FTI CONSULTING

# RESILIENCE BAROMETER 2019

EXPERTS WITH **IMPACT**

# Contents

# Introduction

Welcome to FTI's inaugural Resilience Barometer report, which highlights how G20 companies are managing in an interconnected, technologically disrupted and increasingly regulated world. This report shines a light on the key challenges they face as we head into 2019.

The resilience score captures how well companies are prepared to deal with 18 scenarios which are most likely to negatively impact their turnover, value and reputation. Most startling is the finding that the resilience score for the G20 is only 40 points (out of a top score of 100 points) and turnover has been lowered by an average of 5.1% over the last 12 months, due to not effectively preventing or managing these scenarios.

This lack of preparedness has cost a staggering USD$81.6 billion, just those firms we researched. The proportion of lost turnover peaks in Spain, with -6% of lost turnover, and in the healthcare industry with -7%.

We have found that the biggest threat to resilience in 2019 is that of 'cyber-attacks stealing or compromising assets' and 30% of companies we surveyed said this had happened to them in 2018. Yet whilst 28% of business leaders predict that this will occur to them over the next year, just 45% say that they are taking proactive steps to manage this risk. Supportingly, the usage of AI and analytics to detect threats and trends accompanies high resilience scores.

Our research also shows that firms face a constant challenge to remain competitive in an ever-changing landscape. One third of the business leaders surveyed claim that their firms are presently in the middle of transforming their business, and that, on average, they have just 4 years before their industry is significantly disrupted by technological innovation. This pace of change is accelerating, with many industries seeing fundamental changes across value chains and business models.

The respondents are a representative sample of large companies across G20 countries and collectively represent a sum turnover of USD$1.6 trillion, directly employing 6.7 million people globally. With the G20 collectively accounting for around 90% of the Gross Domestic Product (GDP) and two-thirds of the world population [1], their insights offer a compelling look at how senior leaders are adapting and responding to the challenges and threats of today's business environment.

We would be pleased to hear from you if you'd like a more in-depth analysis of these results and how FTI Consulting can help your company build resilience and protect value.

Yours faithfully

**Kevin Hewitt**

1 - www.g20foundation.org

# Executive **summary**

## Research methodology

Read more on Page 22

C-Suite perspectives from **2,248** large companies across the G20 countries.

Companies researched represent a sum turnover of **USD$1.6 trillion**.

**6.7 million** people globally are directly employed by companies researched.

## Resilience score: overview

Read more on Page 6

The resilience score assessed the level of preparedness against **18** possible scenarios most likely to have a negative impact on turnover.

The 18 scenarios cover 4 dimensions of resilience:

1 - Regulatory and geopolitical disruption

2 - Leadership, culture and communications

3 - Adapting to change & business model resilience

4 - Protecting against new threats in a digital world, including data privacy and cyber security

With a score of 100 points reflecting companies proactively managing all 18 scenarios and 0 points representing none, the average resilience score of companies across the **G20** is only **40 points**, which is cause for concern in a market facing unprecedented levels of disruption.

## Resilience score: by country

Read more on Page 6

Six of the 10 countries with above-average resilience hail from emerging markets.

The US score strongly compared to the G20 average with a score of **46 points**, compared to only **41 points** in the UK and **32 points** for Germany and France.

Those with a high resilience score also have a significantly bigger appetite for investments over the next 12 months, particularly for greenfield.

Companies in countries with the highest score were the most proactive at managing 'cyber-attacks stealing or compromising assets' - the greatest risk to turnover and reputation.

## Resilience score: by industry

Read more on Page 6

The Financial industry is assessed to be the most resilient with a score of **47 points** while Infrastructure and the Services industry are the lowest at 31 points.

Whilst the Financial Services industry is being proactive at preventing 'regulatory fines', their biggest threat to turnover is from 'cyber-attacks stealing or compromising assets' and this is expected to increase.

The Services industry is particularly susceptible to 'cash flow issues from bad debt' (almost twice as much as the G20 average) with just **30%** taking proactive steps to prevent this.

## Corporate risks – failing to consider resilience?

Read more on Page 8

**86%** of companies researched across the G20 have been negatively impacted by at least one of the 18 key scenarios.

**5.1%** of turnover has been lost, **USD$81.6 billion** for those researched.

**79%** believe corporate boards in their country should play a proactive role in anticipating and planning for unforeseen events or similar scenarios

## Technology – engaging the disruption?

Read more on Page 10

**4 years** is the average perceived time for significant disruption to impact their industries. In **5 years**, they won't be competitive unless a major business transformation has taken place.

While **47%** consider it as an opportunity, **23%** of company leaders consider technological change as risky. This increases to **33%** in Germany.

Over the next 10 years, **68%** believe artificial intelligence (AI) will have a significant impact on their industry. The usage of AI and analytics to detect threats also boosts resilience scores.

## Transforming – creating future value?

Read more on Page 12

**45%** of large companies researched across the G20 are in the process of a business transformation, peaking with **60%** in Japan.

**45%** are transforming to reduce costs, while **44%** are trying to leverage technological advancements. This is particularly so for the financial industry.

**48%** claim a comprehensive communication strategy is key in driving a successful business transformation.

## Relationships

Read more on Page 14

A quarter of business leaders surveyed distrust or hate their country's government and/or politicians.

**38%** of company leaders in South Africa and **34%** in Australia say they distrust or hate their governments and/or politicians.

**28%** in the healthcare industry claim they're distrusted or hated by governments and/or politicians.

## Regulations – protecting whose value?

Read more on Page 16

**38%** of large companies strongly agree that their size gives them a very dominant position with suppliers.

**35%** of large companies strongly agree they take active steps to restrict competition and competitors.

**76%** expect regulations on their company to increase over the next 12 months.

## ESG – building value sustainably?

Read more on Page 18

Up to **27%** extra value could be added to balance sheets if companies had an extremely positive or high ESG rating.

The top 5 reported items are energy management (**47%**), data security (**46%**), air quality (**41%**), customer privacy (**40%**) and product safety/quality (**37%**).

**96%** of companies claim to have adopted at least one UN Sustainable Development Goal (SDG) - peaking with **44%** for 'Goal 3: good health and well-being for people'.

## Investment - attracting or repelling?

Read more on Page 20

**76%** of large companies across the G20 are expected to increase their greenfield investments over the next 12 months.

With an importance weight of **20%**, Government support for investment projects is the most important aspect when considering greenfield investments.

Across G20 countries, **44%** consider the US is best at marketing themselves, followed by Canada (**28%**) and Australia (**27%**)

# Resilience **Score**

The 2019 FTI Consulting Resilience Barometer highlights how companies we researched achieved an average resilience score of 40 points out of a top score of 100, in an environment that is growing more and more challenging.

Such a relatively low level of resilience raises questions about how well companies are engaging with technological change, building trusted ecosystems among their stakeholder groups and proactively managing the possible unintended consequences of innovation in an interconnected digital age.

The resilience score is based on the incidence and actual impact which 18 scenarios have on turnover – as well as how proactively corporate leaders claim they are managing those risks. In this way, the Resilience Barometer captures both impact and likelihood of failures of resilience on their organisations as a whole.

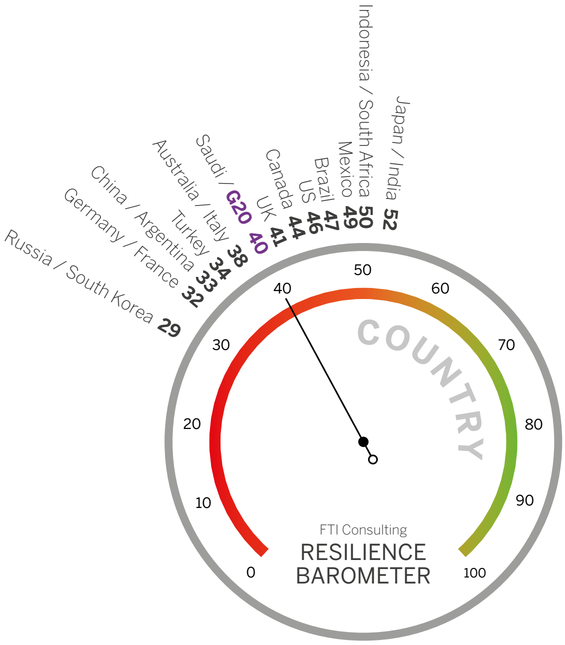
**DIAGRAM 1 - 18: KEY BUSINESS SCENARIOS INCORPORATED INTO THE RESILIENCE SCORE**


79% of business leaders surveyed believe corporate boards in their country should play a proactive role in anticipating and planning for unforeseen events or similar scenarios. Resilience is a concern with the C-suite across all industries and countries.

Overall, our research shows that those with a high resilience score also have a significantly bigger appetite for investments over the next 12 months, particularly for greenfield. Arguably, this reflects confidence in their preparedness to mitigate against the harmful impact of the 18 business scenarios we tested.

When looking at countries, Japan leads the pack with 52 points for their resilience score. Within the survey, Japanese companies show very high levels of trust internally, compared with other nations. Japanese companies are also the most likely to be either planning or starting a business transformation over the coming 12 months.

**GRAPH 1A: 'RESILIENCE SCORE' BY COUNTRY**




Six of the 10 countries with above-average resilience hail from emerging markets. In the discipline of risk management, studies have shown that organisations within these types of nations can often be more resilient than their competitors in developed markets – because their operating environment is more volatile.

"Building resilience in a digital economy isn't just about managing risk. It's also about preparedness, business model innovation, culture and leadership - as well as how to use your data to create competitive advantage."

**Caroline Das-Monfrais**
Senior Managing Director

Put simply, they must be resilient in order to thrive in much more difficult day-to-day conditions. Within the survey, they also report themselves as being more open to investment, and more likely to be monitoring and evolving technological practices. All of these emerging market countries were more likely to be either planning or starting a business transformation in the next 12 months.

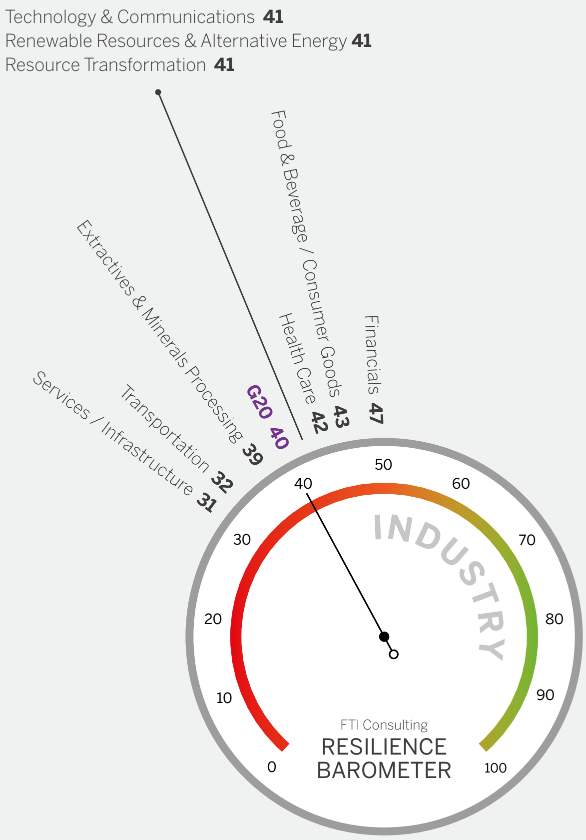
Less resilient countries include Germany, France, Russia and South Korea. These countries show a range of different challenges across the survey results. For example, the market with the highest incidence of investigations on market dominance is South Korea, with half of all large companies there (50%) claiming an investigation is presently underway. In France and Germany, levels of distrust or hate between companies and their governments and/or politicians is higher than in other G20 nations.

When it comes to corporate governance, Russian company leaders consistently rated themselves below the G20 average in terms of the types of disclosures they make. All four countries were less likely to be engaging in business transformation over the next 12 months.

Resilience by industry is also thought-provoking. At the top of the list is financial services – since the financial crisis in 2008, regulatory focus on resilience has been very high in this sector. However, whilst the financial services industry is being proactive at preventing regulatory fines, their biggest threat to turnover is from 'cyber-attacks stealing or compromising assets' and this is expected to increase.

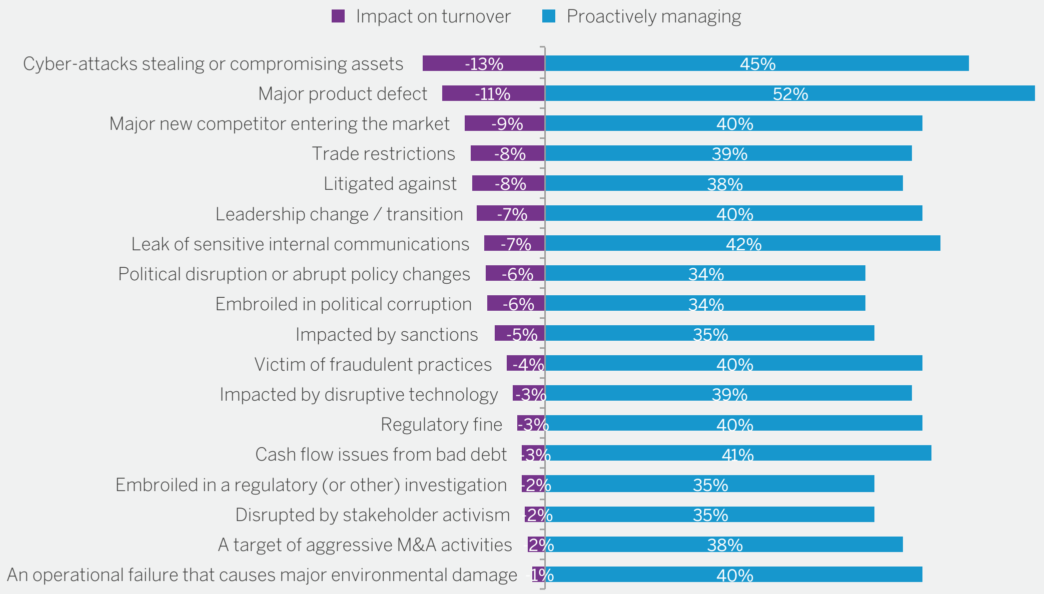
Consumer goods, as well as the food and beverage industries, also rank higher on the Resilience Barometer than the G20 average. The pace of change and impact of digital convergence on these business-to-consumer companies over the past ten years has resulted in organisations taking significant steps to transform their business models and be proactive about how they create or protect value in a disrupted environment. As a result, they are now better prepared for disruption than their business-to-business counterparts in the transport, infrastructure and services sectors.

## GRAPH 1B: 'RESILIENCE SCORE' BY INDUSTRY




## GRAPH 2: PROPORTIONAL IMPACT OF 18 BUSINESS EVENTS ON LOST TURNOVER & PROACTIVELY MANAGING

**Q.** Out of these events, what proportion would you say each has had an impact on your lost turnover? (Please allocate a sum 100%)
**Q.** Does your company mainly manage the following risks on a proactive or reactive basis? (Select one column response for each row)




**Calculation explained:**
Starting with the incidence and impact that 18 business scenarios have had on reducing turnover over the last 12 months (a sum of 100), these are individually down-weighted by the proportion of companies claiming to presently manage each proactively. Theoretically, if a company is proactively managing all these potential risks, then they'll achieve a top score of 100 points for resilience - however, no company we researched in the G20 has achieved this in 2019.

# Corporate risks
# – failing to consider resilience?

The advent of the Fourth Industrial Revolution is creating new opportunities, but it is also fundamentally changing the risk environment for companies. Strategic risks, such as cyber activism and challenges relating to data privacy, are growing at an unprecedented rate, and this creates a new range of potential unintended consequences across corporate ecosystems.

"The gathering and interpretation of data during investigations cannot be replaced by an algorithm. Advanced technologies still need a skilled human hand to guide it."

**Andrew Pimlott**
Senior Managing Director

This rate of change may be too fast for companies to deal with. The survey shows that risks are materialising into significant impacts, but companies are mainly taking a reactive approach to both risk management and resiliency. This reactivity typically exists even when a company has experienced a type of risk before. For example, of the 18 scenarios tested in this survey, 86% of companies across the G20 have experienced at least one over the last 12 months. These scenarios have lowered turnover by an average of 5.1% for all companies overall, 5.7% for the 86% of companies impacted and represents a staggering loss of USD$81.6 billion for just those we researched.

Yet companies are still remarkably underprepared. Just 4 in 10 of large companies are very confident of their ability to manage major crises over the next 12 months. This is lowest in the services industry, with just one out of four of company executives saying they are confident.

Cyberattacks – stealing or compromising data assets – were the most prevalent corporate loss scenario, with 3 out of 10 large companies across the G20 saying they've suffered such an attack. While two-thirds of those who experienced these attacks reported it externally, one third (34%) kept it confidential, showing that even at this most basic level some companies are declining to collaborate with governments or corporate peers. Cyberattacks also look set to continue – 28% of companies expect to experience this in the coming 12 months, with 40% of those executives who work for financial companies saying they are expecting to be targeted.

Data security may be the cornerstone of the Fourth Industrial Revolution, but just 45% of companies claim they're managing their cyber risk proactively. Nearly 4 out of 10 companies are simply reacting to a cyberattack when it occurs, while 12% of company executives say that cyber risk is not managed at all. Some 5% of company executives say they don't even know what approach their company is taking. Remarkably, even if a company has suffered a cyberattack over the past 12 months, it isn't significantly more likely to be managing its cyber risk proactively, including their potential impact on reputation. Just 46% say they will be proactive in the future.

Companies are facing a range of other risks, but are often choosing to take a more reactive approach to managing them. For example, the incidence of leakage of sensitive internal communications is particularly high in South Korea and the UK, with more than 1 out of 4 companies experiencing this. In comparison, this happens on a worldwide average to 1 in 10 companies. Globally – and perhaps ironically – the technology & communications industry is particularly vulnerable, with 26% experiencing this type of scenario over the past 12 months. Of those companies who have suffered this type of scenario, just 39% will be proactively managing this in the future while 42% will only be reactive. Even more startlingly, 15% admit to be struggling with the issue and predict that it won't be managed proactively at all in the next 12 months.

### BUILDING RESILIENCE & SCENARIO PLANNING

In spite of the present failure of many companies to engage with either risk management or resiliency planning, G20 business leaders who responded to the survey agree that more action needs to be taken in future. Managing risk looks set to be higher on the agenda of the Board, with 74% agreeing that an increasing number and severity of unforeseen or similar scenarios will demand more involvement by Boards in the future. Consequently, 79% agree that corporate Boards in their country should play a proactive role in anticipating and planning for unforeseen events or similar scenarios.

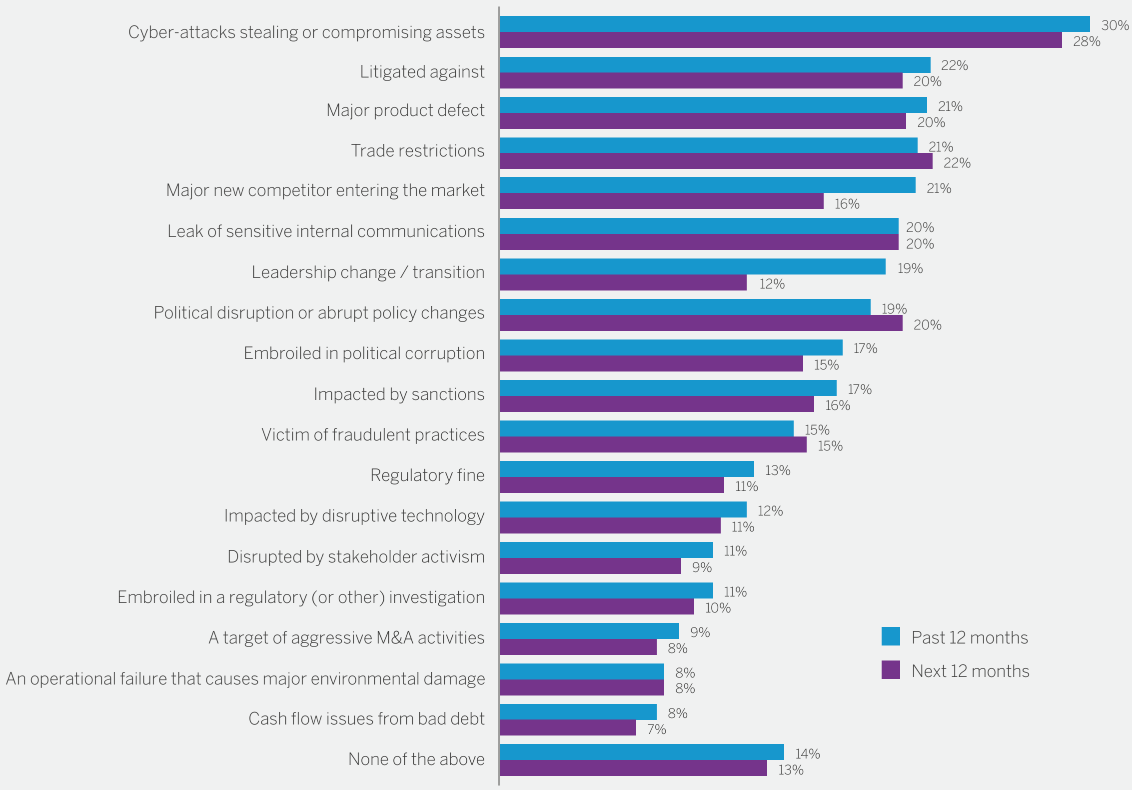
At the moment, to help companies avoid or be resilient in the face of risk situations, 47% of G20 companies say they use AI and analytics to detect threats and trends.

Companies in Japan make the most use of these approaches (59%) and this correlates with the country's high resilience score. Financial companies are also proactive in this way, with 53% saying they use AI and analytics, also correlating with their high resilience score.

Overall, the current reactivity of companies in the face of risks is a significant challenge to their survival – and ability to thrive – in the Fourth Industrial Revolution. While the survey shows good intentions when it comes to the need for Board attention and the use of AI and analytics, more action is required to manage risks and build resilience.

## GRAPH 3: PAST & EXPECTED SCENARIOS

**Q.** Which of the following are you aware of happening to your company over the last 12 months? (Please select all that apply)
**Q.** Which of the following do you consider are likely over the next 12 months and concerned you about harming you? (Please select all that apply)




## GRAPH 4: ACTIONS TO HELP PREPARE FOR SCENARIOS THAT IMPACT TURNOVER

**Q.** Which of the following does your company do to help avoid or prepare for such situations? (Please select all that apply)

# Technology
# – engaging the disruption?

In recent years, technology, and the data that drives technological breakthrough, have been shattering, disrupting and reshaping entire industries. Experts agree that the velocity of this change is growing exponentially, and the results of our survey support this.

"Big Data is having a transformative effect on a companies' reputation, and with the right combination of expertise and data science we can much better understand and predict what is happening with a company's brand."

**Paul Henninger**
Senior Managing Director.

12% of companies believe that their industry is currently being 'disrupted' by technology and, on average, companies expect that it will be just 4 years until their industry is significantly disrupted.

Similarly, companies say that they will cease to be competitive in an average of 5 years if they don't undertake a business transformation in response to this disruption. Corporate leaders in China believe they have an even shorter window – just three years.

Company leaders have mixed feelings about what this disruption could mean for their organisations. 47% say that technological advancements could present an opportunity, and 40% say this is welcomed. This positive attitude is particularly high in China, where 58% of executives said these changes would bring opportunity.

However, negative feelings were strong too. Some 23% of company leaders felt that technological changes will be risky, and 16% said they would be harmful. Executives in Germany were the most cautious, with 33% saying the changes could be harmful.

(AI) is the technology or advancement that 68% of company executives – the highest amount – say will have a significant impact over the next 10 years. Within the financial services industry, this peaks at 77% of respondents. Among all G20 companies globally, this is followed at 59% by the 'Internet of Things (IoT)', which unsurprisingly peaks at 61% for those in the consumer goods industry, as we are seeing major transformations of smart supply chains across the world.

While 82% of company executives believe AI will have the greatest positive impact on their industry, 20% of the same company executives believe virtual reality will have a negative impact.

However, less than half of companies appear to follow best practices when it comes to managing the risks and opportunities associated with new technologies. Only 48% consider themselves excellent at conducting tests to measure the impact of a technology before investment, and only 41% are monitoring and evolving technologies and practices.

### REINVENTING THE WORKFORCE

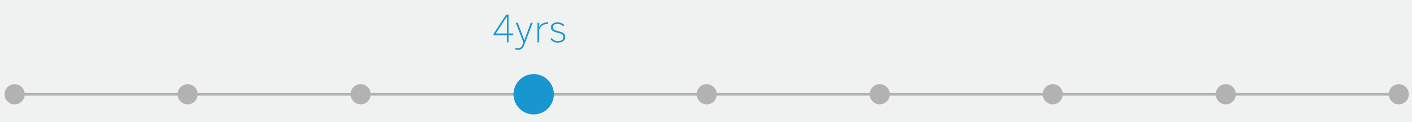
While more technology can sometimes provoke fears of a shrinking workforce, 74% of the companies surveyed here say they believe they will be expanding their workforce over the next decade, with an average increase of 36% in size. Only 18% are predicting a decrease in the size of their workforce, while 7% say it will stay the same.

These predictions are partly explained by 89% of companies claiming they are either excellent or good at communicating the impact of technological change on job roles. Another 89% of companies also give themselves the same ranking for their ability to re-purpose potentially redundant employees. However, in the majority of companies employees are not involved in discussions around either of these activities, with just 38% of companies considering themselves excellent at engaging employees to help with the decision process.

In short, while company executives recognise the profound changes that the Fourth Industrial Revolution could bring, there is a high degree of ambivalence about the meaning of those changes for their organisations. This ambivalence may partly explain the failure of many companies to adopt best practices, or to engage more collaboratively with across their internal and external ecosystems.

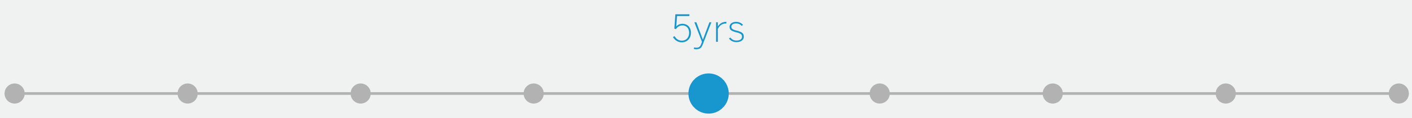
## GRAPH 5: YEARS WHEN THERE WILL BE SIGNIFICANT TECHNOLOGICAL CHANGE

**Q.** When do you consider your industry will be significantly disrupted by technological changes? (Please select one response)



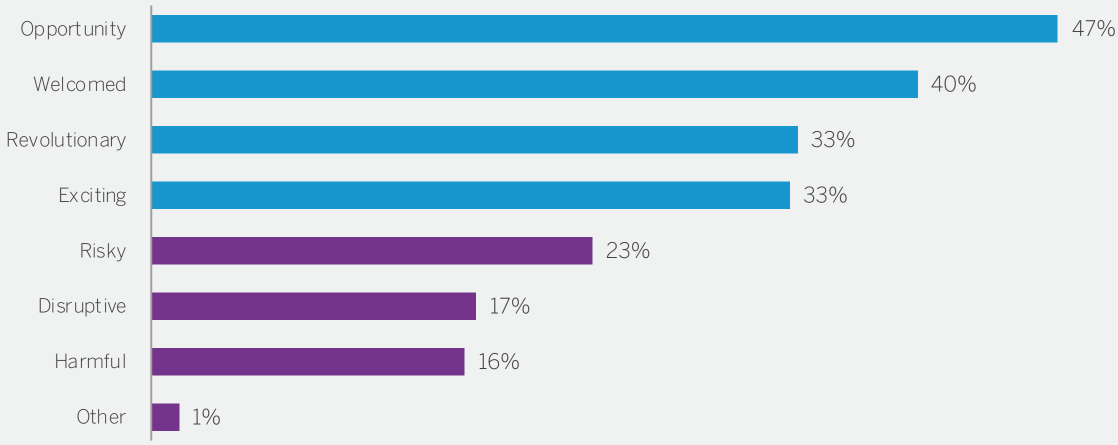

## GRAPH 6: YEARS TO REMAIN COMPETITIVE

**Q.** How long do you consider your company could remain competitive if it didn't undertake any business transformations in response to technological changes? (Please select one response)



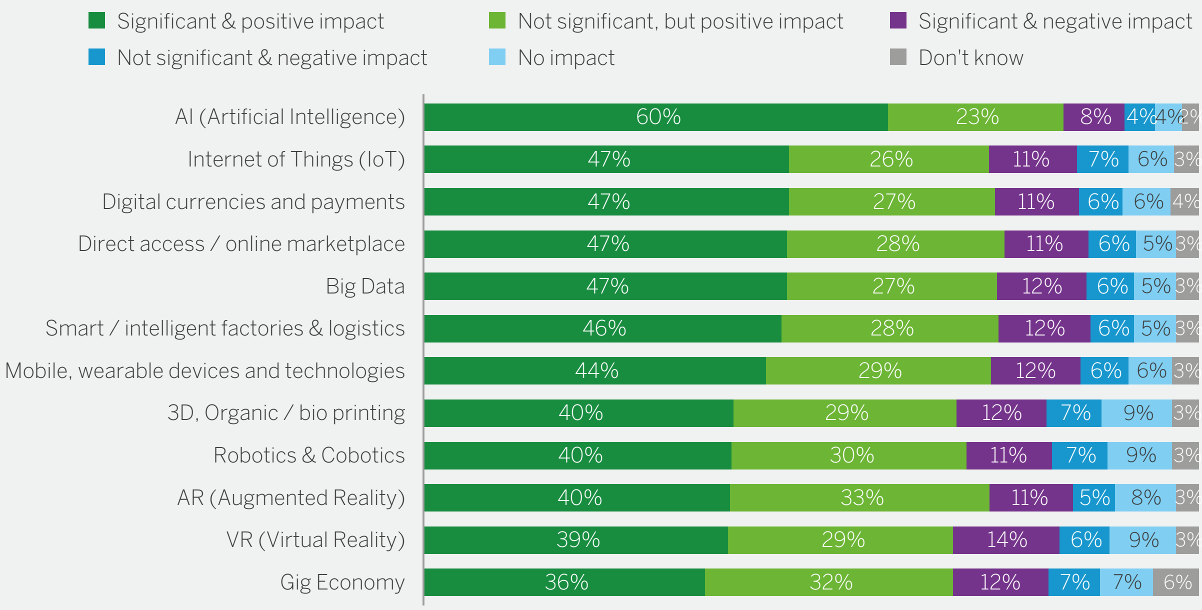

## GRAPH 7: GENERAL PERCEPTIONS OF TECHNOLOGICAL ADVANCEMENTS IN THEIR INDUSTRY

**Q.** How do you generally consider technological advancements impacting your industry? (Please select all that apply)




## GRAPH 8: IMPACT OF DIFFERENT TECHNOLOGY ON THEIR INDUSTRY

**Q.** Which of the following do you consider will have the greatest impact on your industry within the next 10 years? (Please select one column response for each row)



# Transforming
# – creating future value?

Against this backdrop, it's little wonder that business transformation is high on the agenda of companies around the world, according to the survey. Some 45% of large companies researched across the G20 are currently undergoing a business transformation. In fact, nine of the top ten countries with organisations which are either currently considering or are starting a business transformation over the next 12 months were also countries that scored above average for resilience. These include Japan, India, Indonesia, Brazil, Saudi, South Africa, the US, Mexico, and the UK.

"Industry models are being written and rewritten at an increasing pace due to new technologies. Business transformation is about getting the front edge of your industry's substitution curve."

**John Maloney**
Senior Managing Director

The top three reasons for engaging in transformation activities are to reduce cost, take advantage of technology or move into new markers. Some 45% are seeking to reduce costs, which could be seen as a more defensive approach to transformation. On the other hand, 44% are transforming their business because they see an opportunity to leverage technological advancement, which is more future orientated. 39% feel they'll undertake a business transformation to expand into other markets.

Companies in Japan (60%) are the most likely to be currently engaged in transformation.

By industry, 53% of the financial sector is transforming itself at the moment, with another 27% expecting to undertake transformational activities over the next 12 months – totalling 72% who are currently in or are planning to undertake transformation. This does not come as a surprise in light of major technological and regulatory changes in that sector, including future of payments and an increase in non-traditional competitors such as technology companies. This is backed up with 50% claiming the opportunity to leverage technology advancements as the main reason, compared to just 35% for the healthcare industry.

### DRIVING SUCCESS

Taking an average of three years, 59% of executives claim their last business transformation was either on time or ahead of schedule. On the other hand, 38% claim it was behind schedule – the financial industry considered themselves the worst, with 45% of these projects behind schedule.

Business transformation can be tricky, and many companies acknowledge that they failed to achieve the outcomes they had hoped for. Some 40% said poor planning and preparation was the source of failure, while 37% attributed sub-optimal outcomes to a lack of accountability from the executive team, and 35% for unrealistic delivery timescales being put in place at the beginning.

To drive success, 48% of companies consider a comprehensive communication strategy as key, followed by clearly defined roles and ownership. In third place were realistic goals aligned to personal objectives, with 43%. The first two success factors here in particular are also a part of best practice approaches to resilience planning.

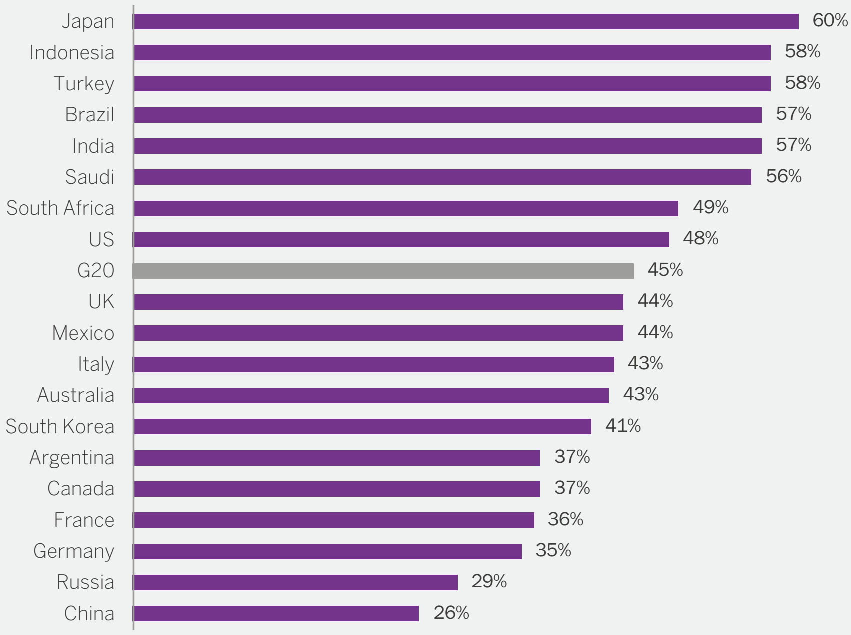
Underlying the success or failure of business transformations is the issue of the level of trust within the ecosystem. This includes trust in leaders, those undertaking the transformation, and those impacted.

From the perspective of company leaders researched across the G20 , reported levels of trust varied significantly across industries and geographies. While levels of absolute trust across the G20 are at 25%, they were highest in Japan (50%) and lowest in Russia (11%).

Over the medium-term, it will be essential for companies to develop the qualities in their culture that enable successful business transformation to take place, if they wish to thrive in the Fourth Industrial Revolution. Trust – which enables true collaboration – is at the heart of this challenge.

## GRAPH 9: CURRENTLY CONDUCTING A BUSINESS TRANSFORMATION

**Q.** Is your organisation currently considering or starting a business transformation over the next 12 months? (Please select one response )




## GRAPH 10: WHY BUSINESS TRANSFORMATIONS FAIL

**Q.** Which of the following reasons do you believe typically cause business transformations to fail? (Please select all that apply)


## GRAPH 11: DRIVING SUCCESSFUL BUSINESS TRANSFORMATIONS

**Q.** Which of the following do you believe are the conditions that drive the success of business transformation? (Please select all that apply)

# Relationships
# – mending damaged trust?

For countries to thrive in this new age, their governments and the companies that operate within their borders need to be able to engage in constructive dialogue. The pace of change is unprecedented, and laws, regulations and business practices within countries will all have to evolve to help economies – and the people who live in them – to flourish.

"The survey clearly shows that many companies are worried about their risk and resilience, and don't feel ready to deal with the ever increasing scrutiny from almost all interested parties."

**James Melville-Ross**
Senior Managing Director

Yet, the results of the Resilience Barometer survey show that the key interrelationships between governments and/or politicians, and businesses are weakening in some countries. In fact, the results of the survey would suggest a state of hostility exists with the inevitable breakdown in this important ecosystem.

Nearly one-quarter of the G20 based corporate executives surveyed say they feel they are either distrusted or hated by their country's government and/or politicians. Shockingly, in Australia, South Africa and France, more than one-third of company executives say they feel they are distrusted or hated by the governments and/or politicians in their nations.

The feeling can be reciprocal. According to the Resilience Barometer, one-quarter of G20 company executives say they either distrust or hate their own country's governments and/ or politicians. Within individual countries, 38% of company leaders in South Africa and 34% in Australia say they distrust or hate their governments and/or politicians. In Europe these negative feelings can be strong too, especially in Italy (35%), Germany (33%) and France (29%).

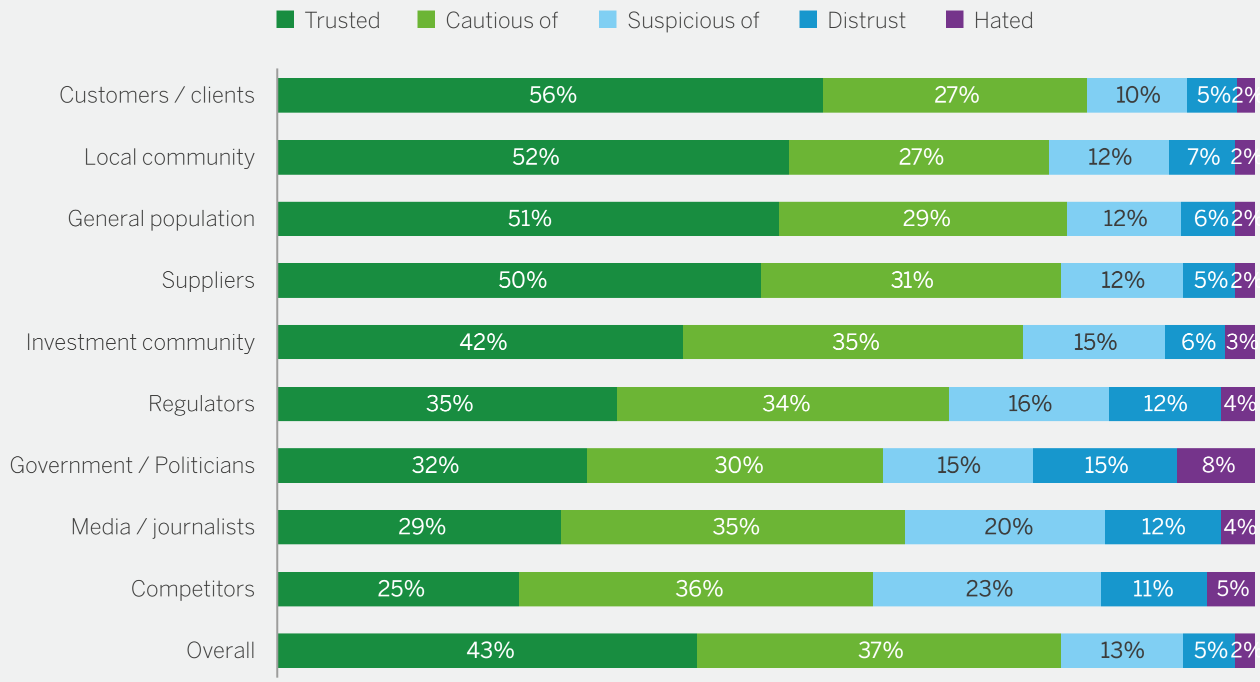
Broken relationships between governments/ politicians and businesses can impact levels of perceived trust in other areas too, such as the local community, suppliers, and customers. Across ten stakeholder groups, feelings of mutual distrust are perceived to run particularly high in Australia, South Africa, France, Germany, and South Korea. In the survey, the company executives from these five countries scored themselves above average for being distrusted and hated by all ten stakeholder groups. On the flip side, four out of five countries also score above average for distrusting or hating all ten of the stakeholder groups as well, the exception are Germany companies, which scored the average.

In terms of industries, healthcare feels the most distrusted or hated by governments and/or politicians, at 28%, followed by consumer goods at 26%. The industries that distrust or hate their governments or politicians the most are resource transformation (37%) and consumer goods (29%).

In many countries, the negative dynamics between stakeholder groups – and in particular governments, politicians, and business leaders – could significantly damage resilience. An overall stakeholder ecosystem that is potentially toxic could easily lead to unintended consequences, such as poorly drafted business laws and regulations that do economic damage to society. Mending the trust in ecosystems between companies and their stakeholders should be a priority for organizations that wish to thrive in the Fourth Industrial Revolution.

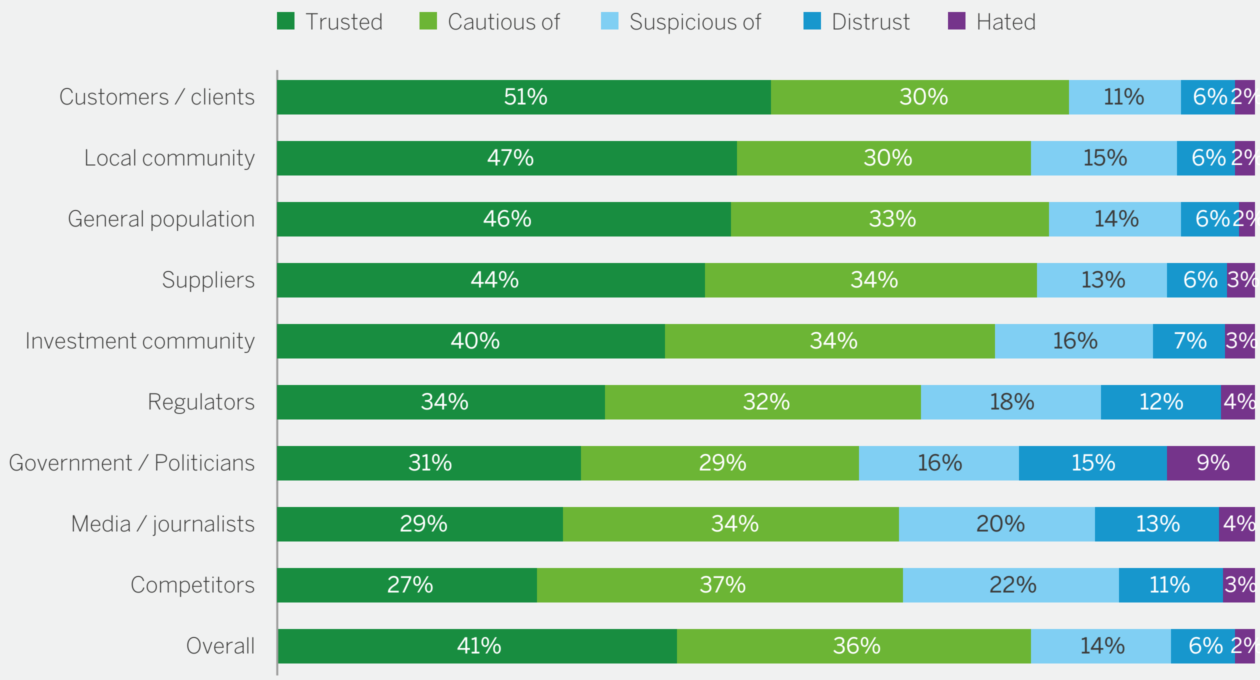
**GRAPH 12: PERCEIVED 'EXTERNAL' PERCEPTION OF YOUR COMPANY**

**Q.** With regards to the views of the following stakeholders, which of the following do you think each would generally apply to your company? (Please select one column response for each row)




**GRAPH 13: COMPANY PERCEPTION OF STAKEHOLDERS**

**Q.** What are your own views of the following company stakeholders in your country? (Please select one column response for each row)



# Regulations
# – protecting whose value?

Traditionally, governments have sought to regulate where free markets, left alone, would produce negative outcomes for their own citizens. Depending on the philosophical approach of the government, the volume and scope of regulatory intervention could vary widely. However, as Governments increasingly challenge the behavior of mass providers of services to customers, from basic utilities to social media, new regulatory interventions are being designed that will shape providers' 'social license to operate'.

"As Governments continue to worry about customer affordability post financial crisis, and concerns rise over protecting the use of consumer data, we are seeing an increasing trend for tightening existing regulatory structures, and designing new regulatory models."

**Alaric Marsden**
Senior Managing Director

Globalisation is increasingly challenging international regulatory regimes and national boundaries are becoming blurred as corporations span the globe. Today, the biggest companies can have revenues that exceed the GDP of some nations. In this emerging ecosystem, how do governments regulate to protect the value of their citizens? And how should companies engage with governments' concerns, while delivering value to shareholders?

One area of clear tension at the moment is how markets are regulated, particularly where competition has been more difficult to engender, or where monopoly businesses operate, such as in infrastructure. In many industries, there is concern about increasing market concentration, as a few firms succeed in a 'winner takes all' race. For example, according to the Resilience Barometer, 36% of all large companies strongly believe that their customers have very little alternative to what they offer in the marketplace.

For some industries, this percentage is even higher, with 44% of companies across the G20 in both the extractives & minerals processing and health care industries believing that customers have little alternative to their products. Market power can have other consequences too – in the extractives & minerals processing industry, 50% claim that their size means they have a very dominant position with suppliers.

This issue of market power can form an active part of corporate strategy. According to the survey, 41% of respondents in both the food & beverage and technology & communications industries claim that they take active steps to restrict competition and competitors. This activity is particularly high for all industries in Indonesia (61%), India (59%), Saudi (51%) and Brazil (50%).

It's not surprising that governments are pushing back – the abuse of monopoly power has historically inflicted damage on national economic ecosystems, particularly consumers. Nearly four out of ten G20 companies said they had been investigated for competition concerns, while another three out of ten said it was happening at the moment. Some 15% expect such an investigation to happen.

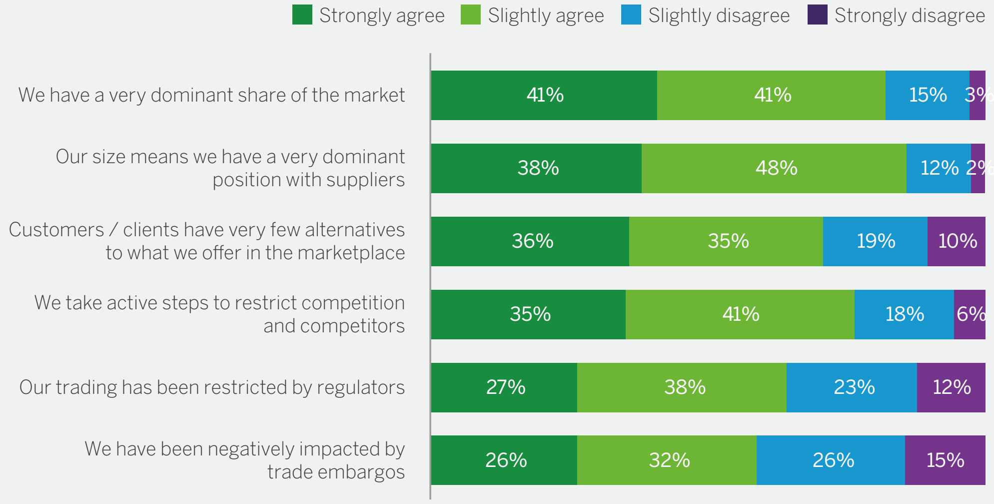
Across the G20, 29% of respondents are seriously considering reducing the number of employees based in the country as a direct result of the regulatory environment that they face. This trend is particularly strong in Australia and Saudi Arabia, with 47% seriously considering such headcount reductions. Also as a direct result of regulation, 29% of companies are claiming they will also consider restricting investment, and more than one-third say they will change their financial or legal structures to mitigate regulatory impact or seek to avoid particular regulatory interventions altogether.

The survey shows that globalisation and other changes which the Fourth Industrial Revolution is creating are challenging concepts of value protection for both governments and companies. Governments may have to think about changing the way they regulate and investigate companies, while companies may have to reconsider how they choose to engage with their full range of stakeholders.

In particular, with customer affordability still a major challenge post the financial crisis, and amidst rising concerns over data security, companies providing mass consumer offerings face increasing Government scrutiny. From providers of basic utility services such as energy, water and telecoms, to major platform businesses covering social media and electronic payments, providers' 'social license to operate' is increasingly being challenged. This in turn is driving a new wave of regulatory interventions that is likely to further increase regulatory burden and complexity.

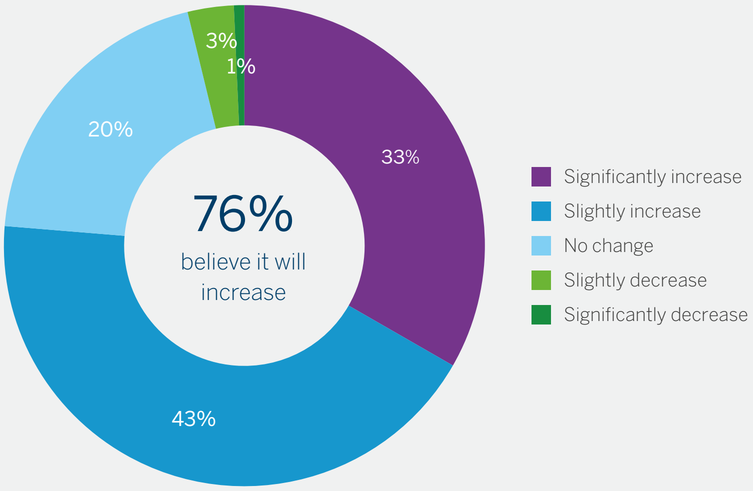
### GRAPH 14: MARKET DOMINANCE 'SOCIAL LICENSE TO OPERATE'

**Q.** How strongly do you agree the following applies to your company in your country?
(Please select one column response for each row)



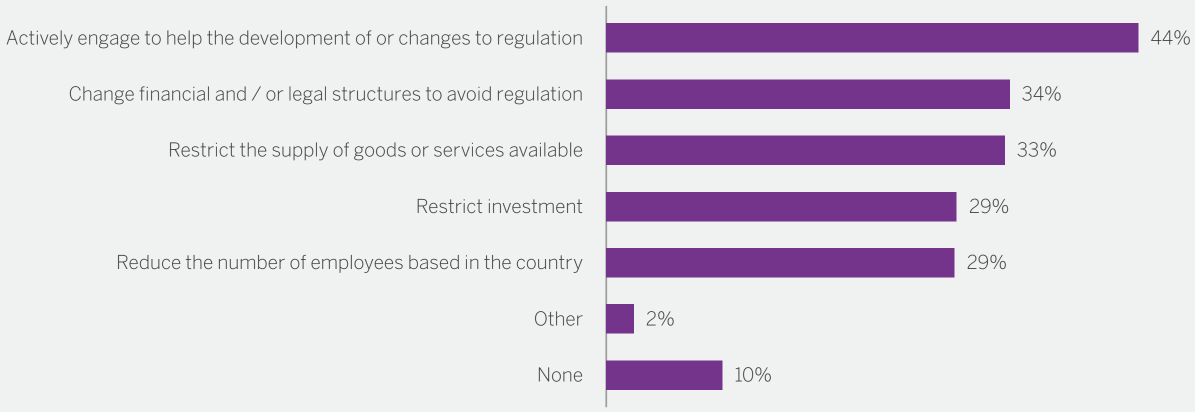

### GRAPH 15: CHANGE IN REGULATIONS OVER NEXT 12 MONTHS

**Q.** How do you expect regulations on your company to change over the next 12 months in your country?
(Please select one response)




### GRAPH 16: IMPACT OF REGULATORY CHANGES - 'UNINTENDED CONSEQUENCES' FOR REGULATORS

**Q.** What is your company seriously considering as a direct results of present or expected regulatory changes?
(Please select all that apply)



# ESG
# – building value sustainably?

Today, external stakeholders – from governments to customers to local communities – are increasingly expecting companies to create their value in a sustainable fashion. This interconnectedness means that damaging activities by a company can have unintended consequences across the entire corporate ecosystem.

"Our research shows that aligning the company's ESG activity with its strategic and operational plans is not just crucial for its reputation, but both global institutional investors and company leaders agree it can add significantly value."

**Dan Healy**
Managing Director

Increased corporate transparency is one way in which society is seeking to encourage organisations to take a more proactive approach to the impacts of their business activities. As a consequence, today companies have more materiality disclosure requirements, as well as environmental, social and governance (ESG) information in their corporate reporting.

While 60% of large companies across the G20 claim they set goals for materiality/sustainability targets, a lower percentage of 52% report on materiality/sustainability. Only 38% actively communicate on materiality/sustainability. Surprisingly, this only increases to 43% for publicly listed companies, in spite of growing regulatory and investor pressure to report on these activities. Overall, the G20 based executives surveyed believe there could be an average increase of 27% to their corporate value if they had an extremely positive or high ESG rating.

Of those that report on their materiality/ sustainability activities, the top five reported items are energy management (47%), data security (46%), air quality (41%), customer privacy (40%) and product quality & safety (37%). The least reported items are physical impacts of climate change (19%), business model resilience (20%), selling practices & product labelling, (21%), and materials sourcing & efficiency (21%).

However, governance issues can be challenging in places. Some 14% of large companies researched across the G20 countries openly acknowledge that their overall approach to corporate governance is unfavourable. South Korea (32%) and Russia (21%) are particularly high in this regard.

### ADOPTING THE UN SDGS

Looking specifically at the UN's 17 Sustainable Development Goals, the most popular among the large companies researched across the G20 countries – with an adoption rate of 44% – is "goal 3: Good health and well-being for people - Ensure healthy lives and promote well-being for all at all ages." After this, 39% say they have adopted "goal 5: Gender equality - achieve gender equality and empower all women and girls."

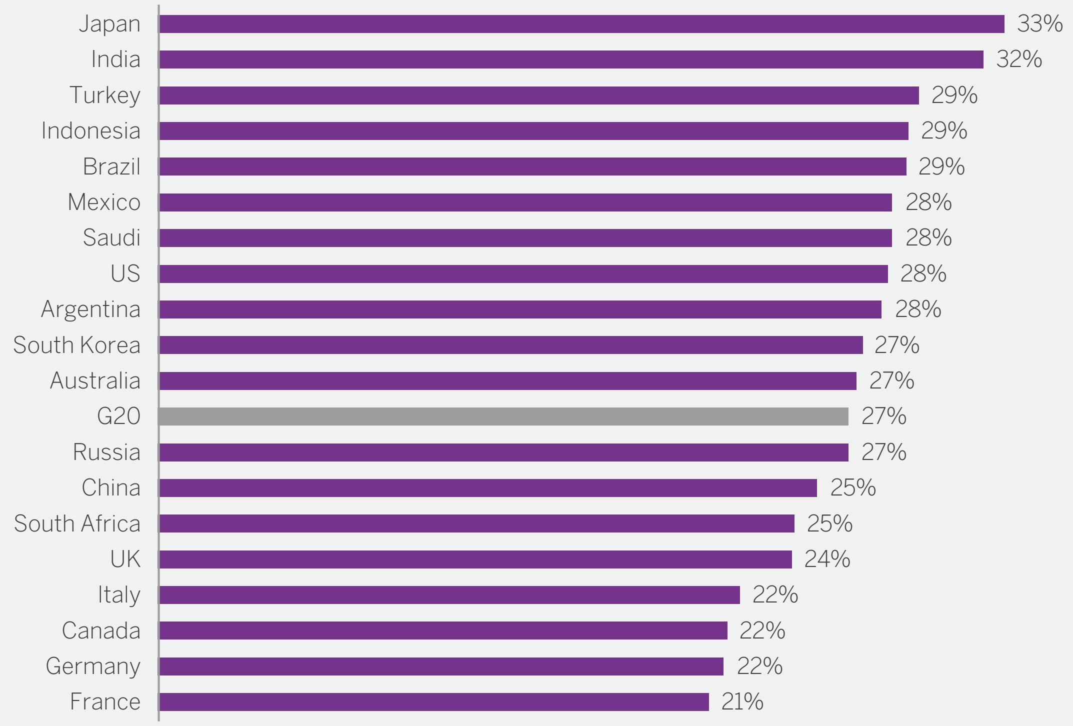
The least adopted (15%) is "goal 14: Life below water - conserve and sustainably use the oceans, seas and marine resources for sustainable development." Just 7% of companies in France (the lowest across the G20) have adopted goal 14, compared to Indonesia with the highest percentage of 28%.

While companies benefit from a higher corporate value if they have extremely positive or high ESG ratings, these can come with a cost. For example, by adopting the UN SDGs, the extra cost for surveyed companies as a percentage of global turnover is estimated to be 5.9%.

Many company executives can see the benefit of taking a positive approach to materiality and sustainability – and communicating about it – within their corporate ecosystem. Building trust in this way can ultimately enhance corporate resilience, justifying the 5.9% costs for adopting the SDGs. However, for many organisations, there is still a long way to go towards changing their culture and approach to topics such as ESG.

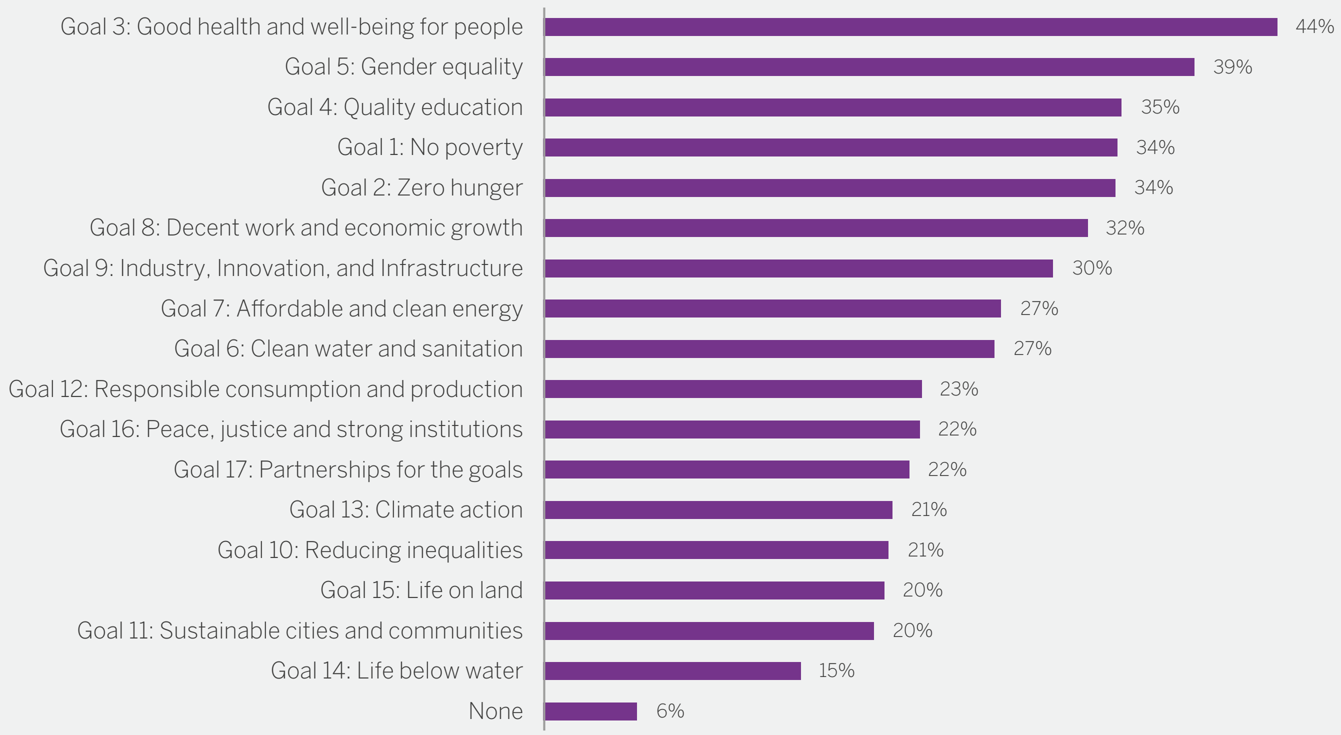
### GRAPH 17: EXTRA VALUE FROM POSITIVE ESG RATINGS

**Q.** What extra percentage of corporate value would you attribute to a company of they had an extremely positive / high ESG rating? (Please allocate up to 100% value)




### GRAPH 18: ADOPTING THE UN'S 17 SUSTAINABLE DEVELOPMENT GOALS

**Q.** Which of the UN's 17 Sustainable Development Goals has your company adopted to support? (Please select all that apply)



# Investment
# – attracting or repelling?

The accelerating globalisation and interconnectedness in our digital infused lives is causing companies to invest significantly in new geographic locations – and some, but not all, governments are working effectively to attract that investment.

"New investment is essential to flourishing in today's rapidly evolving environment. And when companies effectively invest in the three 'd's of the modern age - digital, devices and data - they can create an enormous amount of value."

**Alwin Magimay**
Senior Managing Director

Over the next 12 months, a remarkable 76% of large companies across the G20 are expected to increase their greenfield investments, such as opening a new subsidiary or holding company in a new country. Some 42% indicate they will significantly increase this type of investment.

Nearly seven in ten also say they will increase their investment in mergers and acquisitions (M&A). Japan's company executives reported the highest level of potential M&A, with 56% claiming they will significantly increase this activity. Globally by industry, the highest reported level of intended M&A is in the food & beverage sector, with 38% saying they are planning increased investment.

Government policy can have a significant impact on the ability of companies to undertake investment activity. Of the G20 companies surveyed, 77% claim their government encourages companies to make greenfield investments into their country. India (96%) and Indonesia (93%) claim to lead the G20, while South Korea (37%) and Germany (30%) were reported to be the most discouraging governments.

Government support for investment projects is also considered the most important element when considering greenfield investment into a country, carrying a weight of 20% in the decision. In comparison, and relatively surprisingly, 'market accessibility, size & growth prospects' carries a weight of 6% on the decision.

Interestingly, 82% of company executives in Indonesia say the international business community views business opportunities there as essential to strategic growth, followed by 78% of those in India. Germany is the least confident in this regard, with just 48% considering it as essential to strategic growth for the international business community.

Both companies and governments recognise that new investment is essential to flourishing in today's rapidly evolving environment. However, among governments it's clear that some have been nimbler than others in seizing this opportunity. Failure to attract Fourth Industrial Revolution investment could have profound consequences for these countries over the medium and long-term, including lower economic growth and higher rates of unemployment.

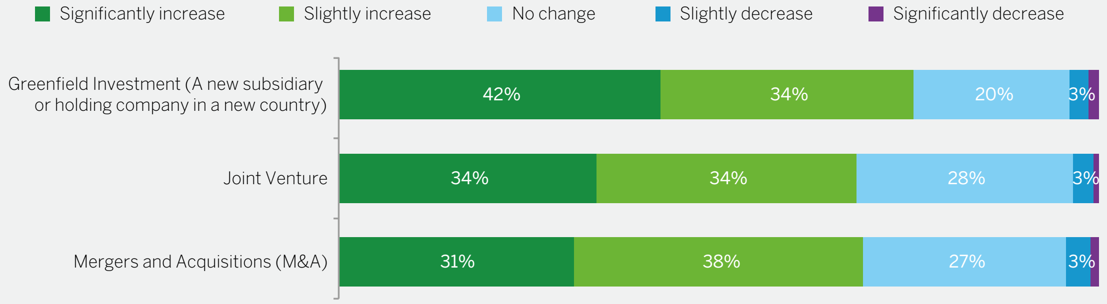
### GETTING THE WORD OUT

The company executives in the G20 countries surveyed clearly felt that their governments could improve the way they market themselves and provide relevant information to encourage investment. The US (41%) was considered to be particularly good at providing this information, followed by Canada (28%) and Australia (27%).

Just 6% said Argentina was good at marketing itself. Even the country's own executives felt there was scope to do better, with only 42% saying they felt their own country was good at this. This was the second lowest score – South Korea earned the lowest rating, with just 37% of company executives in that nation saying they thought their government was good at marketing.

## GRAPH 19: TYPES OF CORPORATE INVESTMENT OVER THE NEXT 12 MONTHS

**Q.** Which of the following types of investment by your company is expected to change over the next 12 months? (Please select one column response for each row)

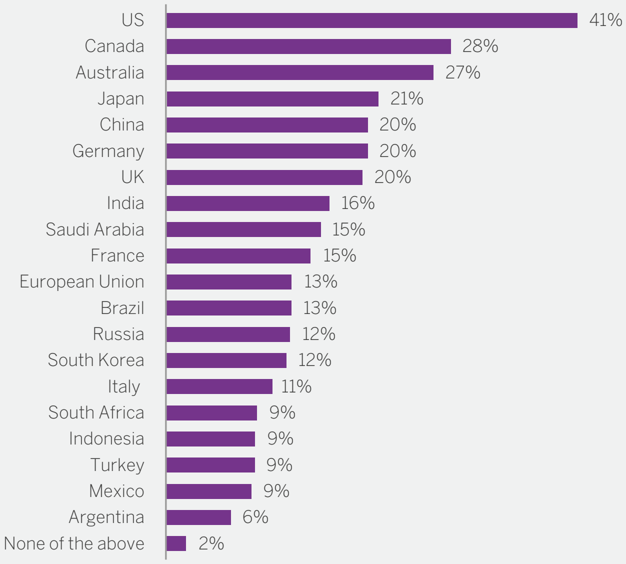



## GRAPH 20: IMPORTANCE OF ATTRIBUTES WHEN EVALUATING COUNTIES FOR GREENFIELD INVESTMENT

**Q.** How would you distribute the importance of the following when considering greenfield investment into a country? (Please allocate 100% of importance between each of the options below)

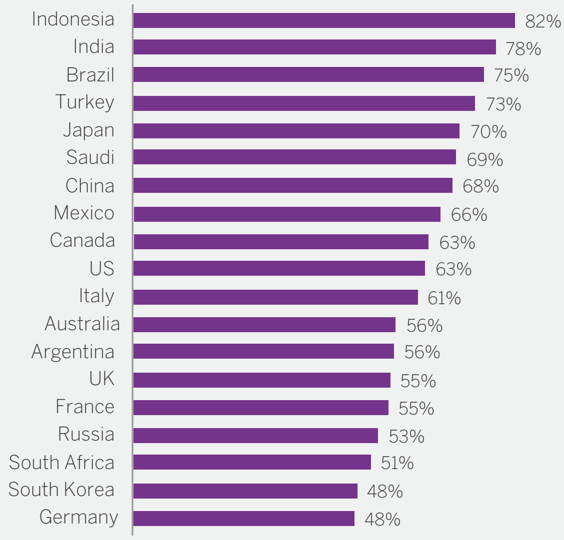

## GRAPH 21: COUNTRIES GOOD AT MARKETING THEMSELVES FOR INVESTMENT

**Q.** Which of the following locations do you perceive are particularly good at marketing themselves and providing relevant information to encourage companies to invest there? (Please select all that apply)



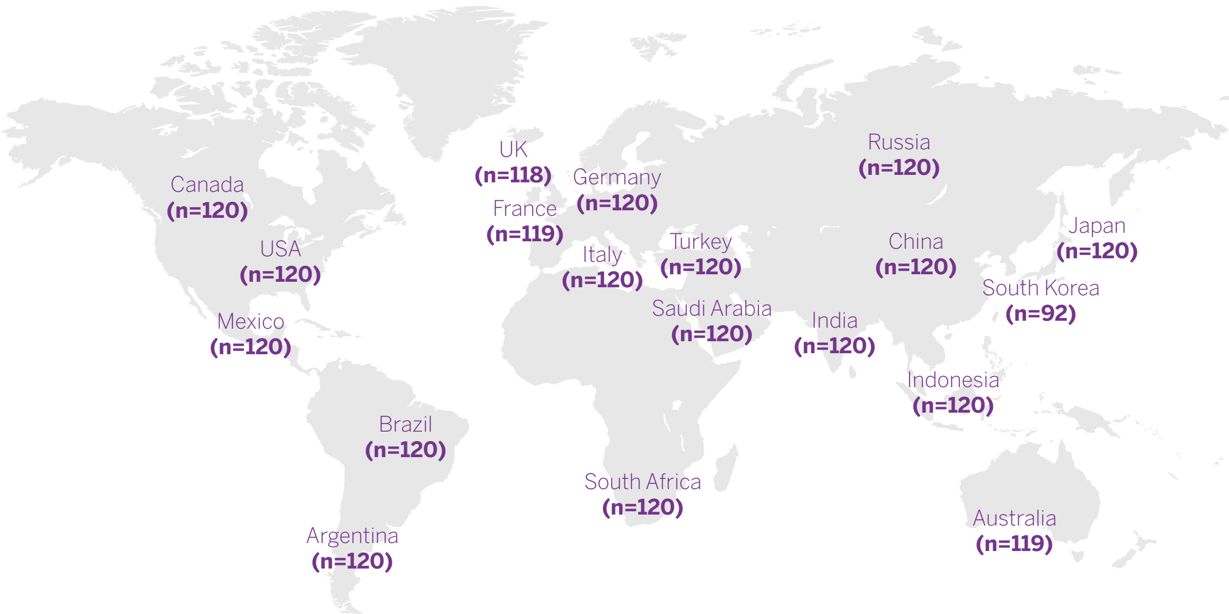

## GRAPH 22: COUNTRIES PERCEIVING THEMSELVES 'ESSENTIAL TO STRATEGIC GROWTH'

**Q.** Generally speaking, how do you think the international business community views business opportunities in your country? (Please select one response)



# Research **methodology**

This research was conducted online from 6th to 14th December 2018 by FTI Consulting's Strategy Consulting & Research team with 2,248 leaders in large companies across the G20 countries:




Each country's results has been weighted so that each country represents the same proportion in the G20 results.

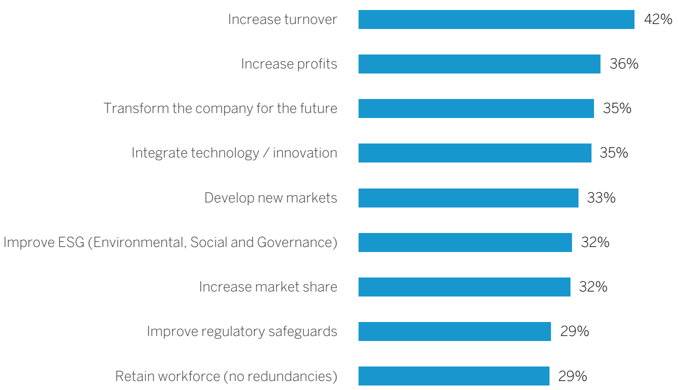
To emphasise their importance, companies participating represent a sum global turnover of USD$1.6 trillion (62% derived from their country). In terms of employees, they directly employ a global sum of 6.7 million people (65% from their country, with the US being the highest with 79% in the US employees residing in their country).

Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%.

Further information on the results and methodology can be obtained by e-mailing Dan.Healy@fticonsulting.com

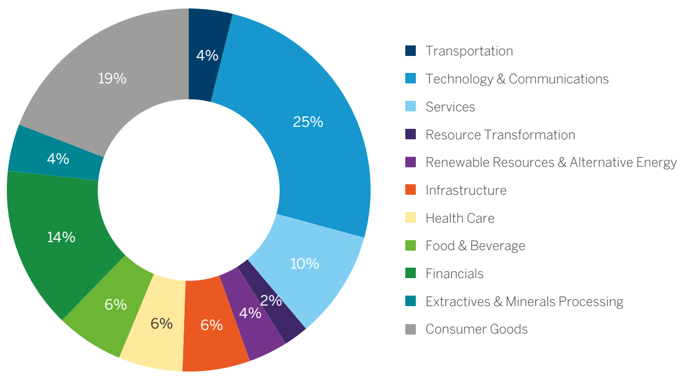
### GRAPH 23: 'EXTREME' PRESSURE ON COMPANIES

**Q.** How would you generally rate the pressure upon your company to achieve the following over the next 12 months? (Please select one column response for each row)




### GRAPH 24: INDUSTRY CLASSIFICATION OF G20 COMPANIES

**Q.** Which of the following industry classifications best fits your company?(Please select one response)



# About
# FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes.

Operating globally across **28 countries** on six continents, we offer a comprehensive suite of services designed to assist clients right across the business cycle – from proactive risk management to the ability to respond rapidly to unexpected events and dynamic environments.

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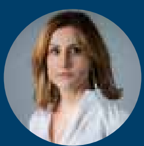
## Contacts

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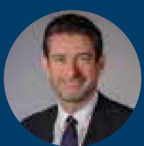

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EXPERTS WITH **IMPACT**

## About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

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