

Preparing for a Black Swan Event ...

By Johan de Villiers

A number of businesses in recent weeks have experienced a sharp drop in sales turnover, owing to unmet revenue expectations the World Cup supposedly would have produced. Another risk was the lower than anticipated productivity in-house from employees, going home early to watch the Soccer or external clients simply disinterested in pursuing new projects before the WC was over. In addition to that, marketing budgets were probably a bit over the top from an expense viewpoint, with the return on investment not being realized as predicted.

With the benefit of hindsight, business owners had sufficient time to anticipate the different risk scenarios and prepare for the lower sales or cash flow difficulties that this period could produce. However, how many business owners or board of directors, plan for a possible low-risk, high impact financial event that is beyond the realm of normal expectation?

To understand this a bit more, let us take a step back to the concept of a Black Swan. Originally a Latin expression "rara avis in terris nigroque simillima cygnus" (which means that a good person is as rare as a black swan), it was quite common during the 16th century in London to describe something that was impossible or did not

exist. We need to remember that up until the discovery of actual black swans (Cygnus atratus) in Western Australia in 1697, historical records showed that all swans had white feathers.

Nowadays, unexpected events are referred to as a Black Swan, which is a theory developed by the author Nassim Taleb to explain rare case scenarios that would normally be considered extreme outliers and to explain the psychological biases that make people individually and collectively blind to uncertainty and unaware of the role of such a rare event.

These Black Swan unpredictable events in history play a much bigger role than normal occurrences. Some examples are the September 11, 2001 attack on the World Trade Towers or the birth of the Internet and the effect it would have worldwide on ordinary people's lives. Not to mention the impact of course, was beyond our wildest nightmare by turning into the biggest oil spill in the world history. BP claims that the event was unexpected, but from a risk mitigation viewpoint, experts later claim that this was explainable in hindsight.

An interesting "in the eye of the beholder" observation is made by Taleb, in that a negative Black Swan event may be completely differently perceived as a positive event by

another party. As an analogy, think of a turkey being shot and killed. The Black Swan event may surprise the turkey, but certainly bodes well for the hunter. For a business owner, the lesson here is that we should try to "avoid being the turkey" and identify areas of vulnerability in their business so that they can "turn the Black Swan white".

Taleb identified three criteria for a Black Swan event in business:

- The event is a surprise (to the observer).
- The event has a major impact.
- After the fact, the event is rationalized by hindsight, as if it had been expected.

Taleb lists ten principles for building systems that are robust to Black Swan Events:

1. What is fragile should break early while it is still small. Nothing should ever become Too Big to Fail.
2. No socialization of losses and privatization of gains.
3. People who were driving a school bus blindfolded (and crashed it) should never be given a new bus.
4. Do not let someone making an "incentive" bonus manage a nuclear plant – or your financial risks.
5. Counter-balance complexity with simplicity.

Background on the author:

Johan balances the demands of corporate life with outdoor adventure travel and as a result has summited Kilimanjaro, explored Mountain Gorilla's in Rwanda and has just returned from Everest Base Camp. In addition to that, Johan is also a qualified helicopter pilot.

His office in Cape Town seems worlds away from the African bush, but Johan brings the experience of teamwork and battling against adversity to his leadership positions in the jungle of corporate business. "My industry experience has also taught me the importance of looking after the most valued resource in your company, your people," he notes. "You can either do this or risk losing both them and your customers."

Johan believes that the keys to success are the ability to focus and a single-minded commitment to clients. "We work at that relationship," he declares. Johan De Villiers is a respected personality in the IT world and has been in the marketing & corporate game for 20 years, which included stints with companies such as Dimension Data and Computer Networks.

His drive and business acumen led to his holding two positions simultaneously – CEO of Enterprise Connection Cape and Group Marketing Director.

Johan has featured in CEO Magazine, SA Millionaire, Brainstorm and ITWeb and has been a featured speaker/presenter for companies such as Capesport, Vox Telecoms and BDO.

After selling his company to a PE listed player, he

formed Enspire Consulting and currently consults on business development and marketing to a range of corporate and SME clients. Johan area's of expertise are:

- Management Consultant
- Operational Efficiencies
- Sales & Business Development
- Corporate Negotiations
- Marketing & Branding Strategy

Johan has contributed to a range of business publications, including Acumen, RiskSA, Global Aviator and Intelligence magazine.

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6. Do not give children sticks of dynamite, even if they come with a warning.
 7. Only Ponzi schemes should depend on confidence. Governmentments should never need to "restore confidence".
 8. Do not give an addict more drugs if he has withdrawal pains.
 9. Citizens should not depend on financial assets or failible retirement.
 10. Make an omelet with the broken eggs.
- Most stock market risk profiling systems could predict the outside event of a possible Black Monday (1987) disruption which was a "known unknown",

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