Geopolitical Shocks and Risk Silo Contagion:
Recognition Failure and the Governance Illusion

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Introduction

Geopolitical shocks do not respect organisational boundaries. When a major energy disruption, military conflict, or sanctions regime hits, the consequences do not stay in the energy committee's lane. They migrate – from commodity prices to logistics costs, from logistics to inflation, from inflation to interest rates, from interest rates to sovereign debt, from sovereign debt to political instability. Each stage looks, to the committee managing it, like a separate problem. It is not.

The central governance challenge is therefore not prediction; it is recognition.

Boards are structurally designed to manage risks in parallel – each committee handling its domain, each receiving information filtered through its mandate. This works well under normal conditions. Under systemic stress, its limitations are exposed. The board receives a fragmented picture of an integrated event, and by the time the full picture emerges, the second-order effects are already in motion.

This paper maps this mechanism. Drawing on four historical reference events – 1956, 1973, 1979, and 2022 – it traces how geopolitical shocks migrate across risk silos and how governance structures delay recognition. Two analytical tools are introduced: the Potential Cross-Silo Contagion Pathways and the Committee Lag Map. The Asymmetry Map identifies where signals are expected to appear first. Board discussion questions accompany each tool. The paper concludes with three changes boards can make before the next systemic event – two structural, one behavioural.

The question is not whether this pattern will recur. It already has – and Section VIII examines the Hormuz disruption as a live test of the framework developed here.

Executive Summary

Modern organisations are structurally designed to manage isolated risk categories, but geopolitical shocks behave as systemic events. This paper argues that the greatest vulnerability during a systemic crisis is not the initial disruption itself, but the delay between the emergence of cross-silo contagion and the moment institutions collectively recognise its scale. Drawing on four historical reference events (1956, 1973, 1979, 2022), we map how geopolitical stress migrates through operational systems – from energy to currency, to industrial contraction, to sovereign stress.

The board cyber competency gap offers structural evidence of this illusion: Lowry, Vance, and Vance (2025), writing in Management Science, find that fewer than 15% of firms disclose any director with cybersecurity expertise, yet major regulatory frameworks – including SEC disclosure rules – now require board-level cyber risk oversight. The gap is structural: governance was not designed to surface this expertise requirement.

We introduce the Committee Lag Map to demonstrate how parallel governance structures receive this information out of sequence, triggering a Governance Illusion where boards

believe a risk is managed because each committee is performing its mandate. The Asymmetry Map identifies where that recognition failure will be most costly – mapping structural vulnerability by region and contagion sequence. We conclude with three recommendations – two structural, one behavioural – for boards to build more integrated oversight before the next systemic event.

I. The Problem: Why Governance Silos Fail

Boards rarely fail because information is unavailable. They fail because information arrives fragmented across governance structures designed for stable environments.

Traditional enterprise risk frameworks – financial, operational, supply chain, reputational, regulatory – presume containment. They operate on the assumption that a supply chain disruption can be managed by the operations committee, a liquidity squeeze by the finance committee, and a reputational crisis by the risk committee.

Under geopolitical stress, the assumption of containment breaks down. Shocks exert simultaneous pressure across multiple domains, and fragmented governance forces the board into a reactive posture – managing the symptoms of the crisis in isolation rather than addressing the underlying contagion. These simultaneous pressures do not merely compound – they interact, producing effects that amplify and accelerate across business functions that no single committee is positioned to anticipate. This is the behaviour of a complex system.

II. The Historical Record: Four Reference Events

Geopolitical shocks do not arrive as isolated events. They arrive as triggers – and what follows is not random. Across these four energy-linked geopolitical events, a consistent pattern emerges. The speed and magnitude vary, but the structure holds: a localised political or military action triggers an energy shock, which flows through to supply chain disruption, then to inflation, then to financial and sovereign stress.

1. 1956 Suez Crisis: A military conflict that closed a critical maritime chokepoint, leading to immediate energy rationing in Europe and subsequent currency pressure on the British Pound.[1]
2. 1973 OAPEC Oil Embargo: The archetype of the modern energy shock. A politically motivated embargo quadrupled oil prices, triggering global stagflation and a fundamental restructuring of industrial economies.[2]
3. 1979 Iranian Revolution: A regime change that removed Iran's oil production from global markets, triggering a second major oil price shock[3,4] and reinforcing the inflationary pressures of the decade.
4. 2022 Russian Invasion of Ukraine: A major land war involving a primary energy and agricultural exporter, resulting in the weaponisation of energy supplies, sweeping sanctions, and a rapid acceleration of global inflation.[5,6]

These sequences reflect structural interdependencies in integrated economies – they are not random co-movements, though the precise causal weight of each link varies by event.

The four events vary in severity and duration – Suez was contained within months; the 1973 and 1979 shocks restructured industrial economies over years; the 2022 event is still propagating. What they share is the structure of the sequence – the same cross-silo contagion pathway, at different speeds and magnitudes – regardless of the scale of the outcome. Across the four reference events, the lag between the triggering event and peak cross-silo impact was 6 to 24 months. The variation is driven primarily by the speed of financial transmission (faster) versus the speed of sovereign and structural adjustment (slower) – a distinction the Committee Lag Map makes explicit at the committee level. This is long enough to prepare and short enough to punish those who waited.

III. Cross-Silo Impact Timeline: The Potential Cross-Silo Contagion Pathways

The table below is not a forecast. It is a pattern-based projection – an extrapolation from the four reference events above. The sequence of contagion tends to hold even if the precise timing varies by event. Use it as a recognition tool, not a substitute for judgement.

Time Horizon	Risk Silo	Likely Impact	Historical Precedent	Confidence
Days 1–14	Financial / Markets	Equity volatility spike; commodity futures repricing; oil-linked currency depreciation	1973: immediate oil futures repricing; sterling under pressure following OAPEC embargo[1,2]; 1979: currency pressure on oil-importing nations	High
Days 1–14	Insurance / Reinsurance	Marine and cargo war-risk premiums surge; coverage gaps emerge for chokepoint transit	1956 Suez: Lloyd's war-risk rates multiplied within days of nationalisation	High
Weeks 2–8	Logistics / Supply Chain	Spot freight rates spike; vessel re-routing extends transit times; inventory buffers drain	2022: European gas rerouting; 2024: Red Sea diversions[19,20]	High
Weeks 2–8	Manufacturing / Industrial	Energy-intensive production curtailed; input cost inflation hits operating margins	2022: European fertiliser and aluminium production shut-ins[5]	High

Months 2–4	Agriculture / Food Security	Fertiliser cost spikes feed into crop yields; food export bans trigger localized shortages	1973: US soybean export embargo; 2022: wheat/fertiliser shock[5,2]	Medium-High
Months 3–6	Credit / Banking	Working capital facilities strained by inventory costs; trade finance tightens	1973: Herstatt Bank collapse (FX settlement failure)[2]	Medium-High
Months 4–8	Regulatory / Political	Emergency subsidies enacted; price caps debated; export controls implemented	2022: EUR 397B in European energy subsidies[6,28]	High
Months 6–18	Macro / Stagflation	Central banks hike rates to fight imported inflation, triggering demand destruction	1979–81: Volcker rate cycle (triggered by Iranian Revolution price shock); 2022: coordinated global rate hikes[16]	High
Months 6–18	Social / Governance	Food and energy inflation triggers civil unrest, particularly in import-dependent nations[11]	2010–11: Arab Spring (food price trigger)[11]	Medium
Months 12–24	Currency & Sovereign Debt	Energy importers with dollar-denominated debt face sovereign default risk	1982: Latin American debt crisis (lagged effect of 1979 shock)[2]	High
Years 2–5	Strategic / Structural	Supply chains permanently reconfigured; energy transition accelerated or abandoned	1973: Creation of IEA and SPRs; French nuclear pivot	High

Confidence ratings (across all four reference events: 1956, 1973, 1979, 2022): High – pattern observed in 3 or more reference events | Medium-High – observed in 2 events

with strong structural logic | Medium – observed in 1 event with structural logic for recurrence.

Boards should use the above table to identify which phases of the contagion sequence are already visible in their operating environment – and which second-order effects have not yet appeared on any committee agenda.

IV. When It Reaches the Boardroom: The Committee Lag Map

The table below maps how the same geopolitical shock registers differently across board committees – not because the risk is different, but because each committee's mandate filters what it sees and when. The gap between when exposure exists and when it appears in formal reporting is itself a governance risk.

Oil shocks are used throughout as the primary historical proxy; the silo migration mechanism is not specific to energy events.

The lag ranges below are derived from an analytical model drawing on two sources: the sequencing logic documented in post-crisis governance reviews,[7,8] which identify which committees received integrated risk information late and in what order; and the documented timelines of the four reference events (1956, 1973, 1979, 2022), which provide the empirical interval data. The ranges are not directly measured from specific board minutes – no such data is publicly available – but they are grounded in the sequencing evidence those sources provide and should be read as pattern-based projections rather than precise forecasts.

These ranges are illustrative; each organisation should calibrate them against its own mandate structure, strategic exposures, and – where relevant – natural hedges within its business model.

Committees are ordered by the sequence in which they typically encounter the contagion – from the earliest financial signals (Audit/Risk, Finance) through to the structural and governance responses that follow (Nominations/Governance, Full Board). Audit/Risk, Compensation/HR, and Nominations/Governance are present in most boards; the remaining committees vary by sector and board structure and should be read as applicable where they exist.

Board Committee	Primary Mandate	First Visible Signal of an Oil Shock	Typical Lag (From Trigger)	How It Appears on the Agenda	Risk Silo(s) Involved
Audit Committee	Financial reporting integrity; internal controls; external audit	Auditors flag commodity-price assumptions in inventory and hedging valuations	Weeks 2–8	Revised fair-value disclosures; hedging P&L; going-concern notes	Financial / Markets; Credit / Banking

Risk Committee	Enterprise risk framework; risk appetite; stress testing	Risk team updates commodity and FX stress scenarios; counterparty credit alerts	Days 1–14	Revised risk register; breach of risk appetite thresholds; risk limit waivers	Financial / Markets; Insurance / Reinsurance; Currency & Sovereign Debt
Finance / Treasury	Capital structure; liquidity; debt covenants; FX and commodity hedging	Hedging book marked to market; revolving credit facilities drawn; covenant headroom narrows. Exchange-level geopolitical actions (listing restrictions, forced delistings, domicile pressure) may also surface here.[17]	Days 1–14 to Weeks 2–8	Liquidity dashboard update; hedge effectiveness report; covenant compliance memo	Financial / Markets; Credit / Banking; Currency & Sovereign Debt
Operations / Supply Chain	Production continuity; procurement; logistics; vendor risk	Freight rates spike; critical component delivery delayed; inventory buffers drain	Weeks 2–8	Supply chain resilience update; alternative sourcing plan; margin impact forecast	Logistics / Supply Chain; Manufacturing / Industrial
Compensation / HR	Executive pay; workforce planning; talent retention	Energy cost inflation feeds through to operating margin, triggering bonus target re-forecasts	Months 2–4	Revised EBITDA targets; discretionary bonus adjustment proposals; headcount reduction	Manufacturing / Industrial; Macro / Stagflation

				plans	
Sustainability / ESG	Climate commitments; energy transition; supply chain ESG	Pressure to delay or revisit transition capex; fossil-fuel lock-in risk	Months 2–4 to Months 4–8	Revised transition roadmap; supply chain ESG audit delays	Regulatory / Political; Strategic / Structural; Logistics / Supply Chain
Strategy Committee	Long-term competitive positioning; M&A; capital allocation	Scenario planning triggered; geographic footprint review; supply chain re-sourcing analysis	Months 3–6	Strategic options paper; capital allocation re-prioritisation; M&A pipeline review	Manufacturing / Industrial; Logistics / Supply Chain; Strategic / Structural
Nominations / Governance	Board composition; director skills matrix; succession planning	Skills gap identified: board lacks energy-security or geopolitical expertise	Months 4–8 (reactive)	Skills matrix review; search brief for new director; governance protocol review	Strategic / Structural; Regulatory / Political
Technology / Cyber	IT resilience; cybersecurity; digital transformation	Geopolitical escalation raises threat level for critical infrastructure attacks	Days 1–14 (threat elevation)	Elevated threat briefing; OT security review; business continuity plan activation. Note: recognition lag extends where cyber expertise is limited.	Regulatory / Political; Manufacturing / Industrial
Full Board (plenary)	Fiduciary oversight; stakeholder accountability	CEO/CFO briefing on material exposure;	Days 1–14 (initial briefing) then recurring	Management update on exposure; communicatio	All silos – integrated view

	; crisis governance	investor and regulator communications		ns strategy; decision on material disclosure obligations	

Each committee oversees its specific piece of the risk. The systemic risk, by design, is managed in fragments. The full board receives an initial situational briefing within the first two weeks, but a situational notification is not an integrated picture. As the only body with an integrated view, the full board typically receives its first coherent cross-silo picture weeks or months after the initial trigger, by which time downstream effects are likely already propagating.

Nation-state cyber offensives represent a parallel contagion pathway that the Committee Lag Map must account for separately. Geopolitical shocks trigger not only physical supply chain disruption but also state-backed cyber offensives targeting critical infrastructure, leadership communications, and intellectual property repositories – each capable of producing operational consequences independent of the physical shock.[9]

The Technology/Cyber row in the table above should be read as receiving simultaneous pressure from two directions: threat elevation in the immediate days following a geopolitical trigger, and the subsequent operational deployment of state-backed capabilities in the weeks that follow. The lag to structural response remains even when the threat is recognised early.

Board-level cybersecurity expertise remains scarce: Lowry, Vance, and Vance (2025) find that fewer than 15% of firms disclose any director with cybersecurity expertise – which means the committee receiving the earliest signal may not have the capacity to translate it into integrated board-level action.[10]

V. Three Patterns Boards Consistently Miss

These are not unprecedented failures. They are recurring ones. The same recognition gaps appear in the post-crisis governance literature[7,8] and in the documented sequences of every reference event examined. They are the result of a governance design that was not built for systemic, cross-silo events. This structural limitation is compounded by well-documented cognitive responses to stress, which Section VI addresses directly.

Three patterns emerge consistently across all four reference events – each combining a structural design limitation with a predictable cognitive response:

1. **First-Order Focus:** Boards fixate on the immediate, visible impact (e.g., the price of oil) and fail to anticipate the second- and third-order effects (e.g., fertiliser shortages leading to food inflation). In 1973, boards and governments focused on the oil price itself; the fertiliser and food price cascade that followed – and the social unrest it precipitated[11] – was not on any governance agenda until it had already arrived. The structural limitation is a governance frame built around the initial signal; the

cognitive one is confirmation bias – the tendency to weight subsequent information against the frame already set, rather than revising it.

2. **The Geographic Insulation Assumption:** The belief that a crisis in one region can be contained. Following the 1956 Suez closure, European boards initially treated the disruption as a Middle Eastern political event; within weeks, energy rationing had reached the UK and France[1], and sterling was under speculative attack – a sequence that had not featured in any pre-crisis board risk register. The structural limitation is a risk architecture designed around geographic or sectoral boundaries; the cognitive one is anchoring – the initial framing of the event as a regional political matter proved too sticky to revise as contradictory evidence accumulated.
3. **Underestimation of Compounding:** Boards evaluate risks in isolation. In 1979, the Iranian Revolution produced an oil price shock; that shock fed into already-elevated inflation from the 1973 cycle; the combination triggered the Volcker rate response; the rate response produced the Latin American debt crisis of 1982.[2] Each link in the chain was individually manageable. The compounded sequence was not.

The structural limitation is parallel governance – each committee managing its piece without a mechanism to model the interaction. The cognitive one is bounded rationality: boards tend to treat the information they have as sufficient, rather than searching for what the interaction of those pieces might produce. In 2022, a comparable compounding sequence was visible: energy price shock – currency depreciation in energy-importing economies – sovereign stress – a chain that continued to develop well after the initial shock had eased.

VI. The Governance Illusion: Why Boards Keep Getting It Wrong

The Committee Lag Map raises an uncomfortable question: if the pattern of cross-silo contagion is this well-documented, why do boards keep encountering it as a surprise?

The answer lies in how governance was designed – a structure that functions well under normal conditions and fails predictably under systemic stress.

Organisations are structured to manage risks in parallel, not in sequence. Each committee receives the information relevant to its mandate, filtered through the lens of that mandate. Under normal conditions, this works well. Under systemic stress, it does not. When a geopolitical shock triggers simultaneous pressure across financial, operational, supply chain, and reputational domains, each committee sees its piece of the event through its own lens – and sees the cross-silo picture only partially.

Behavioural dynamics do not explain this independently – they amplify a structural limitation. Under stress, groups tend to narrow their focus and default to established procedures – a dynamic known as Threat Rigidity.[12] Confirmation bias leads directors to weight information that fits their existing risk narrative; stress reduces the cognitive capacity to question it.[13] These are not necessarily failures of individual judgement; they are predictable features of how perception and thinking change under pressure.

Bounded rationality adds a further layer: boards tend to treat the information they have as sufficient rather than searching for what they do not yet know[14]. The Competence Illusion

compounds this: even when those limits are visible, the board's confidence tends to suppress the inquiry that would test them[15].

We argue that the Governance Illusion is the structural expression of the Competence Illusion at board level: where individual cognitive bias manifests as institutional design failure.

The critical point is this: even directors who are aware of these dynamics will struggle to compensate for them without a governance structure capable of holding the integrated picture. This structural deficit creates the conditions; the behavioural dynamics ensure they are rarely corrected in the moment.

The consequence is structural: the board believes the risk is being managed because each committee is performing its mandate. The risk is not being managed. It is being observed from multiple partial angles, none of which captures the interaction effects that tend to produce the largest losses. The Committee Lag Map makes this visible: the same event registers differently across committees, at different times, with no single committee holding the complete picture.

The historical pattern suggests that the stabilisation phase after the initial shock is among the most dangerous periods – vigilance tends to drop precisely as contagion is still broadening underneath. The full board – typically the primary integration point – receives the integrated picture last. By then, the second-order effects are already in motion. In 2022, European energy prices eased sharply – producing exactly this vigilance drop – while sovereign stress in energy-importing economies continued to deepen through 2023 and into 2024.[16]

Exchanges as a Parallel Contagion Pathway

The Governance Illusion is not confined to internal committee structures – it extends to the capital markets.

Capital markets have become a parallel contagion pathway. A September 2025 Harvard Law School Forum analysis by Milhaupt and Ringe (Stanford and Hamburg/Oxford)[17] documents how exchanges have become strategic assets embedded in state policy – with listing denials, delisting threats, and exchange access deployed as geopolitical tools. A geopolitical shock can trigger forced domicile shifts or accelerated delistings with governance implications boards are structurally unprepared to oversee. This pathway operates on a lag of weeks to months – short enough to compound the Committee Lag Map's existing vulnerabilities.

VII. The Asymmetry Map: Where Contagion Accelerates

The Governance Illusion explains the recognition failure. The Asymmetry Map identifies where that failure is likely to be costly.

Not all organisations face the same exposure. The map identifies where contagion is likely to hit hardest and earliest – based on structural vulnerability, not predictive modelling.

Boards with operations, investments, or supply chains in these regions should treat those exposures as early warning indicators, not lagging ones.

A particularly acute vulnerability lies with energy importers holding weak currencies. In these environments, high energy prices compound with currency devaluation, rapidly draining foreign reserves and accelerating the transition from an energy shock to a sovereign debt crisis.[18] Similarly, highly optimised supply chains built on "just-in-time" models lack the buffer capacity to absorb simultaneous shocks, leading to cascading production failures rather than isolated delays.[19,20] Finally, sectors reliant on discretionary spending tend to serve as early indicators of broader economic contraction; as inflation bites, consumer spending contracts, hitting these sectors long before essential services register the impact. Because geopolitical shocks exploit existing vulnerabilities, early warning indicators will not appear uniformly across a global portfolio. They will emerge where the exposure is most acute.

The table below maps these vulnerabilities by region – the geographic expression of the three mechanisms described above. Organisations with diversified global footprints should map their own exposure offsets against this framework – in some cases, regional vulnerabilities may cancel rather than compound at the group level. Monitoring these exposure zones is a primary operational task for the Integration Function described in Section X.

Energy-Importing Regions

Region	Primary Exposure Vector	Secondary Contagion Risk	Historical Analogue
China	World's largest energy importer[21]; central node in global manufacturing supply chains	Industrial output curtailment → global component shortage → supply chain cascade across global manufacturing sectors	1973: China insulated by planned economy; 2022: zero-COVID supply chain disruptions compounded energy shock globally
East Asia (Japan, South Korea, Taiwan)	Energy import dependency (90%+); LNG-dependent electricity grid	Industrial output curtailment → semiconductor/auto supply chain disruption → global parts shortage	1973: Japan's oil-shock recession; 2022: Asian LNG price spike[5]
South & Southeast Asia (India, Bangladesh, Pakistan, Vietnam)	Dollar-denominated energy imports; fertilizer dependency	Currency depreciation → food import cost surge → social unrest	1979: South Asian debt stress; 2022: Sri Lanka sovereign default[18]
Europe (Germany, Italy, Eastern Europe)	Industrial energy intensity; gas-dependent manufacturing	Deindustrialisation risk; political fragmentation under austerity	2022: German industrial demand destruction; energy subsidy fiscal strain[6,26]

Sub-Saharan Africa	Food import dependency; limited fiscal buffers	Fertilizer price shock → harvest failure → governance stress	2010–11: food price spike preceded instability across Sahel and Horn of Africa[11]
Latin America	Dollar debt exposure; commodity export dependence	Terms-of-trade shock if global demand collapses; capital flight	1979–82: Latin American debt crisis; multiple sovereign defaults[2]
Middle East / GCC	Nominal energy surplus, but regional instability risk	Intra-regional conflict escalation; downstream petrochemical disruption	1973: intra-Arab political fractures; 2019: Abqaiq attack[27]
North America	Net energy exporter at regional level; exposed via trade finance, EM contagion, and agricultural export demand	Financial system stress from EM sovereign defaults; agricultural export demand collapse	1973–74: U.S. recession lagged 12 months; 1979–82: Latin American debt crisis hit U.S. banks[2]

Energy-Exporting Regions: A Different Asymmetry

For organisations headquartered in or significantly exposed to energy-exporting economies, the contagion sequence runs in reverse: the initial shock produces a revenue windfall, not a cost shock.[21] The governance risk is deferred structural vulnerability – a harder problem to govern than immediate pain, because it is less visible and arrives later.

Region	Initial Effect	Deferred Contagion Risk	Historical Analogue
Gulf Cooperation Council (GCC)	Sovereign revenue surge; fiscal buffers expand	Geopolitical isolation risk; downstream petrochemical overcapacity; currency peg stress if shock reverses	1973–74: Saudi Arabia windfall followed by 1986 oil price collapse and fiscal contraction[21]
Russia / Central Asia	Export revenue surge; short-term current account improvement	Sanctions-driven financial isolation; technology import dependency; long-term deindustrialisation	2022: Russian energy windfall offset within months by sanctions-driven capital flight and import collapse[5]
Norway / Canada / Australia	Sovereign wealth fund inflows; currency appreciation	Dutch Disease risk: manufacturing competitiveness erodes;	1970s–80s: Norwegian and Dutch manufacturing

		non-energy sectors contract	contraction following North Sea and Groningen windfalls[26]
Nigeria / Angola / Gulf of Guinea	Government revenue surge; short-term fiscal relief	Governance stress from windfall distribution; infrastructure dependency; exposure to commodity price reversal	2008–09: Nigerian fiscal crisis following oil price collapse; 2014–16: Angolan sovereign debt stress[16]

Note: The reverse-contagion sequence for energy exporters typically operates on a longer lag (18–36 months) than the import-dependent sequence mapped above, because the initial windfall buffers the structural vulnerabilities before they become visible.[21]

VIII. The Present Moment

The framework presented here is active, not archival. The conditions that produced the reference events are present again, in a different configuration. The IEA's May 2026 Oil Market Report records more than 14 million barrels per day of Gulf oil production shut in as of April – the largest supply disruption in the agency's recorded history.[22]

For context, the 1973 OAPEC embargo removed approximately 4.5 mb/d at peak,[2] and the 1979 Iranian Revolution approximately 4.8 mb/d;[3] the current disruption exceeds each by a factor of nearly three. The Strait of Hormuz, through which roughly 20 million barrels per day transited before the crisis,[23] has seen throughput collapse to a fraction of that level. Cumulative average supply losses since February have reached approximately 12.8 mb/d, a lower figure than the April peak because the disruption built progressively from February onward, and global inventories are being drawn down at an accelerating pace.

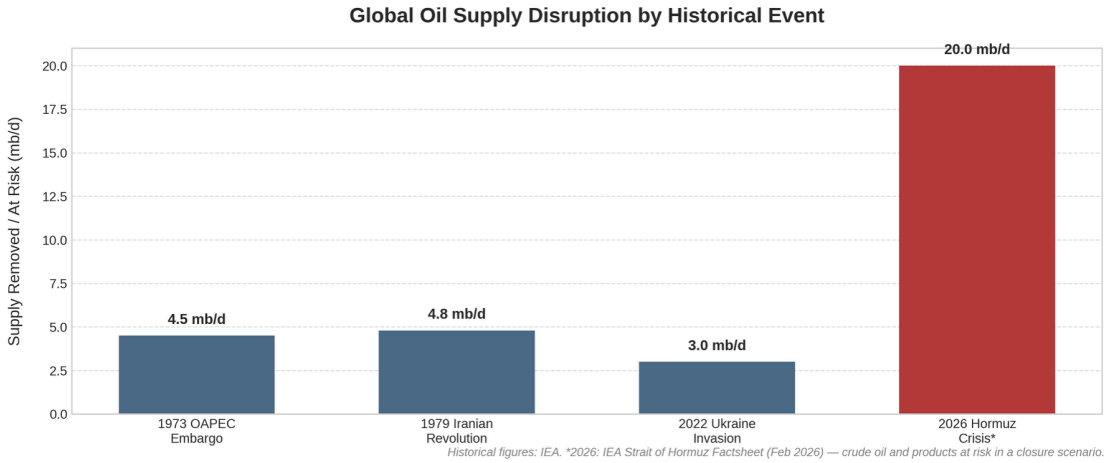

Figure 1: Global Oil Supply Disruption by Historical Event. Historical figures: IEA. 2026 figure: IEA Strait of Hormuz Factsheet (February 2026) – total crude oil and products at risk in a closure scenario.

The chart above contextualises the scale of the Hormuz disruption against its historical precedents. The disruption coincides with simultaneous pressure on energy, food, and financial systems, alongside the fragmentation of multilateral trade architectures. As of April 2026, the IEA data indicates the preconditions for contagion were present and the sequence had begun. The IEA data documents the scale of the triggering event; the cascading effects that may follow are mapped in the Potential Cross-Silo Contagion Pathways and tracked across governance structures in the Committee Lag Map. A May 2026 Brookings Institution analysis (Brooks and Harris) quantifies how temporary buffers – emergency strategic reserve releases, floating storage drawdowns, and pre-war inventory surpluses – have to date absorbed much of the shortfall; their modelling projects those buffers exhausted by mid-July 2026, at which point the unabsorbed supply deficit widens sharply.[24]

The current environment also introduces a domestic political dimension that operates at board level directly. Davis (2026)[25], writing in the Harvard Law School Forum on Corporate Governance, documents instances of presidential intervention in US corporate board decisions on capital allocation, hiring, and investment – an early signal of a form of political risk that operates within national borders as well as across them.

IX. Board Discussion Questions

On the timeline:

- Which phases of the Potential Cross-Silo Contagion Pathways are already visible in our operating environment?

- Where are we on the contagion timeline for the current triggering event?

- Which second-order effects have not yet appeared on any committee agenda?

- Are any of our listed entities or capital market relationships exposed to exchange-level geopolitical risk – listing restrictions, forced delistings, or domicile pressure?

On the Asymmetry Map:

- Which regions in the Asymmetry Map represent material exposure for our organisation?

- Do we have early warning indicators in place for those regions?

- Are we treating any of these as lagging indicators when they should be leading ones?

- Are there combinations of warning indicators that could trigger acceleration effects on our business?

- Are there natural hedging effects in our business structure that offset exposures in this map?

On organisational readiness:

- Which committee would be first to see the signal of a major geopolitical shock in our organisation?

- How long would it take for that signal to reach the full board as a coherent whole?

- Do we have an Integration Function – a designated role or mechanism to synthesise signals across committees?

- What criteria would trigger re-escalation of a geopolitical risk that has entered a stabilisation phase? Who owns the decision to re-escalate, and what is the threshold?

- If a Designated Challenger role is adopted, who owns the learning record – and is it reviewed as part of the board's annual self-assessment?

- Which major risk scenarios on our radar have not materialised – and do we understand why?

X. What Boards Should Do

To break the Governance Illusion, boards must move from parallel processing to integrated oversight. Because Threat Rigidity is a persistent behavioural response to stress, structural changes alone are insufficient; they must be paired with behavioural interventions.

A note on scope: the Governance Illusion is endemic to parallel governance structures; it is not unique to any sector or size of organisation. The three recommendations below are designed to be implementable within existing governance frameworks – they do not require structural redesign.

The analysis points to three changes – two structural, one behavioural – each designed to interrupt one or more of the recognition failures described in Section V:

1. **Designate an Integration Function (Structural):** Assign a specific director or a cross-committee task force to explicitly monitor the intersections between committee mandates during a crisis. Their sole role is to ask: Are the separate problems we are managing actually the same risk expressing itself in different domains? Concretely, this may take the form of a standing cross-committee working group convened at the onset of a systemic event, or a designated non-executive director with an explicit integration mandate. In organisations with a mature Board or Executive-level risk committee, this integration mandate may be embedded within that structure rather than designated separately; either approach may achieve the same objective.
2. **Implement a 6-12 Month Review Point (Structural):** Structurally embed a review point into crisis governance for the 6-12 month window after the initial event – the period in which second-order effects typically begin to materialise. This positions the board to look for downstream contagion during the dangerous stabilisation phase. In practice, this means scheduling a dedicated full-board session at the 6-month mark of any declared crisis, with a specific agenda item: "Which second-order effects are not yet on any committee agenda?" The session should also include a formal retrospective: Were our prior risk assessments accurate – and if not, why? Were our responses timely and sufficient – and if not, why not, and to what degree?

3. **Embed a Designated Challenger Role (Behavioural):** To counteract Threat Rigidity and confirmation bias in the room, formally designate a director to challenge the consensus view during crisis deliberations. This role ensures that signals falling outside the primary committee frames are not prematurely discarded. In practice, this is most effective as a rotating assignment rather than a permanent role – it avoids the challenger becoming institutionally marginalised. Documenting challenger discussions over time creates a learning record – identifying which stressed views proved prescient and which did not. Without accountability, the role risks becoming procedural. The learning record is the mechanism that prevents this: if challenged views are documented and later prove prescient, the board has evidence that the process worked; if they are consistently dismissed, the record surfaces that pattern for governance review.

XI. Conclusion

In each of the reference events, peak cross-silo damage arrived well after the triggering event, and well after vigilance had dropped. The lag between trigger and peak impact was measured in months to years, not days – long enough to act, if the board is structured to see it. Geopolitical shocks do not stay in their lane – they migrate across risk silos, across committee mandates, and across governance structures designed for a more stable world. The four reference events examined in this paper are not historical curiosities. They are a pattern – one that is repeating at the time of writing.

Systemic risks rarely materialise as a single signal. They emerge through the interaction of multiple signals appearing across different committees, time horizons, and risk categories. The board's challenge is not simply to receive information, but to recognise when apparently separate developments may be part of the same unfolding event.

The Potential Cross-Silo Contagion Pathways, the Committee Lag Map, and the Asymmetry Map are not predictive tools. They are recognition tools. They do not tell boards what will happen. They tell boards where to look, and when to look harder.

The Governance Illusion is the predictable result of parallel governance, not a failure of intelligence or intent. Naming it is the first step to addressing it.

Boards that act on this framework before the next systemic event will not be able to prevent the shock. They may, however, be better positioned to detect the contagion earlier, respond more coherently, and protect more of the value under their stewardship.

The governance challenge is not prediction. It is recognition. And recognition requires a board that is structured to see the whole picture – not just the piece that lands on each committee's agenda.

Glossary

Committee Lag: The delay between the moment a systemic risk becomes materially relevant to an organisation and the moment it appears on a specific board committee's formal agenda. Lag times vary by committee mandate and are a structural feature of parallel governance, not a failure of individual directors.

Competence Illusion: The belief that collective experience and competence inoculate a group against incomplete understanding – and that available information is sufficient without evaluating its limits. At the institutional level, this manifests as the Governance Illusion.[15]

Contagion: The process by which a shock originating in one domain–geopolitical, energy, financial–spreads to and destabilises other seemingly unrelated domains. The mechanism is not coincidence; it is the structural interdependence of modern economies.

Contagion Pathway: The specific sequence by which a shock moves from one risk silo to another – for example, from an energy shock to supply chain disruption, to inflation, to sovereign debt stress. Understanding the pathway is what allows boards to anticipate second-order effects rather than simply react to them.

Cross-Silo: Describing a risk, effect, or process that moves across organisational or governance boundaries–from one committee's mandate into another's–rather than remaining contained within a single domain.

Governance Illusion: The false belief that a systemic risk is being managed because individual board committees are successfully executing their narrow, siloed mandates. The illusion is structural: no single committee has visibility of the integrated picture. The Governance Illusion is a structural expression of the Competence Illusion: individual cognitive bias, operating within a parallel governance structure, produces institutional design failure.

Integration Function: A designated governance role or cross-committee mechanism whose purpose is to monitor the intersections between committee mandates during a crisis – asking whether the separate problems each committee is managing are in fact the same risk expressing itself in different domains.

Parallel Governance: The standard committee-based board structure in which each committee manages its designated risk domain independently. Efficient under stable conditions; produces the Governance Illusion under systemic stress.

Pattern-Based Projection: An analytical method that uses documented historical sequences to extrapolate likely future trajectories. Distinguished from forecasting (which implies precision) and speculation (which implies guesswork). The Potential Cross-Silo Contagion Pathways in this paper is a pattern-based projection.

Recognition Lag: The interval between the moment a risk becomes materially relevant to an organisation and the moment the board formally recognises it as such. The Committee Lag Map is a tool for measuring and anticipating recognition lag across committees.

Risk Duration: The length of time a risk remains active and consequential following its initial trigger. Geopolitical shocks typically produce risks of varying duration across silos: financial transmission is fast (days to weeks); sovereign and structural adjustment is slow (months to years). Duration shapes which governance responses are appropriate at each stage.

Second-Order Effects: The consequences that emerge not from the initial shock itself, but from the institutional and market responses to it. Energy price spikes produce

inflation; inflation produces interest rate responses; interest rate responses produce sovereign debt stress. Second-order effects are typically larger and longer-lasting than the initial trigger. See also: First-Order Effects – the immediate, visible consequences of the triggering event (e.g., an oil price spike following a supply disruption). Boards tend to manage first-order effects well; it is the second- and third-order effects that tend to produce the largest losses.[2,3,16]

Stabilisation Phase: The period following the acute phase of a geopolitical shock, during which the immediate disruption appears to ease. The historical pattern suggests this phase is among the most dangerous: vigilance tends to drop while cross-silo contagion continues to propagate.

Threat Rigidity: A psychological and organisational response to stress in which groups narrow their focus, centralise control, and default to familiar routines, reducing their capacity to process novel or cross-boundary information at precisely the moment when such information is most consequential.

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