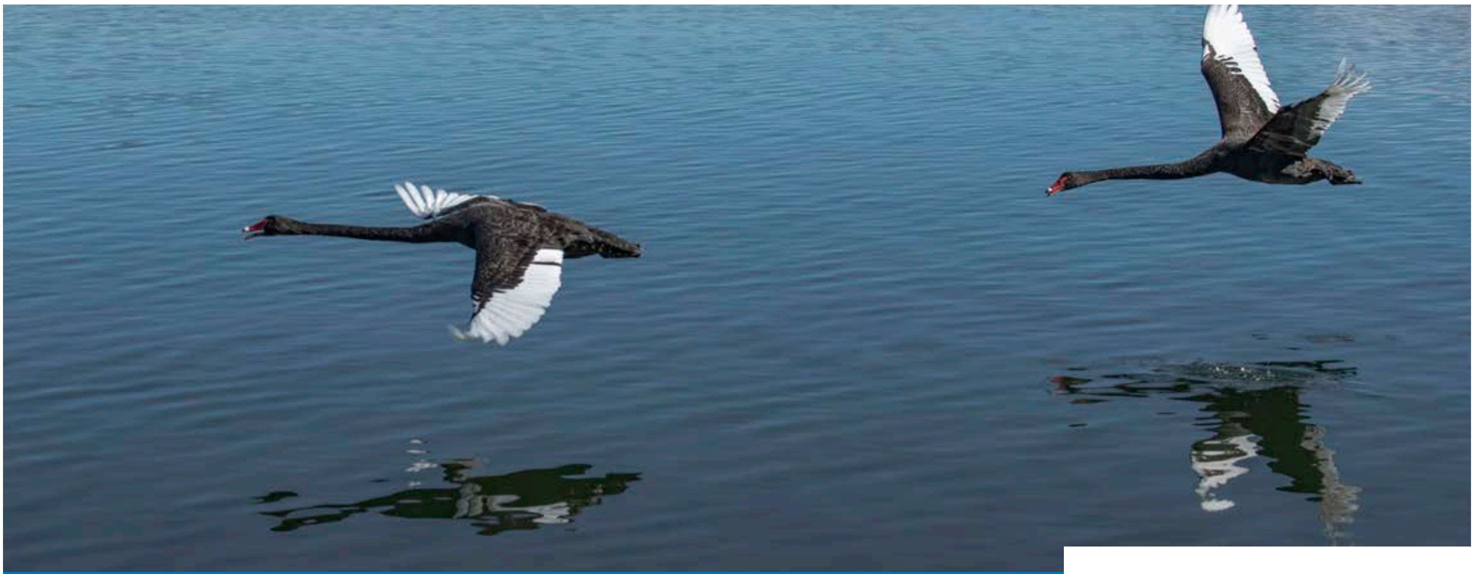

Getting Used to Black Swans

Corporate leaders are often reminded of the prevailing global complexity and uncertainty, along with the rapidly accelerating pace of change. In the past, companies were accustomed to encountering disruptive events every three to five years. However, with the current shifting world order — characterised by globalisation, geopolitical change, climate issues and advancing technology — this frequency has accelerated. The result is a state of polycrisis or permacrisis, with prolonged periods of instability and insecurity caused by a series of catastrophic events. In today's market, any major company is almost certain to face multiple crises within the next five years.

Devastating and difficult-to-predict events, known as black swans, now occur with such regularity that they no longer appear extraordinary. In the last four years alone, alongside a pandemic, we have experienced significant supply chain disruptions, the war in Ukraine, the European energy crisis, and the rise of anti-European populism, cyber-attacks (due to the ongoing digital transformation) and most recently, Israel's conflict with Hamas has raised questions about whether it will lead to a repeat of the oil crisis of the 1970s.

One of the biggest problems with these recent and ongoing events is that they are difficult to predict. They can severely damage a company's operations, reputation and its strategic plans. This is especially true for publicly listed firms. We recently analysed 100 black swan events over the past 20 years and found mishandling had a tangible impact on the business and the leadership team. In those 100 crises alone, 32% of top executives lost their jobs, $200 billion in total value was destroyed and 14% of the companies studied closed their doors.

In 2016, banks faced the unprecedented introduction of 0% and even negative interest rates, which modified countless business plans. However, in a remarkably short span of time, companies have seen the largest interest rate increase in recent memory, which has resulted in higher than expected investment costs — with significant financial consequences.

Europe is experiencing stagflation, an unfamiliar phenomenon that could, over time, force the objectives and structures of companies to change. In addition, there is increased public scrutiny and reputational risk associated with the monitoring and regulation of Enviromental, Social y Governance ("ESG") criteria. According to a recent FTI Consulting survey, senior executives from all sectors anticipate a rise in litigation in the future, but few are confident that their organisations are "very prepared" in any of the critical categories (especially technology). In fact, they expect to see an increase in disputes related to technological issues and digital assets.

Companies around the world are closely monitoring the adoption of generative artificial intelligence ("AI"), which opens up a host of competitive advantages but also a Pandora's box of unknown risks. Whether because it brings lack of transparency, or discrimination, privacy concerns, ethical dilemmas, safety risks or job displacement, the integration of AI across every aspect of our personal and professional lives triggers all sorts of alarms that highlight a host a potential risks.

Hackers and malicious actors can harness the power of AI to develop more advanced cyber-attacks, evade security measures and exploit system vulnerabilities. For example, there have already been instances where airlines have had their customers' data, including credit card details, stolen. In response to these concerns, US President Joe Biden recently turned to a midcentury wartime law to issue a decree to address the dangers of unregulated AI development. "We are going to see more technological change in … the next five years than we've seen in the last 50," said Biden. Whilst acknowledging the advantages of AI, highlighted the risks it presents, such as "fake news, fraudulent reproductions of a person's image, using AI-generated audio and video to defame, spread manipulated news and commit fraud."

Naturally, these risks extend to the business environment. Employees now have more access to information about their company than ever before, employee turnover has increased rises and there is a growing reliance on technology and social networks, which makes it challenging to prevent the disclosure of confidential information.

Against this backdrop, black swan events are inevitable. And when they strike, the way a company handles the event can be the biggest factor in determining its market value. The general counsel — who reports directly to the CEO and, of course, is a member of the executive committee — is increasingly the corporate executive tasked with crisis management and guiding decisions in order to minimise risk and lead the way.

The truth is, navigating complex situations requires a robust set of contingency plans and training exercises, so people across the organisation know what to do when the unimaginable happens. Creating a crisis management team, establishing a plan, working with discretion, and deciding in advance how to address the media is collectively are all significant undertakings with legal, ethical and sometimes social implications.

Whether it is economic, financial, political, social, labour-related or something else, GCs need to have plans for different scenarios that they can use to navigate uncertainty. They won't have a plan for every crisis but the planning process that they go through will be indispensable in flexing the muscle that the management team and board leverage when an event occurs. The cost of getting it wrong is high and rising. And in a world that is rapidly evolving and increasingly complex, the leaders who get it right are those who learn from past events to ensure that their business doesn't just survive, but uses these situations to thrive.

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