



Reed Smith Virtual Roundtable Series

Global Market Turbulence

How businesses are staying on track

ReedSmith
Driving progress
through partnership

Volatility in global economic and financial markets is imposing a constant change on our business environment

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The roundtable discussion centered on:

- How clients are handling **recent volatility** in the markets.
- Whether **business priorities** and objectives have changed.
- The extent to which **rising inflation and the global energy crisis** have impacted clients' businesses, and how they are managing.
- **Sanctions against Russia**: Whether clients are experiencing any direct or knock on effects, and how they are managing the uncertainty and disruption.
- How clients are **safeguarding their interests against various crises**. For example, how they are managing threats to cybersecurity.
- How clients plan on maintaining **their culture** in a **hybrid working environment**, and how the pandemic has impacted business and supply chains.
- How clients are keeping **ESG** in business plans in spite of new economic challenges.
- Key **commitments** and **considerations** from clients.

The nature of businesses in 2022: Staying flexible and informed in the face of continuous change

Change has been an ever-present factor for businesses over the last couple of years, and it has been remarkable to see the resilience of our clients in the face of the many obstacles they have endured.

We have moved on from the first phases of the COVID-19 pandemic, but the world is now grappling with a war and a humanitarian crisis with far-reaching consequences, and these are further impacting the global economy.

For our recent roundtable, we got together with our clients to discuss how their businesses are navigating this new set of economic challenges. The discussion centered on the current economic, financial, and environmental challenges faced by businesses since the start of the COVID-19 pandemic and the onset of conflict in Ukraine.

Through the process of understanding these challenges, management teams are seeking to reveal any potential gaps within their current business operations, and to ensure they are *“on the front foot”* when deciding how to best mitigate any potential disruptions to their business.

Chatham House rule encourages sharing

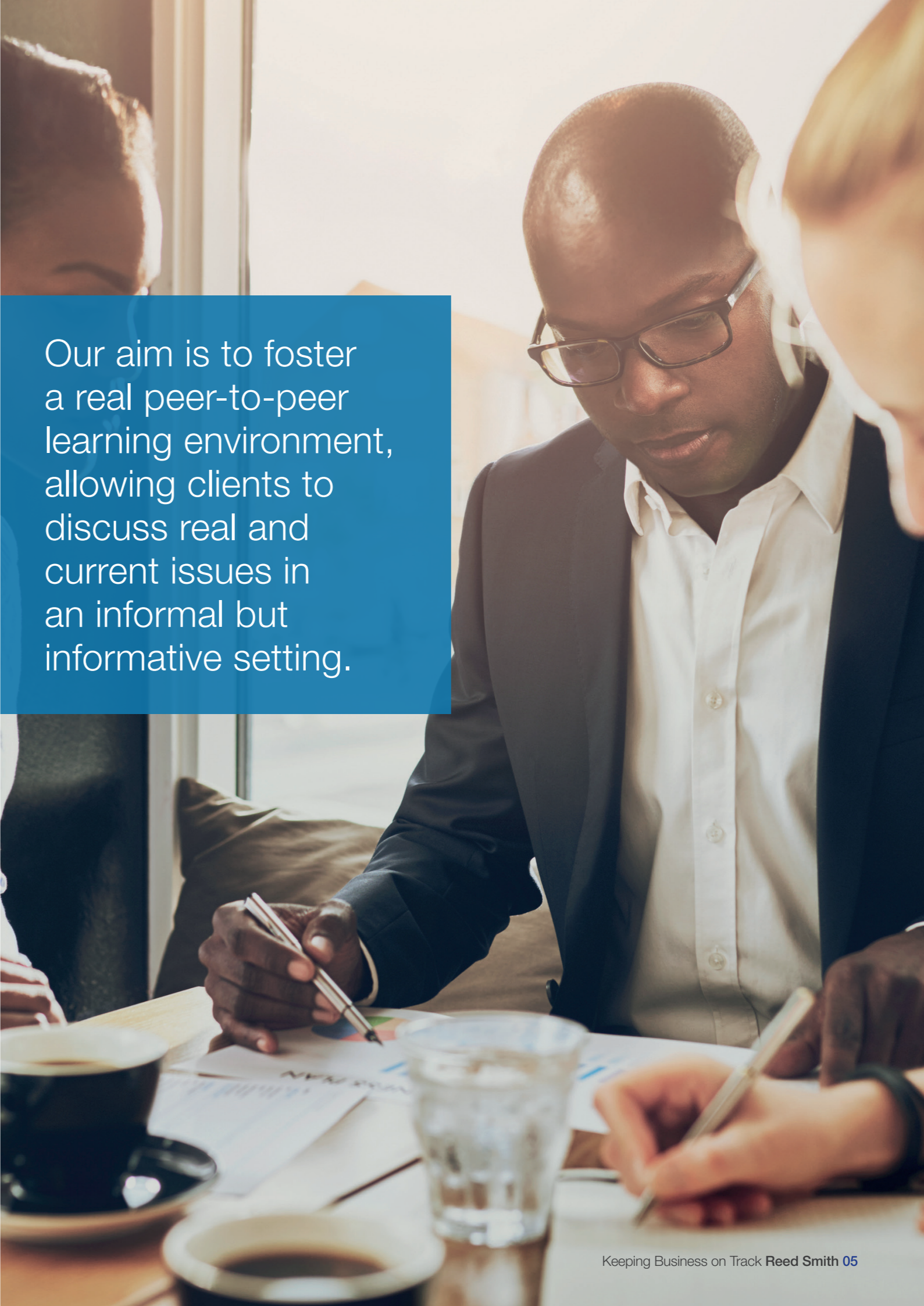
This roundtable forms part of Reed Smith’s wider thought leadership series, a platform for senior business leaders where general counsel, legal and business teams share relevant business experiences, discuss current issues and explore strategic ideas for the future.

Our roundtable events, in their virtual and in-person formats, are held under the Chatham House rule. Therefore, we have not provided specific names or examples in this report and have kept it confined to themes.

As we continue to explore some of these critical issues, we are grateful to our clients for their participation. We look forward to continuing the dialogue as this global change becomes our new reality.



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Our aim is to foster a real peer-to-peer learning environment, allowing clients to discuss real and current issues in an informal but informative setting.

*Please note: Throughout this report, quotes in *colored italics* are direct quotes from the session.



Market volatility: What it looks like for our clients' business

“it is fundamental that both the front and back office understand our client’s organization and their business models, and be proactive if things go wrong, especially legal.”

Within these roundtable sessions, we observed interesting variations in thought and response between clients of varying size, industry, and geographic location; and the differences were particularly evident during this discussion.

Clients whose businesses are in the nascent phase of growth contrasted with ones that are more established. Both types of companies are maintaining profitability by staying active, but in different ways.

Panelists spoke of the challenges faced in their efforts to prepare for the next potential crisis associated with global securities, inflation, and the impact of the Russian sanctions: attempting to stay ahead of market trends, managing risks, and, at the same time, remaining adaptable.

Adopting a ‘customer-first’ model

Some businesses at the start-up stage have demonstrated impressive resilience to the economic shocks and turbulence, proving themselves to have a solid underlying business model and enjoying growth and profitability. Through our discussions it became obvious that these newly formed businesses centered around a “customer-first” ethos.

Our attendees noted that the reason for their strong position was because of their clients and believe that they are more easily able to adapt to clients’ needs or alterations in their behavior patterns. *“We are only as good as our clients and our customers. If our customers are not paying their interest or servicing their debt, and their credits don’t remain strong, that clearly has an impact on us.”*

Implementing a more proactive vs. reactive business model

Senior business leaders have become more proactive about addressing their clients’ issues and anticipating what their clients need. They recognized the importance of early and regular conversations with their clients to help prepare them for any potential future crises.

With economic turbulence on the global stage, long established businesses need to be forward-thinking in the way they manage costs, strategy, and how they support their clients. It is now obvious to business leaders that it is necessary to be proactive and assess clients’ needs before they turn into issues, and suggest to them how to navigate potential hurdles. *“It has made us a lot more fleet of foot to understand what works with clients.”*

Our panelists underscored the importance of working closely with their customers to stay proactive when challenges arise, looking to the future to head off any further conflicts ahead of time – where possible.



Business agility and forward planning

The conversation also covered the relevance of a business's size to its ability to respond nimbly to changing circumstances. Fledgling businesses can be more agile than many of their most established competitors, and our clients had noted this.

Ironically a business at the embryonic stage has a less bureaucratic structure, allowing it to be more flexible, which in turn enables them to respond more quickly to market opportunities.

Some clients in larger organizations spoke of how they too use a similar *"start-up mentality"* promoting a culture of flexibility within individual business units and aiming for quick thinking and agility in the way they work. While these established corporations usually struggle to *"turn the ship overnight"* in response to new market pressures, they have had to model their business plans around constant changes in the global economy and are making sure they remain flexible and understanding of their clients' needs and requirements. *"During the pandemic, our clients in the [retail, hospitality, and food] space received government assistance, but that support is no longer there. We are making sure to maintain an open line of communication with these businesses – discussing, adapting, and ensuring they are fully supported, particularly if there is another variant spike."*

Changing regulatory restrictions have also been of particular concern over the past two years. Our panelists spoke about the challenges they face to manage varying regional issues and changing risks, while at the same time addressing compliance with increased new regulations. Some of our panelists from the financial sector spoke about regulations changing overnight, with increased restrictions on cross-border real estate, property holdings, financial transactions, and the recent addition of individual and regional sanctions by global authorities. All of these have highlighted the necessity of a flexible approach to business planning. Moving forward, businesses have been working with their clients to get them back on their feet and support their needs as best they can. *"It is a continuous and ongoing conversation."*

Attendees revealed that there has been much discussion (and action) at the board level about exploring new cross-industry ventures. For many businesses, the *"perfect storm"* of the pandemic fusing with the current global market challenges has seen profitability and growth decline, and businesses have been forced to seek new ways to counterbalance the losses from struggling business units.

For some businesses, the pandemic was beneficial in that it allowed for *"retooling"* and increased focus on areas that needed to see growth. By being forced to look creatively at new opportunities, they found gaps opening up in the market they wouldn't previously have considered. *"For us, a movement to leverage technology has made it easier to expand into other niche sectors that we may not have considered before – we used the pandemic to our advantage to find new avenues of growth and profitability."*

One example of this type of pivot came from a client in the ride service industry: during lockdown, when there was a significant decline in the demand for restaurant dining, the industry expanded their offering to include food delivery from within the ride-sharing apps. *"We counteracted losing profits in one sector of our business by using our services to benefit another industry."*

“It is important for organizations to be responsive in dealing with market challenges.”

Companies need to horizon scan

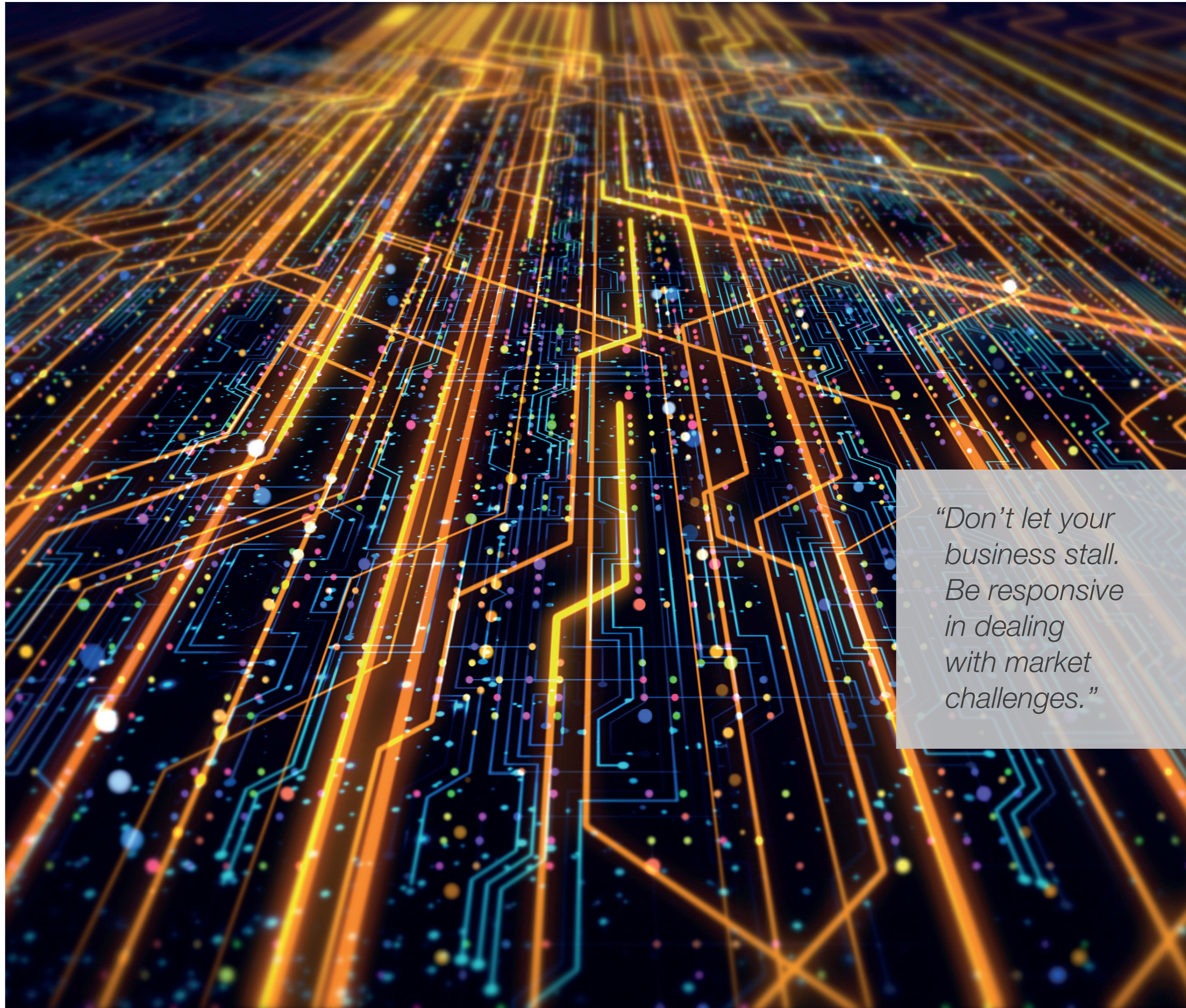
In order to see the necessary steps to achieve continued growth, businesses need to be innovative, dynamic, forward-thinking, and communicative with their clients and employees.

We have learned from the pandemic that businesses need to appreciate market foresight, look ahead and generally to consider the bigger picture - all of which are savvy traits that help them to respond to market changes.



Key takeaway: The core of any business must be able to sustain market volatility, and maintain focus on their clients and customers. Businesses need to be agile and stay versatile, and also to be prepared to make changes to their business models.

“Don’t let your business stall. Be responsive in dealing with market challenges.”



Business fallout from the Russia/Ukraine conflict

“Previously what wouldn’t have been a consideration is now an issue, and what we would then pick up the phone to our lawyers about.”

“We are still trying to figure this out to make sure we connect risk to strategy.”

By the second month of Russia’s invasion of Ukraine in April 2022, the world had responded with economic sanctions and asset freezes that destabilized Russia’s economy. Collectively, whilst the West has taken various (and in many cases severe) steps to support Ukraine and dissuade Russia, this has resulted in severe impact to the economies in the rest of the world.

Many of our clients operate globally and are preparing themselves to deal with the underlying impact and risk from sanctions. Compliance teams need to continually consider financial and customer progress as well as the increased importance of due diligence.

“Getting approval from regulators to process payments has become a greater challenge, especially in different jurisdictions and different currencies.” For clients without direct cross-border exposure, they consider themselves fortunate in the ability to *“head off conversations with clients and keep our focus on our fundamentals, for now.”*

Our panelists have found the need to work hard toward understanding how to manage the new era of challenges they are facing, seeking increased support from counsel on the ever changing landscape. Clients are strategizing on various “what if” situations from a legal perspective to stress test them across different client sectors. Clients in the financial sector raised the example of how they would likely now need to take advice more regularly on the risks of criminal liability, if they assist customers on overseas property transactions or support rental payments for a client who is directly / indirectly sanctioned by a government.

Such increased caution is commended given how the new and increasing sanctions regime is becoming more complex and businesses could easily inadvertently fall foul of them and hence incur criminal liability.

It is worth noting that our panelists all reported that their senior management functions have been working to provide support for employees and their families situated in Ukraine. Our clients shared that *“our employees and clients in Ukraine are at the front of our minds during this time and we will continue to provide additional resources to them to feel safe and supported.”*

Within our clients’ businesses, management teams are having ongoing and transparent conversations with their clients and customers to find the right balance in this unfortunate crisis. With new laws passed, and new sanctions imposed overnight, the current situation presents a continuous challenge to businesses and our clients.



Key takeaway: Our clients emphasized the importance of working together during this time, even with competitors.

The consensus was that collaboration and group discussion of common issues helps people obtain perspective and potential solutions to industry-wide business issues.

How to protect, detect and respond to threats to cybersecurity

“9 out of 10 Americans are at least somewhat concerned about hacking that involves their personal information, financial institutions, government agencies or certain utilities. About 2 out of 3 say they are very or extremely concerned.”¹”

“Previously what wouldn’t have been a consideration is now an issue, and what we would then pick up the phone to our lawyers about.”

Over the past few years, the threat to cybersecurity has increasingly become a global issue, disrupting businesses and creating uncertainty about how organizations’ day-to-day activities could be impacted.

The fallout of a cyberattack can be extremely high: besides the obvious financial losses, it can cause significant reputational issues.

Financial and knowledge service businesses, like those on our panel, are particularly attractive targets for cyberattacks, and it is important for management teams to understand the latest sophisticated cyber threats, and take the necessary steps to improve their company’s cybersecurity.

How are companies managing their cybersecurity?

It is now common practice for companies to have established cybersecurity teams in place to monitor regularly for attacks. Investments such as these are deemed necessary in today’s increasingly volatile cyber world.

- Increasingly detailed cybersecurity risk assessments identify where businesses are vulnerable, to assist IT and management in implementing robust plans of action to prevent cyberattacks.
- Resources and access to expert knowledge to respond to potential breaches quickly and decisively.
- Implementation of safeguards to protecting sensitive customer and vendor information. For example, fake customer login pages to catch cyber hacks to a client’s profile; offering guidance on securing email platforms or help avoid phishing attempts.
- Engagement with industry counterparts to maintain open lines of communication. Firms are speaking to each other to understand the best investments in technological defense.

For some businesses, especially those who have large data platforms, cyber threats are *“a regular fact of life”* and **they have seen a marked increase in cyber threats, with activity almost daily.** Companies have been working around the clock to develop strategic playbooks and procedures on how to best prepare themselves for an insurrection of cybersecurity attacks.



Important questions businesses need to consider in light of cybersecurity threats:

1. If you are threatened with an attack, should you pay?
2. If you choose to pay the attacker, are you colluding in the enterprise?
3. How do you know the attacker you are dealing with is not sanctioned?



Key takeaway: Training is useful in helping employees do their part in minimizing unlawful cyber penetration into the company IT systems and re-enforce the importance of cybersecurity within the company culture. Investment in technology is too important to overlook and cannot be underestimated, when it comes to the safety of a company/business, its customers and client base.

“We are forging our products from scratch and bringing in the tech that matches the ambition of our business.”

¹ “Cyberattacks concerning to most in US: Pearson/AP-NORC poll”, By Alan Suderman, for AP News, October 11, 2021



Investing in ESG crucial for positive change in businesses

“I’m excited to get into a position where you see some sort of commonality across the market, where there will be a certain level of expectation for what clients and customers have to achieve in order for us to hit our targets.”

Clients emphasized that ESG has recently moved to the heart of the corporate agenda with many clients expressing that their senior leadership teams committing around half of their time and resources to ESG purpose-driven developments. *“ESG has become an ever present topic in the boardroom.”*

The approach to ESG is driven not only from the top-down, but also via customers, and from the bottom up, via employees. Both groups are looking for businesses to partner with purpose-driven companies that are socially and environmentally responsible.

Some of our clients noted that their management teams have recognized the importance of social issues and have already shifted their organizations’ focus to setting ESG policy agendas, imposing restrictions on business units and vendors that fail to rise to their expectations. Across the financial industry for example, we are seeing major financing allocated for the purpose of accelerating the transition to a lower-carbon economy.

“By 2050, we are committed to moving away [and our clients away] from financing ‘legacy’ fossil fuel energy and a commitment to a future state of zero-carbon emissions.”

Of course, with big change comes even bigger challenges, and businesses are figuring out how to support their established clients in this increasingly growing area. One of the challenges is for businesses to figure out to how to walk the fine line between meeting their own company’s values, and those of their clients. In the fossil fuel industry, for example, products that are damaging to the environment are being abandoned, where possible, in the transition towards clean energy.

This leads some businesses to consider the issue how to work with clients when their own goals and strategies do not align:

“If we just leave our clients, someone else will fund them. We need to work with our clients for them to understand the need to transition in line with us.”

ESG has become a part of the business culture as commitments are shifting to new, positive environmental work streams. Some of our clients noted simple changes their businesses are making towards an environmentally friendly workspace – such as swapping out plastic for paper products in their offices, hosting recycling drives, and converting rooftop spaces into green spaces for vegetation. *“We actually have fruit trees on our office building’s outdoor rooftop that the kitchen uses for meals for our employees.”*

? **Certain legal questions are now being considered in the leadership decision-making process to get clients on board with businesses’ ESG policies and developments:**

1. Do we take on this particular client?
2. Do we have the basis of saying why we can’t take on that particular mandate?
3. Do we have the basis for extricating ourselves from a relationship?

◆ **Key takeaway:** Companies are serious about investing in ESG and are excited for what the future will bring. *“[Senior] leadership has engaged focus groups and consulting experts that are now at the decision-making tables.”*

Renewed investment in your business culture

“77% of employees consider a company’s culture before applying for a job there, and 56% said company culture is more important than salary as it relates to job satisfaction.”²

As clients continue to hone their flexible working models in the current return-to-office phase, there has been much commentary on the potentially positive and negative changes occurring within each company’s culture. The most frequent conversations are (still) about ensuring employees are working effectively and adapting well in this current environment.

Within many of our clients’ businesses (including here at Reed Smith, as our current policies attest) there is an underlying acceptance that employees can still be engaged and accomplish their tasks while working remotely, even though they may face personal obligations at home. While it is difficult to replicate the organic nature of in-person interaction, leaders need to look beyond a goal of just “getting people back to the office” and consider the needs of the business alongside the benefits to the individual of flexible working (saving time and money through removal of the commute; child and elderly care obligations; distraction-free spaces). Where flexible working was once considered a perk, it is now expected in today’s hiring environment.

For most of our clients, remote working has resulted in increased efficiency and productivity with fewer distractions from the office environment. This is especially true when considering the current stages of offices reopening where *“employees have not seen each other in two years or more, so they want to mingle and catch up.”* In some instances, offices have even created open floor plans, so there is constant interaction with colleagues. This benefits a collegiate atmosphere, and in turn strengthens the company culture, but makes it difficult to have private calls or zoom meetings, which in consequence makes it easier to work remotely.

For this reason, it has become widely recognized that while it’s important to have in-person office and team collaboration, it’s equally important for employees to have the privacy to get individual work done, without distraction and noise. Company leadership must increase its understanding that not all teams will have the same working structure, and not all employees will want to return to the previous norm - people’s lifestyles have shifted dramatically over the last two years.

If there’s an overall expectation from managers to maintain team culture and ensure their employees are empowered, businesses will *“not run the significant risk of losing company culture.”* One point that clients clearly conveyed is the need for their senior managers to be *“culturally aware,”* especially in mid-to-large size companies that embody numerous different teams. Organizations have to find a balance between remote working and finding time for in-person team meetings and events.



Key takeaway: There was consensus that there is no “right” answer to the hybrid working model. Businesses need to not look at what other companies are doing, or worry that they are not doing it “right,” and instead accept what works for them and move forward. If companies dwell on what they think is the “right” way of working, they will lose talent and potential opportunities.

² ‘Beyond Compensation And Benefits: Why Company Culture is Key’ By Forbes Human Resources Council, April 2022

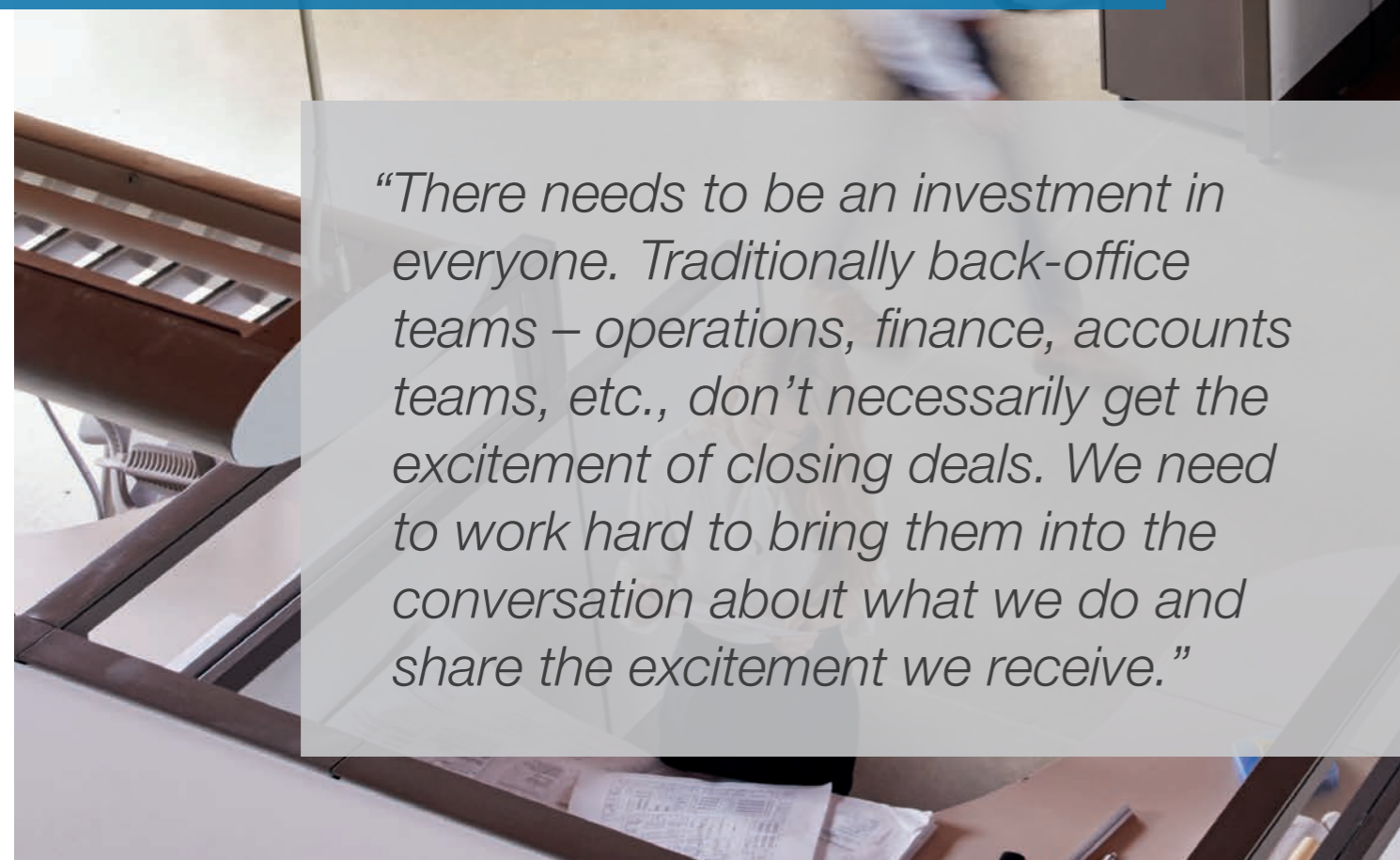


Question for management teams:

“How have you managed to maintain the culture in your business while managing high levels of productivity?”

Answer from our client panel:

“With increased investment in technology and a reinvestment in people.”



“There needs to be an investment in everyone. Traditionally back-office teams – operations, finance, accounts teams, etc., don’t necessarily get the excitement of closing deals. We need to work hard to bring them into the conversation about what we do and share the excitement we receive.”

Part of the new hybrid business culture is the requirement to provide greater support for employees while working remotely.

Coming out of the pandemic, businesses have invested in technology and new remote developments to maintain productivity and collaboration. This is evidenced by proficiencies in Zoom, Webex, Microsoft Teams, and other conference platforms, all adopted within a relatively short time frame. The consensus from our discussion and from our clients, is that this needs to be mirrored by a better investment in people and investment in managers.

Senior management face the question of how to incentivize their remote workforce to become more aligned with company values. Our clients mentioned how company culture can get lost, especially during the pandemic when teams became siloed and forgot the importance of collaboration.



Key takeaway: Investing in technology to enable employees to work from home should encourage business leaders to also spend more time on their workplace culture. *“Businesses are putting massive amounts of time and energy into company tech (but) there is and should be an equal or greater investment in our office culture.”*

We continue to see a marked interest in how evolving tech can help companies stay *“ahead of the game”* in terms of market developments. But there is also a need for *“old school”* investment in people. A strong and talented work force, and investing time to ensure they are happy, will help to ensure increased output and improved productivity. Our panelists agreed that it’s not just about having better technology as a one-stop solution.

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