

A report from The Economist Intelligence Unit



THE YEAR IN CRISIS

Rising risk in Western Europe



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Contents

About this report	2
1. Introduction	3
2. A look back on the year 2016	4
3. More risk, and faster	7
4. Looking to the future: The risk and the crises ahead	8
5. Concern about the past, concern about the future	9

About this report

2016: The year in crisis provides The Economist Intelligence Unit's assessment of sources of corporate risk in the year 2016, its evolution over the next three years, and a perspective on the role of the board of directors in managing crises. The programme was sponsored by FTI Consulting.

The Economist Intelligence Unit conducted a survey of 537 senior executives, all actively involved in the crisis management function of their firms, during the period November–December 2016.¹ Nineteen percent of respondents are members of the board of directors and 33% are from the C-suite, with the rest ranked director or above. They hail from 15 industries and are globally representative (30% from North America, 31% from

Asia-Pacific, 30% from western Europe and the rest from other regions). All represent companies with an annual revenue of at least US\$200m.

To complement the survey findings, we also conducted in-depth interviews with senior executives and industry experts. We would like to thank all the survey respondents as well as the following executives (listed alphabetically) for their insight and contribution:

- Raj Samani, chief technology officer for Europe, the Middle East, and Africa, Intel Security
- Matthias Schorer, VMware.

The report was edited by West Coghlan. ■

1. The survey was launched immediately after the US election.

1. Introduction

The year 2016 was a time of extraordinary events for the citizens and businesses of Europe.

Sixty years of European firms' economic assumptions were brought into question by the UK's vote to leave the European Union. Major terrorist attacks occurred in Brussels, Nice and Berlin. Populist parties challenged the political order in France, the Netherlands and other countries. Cyber-crime continued to threaten European firms.

And these weren't the only crises companies

in Europe faced. The question is whether Europe, and the rest of the world, are entering a period of exceptional risk for the enterprise.

The views of the 160 executives from eight western European countries² included in the survey show that they see an overall similar level of risk compared with executives in other countries, and faced somewhat different risks in 2016—particularly a higher share having suffered from political disruption.



2. Respondents were located in Belgium, France, Germany, Italy, Luxembourg, Spain, Switzerland and the UK.

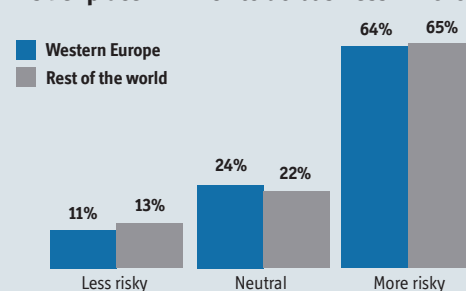
2. A look back on the year 2016

We asked our survey panel—all of whom have experience in corporate crisis management—whether they believe the world had become a riskier place to do business in 2016. A significant majority of the Europe-based executives in our survey believed so, with almost two-thirds of them seeing increased risk. Only one in nine believed that the world had become a less risky place.

These views align with sentiment in the rest of the world, where 65% believed the world had become riskier, as compared to only 13% taking an opposite view. “We have to stop thinking of these risks as part of a country or geographical region,” says Raj Samani, chief technology officer for Europe, the Middle East and Africa at Intel Security. “Just as business operations are spanning borders, so are the challenges they face.”

These concerns may be reflected by the executives’ own on-the-job experience. The survey results show that only a small minority of west European companies escaped a serious crisis in 2016, with 70% of respondents reporting at least one major threat that could have significantly harmed the reputation of their firm. A similar percentage—72%—

Assessment of whether the world became a riskier place in which to do business in 2016



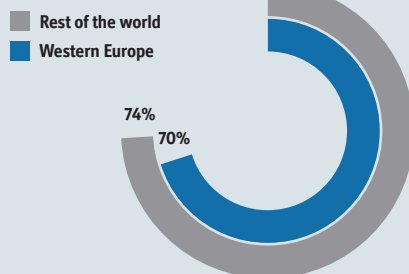
Source: Economist Intelligence Unit survey, 2017

reported at least one major threat that could have significantly harmed its financial value.

This is closely in line with a global pattern of corporate crises, where 74% of executives at companies outside Europe reported crises that could have significantly harmed the reputation of their firms, and 73% reported crises that could have significantly hurt their financial value. “No firm is immune to the kinds of challenges we are seeing today...not in any part of the world,” observes Mr Samani.

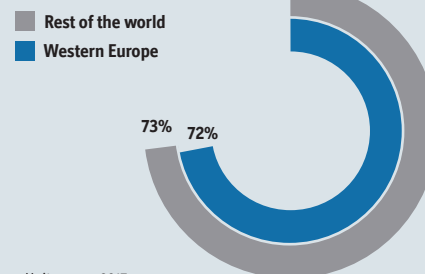
% reporting a crisis that could significantly harm reputation

(% of respondents saying yes)



% reporting a crisis that could significantly harm financial value

(% of respondents saying yes)



Source: Economist Intelligence Unit survey, 2017

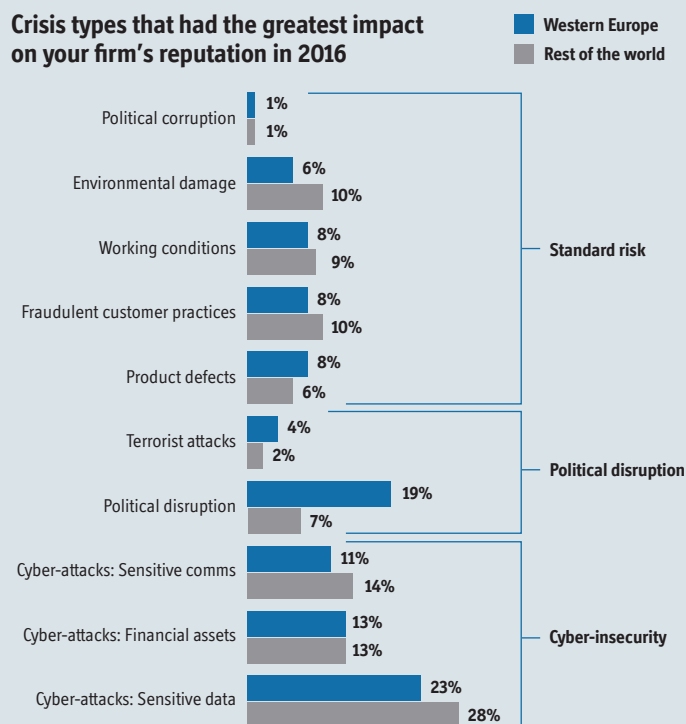
What types of crises did firms—European and all others—experience? The executives' responses fell into three distinct groupings: standard risk, political disruption and cyber-insecurity.

The standard risk grouping includes traditional corporate crises such as environmental accidents, labour issues and product recalls that have long been familiar to companies. When asked to name the crisis types that had greatest impact of on the firms' reputations in 2016, 31% of Europe-based executives identified standard risk. When asked which crisis types had the greatest impact financial value, 21% cited standard risk. Matthias Schorer, who is leading Internet of Things (IoT) development for VMware in EMEA, says: "These kinds of events are almost a price of doing business." From a crisis manager's perspective, these traditional risks can present a continuing series of crises that demand ongoing care and attention, albeit with a greater impact on reputation than financial value.

Political disruption, defined as abrupt changes in government or policies that increase economic and regulatory uncertainty for the firm, is cited by just 7% of non-European executives as having the greatest impact on their firms' reputation, compared with 19% of their counterparts in Europe. Similarly, 7% of non-Europeans cited political disruption as having the greatest impact on their firms' financial value, versus 21% of Europe-based respondents—indicating significantly greater concern over political issues. "Brexit has had its effect, no doubt," says Mr Samani. "What we are seeing is the beginning of a very fluid situation. Businesses are concerned about how it is going to turn out."

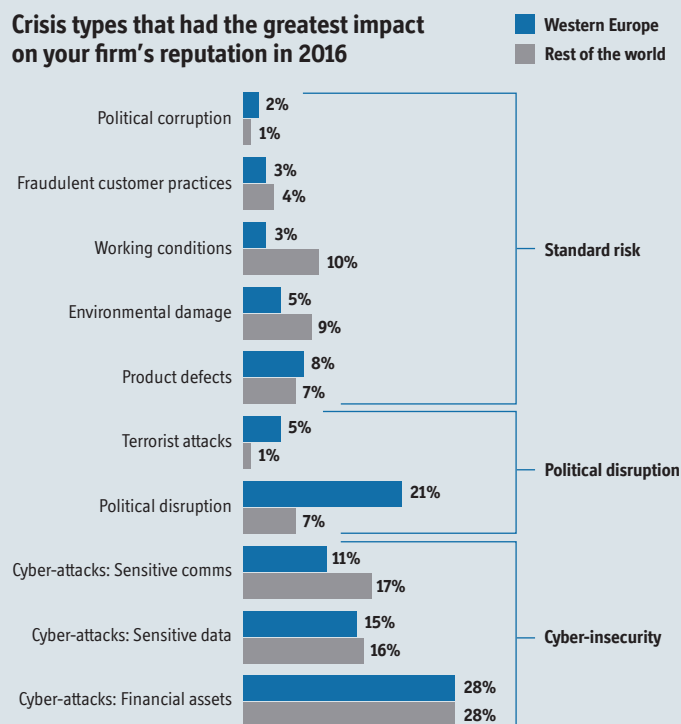
While only a small percentage of respondents in Europe cited terrorist attacks as having the most impact on the reputation of their firm (4% cited it as having the greatest impact on reputation, and 5% as having the greatest impact on financial value) this is significantly higher than their non-European

Crisis types that had the greatest impact on your firm's reputation in 2016



Source: Economist Intelligence Unit survey, 2017

Crisis types that had the greatest impact on your firm's reputation in 2016



Source: Economist Intelligence Unit survey, 2017

counterparts (who cited 2% and 1%, respectively) "Terrorist attacks are not part of the everyday thinking of business in Europe," says Mr Schorer. "But they are there ... and part of a new consciousness on risk."

But the most frequent threat as far as the executives in our survey are concerned is cyber-insecurity. Cyber-attacks include the theft of compromising data or financial assets as well as the hacking and release of confidential or proprietary information. In Western Europe, 47% and 54% of respondents cited cyber-attacks as having the greatest impact on their reputations and on their firms' financial value, respectively. This compared

to 55% and 61% of non-European respondents.

"This threat has evolved from an IT department problem to become the number-one risk a company might face," according to Mr Schorer. "This is changing companies' perception of their own vulnerability."

"The threat landscape has changed," confirms Mr Samani. "This is no longer an 11-year-old in his basement hacking into your system. Companies are now faced with professional hackers—cybercrime as a service—that has better tech and more money than the good guys."



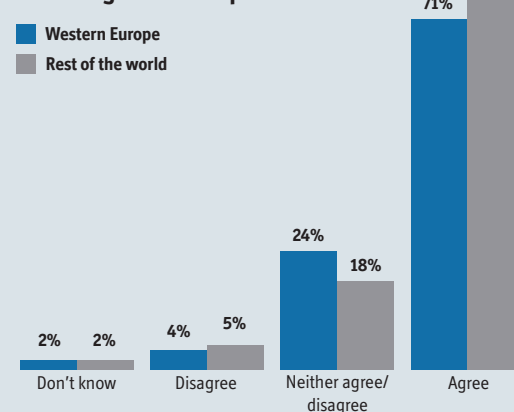
3. More risk, and faster

It used to be that corporate crises followed a manageable pace—and that the capable crisis manager could maintain a degree of control over the dialogue with the press, customers, regulators, employees and other stakeholders. However, with an estimated 47% of Western Europeans now using social media, that comfortable environment has changed.³

In our survey, 71% of executives in Europe believe that social media amplify public knowledge of crises, while 69% believe that they have accelerated the pace of crisis management.

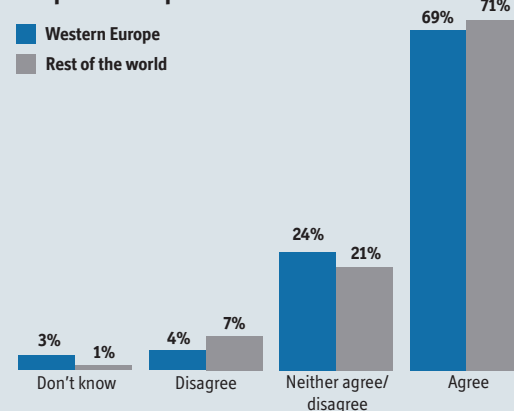
This, too, is not just a European phenomenon—the flood tide of social media is amplifying and accelerating crises across the globe. Fully 75% of non-European executives believe that social media have amplified crises, and 71% believe they have accelerated the pace of crisis management. As a result, “Your customers know about the crisis before you do,” says Mr Schorer. Companies no longer have the luxury of setting the pace of their response, because “your customers will do that for you”.

In 2016, social media amplified public knowledge about corporate crises



Source: Economist Intelligence Unit survey, 2017

In 2016, social media accelerated the pace of corporate crises



Source: Economist Intelligence Unit survey, 2017

3. Western Europe report, eMarketer, 2015.

4. Looking to the future: The risk and the crises ahead

Crises don't occur in a vacuum—they are driven and shaped by underlying technological, political and social trends. To provide a perspective on future crises, we asked executives in Europe and in the rest of the world to assess risk categories that might foster corporate crises over the next three years. They most often identified cyber-insecurity as having significant influence.

Political factors—political disruption/abrupt policy changes and civil disruption—rank high as important influences on corporate crises. While 30% of non-Europeans cited political disruption as having a very strong influence on future crises, 36% of European did so. “The threat landscape is changing,” says Mr Schorer. “In Europe we

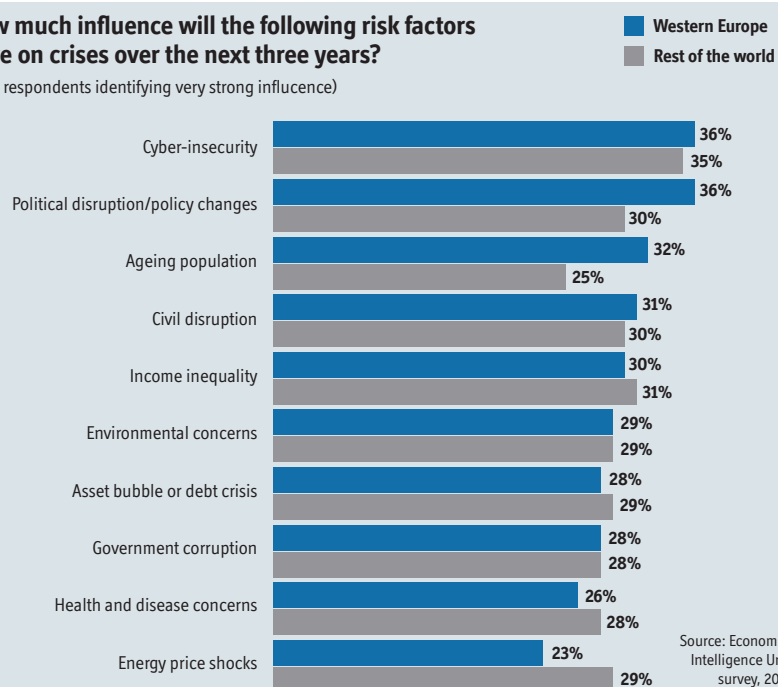
are seeing the rise of nationalist groups that were not there before. It raises uncertainty and doubt, which no businessperson really wants.”

Finally, we asked the Europe-based executives for their views on future levels of risk for companies. The results are not encouraging—almost two-thirds of them believe that the world will become a riskier place in which to do business in the next three years. Fewer than one on ten believe it will become less risky.

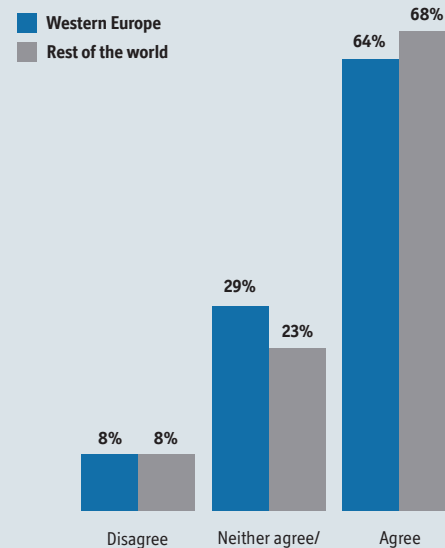
This fits with a global perception by crisis managers that risk will only escalate, with 68% of non-European respondents saying that crises will increase, compared with 8% who believe that they will decrease. “Things will get worse before they get better,” warns Mr Schorer.

How much influence will the following risk factors have on crises over the next three years?

(% of respondents identifying very strong influence)



In 2016, social media amplified public knowledge about corporate crises



5. Concern about the past, concern about the future

Europe appears to be part of larger world trend of escalation of risk. The year 2016 was seen by a significant majority of European and non-European executives as a time of increased risk. Political events and above all cyber-insecurity appear to be driving further escalation, with a sobering 64% of European executives believing the world will become even riskier in the next three years.

But some remain optimistic. "Yes, this is no doubt a difficult period," adds Mr Samani. "But it is also an exciting time to be in business. Every set of changes brings new risks ... and companies can be very resourceful in solving new problems. But if you can embrace the risks themselves...the next period can be one of huge opportunity."



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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