Geopolitical developments – a challenge but also an opportunity

swissVR Monitor II/2022

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HSLU Hochschule Luzern

Contents

About the survey

This is the 12th edition of swissVR Monitor and is based on a survey of 420 Swiss company Boards of Directors. The aim of the survey is to gauge Board members' attitudes to the outlook for the economy and business and corporate governance issues. This edition also focuses specifically on the topic of how Boards tackle geopolitical developments.

The swissVR Monitor survey was conducted by swissVR in collaboration with Deloitte AG and the Lucerne University of Applied Sciences and Arts between 7 June and 3 July 2022. A total of 420 Board members took part, representing listed companies as well as small and medium-sized companies (SMEs) from every major sector of the Swiss economy. 32% of the participants are from large companies, 35% from medium-sized companies, and 33% from small companies.

The aim of swissVR Monitor is to offer Board members a benchmark for comparing the issues facing their own Board with those facing their counterparts on other company Boards. swissVR Monitor also aims to share with the wider public the ways in which Board members perceive their role and the current economic situation.

A note on the methodology

When comparing survey results over time, please note that the sample may have changed. Percentage figures are rounded to add up to 100. Company size is determined by workforce: small companies have between 1 and 49 employees, medium-sized companies have between 50 and 249 employees, and large companies have 250 or more employees.

Foreword

Dear reader,

We are delighted to bring you swissVR Monitor II/2022, a survey conducted jointly by swissVR, Deloitte and the Lucerne University of Applied Sciences and Arts. For this edition, we surveyed 420 members of Boards of Directors across Switzerland. The findings reflect their attitudes to the economy and the outlook for business and to relevant areas of their own role.

The special focus topic in this 12th edition is how Boards are managing geopolitical developments. Swiss companies are highly export-oriented and globally interconnected, so geopolitical trends are a major issue for them. Current developments, including the war in Ukraine, ongoing post-pandemic restrictions in some parts of Asia and high inflation, prompting a number of central banks to increase interest rates, underline the importance of this focus topic – and its relevance to Boards of Directors.

The findings of swissVR Monitor II/2022 show that Board members recognise the impact of geopolitical developments on their company and see geopolitical risks as both a challenge and an opportunity. Most Boards are, however, taking only a small number of measures to identify, assess and tackle geopolitical risks and their impact. As a result, a relative majority of Boards can be classified as geopolitical gamblers – those that face a high or very high level of impact from geopolitical developments but are taking few measures to identify, assess and tackle the risks.

Alongside the survey findings, swissVR Monitor II/2022 conducted interviews on the focus topic with:

- Barbara Lambert, Board member at UBS Switzerland, SYNLAB, Implenia and Deutsche Börse
- Aldo C. Schellenberg, Board member at skyguide and Swiss Innovation Forces
- Thomas Greminger, Director of the Geneva Centre for Security Policy

We would like to thank our interviewees and all the Board members who participated in this swissVR Monitor. We hope you will find this report an informative and enjoyable read.

Cornelia Ritz Bossicard
President swissVR

Reto Savoia
CEO Deloitte
Schweiz

Prof. Dr. Christoph Lengwiler
Lecturer (external) IFZ/Lucerne
University of Applied Sciences and Arts

Summary and key findings

31%
rate the prospects for the Swiss economy over the next 12 months as negative.

Economic outlook gloomier

There has been a marked decline in Board members' rating of the economic, sector and business outlook. More respondents expect the economic outlook to worsen over the next 12 months than expect it to improve. Possible drivers for this assessment include the war in Ukraine, post-COVID restrictions in some parts of Asia, and rapidly rising inflation.

59%
rate the impact on their company from geopolitical risks over the next 12 months as high or very high.

Impact from geopolitical risks but few measures to identify, assess and tackle risks

A majority of Board members believe there will be an impact on their company from geopolitical risks in the near future. Most Boards are, however, taking a maximum of two measures to identify, assess and tackle such risks. These measures include regular discussion of political trends, scenario analyses ('What would happen if …?'), and changes to corporate strategy. Both company size and sector significantly influence the number of measures companies are taking.

33%
of Boards can be classified as geopolitical gamblers.

Geopolitical gamblers form largest group of Boards

Combining level of impact and measures taken enables Boards of Directors to be classified into four groups. The largest group is that of geopolitical gamblers – companies at risk from high or very high impact from geopolitical risks but that take few measures to mitigate these risks. This group includes above-average numbers of Boards representing small companies and from the manufacturing and chemicals sectors.

77%
see geopolitical developments as an opportunity for their company.

Geopolitical developments seen as a challenge but also an opportunity

Almost all Board members see geopolitical risks as posing challenges for their company, in particular the poor availability and rising cost of raw materials and energy, and disruption to supply chains. A significant majority of survey respondents also believe geopolitical developments represent opportunities for their company, most typically product and service innovation and greater cost and process efficiency.

71%
of Board members say the outbreak of war in Ukraine and its economic impact took them by surprise.

Few Boards discussed the Ukraine-Russia conflict before the outbreak of war

Relatively few Boards had discussed the Ukraine conflict before the outbreak of war earlier this year. A clear majority of Board members say that the outbreak of the war and its economic impact took them by surprise. However, the war and its impact are now affecting the business of around half of all companies. This may explain why more than half of all Boards are now analysing developments in Ukraine on an ongoing basis and discussing potential scenarios and their economic impact.

40%
see talent management as the most important issue their Board will have to tackle over the next 12 months.

Talent management is a major issue for Boards over the next 12 months

Boards report that formulating a new corporate strategy to reflect shifts in strategy during the COVID-19 crisis and in the post-pandemic period was the major issue they have had to tackle over the past 12 months. Talent management was the second most frequently cited issue, reflecting changes in the labour market (the 'great resignation' and staffing and skills shortages). This issue continues to grow in importance and is the number one issue Boards will have to tackle over the next 12 months.

Outlook

Economic, sector and business outlook

SBoard members' rating of the **prospects for the economy, their sector and their company** over the next 12 months has become markedly more pessimistic since the outbreak of the war in Ukraine (see Chart 1), continuing the roller-coaster ride that has recently characterised their expectations for the future. The low recorded during the COVID-19 crisis was followed by a high in H2 2021, reflecting respondents' perceptions that the worst of the pandemic was over. The Swiss economy now faces a number of new challenges: the war in Ukraine is fuelling geopolitical risk; the lasting impact of the COVID-19 crisis and ongoing restrictions in some parts of Asia are imposing constraints on the economy; rising energy costs and an insufficiently thought-through shift in energy policy are creating supply risks as winter approaches; and rapidly increasing inflation is putting added pressure on political and economic decision makers.

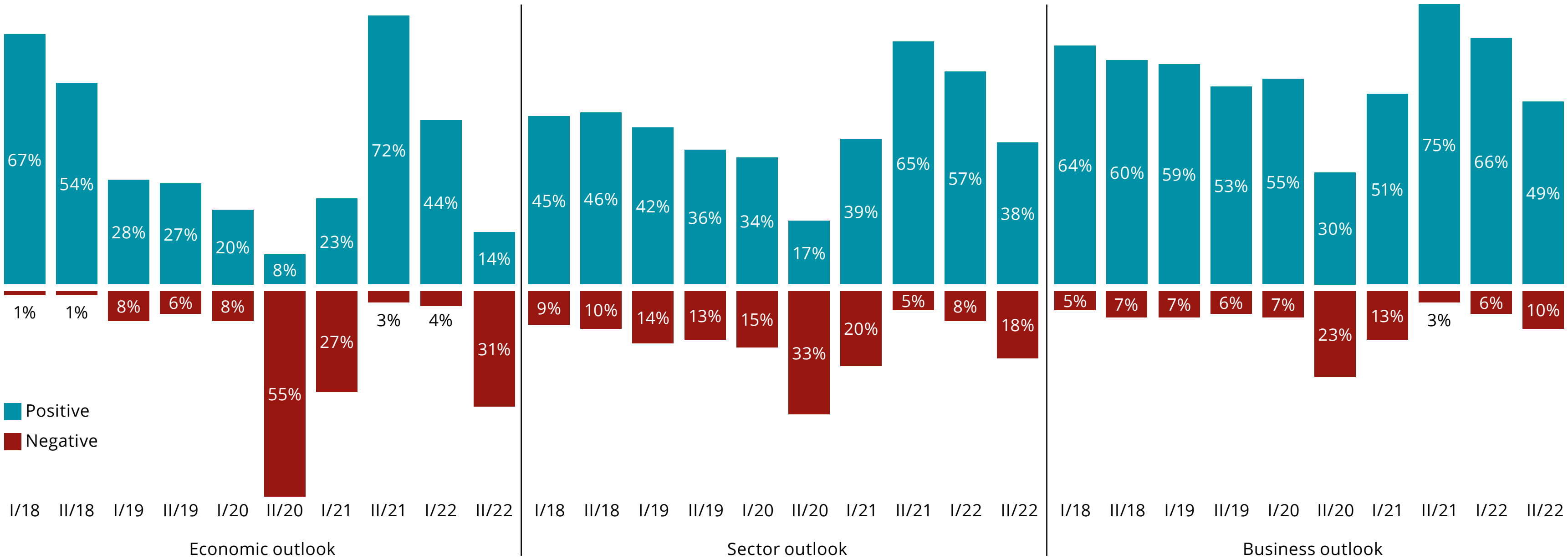
Board members' rating of the **economic outlook** has worsened for the second half-year in a row, and more Board members are now pessimistic than optimistic. 31% of respondents rate the prospects for the economy over the next 12 months as negative, more than double the 14% who rate it as positive. There has been a complete reversal of expectations over the past 12 months. This is the gloomiest outlook for five years with the exception of the findings of swissVR Monitor II/2020, which was conducted during the COVID-19 crisis.

There has also been a further deterioration in the **sector outlook:** only just over one-third of Board members (38%) rate the outlook for their own sector over the next 12 months as positive, with just under one in five (18%) rating it as negative. However, these values are in line with the historical average. In the information and communications technology (ICT) sector in particular, Board members remain optimistic about the sector outlook, with 54% rating it as positive as against just 5% who rate it as negative. This may reflect the continuing advance of digitalisation in response to the pandemic. Board members representing the retail and consumer goods sector tend to be more pessimistic: 31% rate the outlook as negative compared with 22% who rate it as positive. The position in manufacturing and chemicals is similar: 19% rate the outlook as negative while 16% rate it as positive. Major factors underlying the cautious mood in both sectors could be disruption to supply chains, poor availability of specific goods, and the rising cost of raw materials and intermediate products.

However, despite a decline from the findings of the two previous editions of swissVR Monitor, almost half the Board members surveyed (49%) still rate the **business outlook** for their own company as positive. As with the sector outlook, the business outlook has remained relatively stable over the long-term average. Board members in the ICT sector are particularly optimistic about their company's prospects (69% rate them as positive), while Boards in the financial services sector are most likely to be pessimistic about their company's prospects, with 38% rating them as positive. The declining value of stock markets in 2022, upward pressure on interest rates, growing credit risk and record property prices are dampening the business outlook across this sector.

Chart 1. Economic, sector and business outlook over the next 12 months [swissVR Monitor I/2018 to II/2022]

Question: How do you rate the prospects for the Swiss economy / sector / your company over the next 12 months?
Note: Neutral answers are reflected in the difference between the sum of positive and negative answers.

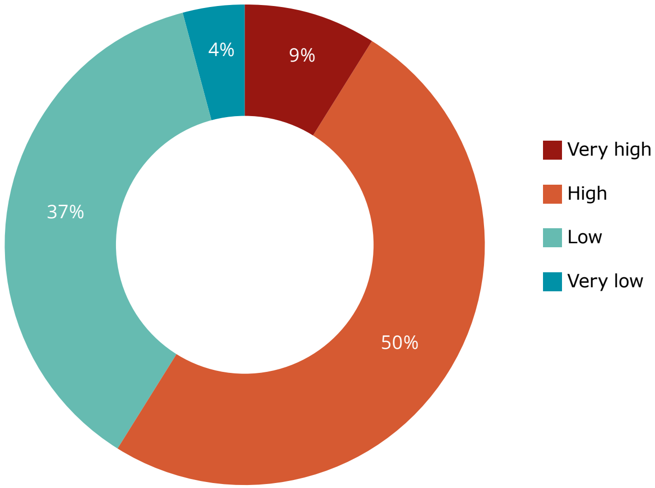


Focus topic: Geopolitical developments – a challenge but also an opportunity

Geopolitical developments are of great relevance to the Swiss economy because Swiss companies are heavily export oriented and dependent on global markets. Recent months have seen numerous changes and challenges, including the ongoing war in Ukraine, post-pandemic restrictions in some parts of Asia, and high levels of inflation resulting in a number of the world's central banks raising interest rates. Geopolitical risk is therefore an issue that Boards are – or should be – tackling now. We define a geopolitical risk [or opportunity] as the uncertainty surrounding potential loss [or gain] to companies caused by the actions of political stakeholders, political events or changes in the international political framework.

Chart 2. Impact of geopolitical risks on own company

Question: How do you rate the geopolitical risks to your company over the next 12 months?



Impact, measures and geopolitical classification

More than half of Board members surveyed (59%) rate the impact on their company from **geopolitical risk** over the next 12 months as **high or very high** (see Chart 2). Most of the remaining respondents (37%) assume there will be only **low risk** to their company in the near future, and 4% rate the **risk as very low**.

The extent to which companies are impacted by geopolitical risk is directly linked to their size. Almost seven in ten Board members in large companies (69%) rate the geopolitical risk to their company as high or very high, compared with only around half of Board members in small companies (51%).

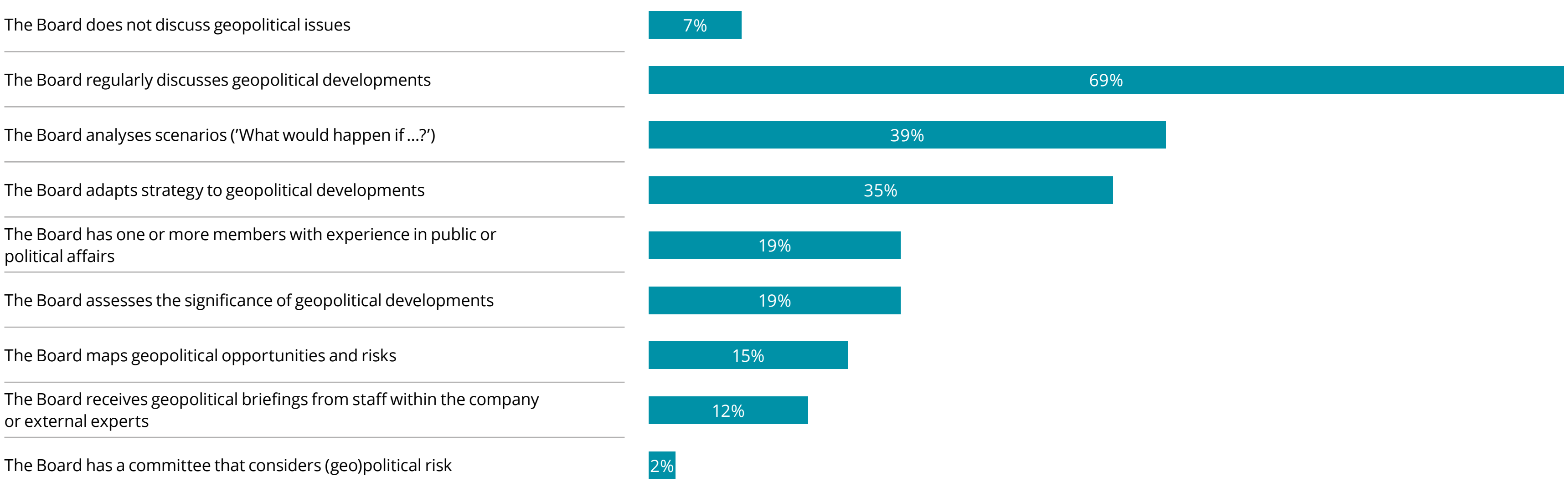
There are also sectoral differences. Board members representing companies in the corporate services sector rate the impact of geopolitical risk on their company as below average (42% rate the impact as high or very high). One explanation is that this sector is domestically focused and demand for its services continues during periods of crisis.

Nearly all respondents (93%) report that their Board is taking measures to identify, assess and tackle geopolitical risks (see Chart 3). More than two-thirds of Board members (69%) say their **Board regularly discusses geopolitical developments**. Just over one-third of Boards (35%) **analyse scenarios** or **adapt strategy to geopolitical developments**. Less than one Board member in five cites any of the remaining measures listed, including assessing the significance of geopolitical developments or mapping geopolitical opportunities and risks.

On average, Boards are taking two measures (2.09) to identify, assess and tackle geopolitical risks, with the actual number varying according to company size and sector: Boards of large companies are taking an average of 2.60 measures, considerably more than those of medium-sized or small companies (2.00 and 1.69 measures respectively). Respondents in

Chart 3. Measures regarding geopolitical risks and their impact

Question: What is your Board of Directors doing to identify, assess and tackle geopolitical risks and their impact on the company? [Please select all that apply.]

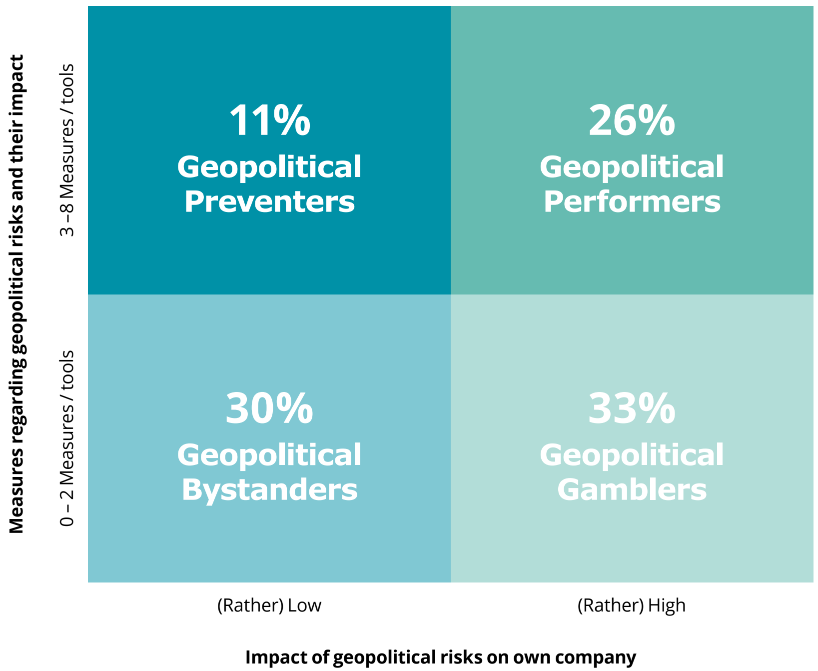


the financial services sector report an above-average number of measures (2.58), while those in the corporate services and ICT sectors report a below-average number (1.64 and 1.56 respectively).

Combining the severity of the impact of geopolitical risks and the number of measures Boards take enables us to draw up a classification of Boards, putting them in one of four groups (see Chart 4): geopolitical gamblers, geopolitical bystanders, geopolitical preventers and geopolitical performers.

Geopolitical gamblers make up the largest group, comprising Boards of companies on which the impact of geopolitical risks is high or very high but that are currently taking a maximum of two measures to identify, assess and tackle such risks. One-third of all Boards (33%) fall into this group, including above-average numbers of Boards of small companies (40% of this group, compared with 32% of the total sample) and below-average numbers of Boards of large companies (24%, compared with 32% of the total sample). Boards of manufacturing and chemicals companies are more likely to be represented in this group and make up 13% of the group as against 9% of the total sample. This group is less likely to include Boards from the financial services sector (9% as against 17% of the total sample) and from the health sector (7% as against 11% of the total sample).

Chart 4. Geopolitical Board classification based on impact and measures



The **geopolitical bystanders** group comprises Boards of companies on which the impact of geopolitical risks is low or very low and that are currently taking a maximum of two measures to identify, assess and tackle such risks. Three out of ten Boards (30%) fall into this group, which includes above-average numbers of Boards of small companies (40% of this group, compared with 32% of the total sample) and below-average numbers of Boards of large companies (22%, compared with 32% of the total sample). Boards from the corporate services sector are more likely to be represented in this group (17% as against 11% of the total sample) while Boards from manufacturing and chemicals are less likely to be represented (6% as against 9% of the total sample).

The **geopolitical preventers** group comprises Boards of companies on which the impact of geopolitical risks is low or very low and that are currently taking more than two measures to identify, assess and tackle such risks. Around one Board in ten (11%) falls into this group. The group includes above-average numbers of Boards from the financial services sector (27% of this group, compared with 17% of the total sample) and the transport and logistics sector (11% as against 5% of the total sample). Boards of companies representing retail and consumer goods, manufacturing and chemicals, and the ICT sector are much less likely to fall into this category (5% of the group as against 9% of the total sample for each sector).

The **geopolitical performers** group comprises Boards of companies on which the impact of geopolitical risk is high or very high and that are currently taking more than two measures to tackle such risks. Just over a quarter of the Boards surveyed (26%) fall into this category. Boards of large companies are more likely than the average to fall into this category (54% of this group, compared with 32% of the total sample) and those of small companies are less likely than the average to be represented (13% as against 32% of the total sample). The geopolitical performers group is also more likely to include Boards from the financial services sector (21% as against 17% of the total sample) and less likely to include those from the ICT sector (6% as against 9% of the total sample) or from corporate services (5% as against 11% of the total sample).

It should be noted that this classification includes only the number of measures a Board is taking, not the quality or depth of such measures. As noted above, a total of 69% of respondents report that their Board discusses geopolitical risks and includes this as one of the measures they are taking, but we did not, for example, explore how detailed these discussions were.

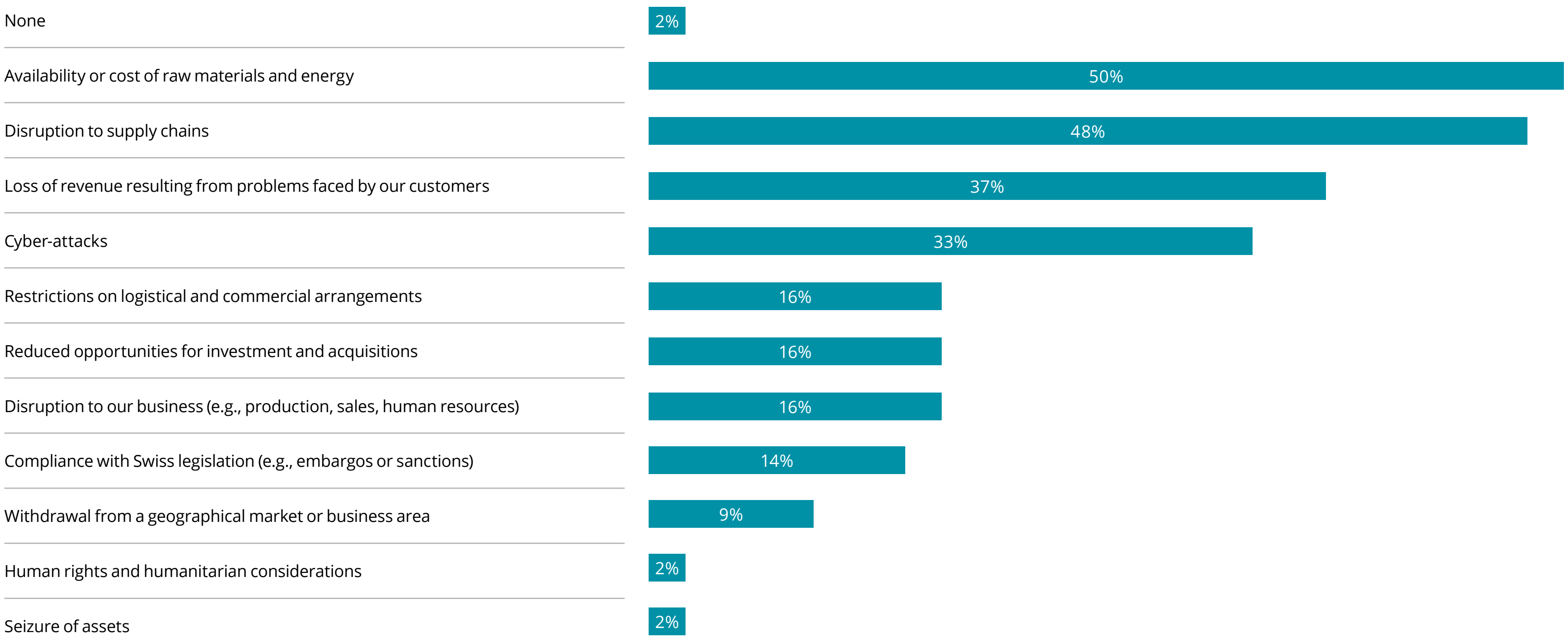
Challenges and opportunities

As Chart 5 shows, geopolitical developments represent different challenges for different companies (see Chart 5). Only 2% of respondents believe they pose no challenge, with 98% citing at least one challenge.

Respondents most frequently cite the **availability or cost of raw materials and energy** (50% of respondents) and **disruption to supply chains** (48% of respondents) as the greatest challenges. Given the current situation, this is perhaps largely attributable to the war in Ukraine and ongoing post-pandemic restrictions in parts of Asia. Board members representing

Chart 5. Challenges posed by geopolitical risks

Question: What are the greatest challenges facing your company as a result of geopolitical risks? [Please select up to three.]



large companies and the retail and consumer goods sectors, health, manufacturing, chemicals, and construction and property are more likely than average to cite both aspects. Members of Boards in the corporate services, financial services and information and communications technology (ICT) sectors are less likely than average to cite these challenges, which are therefore strongly dependent on company profile and context.

Board members also cite **loss of revenue resulting from problems faced by customers** and **cyber-attacks** as major challenges (37% and 33% of respondents respectively). Board members from the corporate services and financial services sectors are particularly likely to cite loss of revenue as a potential challenge represented by geopolitical developments (60% and 59% of respondents respectively). Board members from the financial services, health, and ICT sectors are more likely than average to identify cyber-attacks as a challenge (59%, 52% and 51% of respondents respectively).

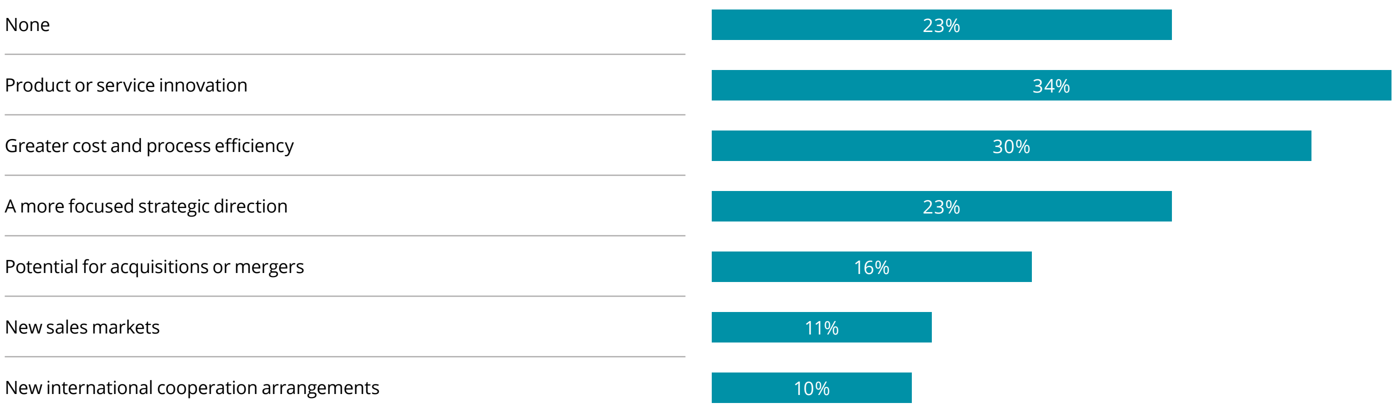
All the other challenges listed – including disruption to the company's business and reduced opportunities for investment and acquisitions – are cited by fewer than one in five of the Board members surveyed.

A large majority of Board members (77%) also believe geopolitical developments represent opportunities (see Chart 6). These opportunities most frequently include **product or service innovation** (cited by 34% of respondents) and **greater cost and process efficiency** (30% of respondents). Board members from retail and consumer goods are more likely than the average to cite product or service innovation (53%), while those from large companies are more likely to cite greater cost and process efficiency (40%).

Just under a quarter (23%) of respondents cite **a more focused strategic direction** as an opportunity resulting from geopolitical developments. All the other opportunities listed – including potential for acquisitions or mergers – are cited by fewer than one in five of the Board members surveyed.

Chart 6. Opportunities from geopolitical developments

What major opportunities for your company do geopolitical developments represent? [Please select up to two.]



War in Ukraine

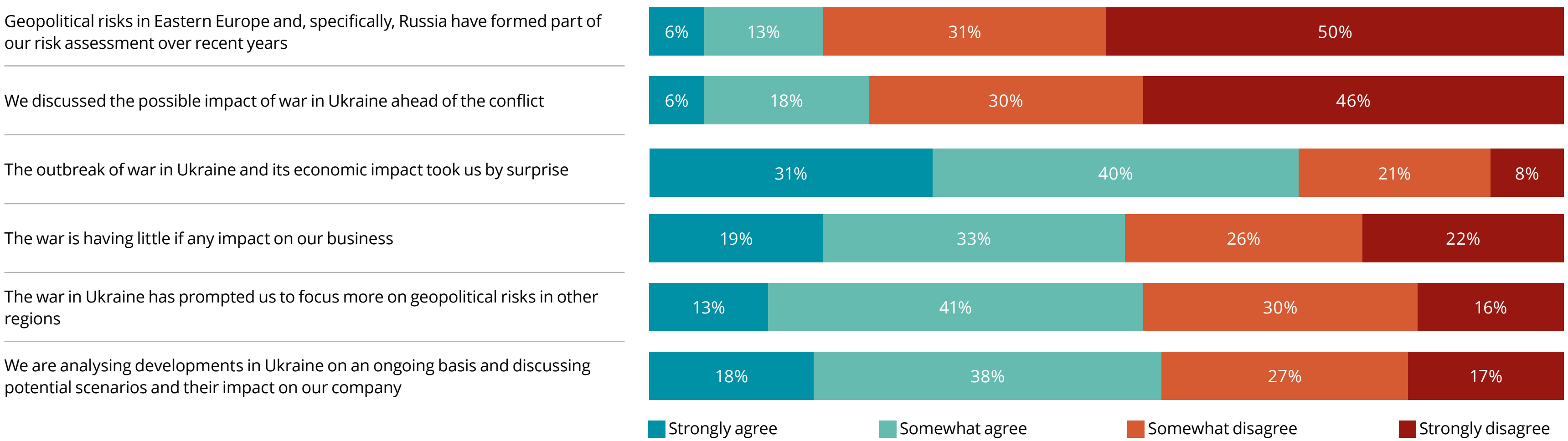
Board members participating in the survey were asked about a specific current geopolitical issue – the war in Ukraine. The first three statements in Chart 7 refer to the period before the Russian invasion of Ukraine on 24 February, while the last three refer to the period since.

Just one in five Board members (19%) say that **geopolitical risks in Eastern Europe and, specifically, Russia have formed part of their risk assessment over recent years**. Just under a quarter of all Boards (24%) report having **discussed the possible impact of war in Ukraine** before the Russian invasion. Around seven out of ten Board members (71%) say the **outbreak of war in Ukraine and its economic impact took them by surprise**. Overall, only a minority of Boards had spent any time considering the conflict between Russia and Ukraine.

Nevertheless, just under half of all respondents (48%) somewhat agree or strongly agree that the **war is having an impact on their business**. The remaining 52% report little if any impact on their company's business. Board members give similar responses when asked whether the war in Ukraine has prompted Boards **to focus more on geopolitical risks in other regions** (54% strongly agree or somewhat agree; 46% strongly disagree or somewhat disagree). Just over half of all Boards (56%) **are analysing developments in Ukraine on an ongoing basis and discussing potential scenarios and their impact on the company**. Where the war is having an impact on their company's business, this proportion rises to seven out of every ten Boards (70%). The remainder of Boards still have work to do in this respect.

Chart 7. War in Ukraine

Question: Please indicate your response to the following statements on the current geopolitical situation in relation to your Board of Directors.



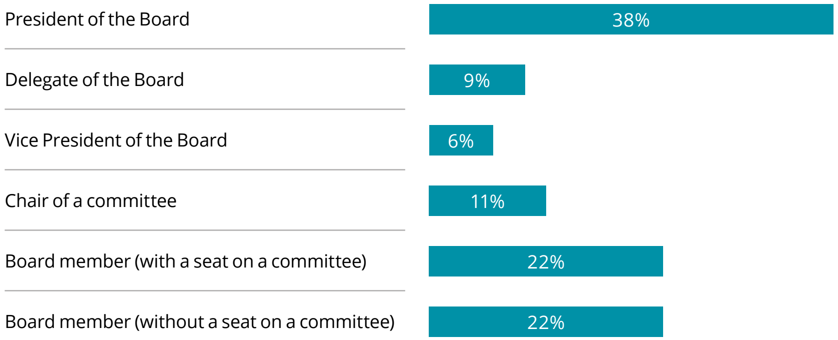
Strategic and structural issues facing the Board of Directors

Roles, number of meetings, time commitment and liability insurance

Board members taking part in swissVR Monitor II/2022 hold a number of different roles within their Board (see Chart 8). **Board members both with and without a seat on a committee** make up the largest group (44%). The survey also finds that 38% of respondents are **President of their Board**. Other roles held by respondents include **Chair of a committee** (11%), **Delegate of the Board** (9%) and **Vice President of the Board** (6%).

Chart 8. Own role(s) on the Board of Directors

Question: Which role(s) do you hold in relation to your Board of Directors? [Please select all that apply.]



The **number of Board meetings a year** (excluding committee meetings) varies widely (see Chart 9). Just over seven out of ten Board members (71%) attend a meeting between three and six times a year; slightly more than a quarter (26%) attend more frequently. Compared with swissVR Monitor II/2018 and II/2020, the distribution of numbers of meetings has remained relatively unchanged. Board members in the financial services sector meet markedly more frequently than those in other sectors, attending an average of more than eight meetings each year.

The annual **time commitment involved in a Board mandate** (including meetings, preparation, initial and continuing training, etc.) also varies widely (see Chart 10). The mean is 23 days a year with a median of 15 days, showing that a small number of Board members commit substantial amounts of time to their mandate and drive up the mean. Most of these 'outliers' spend more than 30 days a year on their mandate and account for just under one-fifth (18%) of all respondents. Presidents of Boards make up the majority of this sub-group (56%).

Chart 9. Number of Board meetings per year

Question: Excluding committee meetings, how many Board meetings does your company hold each year?

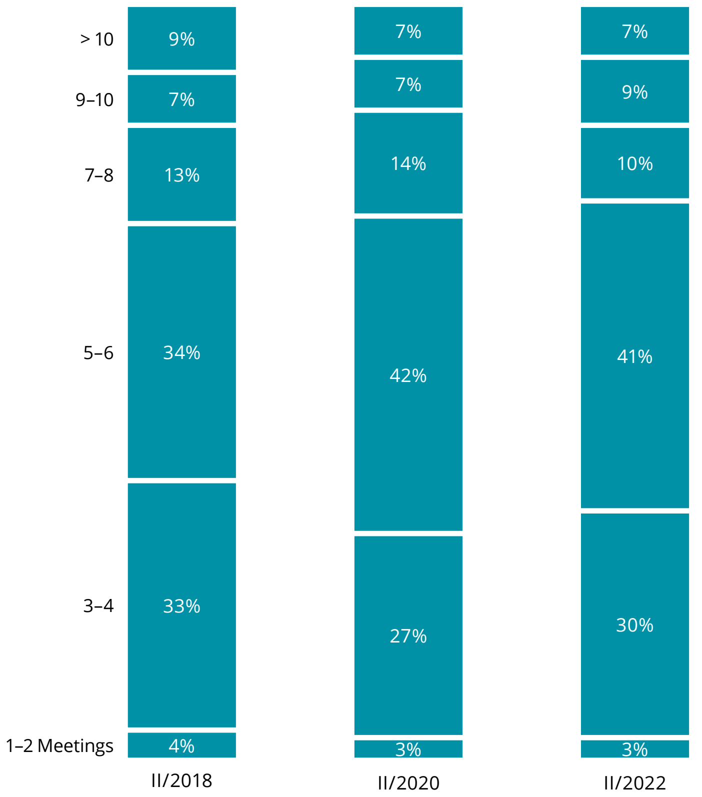
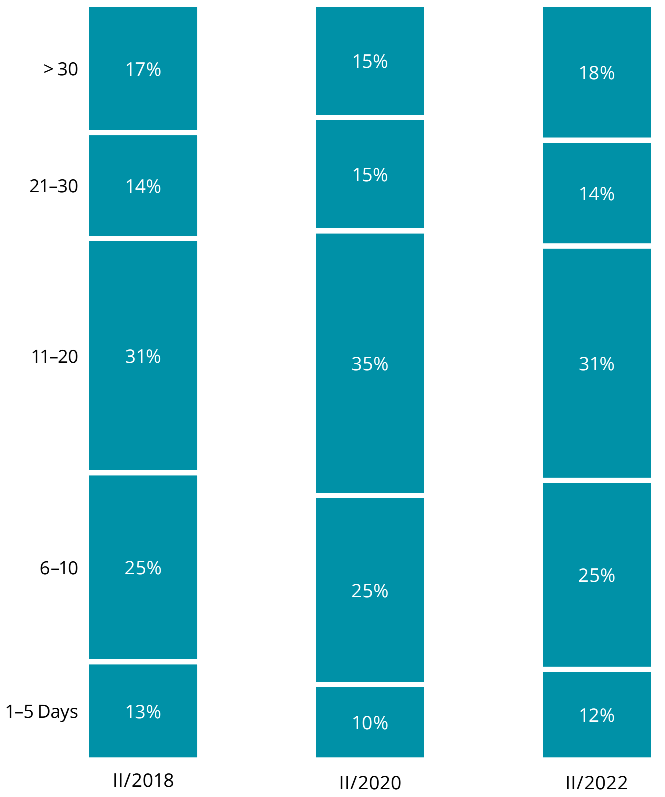


Chart 10. Time spent on Board mandate per year

Question: Approximately how much time do you commit each year to your Board mandate? Please include meetings, committees, preparation, representing the company, and initial and continuing training.



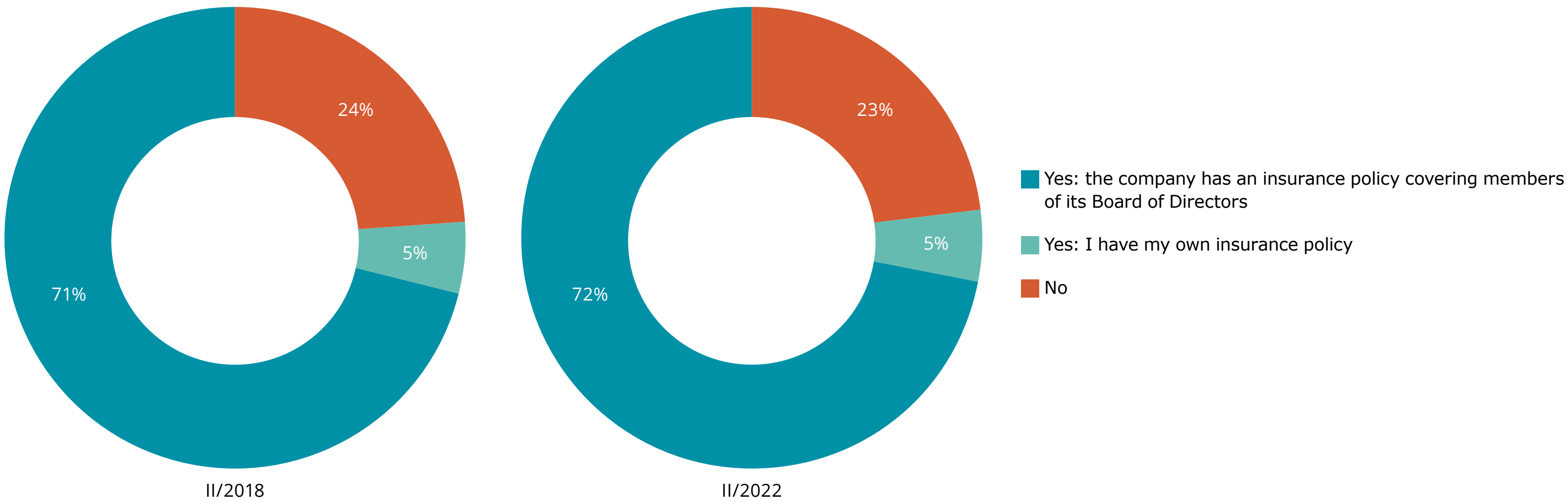
The mean and median figures are also markedly higher than two years ago (swissVR Monitor II/2020), when the figures were 17 days and 12 days respectively. The mean is now 35% higher and the median 25% higher.

A Board mandate is a major responsibility, and Board members need to carry out their role with care and and professionalism: doing the job well means there is no scope for liability claims. The responsibility comes with associated risks, so the question of **directors' and officers' (D&O) insurance** arises: is such insurance in the best interests both of individual Board members and of the company as a whole? A policy of this kind would, among other benefits, meet the cost of liability claims, unjustified accusations and payments for damages.

As the survey of Board members shows, seven out of ten companies (72%) have D&O insurance for their Board members (see Chart 11), while 5% of respondents have their own individual insurance policy. This means that less than a quarter (23%) of those surveyed have no insurance cover in the case of a claim being made against them. Virtually all Board members in large companies have such cover, 92% via the company and 5% under a personal policy. By contrast, just six out of ten Board members in small companies have such cover (62%). This position is unchanged from responses given in swissVR Monitor II/2018.

Chart 11. Directors and officers (D&O) insurance

Question: Do you have professional liability insurance (directors' and officers' insurance)?



Key issues for the Board of Directors

swissVR Monitor also asked Board members to identify the most important issues their Board has had to tackle over the last 12 months and those it will have to tackle over the next 12 months (see Chart 12).

The main issues Boards have had to tackle over the last 12 months include **formulating a new corporate strategy** (36% of respondents) and **talent management** (34% of respondents). The issue of formulating a new corporate strategy probably reflects the shift in strategy required by the COVID-19 pandemic, such as changes in the company's business model, but also **digitalisation**, the third most frequently cited issue (31% of respondents).

Chart 12. Key issues for the Board of Directors

Questions: What have been the most important issues that your Board of Directors has had to tackle over the last 12 months?
In your view, what will be the most important issues that your Board of Directors will have to tackle over the next 12 months?

Rank II/2022		Rank I/2022	Next 12 months	Issues
1 (36%)	▲	**3** (29%)	**–** (17%)	**Formulating a new corporate strategy**
2 (34%)	▶	**2** (31%)	**1** (40%)	**Talent (recruitment, retention, etc.)**
3 (31%)	▼	**1** (34%)	**4** (28%)	**Digitalisation / robotics / automation**
4 (27%)	▶	**4** (25%)	**3** (31%)	**Improving efficiency / optimising internal processes**
4 (27%)	▶	**4** (25%)	**2** (33%)	**Responding to market developments / behaviour of competitors**
6 (26%)	▼	**4** (25%)	**5** (26%)	**Risk management**
7 (23%)	▲	**9** (20%)	**6** (22%)	**Go-to-market issues (marketing and sales strategy)**
8 (21%)	▲	**–** (19%)	**6** (22%)	**Sustainability / corporate social responsibility**
8 (21%)	▲	**9** (20%)	**–** (11%)	**Compliance (with legislation and internal codes of conduct)**
10 (20%)	▲	**–** (16%)	**–** (14%)	**Corporate culture**

"–" means "not one of the top-10 issues". Strategy · Organisation & processes · HR · Compliance & risk

Talent management, the second most frequently cited issue, has been a top issue since the last swissVR Monitor, most probably because of changes in the labour market resulting from the COVID-19 crisis and current trends in the Swiss economy, including what is called 'the great resignation' and staffing and skills shortages.

Looking ahead to the next 12 months, Board members most frequently cite **talent management** as the most important issue (40% of respondents), moving this issue to the top of the rankings. They believe that HR issues such as staffing and skills shortages are likely to become more problematic over the coming months, not least as the talent crisis has probably not yet peaked. Board members believe that **formulating a new corporate strategy** (17%) has declined in importance, however, and is no longer one of the top 10 issues.

Responding to market developments/behaviour of competitors (33% of respondents) and **improving efficiency/optimising internal processes** (31% of respondents) will also be major issues for Boards. New issues in the top 10 for the next 12 months are **compliance and risk and HR challenges for management** (ranking joint eighth with 18% of responses) and **innovation/research and development** (ranking tenth with 17% of responses).

Interviews

Managing geopolitical developments across different sectors

Barbara Lambert, Board member at UBS Switzerland, SYNLAB, Implenia and Deutsche Börse

"The speed, unpredictability and far-reaching consequences of geopolitical developments are not going to decrease in the coming years, so Boards will need to take both tactical and strategically far-reaching decisions."

Barbara Lambert completed an apprenticeship in banking in Germany before studying business administration at the University of Geneva. She then spent 20 years at Arthur Andersen/Ernst & Young Switzerland, most recently as Head of Audit Banking and Insurance Clients. Between 2008 and 2018, Barbara Lambert was Head of Internal Audit at the Pictet Group and its Group Chief Risk Officer. She has served on the Board of Directors and the Supervisory Board since 2018, is President of a number of Audit Committees and a member of several Risk Committees. She also works as a freelance consultant. Her current Board mandates include Deutsche Börse AG, Implenia AG, SYNLAB AG and UBS Switzerland AG. Barbara Lambert is a member of the Advisory Board of the Geneva School of Economics and Management.

swissVR Monitor: You serve on the Board of Directors of companies across different sectors. How do you see geopolitical risks affecting different sectors?

Barbara Lambert: Geopolitical risks are affecting all sectors, but with differing degrees of impact and severity. Supply chain bottlenecks and higher costs for materials have a different impact on construction companies and on businesses in the services sector. Implementation of a very complex sanctions regime, though, is a much greater challenge for the financial services sector than for B2C companies. Geopolitical risks may also have a positive influence in some cases (higher rates of interest, greater volatility and stock market transactions) but be negative in others (higher refinancing costs).

swissVR Monitor: How wide-ranging does a Board's analysis of geopolitical risks need to be?

Barbara Lambert: Boards of Directors need to tackle the full range of possible impacts, not just creating an understanding of the possible direct impact on their own company but also appreciating second order impacts – the indirect and potentially long-term consequences, such as risks to SMEs and suppliers, creditworthiness, and taxation. The risks stem not only from financial impacts – lower revenues and operating margins, exchange rate issues, damage to goodwill and higher costs – but also from operational risks. However, not all sectors face the same severity of risk from, say, rapidly growing cyber risks, rising inflation, energy shortages and reputational risk.

swissVR Monitor: Is it possible to view geopolitical risks in isolation?

Barbara Lambert: No. Alongside geopolitical risks, we are grappling with the ongoing effects of COVID-19, skills shortages, and the potential for greater social unrest caused by food shortages. This is a toxic cocktail of major insecurities, and it is difficult to assess its scale and evolution over time. Will the recession last a few months or a few years? This goes beyond normal emergency planning: companies need to draw up two or three scenarios and plan short-term measures that they can implement rapidly. Boards need to anticipate, so that they are prepared for the worst while also maintaining their focus on strategic planning and implementation. Another important point is regular and transparent communication with customers and staff during these exceptional times to identify potential opportunities, maintain trust and shore up confidence.

swissVR Monitor: What are the sectoral differences in the potential opportunities represented by geopolitical developments?

Barbara Lambert: Geopolitical developments mostly reflect global influences in our highly networked world, so they also represent opportunities across sectors that differ in terms of a sector's maturity, its existing international experience and, of course, its scope for investment and financing. I'm a realistic optimist and I firmly believe that any crisis also offers an opportunity to make companies more operationally robust and to accelerate difficult decisions while also promoting innovation and creativity. The recent pandemic also accelerated companies' moves to digitalisation.

swissVR Monitor: What specific opportunities do you see?

Barbara Lambert: The current geopolitical crisis is a unique opportunity for companies to review their business model and strategic direction, in particular their market presence (withdrawal from specific markets and entry to or focus on new markets), their supplier network, alternative positioning of their procurement and stock planning, increased efficiency through optimisation of operational processes, product and service review, contract reviews, out-shoring, near-shoring and off-shoring, scope for M&A, and joint ventures, to mention just a few areas.

swissVR Monitor: Which instruments and measures do you recommend Boards use to help them identify and assess geopolitical developments?

Barbara Lambert: It is still rare for a Board of Directors to have expert knowledge of geopolitical issues. Boards therefore need to bring in external advisers and specialists, including specialised international consultancy companies and international business schools, including as part of Board members' continuing professional development (for example, annual strategy workshops held jointly with management). The World Economic Forum's Global Risk Report, publications from major consulting and audit firms, and specific reports from intelligent service providers and analysts also form the basis for open discussion of the risks and opportunities represented by geopolitical developments. Regular exchange with professional and sectoral bodies, international organisations, governments, official agencies and peers can also be of benefit. The speed, unpredictability and far-reaching consequences of geopolitical developments are not going to decrease in the coming years, so Boards will need to take both tactical and strategically far-reaching decisions. Today's Boards need to be more agile. Taking account of geopolitical risks will become the 'new normal' and will become a standard item on the agenda for Board meetings.

swissVR Monitor: How important is cooperation between the Board of Directors and the Chief Risk Officer in this context?

Barbara Lambert: The Board has a major monitoring role to play but also needs to provide support. Its job is to ensure that both geopolitical risks and opportunities are now included in the risk management framework (identification, assessment, probability and impact quantification, and the appropriateness of information systems) and in regular reporting. Scenarios and hypotheses need to be critically challenged if there is to be a robust basis for decision-making. The Board and/or Chairs of the Audit Committee and Risk Committee should engage in regular exchanges with the Chief Risk Officer – at least quarterly, and more frequently in times of crisis – with a view to sharing insights into best practice from other sectors or from round tables. The speed and unpredictability of geopolitical trends demand greater adaptability from companies, so the Board should be setting the tone from the top, paving the way for a culture of change management and risk-taking.

swissVR Monitor: Do Boards need a member with demonstrable experience and/or skills in risk management?

Barbara Lambert: Monitoring of risk management has actually been an explicit part of the role of the Board for years. The extent to which individual Boards require proven experience and skills in risk management will vary according to the company's size and complexity and the sector in which it operates, but it is, of course, an absolute must in the financial services sector. However, Boards must collectively ensure that each member has a highly developed awareness of risk and an understanding of the internal and external risks the company is facing. And this is an ongoing requirement, not just a snapshot approach.

swissVR Monitor: Do we need a new understanding of risk management?

Barbara Lambert: In my view, a Board cannot carry out its role and fulfil its responsibilities to different stakeholders if it does not identify and analyse risks and opportunities at an early stage and if it fails to feed risk assessments into its strategic decision-making. However, this requires an appropriate understanding of the risk environment, of the company's risk management policy and the maturity of that policy, and of the reliability and quality of timely reporting. Open discussion within the Board on risk appetite and the company's capacity for risk – including, of course, management's – is also essential.

swissVR Monitor: To what extent can diversity improve a Board's performance?

Barbara Lambert: Diversity on the Board also needs to be reflected in the skills profile of Board members, who should represent a wide range of expertise, including sectoral knowledge, risk and compliance expertise, international law and taxation, and IT security and digitalisation, as well as the new areas of ESG and geopolitics. This is particularly important during times of crisis – and we are currently in the midst of an unprecedented crisis, with enormous strategic challenges for companies and Boards of all kinds.

The Board's role in managing geopolitical developments

Aldo Schellenberg, Board member at skyguide and Swiss Innovation Forces

"As a company's strategic leadership body, the Board of Directors is responsible for actively tracking geopolitical trends, identifying the opportunities and risks these represent for the company and the sector, and drawing conclusions for how the company should respond."

Aldo C. Schellenberg is married with four children and lives in Zurich. Thirty years ago, he founded schellenberg consulting and still owns the company, which supports medium-sized and large companies across a range of sectors in strategically important projects. His wide-ranging experience in the area of business administration, including as a Board member, has seen him regularly called as an expert witness in civil and criminal court cases. Between 2012 and 2020, Aldo C. Schellenberg held a number of senior leadership roles in Switzerland's armed forces as Commander of the Air Force, Chief of Joint Operations Command and Deputy Chief of the Armed Forces. His current roles include serving as a member of the Board of the Swiss air navigation service provider Skyguide and of Swiss Innovation Forces. He also advises companies on governance and crisis management.

swissVR Monitor: What do you see as the major geopolitical risks facing Swiss companies over the next 12 months?

Aldo Schellenberg: The COVID-19 pandemic and the war in Ukraine are intensifying ongoing risks and global supply chain dependence, the supply of energy (gas and electricity) and food, and government debt. The pandemic has also highlighted the fact that countries or nations throughout do not have friends, only interests – albeit shared interests – in the best-case scenario. In times of shortages, this prompts states to react instinctively with nationalist and protectionist responses that impact not only on the procurement situation for companies but also on exchange rates, inflation, and economic growth. And history teaches us that a shock to the supply side substantially increases the risk of stagflation. Russia's aggression towards Ukraine has also transformed Europe's existing security architecture. The policy of 'change through trade' has failed, and the emerging new security architecture will involve increased confrontation and tension and be based on mistrust and sanctions. In geopolitical terms, we will see new blocs forming on the basis of economic, technological and military rivalries and protectionism – and that will significantly restrict Swiss businesses' economic room for manoeuvre.

swissVR Monitor: How can the Board of Directors help to tackle these geopolitical risks?

Aldo Schellenberg: In La politique universelle (1852), journalist and politician Émile de Girardin rightly argued that governing means predicting and failure to predict is a step on the road to ruin. As a company's strategic leadership body, the Board of Directors is responsible for actively tracking geopolitical trends, identifying the opportunities and risks these represent for the company and the sector, and drawing conclusions for how the company should respond. Alongside sectoral knowledge and specialist competencies, Boards therefore also need the skills to be able to analyse and react to geopolitical challenges.

swissVR Monitor: How is today's world of VUCA transforming the role of the Board of Directors?

Aldo Schellenberg: The world of VUCA (volatility, uncertainty, complexity and ambiguity) is narrowing companies' planning horizon and requires businesses to be agile. The response to VUCA is, in fact, also VUCA – standing this time for vision, understanding, clarity and agility. VUCA requires

Boards to think and act more holistically and in a more networked way. Alongside their analysis of how the current situation has come about, Boards need to identify possible future trends. This requires them to think in terms of much broader scenarios than a traditional SWOT analysis, bringing together (geo)political, environmental, economic, social, statutory and technological developments. The aim is to recognise trends and potential disruption and the impact they may have on the company. Management therefore needs to present the Board with strategies for different scenarios and information on how the company can make use of the opportunities and mitigate the risks they represent. Scenario-based risk management is crucial to agile leadership and successfully tackling crises.

swissVR Monitor: Are Boards of Directors increasingly taking on a crisis management role?

Aldo Schellenberg: The Board of Directors is the company's strategic leadership body. Its role is to set out a clear vision, develop a company-wide understanding of VUCA, create clarity and transparency in governance and the associated roles and expectations, and put in place the prerequisites for ongoing innovation and adaptation. This includes appropriate scenario-based risk management and effective crisis management. There is an underlying risk that during a crisis, the Board spends its time on urgent operational issues rather than keeping its focus on its strategic role. Actual crisis management – that is, leading the crisis team – is the job of senior management, which can, where necessary, task the Board with specific projects. This is likely to increase the demands made on Boards in terms of the time spent on their mandate and the issues they need to tackle while remaining focused on their core strategic role. Successful crisis management requires leadership and experience in systematic and holistic decision-making under time pressure and against a background of uncertainty. The Board's responsibility is to develop management's core skills in this area – and, where necessary, its own skills too.

The impact of the current geopolitical situation on Swiss companies

Thomas Greminger, Director of the Geneva Centre for Security

"Facing the new situation and its implications, there are two distinct approaches that the Swiss economy could adopt: either focus on safe and geopolitically close economic partners such as the EU (which is already its most important economic partner) or increase the number and origin of partners. Diversification is a critical asset when it comes to limiting the impact of any shock."

Ambassador **Thomas Greminger** has been the Director of the Geneva Centre for Security Policy (GCSP) since 1 May 2021. Previously, he served as Secretary General of the Organization for Security and Co-operation in Europe (OSCE) from July 2017 until July 2020. Ambassador Greminger served as Deputy Director General of the Swiss Agency for Development and Cooperation at the Federal Department of Foreign Affairs from 2015 to 2017 and as the Permanent Representative of Switzerland to the OSCE, the United Nations and the International Organisations in Vienna from 2010 to 2015. He holds a PhD in history from the University of Zurich. He has authored numerous publications on military history, conflict management, peacekeeping, development and human rights.

swissVR Monitor: What challenges do current geopolitical developments – in particular, but not only, the war in Ukraine – pose for the Swiss economy?

Thomas Greminger: The geopolitical rivalry, mainly the competition between the United States and China, compounded by the deep rift between Russia and the West, tends to divide the world economy further into bipolar blocs, dominated by the US and China with Europe and Russia as secondary partners. The war in Ukraine dampens the prospects of economic recovery after the pandemic. For instance, there is a severe risk of stagflation in several economies. While it is still too early to assess all medium- to long-term repercussions of the war, some strongly affected sectors and risk areas are already evident, with food and energy security being the most prominent. Consequently, this will have economic and humanitarian impacts but may also lead to political destabilisation, particularly in countries with fragile governance.

swissVR Monitor: And what are the concrete implications for companies in Switzerland?

Thomas Greminger: Having painted quite a dark picture of global economic prospects, the Swiss economy is relatively insulated from the Russian (0.4% of Swiss imports and 1% of Swiss exports) and Ukrainian (0.2% of Swiss exports and 0.1% of Swiss imports) economies.[1] Therefore, the loss of access to their markets due to sanctions regimes or other effects of the war will only impact Swiss companies marginally. Yet, for 3 billion dollars' worth in 2021, the companies involved with exports to Russia will need to adapt to a durably severed mark.[2]

1 Swiss Confederation. "Trading partners". 2022. Trading partners (admin.ch)

2 Trading economics. "Switzerland exports to Russia". 2022. https://tradingeconomics.com/switzerland/exports/russia

Swiss exports are mainly 'high-value' goods, which are less affected by inflation. However, energy costs will rise nonetheless, with electricity bills expected to increase by 20%. As a result, Swiss companies' energy expenses will also be affected. Moreover, the war in Ukraine will also have repercussions for Swiss companies as Switzerland is closely intertwined with its EU neighbours. The EU accounts for 43% of Swiss exports and 52% of imports.[3]

swissVR Monitor: What would a Cold War 2.0 or a new security order in Europe mean for Swiss companies?

Thomas Greminger: The war in Ukraine could bring about a period of reordering of global power and security dynamics as Russia and China seek to upend the current system benefiting the West. This period of uncertainty could also bring about a restructuring of the global economy. For example, trade flows and markets could be more restricted, depending on geopolitical interests. Moreover, the return to bloc politics described earlier could see the emergence of economically integrated geopolitical entities relatively insulated from other geopolitical blocs. As a result, there is a risk that Swiss companies would be hindered in trading with specific markets for a prolonged period in the future.[4]

swissVR Monitor: How should the Swiss economy position itself against current geopolitical developments?

Thomas Greminger: Facing the new situation and its implications, there are two distinct approaches that the Swiss economy could adopt: either focus on safe and geopolitically close economic partners such as the EU (which is already its most important economic partner) or increase the number and origin of partners. Diversification is a critical asset when it comes to limiting the impact of any shock.[5] Moreover, diversification also seems to be the right course of action to respond to the supply chain disruptions we are witnessing.

The inflation rate in Switzerland has reached a 29-year high, and the Swiss national bank has taken measures by raising interest rates.[6] Letting the Swiss Franc reevaluate would be a measure that helps counter inflation. However, the Swiss economy is stable compared to its European neighbours, where inflation is higher, and further increasing interest rates could lead to instability.[7] As Switzerland's primary economic partner, a full-blown economic crisis within the EU would be detrimental for us. We cannot rule out this scenario, which urges us to do whatever is possible to prevent it, for example, by supporting global measures that increase stability and certainty.

swissVR Monitor: Apart from the risks, do you see opportunities for Swiss companies in the current geopolitical situation?

Thomas Greminger: One of the most critical and direct consequences of the current geopolitical situation is the fluctuation in commodity prices. Switzerland is a great trading hub with 550 trading companies for resources such as oil and metals and the world market leader for cereals.[8] Unfortunately, some companies are taking advantage of the sanctions by increasing their trading of Russian oil instead of decreasing it, maximising profit until the embargo enters into force.[9] While those opportunistic moves are not desirable, they are likely to be ever-present when political measures are used to influence the economy.

Even if Switzerland is not heavily dependent on Russian energy, it is still vulnerable to market changes for its imports. This is clearly an opportunity

3 Eurostat. "Switzerland-EU: international trade in goods statistics. 2022. Switzerland-EU – international trade in goods statistics – Statistics Explained (europa.eu)
4 "Switzerland Exports, Imports and Trade Partners". 2022. Switzerland (CHE) Exports, Imports, and Trade Partners | OEC – The Observatory of Economic Complexity
5 Eurostat. "Switzerland-EU: international trade in goods statistics. 2022. Switzerland-EU – international trade in goods statistics – Statistics Explained (europa.eu)
6 Bloomberg. "Switzerland inflation rate hits 29-year High on Ukraine War". 2022. Swiss Switzerland Inflation Rate Hits 29-Year High on Ukraine War, Supply Chains – Bloomberg
7 Blick. "Le professeur d'économue Aymo Brunetti sur l'inflation en Suisse: nous devons laisser le franc suisse se renforcer". 2022. Le professeur d'économie Aymo Brunetti sur l'inflation en Suisse – Blick
8 Swiss Confederation. "Commodities trade". 2022. Commodities trade (admin.ch)
9 Swiss Info. "Traders with Swiss links continue to buy and sell Russian oil". 2022. Traders with Swiss links continue to buy and sell Russian oil – SWI swissinfo.ch

to engage more in sustainable energy, with the participation of local companies as planned by the confederation and some cantons.[10] Therefore, this crisis should be seized on as an opportunity to promote a more environmentally friendly economy.

swissVR Monitor: How are the current geopolitical developments impacting political and economic cooperation within Switzerland and globally?

Thomas Greminger: Switzerland decided to follow the regime of comprehensive sanctions established by the EU. As a result, this impacts economic activities, as Switzerland is an important trading hub, including for Russian oil. Implementing the sanctions regime requires cooperation between the government and the private sector. Furthermore, it obliges economic actors to adapt and bear the main burden of measures aimed at achieving political ends. This is also true on a more global scale. Using financial tools and sanctions to achieve political goals will likely increase in the future and be a standard component of how conflicts are conducted. This calls for strong coordination between politics and the economic sector if major powers want to use economic means to assert pressure on the international stage while simultaneously limiting the impact of such practices on their own economy.

10 SuisseEnergie ; République et Canton de Genève. ”Plan directeur de l’énergie 2020-2030". 2020. Plan directeur de l’énergie 2020-2030 | ge.ch

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