Business in a Fragile World:
What kind of conditions will exist 10 years from now?

Mark Purdy

Mark Purdy is a senior manager in the Policy & Corporate Affairs group in the London office at Accenture. An economist by training, his subject interests include industrial economics, competitiveness, and the global economy. At Accenture, he has undertaken work on globalization, corporate citizenship, and the European economic and monetary union. He led the team that produced Accenture's scenario-based study "Business in a Fragile World." Before joining Accenture, Purdy worked as an economist at the UK Competition Commission, the Consumers' Association, and Ireland's National Economic and Social Council. He has published a number of articles in journals and magazines on issues such as competition policy, utility regulation, and the economics of nonprofit organizations.

The fragile and unpredictable times we live in are not conducive to making business plans ten years out unless you have a crystal ball. Accenture's recently completed study "Business in a Fragile World" works better than a crystal ball because it looks at the future through four possible scenarios based on conditions that are currently shaking up the global landscape.

"We embarked on this study as a way of making sense of the present and finding opportunities for the future," said Mark Purdy, who headed up the study and presented the findings at the Global Executive Forum.

"Scenarios," he added, "are not predictions. They are key elements for strategic planning and help identify the capabilities organizations will need to thrive in times of uncertainty."

What will globalization look like ten years from now? In three of the four scenarios, globalization has survived, but in different forms, some more positive for business than others. In the fourth scenario, isolationism and nationalism have caused a retreat from globalization, and this is "a real possibility," said Purdy.

Scenario 1 - Common Ground

This is an ideal world, stable and integrated and marked by collaboration and negotiation. Economic growth is relatively slow but steady, and wealth is shared more equally within and between countries. Business operates on an increasingly global scale and is better connected to the rest of society. Trade and investment flows are high. But stability comes at a cost, and in richer countries concerns are growing about rising inflation, high taxes on business, incomes and wealth, and increases in bureaucracy and regulation.

The G8 is now G20, and governments and corporations work together to try to minimize the adverse effects of economic cycles.

"I think it's also a world where there's recognition of mutual self-interests," said Purdy. "Where a business thinks about its actions on society, and the impacts of laying off workers they will have to rehire in six months' time."

Transparent global supply chains, supported by new information technologies, dominate the business landscape. The cost of capital is low and new players are entering the market. Established businesses have to move quickly to exploit new opportunities.

"For large corporations, the challenge is to emulate the characteristics of small, highly entrepreneurial companies so that they're always able to adapt to changing market conditions," said Purdy.
Business in a Fragile World:
What kind of conditions will exist 10 years from now?

Mark Purdy

Scenario 2 - Survival of the Fittest

This is a good time to operate a global business. In 2012, most countries are emulating the U.S. free market capitalist economic model. Levels of international trade and foreign investment are high, regulation and taxation are light and competition is fierce. The number of large players has increased, squeezing out some medium-sized businesses. "Companies that are global yet nimble have the advantage," said Purdy.

The English language, U.S. commercial law, and the American way of business are in wide use across borders. Mergers, alliances and joint ventures with U.S. partners are increasingly important for foreign-based multinationals.

The world is stable, but "in some regions there are extensive protests against what's seen as an American model being imposed on their countries," said Purdy.

China is becoming increasingly assertive in the world, thanks to its growing economic clout; Russia is moving closer to a full market economy. But the Middle East continues to drift economically. A pan-American free trade area is a reality; Brazil, Argentina, Chile and Mexico are the key engines of growth in the region.

Scenario 3 - Tempestuous Times

In 2012, the global economy is highly integrated and technological advances make it easier for business and capital markets to operate across geographic boundaries. But it is a tense, turbulent world, full of conflict resulting from sharp social and economic divides. There is no effective dialogue going on between governments, business and the rest of society. The U.S. continues to be the most important superpower in the world, though it faces more and more disputes with other countries and regions.

"Countries and their problems are a little more nationalistic, and to some extent that is associated with rising anti-American sentiment," said Purdy.

Continued standoffs and violence in the Middle East over the past decade have spawned a new generation of terrorist organizations, and by 2012 many of them possess the technical skills to operate globally. And there is a backlash against the seemingly unchecked power of global business interests. The multinational corporation is becoming more dominant, creating enormous tension between global business, national governments and civil society. Consumer boycotts, sabotage, arson and eco-terrorism are everyday concerns for business.

Although global businesses are doing all they can to protect their interests individually, they are failing to work collaboratively. This has inhibited the development of universal platforms for new technologies.

Scenario 4 - Worlds Apart

Isolationism rules the day in 2012. An escalation of terrorist activity has changed the face of globalization, with sharp increases in protectionism and a partial reversal of market reforms in many countries. The costs of cross-border transactions are higher, so global sourcing has declined and operating a global business is less attractive financially.
Business in a Fragile World:
What kind of conditions will exist 10 years from now?

Mark Purdy

Trade wars escalated as the global economy slumped and the Doha round of trade talks failed. The result is a patchwork of loose alliances and agreements that create bureaucratic and legal hurdles for exporters. Multinational companies still exist, but with a looser structure to facilitate the sharing of knowledge and management skills. Global companies increasingly need to enlist local partners to complete their regional marketing strategies.

Countries with large internal markets are coping reasonably well with isolationism, and some groups are prospering. But overall, economic growth is slow and uneven and living standards for many people are in sharp decline. Migration is a major political issue as people in poor countries try to immigrate to countries where conditions are easier. But richer countries are denying access to all but a small minority, creating concerns that this will exacerbate the desperate conditions that are driving the migration in the first place.

A cruder nationalism has surfaced, with populations less tolerant of other cultures. The U.S. is proving resilient despite having few economic links with the outside world. Japan is also stable, although its economy is weaker. China has experienced some internal unrest but is containing it successfully. The EU continues to exist in practice as well as in name, while the trading bloc of MERCOSUR has disintegrated and ASEAN has fragmented. Developing countries are the biggest losers from the breakup of globalization and the decline of global business.

Implications for Business

The world of 2012 is not likely to follow the framework of any one scenario, but will take something from each of the scenarios. Although this would appear to make long-range planning more difficult, Purdy said the purpose of the study is to alert business leaders to the challenges ahead so they can decide now how to respond to unfolding events. In order to thrive in uncertain times, leaders must address three key imperatives:

- develop a new approach to strategy formulation, one that is collaborative, draws on key signals from all quarters, and constantly evolves in the light of new circumstances;
- build resilience and flexibility into the fabric of the organization;
- lead in uncertainty - leaders must remain steadfast in the face of uncertainty and have the qualities to manage change effectively.

The study discusses the need for companies to be more adept at assessing and managing the different kinds of risk that are constantly evolving. With organizations and business systems, as well as economies increasingly interconnected, there is an opportunity for small events to wreak much wider havoc.

"Bold leadership does not mean ignoring risk. On the contrary, it requires the integration of risk into all areas of decision-making so that companies are clear about the range of possibilities and the costs and benefits of each.

"In an environment where uncertainty is pervasive, risk can no longer be seen as a narrow technical issue, but needs to be elevated to the boardroom."
Business in a Fragile World:  
What kind of conditions will exist 10 years from now?  

Mark Purdy

Independent, Interdependent

- An independent world could be one in which there are different economic models, with individual actors, companies and governments taking different approaches to the major issues they face.

- In an interdependent world, the global economic system is highly linked, cross-border trade is significant and most large companies conduct a considerable amount of their business beyond the borders of their native country.

Collaborative, Non-collaborative

- A NON-COLLABORATIVE WORLD is disjointed and fragmented. Key players, whether in government, business or other society groups, believe that success for them comes through making their own decisions using their separate processes. Players may well be operating in an international arena, and external policies and actions may affect them in some way, but their responses will be based on their own short-term self-interest.

- In a COLLABORATIVE WORLD, business, governments and the rest of society tend to work together when taking decisions and exhibit at least some element of power-sharing across their traditional boundaries. Business will act under the principle of enlightened self-interest and work with governments and the rest of society on issues that continue to hold back economic growth. There are many variations along the collaborative-noncollaborative axis as players pick and choose the issues and policies on which they want to collaborate as well as the degree of any collaboration.

-Accenture "Business in a Fragile World"