

APAC

Executives that embrace risk, maximise the benefits of technology and empower their people can build agile businesses fit for the future.



BDO's Global Risk Landscape Report 2022 analyses the unprecedented disruption global supply chains have experienced since 2020, and what this means for business risk.

China, which has managed to avoid the worst ravages of the COVID-19 pandemic, remains in thrall to coronavirus in 2022. Concerned about health and safety, the world's manufacturing powerhouse is set to maintain a dynamic zero-COVID strategy for the foreseeable future.

China's continued focus on lockdowns as a way of combatting COVID, at a time when many other leading economies have almost completely lifted restrictions, is not helping to lessen supply chain challenges arising from a post-pandemic boom in global consumer demand coupled with bottlenecks in transportation and port capacity.

The Asia Pacific region is the starting point for many of these global supply chains, providing manufacturing muscle in the case of nations such as China and South Korea or raw materials and energy in the case of Australia and India.

Our 2022 sample of 100 APAC C-suite executives, 23% of which were chief executives, included the second-highest proportion (12%) of manufacturers in the global survey, and the highest level of oil and gas executives.

Hence, it is unsurprising that the top APAC supply chain concerns were to do with transparency, cited by 56% of respondents, rather than downstream risks such as transport and distribution bottlenecks or the likelihood of cyberattacks.

Interestingly given the alarming rhetoric between China and other countries in the region—notably Australia and Japan—plus the US, concern over geopolitical tensions was lower in APAC than in any of the other regions surveyed.

At the same time, though, 73% of APAC leaders, one of the highest levels worldwide, admit they are unprepared to deal with geopolitical tensions.

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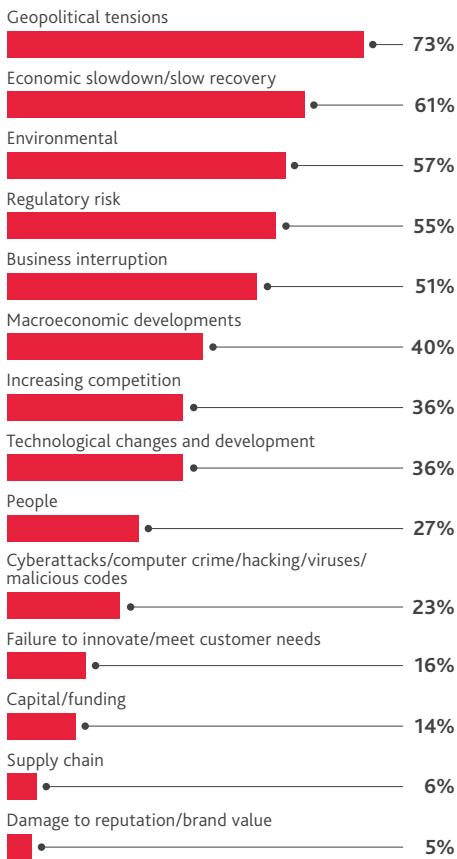
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Figure one: Which risks are your company most unprepared for? (Ranked 1, 2, 3, 4 or 5)



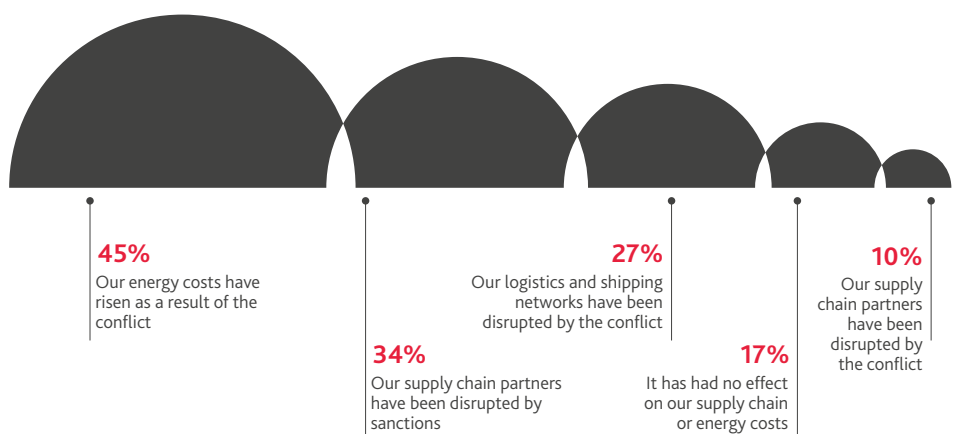
PRESSURE POINTS

Before the coronavirus pandemic, many global supply chains had been optimised for efficiency, cutting costs and delays to the bone to improve financial performance. But this strategy relies on supply chains that work efficiently almost all the time. The last two years have shown that does not always happen.

In the APAC region, which sits at the bottom of many of these global supply chains, business leaders are already aware of the need to balance efficiency with resilience. At the time of our global research, most companies were already favouring resilience over efficiency.



Figure two: How has Russia's War in Ukraine affected your business?



Elsewhere, however, concern over supply chain transparency could be well founded given the importance of energy and prime material flows into the region.

One example: China controls 90% of the global lithium-ion battery market that is key to the growth of electric vehicle fleets around the world, yet industry analysts such as Benchmark Mineral Intelligence expect current lithium shortages to persist until 2025 at least, with the availability of high-quality reserves a key bottleneck.

Given that such bottlenecks often involve supplies from abroad (China is hoping to supplement homegrown lithium reserves with imports from Australia, for example), it is unsurprising that our survey revealed growing concern over geopolitical threats in the coming half-decade. These worries have likely been amplified by events in Ukraine.

Russia's War in Ukraine has even affected businesses in APAC, with 45% of businesses seeing increased energy costs and 34% reporting supply chain disruptions resulting from sanctions. Only 17% of C-suite respondents claimed the situation in Ukraine had not affected their business.

Nevertheless, the level of geopolitical concern is still lower than in all other regions except Africa, likely reflecting the highly nuanced nature of geopolitical risk in APAC. US trade barriers on Chinese products, for example, might affect China but could conversely benefit other Asia manufacturing centres.

At the same time, cyber threats look set to overtake supply chain transparency as a key concern for business leaders in the region, but again at a level lower than the global average.

APAC leaders appear unusually confident in their ability to withstand cyber risks, with only 7% saying their organisations would be more unprepared for a cyberattack than any other form of risk.

While it is true that the region has perhaps avoided the volume and severity of cyberattacks seen in recent years across Europe and North America, it has not been completely free of threats: the notorious May 2021 ransomware attack on meat processing company JBS, for example, affected operations in Australia.

Nevertheless, low levels of cyber concern might be due to the relative length of supply chains in APAC, since online threats could be expected to emerge higher up the chain. But it could also reflect sector differences in the prevalence of risk assessment resource.

Figure three: In general, how long do you predict global supply chain disruption will continue?

6%

Up to another **6 MONTHS**

29%

Between **6 MONTHS AND 1 YEAR**

54%

From **1 TO 2 YEARS**

11%

From **2 TO 4 YEARS**

Our research found that while most organisations in sectors such as healthcare and private equity have a dedicated individual responsible for supply chain risk management, in manufacturing only 24% of businesses have someone fulfilling this function.

CLIMATE RISK

The complex risk landscape of the last few years, combining threats to welfare, human resources, supply chains, cybersecurity and even geopolitical stability, has diverted attention away from longer term but no less significant challenges.

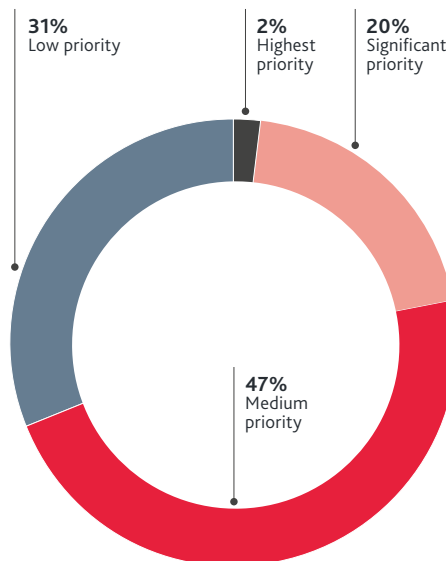
Thus, climate change and natural disaster risk was the lowest ranked of nine major business concerns, with an average score of 2.93 out of five among APAC leaders. This makes it less important to decision makers than lack of digital expertise (with an average 2.95 score) or regional conflict (3.71).

In fact, the C-suite is more concerned with tougher environmental regulations (rated 3.41 out of five) than with worsening natural disasters, despite many APAC markets being susceptible to extreme weather events such as typhoons and floods.

This lack of focus is understandable yet inadvisable, since markets today are increasingly pricing an organisation's response to climate change as part of a broader focus on environmental, social and corporate governance (ESG) metrics. ESG is high on stakeholders' criteria for investment, procurement, employment and social licence to operate.

Hence, companies ignoring climate change could leave portfolios exposed to significant risk. Organisations should act now to protect and enhance value in this area.

Figure four: How much of a priority is climate change and natural disasters for your supply chain?



BUSINESS OUTCOMES

APAC companies will continue optimising supply chains for resilience in the coming half decade. This is despite understanding of the supplier ecosystem already being high, with almost 50% of leaders—more than any other region—having visibility up to tier three.

APAC leaders also have the second-highest level of full understanding of tier-one suppliers. Nevertheless, around three in five businesses are planning to broaden their supply chains in the next 18 months.

Around three in ten, meanwhile, are planning to invest in technology for supply chain analytics, while more than one in five will be introducing dual sourcing and roughly the same proportion is looking to hire more digital talent to improve resilience and flexibility of supplies.

At the same time, while APAC business leaders are less likely than those of other regions except Africa to agree that the risks of a complex supply chain outweigh the benefits, they are also more likely to concede that we have entered a period of de-globalisation.

RISK MANAGEMENT IN FOCUS

Building supply chain resilience costs money and—if challenges relent in the short term—may end up not delivering a return on investment. Supply chain resilience also requires a risk-aware culture that can help organisations establish and maintain strong defences against new risks, as well as responding more quickly to operational threats.

When looking to improve resilience, leaders should be aware that previous supply chain risk assessments may not accurately reflect today's broad range of disruption factors, which ranges from availability of raw materials and commodities to shortages in port and logistics personnel.

The new full-scope, medium-to-long-term supply chain risk landscape requires strategies based on alternatives rather than availability and accessibility. In this environment, the role of risk leaders is growing in importance.

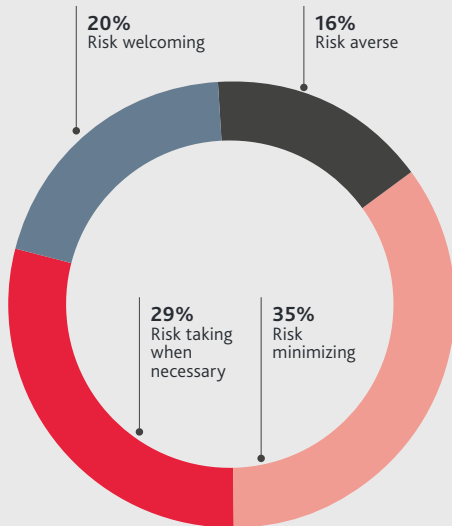
Risk leaders not only need exceptional analytical skills but increasingly also highly developed commercial, strategic, leadership and communication abilities. Our research revealed these roles bring a new appreciation of the risk landscape to the business. For example, they are more confident than CEOs in the robustness of company plans around supply chain disruption.

FACING THE FUTURE

The supply chain crisis has posed many challenges for companies, but many have responded effectively – pivoting business models, increasing investment in digital technology and putting effort into understanding supplier dynamics. Our global research also shows that companies that embrace and welcome risk tended to cope better, often experiencing a less significant impact from the coronavirus. However, among APAC participants, only 20% see their company as risk welcoming.

Companies must learn to live with uncertainty and unexpected risks such as the supply chain crisis. Changing business culture is a long-term project, but all businesses can benefit from effective risk management frameworks supported by technology and predictive data analysis. Risk awareness should be strengthened within companies, and more attention given to early warning systems. Risks are not static. Existing risks evolve, new ones emerge. The more that businesses can improve their understanding of risks through use of new technology and accurate data, the more they can improve their ability to adapt when the next crisis occurs.

Figure five: Please categorise your company's level of risk appetite.



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