

A global perspective

Considering New Zealand's geographic location, we could easily feel removed from what is happening in the world.

Threats of conflict in North Korea, involuntary mass migration across Europe and frequent acts of terrorism play out in the news and yet we still feel quite safe in our remote island nation.

We can't, however, divorce ourselves from what is happening overseas, as global events are no longer constrained by borders.

The World Economic Forum Global Risks Report pointed to the need for businesses to understand and plan for an array of risks that are emerging such as rising geopolitical tensions, deepening societal polarisation and rapid technological change. All of these things have been felt here and have consequences no matter the size of your organisation.

GEOPOLITICAL RISKS

A wave of populism has been sweeping the globe. Unexpected outcomes from referendums and elections have shaken the status quo in a number of countries. In 2016, it was the UK Brexit vote and the US presidential election.



In 2017, we have seen the far right make a stronger bid for power in France and Germany, a referendum in Turkey, the Australian marriage equality plebiscite and of course "Jacindamania" in Godzone.

2018 is not likely to be any different. These waves of political and social instability could create a range of disruptions to business activity, not only in regards to regime change but also from civil disturbance, asset bubbles, changes to trade agreements, terrorist attacks and government policy reversals (proposed tax cuts).

Companies should review how the underlying sentiment might cut across the business environment to amplify key uncertainties, sharpen consequential risks and introduce new challenges. Build global risk trends into your future planning processes.



MARCUS PEARSON,
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We are more globally connected than most realise. Specifically, boards must have greater engagement with management on these issues and outline how global risk factors manifest in daily operations. This should especially be considered, of course, when looking at entry to new markets and countries.

It is also important to look at these issues of change in regards to your own people. The CEO of our parent company MMC, Dan Glaser, was recently quoted as saying, "Employees have changed. They're much more active. They're more interested in a company that has values."



SOCIETAL POLARISATION

Today, almost all large and medium-sized organisations have a presence on social media, which can offer significant benefits when used correctly. However, social media also presents brand and reputational risks

for companies that misuse or neglect their social media capabilities.

In our 2016 Directors' Risk Survey, directors rated the increasing influence of social media as the top risk that could impact businesses in the next 12 months. This has certainly come into play throughout the course of the year.

Through increased interconnectivity and rising societal polarisation, social media has enabled previously alienated populations to communicate their grievances, coordinate demonstrations and revolt in a manner that could easily spread beyond national borders. Exacerbating this phenomenon is ominously low levels of trust of both governments and big corporations. Pervasive corruption, short-termism, fake news and unequal distribution of the benefits of growth are





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creating levels of distrust not seen since pre-WWII. This breathes wind into the sails of the political extremes, and social media provides the “echo chambers” of like-minded groups that many believe determined the US election outcome.

We saw this at a local level in October when protesters crashed the annual defence industry conference in Wellington. Media reported that they had been rallying people on social media for months ahead of the event and that people came from around the country to attend. We also saw it in the recent New Zealand election campaign, where social media was flooded with debate on social issues such as failed infrastructure planning, poverty, housing affordability, environmental concerns, distrust of right-of-centre

politics “capitalism has failed New Zealand” and of course fake news (tax increases and budget holes).

In this era of “fake news” and volatile social issues, organisations should re-evaluate whether they are doing enough to protect and manage their reputation with customers, employees and other stakeholders. Rumour and allegation are not new problems for companies, but in today’s “always on” world, the rapid spread of misinformation can happen within hours and be more challenging to overcome.

RAPID TECHNOLOGICAL CHANGE

Cyber risk was the number one risk in our 2016 Directors’ Risk Survey.

The risks have not lessened and can still cause significant financial damage



even from a relatively unsophisticated attack.

Several large companies were affected by the global WannaCry cyber attack in May, while local companies had a targeted breach of their customer data in October.

It is not just cyber that boards need to be focused on however. New technological innovations such as artificial intelligence (AI) and robotics are said to pose the greatest challenge over the coming years.

Just consider for a moment the magnitude of disruptive technologies currently in varying stages of development and use. 3D printing, nanomaterials, AI and robotics, biotechnologies, energy capture and storage, blockchain, geoengineering, Internet of Things, neurotechnologies, quantum computing, space technologies and viral/augmented realities. We are indeed witnessing the fourth industrial revolution, and the average customer of the future is going to look very, very different to now.

Boards must consider the people risks associated with these new technologies and how new ways of doing things will impact on their workforce. New skill-sets will be required, organisational cultures will change and companies will need to keep abreast of these changes to ensure they have the right people on board.

WHAT SHOULD DIRECTORS BE THINKING ABOUT?

Companies must build business strategies that take into account risks related to geopolitical tensions, deepening societal polarisation and rapid technological change. Directors should ask themselves questions such as:


How will societal and political changes impact on corporate operations and profitability?

If supply chain risks increase based on geopolitical disruption, how might that impact cost and structures and revenue streams?

Is there a strong operational framework for the organisation’s cyber security programme?

Are there solid guidelines in place pertaining to the use of social media in the business?

How can we better communicate with our stakeholders given the low levels of inherent trust? Should we let our CEO “off the corporate communications leash”?

We live in a time of heightened global risk but also of great reward. Every challenge will need an innovative solution, and the upside of technological change outweighs the downside. While new policies may close some doors, they will inevitably open others. With a careful eye on emerging global risks, companies can thrive in this volatile environment. 

 **MARSH**