

# Brexit: The Unintentional Evolution of an Unintended Black Swan

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## BREXIT: The Unintentional Evolution of an Unintended “Black Swan”

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In the headlines today (11 March 2019) on Risk.net:

- ☐ Firms fear Mifid-style reporting crunch for Brexit day one
- ☐ Brexit threatens to trip up derivatives reporting
- ☐ Split will increase firms’ workload and costs, and result in less-accurate regulatory reports
- ☐ Brexit relief aids Singapore on EU swaps trading equivalence

Other recent headlines:

- ☐ UK Pays Eurotunnel Over “Secretive” No-Deal Brexit Ferry Contracts – March 1, 2019 by Reuters
- ☐ BREXIT: A Timebomb Ticking In Wales - February 26, 2019 by Bloomberg
- ☐ With Brexit in Flux, Shippers Re-Route to Avoid Dover - February 27, 2019 by Bloomberg
- ☐ Brexit: Planning for after a ‘Black Swan’ event - Posted: 13 Nov, 2018, Charles Sizemore, editor of Peak Income.
- ☐ Brexit: Planning for after a ‘Black Swan’ event Posted: 13 Nov, 2018, Robin Johnston, Buckles Solicitors, LLP
- ☐ Defining Brexit: What Exactly Is a Black Swan, Anyway? By [Charles Sizemore](#) - July 5, 2016

In his book, “The Black Swan The Impact of the Highly Improbable”, Nassim Taleb defines a Black Swan in the Prologue on pages xvii – xviii, xix, xx – xxi, xxv, xxvii. I quote a few (what I consider) key points”

- ☐ xvii: “What we call here a Black Swan (and capitalize it) is an event with the following three attributes:

First is an *outlier*, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility.

Second, it carries extreme impact.

Third, in spite of its outlier status, human nature makes us concoct explanations for its occurrence *after* the fact, making it explainable and predictable.

- ☐ xxv: “The Platonic *fold* is the explosive boundary where the Platonic mindset enters in contact with messy reality, where the gap between what you know and what you think you know becomes dangerously wide. It is here where the Black Swan is produced.”
- ☐ xxvii: “To summarize: in this (personal) essay, I stick my neck out and make a claim, against many of our habits of thought, that our world is dominated by the extreme, the unknown, and the very improbable (improbable according to our current knowledge)...”

To summarize:

*A black swan is a highly improbable event with three principal characteristics: it is unpredictable; it carries a massive impact; and, after the fact, we concoct an explanation that makes it appear less random, and more predictable, than it was.*

Taleb continues by recognizing what he terms the problem –

*“Lack of knowledge when it comes to rare events with serious consequences.”*

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### Why is BREXIT a Black Swan and what does it Mean?

BREXIT meets the definitional criteria of Nassim Taleb:

**First**, BREXIT is an *outlier*, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility. No other nation has left the European Union (EU) to date.

**Second**, BREXIT carries extreme impact. BREXIT’s impact is already being felt in many areas: Geopolitical, Information Systems (think GDPR, privacy, etc.), Trade (cross border issues), Finance, Infrastructure (i.e., Eurotunnel), Risk Management, Business Continuity, Contingency Planning, Strategic Planning, Supply Chain Operations, etc., etc.

**Third**, BREXIT in spite of its outlier status, has already afforded a plethora of literature concocting explanations for its occurrence (*before, not*) *after* the fact, actually adding to the confusion rather than making it explainable and predictable.

Charlie Maclean-Bristol FBCI FEPS, in an article, entitled, “10 Brexit contingency actions you can do now” (February 23, 2019) shares 10 actions you can carry out NOW to prepare for a no-deal Brexit. A summary follows:

- ☐ Think about your exposure to a no-deal Brexit, and what the possible impact on your organisation might be. I like this list of possible consequence areas in an EY report I read:
  - a. Tariffs and non-tariff barriers
  - b. Sourcing and supply resilience
  - c. Legal and regulatory compliance
  - d. Workforce
  - e. EU funding and finance
  - f. Foreign Direct Investment (FDI)
- ☐ Think about whether you are going to operate a Brexit Operating Regime over the Brexit period. When Brexit does occur, will you change your business practices, or at least have a plan in place to call together an incident team if it starts to impact your organisation?
- ☐ If you are no-deal planning, you need to decide what scenarios you are planning against (Reasonable Worst-Case).
- ☐ Speak to your customers, share planning ideas.
- ☐ Speak to your suppliers.
- ☐ Understand your deadlines and when the ‘last safe moment’ is before you need to make important decisions.
- ☐ Understand what your exposure to EU citizens within your workforce is. Set up a communication program to inform and educate.
- ☐ Think about whether Brexit will increase or decrease the requirements for your services and if so, are you ready to increase or decrease your workforce, production or activities?
- ☐ Consider whether something else could go wrong at the same time as Brexit.
- ☐ Keep up-to-date with events.

### BREXIT a Failure to Communicate, Getting Caught in “Activity Traps”?

Risk is complex. When risk is being explained, we often have difficulty listening and comprehending the words used in the explanation. Why? The rather simple explanation is: compelling stories are most often told with dramatic graphics! Is this pure drama or are these events that we should be concerned about? Or are they so unusual and rare that we fail to comprehend the message about the risks that we face?

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Communication and how we communicate is a key factor. Words by themselves are about 7% effective as a communication tool. Words, when coupled with voice tonality raise effectiveness to about 38%. However, the most effective way to communicate is via physiology, which gets us to about 55% effective. Ideas get distorted in the transmission process. We typically remember 10% what we hear, what we see and 65% what we see & hear. Yet, we typically spend 30% of our time speaking, 9% writing, 16% reading and 45% listening.

We live in an era of information explosion and near instantaneous availability to this information. Driven by a media bias for the dramatic we are constantly being informed about some great calamity that has befallen mankind somewhere in the world. Society is not awash with disasters! There is always another flood, riot, car bomb, murder, financial failure just around the corner. And, there is a compelling reason for this! The societies we live in have a lot of people! Some quick examples – China and India each have over 1 billion people. The U.S. has 300+ million people. The European Union has 450+ million people. Japan has 127+ million people.

Taleb tells us that the effect of a single observation, event or element plays a disproportionate role in decision-making creating estimation errors when projecting the severity of the consequences of the event. The depth of consequence and the breadth of consequence are underestimated resulting in surprise at the impact of the event.

An “Activity Trap” is defined/explained thus:

“Processes and procedures are developed to achieve an objective (usually in support of a strategic objective). Over time goals and objectives change to reflect changes in the market and new opportunities. However, the processes and procedures continue on. Eventually, procedures become a goal in themselves – doing an activity for the sake of the activity rather than what it accomplishes.”

Citation: Odiorne, G., Management and the Activity Trap

To overcome the effect of “False Positives” and “Activity Traps” the following section offers some thoughts for consideration.

Michael J. Kami author of the book, ‘Trigger Points: how to make decisions three times faster,’ wrote that an increased rate of knowledge creates increased unpredictability. Stanley Davis and Christopher Meyer, authors of the book ‘Blur: The Speed of Change in the Connected Economy,’ cite ‘speed – connectivity – intangibles’ as key driving forces. In the context of BREXIT these 12 steps may temper some of the uncertainty and effects.

**Step 1: Where Are We?** Develop an External Environment Profile

Key focal point: What are the key factors in our external environment and how much can we control them?

**Step 2: Where Are We?** Develop an Internal Environment Profile

Key focal point: Build detailed snapshots of your business activities as they are at present.

**Step 3: Where Are We Going?** Develop Assumptions about the Future External Environment

Key focal point: Catalog future influences systematically; know your key challenges and threats.

**Step 4: Where Can We Go?** Develop a Capabilities Profile

Key focal point: What are our strengths and needs? How are we doing in our key results and activities areas?

**Step 5: Where Might We Go?** Develop Future Internal Environment Assumptions

Key focal point: Build assumptions, potentials, etc. Do not build predictions or forecasts! Assess what the future business situation might look like.

**Step 6: Where Do We Want to Go?** Develop Objectives

Key focal point: Create a pyramid of objectives; redefine your business; set functional objectives.

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**Step 7: What Do We Have to Do?** Develop a Gap Analysis Profile

Key focal point: What will be the effect of new external forces? What assumptions can we make about future changes to our environment?

**Step 8: What Could We Do?** Opportunities and Problems

Key focal point: Act to fill the gaps. Conduct an opportunity-problem feasibility analysis; risk analysis assessment; resource-requirements assessment. Build action program proposals.

**Step 9: What Should We Do?** Select Strategy and Program Objectives

Key focal point: Classify strategy and program objectives; make explicit commitments; adjust objectives.

**Step 10: How Can We Do It?** Implementation

Key focal point: Evaluate the impact of new programs.

**Step 11: How Are We Doing?** Control

Key focal point: Monitor external environment. Analyze fiscal and physical variances. Conduct an overall assessment.

**Step 12: Change What’s not Working** Revise, Control, Remain Flexible

Key focal point: Revise strategy and program objectives as needed; revise explicit commitments as needed; adjust objectives as needed.

I would add the following comments to Kami’s 12 points and the Davis, Meyer point on speed, connectivity, and intangibles. Understanding the complexity of BREXIT can facilitate the ability of the organization to adapt if it can broaden its strategic approach. Within the context of complexity, touchpoints that are not recognized create potential chaos for an enterprise and for complex systems. Positive and negative feedback systems need to be observed/acted on promptly. The biggest single threat to an enterprise will be staying with a previously successful business model too long and not being able to adapt to the fluidity of situations (i.e., black swans). The failure to recognize weak cause-and-effect linkages, small and isolated changes can have huge impacts. Complexity (ever growing) will make the strategic challenge more urgent for strategists, planners and CEOs.

### Summary Points

I will offer the following summary points:

- ☐ Clearly defined rules for the world do not exist, therefore computing future risks can only be accomplished if one knows future uncertainty,
- ☐ Enterprise Risk Management needs to expand to effectively identify and monitor potential threats, hazards, risks, vulnerabilities, contingencies and their consequences,
- ☐ The biggest single threat to business is staying with a previously successful business model too long and not being able to adapt to the fluidity of the situation,
- ☐ Current risk management techniques are asking the wrong questions precisely; and we are getting the wrong answers precisely; the result is the creation of false positives,
- ☐ Risk must be viewed as an interactive combination of elements that are linked, not solely to probability or vulnerability, but to factors that may be seemingly unrelated,
- ☐ This requires that you create a risk mosaic that can be viewed and evaluated by disciplines within the organization in order to create a product that is meaningful to the entire organization, not just to specific disciplines with limited or narrow value,
- ☐ The resulting convergence assessment allows the organization to categorize risk with greater clarity allowing decision makers to consider multiple risk factors with potential for convergence in the overall decision-making process,

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- ❑ Mitigating (addressing) risk does not necessarily mean that the risk is gone; it means that risk is assessed, quantified, valued, transformed (what does it mean to the organization) and constantly monitored.

Recognize too, that BREXIT unpredictability can be positive or negative. For example; our increasing rate of knowledge creates increased unpredictability due to the speed at which knowledge can create change.

Risk is never absolute. Risk is set by the receiver of the consequences. Corporate leaders increasingly recognize that today’s most critical threats require advanced preparation for “when” not “if” these risks materialize. This shift to strategies that anticipate risks will require rethinking our current approaches and redefining how risk is managed. A critical component is having an integrated front between boards, officers, legal, and compliance, among others.

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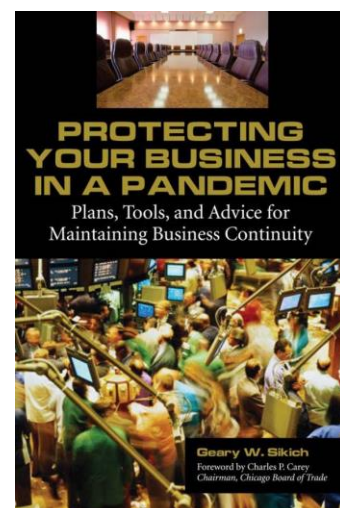
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Geary Sikich is a Principal with Logical Management Systems, Corp., a consulting and executive education firm with a focus on enterprise risk management and issues analysis; the firm's web site is [www.logicalmanagement.com](http://www.logicalmanagement.com). Geary is also engaged in the development and financing of private placement offerings in the alternative energy sector (biofuels, etc.), multi-media entertainment and advertising technology and food products. Geary developed *LMSCARVER*<sup>™</sup> the “Active Analysis” framework, which directly links key value drivers to operating processes and activities. *LMSCARVER*<sup>™</sup> provides a framework that enables a progressive approach to business planning, scenario planning, performance assessment and goal setting.

Prior to founding Logical Management Systems, Corp. in 1985 Geary held a number of senior operational management positions in a variety of industry sectors. Geary served as an officer in the U.S. Army; responsible for the initial concept design and testing of the U.S. Army's National Training Center and other intelligence related activities. Geary holds a M.Ed. in Counseling and Guidance from the University of Texas at El Paso and a B.S. in Criminology from Indiana State University.

Geary is active in Executive Education, where he has developed and delivered courses in enterprise risk management, contingency planning, performance management and analytics. Geary is a frequent speaker on business continuity issues business performance management. He is the author of over 410 published articles and four books, his latest being “*Protecting Your Business in Pandemic*,” published in June 2008 (available on Amazon.com).

Geary is a frequent speaker on high profile continuity issues, having developed and validated over 4,000 plans and conducted over 450 seminars and workshops worldwide for over 100 clients in energy, chemical, transportation, government, healthcare, technology, manufacturing, heavy industry, utilities, legal & insurance, banking & finance, security services, institutions and management advisory specialty firms. Geary consults on a regular basis with companies worldwide on risk management, business continuity and crisis management issues.





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