Perhaps most prominent in the current global geopolitical landscape, Russia’s invasion of Ukraine has become an ongoing conflict, the outcome of which is increasingly difficult to predict. Russian and Ukrainian leaders have demonstrated significant resolve to continue the battle as peace negotiations have stalled. Many nations continue to apply significant sanctions in an attempt to pressure Russia economically, without escalating the conflict, to end its attack on Ukraine. Russia has taken multiple steps in an effort to fortify its economy in the face of these sanctions.¹

US monetary policy is tightening in response, although the Federal Reserve is attempting to walk a fine line with actions that reduce inflation without hampering economic growth. Increases in short-term interest rates are expected over the next several months. Negative consequences for credit markets include a rise in mortgage interest rates and a decline in M&A activity, although some key economic indicators remain positive.

The war in Ukraine escalated existing supply disruptions and created unexpected disruptions in certain sectors, including energy, technology, automotive, and financial services. Economic growth is expected to slow as central banks globally deal with both higher inflation and recessionary impulses from higher commodity prices. Companies with operations or vendors in specific countries where political tensions have escalated may reevaluate their commitments and investments. Many companies have curated significant offshore supply chains that have become tremendously important to their efficient operations, but disruption sparked by the pandemic and exacerbated by the Ukraine conflict has already given companies cause to consider how they source supplies.

The current environment has prompted debate over the extent to which companies might continue to embrace a globalization approach to commerce. Some companies are exploring whether to regionalize or diversify portions of their supply chains to mitigate risk and promote resilience, but in the meantime, global trade continues at a brisk pace, suggesting companies are not turning away from globalization but perhaps pivoting their approach.

Significant shifts on energy and climate are also on the radar for many companies. War in Ukraine, rising oil and natural gas prices, and the recent release of US petroleum reserves have accentuated a focus in many organizations on fossil fuel costs and dependencies, leading to new considerations regarding how companies might reduce carbon emissions.

Not all countries have taken a stand in the conflict, however. China maintains many economic ties to Western nations and organizations, and it remains a country that is critically important to global supply chains. Many companies in China, both private sector and state-run, have avoided exporting sensitive products to Russia in light of Western sanctions. In the United States, midterm elections in the fall of 2022 have the potential to change the balance of power in Washington. If Republicans win either chamber of the US Congress, President Biden will likely be operating under a divided government for the next two years, making it difficult to enact legislation without bipartisan support. This could limit the president’s ability to enact significant policy changes through legislation, which could lead to more executive actions and regulations. In this scenario, agencies are expected to increase activity as they seek to regulate in areas such as climate, labor policy, competition, and antitrust.

Underlying this wide variety of uncertain geopolitical considerations, COVID-19 remains a factor as well. Many US companies are focusing on return-to-work initiatives, with masking and vaccination mandates waning. Uncertainty persists with respect to how businesses and economies are adjusting to talent issues, hybrid work arrangements, supply chain changes, and changing demands as consumer demands and preferences shift.

Geopolitical forces at work in the economy

Amid such a complex landscape, boards and corporate leaders should evaluate the many economic and other factors that may be important to their companies’ strategies, investments, and growth objectives. Stress in global financial markets is significant. Commodity prices rose sharply after Russia invaded Ukraine, boosting and likely prolonging inflation in Europe and North America.

2. Jeffrey Mankoff, “Central Asia is keeping a nervous eye on Russia’s war in Ukraine,” World Politics Review, April 26, 2022.
Cybersecurity is another important risk for companies to consider. In February, the US Department of Homeland Security sent a letter to the National Association of Corporate Directors urging companies to fortify their cybersecurity measures as a result of heightened risk of cyberattacks. Companies doing business in digital assets and cryptocurrency can similarly consider risks resulting from geopolitical tensions as questions surface about whether crypto might offer a way for sanctions to be circumvented.

Companies faced significant pressure from many investors, consumers, and elected officials to stop doing business in and with Russia following its invasion of Ukraine, and many major companies responded accordingly. If similar attacks occur in other parts of the globe, such as in Asia, it remains to be seen whether similar levels of pressure could develop for companies to consider their business operations in other countries. The extent of US economic ties with Russia is far different than it is with other countries, such as China, for example, which may become a factor in whether and how companies might respond to possible future provocations.

Planning for an uncertain future

In his prepared remarks for a 1957 conference on national defense, President Dwight D. Eisenhower said, “Plans are worthless, but planning is everything.” The reason for planning, he continued, is to “keep yourselves steeped in the character of the problem that you may one day be called upon to solve, or to help solve.”

Amid such deep and widespread uncertainty, companies may find it difficult to develop forecasts that are reliable for planning and investment purposes. Tactics such as scenario planning and cognitive risk sensing may become useful ways for corporate leaders to consider risks that are most critical to the company and prepare for possible consequences associated with multiple plausible outcomes.

Scenarios are simply stories about the future that are envisioned as a way to help promote improved decision-making with respect to evolving circumstances. The scenarios that are most critical for a company to consider might be those that are most relevant to its highest priority risk areas.

For example, if a company’s supply chain is particularly sensitive to geopolitical tensions in a specific jurisdiction, the company can consider plausible scenarios relative to this risk. What if war breaks out, or a current conflict escalates or crosses new borders? How would the company’s operations, or a critical supplier’s operations, be affected?

What if trade sanctions are imposed that cut the company off from a critical supplier? What if shareholders, customers, employees, or other stakeholders demand the company stop doing business in the country? What if the crisis is something completely different, such as a new variant of COVID-19, a severe weather event, or a disruption in the availability of energy or other critical resources?

Scenarios could be tied to entirely different geopolitical or economic risk factors as well. For example, if a company’s business model or financial position is highly sensitive to inflation, the company might consider how it would be impacted if inflation spikes, slows, or reverses. If changes in interest rates are especially relevant to the company, it might consider scenarios associated with the timing and magnitude of movements in various interest rates.

By envisioning possible future events or circumstances through scenario planning, business leaders can contemplate what actions they might take even before they are faced with actual circumstances, which facilitates thoughtful planning and consideration. Such an approach can be especially helpful when movements in one direction or another might represent a crisis situation for a company. A plan considered in advance may be implemented more rapidly and confidently if it is conceived in advance of an actual crisis experience and refined before it is implemented.
To help risk leaders see a little further around corners on emerging risks, companies can also consider engaging in cognitive risk sensing, which is a way to aggregate and synthesize data globally to provide earlier warning of risks. Cognitive risk sensing combines vast amounts of internal and external data sources with machine learning, natural language processing, and other tools to enable signal detection and risk prioritization.

Using these tools, intelligence analysts can curate risk signals and produce dashboards and executive reports that may provide early alerts on emerging threats and opportunities. These early warnings can lead to actionable insights on an individual enterprise, an ecosystem of third parties, or a broader external environment. Cognitive risk sensing may be a helpful approach to considering a wide variety of risk domains, such as financial, operational, reputational, regulatory, strategic, or technological risks.

Some highly proactive companies are even developing what might be described as strategic risk intelligence functions to address increasingly interconnected, rapidly evolving risks emerging on a growing number of fronts. For example, an increasing number of financial institutions are forming strategic intelligence functions as a way to identify risks that are beyond risk areas that have traditionally been important for this sector to monitor.

A strategic intelligence function can leverage rapidly expanding data sets and emerging technology to provide deep risk insights on a wider variety of risk domains than might be possible with traditional enterprise risk management approaches. This more proactive approach to risk management may help companies foresee risks that otherwise might be unforeseen, which may improve preparation for unexpected events.

Corporate boards are facing an increasingly volatile, unpredictable global geopolitical landscape—one in which unexpected events can morph rapidly into significant risks. As boards advise and oversee C-suite leaders that are searching for solid footing, a more proactive approach to risk management and scenario planning may promote institutional agility in managing unforeseen risks, which can lead to resilience.

Questions for the board to consider asking:

1. What are the most critical risks to our company arising from geopolitical uncertainties?
2. Who in our organization owns each of those most critical risks?
3. What information is the board receiving currently with respect to each of those critical risks?
4. Is the information timely, accurate, complete, and relevant? Does the information enable the board to understand the company’s exposure to each risk and how the company is mitigating it?
5. What scenario planning activities could the company undertake to enable an improved consideration of possible risk events and responses?
6. Who would own or lead such scenario planning activities? And who should participate?
7. To what extent does our enterprise risk management approach consider risks beyond the company’s operations to include third parties, supply chain ecosystems, and geopolitical factors?
8. To what extent is our enterprise risk management team adequately resourced? To what extent is it using emerging data sets and technology to sense risks on the horizon?