STRATEGIC SHIFTS IN A NEW GLOBAL ECONOMY

The recent global economic crisis not only exposed loopholes in corporate governance practices and lack of scrutiny by regulators, but also paved way for a new economic world order which is not just opportunistic but also risky. The challenge for businesses is now to use strategic shifts as a tool to seamlessly integrate into economies which are on the verge of altering the global GDP composition.

Ever since the global financial crisis unfolded, corporations are increasingly looking towards establishing a stronghold in non-OECD economies as their contribution to world GDP is greater than 50% with high demographic growth. Thus, it is likely that Africa and South Asia, to the extent that other aspects are conducive, will attract more labour-intensive investments by corporations in the near future.

On the demand side, not only certain markets will grow faster than others, but the age distribution will also change. In countries with a rapidly ageing population, companies will find new opportunities to sell certain types of goods and services to relatively affluent consumers. Financial institutions are among the most affected by this trend. In countries with young populations, the opportunities will be in other categories. Companies will need to learn how to reallocate human and capital resources around the world in response to these trends. Organisational flexibility will likely become a key source of competitive advantage.

The most important trend shaping global business at the moment is geopolitics. Regarding macro-political risks, wars are no longer a key source of concern. Rather, terrorism and failed states have become the major source of instability in the world. These are old problems that have become too widespread in recent years. They are intertwined with each other. Geographically, they affect many parts of Africa, Middle East, South Asia and selected countries in Latin America. These parts of the world are characterised by rapid population growth and by natural resources, especially energy.

Thus, the most important source of instability in the world is closely linked to demography and energy, making for an explosive mix. While the risks of operating in these areas are so high, are the returns for those firms which know how to cope with risks. Therefore, firms with the ability to operate in geopolitically risky places will experience a windfall. One should also pay attention to micro-political risks. While nationalisations or expropriations of specific companies or operations are rare nowadays, governments in many parts of the world continue to change certain rules that affect the rate of return on investments. These include change in taxing policies, profit repatriation rules, amortisation schedules and so on. Such changes tend to be more frequent in emerging economies than in developed ones. Thus, businesses will need to move more careful when planning an investment, making sure that they structure it in such a way that it is not affected by such changes.

In sum, the new global economy presents many opportunities and challenges. Fortune favours the prepared, and we know from experience that some firms do better than others, especially when conditions are adverse or risky.

The right approach is to develop the capability as a business to operate in different parts of the world, even risky ones, carefully adapting human and capital resources to the requirements of the situation.