

A report from The Economist Intelligence Unit

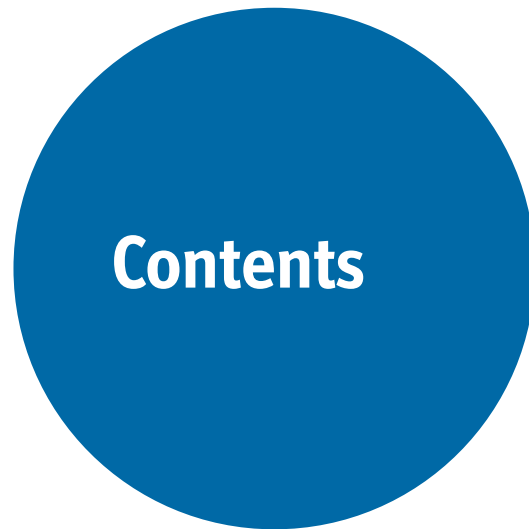


# THE YEAR IN CRISIS

Rising risk in the Asia-Pacific region



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## About this report

*2016: The year in crisis* provides The Economist Intelligence Unit's assessment of sources of corporate risk in the year 2016, its evolution over the next three years, and a perspective on the role of the board of directors in managing crises. The programme was sponsored by FTI Consulting.

The Economist Intelligence Unit conducted a survey of 537 senior executives, all actively involved in the crisis management function of their firms, during the period November-December 2016.<sup>1</sup> Nineteen percent of respondents are members of the board of directors and 33% are from the C-suite, with the rest ranked director or above. They hail from 15 industries and are globally representative (30% from North America, 31% from

Asia-Pacific, 30% from western Europe and the rest from other regions). All represent companies with an annual revenue of at least US\$200m.

To complement the survey findings, we also conducted in-depth interviews with senior executives and industry experts. We would like to thank all the survey respondents as well as the following executives (listed alphabetically) for their insight and contribution:

- Duncan Hewett, SVP and general manager for Asia-Pacific and Japan, VMWare
- Josh Kennedy-White, managing director Asia-Pacific, Accenture Security.

The report was edited by West Coghlan. ■

1. The survey was launched immediately after the US election.

# 1. Introduction

The year 2016 was a year of extraordinary political and business events around the world. Companies in the Asia-Pacific region, though they faced fewer overt political changes than firms in other regions, still faced a range of unusually challenging events. The year began, for example, with a significant drop on the Shanghai stock market, which affected firms around Asia and investors around the world. China's slowing economy is resetting some companies' expectations for growth. And companies in

Asia-Pacific, many of which are multinational, are of course not immune to political turmoil elsewhere.

Among the 162 executives from Asia-Pacific countries included in this survey,<sup>2</sup> a slightly smaller share saw an increase in overall business risk in 2016 compared with others, but the shares expecting greater risk over the next three years are just about equal, suggesting that executives in Asia-Pacific may be taking an increasingly global perspective on risk—just as their operations are increasingly global.



2. Respondents were located in Australia, Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Singapore and Vietnam.

## 2. A look back on corporate risk in Asia-Pacific in 2016

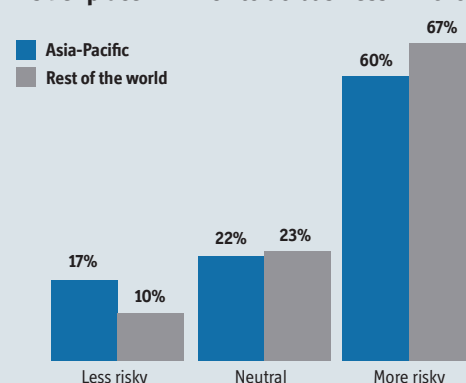
The survey asked if executives thought the world had become a riskier place in which to do business in 2016. A significant majority of the Asia-Pacific respondents believed so, with 60% of them saying that risk had increased versus 17% who viewed risk as decreasing. This compares to a higher proportion (67%) of executives outside Asia assessing the world as a riskier place.

"The risk in Asia is already built into business assumptions. While risk might have gone up...your businessperson here has already factored a high degree of risk into business decisions," says Duncan Hewett, SVP and general manager for Asia-Pacific and Japan of the networking and cloud firm VMware.

Josh Kennedy-White, the managing director of the Asia-Pacific region for Accenture Security adds: "There may also be a greater degree of underreporting going on Asia-Pacific...there is a cultural reluctance to admit what some see as failure...but the problems are definitely there."

Executives' perceptions of increased risk may be reflected by the executives' own experiences with their own firms. According to the survey, only a small minority of Asia-Pacific companies

**Assessment of whether the world became a riskier place in which to do business in 2016**



Source: Economist Intelligence Unit survey, 2017

escaped a serious crisis in 2016, with 73% of respondents reporting at least one major threat that could have significantly harmed the reputation of their firm. A similar percentage—71%—reported at least one major threat that could have significantly harmed its financial value.

This is similar to the global pattern of corporate crises, where 73% of executives at companies outside the Asia-Pacific region report crises that could have significantly harmed the reputation of their firms and their financial value. "Firms in Asia-Pacific are becoming so globalised...and supply chains are now so integrated that the same crisis can be felt across multiple firms" says Mr Kennedy-White.

**% reporting a crisis that could significantly harm reputation**

(% of respondents saying yes)

Rest of the world  
Asia-Pacific

73% 73%

**% reporting a crisis that could significantly harm financial value**

(% of respondents saying yes)

Rest of the world  
Asia-Pacific

73% 71%

Source: Economist Intelligence Unit survey, 2017



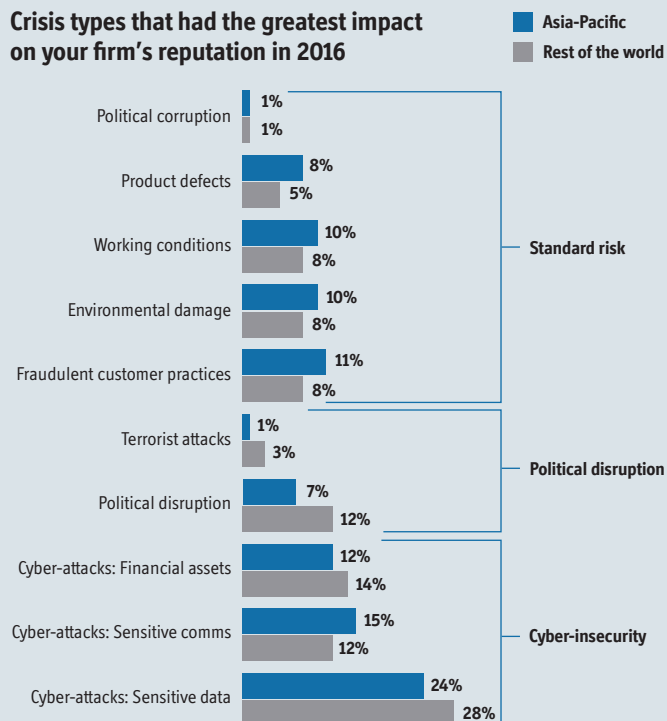
The types of crises that had the greatest effect on firms in 2016 fall into three distinct groupings: standard risk, political disruption and cyber-insecurity.

The standard risk category includes traditional corporate crises such as environmental accidents, labour issues and product recalls that have bedevilled firms for decades. When asked to identify the types of crisis that impacted their firm's reputation the most, Asia-Pacific executives cite standard risk 40% of the time, compared with 30% in other regions. When asked to identify the crisis types that most impacted their firm's financial value, executives in Asia-Pacific point to standard risk crises 43% of the time, compared with 36% in the rest of the world. This includes a significantly higher identification of unsafe working conditions in Asia-Pacific compared with the rest of the world, at 14% versus 5%.

The mix of developed and developing economies in Asia-Pacific may help explain some of the difference. As Mr Hewett explains: "One reason is that many firms in Asia have grown quickly and in less developed regulatory environments. Another is that things are slowly becoming more transparent, and enforcement is becoming a factor. The result is that we may see higher instances of problems like product defects and recalls...and the well-known problems with unsafe factories."

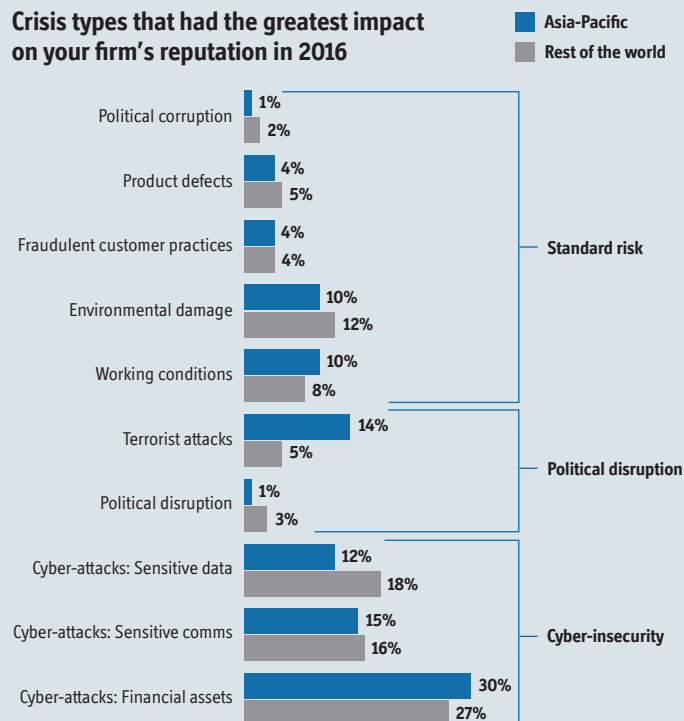
The political disruption category includes abrupt changes in government policies and terrorist attacks. Asia-Pacific respondents cite these crisis types as having the most impact on their reputations just 8% of the time, compared with 15% in the rest of the world. Though a lack of democracy in some countries in the region may contribute to less disruption, Accenture's Mr Kennedy-White says that "While there may not be political crises as such, the

**Crisis types that had the greatest impact on your firm's reputation in 2016**



Source: Economist Intelligence Unit survey, 2017

**Crisis types that had the greatest impact on your firm's reputation in 2016**



Source: Economist Intelligence Unit survey, 2017

concern is still there. Today you have issues like the new government in the Philippines or disputes in the South China Sea. This is creating a new level of uncertainty, and businesses don't like uncertainty."

But the most frequent threat as far as the executives in our survey are concerned is cyber-insecurity. More than half (51%) of Asia-Pacific executives cite cyber-attacks—those that target sensitive data, financial assets and confidential communications—as the type of crisis that impacted their firms the most in 2016. This is in line with the responses of executives from other regions, at 54%.

"Cyber-crime is genuinely scary. We work with an Indian bank with 1m small and medium-sized enterprises, and a Chinese mobile operator with 800m customers. Cyber-attacks are the only risk that can actually shut down the entire firm," says Mr Hewett. "Only now are these companies really thinking about security."

There is an even higher level of concern in the Asia-Pacific region—as in the rest of the world—about cyber-attacks that harm the financial value of the firm. Fifty-seven per cent of Asia-Pacific executives cite cyber-attacks as the greatest threats to the financial value of the firm, compared with 61% of respondents in other parts of the world. Though the details of the Bangladesh Bank cyber-heist were unique to its situation, Mr Hewett notes that it is "very much on the minds of people."

Accenture's Mr Kennedy-White believes two factors drove the increased concern about cyber-attacks in 2016. "The first reason is an absolute increase in volume...driven by the explosion of new points of entry into networks, or the new attack vectors. The second is the increasing sophistication of the attacks...for example, you can buy the scariest of attack modes on the dark web. These are combining to create whole new levels of cyber-risk."

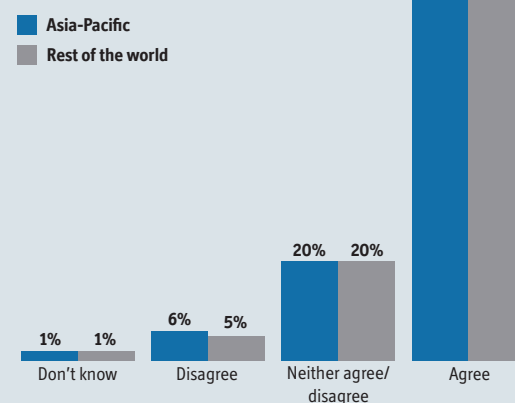


### 3. More risk, and faster

In a previous generation crisis managers had to deal with only a limited number of media channels, and an even more limited number of media outlets and reporters within those channels. But social media have changed the game: an estimated 659m Chinese and 134m Indians were active users of social media in 2015.<sup>3</sup> Other EIU research recently placed Vietnam and Indonesia near the top of middle-income countries in terms of their citizens' ability to use the Internet effectively.<sup>4</sup> The executives we surveyed for this report believe that these new channels are driving significant change in crisis management in the Asia-Pacific region.

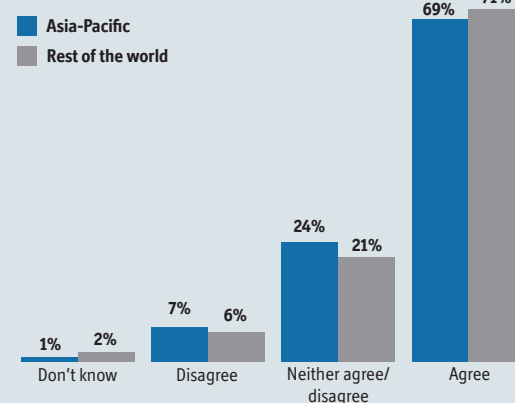
Fully 73% of Asia-Pacific respondents believe that social media amplified public knowledge about corporate crises in 2016, with 69% believing they accelerated their pace. This is in line with the rest of the world, where the relative percentages were respectively 74% and 71%. "Asia-Pacific now has millions of Twitter followers... good luck trying to manage and control that kind of media" says Mr Kennedy-White.

**In 2016, social media amplified public knowledge about corporate crises**



Source: Economist Intelligence Unit survey, 2017

**In 2016, social media accelerated the pace of corporate crises**



Source: Economist Intelligence Unit survey, 2017

3. Digital, Social, and Mobile in China, wearesocial, August 2015

4. The Inclusive Internet Index, theinclusiveinternet.eiu.com



## 4. Looking to the future: The risk and the crises ahead

Crises are driven and shaped by underlying technological, political and social trends. To provide a perspective on future crises, we asked respondents in Asia-Pacific and in other regions to assess risk categories that might foster corporate crises over the next three years.

The majority identified cyber-insecurity as the most influential factor; in a region where the growth rate for mobile subscriptions is above the global average, this concern is likely to continue to grow.<sup>5</sup> "There are three trends that are going to drive increased cyber-risk: the proliferation of devices, the number of entities you have to bring under your

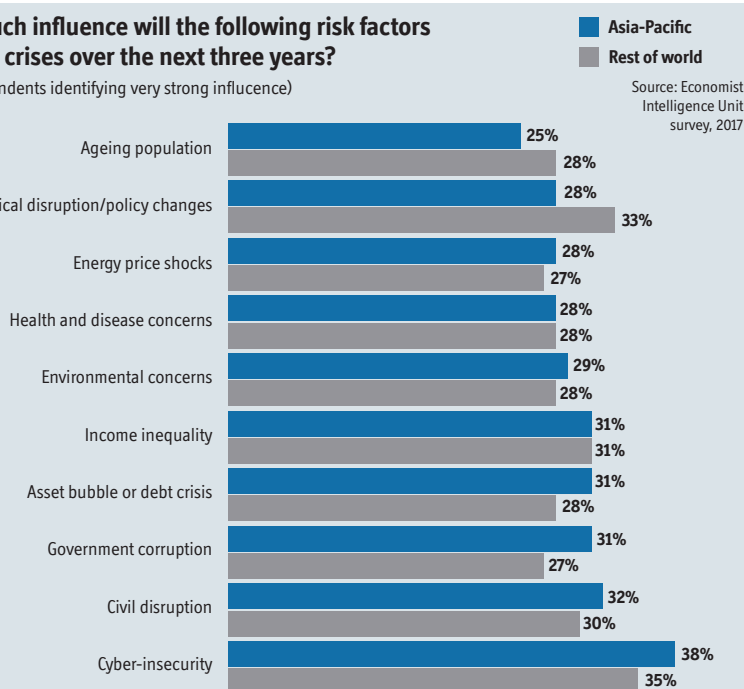
security, and the decentralisation of IT in firms," says Mr Hewett. "These forces are moving faster than the people who are trying to keep things secure."

The views of Asia-Pacific executives are closely aligned with those of their counterparts in the rest of the world. However, there are appreciable differences as far as political disruption is concerned, with only 28% of Asia-Pacific respondents saying it has a very strong influence on future risk, compared with 33% from all other regions. "The concern about political issues is there...but many Asian companies have dealt with political challenges for years, and already see it as a part of doing business" says Mr Kennedy-White.

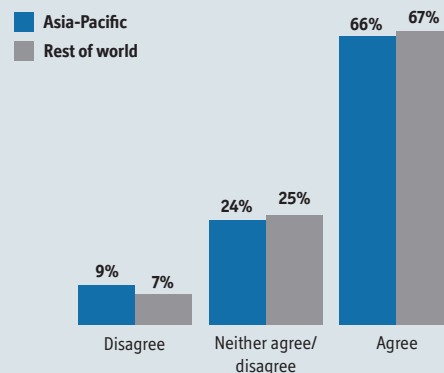
Executives in Asia-Pacific share the view of others around the world that the world will become a riskier place to do business over the next three years. "I foresee an increase in many of these risks, but particularly in cyber-risk," warns Mr Hewett.

### How much influence will the following risk factors have on crises over the next three years?

(% of respondents identifying very strong influence)



### In 2016, social media amplified public knowledge about corporate crises



5. GSMA, "The Mobile Economy Asia-Pacific 2016," [www.gsma.com/mobileeconomy/asiapacific](http://www.gsma.com/mobileeconomy/asiapacific)

## 5. Concern about the past, concern about the future

The year 2016 was seen by a significant majority of executives from all regions—including Asia-Pacific—as a time of escalation of risk. Though these risks will likely play out differently given the vast differences among countries in the Asia-Pacific region, above all cyber-insecurity loomed large as the dominant and fastest-growing source of crises in the world.

But some believe in a note of optimism. Says Mr Kennedy-White: “The problems are tough but not intractable. Companies are made to meet challenges. Look back on all of the economic and political challenges that Asian firms have met, and where they are today. Never underestimate business ingenuity...these firms will figure out today’s risks and come out even stronger.”



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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