

# A Perspective on the Global Business Context

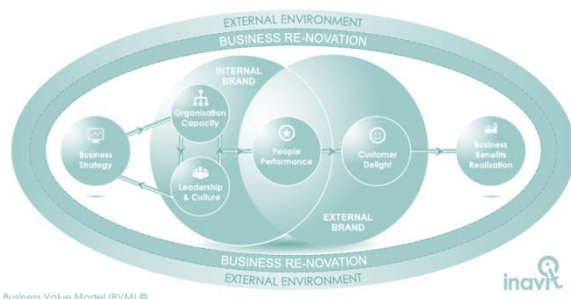
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## Background

In reflecting on what the themes and topics of the 2017-2018 series of articles should be, we were of the view that two interdependent trends may be worth exploring. These are:

- That regardless of where you are in the world, internationalisation of your business is one of the realities you have to deal with; and
- The clear indication (and not a new one), that economic growth and job creation is a function of the well-being of smaller enterprises.

For the current series of articles, we will therefore adopt these two perspectives on each of the themes explored.



As in the past, we shall again utilise the Business Value Model™ to discuss these themes and topics from different business perspectives.

johannesburg



cape town



port louis



amsterdam



## The Idea in Brief

This article is based on research conducted by inavit iQ in 2016 and early 2017, and focuses specifically on the external environment as the context within which organisations may want to think about the various elements of the Business Value Model. We remain convinced that of all of the typical PESTLE aspects, social disruption is the single biggest issue humanity and therefore business has to address.

The BVM utilises the following logic:

- The realisation of specific business benefits (such as operating profit, top-line revenue and market share)
- is dependent on the creation of customer delight (loyal and satisfied customers);
- which is a direct result of the delivery of value adding products / services;
- by high performing people;
- who work in a fit-for-purpose work environment (organisation capacity with respect to business process, organisation structure, human capital, information flow and technology); who are led and managed by capable, competent and credible leadership;
- towards a common goal and strategy; and
- that addresses the dynamics of the competitive landscape in an innovate manner that builds the business brand and reputation.

This specific article focuses on global trends, specifically from the perspective of internationalisation. You may also find the companion article “The Impact on Small(er) Enterprises”, taking a small enterprise perspective, interesting to read. (Refer to www.inavitiq.com).

## The Fourth Industrial Revolution

The 2016 Davos agenda, confirmed also by the 2017 Davos report, reflects the world's focus on managing successive waves of economic crisis by addressing issues like:

- stabilising the financial system;
- countering concerns of regional disintegration; and
- increasing urgency about unemployment, unfulfilled social contracts and inequality for the global economy.

As in previous years, all of these global issues were viewed within the context of a landscape in which emerging technologies also play a key role in solving problems of the global commons, from climate change to the future of the Internet, through to new models of public-private cooperation and the application of breakthrough science and technology solutions (World Economic Forum, 2016e:3).

For this reason, much of the debate focused on what is referred to as the Fourth Industrial Revolution – the digital revolution that is characterised by a fusion of technologies that is rapidly blurring the lines between the physical and digital worlds. This Fourth Industrial Revolution is reshaping the economic, social, ecological and cultural contexts in which we live and requires us to address a rapidly changing global security and humanitarian landscape (World Economic Forum, 2016e:3).

Despite the rapid pace of change and the uncertainties facing the global world, certain trends are inevitable. The section below identifies some of the key macro level global trends. For the purpose of this report a global trend is defined as a longer-term pattern that is currently taking place and that could contribute to amplifying global risks and / or altering the relationship between them.

## Some Global Trends

Given the limited space allocated to our series of articles, only some of the global trends will be included here. For a copy of the full report containing all of the typical PESTLE<sup>1</sup> trends at a global, emerging market and South African level, please contact us.

### Cyber insecurity

Growing cyber security issues will challenge governments and businesses while simultaneously empowering and dislocating individual citizens. In 2016, it was expected that cyber espionage and attacks by state actors would continue, with attribution remaining difficult. The tug-of-war over privacy vs. surveillance and security would also continue, as citizens persist in distrusting their governments on this issue. The world's regulators (such as those in the Netherlands, Canada and Australia) are still scrambling to put into place mandatory data breach notification (Bostwick, 2016).

### Changing nature of power relationships

Power is increasingly diffused and fleeting. A leadership void is complicating the ability to develop effective responses to mounting policy challenges. Bremmer (2015) suggests that feeble political leaders would increasingly face determined opposition and formidable obstacles as they try to enact their political agendas in their regions. In 2016, the “offense-defence” balance was projected to continue favouring aggressors and abusers of traditional sources of power (for example, cyber attackers). Individuals would be further elated and terrified by the changes underway, from technology to violent extremism. In addition, Bremmer (2015) notes that political power play was greater than at any other point since the end of the Cold War.

### Global economic weakness

The world economy is estimated to have expanded by 3.1% in 2015, over half a percentage point less than had been projected a year earlier. According to the International Labour Organisation forecast

<sup>1</sup> Political, Economic, Social, Technological, Legislative, Environmental

(2016,) if current policy responses were maintained, the outlook was one of continued economic weakening, thereby posing significant challenges to enterprises and workers. Indeed, over the next two years, the world economy was projected to grow by only around 3%, significantly less than before the advent of the global crisis. Another sign of economic weakness is the fact that global trade, which had typically expanded twice as fast as the global economy, was growing in line with or at a lower rate than global growth (International Labour Organisation, 2016).

### **Emergence of a global middle class**

Growth in emerging regions like Africa and the Middle East will help catalyse the rapidly growing first ever global middle class, causing the market for accessible luxury products and services to explode as a result, while also democratising the opportunity for global entrepreneurship. Rapid growth in consumer markets in the major emerging economies rose from 36% of the total population in 2011 to just below 40% in 2015 (International Labour Organisation, 2016). Among developing economies, the share of the middle class is expected to continue to increase, but more slowly than in recent years, which may give rise to renewed risks of social unrest associated with slower growth in emerging and developing economies. In these countries, slower growth and unsatisfactory access to middle class living standards may fuel social discontent (International Labour Organisation, 2016).

### **The continued growth of the collaborative economy**

The sharing economy will continue to explode, but will move away from the notion of "altruism" to profiting for the many and not the few. There will be a continued push towards sharing business ecosystems that embrace the "we" instead of the "me" mindset, and provide value and benefit to the communities they operate in as a whole (Global Business Policy Council, 2016). The notion of businesses, the consumers they serve, and local people seeking freelance employment enjoying the benefits will become more evident and indicative of the permanence of new sharing economies. As

Morgan (2014) suggests, peer-to-peer sharing is moving from an income boost in a stagnant wage market into a disruptive economic force, which increases value for business, individuals and the community. However, according to the 2016 World Economic Forum Global Risk Report, four billion of the planet's seven billion people still do not have access to the Internet and may not be able to gain from technology-driven growth.

### **Increasing income disparity**

The Organisation for Economic Cooperation and Development has indicated that the gap between the rich and poor keeps widening, with the richest 10% of its 34 member states earning 9.5 times the income of the poorest 10% (Reuben, 2015). One of the reasons put forward is the growth in non-standard work, which includes temporary contracts and self-employment since the mid-1990s. Another reason cited according to Reuben (2015) is that global tax and benefit systems have become less effective at redistributing income. According to International Labour Organisation (2016) the improvement in the labour market situation in developed economies is limited and uneven, and in some countries, according to various measures, the middle class has been shrinking. Income inequality, as measured by the Gini index, has risen significantly in most advanced G20 countries. Since the start of the global crisis, top incomes have continued to increase while the poorest 40% of households have tended to fall behind (International Labour Organisation, 2016).

### **Values will drive new generations**

The influence of "the Millennial mindset" will increase expectations for transparency amongst stakeholders, and declining levels of trust in social institutions will lead to increased demands for the ethical treatment of people and more transparent engagement with society from both business and governments. Kaiser (2015) notes that, as a generation, Millennials are the least racist, least sexist and least homophobic and xenophobic, most inclusive and collaborative. Given that by 2025 they will comprise 75% of the global workforce, Uziako (2016) suggests the next significant social trend will be incorporating deep social change at all levels of society. This entails going beyond a philanthropic mindset that, through the provision of

products and services, turns hunger and poverty into sufficiency, war into peace, and catastrophic climate change into planetary balance. Failure to embed social change at all levels of society will result in increased stakeholder activism.

## Some Global Risks

Global risks that remain serious according to the World Economic Forum (2016b) and because of their combined impact and likelihood involve some economic risks, include fiscal crises in key economies, and high structural unemployment and underemployment. These are complemented by cyber-attacks and profound social instability (World Economic Forum, 2016d). The 2016 Global Report also identified those risks which were related and which could most likely give rise to other cascading risks. Three emerged strongly:

1. The potential for climate change to exacerbate water crises, with possible impacts such as conflict and more forced migration;
2. The need to address the global refugee crisis, and the requirement for policies that can build resilience in addition to responding to the immediate crisis; and
3. The risk of failing to fully understand the risks around the Fourth Industrial Revolution and how this transition will impact countries, economies and people at a time of persistently sluggish growth.

## Some Implications of Global Trends and Risks

The following summarises some of the potential implications of the global macro trends and risks shared in this article.

- Fiscal crises in key economies will slow economic growth to around 3%;
- A shift in economic focus from West to East will promote growth in emerging regions like Africa and the Middle East;
- High structural unemployment and under-employment will curtail / slow the emergence of a middle class in emerging markets;
- Rising wealth disparities will heighten social and economic pressures in

emerging economies in the next decade;

- The sharing / collaborative economy will continue to explode, but will move towards providing benefit to all by increasing value for the community, business and individuals;
- The influence of the "Millennial mindset" will increase expectations for transparency, and declining trust in social institutions will result in a growing demand for ethical behaviour;
- Failure to embed social change at all levels of society will result in growing stakeholder activism and social disruption; and
- Connected and demanding citizenry may increasingly feel disenfranchised by distant elites, which may increase a risk of social instability.

*"In 2017 we enter a period of geopolitical recession. This year marks the most volatile political risk environment in the postwar period, at least as important to global markets as the economic recession of 2008. It needn't develop into a geopolitical depression that triggers major interstate military conflict and/or the breakdown of major central government institutions. But such an outcome is now thinkable, a tail risk from the weakening of international security and economic architecture and deepening mistrust among the world's most powerful governments."* (Bremmer & Kupchan, 2017).

## Final Remarks

For some years now, we have held the view that a fundamental trend impacting business at a global, regional and national level, is a shift in social dynamics. This sense of social disruption is not new. Already in 1998, Nicoll wrote *"Humanity finds itself midstride between an old and new era, and we have not yet found our way. We know the old no longer works, yet the new is not yet formed clearly enough to be believed. We are developing a new story and in the process of altering much of what we think, feel and do."*

A clear articulation of the continuation of these social dynamics is illustrated by the following: *"With the electoral surprises of 2016 and the rise of once-fringe parties stressing national sovereignty and traditional values*

across Europe and beyond, the societal trends of increasing polarization and intensifying national sentiment are ranked among the top five. Hence the next challenge: facing up to the importance of identity and rapid changes of attitudes in areas such as gender, sexual orientation, race, multiculturalism, environmental protection and international cooperation have led many voters – particularly the older and less-educated ones – to feel left behind in their own countries. **The resulting cultural schisms are testing social and political cohesion and may amplify many other risks if not resolved.**" (World Economic Forum, 2017).

Business organisations, it seems to us, really have no choice other than to accept that they are part of an international community. Whether you like it or not, you are indeed part of the global village, and by implication have to take cognisance of the social disruption at the gates of your city (if not on the doorstep of your company).

In the next article in this series, we will explore what companies may (or perhaps should) see as their "Uber", and how they plan on reacting to it.

As always, we welcome your comments and input. Please feel free to engage us in conversation.

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## About the Authors

Dr Anton Verwey is the Executive Chairman of the inavitiQ group of companies. He has experience in a wide range of industries in the fields of Business Strategy, Organisation and Work Architecture, Leadership Talent Development and Human Capital processes

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Francois du Plessis studied and graduated in commerce (Human Resources and Industrial Psychology) and completed his Master's degree in Human Resources Management (Industrial Psychology). After 15 years of consulting across a wide variety of industries and in the broad organisation development and effectiveness arena, he entered the entrepreneurial world by co-finding the inavitiQ group of companies, of which he is currently the Group CEO. Francois has authored and co-authored various published works (both nationally and internationally,) the most recent of these being *Reshaping Leadership DNA* and the *Handbook for Human Resources in Emerging Markets*.

## About inavitiQ

inavitiQ (Pty) Ltd is a South African based international business consulting professional services firm. We have a formal presence in Gauteng, Western Cape, Mauritius and Europe.

We work in a range of industries and with companies of varying sizes and in different phases of their own growth cycle. Our collaboration with clients focuses on:

- Developing insight into their external context and competitive landscape;
- Strategy formulation and alignment;
- Leadership excellence and leadership-led business transformation;
- Organisation capacity, including business and operating models, organisation, work, data and systems architecture;
- People performance, engagement and commitment;
- Customer delight and brand reputation, and
- Decision-making dashboards and intelligence.