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2011 and Beyond:  
Understanding the Great Game

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## UNDERSTANDING THE GREAT GAME

### Seeing the real picture

If we look back over the last 24 tumultuous months, a period that threatened the end of the business world as we know it, then it is at least reassuring to learn that the British have not lost their mastery of understatement. How did they refer to this period? Well, the British referred to it as the *The Credit Crunch*.

But in all seriousness, this is the root of the problem when dealing with the long and short-term challenges of recession from a business perspective. That is not seeing a recession for what it really is. This recession (I am using the present tense at the time of writing as we cannot be sure in at least the developed world that the recession is over), the so-called *Great Recession* heralds the start of the *Great Game*. The *Great Game* is of course the struggle for global or regional dominance between the old and the new economic powers. The winners of the Great Game will of course be the architects of 'Capitalism II' – those who will influence not only the future path of globalisation but the rules upon which business will be transacted.

There is one thing that you can be sure of and that is that even in the best of outcomes, the rules of global business will change, especially for Western-based businesses.

### When the economist sings

A commonly made mistake is to think of recessions in purely economic terms. Whilst understandably economists' views usually dominate, we must understand that economic issues and metrics – such as GDP growth and inflation - are merely *symptoms of forces for change at work at a deeper level*. Some say that capitalism goes through episodes of creative destruction. In my view, we are now in the thick of such a wave of creative destruction. The "globalising" business world that we took for granted before the *Great Recession* was very much like a fragile jigsaw puzzle. Now it has been thrown up in the air and we must try to guess where the pieces will land – and of course - manage and lead our businesses at the same time.

My perspective is that it is only when economists call at end (or in the case of many of the developed economies – UK included – the *possible* end) to a recession that the hard work for business leaders really starts. This is the period when the material and lasting changes to the competitive landscape appear.

To look at the challenges that this predicament presents for business leaders, I will divide this briefing into two clear sections. The first examines the high-level trends that I am watching, trends and underlying forces that may help us to see where those pieces of the jigsaw puzzle might land. In the second part I will try to present a 360 degree view of what the post recession world might eventually look like.

### The trends to watch

And so to the emerging issues that I am monitoring to try to second guess just where those pieces of the jigsaw puzzle might fall. There are four inter-connected issues or trends that I would like to highlight:

#### *Issue 1: Localisation, not Globalisation.*

Be very, very careful about globalisation. Most of us have grown up, in a business sense, during a period when globalisation was an unstoppable force. If one dared to challenge this concept one would probably have been labelled as either ridiculous or unhinged. If, however, we pause for reflection, we can see that the whole concept of globalisation was built on a series of explicit and implicit assumptions. These assumptions, whilst widely shared, may not have been rigorously tested[1].

The assumptions include the following:

- We have entered a more mature phase in the world's development. The age when nations, or alliances of nations, went to war has passed. We are mature enough to sort our differences out through discussion and understanding. Rationality and common-sense will rule[2].
- No more "boom and bust" cycles. We were financially astute enough and had developed the instruments to avoid the risks and "bubbles of capitalism".
- Western-based views of the universal benefits of capitalism would be accepted by and bring wealth to all.
- In a similar vein, the world would become a universally democratic place, again using Western

approaches.

- Finally, the US will act as the guarantor of capitalism and global security.

We can see this stream of thinking in both the international relations field and in our own business world. A good example would be the best-selling and highly influential business book, Thomas Friedman's *The World Is Flat: A Brief History of the Twenty-First Century*[3]. This includes propositions such as the *Dell Conflict Resolution Theory* – how global corporations can bring co-operation between states and the slightly tongue in cheek *Golden Arches Theory* – a proposition that states that when an emerging economy has a big enough middle class to support a McDonalds' network, then people will rather queue for burgers rather than get involved in wars and conflict.

But most of these assumptions backing benign globalisation start to look highly questionable as the world stumbles along a highly fragmented road to recovery[4].

Some, indeed most of the BRICs (Brazil, Russia, India, China – the so-called emerging economies), face a relatively rosy future at least in the short-term.

Others, particularly amongst the developed economies, face a far bleaker future. Some, and I have in mind Ireland and Spain amongst others, face the double challenge of austerity measures and the need to make significant structural changes to their economies. Will, for example, the financial services and construction sectors that drove the massive expansion of these economies be allowed to return? If these sectors do not return to their former glory – then which sectors will drive growth and employment?

But we have another potentially far bigger problem on the horizon.

Whilst some will dispute this[5], the influence of the US is now perceived by many to be in decline or at least in relative decline[6]. The sun is starting to set on the US's sphere of influence.

If we look at the four dimensions of international power and influence [7]:

- Security – or military power – the power to protect.
- Finance – the control of and access to credit.
- Production – controlling production, manufacturing, the satisfaction of needs.
- Knowledge – the generation of new specialist skills and technology

then we can see the seeds of decline and that we face a indeterminate period of either coping with a reforming world order or no order at all.

The news that China's voting rights in the the IMF have been lifted and that it now occupies third place on the starting grid behind US and Japan (European economies have been pushed out of the way) illustrates this point[8].

But it is this transition period, if we refer to the international relations literature, where things could get sticky[9]. Tensions and frictions could well occur as powers fade and new players emerge. Hopefully, we have entered a period when the world has matured and bloc vs. bloc military conflict is a thing of the past. But if we pause to redefine conflict in economic terms, then the term "currency wars" could help us to envision the shape of a new battlefield[10].

The perversity then of the *Great Recession* is that the product may be to increase *localisation* and *fragmentation* rather than *globalisation*.

A glance again towards the winners and losers in Europe illustrates this point.

### *Issue 2: Low Growth World.*

Earlier this year, the Carnegie Endowment published a 40 year look into the future[11]. For me, it was an eye opening piece of work and questioned the proposition that the world would bounce back to the growth levels it enjoyed pre-2008. In one scenario, the developed economies struggle to exceed GDP growth over 2%.

The fact is we face substantial obstacles that include:

- An under-investment in energy extraction, that could produce an energy price spike around 2016[12].
- The obvious impact of austerity measures at both national, corporate and individual levels.
- The emergence of a savings-based culture in the developed economies.
- A need for quite fundamental economic restructuring in certain developed economies, especially the UK, US and Ireland who were reliant upon the financial services sector for growth.
- Considerable doubts surrounding the ability of the emerging economies to continue their current growth trajectory. Some have raised questions regarding planning, infrastructure and the capacity to deal with appreciating currencies[13].
- The length of time to fully develop Asian consumer demand, if a transition from a savings based culture can be made.
- Issues regarding the stability of Asia itself[14].
- Questions regarding the availability of natural resources[15], e.g. rare earths[16].

So, we are left with the question – will we ever, especially in Europe, return to the growth levels of the past? As usual, observers are divided, some think that for the US at least, the future is rosy[17], [18].

But the truth is we don't know. The shape of the future world, as one UK Prime Minister said, depends upon "events dear boy, events".

### *Issue 3: New Politics*

We have a vacuum appearing in the political arena and arguably this is one of the major new elephants in the room.

The *Great Recession* has produced a political challenge, not just for the right but also for the established left of centre parties in the developed economies [4], [19], [20]

Coupled with this vacuum, we have strong evidence of growing political ambivalence on the part of the general public[21]. In other words, a lack of faith or confidence in the established political parties. The unexpected emergence of the coalition may be simple evidence of this in the UK, as are the street protests that we are now witnessing across Europe.

Arguably, there are three roads ahead. One is status quo. The other is the emergence of a totally new force out of the remnants of what we have now. The third is the emergence and potential dominance of a range of new factional interests[22]. It is the latter road that I am watching.

### *Issue 4: What will replace consumerism?*

I came across a copy of the *Daily Mirror* whilst I was putting my ideas together for this briefing, worrying such minor issues as the future of globalisation at what degree of unity would emerge from the Seoul G20 summit. The front page bore this headline:

#### **CHERYL VOTES STORM**

This I think is something to do with a UK celebrity show. But there is a serious element here and another elephant in the room. A generation – *Generation Y* – has been brought up during an era of confidence, relative stability and debt-fuelled growth. In short, materialism and consumerism.

But I have a concept for you to turn in your minds. If we do not return to such a confident era, then what will replace materialism and consumerism as a near central life interest?

When faced with the task of visualising the effects of a potential seismic shift, it is often helpful to look at a position that is the exact opposite of the one that we have enjoyed. So where could the pendulum swing? John Quelch of Harvard Business School[23] got, I would argue, only part of the way there when he talked of the importance of experiences and personal contact replacing material purchases, but perhaps Adam Smith had a glimpse of our future writing some 200 years ago when he referred to the solid virtues of

*"prudence, restraint, industry, frugality, sobriety, honesty, civility, and reliability"*[24].

If consumerism and materialism die, what will fill the vacuum and how will it affect the needs and behaviours of our customers?

So, there is clearly more to be done than just waiting for the next set of economic indicators. All we do know is that it will take time, possibly three to four years, until we can see, with reasonable confidence, where the pieces of the jigsaw puzzle will fall.

This leads me onto the second part of this briefing. What might the future business world look like.

### Conclusion: A 360 degree future view

So, to conclude, we know that it is going to take time for the pieces of the jigsaw puzzle to find their new positions. We also know that this is far more than just an issue of macro-economics, there are new underlying forces at work.

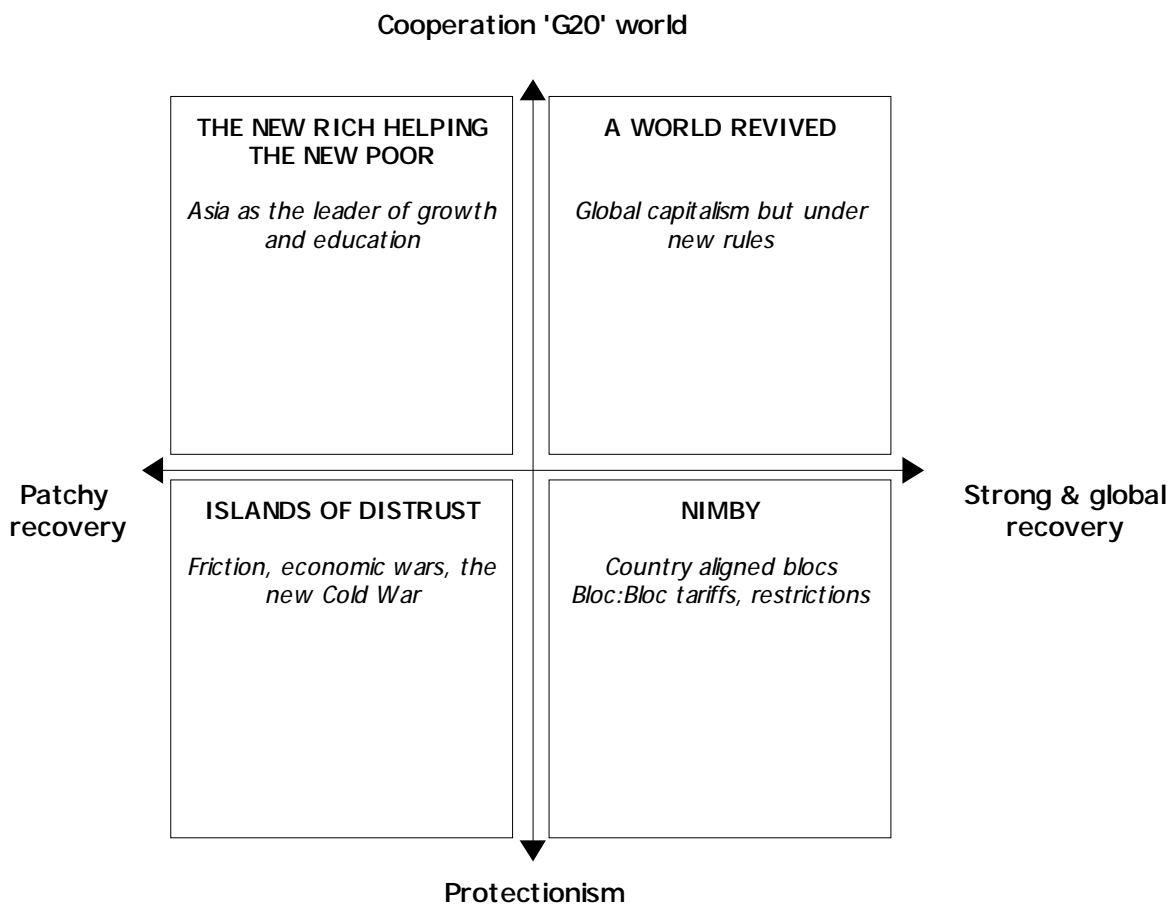
If there is one immediate action point from this briefing it is the urgent need to start considering what the future world might look like for your businesses. To gain that 360 degree view that I referred to earlier, consider four scenarios.

We can build these by looking at the two major uncertainties that are relevant for any business.

We can sum up these uncertainties in these two questions:

1. *How strong will the recovery be - strong and global or patchy and local?*
2. *How well will the world cooperate – the 'G20' world or protectionism?*

We can take these questions and form two axes from them:



Getting this 360 degree view and exploring the four scenarios is an essential first step in making sense of the new world. As events unfold, this approach will give you a framework to see in which direction the future world is moving.

An important point to make is, that even in the best possible outcome, "A World Revived", there will be new rules, just as there are new seats around the table at the IMF. New forms of capitalism will appear. The days of total deregulation will not appear again in the lifetime of any Generation X reader of this paper.

## Notes

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### **Biography and Contact Information**

Dr Robert Davies has a career that embraces business management, executive development, research and consultancy. He has held a range of senior management roles from strategy development and change management to product pricing. Robert has also conducted major research study programmes. Notably, Robert researched how mature financial services organisations succeeded in meeting the challenges of the economic recession in the early 1990s. This study was profiled in the *Financial Times*. His current interest is in the development of scenarios that help business leaders to see the final form of the post-recession business landscape.

Robert provides advisory services to a range of organisations in the fields of organisational change, strategic and scenario planning, performance measurement and innovation. Strategy development programmes are provided to enable managers at all levels to contribute effectively to their organisation's future direction.

In addition to his PhD degree, Robert has an MBA (distinction) and is a Fellow of the Chartered Insurance Institute. He is also a Senior Visiting Fellow at Cass Business School, London.

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