be deemed to have integrity five years from now?



LOOKING AHEAD

A third of EMEA respondents believe their customers are less confident that the brand will do what is right, compared to five years ago. On the plus side, 34% think their customers have more confidence. Looking ahead, business leaders will want to see that confidence level rising.

There's no doubt that organisational reputations are vulnerable to a range of threats. In any economic climate but particularly during uncertain times, business leaders need to embed integrity throughout their organisation. A comprehensive approach starts with a

clearly defined business purpose that evolves with company growth and societal change. It requires leadership and needs to capture the hearts and minds of the people across the business so that they can be agents for positive change. It also ensures that technology risks are understood, managed and mitigated.

Proactivity matters. By taking action to prepare for what may come, business leaders build the strongest foundations on which to build and maintain strong integrity and brands.