



MANAGING SOCIAL INSTABILITY

HOW CAN BUSINESSES SURVIVE IN
A WORLD OF UNREST?

John Drzik

Surging numbers of refugees fleeing to Europe. High levels of youth unemployment in many advanced countries. Populist movements pressing for regime change. Online activist campaigns endorsed by millions of supporters. Labor disputes, independence movements, backing for extremist political parties, terrorist strikes, cyberattacks. The list goes on. Social and political instability is arguably at its highest level since the end of the Cold War.

What we're seeing now may not be simply a passing phase of higher volatility. Structural issues are also at work. Resentment over deepening income inequality is on the rise in many countries. In the coming years, this may be exacerbated by a rise in the proportion of retirees with insufficient resources for their old age and an increasing loss of jobs to automation. Additionally, the failure to fully integrate refugees into host countries may lead to a time bomb someday.

GROWING UNREST

These issues present a challenging context for business. At a macro level, rising friction can act as a general drag on economic activity, at a time when positive impetus is sorely needed. The threat of business disruption is also higher, undermining the ability of international businesses to operate in certain countries or substantially changing the terms of business. Activist-driven volatility can influence political decisions by fragile governments, provide a frame of reference for workforce disputes, and intensify disagreements between companies and local communities.

Popular frustration with leaders is widespread, and levels of trust uncomfortably low. In some countries, the prevailing view is that government is weak and too cozy with big business; elsewhere, trust has been eroded by the exposure of scandals and corruption. People expect more from governments and

businesses, and advances in information and communication technology are providing opportunities for them to express transnational "tribal" sympathies that can stimulate collective action – for better or worse.

In this climate of growing unrest and rapid communication, individual businesses can get caught on the wrong side of a volatile social, political, or environmental issue – and face the risk of product boycotts, cyberattacks, employee departures, and lasting brand damage. (See Exhibit 1.)

Customer expectations of the companies they interact with can quickly change. Similar shifts in sentiment can take place with employees, shareholders, and other stakeholders.

MAINTAINING RESILIENCE

What can businesses do to remain resilient in this challenging environment? The construction of plausible developments and worst-case scenarios, in which various types of unrest are either the source of a crisis or an amplifier, provides a platform for gauging which assets are at risk and the scale of the potential damage. The best scenario planning involves thinking creatively about second- and third-order consequences – likely government

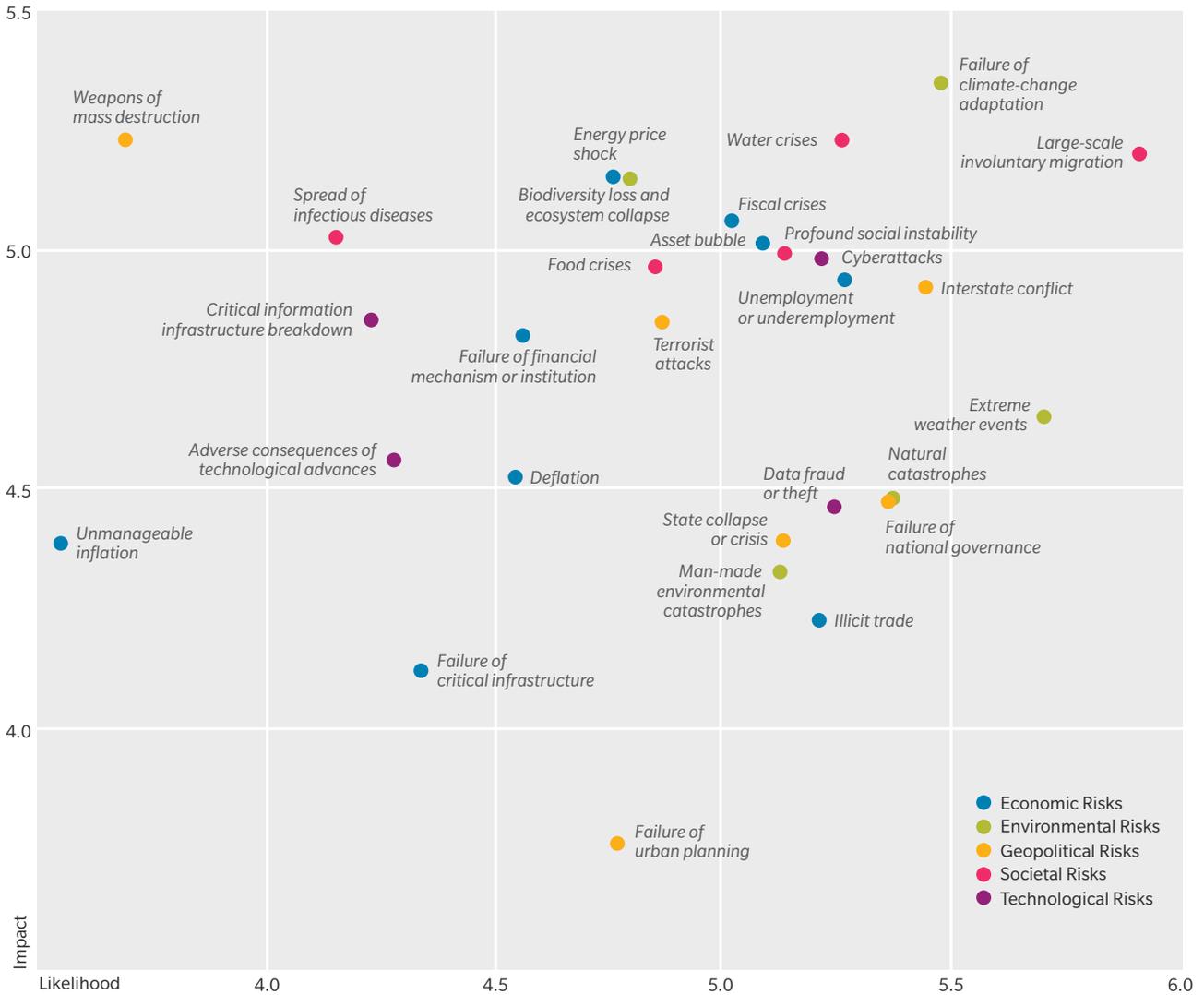
Social and political instability is arguably at its highest level since the Cold War

EXHIBIT 1: GLOBAL RISKS LANDSCAPE 2016

THE POTENTIAL IMPACT AND LIKELIHOOD OF GLOBAL RISKS OVER THE NEXT 10 YEARS

For the *Global Risks 2016* report (published by the World Economic Forum in collaboration with a group of partner organizations, including Marsh & McLennan Companies), 750 risk experts from all sectors and around the world shared their thoughts on the risks that will be of greatest concern over the next 10 years. This page summarizes the results.

Involuntary migration and failure to adapt to and mitigate climate change are two of the top global risks. Social instability and unemployment are also considered to be of great concern.



Source: *Global Risks 2016*: Tenth edition, World Economic Forum and partners, including Marsh & McLennan Companies. Oliver Wyman is a division of Marsh & McLennan Companies

responses and cross-border impacts, for example. Companies can then stress-test their supply chains and investment decisions, and evaluate changes to their strategy that would help diversify their exposure to disruptive events within and across countries.

Firms should also ask themselves whether they are doing enough to protect and manage their reputation, which is even more vital in this type of environment. Leaders need to keep their finger on the pulse of both internal and external sources of instability so that emerging issues can be addressed rapidly and constructively before they cause lasting damage. Becoming more attuned to social and political conversations will also

help firms assess where they might deepen engagement – with customers, employees, and policymakers – to help mitigate potential threats in advance.

Of course, a more volatile environment will also create opportunities in the form of new patterns of demand and new customer allegiances. Staying power is critical, and companies that are adept at building the skills to manage through a global context of continuous stress and unrest will be better placed to grab market share from competitors that address the same challenges less successfully.

John Drzik is president of Global Risks and Specialties at Marsh. Marsh, like Oliver Wyman, is a division of Marsh & McLennan Companies.

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