



# Russia-Ukraine war: Building resilience amid radical uncertainty

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**In 2020, as organizations struggled to understand the ramifications of the COVID-19 pandemic for their employees, communities, and businesses, KPMG issued a paper to help corporate leaders navigate “a time of radical uncertainty.” The Russia-Ukraine war has brought radical uncertainty back. Now, assumptions about the global economy, geopolitics, and how business can most effectively be conducted need to be revised in the face of mounting new risks. More than ever, companies need to build capacity for sustainable resilience.**

## Resilience planning needs to be at the top of the strategy agenda

The COVID-19 pandemic was a wakeup call for organizations that had put too much faith in the status quo and had not considered the potential impact of largely unforeseeable but highly disruptive events. Corporations and governments worldwide responded forcefully to the public health crisis. Now, the Russia-Ukraine war has plunged the global economy into another period of sweeping volatility, catching many organizations flat-footed.

While significant conflicts like the Russia-Ukraine war are typically localized in a single country or region, effects often spread rapidly across nations and economies that are connected in a complex system of global trade and supply chains. The invasion and resulting sanctions cut off supplies of materials, interrupted shipping, and touched off accelerated inflation.

These disruptive events are reminders that business resilience should be an element of enterprise risk management (ERM) that companies work on regularly, not just during periods of instability. Resilience planning must be a component of a company's operating model, rather than an emergency response when the alarm sounds. Operational resilience must be calibrated to include specific yet flexible actions for hypothetical scenarios that might seem implausible, but which continue to occur.

In short, firms need to make long-term resilience a key operational consideration, even as they grapple with immediate impacts. Major economic climate and geopolitical shocks like the Russia-Ukraine war create massive uncertainty, but firms can't take a “wait-and-see” approach.<sup>1</sup> As uncertainty grows, so does the value of thinking ahead and preparing for a range of possible futures. This involves comprehensive scenario planning, which should yield:

- An executable emergency operations plan in the event of a general breakdown of civil order in a country or region that prioritizes the safety and well-being of all employees and their families
- A range of scenarios and responses to enable the organization to act confidently and quickly as needed for any kind of disruption that could happen
- A protocol dictating how frequently the plan should be reviewed and reevaluated
- A monitoring system that will initiate an alert across the organization when risk levels in a country or region increase.

## War impacts businesses directly and indirectly

In the case of the Russia-Ukraine war, companies have experienced a broad array of direct and indirect impacts. The severity of direct impacts varies by industry and where the company operates. Indirect impacts are felt across the economy. There are a number of questions these impacts raise for scenario planning:

<sup>1</sup> See [“Russia-Ukraine war: Scenario planning for an uncertain future,”](#) KPMG LLP, 2022

## Direct impacts

- **Employees** – Do we have employees in the region? What should we do if any of our people are in harm’s way? How can we support and protect them?
- **Production** – Do we have operations in the region? Is the operation self-contained (do we produce and sell in the same country/region)? Will disruptions to that operation have an impact on the rest of the organization?
- **Product sales** – Do we export into the region? How much and where? Will sales in the region stop immediately? How do we adjust our production schedule and cost structure to absorb a loss of revenue?
- **Supply chain** – Do we source materials or talent from the region? What are our alternatives? How will this disruption affect our day-to-day operations?
- **Cyber security** – How vulnerable are we to a cyberattack? Is our cyber security program up to date? If our systems are compromised how will we track inventory, manage accounts and communicate with other offices and clients?

## Indirect impacts

- **Global economy** – What impact would a disruption in this region have on the overall global economy and how would it impact our business?
- **Global commodity prices** – How much will global commodity prices be impacted? What are the risks to the flow of commodity supplies?
- **Neighboring countries/regions** – What is the impact on neighboring countries and regions and how are those developments transmitted to other parts of the world? What would be the impact to our operations or functions if these areas become embroiled in the conflict?
- **Inventory/materials** – Will regional disruption further exacerbate delays in supply chains? Do we need to address new risks (for example, by building up safety stock)?

## Establish a broad team of functional experts for ongoing scenario planning

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To address the immediate impacts of the Russia-Ukraine war and build ongoing resilience against future events, companies are encouraged to organize a group of proactive “problem solvers” that should meet regularly to engage in scenario planning and stress-test emerging solutions.

Ideally, a cross-functional task force would comprise representatives from across the organization:

- Finance
- IT
- Marketing
- Sales
- Accounting
- Compliance
- Human resources
- Supply chain
- ESG (environmental, social, and governance) leaders

This proactive exercise is about preparing contingencies while staying on top of daily, business-as-usual priorities. It’s impossible to know when, but there is going to be a next public health crisis, another war. There will be unforeseen episodes of economic, financial market and political upheaval, and corporate leaders need to consider whether their organization has a ready response plan designed to mitigate risk if a particular scenario were to transpire. Companies need to think about building redundant supply chains, increasing manufacturing efficiency through nearshoring and ensuring data security, to name just a few business imperatives. Include your ESG experts, as well. They know a good deal about mitigating a range of environmental and social risks (See “ESG should inform resilience efforts”).

## Looking ahead: Where will the next significant disruption come from?

Maintaining a cross-functional team that is tasked specifically with stress-testing various scenarios can help organizations build resilience against the next disruptive geopolitical, economic or climate event—as unpredictable as these may be—and put plans in place for a proactive, adaptive response.

In that connection, we believe the concept of enterprise risk management (ERM) should be rethought to encompass resilience planning around discrete risks as a routine and ongoing strategy.

The goal is to build resilience and business-continuity plans that are calibrated for the current environment, but flexible enough to pivot if conditions change. Rather than just being reactive to an isolated event, such as the Russia-Ukraine war, companies are encouraged to take an anticipatory stance toward business resilience and expand their thinking to mitigating the negative impacts of a broader array of potential situations.

## ESG should inform resilience efforts

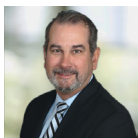
ESG practices can help companies across virtually every industry strive toward greater resilience by helping them prepare for the impact of a variety of emerging risks (e.g., climate events) and maintain robust controls. In addition, to build and retain trust among stakeholders in the current environment it is imperative to ensure transparent and high-quality communication and reporting on ESG performance.

Indeed, according to the World Economic Forum “...from the pandemic and devastating weather events... to a restive and divided set of social movements, the growing pace of upheavals points to the fact that ESG measurement doesn’t just need more uniformity, rigor and breadth. It also needs an additional variable in order to assess businesses’ capacity to effectively recover, adapt and grow in the face of shocks and stress: resilience.”<sup>3</sup>

<sup>2</sup> See KPMG, “[CEO Mission: Lean into the unknown](#),” 2020.

<sup>3</sup> Source: “World Economic Forum, ESG is missing a metric: R for resilience,” June 7, 2021.

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