GLOBAL RISK LANDSCAPE 2020

The integrity index

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99%

of respondents believe that business integrity is fundamental to a brand's reputation

100%

of respondents believe integrity should be built into a business to avoid reputation and brand damage

FOREWORD

By Nigel Burbidge, partner and global chair of risk and advisory services at BDO

After 45 years in professional services, I appreciate more than ever the power of integrity. Being trusted confers extraordinary advantages to a business.

Speed, for example. When the great investor Warren Buffett bought a division of Walmart, he did so on trust alone. He wrote in his annual report to investors: "We did no 'due diligence'. We knew everything would be exactly as Walmart said it would be, and it was." While it's not an approach I'd recommend, just think of the months of due diligence and millions of dollars saved because both parties knew they could trust each other.

Customer loyalty is another dividend. Customers flock to brands they believe in. British retailer John Lewis is an outstanding example. It built its reputation by offering honest advice combined with a "no quibble" returns policy, which customers know they can rely on. There's no spin with John Lewis. The high street is a tough place, now more than ever, but that sense of integrity allows the company to outperform rivals. It regularly tops the UK's most trusted brand rankings.

You can't fake it. There was a time when a company could curate an image with marketing. The reality could be masked. No more. Social media means a single misstep can be broadcast around the world in minutes. Investors want deep insight into their holdings. We are seeing the rise of integrated reporting, whereby companies report wider metrics beyond profit and loss. These include the carbon footprint of their supply chain and their corporate social responsibility programmes. I advise

> *"Integrity should be woven into the fabric of the company"*
>
> NIGEL BURBIDGE, BDO

companies to imagine they work in a glass box. Everything is visible from the outside.

In today's world, reputation has never been more important, which is why integrity is at the heart of how we work at BDO.

Our *2019 Global Risk Landscape* survey identified "damage to reputation and brand value" as the top risk businesses were unprepared for. In this year's survey, which ran from 21st February until 12th March prior to the Coronavirus pandemic, we wanted to explore the links between integrity and risk. This 2020 report is the result. It unearths some remarkable insights.

Clearly integrity is vital, with 99 per cent of respondents agreed on that, but we found deep disagreement on who is responsible for transparency. One in three companies admits to being "reactive" on reputation: not the best strategy. And a disturbing 87 per cent say their company may be guilty of integrity washing. Clearly there is work to do.

My view is integrity should be woven into the fabric of the company. Everyone from the chairman down to the post room must share the same ethos.

I hope this report provokes a renewal of your own commitment to integrity. It has never mattered more.

EXECUTIVE SUMMARY

Threats to corporate reputation are constant while integrity remains paramount in a fast-changing world

The chemicals entrepreneur Jon Huntsman had a clear view about integrity. For him it was the cornerstone of commerce.

"There are no moral shortcuts in the game of business or life," he wrote. "There are, basically, three kinds of people, the unsuccessful, the temporarily successful, and those who become and remain successful. The difference is character."

BDO set out to discover the state of integrity in business today and why businesses need to treat integrity as a priority to help them succeed. This report is the result, the fifth in our annual series on risk.

Our survey of 500 C-suite executives across Europe, the Middle East, Africa, Asia-Pacific and the Americas explores how reputational risk is perceived and managed. Companies that want to defend their good name need to heed the lessons.

The headline message is that threats to corporate reputation are constant. The survey shows 70 per cent of respondents believe their organisation has experienced an event that posed a threat to its reputation. Among family businesses (91 per cent) and manufacturing (89 per cent), the threat level was particularly acute.

The biggest risks to reputation? Respondents identified a wide variety of flash points. Major risks in the next one to two years include a failure to have robust succession planning (39 per cent); the rate of globalisation (35 per cent); and risk posed by a poor corporate culture (47 per cent). Risks from people are front and centre: 50 per cent of respondents worry about a new generation requiring different working styles and 38 per cent point to a lack of diversity in their organisations.

"Boards are focused on the critical success factors to commercial projects," says Marita Corbett, BDO leader of risk advisory in Australia. "But a great strategy can unravel as a result of reputational impacts. We can all think of brands that were damaged, even destroyed by an adverse event that came out of the blue. It is imperative boards think about potential challenges before they arise."

The survey shows companies are alive to the dangers, with 25 per cent saying shareholder price is a primary consequence of reputational damage, and a quarter also believing customers will take their custom elsewhere. Other impacts include damage to company culture and low staff morale, a drop in productivity, financial losses and low employee retention. This highlights the need for boards to pay close attention to integrity.

"In the future I expect to see a focus on how AIs are monitored"

MARKUS BRINKMANN,
BDO GERMANY

The public remains vigilant about the behaviour of companies. Our survey shows one in three respondents believes their customers are less confident that the brand will do what is right, compared to five years ago. On the plus side, 35 per cent think their customers have more confidence over the same period. Are companies accurately tracking how customers see them? The issue is examined in more depth on page 24.

The board may be overlooking current threats. Chief risk officers report a significantly higher rate of threats than chief executives and managing directors; it implies one in four reputational events are missed by company leaders.

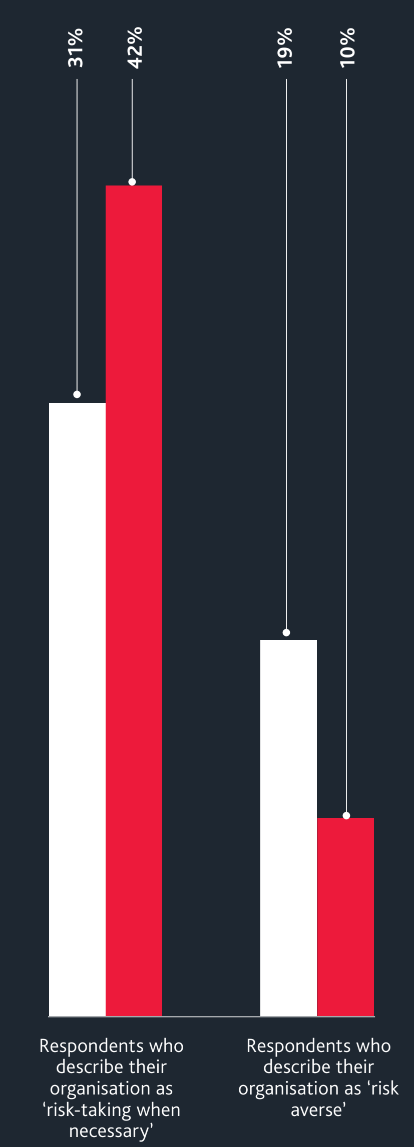
A key issue is who leads on integrity? Our respondents are in no doubt: 62 per cent agree their brand is either synonymous or closely tied to that of the chief executive. This tight connection is a double-edged sword: 85 per cent of respondents say leaders becoming more visible introduces a reputational risk. A misbehaving chief executive can destroy a brand. The role of chief executives in building integrity is analysed in detail on page 14.

We wanted to track the most important threat vectors and the survey supplies the results. In 2017 the top three risks were technological changes, regulatory risk and macroeconomic developments. The priorities of 2020 are very different: the top three are economic slowdown, computer hacking and business interruption, showing that the world we are living in is changing faster than before, bringing new opportunities and challenges for businesses.

Technology poses multiple risks. The threat of a privacy breach is well appreciated, with 31 per cent citing it as the top IT threat in

Businesses' risk appetite has risen in the past year

● 2019 ● 2020



the next one to two years. Almost one in ten points to third-party connectivity as a danger. This is one to watch, as IT ecosystems grow evermore complex and interdependent. Banks, for example, are opening up their customer data to third parties via application programming interfaces, or APIs, a trend known as open banking. The model is replicated in other industries.

Expanding the perimeter of security opens the door to misuse of data and unwanted intrusions. Third-party risk to reputation is likely to be a growth area, particularly with increased home working driven by the Coronavirus lockdowns and criminals trying to exploit that situation.

The future of tech risk? One in four respondents points to artificial intelligence (AI) as a major threat over the next one to two years. Companies are concerned that AI engines are less than transparent on how they produce results. Worse, multiple AIs working together may affect each other's performance, a property called emergent behaviour.

"AI is starting to deliver incredible results in industries from retail and aerospace, to logistics and credit," says Markus Brinkmann, BDO partner, head of forensic, risk and compliance in Germany. "The survey shows widespread concern around AI deployment, especially on how the algorithms operate. In the future I expect to see a focus on how AIs are monitored."

Environmental concerns are now front and centre. An overwhelming 85 per cent of respondents say their industry has been endangered by the industry focus on environmental governance. Companies have moved fast to cope. Almost half have reviewed their supply chain as a result of environmental concerns and 47 per cent have been affected by changes to investments. Four in ten have implemented changes to their business purpose for environmental reasons, profound evidence of how important green issues are to modern commerce.

> *It is clear that too many companies are reactive in their approach*
>
> MARITA CORBETT,
> BDO AUSTRALIA

What action can companies take to improve their resilience? Our survey offers a number of suggestions. Appointing a risk officer to the board is an option. In Europe, only 22 per cent of respondents say risk officers hold a C-suite position, compared to 46 per cent in Asia-Pacific. A third of respondents say their organisation was considering elevating the risk officer to the C-suite.

Changing strategy from reactive to proactive is advisable. The proposition that preparing for a crisis is better than reacting after is supported by 58 per cent, compared to just 18 per cent who believe the response is what matters. But only 45 per cent of companies believe their strategy is proactive, with 35 per cent reactive. Only one in five ranks their organisation as "extremely proactive".

"The BDO risk series of reports is designed to help our clients prepare for the future," says BDO's Corbett. "It is clear that too many companies are reactive in their approach. Our survey highlights a long list of reputational risks, some of which pose an existential threat. A proactive approach means taking action before disaster strikes. In the long run there is nothing more important than the integrity of your brand."

70%

of respondents' organisations have experienced an event that posed a threat to its reputation

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82%
of respondents feel their organisation's practices are aligned to its business purpose

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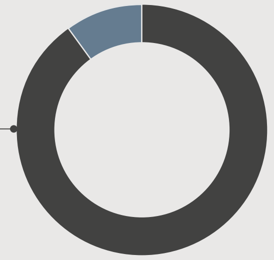

81%
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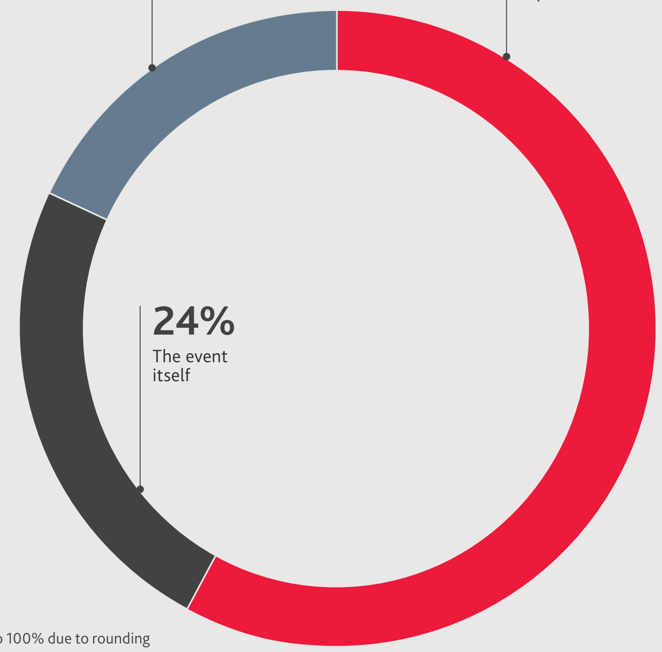

Most critical factor in a business crisis

Numbers may not add up to 100% due to rounding

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QUANTIFYING INTEGRITY

Business leaders hold their companies in high regard, often awarding themselves almost top marks for integrity and other critical issues, including governance and regulation

Are you trustworthy? BDO's *Integrity Index* reveals how companies see themselves. Our goal was to identify complacency.

Respondents were asked to rank their own organisation's integrity from zero to ten, with ten being the highest. The results show a remarkably high self-regard, with 34 per cent awarding their organisation a maximum ten out of ten, with an overall mean score of 9.01.

Then the survey drills down into proficiency over specific issues. Again, confidence is high. Three-quarters say their organisation is proficient at anti-bribery and corruption (75 per cent); internal audit (74 per cent); governance (76 per cent); and regulation (86 per cent).

"These numbers are self-assessment and are not an objective measure," says Emanuel van Zandvoort, BDO's head of risk advisory services in the Netherlands. "When asked more specifically about proficiency, the numbers fall noticeably. This illustrates a degree of complacency in the initial response."

It is particularly true around data integrity. It is clear a data breach or systems failure can have a catastrophic impact on a company's reputation. Safeguarding data is as much of a moral duty, as legal obligation. Yet only 49 per cent of respondents in Europe felt able to say their data integrity is "extremely mature". Chief technology officers are frank about the need to improve: 41 per cent say there is "work to be done".

"Data integrity should be seen as a key part of an organisation's trustworthiness," says van Zandvoort. "No company can claim to be a reliable partner if it cannot safeguard data. And certainly no company should be awarding themselves ten out of ten for integrity if they are vulnerable around data."

In fact, the more the survey examines specific aspects of risk, the more respondents reveal concerns. Questions around artificial intelligence (AI) highlight the point. AI is arriving in more and more workplaces. As AI engines make commercial decisions it will be necessary for organisations to understand and explain how those decisions were taken. For example, mortgage lenders may rely on algorithms to identify the credit worthiness of consumers, but face challenges over ethical issues such as the age, race and other sensitive ingredients in the formula.

The BDO survey reveals one in four respondents say a lack of explainability on why an AI has made a decision poses a threat to their reputation. Furthermore, 23 per cent cite potential bias on the part of the AI's creator as a threat.

"AI is set to be an integral part of the business world in the near future," says van Zandvoort. "The results illustrate a growing awareness of the dangers posed by AI. For example, a report by the Brookings Institution examined how lenders may deny credit to minority groups based on irrelevant data, without the lender realising. Black box, or untransparent, AI is going to raise

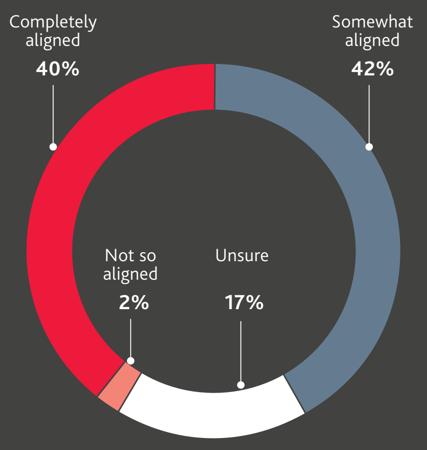
45%

of respondents described its organisation's reputational crisis strategy as proactive

35%

of respondents described its organisation's reputational crisis strategy as reactive

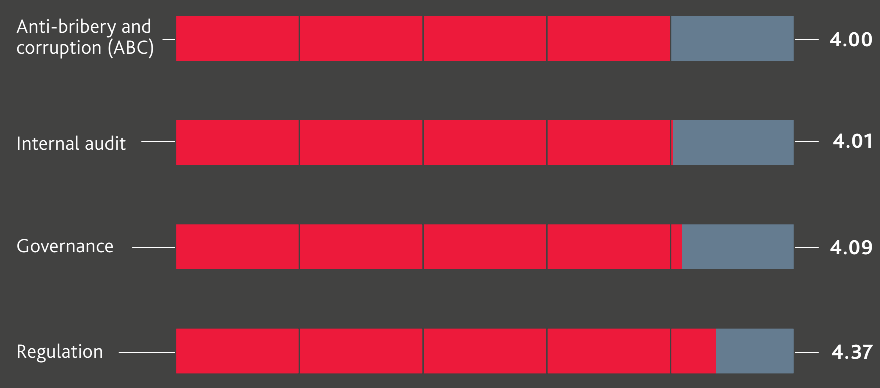
Respondents mostly feel their organisation's practices align to its purpose



Numbers may not add up to 100% due to rounding

Respondents are confident in their business's level of proficiency at several business challenges

Mean score (out of 5) of organisation's proficiency



9.01/10

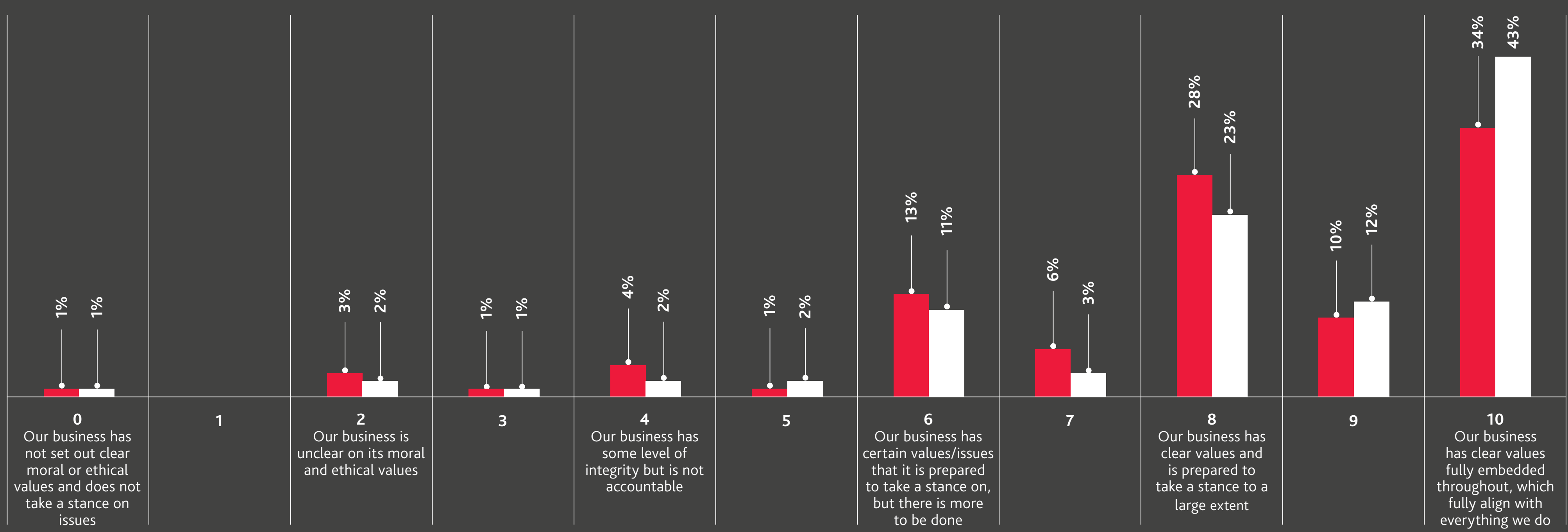
mean organisational proficiency score according to respondents

97%

of respondents agree an organisation's business purpose should evolve as the company grows and/or in response to societal changes over time

Businesses are highly confident in their organisation's level of business integrity (ranked on a scale of 1 to 10)

● Perceived current organisational business integrity ● Level of business integrity respondents feel their organisation should have



reputational issues for companies in the near future."

The survey also looks at perceptions of which elements contribute to a company being trustworthy. Topping the list is business purpose, with 39 per cent identifying it as critical, ahead of leadership (30 per cent) and data integrity (18 per cent). Culture, often cited as the bedrock of integrity, is rated as vital by only 6 per cent of respondents.

As a notable footnote, the age of respondents matters. Younger generations are more concerned by environmental, social and governance issues. When asked if there is more to be done by their company on certain values and issues, only 11 per cent of respondents aged 65-plus would concede this; for 24 to 35 year olds, the rate is more than double. Clearly Generation Z is less easily convinced of their employer's virtue.

Overall, the survey suggests companies are highly confident in their reputation. But perception and reality may diverge. Strict monitoring is therefore advisable.

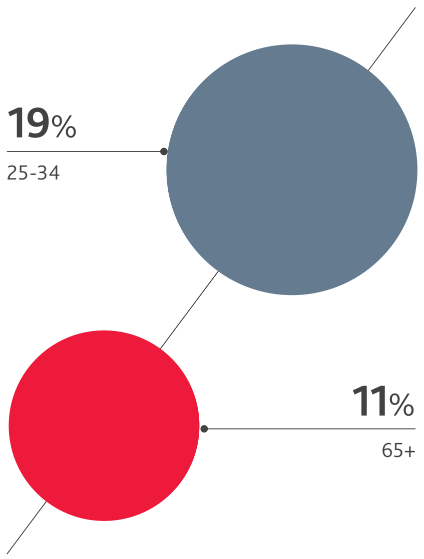
"Fraud can damage, and even destroy, corporate reputations," says Pierre Taillefer, national risk advisory services leader at BDO Canada. "By objectively assessing their governance structure and corporate culture, and by implementing measures that prevent fraud from occurring, or at a minimum mitigate the impact of fraudulent activity, organisations will be able to better maintain trust and credibility with stakeholders.

"Elements that can be assessed as a means to measure integrity include an organisation's commitment to and promotion of its core values and an organisation's tone at the senior level, in addition to an organisation's corporate culture, internal control environment, and overall employee engagement."

Complacency is a serious problem when promoting integrity. Self-assessment may be affected by over-confidence. Organisations clearly need an objective methodology to assess risks.

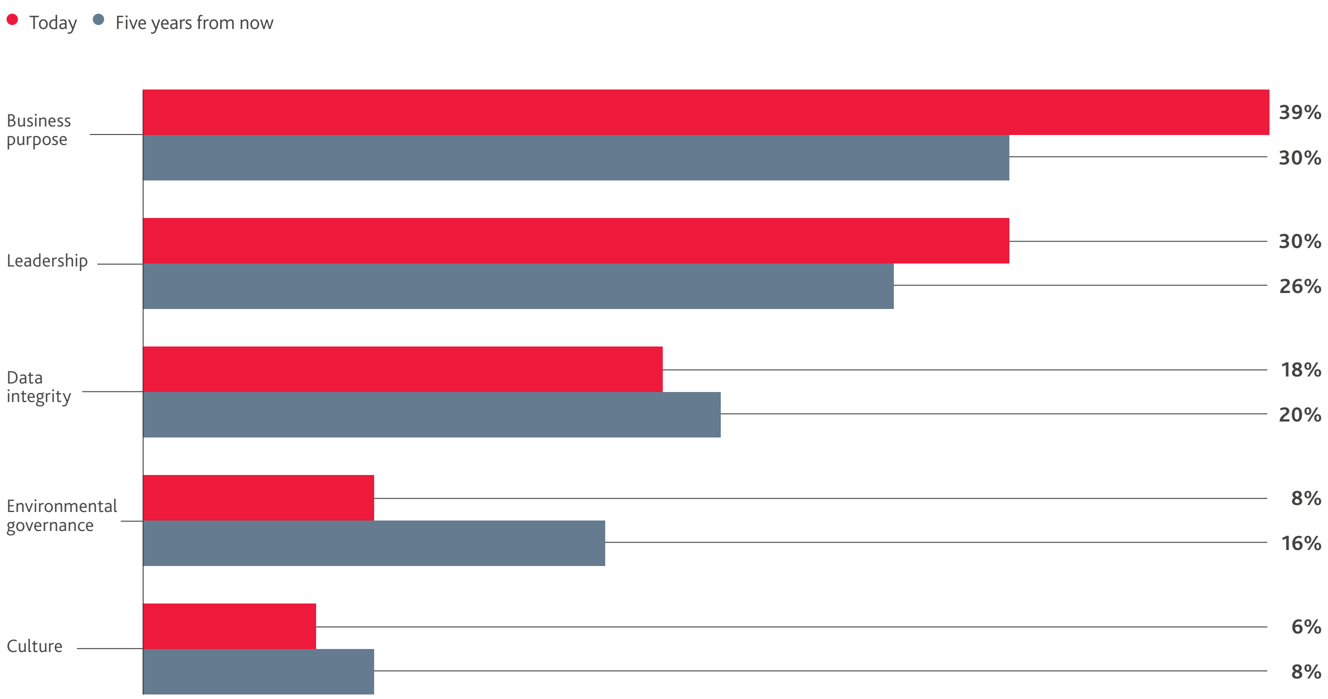
Younger business leaders have higher standards for integrity

Respondents who say while their business has certain values/issues that it is prepared to take a stance on, there is more to be done



Business purpose and leadership are perceived as the most important elements of integrity

Most important elements for businesses to be deemed to have integrity



THE RISE OF INTEGRITY WASHING

Pretending to have corporate integrity while acting dishonestly and without values is a problem which can touch even reputable companies

"We are on the side of the angels," declared the chief executive. His company had the words "Integrity, Communication, Respect, Excellence" chiselled in marble in the lobby. Investors were told of a "highly moral and highly ethical culture" in which staff pursued their "god-given potential".

The company was Enron. It became America's biggest fraud. The gap between rhetoric and reality was jaw-dropping. Enron held job interviews in strip clubs. Executives arrived on stage on a Harley-Davidson motorbike. It ran a brutal "rank and yank" appraisal every six months, firing or reassigning 15 per cent of the workforce. On one occasion the chief financial officer was asked if he understood the equations written on a whiteboard in his conference room. "I pulled them out of a book to intimidate people," he replied.

Integrity washing isn't limited to Enron. Normally reputable companies can have their dark moments. To find out the scale of integrity washing, the BDO survey asked

respondents for their own company's position. The result was perhaps the most remarkable in the research, with 87 per cent believing their organisation is culpable and 49 per cent agreeing with the statement: "Completely, so long as we are perceived to have integrity we do not prioritise putting it into practice." Just over half (53 per cent) say they believe this about companies in general.

Even organisations with excellent values are guilty. Of the sub-section of respondents who believe their company has the highest level of organisational integrity, 62 per cent still believe integrity washing is committed.

"It's an interesting finding," says Remko Renes, professor of corporate governance at Amsterdam's Nyenrode Business University. "It's almost paradoxical that companies can state they have integrity, yet commit integrity washing. An explanation could be one of materiality. Integrity breaches are always taking place, even if they are only very small. Even if a company has the best of intentions, there will always be mistakes."

Renes says he regards the finding as a reminder that a mere code of conduct is no guarantee of high standards. "The code of conduct of Enron was award winning," he says. "At our business school we show students Enron's code with the company name blacked out. We ask them what sort of a company this is. They are amazed when they learn it's Enron, where dishonesty was almost a corporate principle. It demonstrates how reality can differ from the theory."

The finding ought to prompt companies to review their own culture and commitment to integrity. Senior staff clearly believe integrity washing is routine. "There are concrete actions you can take to improve culture," says Vicky Gregorcyk, BDO risk advisory services national practice leader in the United States. "We work with companies to assess and improve culture in cases where there may be a gap between where the company is and where they want to be on the culture scale. Our multi-step process can be relied on to deliver results."

She says the journey begins with an investigation to examine current practices. "We introduce a culture audit to find out where the problems are. The view from the frontline may differ wildly from what is assumed by those at the top. Then we identify two or three issues to work on. There may be more issues, but tackling a large number at once is unwise. We then introduce changes, enlisting role models to promote them. Rewarding the right behaviours can help. These may include bonuses, promotions or accolades," says Gregorcyk.

The secret to repairing a struggling culture? "Communication," she says. "Leaders need to explain what is going on and keep staff fully informed. I stress that you can't communicate too much."

The pursuit of higher integrity need not come at the expense of innovation; far from it. Ricky Cheng, head of risk advisory at BDO Hong Kong, says one can lead to the other.

> *"The view from the frontline may differ wildly from what is assumed by those at the top"*
>
> VICKY GREGORCYK, BDO UNITED STATES

"An outstanding finding in the survey is that 97 per cent of respondents agree an organisation's business purpose should evolve as the company grows and in response to societal changes. This is really true. All people are talking about sustainability, addressing stakeholders' wider concerns and obtaining a social licence to operate. Businesses are expected to act in response to social needs, such as being more environmentally friendly and reducing the negative impact on human beings," he says.

No company is perfect, but the survey lays bare just how difficult it is to match reality with aspiration. Only organisations with a commitment to constant improvement and realistic assessments stand a chance of building company-wide integrity. Even the biggest brands can fall short.

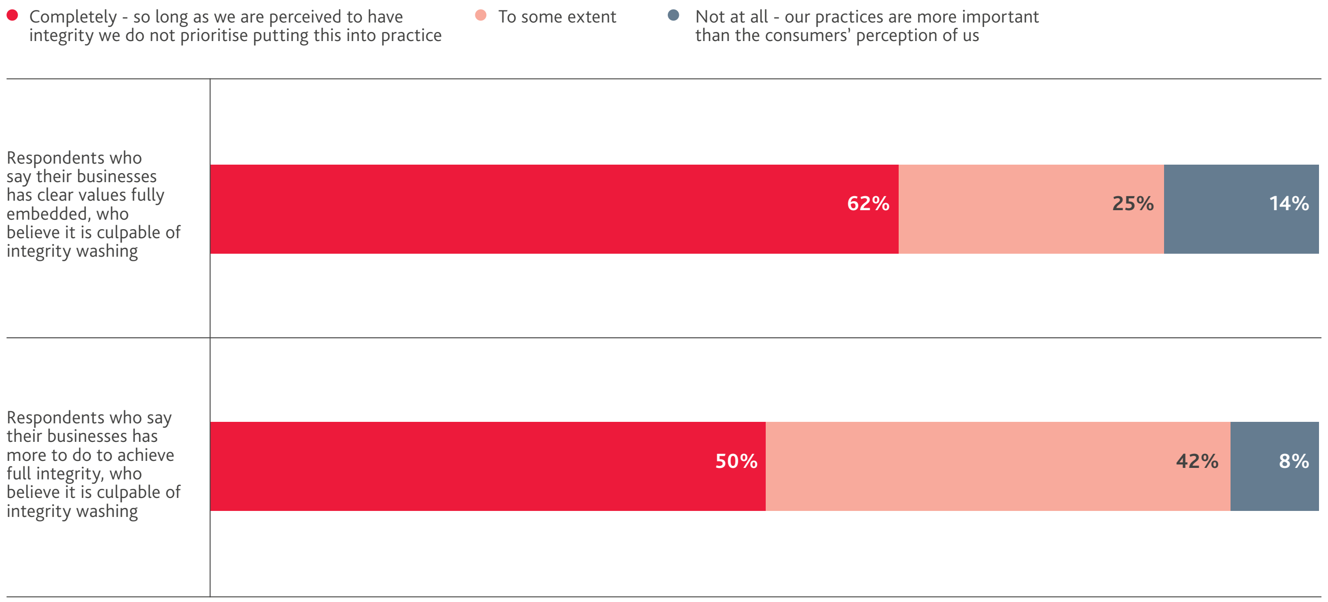
87%

of respondents believe their own organisation is guilty of integrity washing

93%

of respondents believe organisations in general are guilty of integrity washing

Integrity washing is a serious issue for businesses



Numbers may not add up to 100% due to rounding

HARNESSING THE CULT OF PERSONALITY

Leadership requires strong, principled personalities, but encouraging a cult-like following can result in unacceptable risk

Now, more than ever, it's clear employees and consumers need chief executives across sectors to stand at the forefront of their brand and speak up on key issues. While many organisations favour flatter, less hierarchical structures, we still need leaders who are willing to speak out, provide guidance and embed trust among their staff.

Within this context, it's not surprising BDO's research revealed 81 per cent of respondents agree trust in their organisation is influenced by its leadership or the cult of personality of its chief executive. As many as 85 per cent of respondents agree there is a reputational risk attached to leaders becoming more visible. Despite the risks involved, 86 per cent still believe their leader should take a stand on ethical issues.

Leaders who have taken on huge philanthropic exercises, have prioritised environmental issues, and informed national policies on skills and training have not just benefited society, they've also been helpful in keeping the organisations in question at the forefront of consumers' minds. Amid the Coronavirus crisis, Twitter chief executive Jack Dorsey made headlines after announcing he would allow all employees to work from home indefinitely. Dorsey also gave away $5 million to the Humanity Forward non-profit organisation to provide 20,000 micro-grants through its cash assistance programme.

As consumers become increasingly concerned with corporate social responsibility initiatives, a chief executive who behaves ethically can seem to have miraculous effects on a company's reputation and presence.

We know too, however, that historically the public are just as likely, if not more likely, to remember business leaders who have made poor, reckless decisions. Risky business behaviour often captures the public's attention and makes engaging news stories.

For some organisations, it might be tempting to think bad press is better than no press at all. WeWork's Adam Neumann's mishandling of finances resulted in the company's decline and thousands of job losses. Despite his often inappropriate behaviour, the former chief executive had managed to receive millions in investment and funding on account of his salesmanship.

Dr Kleio Akrivou, associate professor of business ethics and organisational behaviour at Henley Business School, points out businesses should be careful not to glorify those who achieve a cult-like status, regardless of their behaviour or actions.

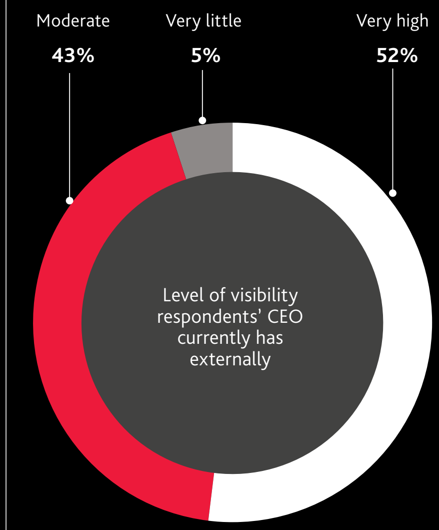
"There has been a societal shift in recent years where CEOs and leaders with a cult following have received increased media attention," she says.

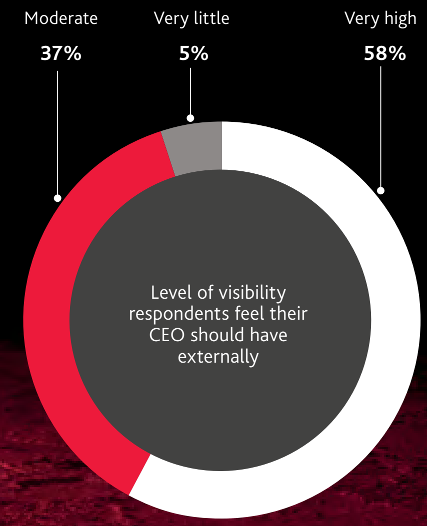
"The past few years have shown the notion of charisma is limited. Figures like Tesla and SpaceX's Elon Musk and Adam Neumann have demonstrated that without integrity, the consequences of having a cult-like figure can often outweigh the benefits. The rise and fall of WeWork especially has shown the often fetishised concept of risk-taking in business is just as likely to lead to short-termism and collapse as it is innovation."

Does this mean we should deprioritise the importance of personality altogether in organisations? The answer, says Akrivou, is far more nuanced. "This is a complex landscape. I feel we should move away from particular personal attributes in leaders, but we should not de-emphasise the importance of personal character," she says.

"We must remember the person behind the CEO. Leaders are part of a wider, interconnected picture with both regional and international governments. We need

CEOs have generally high visibility, and respondents feel this is as it should be





people who care about making a difference to people's lives and personality cannot be separated from that. This is paramount to building and sustaining trust for all involved."

Similarly, the personal attributes and narratives of chief executives can have a positive effect across organisations. Senior figures who have overcome adversity, who have made difficult but ultimately beneficial choices, and leaders who come from underrepresented groups and use this to elevate others can have a positive effect not just on business reputation, but on employees within an organisation too.

From a talent perspective, this can encourage like-minded individuals and help to create a diverse workforce and a strong culture, both of which have been repeatedly proved as vital to high performance and high profits.

Rather than focusing on strong personalities among chief executives, businesses should look to soft skills to achieve long-term growth. Prioritising delayed gratification, showing courage and emphasising purpose over immediate profit are just some of the leadership skills that can help businesses thrive.

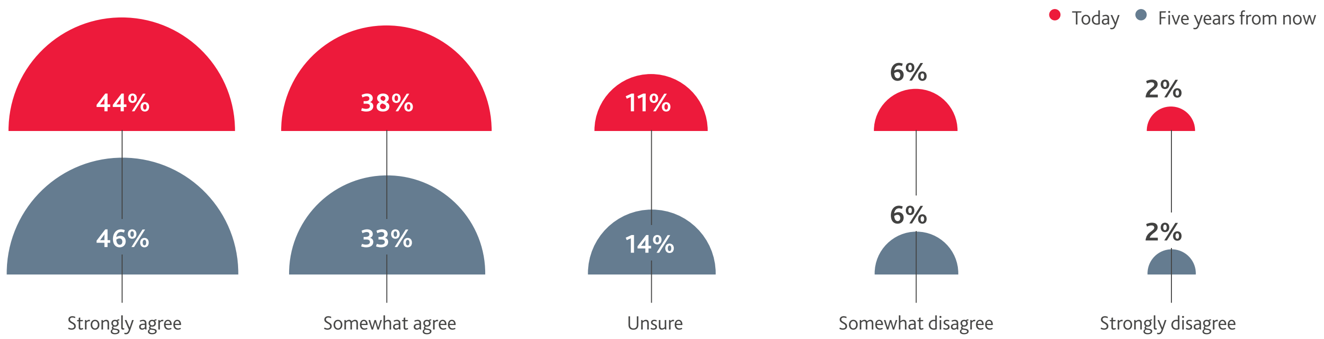
As Akrivou points out, part of achieving this is accepting that while there should be a shift away from cult-like personalities, we must also accept chief executives as human beings who just like employees need constant learning and training to improve.

"CEOs do not just need technical skills. They need emotional intelligence, social skills and an environment of creative learning to help with scenarios and challenges that organisations face in the future," she says.

This could come through not just traditional leadership programmes, but mentoring, networking, and taking time out to reflect.

There's little doubt that we'll see changes across society and work as we emerge from the COVID-19 pandemic. It may be that reframing attitudes towards leadership to place greater emphasis on emotional intelligence and soft skills could help to lead us to the best possible outcomes.

Agreement that consumer trust in respondents' organisation is influenced by the reputation of its leadership/cult of personality of its CEO



CHICKEN AND EGG

The link between chief executives and their businesses may well be inextricable. The challenge of business leaders is deciding to what extent their beliefs should directly affect a business's day-to-day running. How bosses decide to demonstrate, or enforce, their values and beliefs can make or break a company culture. Some 62 per cent of our survey respondents say their brand is completely integrated and tied up with the brand of the chief executive.

For outspoken leaders, who wear their political colours on their sleeves, this can be controversial territory. As a highly influential figure within the hospitality industry and founder of his company, Wetherspoons' chief executive Tim Martin had long been in the public eye. Martin has achieved monumental success through implementing a Sam Walton Walmart-style of expansion by taking one individual retailer and rolling out the business across the UK in a similar style.

In 2016, Martin became one of the first business leaders to openly show his support for Brexit. While this had little effect on profits or shareholders, it exposed cracks within the workforce. Staff asserted that they felt Martin was exploiting his position through forcing staff to distribute beer mats, leaflets and magazines advocating a pro-Brexit stance. This suggests that attempting to embed personal or political beliefs within an organisation isn't a pursuit that should be taken lightly and can often expose a fractured culture within a business.

On the other hand, Microsoft, which has maintained its position as the world's most-valuable company, has kept a level of consistency in its values which has surpassed its leadership. Its chief executive Satya Nadella recently said in response to the Coronavirus crisis that now is the time for organisations to step up to the challenges faced in society. Microsoft has already developed a bot which can be used to help diagnose those with the virus and the organisation has long proposed the values of using technology as a force for positive social change and global development.

This legacy has been carried over from Nadella's predecessor Bill Gates, who became renowned for his philanthropic efforts and emphasis on global healthcare. Microsoft has seen relatively little disruption in its workforce, as the company frequently scores highly on engagement surveys, with staff stating they support their chief executive and the organisation's values.

It seems that while an enigmatic chief executive can define a company, it may well be more beneficial for an organisation to base its values on those of its employees too, as part of a collaborative effort, rather than forcing these from the top down.

85%

of respondents agree that there is a reputational risk attached to leaders becoming more visible

62%

of respondents say their company's brand is completely integrated and synonymous with its CEO's brand

PREPARING FOR THE UNPREPARABLE

Few if anyone saw the Coronavirus pandemic coming, but being prepared for the unexpected or unknown can aid recovery

37%

of respondents in 2020 ranked economic slowdown/slow recovery as a top risk their organisation was unprepared for

31%

of respondents in 2019 ranked economic slowdown/slow recovery as a top risk their organisation was unprepared for

The Coronavirus pandemic has tested the resilience of every part of society, and has put intense pressure on businesses and the people who depend on them. The crisis has shown that while economic losses will be inevitable, organisations that have preparations in place will always be better equipped to deal with the monumental tasks at hand.

These challenges cannot be underestimated. In March, we found the optimism in businesses fell by its largest-ever margin since records began. BDO's *Optimism Index*, which weights macroeconomic data from the UK's main business surveys, fell by 21.69 points to 79.95. There were approximately 950,000 claims for Universal Credit at this time, with the expectation that unemployment could leap from 3.9 to 6 per cent.

Few could have predicted the far-reaching, global effects of COVID-19. However, events like the 2008 banking crash and recession, Brexit and the rapid pace of technological change have highlighted the need for organisations to become adaptable and agile. These instances have also suggested that recovery and growth are possible for businesses, so long as they adopt the right tools and procedures to respond to risks.

Every protective measure that businesses can take counts. This year BDO's survey found 58 per cent of respondents think that when it comes to reputational damage, effective preparation is more important than the event itself, or a business's response to the event. Some 37 per cent of respondents say economic slowdown one of the three risks their business was the most unprepared for, up from 31 per cent in 2019. The second biggest risk was computer hacking, with 34 per cent stating their business was unprepared for such cyberattacks. Just over a quarter say business interruption is something their organisation is the least prepared for.

Enric Doménech, partner and head of risk and advisory services at BDO in Spain, is not surprised by the results, given the recent interruption businesses have faced.

"As we approach another major crisis, we are reminded of the 2008 recession and the effects that a slowdown in the global economy can have on markets and companies. We have also just suffered the effects of business interruption. These are very recent wounds, and we are already seeing what this means for companies on the interruption of supply and demand," he says.

Paul de Ruijter, academic and author of *Scenario-based Strategy: Navigate the Future*, has worked with several big private and public organisations around the world.

Risks that businesses are most unprepared for in 2020 (ranked in top 3)

Numbers may not up add to 100% due to rounding

De Ruijter highlights the importance of leaders and organisations taking a global approach towards crises. He asserts that while the pandemic may seem incomprehensible to many, outbreaks occur more frequently than we might initially assume.

"We might not have seen anything on this scale before internationally, but we've seen from bird flu, swine flu and African flu that pandemics do occur every 30 years or so. The best thing business leaders can do is to keep informed. Look at the news internationally, don't assume businesses, economies and governments can't or won't crash. A look through recent history shows us they can. It's just a case of having the data," De Ruijter says.

Traditional approaches pay off when it comes to scenario planning. He adds: "Business has always been about looking at what your opponent is doing and staying one step ahead; of keeping leverage. Conservatism pays."

Instituting a business continuity plan can also help to minimise risks. Organisations should consider possible scenarios and outline how they would respond to each threat, before documenting them and communicating the plan across the organisation.

Messaging is a key component in making any business continuity plan successful. It's important consumers, as well as employees, are informed about a business's ability to move through these scenarios. It can be helpful to think about how technology can be used to communicate a plan in this way and the best type of technology that organisations can use to achieve this.

While businesses think about how to implement and improve technology, they must consider the risks. Periods of disruption can provide opportunities for hackers. Many business leaders have seen systems failing around cybersecurity and needing major structural revision.

"We're definitely seeing an uptick in phishing related to the Coronavirus, for example malware masquerading as fake antivirus, and VPN [virtual private network] solutions all aimed at capitalising on the change to remote working. We've also seen phishing campaigns in Japan which purported to come from the state welfare offices, but downloaded a Trojan designed to steal money from bank accounts," says Dr Duncan Hodges, senior lecturer in cyberspace operations at Cranfield School of Management.

"The World Health Organization has warned of phishing attacks pretending to be a charitable relief fund. We can also expect to see fraudulent activity surrounding either the selling of hard-to-find items or fake antiviral equipment."

"Cyber issues like CEO fraud or man in the middle attacks have been increased dramatically over the last years," says Markus Brinkmann, BDO partner, head of forensic, risk and compliance in Germany. "In our experience, a lot of companies lost money because of cyber attacks, sometimes a significant amount. Cyber security becomes therefore increasingly important. As a result of the COVID-19 crisis, many companies needed to look for alternative suppliers. Unfortunately fraudsters hacked company information, presented themselves as ideal suppliers (as they knew everything about the companies) and set up fraudulent business relations." He says that cyber security is one of the most important issues to manage risks in the future.

As a larger number of people are working from home, we could see a rise in attacks on video-conferencing software.

Hodges encourages businesses not to think about cybersecurity as something that can be fixed through one product. Rather, he says, organisations should prioritise cyber-hygiene, which involves simple measures, such as making sure all your systems are up to date.

BDO's Doménech stresses that businesses must move forward and be adaptable to change. "I think the best message in these moments from companies to their employees is to look forward without wasting a lot of time looking back," he says. "As in every crisis, you must work hard and well to overcome it. This means looking to the future, finding your niche, being versatile and adapting quickly to changes. This will be achieved by means of a good business approach and with messages of unity, cohesion, effort and improvement."

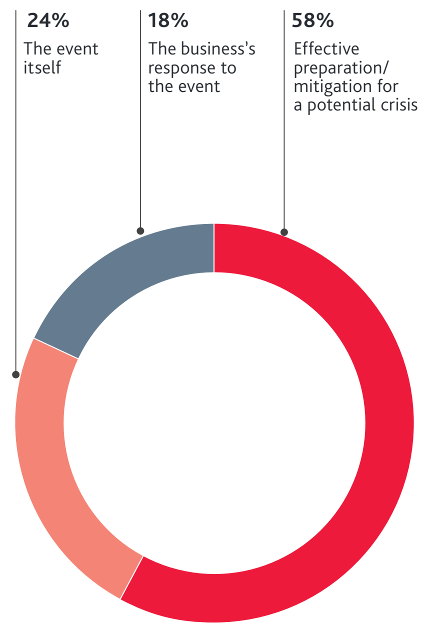
In a changing and uncertain world, new organisational challenges require all of us to work together and rethink how businesses and the economy operate, to create growth for the good of all. BDO's rethink model provides a road map of support throughout the COVID-19 crisis and beyond, helping businesses to succeed in the new world that lies ahead.

All businesses, no matter what their size, sector or location, will need to imagine a 'new world' as early as possible and rethink how they will be positioned in it.

In order to weather the storm, businesses must anticipate critical changes that will impact operations and value chain. A rethink strategy may come as a direct result of initial actions to ensure ongoing business resilience, adapting new business models, as well as planning to recover and optimise their operations in the short to medium term, in an effort to achieve some form of normality.

When it comes to reputational damage, preparation is seen as more important than the event itself, or the response to it

Most critical factor in a business crisis



Economic slowdown, computer crime and business interruption have emerged as key business risks

Risks that respondents say their organisation is most unprepared for

	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

THE TRANSPARENCY PARADOX

Employees and consumers increasingly demand transparency in the way businesses are run, but this can backfire in the absence of sound decision-making

It would be easy to assume that we are living in a golden age of transparency. Businesses are rewarded for publishing reports on gender and pay, and corporate governance, business leaders are encouraged to share personal stories of success and failure, and the domination of social media means an off-hand remark made in a boardroom can become global news within minutes.

This could be seen as an ideal situation. It has long been argued that a culture of transparency will push corporations to implement stronger human resources practices and create a greater sense of trust among both employees and consumers.

Our survey findings have shown there is still a clear need for businesses to take a stronger line on ethical issues. BDO's research found 13 per cent of respondents feel that while their business is willing to take a stance on certain values and issues, there is more to be done. Respondents wanted organisations to take a long-term approach towards these issues, as 35 per cent say their company's reputational strategy is reactive.

Transparency brings a greater sense of accountability for organisations, but also presents challenges. When everything is brought out into the open, organisations and individuals can be subjected to harsh scrutiny. This can cause reputational damage, dent employees' faith in their organisation and often be difficult to bounce back from. This was certainly the case for Nespresso, which despite having a strong corporate responsibility programme, came under fire after an investigation into its supply chain that left its reputation tarnished.

13%

of respondents said that while their business has certain values/issues that it is prepared to take a stance on, there is more to be done

All organisations will inevitably make errors and there are likely to be multiple stakeholders involved. So should all organisations still be reaching for transparency? Or is there an alternative way of building trust?

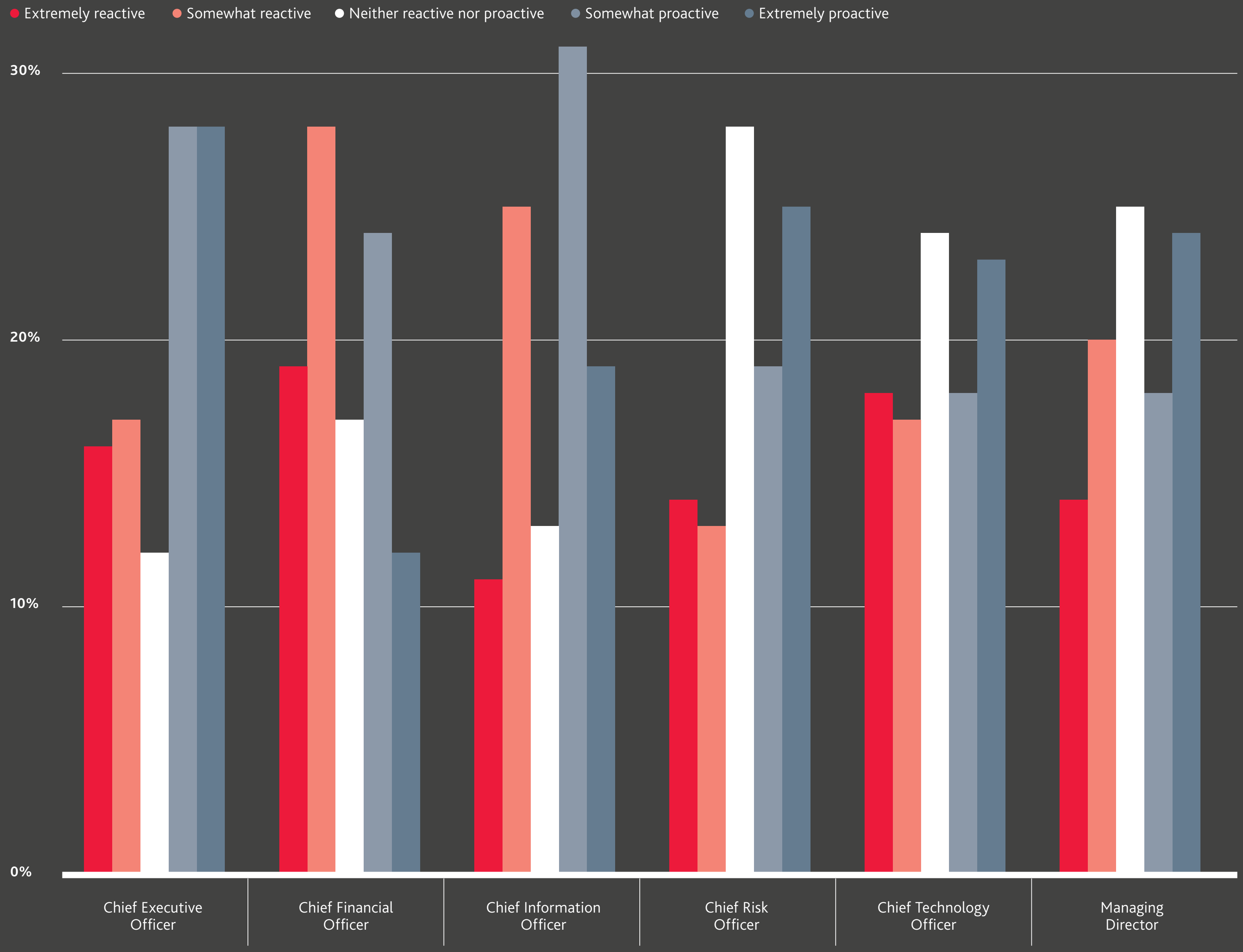
While businesses should not neglect the importance of transparency, they should work to deepen their understanding of it. Dr Kleio Akrivou, associate professor of business ethics and organisational behaviour at Henley Business School, explains the concept of transparency can at times be poorly understood and misused.

"For a period, it seems like there were constant scandals within business and little insight into the decisions organisations were taking behind closed doors. We should make every effort to ensure we don't go backwards so, to an extent, we will always need transparency," she says.

Akrivou says transparency may not be enough on its own and that sound judgment should be used when deciding how to comment on an organisational issue. "The moment we start to use transparency as an abstract concept is when we start to run into problems. This is because transparency can then be used in positive or negative ways," she says. "Transparency should not just be used as a buzzword in an organisation. It's up to everyone – chief executives, politicians, governments, regulators and journalists – to use good, sound judgment when responding to a crisis."

Opinion is split as to organisations' level of proactive reputational crisis management

Perceived reputational crisis strategies by job title



The Coronavirus pandemic has raised expectations around transparency, as we keep a close eye on organisations to see which has our best interests at heart for our health and livelihood. Businesses have been required to respond quickly, which means decisions and judgments are being made quickly. Virgin's Sir Richard Branson, for example, received heavy social media backlash after he asked for public funds to rescue his Virgin Atlantic airline and suggesting staff take eight weeks of unpaid leave. However, while many criticised the move, some staff supported their boss, saying they would be happy to make the sacrifice to keep their place of work.

While stories of billionaire business owners behaving in less favourable ways are more prominent, there have been positive stories too. Chelsea Football Club owner Roman Abromovich announced he would pay for NHS staff to stay at a hotel rather than take long commutes to work. Beyond Europe, Alibaba founder Jack Ma, based in China, pledged $14 million to help develop a vaccine for the virus.

Such examples illustrate that now, more than ever, no business decision should be taken lightly. Rather than seeking transparency in an organisation as a means to an end, it may be better to go back to the fundamentals of intelligent, sound decision-making as a way of building trust.

"Especially when supply chains are breaking down as a consequence of COVID-19, companies need to find new suppliers," says Markus Brinkmann, BDO partner, head of forensic, risk and compliance in Germany. "Some fraudulent suppliers do not disclose the company data and credentials correctly. Because of that it is very useful to perform a vendor due diligence in order to mitigate the risk of fraudulent suppliers."

OVERCOMING THE TRUST CRISIS

Lack of trust, among employees or consumers, can blight a business, so organisations should focus on the issues that matter to staff and customers

In both business and our daily lives, concerns about data security, information credibility and social media are rising. According to the *Edelman Trust Barometer,* 73 per cent of respondents globally worry about false information being used as a weapon and only one in five people believe the system is working for them. Meanwhile, 55 per cent of consumers trust businesses to do what's right.

Edelman's most recent results are in line with this year's BDO research, which shows that just 65 per cent think customers have the same or less confidence in business as they did five years ago.

Businesses know they need to address the trust gap, which can be a significant threat to an organisation's ability to grow. Cybersecurity incidents, leading to misuse of personal data, scandals and indictments of prominent businesspeople, and the release of misleading or inaccurate information, can all be culprits in denting trust of an organisation.

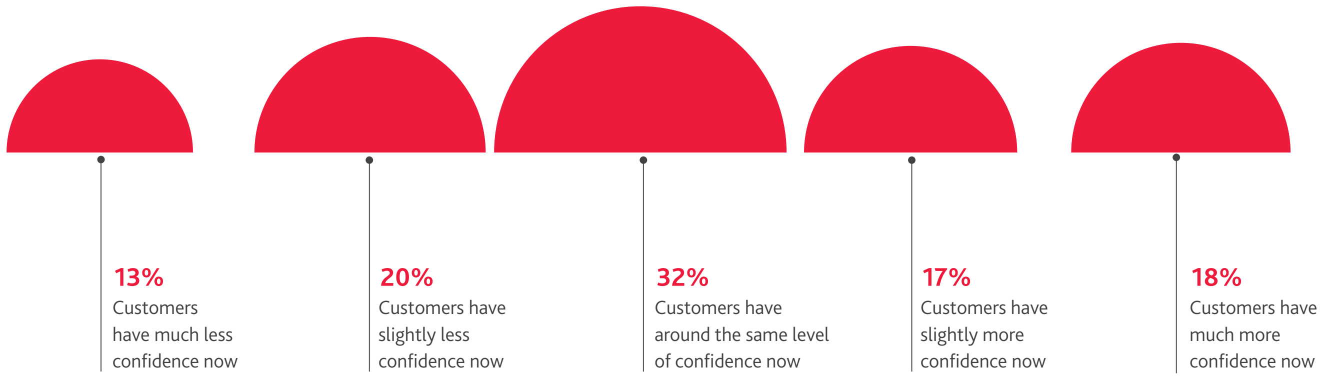
Such trust issues can reflect frustrations across the business. "Often a trust deficit within a company is expressed as a series of frustrations underlying a broader and more fundamental set of issues," says Dr Deirdre Anderson, senior lecturer in organisational psychology at Cranfield School of Management.

"Many business executives are frustrated, for example, by their organisations' inability to be more nimble, more creative and more entrepreneurial. A lack of trust may be what's holding them back. Middle managers are paralysed, fretting about what senior leadership might think. Meanwhile, the frontline simply sighs at what they perceive as yet another programme from the top."

Anderson's comments reflect BDO's research, which reveals that 71 per cent of respondents believe employee resistance is a barrier to implementing a culture of integrity.

There is lack of agreement over whether consumer confidence has increased or decreased over time

Perceived customer confidence that respondents' business has integrity and will do what is right, compared with five years ago



65%

of respondents think their customers have the same or less confidence than they did five years ago, that their business has integrity and will do what is right

At the highest level, distrust is problematic because it hinders international co-operation. Without trust, societies cannot tackle issues that require long-term planning or concerted action such as disarmament, climate change and tax avoidance. Now, as businesses' ethical decisions have become even more imperative to people's health, stability and income, embedding a sense of trust will be vital for their survival.

So how can businesses bring about a high-trust culture? A first step might be to build an authentic, customer-centric focus within an organisation. Such a purpose, clearly and commonly articulated by leaders and managers, will drive ethical standards.

If a company exists to improve the life of its customers, violating their trust or harming their communities through unethical behaviour becomes not just a moral issue, but a strategic concern.

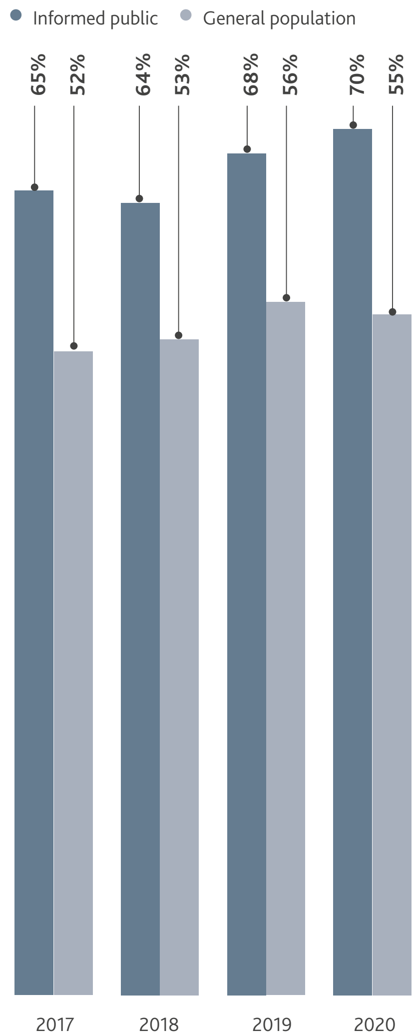
As an example, in restructuring their operations after suffering massive losses in the global financial crisis, many retail banks made restoring customer relationships their paramount leadership concern, with many expressing a renewed focus on customer centricity, supported by a set of clearly stated ethical standards and responsibilities.

After its bailout in 2008, RBS spearheaded a radically different strategy focused on understanding and addressing customers' needs, introduced cross-functional teams and removed bonuses tied to sales, all leading to substantial progress.

For many large organisations, trust is largely a product of leadership. Unfortunately, we've seen many businesses pay lip service to compliance programmes without conveying to employees the organisation's commitment to building and maintaining customer trust through ethical practices. For organisations whose leadership do get it right, there's typically higher engagement among staff and bigger profits.

A UK cross-government study discovered a direct correlation between leadership behaviour and employee engagement, while the *Harvard Business Review* found business leaders with high empathy created 50 per cent more income than their less-empathetic competitors.

Trust in businesses is gradually increasing, but remains low



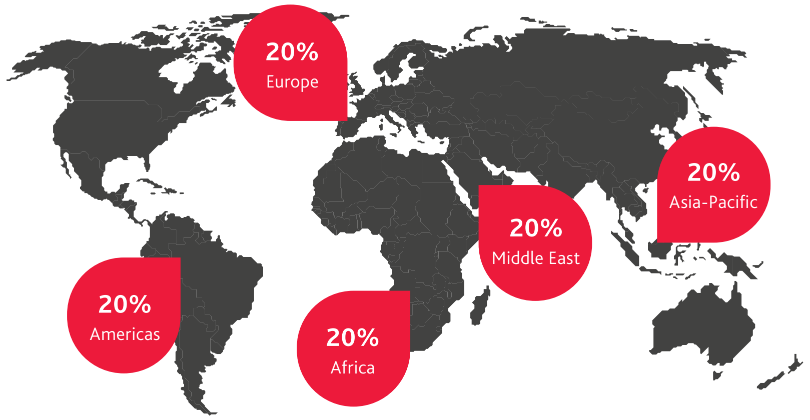
Edelman Trust Barometer

As consumers place increasing emphasis on corporate social responsibility, the solution may be to ensure ethical decision-making remains a part of the conversation. If the last few years are anything to go by, the decisions business leaders take now, and how they communicate them, could have an effect on the outlook of a company for many years to come.

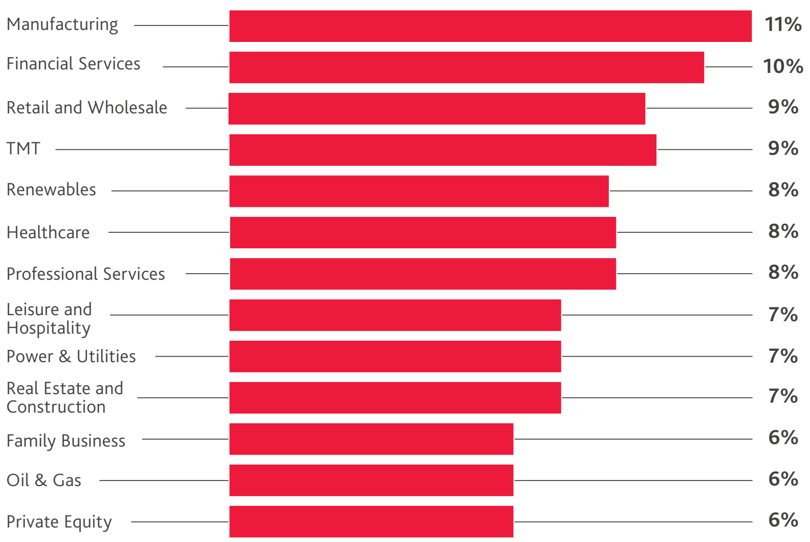
Those that put short-term gains and profits before their people will find there are few places to hide. Through involving employees at all levels in an open, safe dialogue about ethics, trust can be earned.

DEMOGRAPHICS AND METHODOLOGY

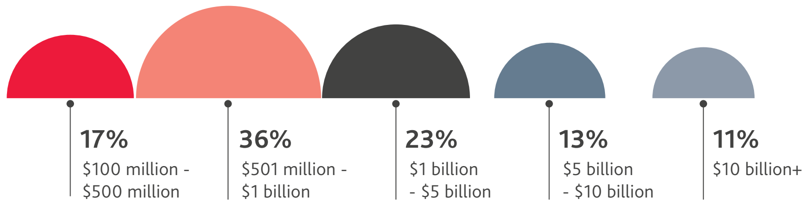
Company location



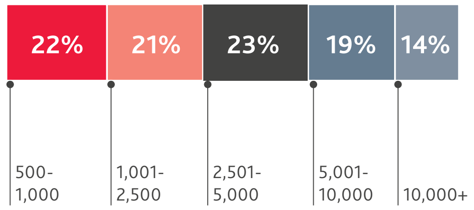
Organisation's primary industry



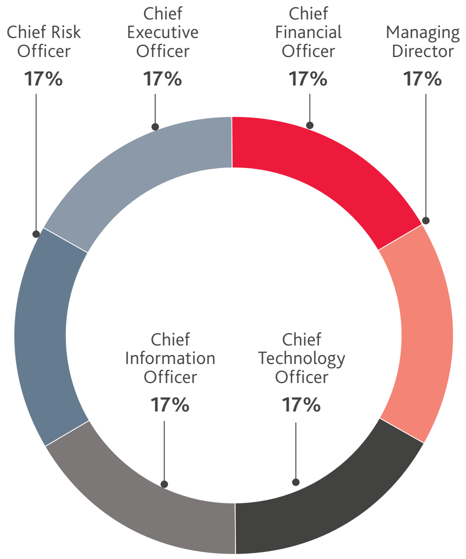
Annual turnover



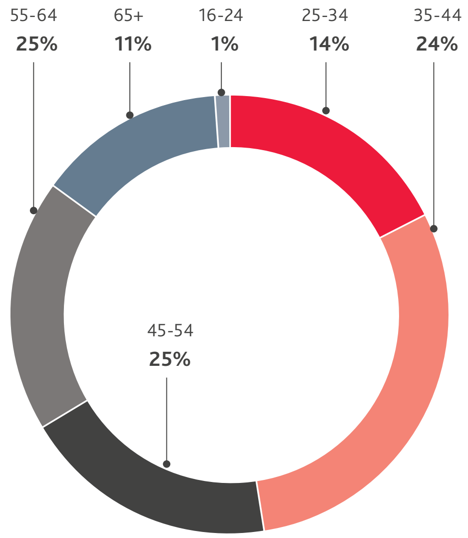
Number of employees



Job title or nearest equivalent



Age



Numbers may not add up to 100% due to rounding