DECEMBER 2022

RESILIENCY ACCELERATOR:

FUTURE PROOFING THROUGH STRATEGIC COLLABORATION

An investigation into the current risk landscape for Europe Delivers partners

Europe Delivers

WITH xynteo

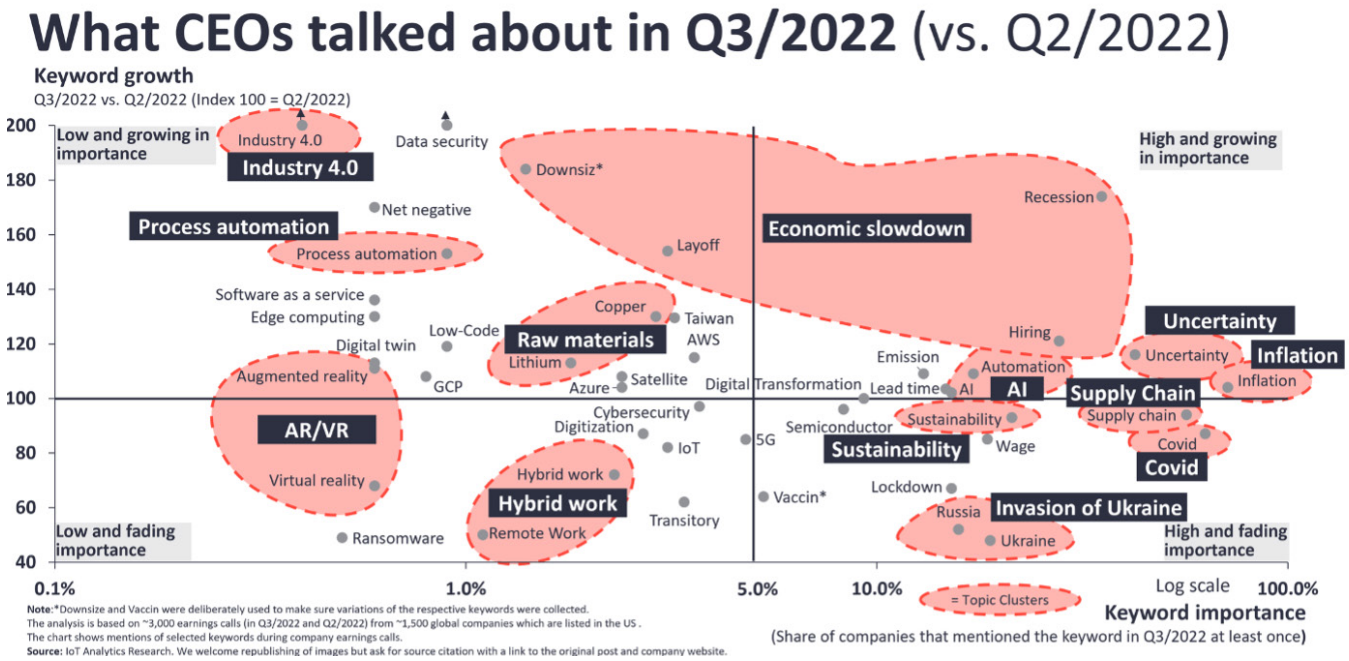
A GROW FORWARD COALITION

Europe’s energy supplies are under threat. The summer of 2022 was the hottest and driest on record. Eurozone inflation hit a record 11% in October. The end of the Russian invasion of Ukraine is not yet in sight and geopolitical tensions are rising across the globe…

Since Europe Delivers published its plan for 2022, the world has changed dramatically. The lingering impact of the COVID-19 pandemic coupled with Russia's invasion of Ukraine has had a tremendous impact on all corners of society, triggering a cascade of humanitarian, energy, supply chain and food security challenges across the world. Beyond this crisis, the world has seen the hottest and driest summer on record. As businesses grapple with these complex challenges, the time and attention of c-suite leaders has naturally gravitated towards mitigating the impact felt within their organisations, forcing them to confront a host of business risks and devise timely mitigation pathways.

As society and businesses navigate the challenges and benefits of globalisation, respond to geopolitical shifts, and the effects of climate change continue to take their toll on people and planet, the world is becoming a riskier, more volatile place. Current events are demonstrating more clearly than ever the importance of corporate resilience to mitigate against these risks.

WHAT RISKS ARE CORPORATES FACING?



Unsurprisingly, many companies are confronting a series of common challenges. Research by IoT Analytics analysed the key topics prioritised by CEOs in quarterly earnings calls of 1,500 US-listed companies, comparing keyword 'importance' (i.e., how often it was mentioned) with keyword 'growth' (i.e., the increase or decrease in mentions compared to the previous quarter).

The results show a clear trend in the challenges that are consuming the attention of the CEOs of these companies. While mentions of economic slowdown increased in Q3 compared to Q2, supply chains, COVID, invasion

of Ukraine and inflation are consistently mentioned across quarters. The consistency of these CEO's concerns across their businesses is clear.

HOW CAN COMPANIES TACKLE THESE GLOBAL CHALLENGES?

"THE RESPONSE TO THESE CHALLENGES WILL REQUIRE UNPRECEDENTED COOPERATION BY BUSINESSES."
– PETER VOSER

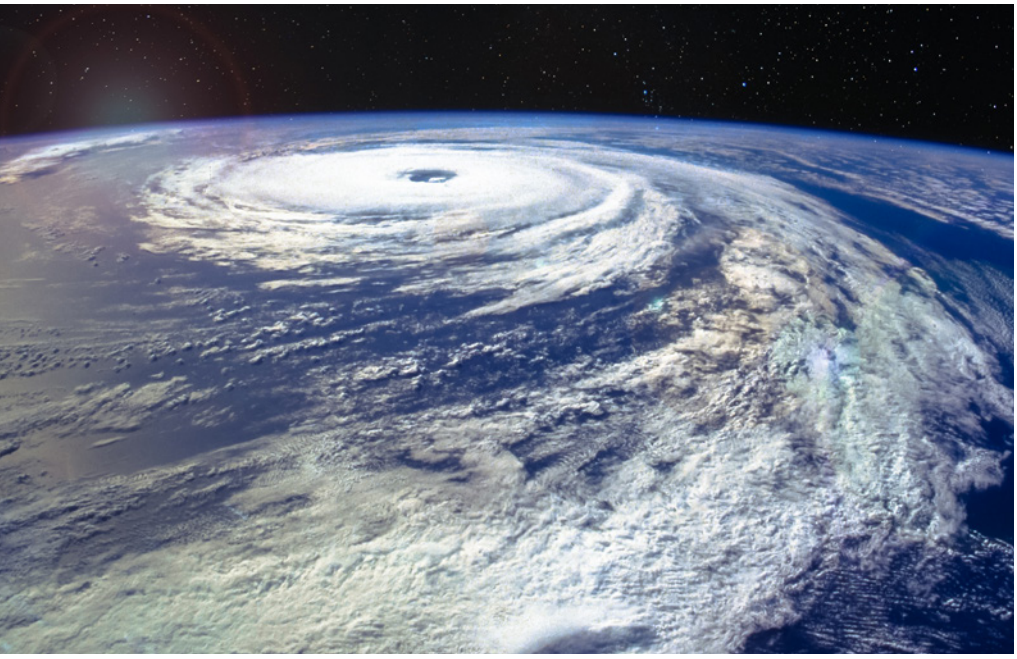
These global events, with dramatic consequences on businesses operations, are challenging for businesses to address alone. Risk resilience cannot be achieved in a siloed approach. Like strategy, risk and resilience management requires a strong business and market perspective, an innovative mindset, and interdisciplinary systems thinking.

Where companies face the same problems, how can they learn from each other to improve their own resilience? How can businesses work across value chains to tackle these challenges together, for the benefit of everyone?

The goal of the Resiliency Accelerator is to bring together leaders from across companies in Europe to understand their common risks and challenges, to learn from each other, and to try to tackle these risks together more effectively than by themselves.

Through desktop research, speaking to risk experts and interviews with members of the Europe Delivers partners, we've identified the key risks impacting the companies. We've learnt how the organisations are responding to the challenges. We've found examples where collaboration is a critical part of corporations' mitigation strategies. This report focuses on three critical risk areas:

1. Employment challenges
2. Supply chain disruption
3. Energy challenges



Alongside these, there are many other risk areas impacting the organisations: from navigating policy changes and reporting regulations; to the challenges caused by rapid digitalisation; to macroeconomic events like inflation. While not forgetting these risks, we're focusing on three risks where we expect the Europe Delivers partners are most likely to be able to collaborate on solutions. The aim of this report is to highlight the causes and impacts of these risks, to indicate how they're impacting Europe Delivers organisations, and start to explore solutions.

1. EMPLOYMENT CHALLENGES

As labour markets strive to rebound from the impacts of the pandemic, a talent shortage of historical scale has catalysed. 77% of executives say hiring and retaining talent is their most critical growth driver in 2022. 75% of companies globally have reported talent shortages and difficulty hiring – a 16-year high. Companies are struggling to find, hire and retain the correct skills they need. Rapid digitalisation requires skills in technology and data; navigating the green transition requires sustainability expertise.

The pandemic then drove down labour force participation rates, creating even more of a crunch. Burnouts and mental health challenges have led to the great resignation. This has created a challenging environment for companies to find and maintain the talent they need.

The Russian invasion of Ukraine and follow-on consequences have further increased the pressure on human resource management. European companies had to deal immediately with the closure and divestment of Russian operations and with the effects of sanctions. This made it hard to pay workers in Russia or engage with Russia subcontractors and forced rapid repatriation of expats in Russia.

Currently, the focus has shifted to face the current threats. Companies need to understand and help employees with the increased cost of living. With growing fears of a recession, companies are reluctant to invest in growth, such as training programmes.

ABB

An ABB survey demonstrated an education gap in automation. Despite goals to build supply chain resilience by re-shoring or nearshoring operations, a significant education gap will be a barrier for these strategies to succeed.

Technology companies such as ABB and Mastercard invest in collaborations to design training programmes for both their internal staff and for their customers. In July, ABB opened a new global innovation and training campus for machine automation in Austria.

Santander partners with world-renowned academic institutions to offer scholarships focusing on upskilling and reskilling. They promote digital and other skills in high demand. They aim to meet the needs of the job market, boost employability and promote lifelong learning. In 2021 they helped 162,000 students, professionals, start-ups and SMEs.

ABB have introduced a global gender-neutral parental leave program that grants 12 weeks of paid leave for primary caregivers and 4 weeks for secondary caregivers.

Early after the invasion of Ukraine, SAP announced the creation of a dedicated recruitment onboarding program, with the goal of matching refugees from Ukraine with vacancies across its network of global offices. The initiative aims to attract, match and retain qualified refugees from Ukraine with suitable job opportunities at SAP in Germany, the Czech Republic, Hungary, Bulgaria, Romania, Poland and Slovakia. SAP's "Pledge to Flex" initiative allows flexible work from remote locations, facilitating integration in the workforce. SAP collaborated with Microsoft, Amazon, Allianz and many other employers to offer relevant jobs on the Employukrain.org platform to improve visibility to Ukrainian refugees.

How have Europe Delivers partners responded?

Many indicators demonstrate that the skills gap will continue to be a challenge for years to come, and companies are making structural investment in automation to free up employees to do more value adding tasks.

Many of the Europe Delivers organisations are undergoing rapid digitalisation, causing a lack of digital skills. This is forcing them to invest in upskilling and training.

Furthermore, in order to improve retention, companies are starting to offer improved benefits.

Employees expect responsible behaviour from their employer and transparent communication and actions. Even companies with limited exposure to Russia have been fast to deploy support activities for Ukrainian refugees in Europe.

EMPLOYMENT CHALLENGES

CASE STUDY 1: COLLABORATIVE TRAINING

Haavind, TechnipFMC and Scatec Solar have collaborated to create a training program for law students with an interest in the energy sector. The combined training program allows participants to experience working in the law firm, oil and gas company and renewable energy company to get comprehensive experience across different areas in the energy sector. As the energy sector is subject to significant changes and development, knowing and understanding the entire value chain of the industry will benefit the lawyers and the companies.

"An interdisciplinary collaboration on trainee stays in the energy sector is useful and instructive both for the students, us and the industry as a whole"
– HR director Kristine Lloyd from Advokatfirmaet Haavind.

2. SUPPLY CHAIN DISRUPTION

The importance of resilient operations and supply chains has been never clearer than in the last few years. As national lockdowns and homeworking commenced due to the COVID-19 pandemic, already struggling global supply chains from the global trade wars in 2018 and 2019 were further disrupted. Multiple national lockdowns slowed or stopped the flow of raw materials and finished goods, with labour shortages bringing manufacturing to a halt.

China, as previously the world's largest manufacturing power, is suffering from its Zero-COVID policy. China has 3 out of 5 of the world's largest ports which have all seen lockdowns in the past year. Shanghai alone handles 40% of the country's exports and saw lockdowns reducing its trucking capacity by 45%, resulting in 80% of vessels being delayed. This has seen global impacts to supply chains, with delayed freight reducing the flow of electronics, raw materials and parts from China which are critical to global supply chains.

The Russia-Ukraine war has further exacerbated these issues. International trade sanctions have prevented businesses trading in Russia. Worldwide, 374,000 businesses rely on Russian suppliers and 241,000 businesses on Ukrainian suppliers. The war and sanctions have stopped export of natural gas, crude oil, metals and agri- commodities from the two countries. Prices of these commodities are increasing, tightening pressure on businesses' budgets.

Alongside all these factors, other unexpected events such as natural catastrophes or the blocking of the Suez Canal have further disrupted global supply chains. Raw materials are in short supply.

One particular supply chain that is having large consequences on the automotive and technology sectors are chip shortages – where strong demand is outweighing reduced supply. The increase in demand for chips correlates with the increase in demand for technology, in part caused by the uptake in remote working during the COVID-19 pandemic. The Ukraine-Russia war has heightened existing supply chain shortages – with a prediction that the war will lower global chip output by 1.5million units. Production of neon and palladium are dominated by Russia and Ukraine respectively and are critical materials for chip making. The geopolitics between China and the US, with heightening anxiety between Taiwan-Chinese relations and China's reluctance to sanction Russia, poses further risk to supply chains. This is causing huge delays in automotive manufacturing.

ABB have flagged that component shortages due to lockdowns in China have impacted customer deliveries. These were particularly in the automation and distributions solutions units.

Due to the Russian invasion of Ukraine, Mastercard suspended its operations in Russia.

Yara's office building in Kyiv was hit by a missile during the first week of Russia's invasion and the firm has since stopped all sourcing from suppliers linked to Russia.

In early 2022, ABB specified the chip shortage had affected all of its 21 divisions, from factory robots to electric motors for ships.

ABB's customers are under extreme supply chain pressure. As such, ABB have undergone extensive research and interviews of European businesses to understand the impact and causes of supply chain disruption.

SAP solutions support the digital transformation of supply chains to better plan, design, manufacture, deliver and operation products. This leads to increased supply chain visibility, better-informed decisions based on data-driven insights and reduced risks.

Due to the invasion of Ukraine, disruptions have been experienced in the global supply chains of agriculture inputs, increasing their prices. This is increasingly the likelihood of a food production crisis. In order to mitigate this risk, Yara are part of 'Sustain Africa' which is providing fertilisers at a subsidised rate to African farmers. This provides them with affordable access to fertilisers so they can continue to produce food.

How have Europe Delivers partners responded?

These supply chain challenges are forcing companies to rethink their supply chains and their risk mitigation tactics. Value chains are more complex and interconnected than ever before and companies do not have accurate insight and data across them. 45% of companies have no visibility into their upstream supply chain past first tier suppliers. Companies are starting to track their supply chain more closely, identifying multiple suppliers for key components, increasing safety stocks, adapting products to remove their dependence on certain parts and reducing physical distances between themselves and their critical suppliers. Companies are also responding to supply chain challenges by diversifying their product offerings and entering new markets.

SUPPLY CHAIN DISRUPTION

CASE STUDY 2: DECARBONISING SHIPPING

The Silk Alliance is a coalition of 11 cross-supply chain stakeholders that are collaborating to advance the decarbonisation of shipping, with the goal of establishing a scalable Green Corridor Cluster. The companies include shipowners, a shipyard, a bunker logistical supplier, an engine manufacturer, a ship manager and financial institutions. The joint voice of the companies will send an aggregated demand signal to other stakeholders to support the Green Corridor Cluster. The different companies can draw from their individual expertise to develop a fleet-specific fuel transition strategy for container ships operating in Asia. By bringing together companies across the shipping value chain, they can advance decarbonisation in shipping more effectively than by themselves.

3. ENERGY CHALLENGES

The volatility of energy markets is a big risk for corporates. High prices increase operational costs while decarbonisation targets pressure companies to change their energy sources and usage.

This year, rapid inflation, international sanctions on Russia and the weaponisation of gas by Russia has, at points, pushed gas prices in Europe up to 400x higher than they were last year. This has exemplified the dependency of companies on energy markets. It exposed the risk if companies do not take their energy supplies into their own hands. They are turning to alternative energy sources, securing their own energy, and/or reducing energy consumption in order to maintain business as usual.

Decarbonisation also poses a risk to companies. Policy requirements and reputational pressure from customers, shareholders and employees are forcing companies to pivot their strategies to align with the green transition. Energy is a key part of this decarbonisation; Many business operations are becoming even more dependent on energy as they are electrified. To make the shift to renewables, major structural changes are needed to Europe's energy grid to enable more decentralised energy production and cost-effective, reliable grid storage is needed to decrease reliance on back-up fossil fuels.

These challenges are not solely faced by energy companies, as corporates must track and reduce their own carbon footprints. Governments are announcing new policies and targets for companies to decarbonise across all sectors. Companies are at risk if they do not comply and fall behind in the green transition.

These risks can contradict each other. Today, governments must weigh up the importance of ensuring energy supply vs decarbonisation. Is funding and maintaining energy supplies using fuels that are not contingent on Russia more important than the long-term environmental impact?

The reputational damage of not decarbonising is a critical risk. Consumers The reputational damage of not decarbonising is a critical risk. Consumers expect companies to behave ethically and environmentally. As climate activism increases and consumers expect environmental action from businesses, not acting could be costly. The 2022 Edelman Trust barometer indicated 58% of people buy or advocate for brands based on their beliefs, 60% choose a place to work and 64% invest based on it. As consumers feel the effects of the increase in the cost-of-living, companies that appear to be profiting from it will see their reputations at risk.

Due to the Russian invasion of Ukraine, Shell have stopped buying Russian crude oil and have committed to ending all long-term contracts with Russian oil and gas producers by the end of 2022. They expected this to cost them $4-5 billion of assets and charges related to credit losses and contracts in Russia in the first quarter of 2022.

Due to the increase in gas prices, Yara have reduced ammonia production in many European countries, and therefore cut output of nitrogen-baser fertiliser. Decarbonisation of fertiliser is much further ahead in Europe than in other parts of the world, with fertiliser produced here having a carbon footprint of approximately half that of non-European fertiliser. Therefore, this has a secondary detrimental environmental impact.

Shell's business model is at risk from the green transition. With net-zero targets in place for 2050, Shell must switch from a predominantly fossil fuel-based energy company to one that does not emit carbon.

Shell is helping SAP transition to having an emission-free car fleet. This includes building a football field sized solar panel installation at the SAP headquarters to power their electric vehicles.

Banks are under pressure not to fund the extraction of fossil fuels. Santander's environmental, social and climate change risk policy outlines investment criteria prohibiting activities linked to fossil fuel extraction and production, such as financing new upstream oil and gas projects.

SAP and Shell are collaborating to co-innovate greenhouse gas emissions accounting solutions and supply chain management practices so all players along value chains can measure and reduce their greenhouse gas footprint.

Mastercard's Carbon Calculator, in collaboration with Swedish fintech Doconomy, allows people to view the estimated carbon footprint of all their purchases. This can help nudge consumers towards more sustainable spending choices.

How have Europe Delivers partners responded?

Companies are taking responsibility for their energy supplies, so they are not dependent on global supply or prices. They are striving to cut energy usage, to cut their carbon footprint but also energy costs. They are seeking renewable-energy PPAs or even building their own energy production.

Companies are adapting their strategies to meet ESG expectations from their stakeholders, reducing their reputational risk and ensuring compliance with regulations.

Alongside dealing with their own risks, Europe Delivers organisations are helping their customers to tackle risks from the energy crisis and the green transition.

ENERGY CHALLENGES

CASE STUDY 3: SHARED PPAs

Facebook and Adobe signed a PPA with Enel back in 2018 to purchase output from a wind farm in the US. This supports the companies' commitments to expanding the availability of grid-scale renewable energy.

"The project demonstrating that two companies with similar renewable energy goals can work together to achieve their objectives". – Vince Digneo, Adobe.

CASE STUDY 4: SHARING SKILL SETS

Microsoft and Shell have a strategic alliance that involves working together on digital technologies to help customers, suppliers and other businesses manage and reduce their own carbon footprint. Shell is suppling Microsoft with low-carbon energy products and services, such as renewable energy, to help Microsoft meet their 2025 renewable electricity target of 100%. The two companies are leveraging existing expertise and technologies to create and implement new artificial intelligence solutions that will accelerate Shell's digital transformation.


GLOBAL
ENERGY CRISIS

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