APAC
Executives shouldn't allow media hype to distract from sensible risk planning

BDO's Global Risk Landscape Report 2019 reveals that more than a third (35%) of business leaders across APAC believe their risk register is highly influenced by issues talked most frequently about in the media.

FOR MORE INFORMATION:

RICKY CHENG
Director, Head of Risk Advisory,
BDO Hong Kong
rickycheng@bdo.com.hk

MARITA CORBETT
National Leader, Risk Advisory Services,
BDO Australia
marita.corbett@bdo.com.au

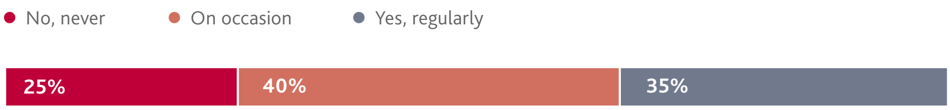
Being aware of the many risks that might hinder business success means having your antennae attuned to a wide range of issues, from the macro (economic and political trends) to the micro (business operations, people and finances). This requires constant watchfulness and forward-planning to anticipate how changes in the operating environment may impact your business both now and in the future.

While the media and industry publications provide a useful source of insight on evolving trends, do business leaders rely too heavily on these sources to drive their risk planning? To answer this question BDO surveyed 100 C-suite executives from leading companies across the Asia-Pacific region.

More than a third (35%) of the executives surveyed believe their organisation's risk management register is overly-influenced by 'hype cycles', the stories that dominate industry attention at any given moment. A further 40% believe they tend to follow this approach 'on occasion'. Just a quarter of the executives surveyed across Asia-Pacific say their risk management is not influenced by media 'hype cycles' at all.

While paying attention to the media and industry talking points as a source of information is no bad thing, blindly attaching your focus to the issues of the day without properly evaluating the probability or significance of their impact for your business can lead to poor risk planning and business decision-making. In a 24-hour rolling news cycle, risk issues that deserve thorough and well-considered Board discussion can be top of the agenda one moment and languish in obscurity the next.

Figure one: Do you believe your organisation's risk register is influenced by 'hype cycles', depending on which risks are being talked about in the industry the most?



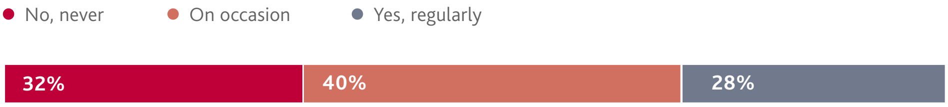
This is illustrated by the length of time that certain risk issues have been present on an organisation's risk register. Across Asia-Pacific, for example, 61% of the executives we surveyed said the risk of data privacy breaches had been on their risk register for fewer than three years, despite this being both a top concern cited by executives and a probable and tangible risk that has been known about for a long time.

It is perhaps the influence of recent media stories such as the breach of personal data relating to 45,000 customers of Thailand's second biggest mobile operator in 2018,[1] the 1.5 million patient health records leaked online in Singapore including those of the country's prime minister,[2] or the leak of customer data by Hong Kong airline Cathay Pacific,[3] that have focused executives' minds towards the consequences of not addressing the cyber security risk sufficiently.

One consequence of being distracted by 'hype cycles' is that executives can overlook more pressing and highly probable issues as part of their risk planning process.

More than two-thirds (68%) of the business leaders BDO surveyed across the Asia-Pacific region agree that 'grey rhinos' – those risk events which are highly obvious, but are often ignored – are overlooked at the expense of focusing more time and attention on so-called 'black swans', risks that are unpredictable and have a far lower probability of occurring.

Figure two: Do you believe that 'grey rhino' events are being neglected by the board in favour of 'black swan' events?



Another adverse consequence of poor risk profiling is that subtle interconnectivities between risk factors go overlooked. For example, data and cyber risks can have negative consequences not just for technology or business operations, but also for brand reputation, customer loyalty and share price. Where possible, executives need to avoid considering risk issues in isolation and instead adopt a more holistic approach. More than half (57%) of the Asia-Pacific leaders in BDO's research agree that their organisation's risk register fails to sufficiently consider the interconnectivity of different risks. A robust risk management approach is about much more than compliance, but can be a proactive business decision-making tool.

As already discussed, computer crime is the top risk that executives across Asia-Pacific say their business is underprepared for: 35% place this as a top three risk for their business. This is closely followed by reduced access to capital or funding to drive business growth, damage to reputation and brand value and macroeconomic slowdown. Cyber security has remained a top issue since the 2018 iteration of our survey, where it was ranked second overall among the risk reported by APAC executives.

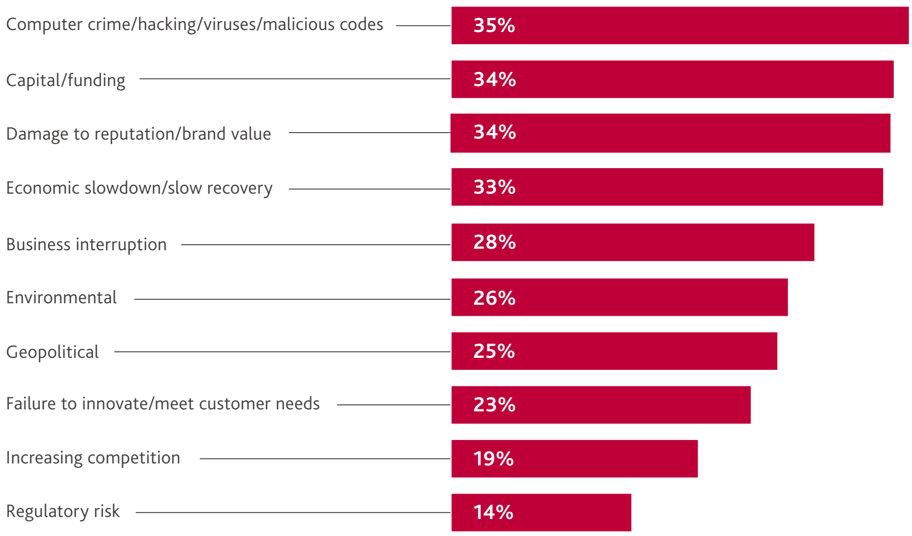
Figure three:

Recent forecasts published by the Asian Development Bank suggest that executives in the region are right to be concerned about macroeconomic trends depressing their business outlook. Its forecasts suggest aggregate growth in the region will slow to 5.7% in 2019 and 5.6% in 2020, down from 5.9% in 2018. Trade conflicts between China and United States of America, as well as slower growth in demand for Asian goods from mature economics in Europe were cited as principal factors contributing to the slowdown.[4]

The Reserve Bank of Australia's recent economic outlook paints a similar picture. It has revised down domestic GDP forecasts for 2019 and 2020 to 2.75% per annum. The Bank notes this is being driven by a slowdown in demand from the country's major trading partners, lower rates of domestic consumption growth and slowing investment in domestic housebuilding. Business investment, however, is expected to remain robust, with a strong future pipeline of private infrastructure projects in development.[5]

With change and disruption on the horizon, APAC executives need to keep a watching brief on developing macro and micro risk factors for their business. Monitoring the media and industry talking points can and should play an important role in any risk management strategy, but this alone is not sufficient. Business leaders should make sure they look beyond the press headlines to ask the right questions of their teams about the tangible risks most likely to occur within their organisation's specific operating context. Doing so will help organisations avoid being blindsided by 'grey rhinos' they have failed to anticipate.

Figure four: Which of the following risk are you most underprepared for?



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