

AMERICAS

Economic and brand reputation risks occupy business leaders in the region



BDO's Global Risk Landscape Report 2019 highlights a realignment of risk priorities for executives in the Americas, with economic risk and brand management topping the list of concerns this year.

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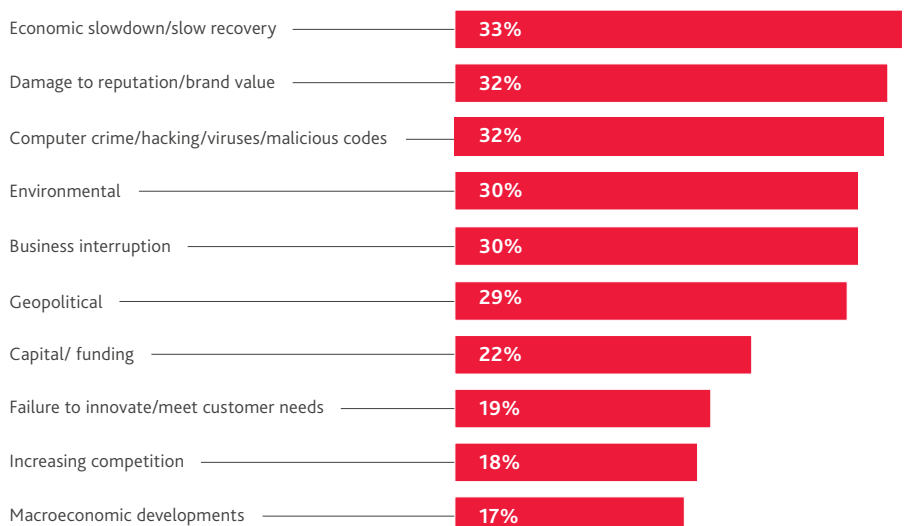
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To uncover which risks most concern business leaders across the Americas, BDO recently surveyed 105 C-suite executives from the region. As shown in Figure one, the results show three clear risks emerging strongly this year: economic slowdown (cited by 33% of participants as one of the top three risks they are most underprepared for), closely followed by damage to reputation or brand, and computer crime or cyber-attacks (both cited by 32%).

These responses suggest Board-level conversations about risk have evolved considerably over the last 12 months. In our 2018 survey, the biggest risks reported by executives across the Americas were regulatory, people and environmental risk. Although environmental risks remain a significant concern for American business leaders this year, risk factors that may have more short-term, negative impacts on business performance – such as the effect of a major data breach – have focused executives' minds on more immediate risks to business operations.

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



Despite concerns about underlying macro-economic performance, indicators from the most recent International Monetary Fund (IMF) quarterly report, show that GDP grew by 2.2% across North America over the last 12 months, and by 3.2% and 1.1% in Central and South America, respectively.

Although the IMF forecasts GDP to slow to an annualised rate of 1.7% in North America over the next three years, growth forecasts remain robust across Central and South America during the same period.¹

Given these healthy growth rates, why do executives in our survey feel so underprepared to address the potential risk of economic slowdown? Several possibilities present themselves. First, regional averages mask more pronounced slowdowns in key markets in the region such as the United States of America and Brazil, according to IMF forecasts.

Second, American business leaders may be concerned about economic fragility caused by unpredictable political events such as the outcome of next year's US presidential election, or the instability in the political regime in Argentina. These sweeping political changes have the power to dent consumer and business confidence in the short-term causing a slowdown in economic activity.

Third, participants of our survey across the Americas are concerned that they may have taken their eye off scrutinising the likelihood and potential impact of 'grey rhino' events (those risks which are highly obvious but often ignored) at the expense of focusing too much attention on unpredictable risks, so-called 'black swan' risks. Nearly one in four (22%) of those surveyed say that 'grey rhino' risks are being regularly ignored by their Board. A further 46% say they tend to ignore these risks on occasion (See Figure two).



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

● No, never ● On occasion ● Yes, regularly



Risks to brand reputation and value also weigh heavily on the minds of executives in the region this year. The fatal crash of a Boeing 737 Max aircraft earlier this year has had not only a negative financial impact on the American aerospace manufacturer as it seeks to investigate and fix the problems, but the widespread loss of consumer confidence and brand reputation is significant too. Brand valuation agency Brand Finance, which estimated the value of Boeing's brand at \$32 billion in 2018, suggests that more than \$7.5 billion could be wiped off the value of the brand as a result of the disaster.²

This suggests that executives across the Americas need to pay closer attention to the reputational risks associated with not fulfilling customer expectations. For example, just 41% of American executives we interviewed say reputational risk because of poor corporate culture has been listed on their risk register for more than two years, compared with 50% of executives in Europe, and 55% in the Asia-Pacific region.

The risk of cyber-crime and hacking is the final risk among the top three cited by American business leaders. This is undoubtedly rising up the executive agenda as a result of more

frequent and high-profile cyber-attacks appearing in the media. Two recent examples affected financial institutions across the region: Mexico's state-owned bank Bancomext, where bank employees foiled an attempted electronic heist of more than \$110 million USD in May 2018,³ and Chile's Banco de Chile where a smaller scale but successful hack occurred just weeks later.⁴ In both instances foreign operators linked to North Korea were blamed for the cyber-attack.

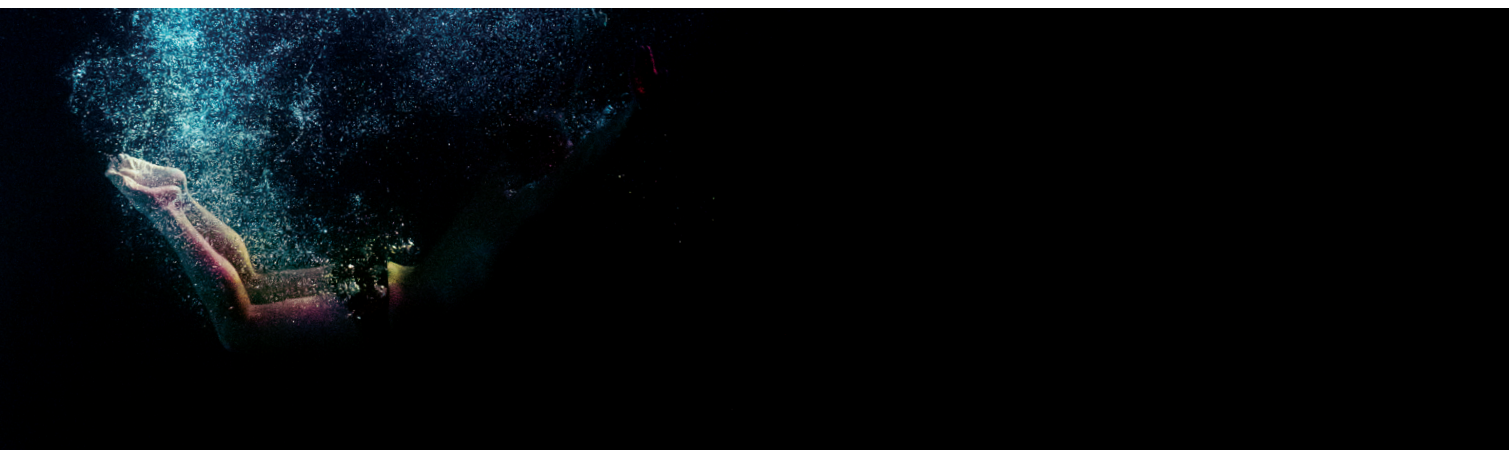
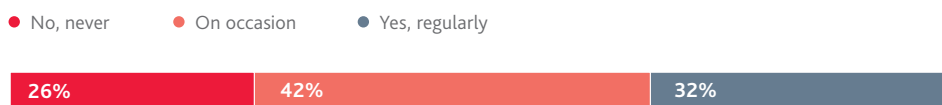
It is not just financial institutions across the region that need to be prepared for such risks. As the risk of computer crime intensifies, Board-level executives need to make sure they are asking the right questions of their operational teams about how their organisation is anticipating and mitigating such risks.

However, executives need to make sure that they don't focus too heavily on high-profile risks such as cyber-crime simply because they appear frequently in the news media. Among our survey participants, a third (32%) of American respondents acknowledge that their risk register is regularly influenced by media 'hype cycles', the issues that tend to dominate industry conversations (see Figure three).

Instead of relying solely on media monitoring and industry talking points to inform their risk management strategy, executives should spend time looking behind the headlines to consider the risks that are most pertinent to their business operations, people and customers as well as the wider economic and political environment in which they operate.

As all executives know, risks rarely arise in isolation. Cyber hacking, for example, may disrupt business operations for the short-term, but the long-term impact on consumer confidence or brand reputation may be much more severe. For this reason, more needs to be done to take a more holistic approach to risk planning. Currently two-thirds of the respondents in our survey admit that their organisation's risk register fails to adequately consider the interconnectivity of risk for their organisation.

Figure three: 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?



¹ International Monetary Fund, World Economic Outlook April 2019 (April 2019):
https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

² Brand Finance, 'Brand Finance US 500 ranking revealed', (March 27th 2019):
<https://brandfinance.com/news/press-releases/netflix-is-americas-fastest-growing-brand-of-2019--brand-finance-us-500-ranking-revealed/>

³ Bloomberg, 'Mexico foiled a \$110 million bank heist then kept it a secret', (29th May 2018):
<https://www.bloomberg.com/news/articles/2018-05-29/mexico-foiled-a-110-million-bank-heist-then-kept-it-a-secret>

⁴ Reuters, 'Bank of Chile trading down after hackers rob millions in cyber attack' (June 11th 2018):
<https://www.reuters.com/article/us-chile-banks-cyberattack/bank-of-chile-trading-down-after-hackers-rob-millions-in-cyberattack-idUSKBN1J72FC>

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