HOW FINANCE AND RISK EXECUTIVES CAN HELP THEIR ORGANIZATIONS RESPOND TO THE WAR IN UKRAINE

VIDEO TRANSCRIPT

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March 3, 2022

The war in Ukraine has had devastating human and economic impacts, including loss of life, a surging humanitarian crisis and upheaval of all normal business activities in Ukraine.
Russia and Ukraine are important suppliers of agricultural commodities and raw materials in the global economy, including uranium and neon. Russia is the world's third largest oil producer and top gas exporter.[1] The prices of these commodities have increased sharply since the onset of the war.[2]

The impact on profitability will vary across industries and markets depending on the importance of energy, raw materials and agricultural commodities in their cost structures. Sectors like automotive, industrials and food could take a significant hit, particularly in Europe, where reliance on Russian oil and gas is highest.[3] This could have ripple effects across various industries globally.

In addition, inflation is rising in many countries, triggering an expected aggressive tightening of monetary policy in the US. This has some analysts pointing to an increased risk of a recession in 2023.[4]

Against this backdrop of uncertainty, CFOs and their Chief Risk Officer counterparts should carefully assess their companies' vulnerabilities, evaluate cost reduction measures and help pivot towards new sources of growth.
We recommend that leaders prioritize four areas, in particular, for attention and short-term execution:

1. Scenario planning and forecasting

Effective scenario planning allows businesses to run a series of scenarios based on evolving circumstances and assumptions that reflect changing business needs.

The most effective scenarios will span the entire enterprise to integrate customer demand, financials, workforce planning and supply planning into a single model.

They will also leverage intelligent automation and machine learning to accelerate the scenario planning and decision-making cycle.

2. Operational risk

Chief Risk Officers can help assess five major dimensions of their organization's operational risk profile.

First, business continuity risk: Consider reviewing and updating business continuity plans—designing ad hoc scenarios to account for a range of potential circumstances.

Second, cyber risk: Set up controls for new cyber threats, leveraging the analysis of cyber intelligence evidence.

Third, financial crime risk: Review and strengthen screening rules to make sure they comply with sanctions and trade restrictions.

Fourth, third-party risk: Prepare for possible disruptions by finding alternatives to suppliers whose operations are severely impacted by the war. Prepare a response plan to third-party cyber incidents.

Fifth, ESG risk: Create a communications plan to keep investors and relevant stakeholders up to date on any possible changes to their ESG commitments.

3. Cost Reduction

All CFOs should keep a close eye on their cost structure regardless of exposure to the conflict. CFOs should consider their direct exposure to higher energy and raw materials costs and their indirect exposure to inflation along their value chain.

The typical playbook to quickly help reduce costs generally also applies to this crisis. These actions include reducing capacity; reducing, deferring or spreading discretionary expenditures over a longer period of time; implementing smarter procurement strategies; renting rather than owning assets; and looking for outsourcing opportunities.

The overarching aim, however, should be to reset the company's cost baseline for the emerging reality that higher costs will likely carry into the future.

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4. Divestment decisions

A remarkable feature of the current crisis is the number of companies deciding to divest from Russia. As of May 1, over 750 global companies have announced their full or partial withdrawal from Russia and that number continues to grow.[5]

The assessment and implementation of a divestment decision is likely to differ depending on the complexity of the business and the financial commitment it has in the market.

First, consideration should be given to the safety, well-being and employment needs of employees in Russian operations.

Second, work with your legal counsel to carefully evaluate if a proposed transaction is permitted under the sanctions and countersanctions.

Finally, CFOs should reflect on the gaps that a withdrawal decision might leave in their capabilities and consider what adjustments (including acquisitions) might be necessary to fill these gaps.

While the needs of every organization are different, by focusing on these four areas, finance and risk leaders can help the CEO and their team respond to the current crisis with more data-driven decision-making.

[1]Energy Fact Sheet: Why does Russian oil and gas matter? IEA, March 21, 2022, accessed on May 1, 2022
[2]OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine, accessed March 31.
[3]Accenture analysis based on Eurostat and IEA data
[4]"Deutsche Bank is the first big bank to forecast a US recession", CNN Business, April 5, 2022, accessed on April 8, 2022
[5]Yale school of management, Company response tracker, Accessed April 21.