

AMERICAS: TALENT AND REGULATORY RISKS DOMINATE BUSINESS CONCERNS



BDO's Global Risk Report 2018 shows that although American executives are optimistic about the future, **there are numerous risks on the horizon that may undermine success.**

FOR MORE INFORMATION:

VICKY GREGORCYK

National Leader, Risk Advisory Services, BDO USA

vgregorcyk@bdo.com

DAVID PRIME

Partner, Risk Advisory Services, BDO Canada

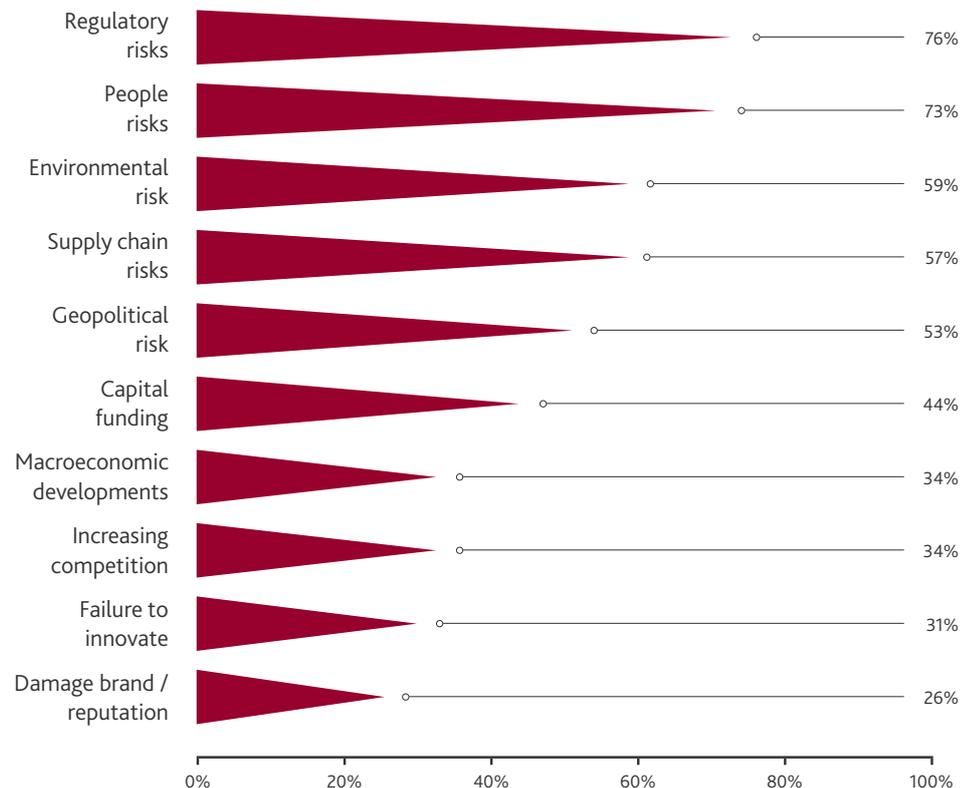
dprime@bdo.ca

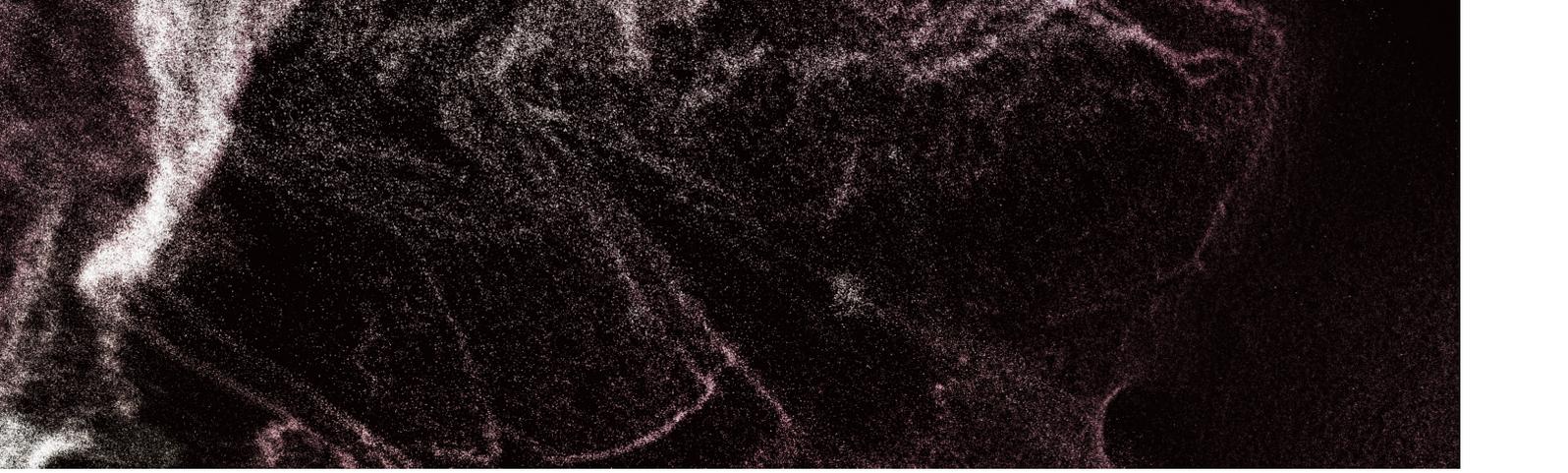
Of all the regions reported in BDO's Global Risk Report 2018, business confidence is highest in the Americas. The majority of business leaders (52%) here say they feel their business is sufficiently future-proofed to weather significant changes in their external environment. Just 2% of respondents are concerned that their business model is outmoded and will prevent them from competing effectively in the future.

Does this confidence accurately reflect the reality? To answer this question, BDO captured the views of 167 C-suite executives from companies across the Americas in order to find out what risks might dent their business confidence and how well prepared they feel to embrace opportunities on the horizon.

In spite of widespread optimism, American executives recognise there are important challenges ahead. 82% agree, for example, that the disruptive pace of technological change means that innovating to stay ahead of competitors has become a strategic necessity. Similarly, 68% and 45% acknowledge that changing customer behaviour and new market entrants respectively pose threats on future business performance.

CHART 1: TOP 10 RISKS REPORTED BY EXECUTIVES IN THE AMERICAS





When asked what risks they feel their company is most unprepared for, the responses of American executives are dominated by regulatory risks (76%) and by people risks (73%). Environmental risk (59%), supply chain risks (57%) and geopolitical risks (53%) complete the list of the top five concerns, see Chart 1.

Regulatory risk emerges a hot button topic in our survey, and an issue that both compels and restricts innovation. 95% of respondents in the Americas agree that the disruptive nature of regulatory change puts pressure on their company to innovate and stay competitively relevant. Yet almost half (48%) cite regulation as one of the top three barriers to successful innovation.

In North America, the first year of the Trump presidency was marked by an intent to strip back regulation. The powers of the Congressional Review Act were invoked to roll back various regulations that came into effect during the Obama administration, particularly in the areas of financial regulation and consumer credit¹. In Canada, the pharmaceutical, energy and natural resources sectors remain primary targets for regulators' attention.

Across Latin America, the uncertainty of the regulatory environment is a risk that businesses need to factor into their planning. In Brazil, for example, a bill to liberalise the country's gambling industry has stalled after more than four years of parliamentary debate². While

in Mexico, legislators passed a bill in March 2018 to regulate the country's fast growing financial technology (FinTech) sector, giving much needed certainty on issues such as cryptocurrencies and crowdfunding³.

People and talent risks also feature highly on the list of concerns for executives in the Americas. In 2017 the World Economic Forum reported that 50% of Latin American firms could not find candidates with the appropriate skills to fill vacancies, compared to an OECD average of 36%⁴. This view is reflected in our survey results, where 47% of executives cite a talent skills deficit as a major barrier to innovation in their company.

Environmental risk is the third most frequently cited issue by executives in our survey. Although Yale University's Environment Performance Index places no North or Latin American country inside the top 20 globally for environmental performance, there are signs that national

governments are seeking to strengthen environmental protections⁵.

In November 2017, for example, Mexico inaugurated 57,000 square miles of marine protected zones to limit fishing and resource extraction activity⁶. Companies in the region will need to be more aware of their environmental impact in future when assessing strategic growth opportunities.

BDO works with our clients on solutions for transformational changes in their businesses that are based on new technologies, big data, artificial intelligence and the Internet of Things.

We focus on the risk-reward balance as our clients innovate so they keep pace with or outpace their competition. Risk management and innovation go hand in hand so it is important that our risk management professionals prepare our clients for the risks they face as they innovate.

44%

of C-suite executives in the Americas place risk-averse leadership among their top three barriers to successful innovation

1. The Wall Street Journal, 'Senate readies rollback of bank rules' (March 2018): <https://www.wsj.com/articles/senate-readies-rollback-of-bank-rules-1519900200>

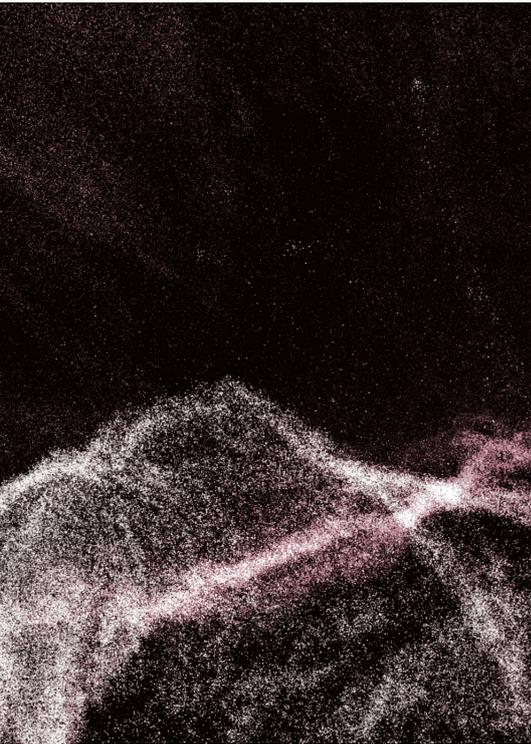
2. Calvin Ayre, 'Brazil's Chamber of Deputies rejects casino legislative push' (March 2018): <https://calvinayre.com/2018/03/21/business/brazil-chamber-rejects-casino-legislative-push/>

3. Reuters, 'Mexico financial technology law passes final hurdle in Congress' (March 2018): <https://www.reuters.com/article/us-mexico-fintech/mexico-financial-technology-law-passes-final-hurdle-in-congress-idUSKCN1GD6KX>

4. World Economic Forum, 'In Latin America companies still can't find the skilled workers they need' (March 2017): <https://www.weforum.org/agenda/2017/03/in-latin-america-companies-still-can-t-find-the-skilled-workers-they-need/>

5. Yale University, EPI 2018 Report: <https://epi.envirocenter.yale.edu/2018/report/category/hlt>

6. Smithsonian, 'Mexico declares North America's largest marine reserve' (November 2017): <https://www.smithsonianmag.com/smart-news/mexico-declares-north-americas-largest-marine-reserve-180967309/>



Business leaders across the Americas have every reason to be optimistic. However, to enjoy a truly agile future, businesses need to balance effective risk management and compliance with the need to innovate. At present, 44% of our survey respondents say that risk-averse leadership is a top three barrier to successful innovation.

Agile businesses are constantly attuned to developments in their external market to minimise the likelihood of unanticipated risk knocking them off their strategic course.

Our survey also reveals business leaders in the Americas lean towards operational effectiveness rather than innovation as the primary driver of success in their company, see Chart 2. Furthermore, just 30% of respondents say innovation is higher up their Boardroom agenda today than it was three years ago.

To grasp the growth opportunities ahead, executives need to translate their confidence into genuine action on innovation while keeping both eyes open to the risks that might jeopardise future success.

CHART 2: WHICH OF THE FOLLOWING IS MOST IMPORTANT TO THE SUCCESS OF YOUR COMPANY?

