Turning risks into results

The future will favour the fast and lean in the fight for market share. Ernst & Young's Andy Embury examines the firm's risks and opportunities report

Many economies and markets are feeling the effects of fiscal consolidation, tighter credit policies, weaker consumer demand and real inflation. Other economies – Germany, Sweden, India and Russia, to name just a few – offer businesses attractive growth opportunities.

But even within these growth economies, important regulatory changes in some industries may represent a real challenge to those companies that are ill prepared or slow to change. In 'no growth' economies, too, clear opportunities to outperform competitors exist for those businesses nimble enough to avoid looming risks, refocus on higher growth segments, get ahead of the competitive cost curve, find and keep more of the best people, and execute faster.

In short, whatever the market conditions may be, the fast and the lean will do best.

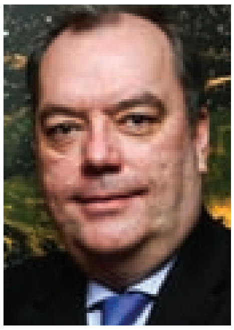
This is one of the main findings from recent Ernst & Young research, which charts the global top 10 business risks and opportunities. We gathered opinions from leading industry-based and academic commentators across seven global sector groups. And we conducted a large-sample survey of companies and governments in 15 countries to rank the risks and opportunities, to obtain forecasts on whether these challenges would be more or less important in 2013, and to discover how leading organisations in each of the seven sectors are responding to these challenges.

Over the next three years, global businesses see their greatest opportunities coming from improving operational agility and 'optimising' cost competitiveness, according to the research report, *Turn Risks and Opportunities into Results*.

While the past couple of years have been characterised by intense cost-cutting, we're now seeing companies responding to competition by improving execution of their strategies and by investing to boost operational agility and competitiveness.

To present a snapshot of the 10 top risks in the seven sectors covered, we created a 'risk radar' (see diagram overleaf). The radar screen is divided into four quadrants that categorise the type of risk:

* compliance (originating in politics, law, regulation, governance)
* financial (stemming from volatility in the market and real economy)
* strategic (related to customers, competitors and investors)
* operations (affecting the processes, systems, people and overall value chain of a business).



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Sparkling opportunity: while many western economies are still struggling, Russia offers companies attractive growth prospects.

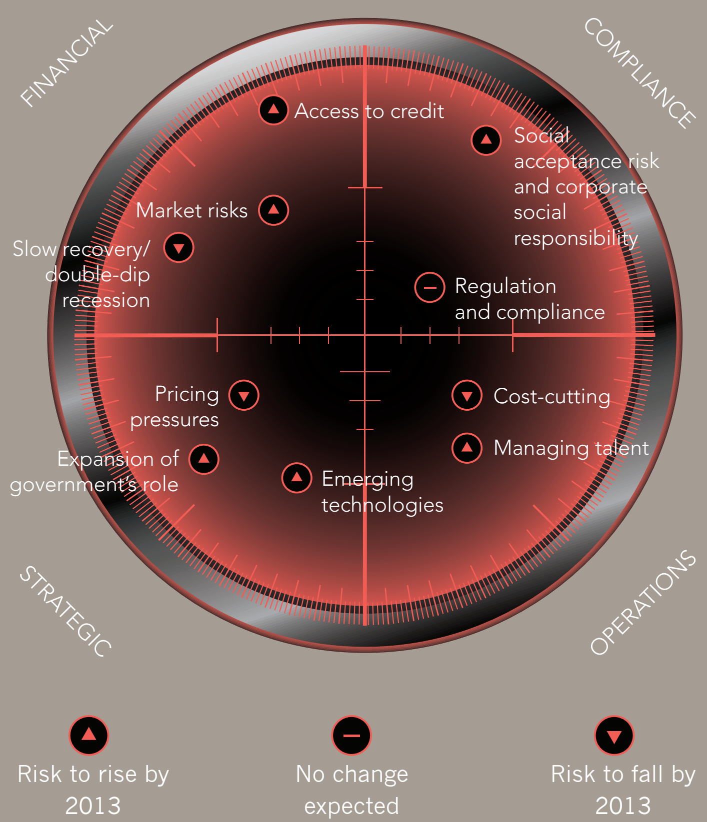
Those risks that the 700-plus executives we interviewed thought posed the biggest challenges in the years ahead are placed nearest the radar screen's crosshair intersection, with an arrow to indicate whether respondents thought the risk would rise or fall in importance by 2013.

According to our research, regulation/compliance continues to pose the biggest overall risk to global businesses irrespective of market. Regulation and compliance risks are of greatest concern to banking and life sciences businesses, and of least concern to retail, but in every sector, regulation/compliance ranks among the top four risks.

Businesses see opportunities coming from improving operational agility and 'optimising' cost competitiveness

Looking ahead to 2013, both banking and life sciences – the sectors that currently rank this risk highest – see risk in this area continuing to rise in the years ahead. Companies in the most rapid growth markets, including China, India, Russia and the Middle East/North Africa (MENA), report that the impact of regulation and compliance risks is expected to diminish by 2013. To manage this risk, 59% of organisations are looking to strengthen their risk management functions.

RISK RADAR: TOP 10 RISKS



Risks thought to be the biggest challenges are nearest the crosshair intersection.

After two years as the sixth ranked risk, the challenges associated with cost control have surged to second place. Even though our survey respondents assess the impact of this risk as high, measures to respond are still just a work in progress in many of their organisations.

Government sector respondents, grappling with national austerity measures, have assigned this risk the highest average rating of any risk across all the sectors. In contrast, banking executives gave lower priority to challenges relating to cost-cutting than any other sector.

Respondents in most sectors expect cost-cutting challenges to decline in importance as 2013 approaches. These expectations are at odds with forecasts from the panellists we interviewed, that challenges associated with both public debt and healthcare costs will continue to grow.

Risks associated with the war for talent continue to rise. Talent management ranks among the top four challenges for almost all sectors and is expected to escalate in importance as 2013 approaches. Many of the geographies where this risk is of particular concern are in the emerging markets. Respondents are evenly divided in citing internal problems, such as weakness in HR processes, and external pressures, such as rising competition for talent, as responsible for pushing this risk up the league table.

GOING UP

The graphic opposite shows an opportunity ladder based on our research. Opportunities at the top of the ladder are those that the executives we interviewed thought would have the greatest impact on their organisation in the years ahead. Arrows indicate whether the executives thought the potential performance impact of the opportunity would rise or fall by 2013.

The ladder is divided into four sections. These represent the four drivers of competitive success (represented by businesses in the top quartile in both revenue and EBITA growth) identified in our *Competing for Growth* research:

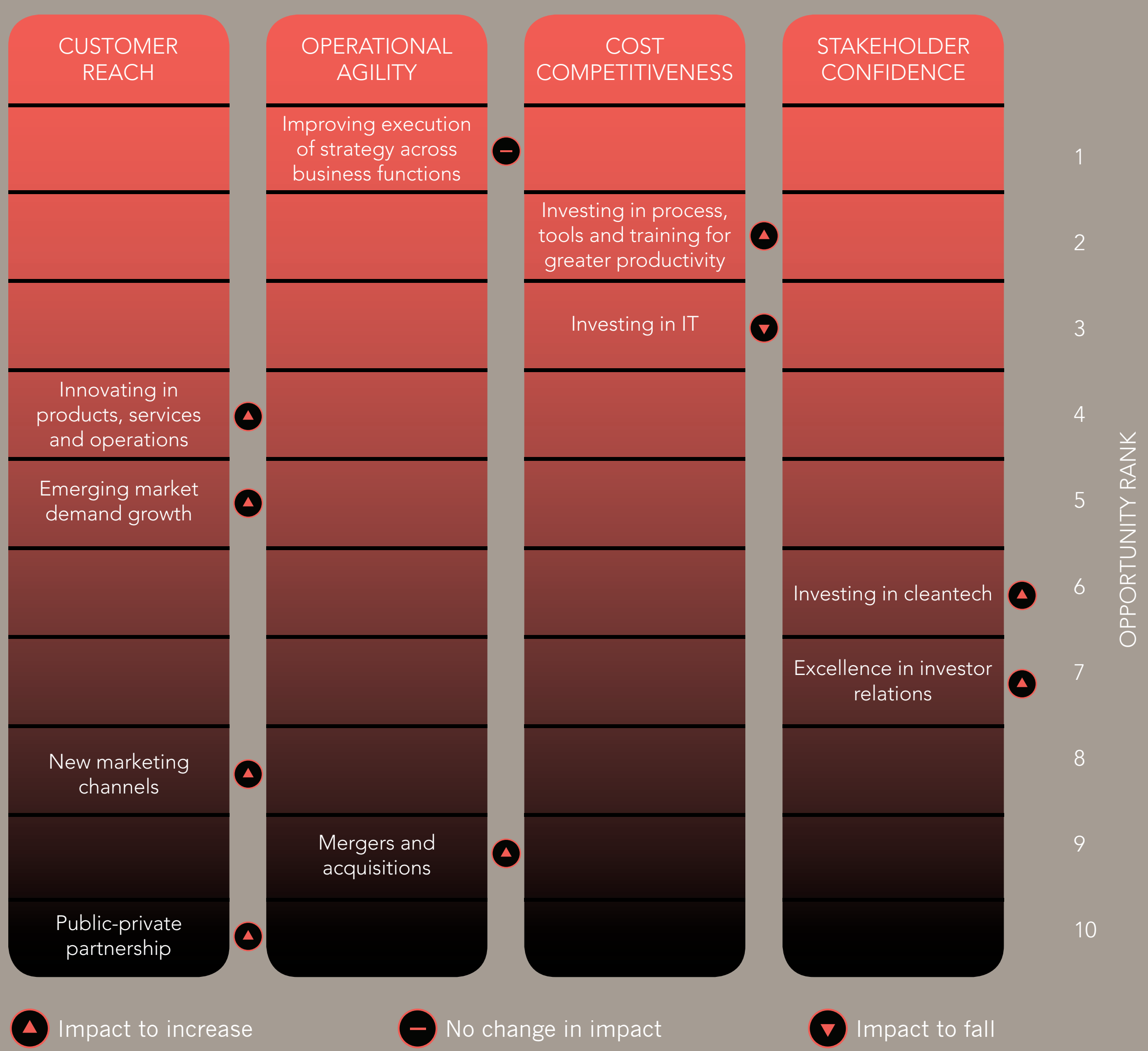
* customer reach
* operational agility
* cost competitiveness
* stakeholder confidence.

The top four global business opportunities focus on investing in areas such as processes,

tools, training, IT, innovation and strategic execution. Improving execution of strategy across business functions is ranked number one overall, with organisations seeking to improve how they communicate the business vision, goals and strategy, involving all business functions in the strategic planning process, including budgeting and forecasting.
Traditionally, businesses have sought market opportunities at a much earlier stage, but today we are seeing businesses focusing on making sure they have the capability and innovative strengths to make a real impact in their chosen markets.
The research shows a high degree of consistency across both countries and industries, with a common focus on operational agility and cost competitiveness. This consistency applies across markets, although there are signs that organisations in emerging markets are sensitive to the need to adopt more mature operating models, structures, processes and business controls, as well as respond to competitive threats.
Surprisingly, emerging market demand growth is ranked only as the fifth top opportunity. Indeed, one in five organisations reported they had limited their Asia focus, following setbacks there, in favour of their home market. Nevertheless, the emerging market demand growth opportunity is predicted to rise by 2013. Every organisation has its own unique set of risks and opportunities, but this research provides some insight into how other organisations are thinking and how that thinking is evolving. As we know, fortune also favours the prepared mind...

Turn Risks and Opportunities into Results can be viewed at www2.accaglobal.com/tror

THE BEST BUSINESS OPPORTUNITIES TO 2013



Opportunities at the top of the ladder are those thought to have the greatest impact on the organisation.