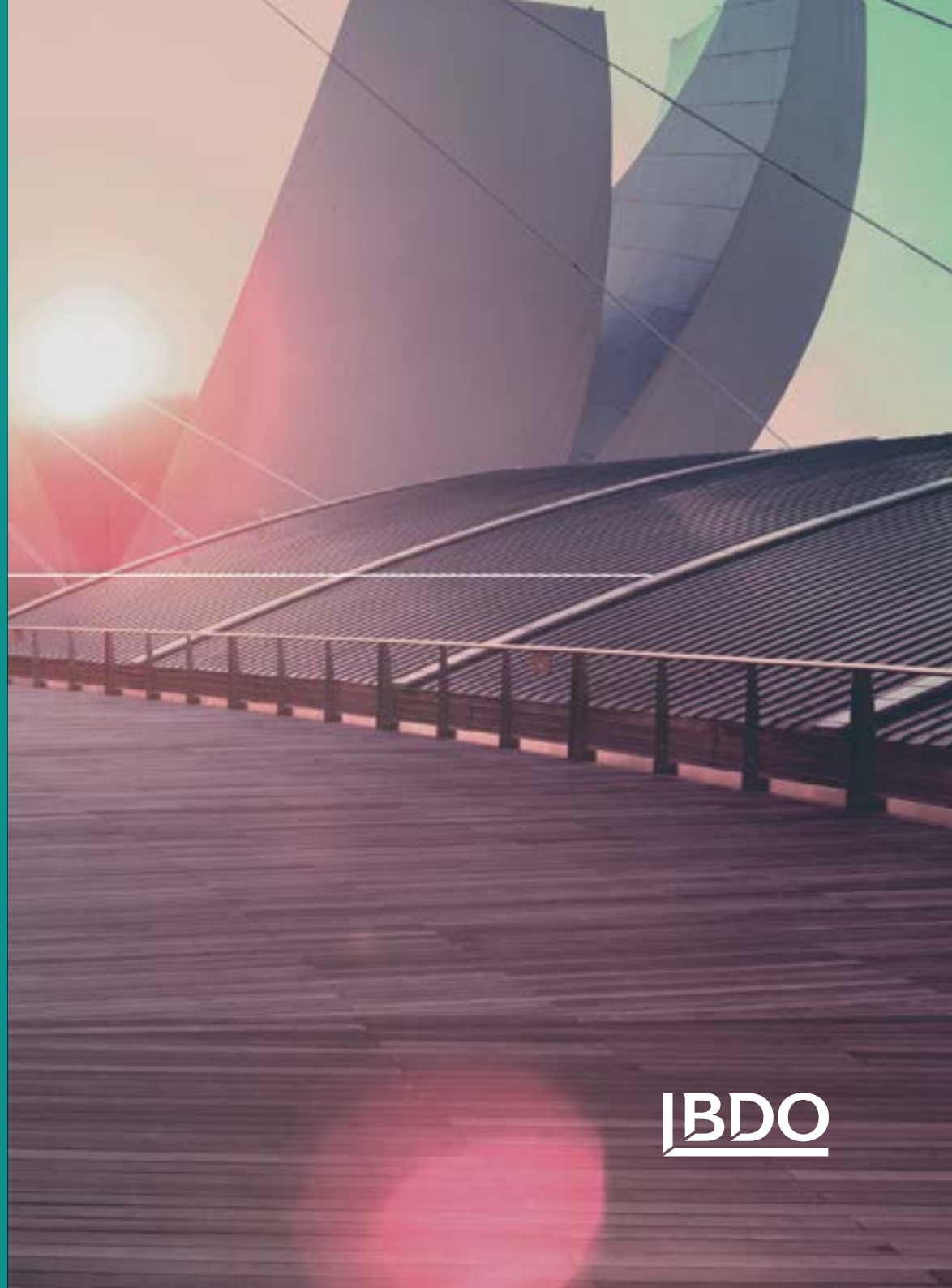




# BDO EUROPEAN SURVEY ENSURING A LEADERSHIP POSITION IN 2025:

How European business leaders can  
respond to market disruption and gain  
competitive advantage



**BDO**



*Trond-Morten Lindberg*  
CEO EMEA

# FOREWORD

## The European business landscape

European businesses operate in a challenging geopolitical and macroeconomic landscape. The European economy has grown on average less than 2 percent per year over the last five years and economic forecasts published by the European Commission suggest that the outlook in the medium-term is for modest GDP growth of just 1.4 percent per year in 2020 and 2021.

So how can businesses succeed amidst sustained political uncertainty, increasing protectionist measures and stagnating growth within domestic markets?

BDO sought to understand the strategies that European executives plan to adopt to stimulate growth: those that will help them to achieve or maintain a market-leading position in their industries.

Based on their candid responses, we have identified 5 important key findings and 3 strategic investment areas.

## Dare to be bold

To address the many challenges ahead, a leader must dare to ask bold questions and be prepared to create a culture that encourages others to ask similarly bold questions both inside and outside the board room. He or she must consciously activate different stakeholder groups. They have to approach the younger generation and listen to their unbiased thoughts and suggestions. Taking note of the fresh ideas from these first true digital natives will undoubtedly lead to interesting debates and bring real added value to the table.

Based on the responses to our survey, we have identified a checklist of 10 questions that business leaders should review and discuss, to set their companies on the right path to market leadership. These 10 important questions can be found on page 21 of the report.

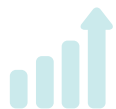
## Talent as a priority area of investment

As our survey has shown that talent is one of business leaders' three priority areas of investment, it is imperative that we clearly understand all generational differences and what the new generation expect from their employers. We must ensure that every employee, regardless of their age, feels valued and engaged. Employees seek purpose and meaning and the younger generation in particular will want to see gains in efficiency through digitalisation and technology. Equally, they will expect those gains to be invested in an improved work-life balance, in sustainability and climate measures and in ensuring equality.

This generation – today's students and tomorrow's new talent – expect climate change issues to be dealt with. And this growing attention has definitely elevated the sustainability agenda to the board room. Unconstrained year-on-year economic growth no longer seems as feasible as previously assumed, and the depletion of natural resources is becoming a harsh reality.

We trust that this report will help provide insights on the best ways to navigate the possible opportunities and challenges ahead.

The 5 key findings confirm that European businesses should be prepared for disruption - which is now a part of life. Business leaders are expected to navigate an increasing number of new challenges, such as emerging technologies, together with the future of work agenda and environmental sustainability.



Aggressive growth is on the agenda



Growth realised through strategic investment



Global expansion anticipated



Preparedness to address critical risks



Company leaders are taking green action seriously

BDO's aim in publishing this report is to equip businesses and their leadership teams with practical and relevant insights into the issues that will be top of their agenda over the next five years. BDO leaders across our European firms have reflected on the views of the 200+ business leaders who participated in our survey and, drawing on their market experience, they provide their commentary, perspectives and advice, including key takeaways.

#### The research:

We undertook research of over 200 business leaders based in 7 European markets: Belgium, Denmark, Germany, Italy, Norway, Spain and the United Kingdom. We wanted to find out the issues that occupy their agenda today, as well as the changes they plan to make to ensure their leadership over the next five years.

Our research reveals that European businesses have ambitious growth plans, despite the challenges posed by the external operating environment. These include changing European regulation, increased market competition, the fallout of the Brexit transition and changing customer demand patterns.

## 3 strategic investment areas



### Aggressive growth is on the agenda

More than a third (35%) of European businesses are seeking aggressive growth in revenue and market share to attain a leadership position in their market. These aspirational businesses will be an important engine for economic growth in Europe, as small and medium-sized enterprises are the backbone of Europe's economy. They represent 99% of all businesses in the EU.



### Growth realised through strategic investment

Our research shows a revolution is underway in how businesses will generate growth: talent, technology and product innovation are the three priority areas of investment.



### Global expansion anticipated

Businesses are increasingly worried about the external operating environment and, in particular, sluggish growth within domestic markets. They are looking to offset these slowdowns – and the likely impact of Brexit on cross-border trade - by securing more trading opportunities outside European markets.



### Preparedness to address critical risks

A quarter (26%) of European businesses say they feel underprepared to address critical business challenges such as cyber security. Keeping pace with new technologies is a concern raised by a further 20% of leaders in our survey. Despite their growth mindset, our survey shows that business leaders are less confident in their ability to keep pace with change.



### Company leaders are taking green action seriously

As environmental concerns rise up the board agenda, our survey reveals businesses are taking significant action to address environmental sustainability within their business. They are acting in response to tighter regulation as well as to pressure from customers and employees to translate words into a concrete green action plan.



Talent



Technology



Product innovation



# STRATEGIC FOCUS TO ATTAIN A LEADERSHIP POSITION

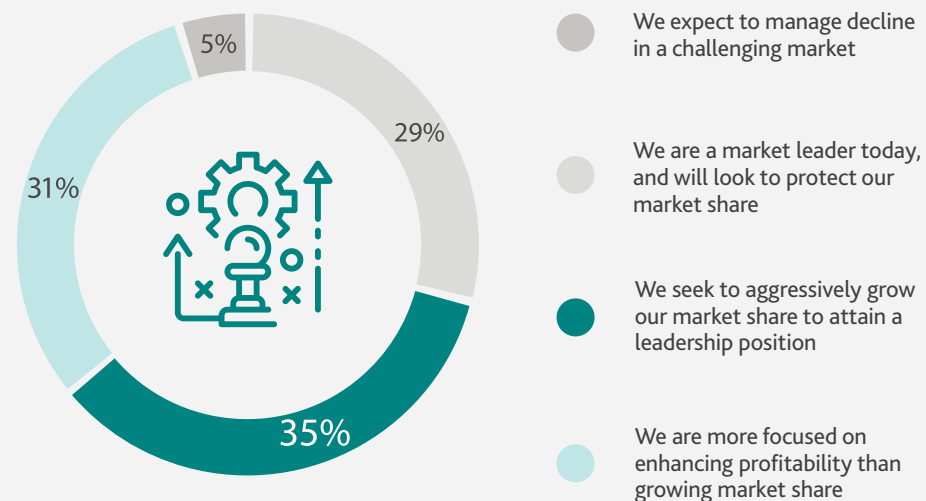
## Aspiring to lead and grow in a challenging environment

A sense of optimism abounds among European business leaders. When asked about their future strategic direction, nearly two-thirds of the leaders surveyed say they want to achieve significant revenue growth over the next five years. Just 5% believe their business is going to decline over that period: see [Figure 1](#).

For 29% of our survey respondents, their aspiration is to retain their current market-leading position, while another 35% aspire to grow market share aggressively to attain a leadership position going forward.

A further 31% are instead focused primarily on enhancing their organisation's profitability. They say they plan to make changes to their business that will allow them to protect or grow margin, rather than to chase growth in market share.

**Figure 1: Which of the following statements best describe your future strategic ambition?**





## Talent, technology and innovation will unlock growth aspirations

In order to achieve their growth aspirations, European business leaders recognise they need to be agile, adapting their strategy as markets change around them. *“We are a small, but very agile company,”* says a board member at one Belgian natural resources company in our survey. *“This means we can make quick decisions and adapt quickly. We are supported by our shareholders, who share the same values as us and give us the opportunity to grow and expand.”*

This view typifies the challenge facing many of the business in our survey. They are aware of the need to retain the dynamic sense of entrepreneurialism that is so helpful in responding quickly to new market opportunities, while at the same time pursuing aggressive growth and standardising their operational practices.

The business leaders we interviewed recognise that their competitive advantage is driven not just by agility. These leaders are clear: being customer-focused, investing in digital capabilities and attracting and retaining the best possible talent are the most common factors supporting market leadership. *“The quality, speed and flexibility with which we can respond to customers’ requests will help us to maintain a competitive edge,”* says the CEO of an Italian life sciences company in our research. *“We have a customer service-oriented culture and take pride in being transparent in our relationship with customers and suppliers.”*

### WHAT OUR RESPONDENTS TOLD US

#### *The importance of customer focus in achieving a leadership position*

The business leaders we surveyed say that building a customer-focused organisation will be critical to their future success. Having a deeper understanding of what drives changes in customer needs and behaviours will help them to target product and service improvements more effectively. Staying close to customers will drive loyalty and provide a solid basis from which to grow market share.

*“We are what you call customer-focused business partners. We are neither the cheapest nor the fastest but we do offer a consistent high quality to our customers.”* – **Norway, life sciences and pharmaceuticals business**

*“Our competitive advantage is driven by a mix of innovative technology plus flexibility and closeness with our customers and partners.”*

**Spain, technology and telecoms business**

*“Our market is quite local, therefore we benefit from greater proximity to customers. The close relationship we have with our customers allows us to be more responsive and to satisfy their needs more easily.”*

**Italy, financial services business**

*“Innovation, sustainability, and competitive pricing give us the edge, coupled with a high level of customer service and service coverage.”*

**Denmark, manufacturing business**

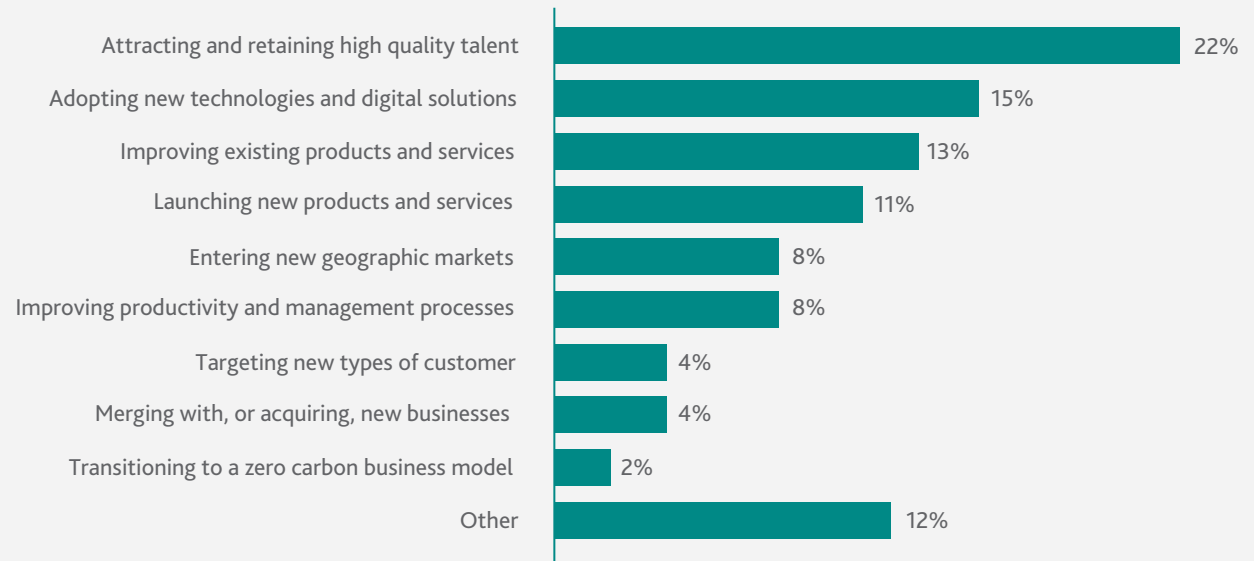


Of the factors driving their growth strategy, attracting and retaining the best talent was highlighted as the most important by 22% - and as 'very important' by 74% - of the leaders in our survey: see [Figure 2](#). Business leaders are conscious that executing their growth strategies effectively depends on fostering a pool of loyal and high-skilled employees. To do this, they say they are investing in skills and training programmes, reviewing their staff benefits packages and providing employees with exciting opportunities to work on innovation or customer-facing projects.

A focus on talent is closely followed by adopting new technologies and digital solutions (highlighted as the most important by 15%, and as 'very important' by 71% in our survey), together with improving existing products and services (highlighted as the most important by 13% and as 'very important' by 67%).

The innovation and digital agenda present new and exciting opportunities for business leaders to reduce the cost of servicing customers, as well as to bring new products to market that respond to changing demand patterns.

**Figure 2: What factor will be the most important to maintain a leadership position over the next five years?**



## WHAT OUR RESPONDENTS TOLD US

### *Investing in digital capabilities to drive growth*

Digital is one growth strategy being adopted by many of the businesses in our survey. They are exploring new ways to digitise their products and services and using advanced data analytics to better understand the opportunities for business growth. Our survey participants say investing in digital capabilities will help them to provide better customer experiences, reach markets that are currently not serviced and increase speed to market in order to capitalise on opportunities faster than their competitors.

*"We plan to innovate in new products and digital solutions to maintain a leadership position against our competitors. It is vital that we invest to stay one step ahead of our closest competition."* – **Germany, natural resources business**

*"We operate in niche markets and are continuing to develop digital technology to reduce cost, which will also allow us to expand our client base."* – **United Kingdom, professional services business**





*Marcello Fumagalli, Partner  
Financial Advisory Risk & Compliance, BDO in Italy*

### **THE BDO PERSPECTIVE: GROWING THE BUSINESS THROUGH DIGITISATION AND DATA STRATEGIES**

“Business leaders are looking to take advantage of the opportunities presented by digital and data to accelerate growth of their business. 54% of our survey respondents, for example, say they want to drive transformational change in their use of technology over the next five years.

There are multiple applications for ‘big data’ to drive marketing and sales projects, product development and to optimise the digital experience for customers. Utilising the data within a business helps executives to identify patterns in customer behaviour which can help to predict demand or future engagement patterns.

With the evolution of the Internet of Things (IOT), and the growth in everyday connected devices, businesses will be able to collect even more data about how their customers engage with their products and services. Any business seeking to take advantage of these opportunities should actively develop a strategy to digitise the organisation and analyse data.

Yet organisations also need to pay close attention to their data protection responsibilities. While many companies have invested time and resource into ensuring compliance with relevant regulation (such as GDPR, the EU’s General Data Protection Regulation) not all companies have made changes to their business processes to ensure ongoing compliance with data protection best practices, so called ‘data protection by design’.

Leaders need to ensure their organisation has undertaken a thorough risk assessment to identify the risks associated with processing personal data, and that they have made changes that will properly safeguard the personal data of employees, customers and other stakeholders.

Above all, harnessing the power of data requires cultural change. Data protection should be thought of as not just a formal compliance requirement, but as handling with the care the fuel that will accelerate future growth”.



#### **KEY TAKEAWAYS:**

- Develop a ‘big data’ strategy to plot how the organisation uses the data it collects about customers to spot new business opportunities
- Build ‘data protection by design’ into ongoing data compliance processes
- Understand opportunities for customers to interact with products and services in new ways and using connected devices



# NAVIGATING A CHANGING ECONOMIC, POLITICAL & REGULATORY BACKDROP

## Weathering a macroeconomic storm: difficult conditions anticipated

Although European business leaders are confident about the prospects for their own business, they are more pessimistic about future trading conditions in general. More of the participants in our survey population think that the business climate in their country will worsen (31%) in the short-term than will improve (15%). The balance think conditions will stay broadly the same.

The prospect for the wider European economy is less positive still. 39% of those surveyed anticipate that conditions across Europe will worsen over the next six months, against just 13% who believe things will improve.

The level of economic and business confidence does matter because it is a major indicator of the willingness of businesses to invest for the future. According to Eurostat, the statistical research body of the European Commission, levels of business investment within the EU only returned to levels witnessed before the financial crisis of 2008 in early 2019. A decade of economic uncertainty resulted in a reluctance to invest.

Turning the page on a new decade, business leaders need to be prepared to make strategic investments in property, machinery, expanding their workforce or in research & development initiatives as a driver of future growth.

The two biggest factors highlighted in our survey which may suppress increased levels of investment are political. First, the rise of populist and nationalist politics across Europe is cited by 38% as having an overall negative impact on their organisation. They are concerned about the impact of a policy agenda shaped around higher taxation, or which may make it more difficult to trade with - or recruit talent from - international markets.

## Rebalancing trade in a post-Brexit Europe

The other factor cited is the United Kingdom's withdrawal from the EU: 42% of those surveyed believe Brexit will have a negative impact on their business, compared to just 10% who think it will be positive overall. One UK CEO in our survey sums up feelings about Brexit well: *"Brexit is our biggest concern: it creates uncertainty, has created exchange rate volatility and places an extra burden on our reporting."*

As the UK enters a transition period and prepares to formally leave the institutions of the European Union, an immediate concern is the impact on trade levels between the UK and other countries in Europe. A quarter (24%) of our survey respondents based outside the UK predict their business will do less trade with businesses in the UK as a direct result of Brexit. One in five (21%) say they plan to increase trade with other EU markets to make up the difference.

But leaders of European businesses – including those from the UK – also say Brexit may be a catalyst for them to explore trade opportunities outside of Europe. In our survey, 24% and 33% of businesses in Europe and UK respectively say they anticipate an increase in the level of trade between their business and overseas markets.



*Stuart Lisle, Senior Tax Partner, BDO in the UK*

**THE BDO PERSPECTIVE: NAVIGATING THE DOWNSIDE RISKS OF BREXIT AND MAXIMISING THE OPPORTUNITIES TO DEVELOP MORE DIVERSE INTERNATIONAL TRADE**

"The already volatile political and economic global trading environment has been further complicated by the United Kingdom's planned exit from the EU. As the UK resets its relationship with Europe, businesses need to adapt quickly. As the post-Brexit trading rules start to form, businesses will need to quickly understand how these will affect their specific circumstances and how to operate within those rules to minimise disruption.

In this context, our research has highlighted that the two biggest risks that companies need to manage are supply chain disruption and supply of talent.

In a post-Brexit environment, where free movement of people is likely to be restricted and new immigration rules will tighten the supply of talent, businesses will need to build new plans to meet their talent needs. UK businesses will need to invest more into the development of their labour force, utilising the apprentice scheme and potentially engaging more than they ever have before with schools, colleges and universities.

- Map out supply chain risks and areas of likely cross-border friction in a post-Brexit landscape
- Consider whether setting up a European subsidiary will help with sourcing and supply of goods
- Consider how investment into the future workforce through training and apprenticeships could counter the loss of talent from the EU
- Explore opportunities presented by new global markets



**KEY TAKEAWAYS**

UK businesses importing and exporting goods and materials will also need to review their supply chain to identify any possible friction points that the new border with Europe will create. We are aware of instances where UK businesses have already found that European suppliers are becoming reluctant to ship goods into the UK post-Brexit, preferring an EU delivery address. Some of our UK clients are therefore looking at options for establishing either storage locations in the EU or going further and setting up European subsidiaries to take delivery and manage the transportation and distribution of goods into the UK and elsewhere from the EU.

European businesses need to be aware of the potential for increased costs of transport through the channel ports, longer processing times and compliance costs that may be involved in serving UK-based customers.

It is important that businesses both sides of the new border use the transition period in 2020 to undertake a full review of their trade between the UK and Europe, their global supply chain and their talent needs for the foreseeable future and analyse the likely risks. Firstly, businesses should assess how much of their supply chain is dependent on UK-European trade, before going on to identify where friction might be introduced as a result

of the new trading relationship between the UK and the EU and assess the costs and physical impacts associated with these.

Another key step in preparedness is to consider how recession-proof the business is, as many economic forecasts suggest that both the UK and EU economies may slow further immediately after Brexit. A key consideration is how dependent is the business on customers' non-essential spend? Retail businesses may be particularly vulnerable to customers losing confidence.

Following this analysis, business leaders can formulate a worst-case scenario, which will help them to identify contingencies that could be put in place once the future direction of the UK-Europe trading relationship is known with more certainty.

BDO is also seeing many UK and EU businesses already looking to pursue trading opportunities in other global markets in order to offset the possible impact of Brexit. Markets such as the US, Canada and even the UAE are becoming more popular because of their ease of access similarities to European markets."

## Rethinking regulation as a growth driver

European regulation receives a mixed reception from the business leaders in our survey. More than a quarter (27%) say that the EU regulatory agenda will have an overall negative impact on their organisation over the next five years. This compares to just 23% who say the impact of regulation will be positive. Half of those surveyed believe the impact will be neutral.

The von der Leyen Commission has identified a series of regulatory priorities at European level for the next five years addressing issues including the environment and sustainability, digital, cyber and data security and increasing customer rights and protections. These regulatory priorities will have an impact on all businesses, regardless of size or industry sector.

The business leaders in our survey predict a greater regulatory burden: 36% of them believe that increased regulation will result in decreased profitability for their business: see **Figure 3**. On average these respondents believe that regulation will depress their organisation's profitability by 13%.

On the other side of the argument, 17% of those surveyed say that changes to regulation will boost their organisation's profitability. This group believes that regulatory change will increase their organisation's profitability by 14% on average. They are encouraged by steps at the European level to liberalise markets, give customers more choice (as well as more protection) and pursue regulation that will create new green jobs.

**Figure 3: What impact do you think complying with regulation will have on your profitability over the next 12 months? By what proportion do you expect profitability to change as a result?**

+14%

average  
anticipated  
profitability  
increase as  
a result of  
regulation

17%

Changes to regulation  
will be a boost for  
our profitability

43%

Foresee no impact on  
our profitability from  
government regulation

36%

An increased burden  
will depress our  
profitability

-13%

average  
anticipated  
profitability  
decrease as  
a result of  
regulation

4%

Don't know





*Klaus Eckmann,  
Head of Audit, BDO in Germany*

### **THE BDO PERSPECTIVE: STAYING ONE STEP AHEAD OF REGULATORY CHANGE**

"A frequent topic of conversation with my clients is regulation. Many of them are global entities with operations in multiple countries, both within Europe and further afield. They are increasingly concerned about the need to manage different regulatory regimes across the range of countries where they do business.

Businesses want to avoid surprises and stay one step ahead of regulatory changes that are coming down the pipeline. That position is reflected in the European business leaders who took part in our survey, who are divided about the impact of regulation on their future business performance, but who seek certainty about future regulatory change.

Top of the mind of executives is how they protect their organisation against quality failure. This is increasingly important in a business landscape where there is greater scrutiny from customers, shareholders, and media as well as from regulators. Small mistakes might result in irreparable damage to customer relationships and brand perception.

Leaders today are spending more time discussing issues such as data and cyber security, environmental impact and sustainability, as well as digitisation and changing customer needs. Having a clear view on how to approach these disruptive trends is just as important as keeping an eye on short-term financial and operational performance.

How executives think about regulation is changing as a result. Historically regulation was reactive, but these days the tenor of the conversation has switched to prevention. At BDO this has a direct impact on our roles as auditors, ensuring we provide our clients with quality that will give them assurance they have the right levels of transparency and monitoring in place to stay one step ahead of the changing regulatory landscape."



#### **KEY TAKEAWAYS:**

- Review the organisation's approach to risk profiling to identify possible regulatory hurdles early
- Understand where the potential risks of quality failure sit within the business, and how these can be mitigated
- Map out stakeholders and their likely areas of concern to respond effectively to increased business scrutiny



# THE GREEN AGENDA

## An awakening green consciousness: making changes to improve environmental impact

The European Commission has outlined a series of targets to improve environmental standards and protections. Its 2030 climate and energy framework include targets on reducing greenhouse gas emissions by 40% from 1990 levels, increasing the share of energy from renewable sources to 32%, and improving energy efficiency.

Meeting these targets will require businesses, as well as national governments to play a role. The indications from our survey are that European business leaders have bought into the need to improve sustainability within their business. 65% of those surveyed say that transitioning to a zero-carbon business model forms an important part of their strategy over the next five years. 39% believe that the EU's emissions targets will have an overall positive impact on their business over that same period, compared with just 15% who believe the impact for their business will be negative.

Evidence from BDO's research suggest that businesses are making tangible changes to their operations in order to achieve significant environmental changes. *"We have changed the wrapping we use for our products to more sustainable materials,"* says the COO of a German manufacturing business. *"The company intends to use recycled plastic wherever possible, with a focus on PET materials, and more environmentally friendly options."*

Other changes include promoting greater recycling, offsetting carbon emissions and reducing flights in favour of greener transport options. *"We are trying to take steps to offset our carbon emissions with regards to international travel. We are also trying to become more paper-free,"* says the Managing Director of a UK-based media and entertainment company.

### WHAT OUR RESPONDENTS TOLD US

#### *Committing to real green action*

As the future of the planet and other green issues attract a greater media focus, European businesses are also paying closer attention to their organisation's direct and indirect impact on the environment. Our survey reveals they are committing to real action to address climate concerns.

*"We will focus on minimising our paper wastage and use water bottles made of paper or cardboard instead of plastic. We have a five year sustainability strategy, and will do everything we can to ensure that our buildings are sustainable and environmentally friendly."*

**Denmark, not-for-profit organisation**

*"We are using hybrid vehicles in our organisation, and our travel policy is to use trains where possible rather than planes."*

**Belgium, natural resources & energy business**

*"We will use more digital technology for virtual meetings to reduce travelling and our carbon footprint."*

**UK, professional services business**

*"Transitioning from diesel machines to electric machines is where we can have the greater impact."*

**Spain, manufacturing business**

*"We have introduced internal initiatives regarding environmental sustainability, such as recycling and reducing the use of plastics."*

**Italy, not-for-profit organisation**





Some of the businesses we interviewed considered themselves to be environmental pioneers. They are proactively decarbonising their business model and finding ways to reduce their environmental footprint. For example, one Danish transport and shipping company describes using data analytics to evaluate and reduce wastage in their business: "Our culture is very environmentally aware," says the company's CEO. "Our vehicles are designed to minimise fuel consumption and we are using digital systems to allow for automation optimisation of space, as well as enhancing monitoring of vehicle functions and maintenance needs."

The environmental pioneers in our survey realise that the changes they are introducing make good business sense - as well as being positive for the planet. As public consciousness awakens to the importance of environmental sustainability, so too will consumers and employers pay closer attention to the environmental credentials of organisations they choose to buy from or work with. With greater awareness of these issues will come greater scrutiny from regulators, media and shareholders. Businesses embracing these issues head on are much better prepared to turn environmental sustainability to competitive advantage.





*Fabrice Grogard,  
Partner, BDO in Belgium*

### **THE BDO PERSPECTIVE: TAKING THE SUSTAINABILITY AGENDA SERIOUS TO DRIVE REAL CHANGE**

"Businesses are implementing ambitious plans to tackle climate action and become carbon neutral, switching their energy suppliers to source a greater proportion of energy from renewable sources or offsetting their emissions by investing in environmental or sustainability projects designed to reduce global carbon emissions.

BDO has taken a lead in this area to become the first climate-neutral consultancy in Belgium. We reduced our CO<sub>2</sub> output per employee by more than a quarter over the past seven years. The strategies we have taken to achieve this have targeted direct emissions (energy consumption, fuel consumption and vehicle emissions) and indirect emissions (paper consumption, plastic consumption, commuting and air travel).

The steps we have taken provide a blueprint that other businesses can follow. Some of our clients, for example, have switched to energy-efficient LED lighting, or have installed photovoltaic solar panels on their sites. Others have provided employees with reusable cups and recycling facilities.

Employee mobility is a major contributor of emissions. As a result, businesses are encouraging employees to work remotely and to cut down on business travel. For example, 43% of executives responding to our survey anticipate an increase in home-based working. We have seen some of our clients centralise their mobility budgets to provide greater transparency to measure and track the environmental impact of employee mobility.

Whatever steps organisations plan to take to reduce their environmental footprint, it is important to involve staff in the decision-making process. This could mean giving staff the opportunity to vote on measures in an environmental action plan, or a chance to share their own ideas for achieving environmental targets."



#### **KEY TAKEAWAYS:**

- Consider both direct and indirect sources of emissions to reduce environmental footprint
- Review mobility policies and budgets to cut down non-essential business travel
- Crowdsource ideas from staff to shape the organisation's green strategy

# PREPAREDNESS FOR FUTURE DISRUPTION

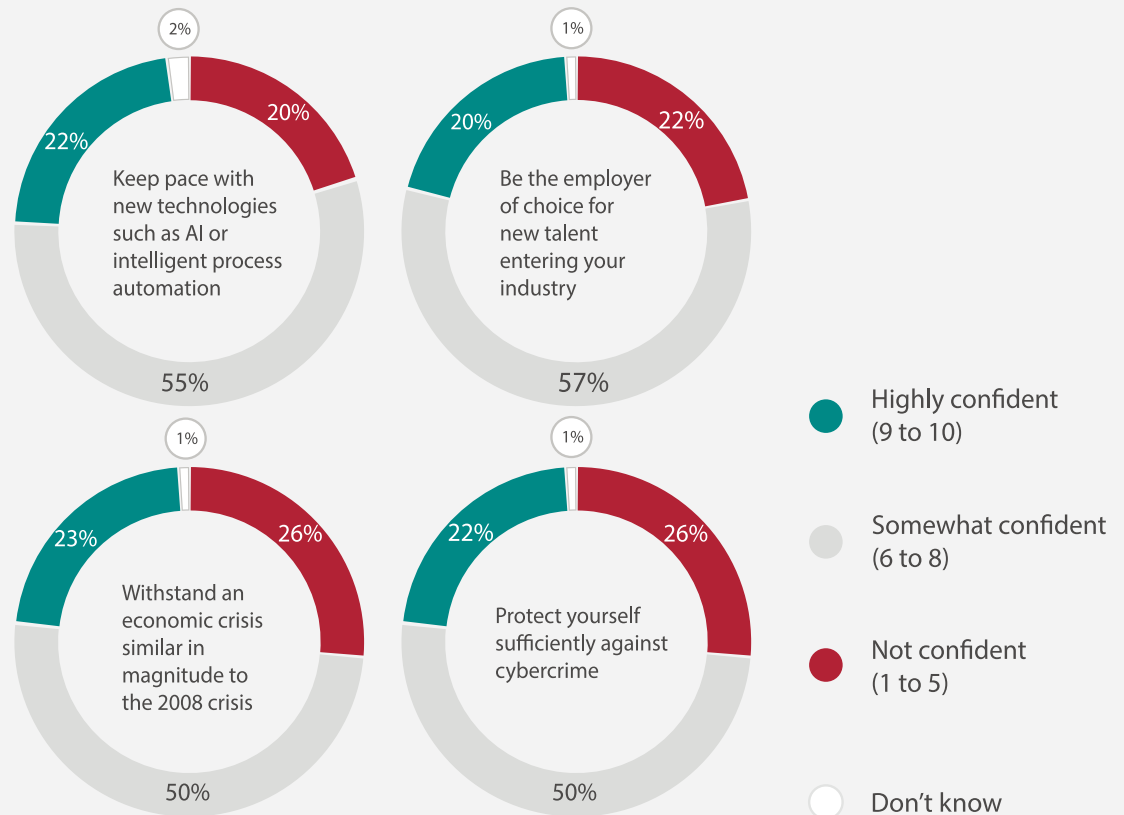
## How prepared are European businesses for the threats that lie ahead?

Some of the companies interviewed in our survey are managing to ride a wave of disruption and change to their advantage. They embrace new technologies and want to transform their business to unlock opportunities in new market segments. Others feel less prepared to deal with these issues and see change as fundamentally damaging to their business model.

More than a quarter (27%) of European business leaders in our survey say that competition from new market entrants will have an overall negative impact on their organisation over the next five years. One in six (17%) consider that changing customer needs will be unfavourable towards their organisation: they know that the external environment is changing quickly, but they are worried about their ability to keep pace with this change.

At the heart of this attitude is a concern about the level of preparedness to deal with future market disruptions. For example, more than a quarter (26%) do not feel confident about their ability to protect their organisation sufficiently against cybercrime: see [Figure 4](#). A quarter also feel their financial position is not robust enough to withstand an economic crisis similar in magnitude to the 2008 global economic crash.

Figure 4: On a scale of 1 to 10, how confident are you about the following scenarios for your organisation?







*Jordi García,  
Partner – Audit, BDO in Spain*

### **THE BDO PERSPECTIVE: TAKING A PROACTIVE APPROACH TO NON-FINANCIAL REPORTING**

"Although listed companies and larger organisations have for a long time been required to publish non-financial metrics, a spotlight is now being shone on a wider cohort of companies to provide more comprehensive reporting about their business performance.

Non-financial reporting is intended to give a broad overview of how an organisation impacts society beyond the pursuit of profit. There are five main components to this: a company's environmental impact, its social responsibility and treatment of employees, its respect for human rights, its approach to anti-corruption and bribery, and how it manages diversity.

In my experience companies coming to non-financial reporting for the first time may assume that is purely a compliance exercise. The reality is that there is a lot of added value to be gained to collecting and reporting this information. For example, potential talent considering joining your organisation will want to know about any gender pay gap between men and women, and about the organisation's environmental credentials. Being transparent in these areas can really help to attract the best talent.

The information being collected – such as about a company's supply chain and operations – can also inform better business decisions. It enables leaders to develop a greater understanding of potential risks to their business, and where they may be vulnerable to external factors that could derail the business plan.

For companies starting out on this journey it is important to begin by understanding where the information that they are required to report sits within the organisation. This may not always be obvious. Typically, data sits across a range of business functions or teams, so there will almost always be a process of data mapping and putting in place a process to collate it in a meaningful way.

The next step then is to put in place a framework for reporting this information to the company's directors on a regular basis, for example during quarterly board meetings, so this can be reviewed and discussed. Business leaders are then much better informed and have access to the information they need to meet their reporting requirements."



#### **KEY TAKEAWAYS:**

- Understand where the data sits in the organisation today, and how easily it can be extracted from existing systems and processes
- Think about how reporting can be used to address the need of different stakeholders, such as employees, investors, and other third parties
- Make sure the information collated is fed back into business planning to identify business risk early and take proactive mitigation

## Technology: friend or foe?

Although our research shows that less than one in four European businesses feels very confident in their ability to keep pace with new technologies, it also suggests that technology will be embraced as a key driver of change over the next five years. 69% of those surveyed believe that digital transformation will have an overall positive impact on their organisation, compared with just 5% who believe the impact will be negative.

The proportion who believe digital transformation will be a force of positive change is far higher than the proportion who see changing customer demand and new competitors as good for their business (40% and 20% respectively).

How do we reconcile these two conflicting viewpoints? Business leaders know that new technologies – such as artificial intelligence and intelligent automation – have the potential to profoundly change their operating model, their staffing requirements and their customer experience. The exact path to this future, however, is uncertain for many businesses. Our research suggests that executives are unsure when and where to invest in order to retain a technological advantage over their peers.

## Being the employer of choice

Talent is another area where business leaders feel conflicted. There is a substantial minority who feels totally unprepared to rise to the workforce challenges ahead, such as accommodating a new generation of employees with different working styles into the business, providing competitive benefits packages to attract and retain talent and upskilling their workers in a new age of automation.

In our research it is noticeable that, whereas attracting and retaining talent emerged as the key driver of competitive advantage in our survey, just one in five (20%) feel confident they can be the employer of choice for new talent entering their industry sector.

## Scenario planning

With uncertainty ahead it is important that companies' leadership make space on their agenda to actively address the areas where their organisation is currently underprepared. One effective way to do this is through scenario planning and 'war-gaming' the impact of different economic or political outcomes on the business. This forces leaders to think through their response and to assess how sufficiently they are prepared to address a range of likely future scenarios.

For example, if there was a global downturn of a similar magnitude to 2008, what steps could be taken to mitigate the impact? If the answer to this question is unclear, then leaders could benefit from spending more time discussing the impact of future scenarios and the available options to respond.







*Mikkel Jon Larssen,  
Partner – Head of Risk Assurance, BDO in Denmark*

### **THE BDO PERSPECTIVE: PROTECTING YOUR ORGANISATION SUCCESSFULLY AGAINST CYBER RISK**

“In my experience, at least half of businesses are underprepared to address cyber and data risks, and many believe they are much better prepared than they are in reality.

There is a general lack of understanding among executives about the nature of the cyber threat out there. It is not uncommon for a company's board to think the organisation is much better protected than the IT team does. As a result, a lot of companies have underinvested in the talent and resources required to deal with these threats successfully.

Leaders need to be on the front foot and equipped with the right questions to ask their internal experts. For example, if there was a hacker in the organisation's internal network, how quickly would the business be able to identify that?

Businesses need to rethink their approach to investing in cyber security. It is essentially an insurance policy that may not add much value to the business today, but which will protect against a lot of costs in the future. Increasingly, a business' customers and

suppliers will scrutinise how well protected their data is, and if a potential partner is not perceived to be taking the issue seriously it may result in lost business opportunities.

Leaders need to understand that the cyber threats they face are becoming more and more sophisticated. Increasingly the vulnerabilities in an organisation are the people: have they been properly trained to recognise scams and flag possible threats?

To remain one step ahead of the threats, boards are undergoing training to better understand the risks and enable them to challenge their IT department. It is easy to fall into the mindset that other companies will be targeted first, but if an organisation has a cyber vulnerability, there are people out there that they will find it and exploit it.”



#### **KEY TAKEAWAYS:**

- Don't overestimate the organisation's level of preparedness
- Understand the right questions to ask the organisation's internal experts
- Invest in training for the employers and leaders to reduce vulnerabilities

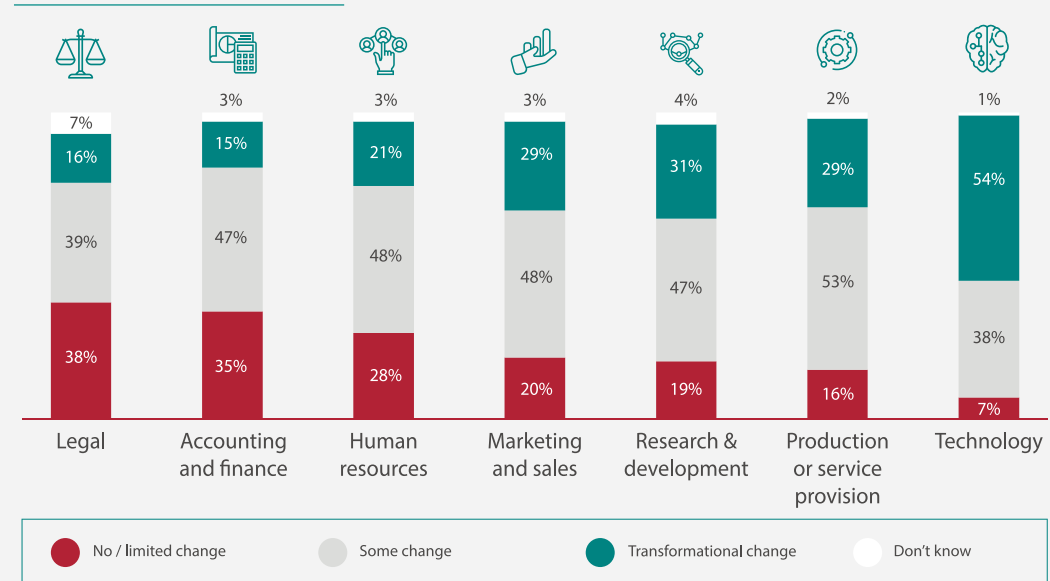
# OPPORTUNITIES FOR TRANSFORMATIONAL CHANGE

## Aligning business processes with growth strategy

To execute their ambitious plans for the next five years, the business leaders in our survey anticipate making transformational changes to their business processes and internal functions. When asked which functions will see the most significant change, 54% said that transformational change will be needed within their IT and technology functions: see [Figure 5](#). This is closely followed by the transformation of product and service provision and within research and development, cited by 29% and 31% respectively.

The areas of most significant change cited by our survey respondents align with their business priorities highlighted above, such as to achieve growth through digitising their organisation and to improve and innovate the product and service mix they offer customers. This suggests that European business leaders recognise that business as usual will not be the winning strategy to achieve their aggressive growth aspirations. Instead, real change is needed to rethink relations with customers, employers and other external partners.

Figure 5: To what extent do you anticipate change within each of these business functions within the next five years?



A particularly interesting example of this transformation agenda in practice is the change expected in the level of home-based workers over the next five years. More than four in ten of the businesses in our survey (43%) anticipate an increase in remote working to 2025. Just 6% believe that home-based working will decrease: but the picture does vary significantly by country. In Spain, for example, 81% of respondents anticipate an increase in home-based working, compared with just 23% in both Germany and the United Kingdom.

As companies invest in technology, it is becoming much easier to offer employees flexible working arrangements that include more time spent working from home. This has multiple benefits: attracting and retaining the best quality talent by responding to the workforce demand for greater flexibility, decreasing real estate costs through a reduction in floorspace requirements and improving environmental impact by reducing the business's energy consumption.

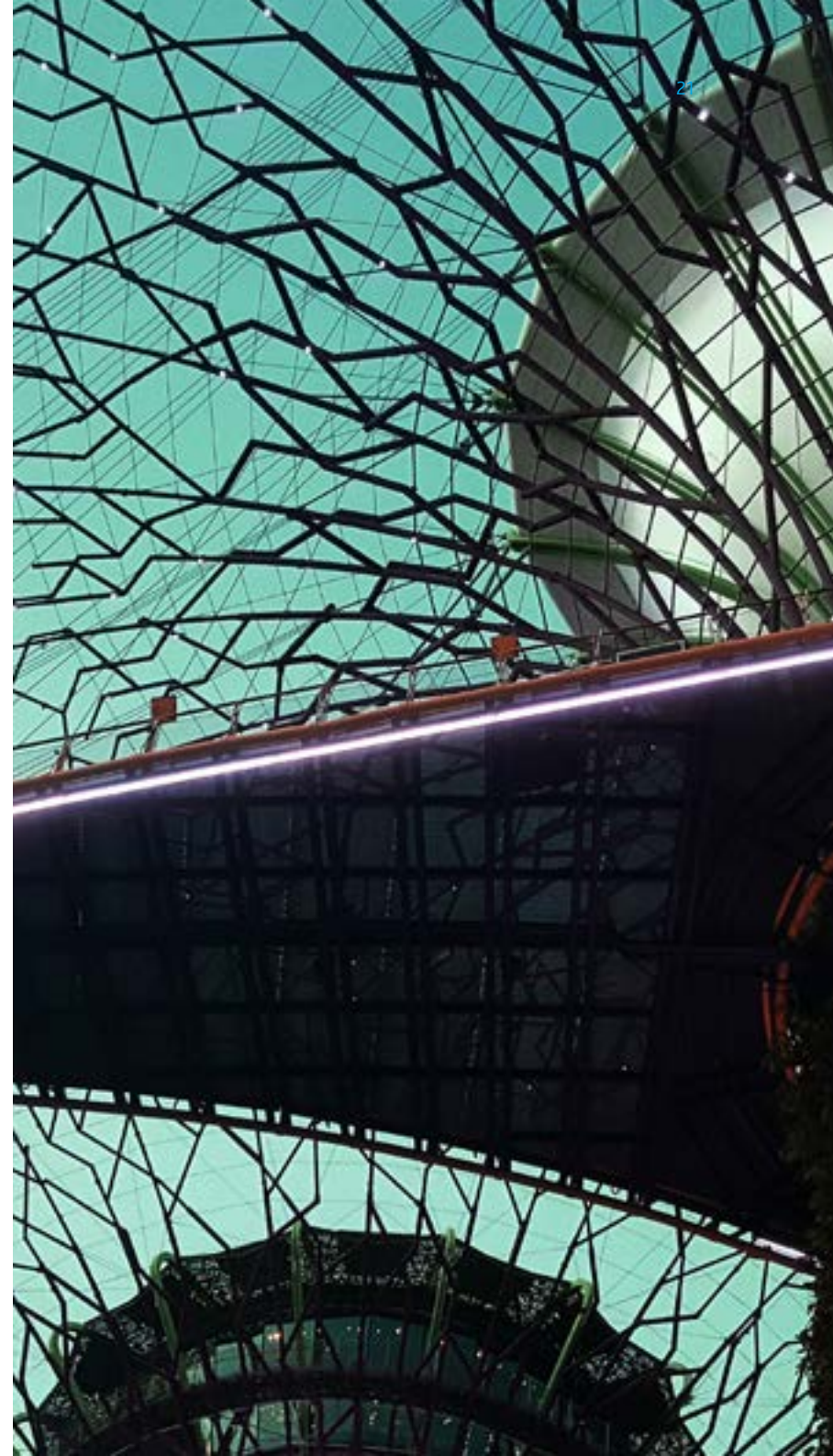


# CONCLUSIONS

As business planning cycles become shorter and the external environment remains volatile, achieving or maintaining a leadership position becomes both more important and more challenging.

How will organisations succeed over the next five years in securing a leadership position? Based on the responses to our survey, BDO has identified a checklist of 10 questions that business leaders should review and discuss to set their companies on the right path to market leadership:

- 1 Grow or defend** - Should the business' primary focus be taking market share from competitors or defending against new market entrants?
- 2 Competitive edge** - What factors will drive competitive advantage for the business in the markets it operates in today, and the markets it is aiming to grow in over the next five years?
- 3 Agility** - As the organisation grows, how will leaders in the business retain agility to allow for rapid decision-making to take advantage of new market opportunities?
- 4 Talent, technology and innovation** - How will the business ensure it doesn't get left behind in the three areas of priority investment identified by leaders in our survey: talent development, technology and product innovation?
- 5 International opportunities** - In a post-Brexit landscape, how ready is the business both to take advantage of new trading opportunities in other markets and to minimise disruption to existing UK-EU trade?
- 6 Rethinking regulation** - How can the business turn regulation to its advantage, reframing the approaching from a purely compliance-driven requirement and into to a profit-enhancing opportunity?
- 7 Green action** - What practical steps will the business take to demonstrate a real commitment to reducing its environmental impact over the next five years?
- 8 Scenario planning** - How prepared is the business to withstand major shocks, such as an economic downturn or unexpected political events, and what contingency strategies are in place for such scenarios?
- 9 Cyber and data security** - To what extent are leaders on the Board equipped with the right skills to understand if the business' data and systems are properly protected from cyber-attacks?
- 10 Transformational change** - What is the right level of transformational change required within business functions and processes to support growth aspirations and execute successfully on business strategy?



## About our 215 survey participants

With the help of Meridian West, an independent research consultancy, BDO interviewed 215 business leaders across seven different European countries on the telephone during Q3 of 2019. Interviews took place in Belgium, Denmark, Germany, Italy, Norway, Spain and United Kingdom. We would like to thank all those who participated in our research.

The survey respondents represent a cross-section of industry sectors, with significant representation from manufacturing, consumer business and professional and financial services. 57% of respondents are members of their organisation's Board.

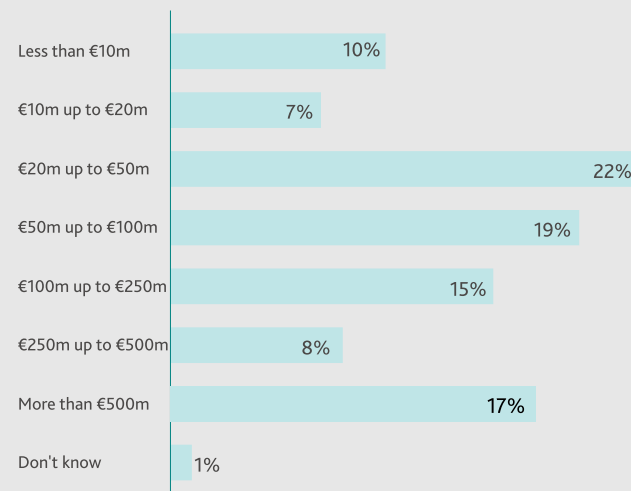
40% of those surveyed have an annual turnover in excess of €100 million and 41% have an organisation headcount of more than 500 employees. A full breakdown of our 215 participants is provided below:



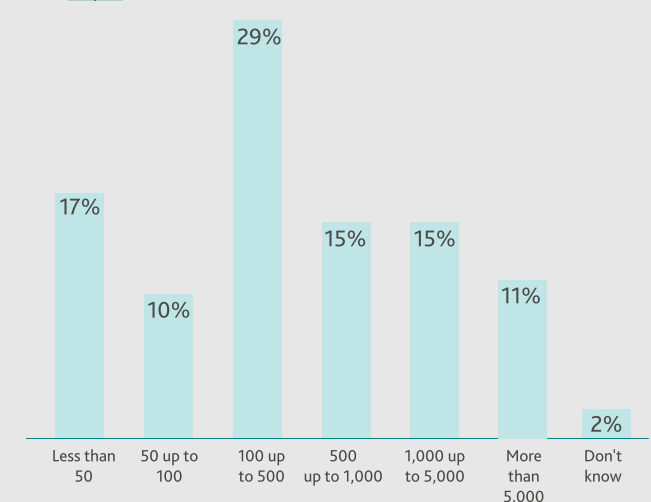
Industry sector	
22%	Manufacturing
13%	Consumer businesses
11%	Professional services
9%	Financial services
8%	Transport and shipping
8%	Natural resources and energy
8%	Real estate and construction
7%	Technology and communications
4%	Not for profit
3%	Life sciences and pharmaceuticals
2%	Healthcare
2%	Media and entertainment



### Turnover



### Headcount





BDO', 'we', 'us', and 'our' refer to one or more of BDO International Limited, its network of independent member firms ('the BDO network'), and their related entities.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network. Neither BDO International Limited nor any other central entities of the BDO network provide services to clients.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© Brussels Worldwide Services BV January 2020 internal use only

