

## THE IMPORTANCE OF A RISK-WELCOMING MINDSET

Agile businesses with a risk-welcoming attitude have been able to adapt to challenging circumstances and beat the pandemic slump

The COVID-19 pandemic exposed huge cracks in many business models. But it has accelerated the development of, or even strengthened, others.

Companies that embraced risk were generally better equipped to deal with the crisis. Not only were risk-welcoming firms less affected than they had expected, 51% of them are “very confident” about managing the COVID-19 risk in the next six months (compared to 14% of risk-averse organizations).

In contrast, businesses that neglected or avoided risk suffered: 25% of respondents cite ignoring or failing to acknowledge the situation as the biggest inhibitor to fast, effective decision-making.

The ability of companies to pivot their business models quickly and smartly during the last year has been key. It’s also intrinsically correlated to how well they have handled risk: almost half of respondents who said their companies were

# 49%

of risk-averse respondents agreed that their company did not adapt to the pandemic as quickly as it could have.

# 25%

of respondents stated that “ignoring or failing to acknowledge the situation” is the biggest inhibitor to fast, effective decision-making

risk-averse later conceded they didn’t adapt to the new business landscape as fast as they could have.

This is largely down to mindset around the pandemic, says Risk Advisory Services partner at BDO, Emanuel van Zandvoort. “Being risk-averse means that companies are less open to uncertainty – including opportunities and change. They see the pandemic as something negative – a risk – and are less capable of seeing the upside,” he says.

So which industries were quickest to adapt and realize the opportunity? What was their success down to? What informed senior management’s timing and reasoning behind switching to offer new products and services? And how did they manage the continual pressures on their business?

### MANUFACTURERS LEAD THE WAY

Manufacturing was at the forefront of this change, with many firms switching at the start to make essential products such as ventilators and personal protective equipment. It paid dividends, with one in four manufacturers reporting the pandemic’s impact was less or much less significant than expected after major initial pessimism.

“At the start, we were going into the unknown and firms tended to fear the worst,” says Jack Semple, alliance secretary at the Engineering and Machinery Alliance of Trade Associations. “Firms saw projects being put on hold across the economy, there were strong fears over getting paid and employees were worried. In the event, however, the picture has started to become less gloomy. Invoice payments have held up remarkably well and supplies have got back on track.”



Manufacturers also cite “people pressures” like employee wellbeing and satisfaction (16%) as a top-three challenge, perhaps because ensuring staff’s health and safety is a more urgent challenge in physical environments like factories, than those which are purely office based. Manufacturers were also less likely than other sectors to report IT process, operational and digital problems, largely because they are, by their culture, process driven and focused on driving efficiency via technology.

Another sector where the impact was less significant than first predicted was professional services, with 37% of firms claiming the impact had been less significant than expected and 7% much less significant. There is more than one factor driving this result. Firstly, professional services are better geared up than many sectors to interact with clients virtually. Secondly, government-led business support schemes meant more work than usual in areas like compliance.

“In Australia, federal government acted quickly in the provision of significant support. This led to a lot of advice, establishment support and compliance work, which replaced any lost business from traditional sources,” says Maria Cobbett, national leader, Risk Advisory at BDO Australia. “In addition, a lot of the work we do still needs to be done – it’s more a case of timing than cancellation.”

And van Zandvoort agrees: “Professional services had a dip in March and April 2020 because many projects were paused, but most of these projects restarted once the first wave was over.”

**CONTINGENCY VERSUS ADAPTABILITY**

Among the sectors affected considerably worse than initially anticipated was the leisure and hospitality industry, with 22% of respondents for whom this was the case. Understandably, many firms hadn’t forecast such an unprecedented event – but those that were able to put crisis action plans in place quickly had the chief executive of Carnival Corporation, which had to halt its guest operations from the start, including its global fleet of 105 ships, says that despite



having contingency plans in place, the cruise ship sector and wider travel and hospitality was unprepared for an event of this magnitude. Yet, after receiving expert advice, the company implemented a go-forward plan and recommenced cruising in Europe in late 2020 under strict health and safety protocols, he says.

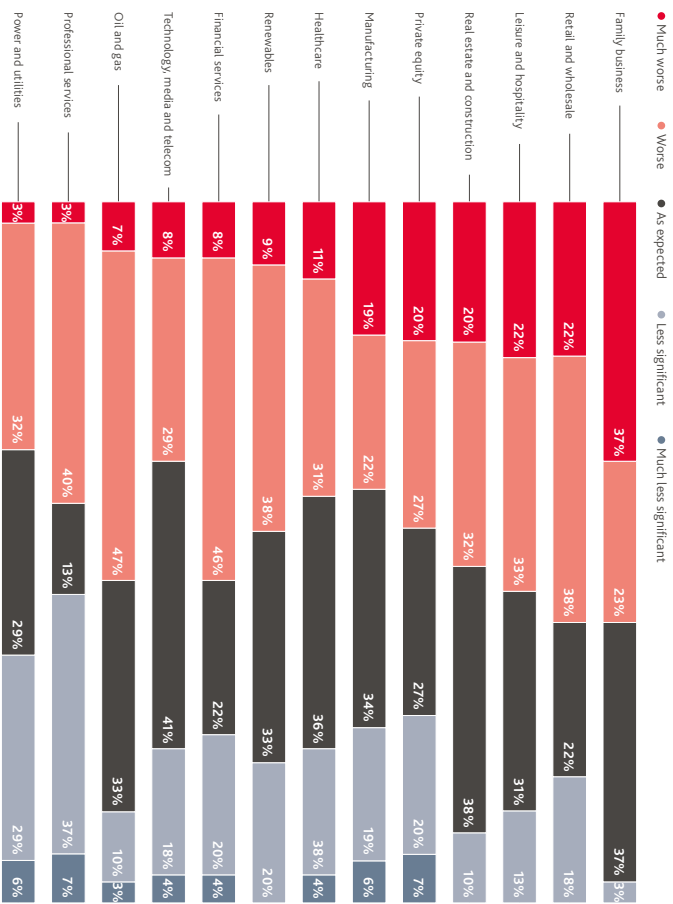
“Our top priorities have been compliance, environmental protection and the health, safety and welfare of our guests, crew, shoreside employees and the communities we visit,” says Donald. “In addition, we have worked hard to rebuild our balance sheet and liquidity through a broad number of

financial transactions, accumulating several billions in the process, as well as reducing cash flow and costs during the extended pause in guest operations.”

Well-rehearsed plans proved essential for Radisson Hotel Group, too. “Prior to 2020, we already had a strong global crisis management process rolled out which allowed us to mobilize essential and focused resources quickly,” according to a spokesperson for the hotel group. “During 2020 and 2021, we had to shift some timelines and focus on cash as a priority, but we aim to consolidate the recovery during 2021.”

**Less impacted or better prepared?**

The impact of the pandemic by sector, compared to initial expectations in April 2020



Their forward planning paid off, despite the pandemic, Radisson increased its market share by 1.4% in 2020.

**INTEGRATING RISK MANAGEMENT**

More surprisingly, given their prior growth, private equity firms were also adversely affected. The reason for this, says Bruce Dahlgren, chief executive of MetricStream, is due to a lack of holistic oversight of all risks within their portfolio.

“Every company within the portfolio manages their risk separately with different processes, and when it gets aggregated it’s

almost impossible to determine a risk score for the group,” says Dahlgren. “It becomes even more difficult when companies have complex supply chains too.”

The family business segment also struggled, with the impact worse or much worse than expected for 60% of respondents. While 87% of family businesses believe their risk officer should occupy a C-suite position, only one in five allow them to have final sign-off on risk management practices.

In family businesses, says van Zandvoort: “Risk management is still very implicit and less often formalized in frameworks and

processes. They operate on trust, and see risk management as a lack of trust. Moreover, the board and executive committee are more involved in operational decision-making and therefore are less likely to see a need for formal frameworks and systems.”

The fix for this is to push forward with formal risk management, but maintain the engagement of the board and executive committee. “Businesses of a certain size or complexity should have an ERM framework in place, but do not necessarily need a risk manager. Risk management should be an integral part of decision-making and not a separate and sometimes isolated function.”