

The CEO Imperative: Through relentless disruption, how can you stay the course? (PART 3)



ISAAC SARPONG: Isaac is the Partner in charge of Tax Services. He has over 26 years' experience in the provision of multi-faceted advice to both local and international clients in taxation, accountancy, audit & assurance, and corporate law, among others. Isaac is a Chartered Accountant, a Chartered Tax Practitioner and a Lawyer.



Ever more frequent shocks are reshaping the globe and our economy. Companies must plan for a more local, sustainable and digital world.

(CONTINUED FROM PREVIOUS EDITION)

Chapter 2

The great supply chain reset

The need for multisourcing, sustainability and transparency, is pushing companies toward geopolitically-conscious, regional clusters.

The war in Ukraine has most likely signaled the end of singular, linear supply chains geared toward efficiency and optimization, but a number of shocks had already shattered international faith in this legacy model. The global pandemic, the Fukushima nuclear crisis and the blockage of the Suez Canal all exposed fractures and weaknesses in the linear supply chain. Companies have been steadily rethinking the design principles of supply models ever since in the search for resiliency.

The great supply chain reset is being driven by several factors:

- ▶ Reliance on single-source geographies has led to full production system shutdowns as well as fundamental shortages impacting critical medical and food supplies.
- ▶ Protectionism, via trade tariffs, has disrupted profit from entire markets, rendering specific supply chain

- structures and sourcing geographies unfeasible.
- ▶ Incentive regimes that previously drove large operations to remote locations have created long logistic chains and asymmetric talent needs.
- ▶ Fundamental international tax reforms have called into question the continued feasibility of central, co-located management hubs, triggering a connected decentralization.
- ▶ Consumers are seeking transparency in where their goods come from as they move toward responsible, circular and sustainable alternatives.
- ▶ Employees are demanding a sustainability agenda, including a supply chain, that is built on common social and environmental values.
- ▶ Business partners, investors and other stakeholders are also starting to apply sustainability-considerations for supply chains and networks.

The combination of these elements has shown that transnational networks built on efficiency and labor costs or regulatory arbitrage will no longer work. Geopolitics is having an effect as well, as shared values begin to play a bigger role in developing networks, complementing or at times potentially outweighing cost arguments. Regionally clustered suppliers and more active multisourcing, paired with sustainability and transparency concerns, are becoming the preferred model moving forward.

Building a sustainable supply chain strategy

In relation to the war in Ukraine, the immediate goal for many companies is to sustain supply and operations as much as possible. Operations in Russia, however, are currently often exited or paused, due to regulatory and sanction or countersanction constraints, as well as ethical and public relations considerations.

Looking ahead, the need to develop more sustainable and more geopolitically robust setups will increase, and the desire to employ more autonomous and sustainable production methods may lead to the mainstreaming of circular business models.

The cumulative effect of sustained supply chain shocks has created an environment where companies can no longer deny that problems can and will occur. As a result, business leaders have a stronger business case to pursue supply chain strategies that employ sustainable sourcing within a better carbon footprint, despite the increased costs.

Chapter 3

Sustainability takes a step back to move forward

The need for national energy security is slowing the transition to renewables, while increasing the urgency to develop alternatives

It's not just supply chains that are subject to a great reset, it's what society rightfully expects of companies' external impact on the environment. We are in the midst of a shift between designing for efficiency and profit to designing for sustainability and value.

Environmental, social and governance (ESG) metrics have already been major drivers of change, which have now been given a tailwind by disruption and increasing regulation. However, crisis management threatens to potentially derail sustainability strategies in the short term – for example, as the war in Ukraine changes how and where we source energy. ■

(CONTINUED IN NEXT EDITION)

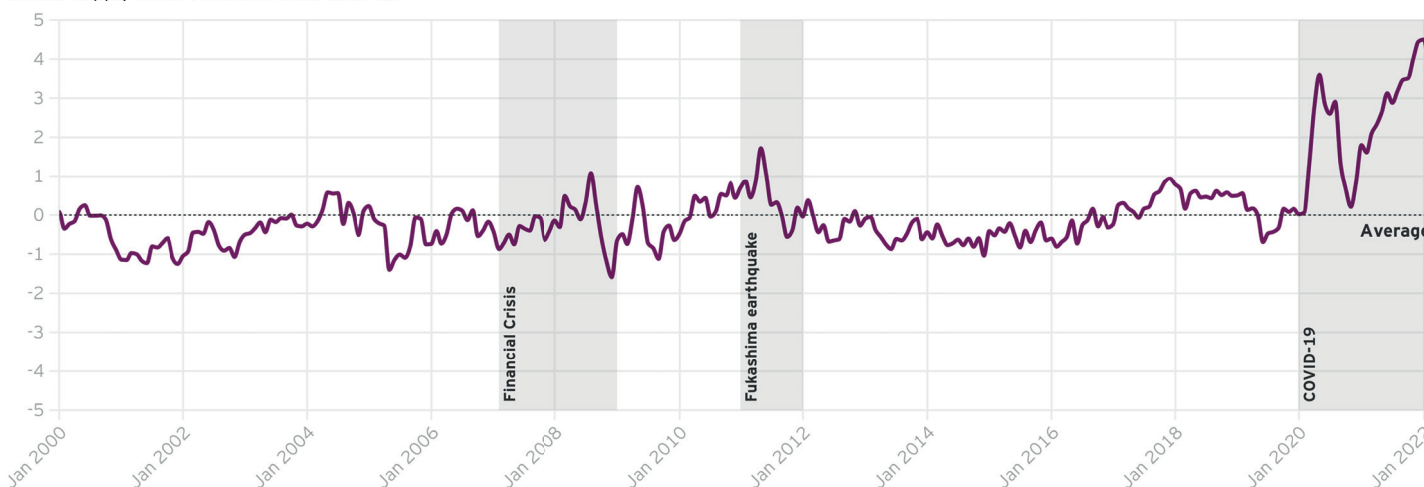
LEADING THROUGH DISRUPTIONS

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Trade disruptions rise against a backdrop of strained global supply chains

Global

Global Supply Chain Pressure Index (GSPCI)



About the index: The Global Supply Chain Pressure Index (GSPCI) integrates a number of commonly used metrics with an aim to provide a more comprehensive summary of potential disruptions affecting global supply chains. Numbers above zero indicate more pressure than average. Numbers below zero indicate less pressure than average. Metrics used to calculate the GSPCI include indices to measure Global transportation costs (like the Baltic Dry Index on sea shipping costs) but also supply chain-related components on "delivery times," "backlogs," and "purchased stocks" from Purchasing Managers' Index (PMI) surveys. Source is the Federal Reserve Bank of New York; Liberty Street Economics.

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Find out more:

Address: 60 Rangoon Lane, Cantonments City, Accra. P. O. Box KA16009, Airport, Accra, Ghana.
Telephone: +233 302 772001/772091
Email: info@gh.ey.com,
Website: ey.com