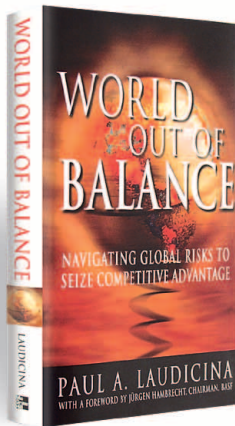


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FILE: STRATEGIC MANAGEMENT



By Paul A. Laudicina

Navigating Global Risks To Seize Competitive Advantage

WORLD OUT OF BALANCE

THE SUMMARY IN BRIEF

World Out of Balance is a call to action to the corporate community to understand the external world in order to engage it. It explains why companies should develop their own structured, dynamic processes for reading the signs of change in a complex and often perplexing world, with at least one eye firmly directed toward the future. The objective is to sort false signals from meaningful developments so business leaders can anticipate and prepare for changes with the greatest potential impact on business operations down the road.

In World Out of Balance, Paul A. Laudicina, the managing director of A.T. Kearney's prestigious Business Policy Council, provides a practical framework for making sense of changes in the external environment and offers straightforward scenarios of how the future global business environment might evolve. His framework is based on what he has identified as five primary drivers of change — globalization, demographics, the new consumer, natural resources and the environment, and regulation and activism. Laudicina argues that today's earth-shattering events are fundamentally different from those of previous eras of history, as technologies are collapsing distance and spawning unprecedented global interdependence. Only a disciplined strategy will embolden corporate management to engage the world and seize the many opportunities it presents.

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What You'll Learn In This Summary

- ✓ How you and your company can stay ahead in a world of constant change.
- ✓ How you can prepare for the opportunities and threats that come along with burgeoning populations in unfamiliar markets.
- ✓ How changing demographic trends offer opportunities to businesses that can anticipate positive developments that affect populations of people.
- ✓ How five main drivers are shaping the ever-changing business world.
- ✓ How to better prepare for your company's future and realize the potential of new global realities.

WORLD OUT OF BALANCE

by Paul A. Laudicina

— THE COMPLETE SUMMARY

A Call to Action

Not long ago, most leading companies had possessed strong in-house capabilities for monitoring changes in the external environment. Companies like Royal Dutch/Shell pioneered increasingly sophisticated risk management and strategic planning functions to balance the considerable opportunities they saw overseas with the enhanced vulnerability to social and political unrest, economic upheaval, and natural disasters to which global expansion exposed them.

Rounds of cost cutting and corporate restructuring took their toll on strategic planning departments in the 1980s, and a decade of “benign globalization” in the 1990s shaped an exuberant worldview among a new generation of business leaders. Many believed that careful planning against external exigencies was largely unnecessary for success in global markets. As a result, most companies today lack the means to identify and manage external risks and find themselves without bearings in this increasingly complex world.

External Uncertainties and Shocks

Business leaders do not need to be paralyzed. Companies can — and should — undertake expansion strategies even when external uncertainties and shocks can have as much impact as traditional industry dynamics. With the most promising opportunities located outside home markets, hiding from risks is not an option. Instead, companies must bring insights about the external environment into the planning process in order to spot and act on new opportunities and avoid emerging threats. The key to this approach is plotting the five drivers that are most likely to shape the global business environment. The five drivers — globalization, demographics, consumer needs, natural resources and environment, and regulation and activism — are interdependent but not always mutually reinforcing.

The Gas Pedal: Technology

What makes this era of globalization truly unique is how inexpensive and powerful technology has become. New technologies create new opportunities, but if governments continue to fail to implement universal standards, corporations might find themselves confronted with an increasingly complex patchwork quilt of regional and national regulations. This complexity will curtail organizations’ ability to expand markets and operations abroad, and limit the opportunities technologies offer to underserved populations. ■

Globalization: Two Steps Forward, One Step Back

The first modern multinational companies were born in the 19th century. The Singer Manufacturing Co. expanded the production of its sewing machines abroad in the 1860s. In 1863, a Singer sewing machine was presented as a gift to the King of Siam, whose acceptance helped establish the brand locally and provided the company with a successful model of celebrity endorsement and mass marketing that it would replicate across the globe. Before long, the company had a substantial presence in both Europe and Czarist Russia, and ultimately established a global market share of some 80 percent, with annual worldwide sales of 1.35 million machines in 1903.

For the most part, early multinationals remained companies with dispersed production and decentralized management. Long-distance shipping was difficult and communication was costly, so local managers enjoyed considerable autonomy in manufacturing and marketing products.

Modern Globalization

By contrast, contemporary globalization is a very different breed. Rapid transport, sophisticated logistics, and instantaneous communication have allowed for increasingly complex, dense forms of interaction. Executives can easily meet face to face. They can send sales and production data anywhere and at any time. Companies are able to disaggregate their production around the world, relying on just-in-time deliveries to keep manufacturing facilities running. By the end of the 20th century, nearly 63,000 multinational corporations were operating worldwide.

Deepening integration among financial markets further

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The author: Paul A. Laudicina is the managing director of A.T. Kearney’s Global Business Policy Council.

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For additional information on the author, go to: <http://my.summary.com>

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DEBRA A. DEPRINZIO – Senior Graphic Designer
CHRIS LAUER – Senior Editor
CHRISTOPHER G. MURRAY – Editor in Chief
GEORGE Y. CLEMENT – Publisher

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Published monthly. Subscriptions: \$195 per year in the United States, Canada and Mexico, and \$275 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2005 by Soundview Executive Book Summaries.

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Globalization: Two Steps Forward, One Step Back

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complicates how companies act internationally. As the Asian financial crisis revealed, malaise in one market can quickly evolve into a contagion that infects others. Even in relatively stable times, unexpected currency fluctuations can take a big bite out of corporate profits. German automaker Volkswagen reported losses of \$1.5 billion as a result of the volatile dollar-euro exchange rate in 2003 alone.

Three Possibilities of Globalization's Evolution

The future path of globalization is uncertain. On one hand, countries may decide that the threats are too great and retreat to a more isolated position. On the other hand, globalization has proven itself time and again to be an adaptive phenomenon that takes more steps forward than back. The following three scenarios sketch different possibilities of how globalization may evolve between now and 2015:

Scenario 1. The Rise of Localization. Mounting security threats and economic uncertainty start to unravel the threads of globalization. Protectionism and nationalism proliferate. New security regulations restrict the cross-boarder movements of potentially harmful cargo, people and money. Consequently, international trade and investment slow substantially. Income inequality both between and among nations rises sharply. Caught in a cycle of worsening economic conditions, even traditionally free-market governments respond to intense public pressure to safeguard jobs.

Individuals are increasingly disdainful of global culture, global brands, and global norms, and seek refuge in the sanctuary of national identity. The antiglobalization movement, once the domain of nongovernmental organizations (NGOs) and street activists, finds growing resonance in white-collar suburbs. Unfettered global integration is believed to cause more harm than good. Confronted with these fears, the representative democracies of the industrialized world increasingly favor stability over efficiency.

Scenario 2. Bilateral Half-Measures. Countries take incremental and modest steps toward globalization, but the pace is more cautious than during the heady 1990s. As countries seek to maintain their competitive advantage in the global marketplace, it becomes increasingly tricky to paper over differences such as levels of agricultural subsidies and the scope of intellectual property laws. Multilateral trade and investment agreements are supplanted by regional treaties among nations whose interests most closely converge.

With no coherent global standards on issues such as the environment and biotechnology, companies that seek to expand globally must navigate a complex regulatory obstacle course. As a result, all but the largest corporations limit their expansion to a specific region, opting to dominate in one local standard while competing in other parts of the

How Preparation Saved Nokia

Mobile telephone maker Ericsson learned the hard way about the consequences of not being prepared after lightning struck a critical supplier's plant in New Mexico, starting a small fire. The Swedish company did not learn about disruptions in its supply chain for weeks, but its competitor Nokia, which also depended on the same supplier, had contingency plans in place within days. By the end of the year, Nokia had improved its market share, while Ericsson posted a \$1.7 billion loss and outsourced its handset manufacturing to another firm.

world on a more limited basis.

Scenario 3. Homo Economicus. The world returns to the path of ever-deepening global integration that began in the 1990s. Global trade is on a rebound. Offshoring and other capital flows continue, and their powerful development impact on Asia generates positive returns for Europe and the United States in the form of increased purchasing power abroad. All major economies are members of the World Trade Organization (WTO), which has eliminated the most onerous barriers to international trade. Still, in some areas, free trade negotiations have reached an impasse and governments find it difficult to reach consensus on several thorny issues. Trade in services is booming, and secure digital connections allow far-flung, global production and distribution networks to emerge.

Antiglobalization activists remain a small, but influential, group and focus their efforts on helping the least developed countries. Transnational problems, such as infectious diseases, computer crimes, terrorism, and financial instability, often foster international cooperation among governments and institutions, since no country can reasonably hope to completely isolate itself from such threats. Finally, although "global culture" remains a popular buzzword, it is countered by the increased exposure to an ever more diverse set of people — and all the creativity, ideas and perspectives they bring to the table. This return to benign globalization does not offer limitless opportunities — but they are vast, and they penetrate many levels of society. ■

For additional information on the global impact of computer viruses, go to <http://mg.summary.com>

Demographics: An Age of Extremes

The global community stands on the brink of new demographic challenges that come from the rapid aging of the world population. For most of human history, only 2 to 3 percent of the global population lived long enough to

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Demographics: An Age of Extremes

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become senior citizens. The World Bank now predicts that 16 percent of the global population — more than 1 billion people — will be over 60 years old by 2030.

As a result, the future of many countries may well resemble Florida, where pensioners and retirees represent nearly one-fifth of the population. The “Floridaization” of the world will be most acute in wealthy, industrialized countries, which will pass this same demographic benchmark in a matter of years: Germany in 2006, France and Britain in 2016, the United States in 2021, and Canada in 2023.

Unique Opportunities

Changing demographic trends offer unique opportunities to businesses that can anticipate positive developments that affect the population. For example, lower fertility rates and smaller families translate into more disposable income for women. While rapid urbanization will challenge developing countries, sprawling megacities offer a prepackaged infrastructure for marketing and selling products and services to those living at the bottom of the income pyramid.

Corporations that capitalize on the ebb and flow of the demographic tide will find themselves ahead of the game as they compete for human capital and consumers worldwide. The following three possible scenarios could play out between now and 2015:

Scenario 1. Restless Masses. The global population surges, mostly in developing countries. Government promises on improved social insurance programs fail to fully materialize. Fertility rates climb as families insure themselves against economic uncertainties by relying on additional children to bring in extra income and to care for parents and grandparents in their old age. In developed

countries, pension and health care programs are under serious strain: Older workers exit the work force en masse as the costs of social programs skyrocket and retirement funds underperform.

Scenario 2. Immigration Queue. World population growth continues along a similar trajectory as today. In advanced economies, such as Italy and Japan, the economic burden of supporting the elderly falls heavily on an ever-shrinking pool of workers. Governments of advanced economies may open national borders to more immigrants to offset their shrinking work forces.

Scenario 3. Global Talent Flow. Population growth slows globally. As economic conditions improve and family planning programs become more widespread, fertility rates decline rapidly in developing countries. As the ratio of workers to retirees continues to shrink, countries increasingly utilize previously untapped demographic groups, such as women and younger people, to enter the work force. ■

The New Consumer: Forging Bonds in a Fragmented World

Consumption patterns are greatly influenced by purchasing power, which has risen globally, but most acutely in emerging markets. Future global economic growth will significantly influence the levels of wealth and purchasing power among consumers in different countries, as well as the continued spread of technological use among consumers. Here are three possible scenarios for the consumption patterns of the new consumer between now and 2015:

Scenario 1. Rice and Beans. The first possibility would be weak economic growth worldwide — or worse yet, a prolonged global recession or a global economy disrupted by unpredictable events. Such a scenario would restrain the rise of the global middle class in emerging markets and elsewhere. Consumers in developing countries would be empowered and demanding, but possibly unable to afford the quality products they want.

If this scenario materializes, companies must find innovative ways to price quality goods at very low prices for mass consumption in order to get a piece of the shrinking consumer pie. Domestic companies in developing countries may be more agile and capable of supplying such products, and may also be viewed as less culturally intrusive. Global companies entering these markets may find themselves targets of a serious backlash, as they may be viewed as exploitative of poor consumers. Under this scenario, global corporations may increase their likelihood of survival by scaling back intrusive marketing efforts; toning down their brands; and operating as smaller, regionalized companies that partner with domestic brands.

Scenario 2. World Bazaar. If the global economy main-

What Causes Global Aging?

What explains the phenomenon of global aging? The first factor is rising longevity, thanks to improvements in health care and better standards of living. Since WWII, average world life expectancy at birth has jumped from 45 years to 65 years — a higher gain in the last half century than in the previous 5,000 years.

The second cause of global aging is declining birthrates. Instead of a population boom, there is actually a “baby bust” in countries and territories that today account for 44 percent of the world’s population. Global birthrates have declined steadily since the early 1950s, when each woman had an average of five children. Today, the global fertility rate is 2.7. In developed countries, the average number of births per woman has fallen to 1.7 — far below the rate of 2.1 children per woman that maintains stable population size.

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The New Consumer: Forging Bonds in a Fragmented World

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tains moderate and stable growth, allowing consumption patterns to remain similar to those today, consumer demand will continue to span a wide spectrum from customized, quality goods to subsistence basics. Increased fragmentation of consumer groups could confer a competitive advantage upon global companies that have already established themselves in emerging markets, as they can more easily command loyalty among existing customer groups.

Companies that wish to enter these markets must strive to quickly win the hearts of fragmented consumers and repackage products to reach masses of lower income customers. Companies that manage to be all things to all people through multiple, differentiated product lines that offer high-end to low-end merchandise may be more uniquely capable of reaching a broad consumer base.

Scenario 3. Hey, Big Spenders. The third scenario envisions savvy, technologically sophisticated, and affluent consumers worldwide, with new concentrations of middle-income consumers in developing countries. Global economic growth continues to surge, spreading wealth across different income groups in both advanced and emerging markets. As personal income levels continue rising, affluent consumers dominate consumer markets. Demand for premium products swells across the globe, with virtually all consumer segments seeking higher quality, more upscale products that they are now able to afford.

Global corporations must take the cue from their empowered consumers. Companies may find themselves fending off negative media and risking vandalism if they are too aggressive or intrusive in their marketing efforts. But they will watch market share slip away if they treat themselves as mere providers of goods and fail to tap into new demands and growing markets. ■

Natural Resources and the Environment: Stretching Limits

Fresh, drinkable water comprises only 2.5 percent of our total supply of water, and nearly 80 percent of that drinkable water is locked away in the polar ice caps and glaciers. Groundwater represents another 20 percent, which means that only 1 percent of fresh water is easily accessible.

Today, the majority of the world's population, approximately 90 percent, enjoys relative water sufficiency, as defined as an adequate amount of fresh water per person for all purposes. Five percent of the world experiences water scarcity, meaning there is insufficient water to satisfy normal requirements. Another 5 percent of the world is suffering from "water stress," a situation in which water supply problems are chronic and widespread, and there is

mounting competition among water's various users. Among the countries expected to experience water stress or scarcity in the coming decades are India, Turkey, Nigeria, Poland, the United Kingdom, parts of China, and the western United States.

The New Energy Crisis

An estimated 1.6 billion people, or 25 percent of the global population, do not have access to electricity or gasoline. They depend on energy generated inefficiently by burning fuel, wood, and plant and animal wastes. A lack of energy perpetuates the cycle of poverty, while access to energy drives economic growth. Looking ahead to 2030, the International Energy Agency predicts that the global demand for energy will grow by two-thirds. This surge in demand will require an investment of up to \$16 trillion.

When we consider all the variables that determine the availability of natural resources — political, technological, economic and regulatory — these three possible future scenarios emerge:

Scenario 1. Constrained Energy. This scenario envisions a world where there is little in the way of international cooperation and countries rely on their own unique assets. The world becomes increasingly polarized between those who have, or can afford, access to natural resources and those who cannot. Oil prices rise sharply due to increased demand, inadequate development of alternative energy sources, and an OPEC monopoly with renewed strength.

The United States and Europe reluctantly pay higher prices, but turn increasingly inward to protect their own economies. The United States seeks to safeguard its supply by providing significant military assistance to the resource-rich countries in the Middle East. The European Union imports oil and natural gas from neighboring Russia and cultivates relations with "rogue states" such as Iran. As Asia struggles to meet its energy needs, economic development slows throughout the region.

Despite warnings from scientists about rising greenhouse gas emissions, Western corporations successfully roll back environmental regulations, claiming they need to keep a lid on rising prices. At the same time, the higher oil prices lead to technological breakthroughs in alternate energy sources, including some clean energy solutions such as solar power and hydrogen fuel cells. The net effect on the environment, however, is still overwhelmingly negative.

Scenario 2. Necessary Invention. Countries strive to lessen their dependence on foreign energy. The oil and natural gas markets remain volatile, and when prices swing sharply upward, governments and companies seek alternate energy sources. The United States and Canada exploit oil reserves in the Arctic, construct a new generation of coal-fired power plants, and introduce legislation requiring more energy-efficient vehicles. European countries share declining

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Natural Resources and the Environment: Stretching Limits

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reserves of the North Sea and Scandinavian oil more efficiently, but they also develop more expansive, environmentally friendly renewable sources of energy.

As fossil fuels serve as the world's primary source of energy, global greenhouse gas emissions continue to rise. Water quality and availability worsen. Growing public concerns about environmental degradation — particularly in crowded urban centers — create a strong market niche for “green” products. Fuel cells emerge as a cost-effective option for large-scale applications, such as stationary power generators, but are still not able to compete with lower-cost hybrid systems in automobiles.

Scenario 3. Fuel for Growth. Surging economic expansion has made countries in emerging markets and industrialized countries more dependent on foreign supplies of oil and natural gas than ever before. Industrialized nations and key emerging markets form strategic alliances with resource-rich nations to meet their soaring energy needs.

As surging industrial growth takes its toll on the environment, water supplies deteriorate further. Governments provide incentives for corporations to reduce greenhouse gas emissions and conserve water. Companies recognize that protecting the environment means protecting their bottom line; they develop innovative ways to harness technology to ensure ample water resources, and reduce environmental damage. ■

Regulation and Activism: A New Breed of Challenges

“Government” may be among the most improved brands of the decade. Between 1994 and 2002, the share of Americans who said they trust government “most of the time” or “just about always” increased from 21 percent to

The International Price of Spam

The United Nations Conference on Trade and Development estimated that, since the end of 2003, spam constituted 50 percent of all e-mail messages in circulation and cost as much as \$20.5 billion in wasted technical resources. Even typically trustworthy corporations are under pressure to limit their use of e-mail to contact potential customers. Even a series of two e-mail newsletters from IBM asking subscribers to forward offers to their friends in exchange for free software was perceived as unwelcome spam by many recipients. As a result, governments worldwide are implementing an increasing amount of antispam legislation.

56 percent. Europeans place more confidence in the European Union (EU) and the United Nations than in their own national governments.

Growing security concerns have raised faith in governing institutions and given them a free hand to deal with national security issues. The United States and Europe have spent billions to implement new national counterterrorism measures, including enhanced airport security, passport control, and response teams for biological and chemical attacks. European nations have moved to create uniform banking standards and enhanced judicial cooperation within the EU.

The information technology industry has become an inviting target for new rounds of regulation. E-mail communication, electronic commerce, and digitized information have become so central to daily life that they need new “rules of the road,” even if standards were not terribly important when the industry was still carving out its niche. With questions about privacy, intellectual property rights, and tax liabilities clamoring for answers, the authorities are likely to step in as traffic cops.

Frontiers of Science and Technology

Government intervention is being felt throughout the economy, from basic manufacturing to the most sophisticated telecommunications services. Nowhere is the effect stronger than at the frontiers of science and technology, where a host of new discoveries and developments is confounding existing regulations and rendering old ways of doing business irrelevant.

Perhaps the most intense ongoing debate surrounds the growing sophistication of biotechnology, where the ability of scientists to splice and manipulate genes has moved much faster than public acceptance for genetically modified (GM) organisms and “designer foods.” Similarly, stem cell research and human cloning promise huge health advantages, but have also been subject to scrutiny from governments and citizens.

Against a backdrop of corporate scandals and declining faith in the private sector, corporate leaders face another kind of pressure: increasingly powerful activists bent on highlighting alleged abuses by multinational firms. These activists are part of a growing movement of people frustrated by the invasion of foreign influences and the perception that outside forces have taken control of their economic destinies and damaged the fabric of their societies.

New Dynamics of Regulation and Activism

How regulatory patterns unfold in the future will be determined by how corporations respond to the new dynamics of regulation and activism emerging today. Value-building companies that find creative ways to address broad social concerns and cooperate with interest groups may be better positioned for future success than those with a single-mind-

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Regulation and Activism: A New Breed of Challenges

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ed pursuit of the bottom line. Business leaders must prepare for a wide range of possible scenarios, including:

Scenario 1. Big Brother Is Watching. This scenario envisions a hardening of the trend toward empowered governments and strident anticorporate activists around the world. Thousands of people see jobs disappear as their companies suffer market setbacks, and stockholders watch as their investments shrink. Governments expand their oversight and impose increasingly tight restrictions over the private sector, at the same time that taxes and fiscal spending are on the rise.

Compliance costs for most companies rise dramatically, and companies that survive find they are in a cost-cutting race to the bottom. Firms face intense pressure from regulators and activists, and only those that are able to cut back and make their organizations “lean and mean” survive.

Scenario 2. Partial Restraint. This scenario offers a more hospitable environment in which corporations, governments and activists find a middle ground. Occasional threats to national security continue to bubble up around the world, reinforcing the need for government oversight, while at the same time revealing its limitations. Tight budgets and a limited pool of talent help check government power, and most regulation remains moderate and rational. Large global companies become more attuned to volatile public opinion and do a better job of reacting to activist pressure, by strategically choosing times to fight and times to concede.

Scenario 3. Chicago Boys II. This scenario imagines a future in which global corporations experience a new boom and largely unfettered markets abound. As notions of corporate social responsibility spread throughout the ranks of business, corporations overcome the cynicism greeting them at the turn of the century. Big companies project increasingly transparent, responsible images, convincing larger segments of society that the private sector is aware of important issues and is ready to act responsibly. Having overreached in the past, once-powerful government regulatory agencies are cutting back. Activists remain powerful, but they more often work in partnership with corporations, who look to third parties to validate their sound business practices, adherence to emerging social and environmental norms, and socially responsible community initiatives.

Interacting Factors

Each of these outcomes depends upon multiple, interacting factors. Strict regulations and a reversal in globalization, for instance, could create an inhospitable climate for global business. Alternately, regulatory flexibility and strong consumer confidence could create powerful conditions for global business to reach new consumers in far-flung markets. ■

Activists and Technology

The infamous “Battle in Seattle,” when antiglobalization activists effectively shut down a pivotal World Trade Organization summit, is widely acknowledged as the movement’s coming-out party. Protests against national governments and multilateral institutions continue, but activists are increasingly focusing on corporations. International nongovernmental organizations (NGOs), whose numbers quadrupled in the 1990s from 6,000 to more than 26,000, have made important advancements in coordination. They are technologically savvy, using the Internet to transform local campaigns into international social movements with incredible speed. At the corporate level, firms are trumpeting their particular commitments to corporate social responsibility in an effort to pre-empt NGO wrath and appeal to consumers on an emotional level.

Visions of the Future

The scenarios that follow are designed to illustrate the kinds of global business environments that might emerge from a more complete scenario-planning assessment, and are based on the five drivers outlined in this summary. These three speculative scenarios are based on a certain combination of subscenarios that offer a view of the global business environment in the year 2015:

● **Scenario One: Patchwork World.** The state of the world and the business environment is characterized by a muddle-through mentality: Few governments show much leadership or vision, or even have enough high-quality talent to try to do so. The corporate sector responds in kind, seeking growth and profits by working their relationships and seeking advantage wherever they can find it in a fairly chaotic and turbulent world. Large patches of the globe are mired in poverty and violence, although the good news for North America, Europe and Australasia is that much of the trouble is localized and does not spill over excessively into the zones of affluence, though they would be getting even more affluent if global growth rates were higher.

● **Scenario Two: Castles and Moats.** This is not where the international community expected to end up. Security and survival preoccupy not only the world’s poor, but also advanced countries, which have taken every possible means to insulate themselves from a world largely embroiled in vicious cycles of war, crime, terrorism, resource competition and disease. Citizens in affluent countries have willingly given up certain civil liberties and privacy in favor of broad and technically sophisticated defensive measures. This is a time of splitting the existing economic “pie” rather than expanding it, and companies operate as creatively as they can given the constrained access to markets, the risks that

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Visions of the Future

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abound, and a general mood of pessimism that prevails even among those still enjoying a good standard of living.

● **Scenario Three: Open Boarders, Lingering Fears.**

The United States and China are the dominant economic, political and demographic players in the world — with large, robust markets that are highly intertwined, and muscular roles in the world that sometimes collide. Policy-making often moves in a different direction than it did in the late 20th century and isn't always in sync with business interests.

Governments are less concerned about directly supporting corporations and opening new markets than they are about ensuring security, responding to populist impulses, and providing a stronger regulatory counterweight to unfettered market forces. This is a time of intense business activity and technology innovation, and the rising tide of affluence continues to lift living standards in countries open to the global economy, even as further trade liberalization remains gradual. In the richest markets, companies tap into new consumption patterns emphasizing high-end, lifestyle-enhancing products and services.

Parsing Out the Implications

These three scenarios reflect measured judgments based on the best available insights at a given point in time. Circumstances and conditions undoubtedly will change, and with them the projected outcomes. For corporations operating in the real world, the process of discerning and calibrating these changes must be a continuous and dynamic one that allows corporate executives to seize the opportunities presented by change while understanding and managing the risks that accompany it. ■

Navigating Risks In Turbulent Times

Driven by an intensely competitive business environment, corporations have become increasingly dependent on global markets. Whether the drivers are revenue growth, cost reduction, or access to new knowledge, many of the most successful corporations already operate on a global basis. Even domestically focused companies are finding competitive pressures are increasingly forcing them to expand beyond their borders. The cost advantages of production in key developing markets combined with higher growth rates and demographic shifts moving greater consumer power to developing nations will compel corporations to move more and more of their value chain offshore. While offering new opportunities, such shifts will also present a new set of challenges.

As increasingly frequent, disruptive events have made painfully clear, companies are more vulnerable than ever to

economic crises, security threats, supply chain disruption, and consumer backlash. The very innovations that have helped improve business efficiency and profitability increasingly are based on an integrated global business environment that also brings with it a series of interdependent risks. Consider these examples:

● **Just in Time.** Estimates suggest that the shift to just-in-time scheduling in the U.S. automotive industry alone has saved companies more than \$1 billion a year in inventory carrying costs. The problem is that while costs have come down, risks have increased. If deliveries of critical components are delayed, the entire factory must shut down.

● **Extended Enterprise.** Increasingly, firms depend on a complicated network of customers, suppliers and partners that must all work together, and often no one person has oversight of the entire supply chain. In addition to day-to-day problems with forecasting, security, and information exchange, there is the increased risk of system failure if a key member of the network shuts down, even temporarily.

● **Outsourcing.** Although outsourcing can greatly reduce costs and often improve service levels, it can also compound risk as critical operations are managed outside the company and, increasingly, outside of the country.

Strategic Risk Management

Companies are turning to strategic risk management to improve outcomes while continuing to actively engage a volatile global business environment. More than just a checklist of safety measures, a strategic risk management approach identifies the core processes that drive a company's earnings and monitors both internal processes and external events to ensure that risk and reward are continually re-evaluated and rebalanced. The ultimate goal is, through an iterative process, to help companies evaluate their risk management process in the context of a structured "stages of excellence" approach.

As demonstrated in this summary, the dynamic drivers of the 21st century business conditions — imbued and turbocharged by extraordinary, ever-expansive technological innovation — underlie a world of continuous change and volatility. Those who fail to rigorously plan for and seize this future are abdicating their responsibility to their shareholders and stakeholders.

Stewards of the successful global corporation will not keep their corporate vessel docked at their home port waiting for calmer seas. Rather, with a constant eye on the tell-tale signs of changing conditions, and with all the expert input possible from a good crew and instrumentation alike, today's successful executive will ride the winds of change, meet the challenges they present, and realize the potential of these new global realities. ■

For additional information on the stages of excellence in risk management, go to <http://mj.summary.com>