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STRATEGIC FORESIGHT

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Looking at the Future: The Critical Mistakes to Avoid

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Overview:

This paper highlights common but critical errors that are made when organizations think about the future. The first error is to assume popular ‘megatrends’ are absolute certainties. The second is to fail to consider disruptive forces. The third error is to assume that the future will unfold in a rational manner. Ignoring these errors is potentially dangerous and may erode an organization’s future capabilities. This paper introduces a range of disruptors and scenarios are presented that include their effects. Ideas for building organizational resilience are also presented.

Organizations and foresight

It is a sad fact that many organizations might not be very good at looking at the future. Obviously, this shortcoming can leave leadership teams and their organizations badly exposed when the unexpected breaks to the surface.

In this paper ideas are shared on how to look at the future and what it may hold from a different perspective. I will also share with you some of the issues that I have been researching over the past eight years. The objective is to provide a simple framework that you might wish to take away and consider. This could include the implications for your organization’s strategy, core competences and learning and development planning.

This paper will address these questions:

- *Why do organizations find it so difficult to think about the future?*
- *Should we look at the future in a different way?*
- *What potential futures could we face?*
- *Do we need a new word in our vocabulary?*
- *What should we do now?*

Why do organizations find it so difficult to think about the future?

Well, the figures are not good. Research[1] indicates that around 80% of organizations would like a better way of picking up the weak signals that may indicate that frame-breaking change is on the horizon. Well over 90% are probably worried about their early warning systems and over 60% may well admit to have being shocked by up to three high impact unexpected events over a five year period. And there are many stories that we can use to substantiate these findings. In early 2009, academics and researchers in London invited the Queen to a presentation to explain how the *Credit Crunch* occurred[2]. A comprehensive explanatory presentation was provided, but the Queen asked a simple question – ‘*How come nobody could foresee it?*’ The response, three weeks later in the form of a letter, pointed towards a ‘*failure of the collective imagination of many bright people*’ But the letter contains many other clues that we can build upon to understand why organizations find it difficult to think about the future:

- Groupthink – a surprisingly common problem.
- A bias towards the positive. As human beings we seemed to be programmed to take an optimistic view.
- The negative side of remuneration – as one of the academics said *'I think the main answer is that people were doing what they were paid to do, and behaved according to their incentives, but in many cases they were being paid to do the wrong things from society's perspective.'*
- Forgetting the lessons from past crises.
- Believing that the future will unfold in an economically rational manner and
- Not sharing and exploring diverse views.

We all have a significant role to play in overcoming these obstacles. This is a critical task that will help us to look at the future using a different approach and such an approach may well lead us towards tomorrow's sources of competitive advantage.

Should we look at the future in a different way?

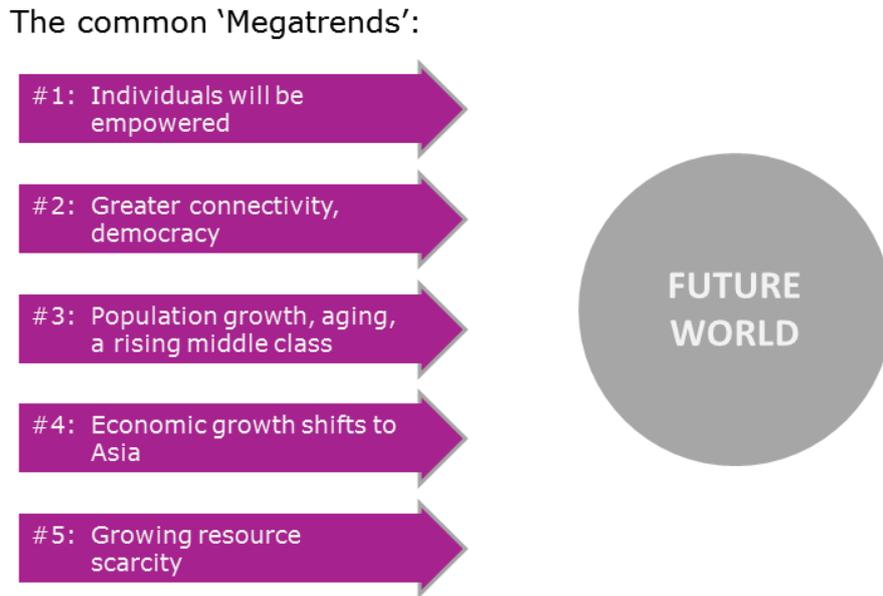
Let us start by taking a conventional way of looking out to the future. The 'five certainties' (please see Illustration 1) that are commonly accepted as driving the shape of our future world are as follows:

1. *Individual empowerment.* A combination of a growing global middle class and technology.
2. *Greater connectivity, greater democracy.* Many studies hold that universal global connectivity is an absolute certainty that will drive the creation of one united global marketplace.
3. *Population growth and a rising middle class.* Some tell us that by 2030 the global middle class will have grown from some 2.0bn to 4.3bn
4. *Power shift.* Economic growth, power and influence shifting away from the West
5. *Sustainability.* Resources will become increasingly scarce – a combination of climate change, population growth and industrialisation means that demand for water and food will rise by around 40% over the next 15 years. We therefore need to focus, quite sensibly, on sustainability.

So these are the apparent forces, the apparent certainties that will shape our future and now form the foundations of so many businesses' strategies.

We can see why this happens. These are largely benign forces. They are easy to project. When fused together they can be used to shape a very friendly and welcoming world, one that is a simple, a rational straight line from where we are today.

Illustration 1: The 'Five Certainties'



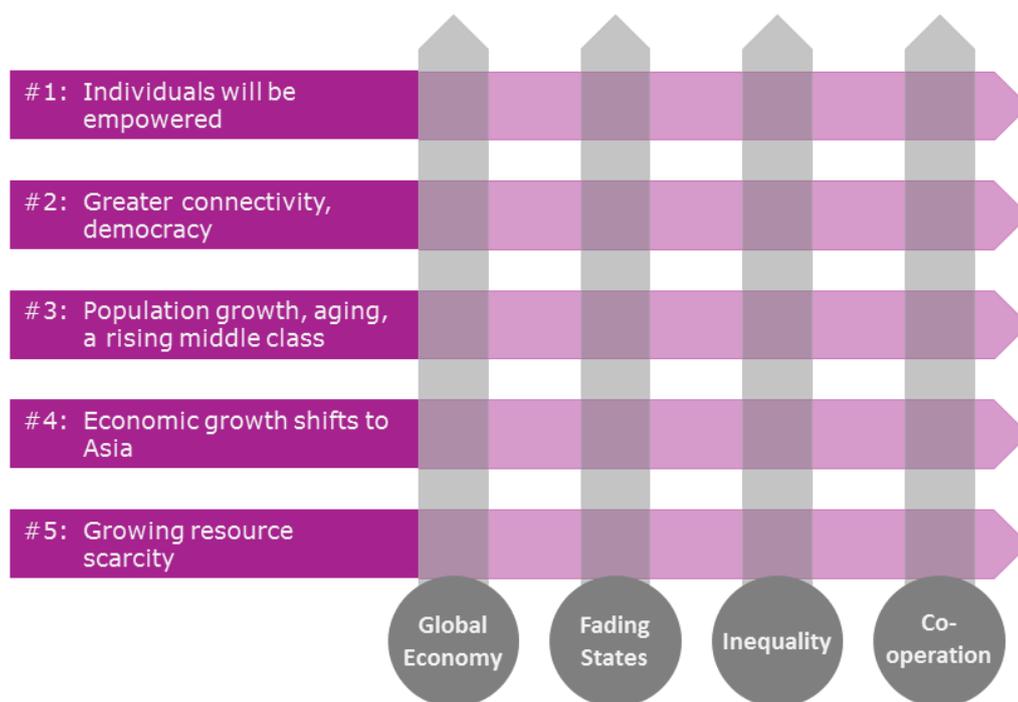
But this is immediately where critical mistakes numbers one and two enter the frame. The first rule of thinking about the future is never to assume that it will unfold in an economically rational manner. If it did, then we would never have wars or recessions. The second critical mistake is not to consider the disruptors. This is a common failing and we need to think very strongly about the impact of the disruptors. Why? Because most of the disruptors that are introduced here are very nearly a certainty – each one might be only a hair's breadth away – some could quite well already be with us.

These are some of the major disruptors based on my research (please see Illustration 2):

- (i) *The global economy.* We are all familiar about the concerns, which have been quietly growing since 2008, about the future trajectory of global growth. The latest IMF Outlook report[3], published in October, lowered growth expectations and noted the emergence of downside risks for developing and emerging economies. But the old economies are not immune and the economists have given us a new word to describe the illness that these economies may be suffering from. That new word is 'hysteresis'[4]. What these means is that recessions have long-term effects and change human behaviour. People become more cautious which goes a long way to explain why demand in the old economies is declining. Others say that we need a new industrial revolution to drive growth. On top of this we have the issue of 'global gridlock'[5] that we shall turn to shortly. All these factors mean that we have to think very carefully about the implications of a volatile, low growth world.

- (ii) *Fading states.* This is the part of the paper that is a bit strange, a bit ‘wacky’. In short, we are used to looking at the world and our markets as a fabric of nation states. But the fact is that, in historical terms, the permanence of nation states is a relatively recent issue. Have you noticed how economic globalisation and technology have reduced the power of national leaders and the relevance of national borders? Well, the idea is that basing future plans on a map of the world as it stands at the moment could be a very big mistake. We could see many boundary changes, the rise of city states and even virtual states. It is a concept that challenges the mind but we need to be aware that it is a very big potential disruptor.

Illustration 2: The Disruptors



- (iii) *Inequality.* Possibly the term ‘*Capitalism’s Crisis*’ should have been used. We are now very familiar with the crisis of inequality in its varying forms that is a global issue. We need therefore to consider how well capitalism will respond to this crisis. There is one major concern that we need to reflect upon. That is the adoption of robotics and artificial intelligence. If this is used as a job enhancer and creator all well and good and we could be one very big step towards stability. But what if this new technology is used just to cut costs and improve short-term profitability? A report published in November 2015 forecast that one in three UK jobs will be lost to artificial intelligence and robotics[6]. One of the big issues is that the main casualties will be the middle class. If there is a significant time lag between the loss of jobs and the creation of new ones then we have potentially big problems. Why? Well, the growth of the global middle

class could be halted and we must remember that traditionally we have seen the growth of the middle class as underpinning the growth of stable democracies.

- (iv) *Cooperation*. The final disruptor. This takes many forms but at the highest level we do not have the management structure to run our newly globalising world. The structures that we do have are largely based on work led by the US at a hotel in Bretton Woods in July 1944. These are creaking at the edges and do not reflect the constitution of our changing world. Some researchers call this 'global gridlock'[5] and we can see its symptoms for example in the Ukraine, in Europe, in Syria and in the South China Seas.

So what potential futures do we face?

All very interesting, but does this mean for the future?

A justifiable question, but one that has no precise, direct answer. The cold hard reality is that one knows with great confidence what the future will hold – even just 12 months out from now. The world as it stands at the moment is very much a half-built prototype structure, but one that is highly interconnected, so much so that it is difficult to predict any outcomes. So rather than take a traditional approach and focus upon one forecast, one future picture or set of trends it is better to try to look at a range of possible futures that together could give us a clearer and more holistic view of the way ahead.

If we reflect back to the disruptors that I introduced earlier, we can gather them into two broad families. The first is a continuum of global growth running from stagnation through to renewed continuous and sustainable growth. The second family, again shown as a continuum, relates to global cohesion, in other words do we or don't we break out of global gridlock. Together, we have four potential future scenarios (please see Illustration 3 overleaf).

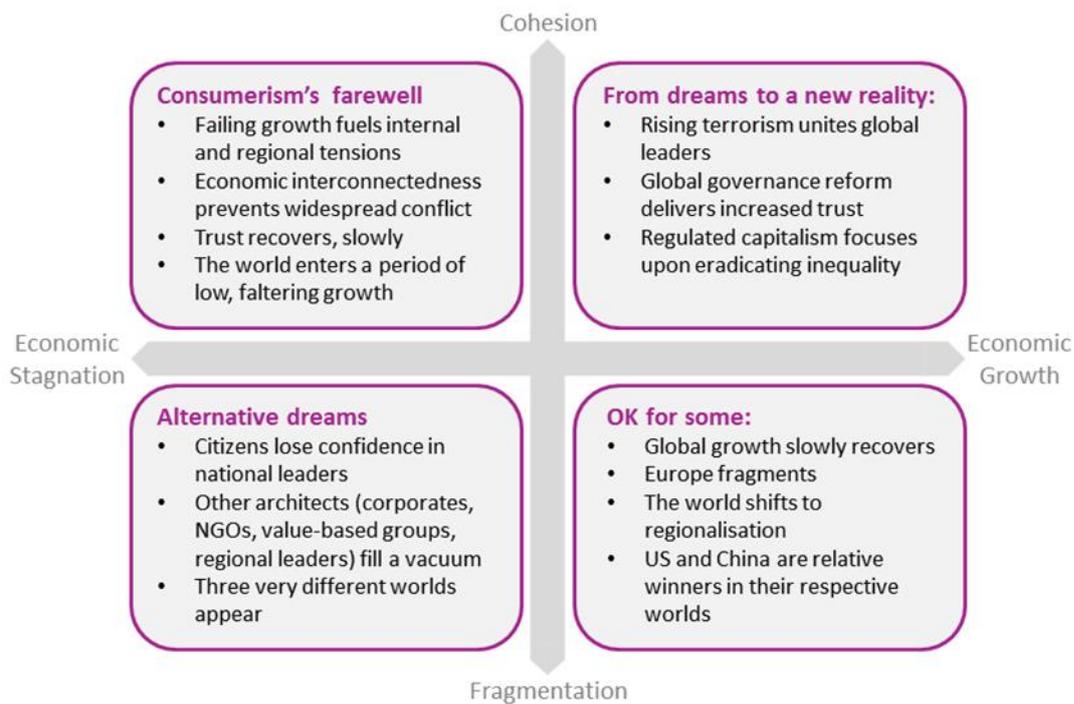
Now the trick to using scenarios is to focus on the general 'flavour' or 'atmosphere' that each conveys not so much the illustrative events that will be used to tell the story for each scenario.

Each of the four future pictures or scenarios has at least one 'twist' that should cause us to stop and think and, interestingly, only in one of these scenarios do a majority of the supposed certainties really hold true.

The first is '*From dreams to a new reality*' and is the most optimistic, in conventional terms, of all four scenarios. This is a united world where old and new power houses are driven to cooperate by the threat of rising terrorism. Global institutions are reformed and the spirit of cooperation drives a return to sustainable growth. The twist in this scenario is that we do not see a return to free market capitalism. Recently, I attended a think tank discussion

group meeting on the future of capitalism and it was suggested that we might see a shift to more regulated capitalism with an emphasis upon eradicating inequality and satisfying a broader range of stakeholders – all of course with the aim of ensuring social stability. This is the central message of our first scenario - an end of short-termism and the over-arching focus just on shareholder value creation.

Illustration 3: Four Potential Scenarios



The title of the second scenario, 'OK for some', really says it all. We do not get to the level of cohesion that we saw in the last scenario and the West is burdened by very low levels of economic growth. Slower growth, a return to contraction for some, coupled with border disputes, a surprise 'Brexit' and migration pressures cause Europe to fragment. The world falls into two distinct zones, a contracting zone influenced by the US and an expanding zone influenced by China. Whilst this is a lower growth world with divisions, the relative winners are the new economies. Some 'old empires', notably Europe, find themselves torn between these two zones and old allegiances fade.

'Consumerism's farewell' carries a very different message and deals with the spectre of a low growth world driven primarily through hysteresis in the West that leads to a loss of global confidence. As we have seen, hysteresis relates to the delayed or long-term effect on consumer behaviour, of recessions. During a recession and a slow lingering recovery, consumer behaviour changes. Consumers get used to living with less and therefore demand less. Inequality becomes a major issue. Displays of material wealth are shunned. Luxury

brands become distinctly less fashionable. So this scenario is all about the changing face of consumerism and the real challenge of succeeding in a low growth world.

And so we come to the final scenario this may be the most interesting of all although it is the most distant from where we are now. I spent a year researching for my book[7] and the big conclusion that I reached was that there is not one universal form of globalisation but three. We all tend to think of economic globalisation as the big driving force for unification in the world, but there are two more that can come to the fore when times get tougher. The first of these forms of globalisation is 'security globalisation', or in other words the rise of authoritarianism that promises security in a volatile world. The final form of globalisation or attraction point is called value-based globalisation. This of course embraces religion but our minds should not stop there but should focus upon the rise of social movements that believe that established national leaders and other institutional bodies such as central banks have run out of ideas and have no legitimacy. This is a world of rapidly changing borders and a world that falls into three over-lapping zones, each driven by a different type of globalisation.

So what do we do?

All very interesting, but what do we do? Do we sit back and hope that everything will be alright and that the five certainties will hold good?

There appears to be too much risk in taking that approach.

For as long as we can all probably remember, the world of business has been driven by one word and that word has been *growth*. There is now another word that we should place alongside growth at the top of the business agenda and that word is *resilience*.

So how can we go from here to start to build resilience in our organizations?

We can start by taking three steps, built upon the content of this paper.

The first step is not to rely on the five popular certainties. Each of the popular 'certainties' must be questioned. If we look across the four scenarios that have presented only two certainties hold in each – rising population and resource scarcity.

Secondly, when planning, we need to pay as much attention to *disruptors* we do to *certainties*.

Thirdly, we need to think strongly about each of the four scenarios we have introduced here. A good starting point is to think about that top left scenario that deals with faltering growth and the prospect of another economic crisis ('Consumerism's farewell'). Thinking

about how we can succeed in such a world now avoids or mitigates the implementation of all the usual crisis measures – headcount freezes, slashing the training and development budget, cutting sales and marketing investment – a process that we could refer to as ‘shooting all the usual suspects’! But most importantly, it starts a process of thinking outside the standard strategic box.

Critically, it is far easier to objectively answer the ‘*what would we do if?*’ question in the relative calm before the reality of a new world hits us.

A final point

And just one final point to close to bring us back to thinking about the future -- please do not assume that the future will unfold in an economically-driven rational manner. It rarely does.

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ABOUT DR ROBERT DAVIES

Robert helps business leaders unravel the implications of an unprecedented shift in the balance of global power and influence. The tools and approaches that he uses are based upon leading-edge research and years of practical, hands-on management experience. Robert is a Senior Visiting Fellow at Cass Business School, London, where he teaches on the MBA program. He is also a member of the Centre for International Policy Studies at City University. He is additionally a Fellow of the Chartered Insurance Institute.

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Robert's advice can be delivered in a number of ways from *coaching, mentoring, consultancy assignments* and *research projects* through to *training workshops, event speaking*, or even short, *value-added conversations* in these and other areas:

- *Global foresight*
- *Strategy*
- *Scenario planning*
- *Change management*
- *Innovation*
- *Mentoring and Executive Development*

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