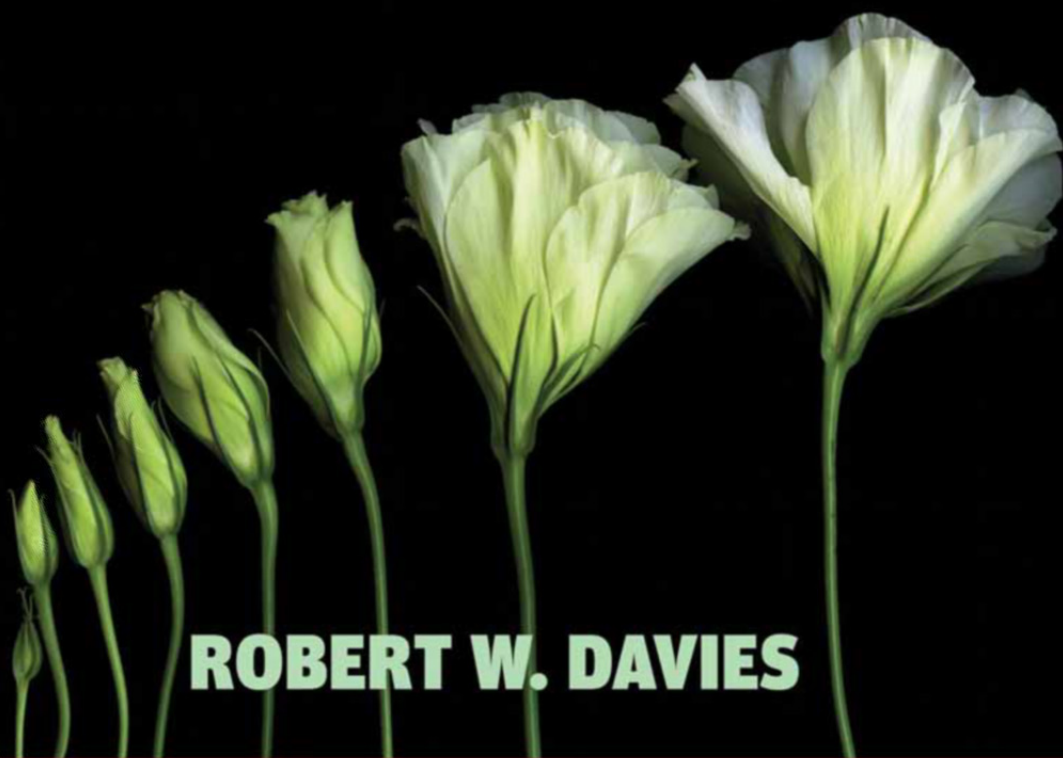


# THE ERA OF GLOBAL TRANSITION

CRISES AND OPPORTUNITIES IN THE NEW WORLD



**ROBERT W. DAVIES**



Cass Business Press  
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## The Era of Global Transition

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## **Crises and Opportunities in the New World**

Robert W. Davies

*Senior Visiting Fellow, Cass Business School, UK*

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*In memory of my father, Trevor Davies (1920–2011)*

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*Dr Robert Davies*

*Cass Business School, London, UK*

*March 2012*

# Introduction

In 2006, I wrote a set of long-term global business scenarios. In the process of doing this, I researched the assumptions that businesses and their leaders were making about the future. These views, that I will call 'deep assumptions', worried me. They seemed to represent only the very best of futures, the bluest of blue horizons. The talk was of unending globalisation, the spread of wealth, consumerism and, above all, 'Westernisation'.

There appeared to be no other alternative view or scenario. Everything was going to be great.

I spent a long time considering these deep, underlying assumptions and the longer that I thought about them, the more worried I became. There was little, if any, talk about power transition, the unknown pitfalls that would await the world as it took the little known journey from unipolarity to multipolarity. I asked myself the question: 'what do we know about the process of moving away from a world dominated by one power, the United States?' The answer was 'very little'.

All these worries came to fruition with the banking crisis of 2008 and the idea for this book was born.

The world changed at that point, but we still seem to cling to the same deep assumptions, in the hope that the bluest of blue horizons will return. They might. But there are many other outcomes. There are new forces and actors at play. The time has now come for everyone involved in strategy making in any organisation to test, challenge and debate their views about the way the world works. That is what this book is all about, testing deep assumptions and building pictures or views of the future. This involves discovering and understanding who will be the real architects, who will reshape

our world. The importance of going through this process cannot be overstated. The type of transition that we face, as we say goodbye to a unipolar world, is totally unique. We will not see another like it during the lifetimes of the readers of this book, and possibly, of their offspring.

Challenging deep assumptions will surprise you. And it will fundamentally change the way that you think about the world, the purpose of business and, of course, strategy.



# 1

## From Blue Skies to Ambiguity

### Hope and fear

Economic hope but political fear.

This very short statement (James, 2011, p. 530) sums up for many the new world that the Great Recession ushered into our lives. For the United States the Great Recession officially spanned the period December 2007–June 2009. Lasting for around 18 months, this was one of the longest periods of economic upheaval to hit the United States, and earned it the accolade ‘Great’. Interestingly it wasn’t really a global recession. Some countries suffered just a slowdown. But the less fortunate are still faced with stagnation, uncertainty and lengthening queues of the real casualties, the unemployed.

It was far more than a mere economic recession. It was like reaching the end of a book. A book that had spanned the living years of every reader and described the world we knew. For many of us the book had provided a feeling of comfort, a feeling of stability and security as well as a great foundation for businesses and organisations of all sizes to think about plans that stretched out into a blue horizon of seemingly limitless opportunities.

But the Great Recession acted as a catalyst to pour doubt onto most, if not all, of the written and unwritten assumptions that had, until its arrival, underpinned the blue horizon, especially for businesses headquartered in the West.

Just a few years ago, the future seemed to be so much brighter.

The fall of the Berlin Wall in 1989 had opened a new chapter, both for mankind and for business. It promised to mark more than the end of the Cold War, the decades-long confrontation between

military superpowers that had threatened mutually assured destruction and the wiping out of civilisation. It was the start of a new dawn, a new era and a very West-influenced era. It appeared that economic co-operation, free market capitalism and the spread of democracy would replace the spectre of state-versus-state conflict. This message of hope and brightness was embodied in a paper written by Francis Fukuyama in the same year, which was entitled *The End of History?* (Fukuyama, 1989). Fukuyama pointed to the prospect of a world characterised by democracy and Western capitalism. As democracy spread, so war would be consigned to the history books. We had entered the age when no democratic state would turn and fight another democratic state. The world had finally matured. Both politically and economically the 20th century and beyond would see the universal adoption of 'the Western way', or the heady mix of democracy and capitalism that would bring wealth and peace to all. The world would become truly globalised both economically and culturally. This new place was summed up by President Bill Clinton in 1992 when he said 'in a world where freedom, not tyranny, is on the march, the cynical calculus of pure power politics simply does not compute. It is ill-suited to a new era' (Clinton, 1992).

Further fuel was added to this fire of globalisation by Goldman Sachs with the publication of the now seminal paper entitled *Building Better Global Economic BRICs* (O'Neill, 2001) that introduced a picture of massive growth opportunities for Western businesses in four key new emerging economies – Brazil, Russia, India and China – opportunities that Western companies would rush to take advantage of (Bremmer, 2010). All this spawned a range of optimistic books trumpeting the opportunities that a world united under the banners of democracy and capitalism could offer. In the words of one text, '[t]he simple fact is that globalization makes us richer – or enough of us richer to make the whole process worthwhile' (Micklethwait and Wooldridge, 2001, p. 335). The 'golden arches' theory appeared (Friedman, 2006), which forecast that multinational corporations could become more powerful than states. Increasing economic interlinkages across national borders would do away with the need for military forces (Ohmae, 1990). The sky couldn't get bluer.

But possibly it was the theme at the World Economic Forum's 2005 Davos meeting that encapsulated the flavour, assumptions

and hope in those pre-recessionary years, when the atmosphere of this meeting was summarised in these words:

The global economic mood music just would not stop.  
(Weber, 2005)

Well, the 'global economic mood music' has stopped.

Instead of blue skies we are surrounded by the fog of ambiguity. Whilst some are still acclaiming the virtues of both capitalism and globalisation, louder voices are appearing that question the capability of capitalism to both create and spread wealth in a fair and just manner. Surprisingly these voices can be heard from both inside (Lambert, 2011; Packer, 2011; Roubini, 2011) and outside (Callinicos, 2010; Harvey, 2010) capitalism's camp.

The fog of doubt is thickened by the realisation that the power and influence of the architect of the post-Second World War order, the United States, is now perceived to be in decline (Wike, 2011), and its influence may be slipping away faster than the dead empires of the past.

We have all lived, been educated, worked and made critical business decisions in a world crafted, largely single-handedly, by the United States. Certainly since the fall of the Berlin Wall and the Soviet Union, the United States has been the only super-power. We have been living in a unipolar world. But now we have entered the period when the world is moving from a unipolar environment dominated by the United States to a multipolar landscape. There are others who are surging forward with new ideas and different perspectives. There may be old scores to settle too.

The hard reality is that we know all too little about the opportunities and challenges that the transition, the pathway, from a unipolar to a multipolar world will hold. Neither the strategy textbooks nor the textbooks of the political scientists hold the answer. We are in uncharted territory.

It could well be that the liberal world order of democracy and free-market capitalism that came to grow and flourish as the Berlin Wall fell will rise again and continue into the distant horizon. But there is also the possibility that the forces of globalisation that we have unleashed could produce exactly the opposite of what was intended – either a deeply fractured world with capitalism and

democracy broken into many different shards (Gray, 2009) or even a world where historic cultural divides and wounds will reopen (Huntington, 2002).

No one knows what the coming decades have in store, but this book aims to help you chart a course for your business into the future that is coming our way and is designed to help readers answer these and other questions:

How will a world in transition affect my business?

Where does globalisation go from here?

Who might influence the shape of our future markets?

Will the transition from the old unipolar world to the new multipolar world be a peaceful one?

How will capitalism change in a multipolar world and what does this mean for the way we do business?

## **A word about transition and globalisation**

The issues of transition (that is the process of moving from a unipolar world dominated by one superpower to a multipolar world with many powers) and globalisation are closely intertwined and almost inseparable in our current environment. In fact the transition that we face is a direct product of the globalisation process that we have witnessed in recent decades. The problem is, however, that the word 'globalisation' is so widely used today and appears so frequently in conversations that we could assume that it has a universal meaning, understood by all. As we progress through this book it will become apparent that the meaning of 'globalisation' is far from clear and that this problem of meanings is one of the major obstacles that the world faces. However we will start with the following description of the 'phenomenon' of globalisation:

Fundamentally it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders.

(Stiglitz, 2002, p. 9)

This description of globalisation, as put forward by the economist Joseph Stiglitz, is a good start, as it both alludes to the popular evidence of globalisation that is all around us in the form of cheaper consumer goods, the industrialisation of developing countries, the drive to continuously slash the costs of doing business, the integrating force of the Internet and of course the assumption that a newfound wealth and freedom will unite us all.

The 'breaking down of artificial barriers' that Stiglitz refers to has helped to stimulate economies in the developing world and, in turn, has presented us with the challenge of transition. When we refer to 'globalisation' in the early chapters, we will have this description in mind.

## **Using this book**

Returning to the question 'how will a world in transition affect my business?', this book is designed to help leaders at many levels in organisations to produce a route map that will help them to move forward and explore the uncertain and unknown era of transition. It is not designed just for CEOs. This book has been created as an easily accessible guide that can be used by leaders across an organisation.

Why?

Because in businesses that work successfully in difficult and uncertain times, strategy-making is a shared process where many contribute. Strategy and planning, especially during periods of ambiguity, do not solely remain within the domain of the top-level leader or of some distant head-office department. It is essential that a broad range of staff are involved, particularly those whose work means that they interact with the outside world.

Research from the fields of strategy, the management of change in organisations and international relations has been used to create this book. At first sight these may seem to be unlikely bedfellows, but they embrace the knowledge and awareness that leaders will require to look into a totally unknown world. Large parts of this book draw upon research in the field of international relations, particularly power transition theory and new emerging thinking regarding the future role of the state, subjects that are not found in traditional strategy textbooks but are essential if we are trying to understand the process of change and transition that lies ahead.

In these years, the subjects of strategy and international relations will become closely intertwined.

As you progress through each chapter new ideas and frameworks will be introduced. Using these frameworks and ideas will help you to develop your own view of the future and what this future holds, in terms of opportunities and challenges, for your business. Every chapter includes suggested issues to explore with your colleagues. You can use this approach to build your own picture or scenario of a world in transition.

This book can be thought of as a journey in three parts. Chapters 2–5 form the first part of the journey and aim to provide the reader with tools and techniques specifically designed to explore a world in transition. The second part, Chapters 6–8, presents concepts for debate. These chapters are designed to challenge established assumptions regarding the way the world works. Issues such as the end of growth, the return of communism and the rejection of democracy are all introduced for discussion. Chapter 9 brings us towards the conclusion of the journey and introduces approaches that can help translate our findings into thought, debate and practical actions. At the end of the book the section *Reflections* includes thought pieces from a range of writers and thinkers drawn both from the academic and business environments. These pieces are aimed at adding depth to the discussions that this book is designed to stimulate.

In Chapter 2, **Exploration**, we introduce the characteristics of successful leadership during times of great uncertainty and ambiguity. Drawing primarily upon change management and strategy literature, a framework of key ‘conditioning tasks’ or critical actions is presented for leaders wishing to outperform their competitors in these unpredictable times. Chapter 2, in common with each subsequent chapter, concludes with suggested reflection points and additional reading. Before leaving this chapter readers are encouraged to map the deep assumptions that underpin their organisations’ current strategies. These assumptions can then be challenged, developed and redefined as readers progress through later chapters. To help this process we introduce a fictional insurance organisation as an example and examine both its strategy and the deep assumptions that underpin it.

Chapter 3, **Power, States and a World in Transition**, sets out to explore if we are faced with anything more than a simple transition

in economic power from the old economies of the West to the new emerging economies. We start by taking a traditional view, drawing upon established thinking in the international relations arena, and ask if the popular projections of the 'advanced' and 'emerging' economies paint a complete picture of the future. Or is viewing the world as a collection of states, economies and armies something that may have been relevant in the 20th century but is something that could be totally misleading in the 21st century?

Chapter 4, **A 21st-Century Medievalism**, proposes that we have to look beyond economic projections and just seeing the world as a fabric of states. The forces of globalisation may have produced unfortunate and unplanned side effects. The side effects are introducing new players, or, as they are called in the field of international relations, 'actors', who must be considered. Surprisingly the real clues as to what is really going on can be found back in the 17th century, and it is proposed that the final shape of our world will be determined by a new confrontation between four major interest groups.

Chapter 5, **Pathways**, looks closely at the potential transition pathways or routes that the process of transition could take in the coming decades. We tackle the critical question of whether or not the world faces conflict and, more hopefully, the peaceful transition that we expected before the Great Recession. If we do face conflict, which form will such conflict take and who could be the protagonists? Are the great military power wars of the 20th century a thing of the past and, if they are, how will tomorrow's conflicts be fought? Understanding the characteristics of the pathways of transition is of essential importance in planning for the future, even more important, surprisingly, than attempting to forecast what the world will look like as the era of transition draws to a close. Focusing only on developing an end point, a future picture of the world, is a hollow exercise without also considering the more important issue of how we will get to that end point. This chapter therefore focuses on providing a framework to help leaders and their teams debate potential pathways.

Chapter 6, **Solitary, Poor, Nasty, Brutish and Short?**, looks carefully at two of the deep assumptions that have driven globalisation. Firstly that globalisation will produce a world where we all share the same values. We look at the values underlying different definitions of 'globalisation' and debate whether or not we are now facing a

clash of two different globalisations. Secondly the permanence and durability of democracy are also brought into the debate, and we question whether or not it is seen as a universal panacea that is suitable for all contexts.

Chapter 7, **Another Way**, holds that the Great Recession may have fatally wounded free-market capitalism, sometimes called the 'Washington Consensus', and two alternative models are examined, the 'China Model' or the 'Beijing Consensus' and, following the Arab Spring of 2011, we look at the potential paths that democracy and capitalism could take in the Middle East.

Chapter 8, **An Engine of Growth?**, examines the challenges of continued growth, but from the perspective of the emerged and emerging economies in Asia. We place particular emphasis on looking at a selection of the hurdles that must be overcome if growth is to continue.

Chapter 9, **The Long Test**, helps readers to assemble conclusions from the previous chapters and, using our fictional insurance organisation as an example, we construct a route map that will enable their organisations to take the first tentative steps towards the future.

**Reflections** presents key thought pieces expressing a range of different perspectives that both challenge and develop themes introduced throughout this book.