

The CEO Imperative: Through relentless disruption, how can you stay the course? (PART 4)



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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)

Sustainability is a top priority for businesses

Over the years, sustainability has gained importance with every climate impact report. Coming out of the financial crisis of 2008, a growing number of business leaders began to recognize how values could inform growth and help them better serve all stakeholders. The COVID-19 pandemic served as a strong and further catalyst. As people stayed home, energy demand and costs decreased dramatically. Extraction was at an all-time low, governments and utilities shut down high-polluting assets, and greenhouse gas emissions dropped. Investments began to shift toward energy transition and low-carbon alternatives as people realized that there could actually be another way.

These experiences proved that many theoretical concepts were more possible than once thought. The conversation had once again moved, and business leaders kept what was possible in mind even as economies began to rebound and energy demand – and prices – rose again. Coming out of the UN Climate Change Conference of the Parties (COP26) in November 2021, it was clear that business has a special responsibility and critical role to play in tackling the climate crisis.

A temporary setback in the race for renewables

The war in Ukraine has exacerbated the already rising costs of oil and gas, and sustainability has moved from a societal and environmental need to a geopolitical necessity. Some countries, particularly in the European Union, with a high dependency on energy imports, have pledged to accelerate the green transition, investing heavily in renewables to become more self-sufficient as well as more sustainable. But that isn't a given across the world: even with COP26 pledges, decarbonization actions are patchy.

Other net energy exporters may look at rising prices as an opportunity to scale up fossil fuel production.

In short, energy transformation is no longer optional. However, it is likely to take a step backward before it can move forward. Europe is in a rush for energy security as countries prepare for the next winter. That quest will see increased use of coal and nuclear in the short term as governments, businesses and consumers realize that the survival of the planet is important, but so is surviving today. Following these setbacks, the race for renewables will start again. And this time it will be driven not only by the need for decarbonization but also the need to increase national energy security.

Chapter 4

Digitalization and cybersecurity

Techno-nationalism and cyber threats are on the rise, endangering innovation and digital advances.

Potential disruption to digitization

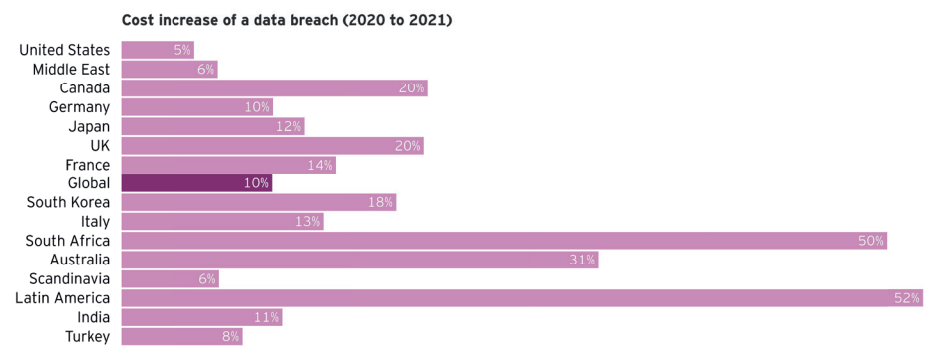
Digital technologies were a major topic on the agenda of many companies before 2019, and they saw a dramatic boost during the COVID-19-pandemic, proving to be a savior to many businesses. But some of that success may be endangered by the war in Ukraine. The conflict may have a far-reaching impact on the digital economy because of two independent, yet related trends:

1. The global shortage of semiconductors is likely to worsen

Globally, the average cost of a data breach has increased 10% from 2020 to 2021.



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Average cost of a data breach includes direct expenses (engaging forensic, experts, outsourcing hotline support and providing free, credit monitoring subscriptions and discounts for future, products and services) and Indirect costs (in-house investigations and communication, extrapolated value of customer loss resulting from turnover or diminished customer acquisition rates). Source: IBM, Cost of a data breach report 2021

This is already impacting sectors from computers to automakers. The global shortage of semiconductors, already impacting sectors from computers to automakers, is likely to worsen. Russia and Ukraine are major sources of critical green metals, such as palladium, nickel, platinum, rhodium and titanium, as well as rare gas neon and the chemical C4F6, essential for manufacturing not only chips but also solar voltaic panels. Any prolonged war and, with it, deepening trade sanctions will exacerbate global shortages of these critical metals, while global demand increases.

2. There may be broader impacts of sanctions against Russia's import of technological goods

While financial sanctions have an immediate impact, controls on tech products may have long-term consequences. Cloud, aviation and defense technologies and oil-refining machinery all require regular upgrades and replacements. Sanctions that block access may accelerate moves we have already seen toward a clustering of technology as Russia, like China, seeks independence from the West.

The potential growth of techno-nationalism, started before the pandemic, is only intensified by the war in Ukraine, as Western democracies sever exchange programs and R&D collaborations with Russia and China. This potential near- and reshoring of intellectual assets may cause a general slowdown in the pace of innovation and technological advances.

Growing emphasis on cybersecurity

Digital innovation and transformation are also subject to cyber threats. The pandemic-induced urgency to transform caused many companies to overlook cybersecurity protocols, and more have paid the price since. In the EY Global Information Security Survey 2021, 77% of respondents report having seen an increase in disruptive

attacks, up from 59% in the previous 12 months. Cybersecurity Ventures, a research agency, expects global cybercrime costs to grow by 15% per year over the next five years, reaching US\$10.5t annually by 2025, up from US\$3t in 2015.

Ransomware attacks, such as the shutdown of the US Colonial Pipeline in 2021, cost far more than the ransom itself: in this case full restoration of the system governing operations took days to complete and pushed the average price of a gallon of gas in the US beyond \$3 for the first time in eight years. NotPetya, a wiper malware, targeted Ukraine banks in 2017 and quickly spread to more than 64 countries, as well as companies including Maersk, WPP and Merck, causing an estimated \$10b in damage. ■

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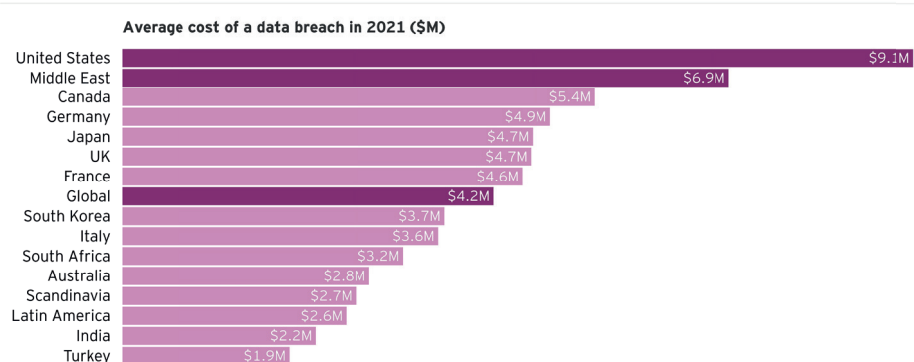
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Data breaches are a significant cost globally, highest for companies in the United States and Middle East



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