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Driving Impact

Value creation in the world of tomorrow



2030: a book about the present

“You can define the barber as one who shaves all those, and those only, who do not shave themselves. The question is: does the barber shave himself?”

Bertrand Russel, *The Philosophy of Logical Atomism*

“To the people whose labors go beyond ideas into the realm of ›real materials‹ – to the dry-land ecologists, wherever they may be, in whatever time they work, this effort at prediction is dedicated in humility and admiration.”

Frank Herbert, *Dedication from Dune*

Futures research is a case of fraudulent labelling.

Are you surprised that a book about the future begins with these words? You should not be, since good futurologists are not only aware of this fact, they cite it as often as they can. At the end of the day, they do not wish to finish up as fortune tellers in a fairground tent. For what do futurologists do exactly? They do not read tea leaves or gaze into a crystal ball. They study the present. And very closely, at that.

If anything, futurologists are ecologists. They attempt to understand the complex ecological system in which they live – its elements, causalities and interdependencies. In this process, they use a microscope to detect newly germinating seeds – even the smallest mutations – and to identify ecological niches. They also need a “macroscope” in order to understand the conditions and principles that can lead to change. It is only when ecologists have gained a profound understanding of an ecological system that they can ponder its further development,

identifying and structuring possible futures out on the horizon. This is an immensely creative process, but one that is not nearly so demanding as the preceding inspection of the present. This is what ecologists are measured by. This is what futurologists are measured by.

In all this, good ecologists recognise the central paradox of their research – that they themselves are an integral part of the system that they are observing and analysing. And this means that their view is everything but objective and complete. Good ecologists will therefore strive to apply as many methods as possible in order to avoid the blind spot of selective perception. And they also know that their fundamental subjectivity cannot be prised open. This is one aspect. The other aspect is that, with their observations, ecologists have a direct influence on the ecosystem that they are observing. Through their participatory observations as well as by speaking about their observations, they change the present and also the future of the entire system. This can be seen as a problem – or as an opportunity to create value.

The editors of this book also appreciate an ecological approach. And we do not seek to deny the subjectivity that characterises our view of the phenomena of global development – on the contrary, our aim was to show what rich observations the often neglected perspective of supply chain management has to offer, how essential it is to understanding our present and to imagining and shaping our future.

Ecological thinking is inherent in supply chain management. As with ecology, it is concerned with a multi-layered reality to which it responds with sophisticated, multi-disciplinary models. This ability to comprehend and manage complexity equips supply chain management to develop effective strategies and to initiate long-term, value-enhancing changes – impact.

“Driving Impact!” is intended to provide stimulus. We want to get involved, to persuade and to be convinced. This is why this book is a record of many heated, intense and inspiring discussions, a project that became an intellectual and emotional road trip. We hope that you will find inspiration this on the pages that follow.

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The ability for transformation – a new imperative

It is common knowledge that there is only one thing that helps if you wish to survive in today's globalised business environment – innovation. Nowadays, innovative companies generate 30 per cent of their sales with products that are not yet three years old. In relation to 2015, only 70 per cent of such a company exists. In relation to 2021, the same company has not yet come into existence. *The Economist* finds even clearer words: “Innovation is the single most important ingredient in any modern economy.”

However, being innovative is easier said than done because today's innovative environment is hyper-dynamic, complex and unpredictable. The digital world has embedded itself within the DNA of business and, in the process, has not just lowered the barriers to entry and blurred boundaries between sectors, it has also triggered a new paradigm for innovation. Nowadays, innovation no longer originates in isolated R&D departments but rather at the interfaces between people, markets and businesses. It does not matter whether you are a medium-sized engineering firm, an Original Equipment Manufacturer (OEM) or a multinational food manufacturer – companies must today operate in an environment that is neither stable nor certain. The ability to transform oneself has become the new fundamental prerequisite in this process. This is, however, not a coincidence.

However, much innovation is the product of disruption and chaos, a systematic approach to it can give a helping hand to an ingenious idea. Or expressed in other words – you always have to feed innovation to keep it alive.

This is where trends begin to play a role, because according to this logic, trends are “brain food”. By systematically simplifying the diffuse world of change it is possible to reduce complexity and to provide direction. Trends thus help to better understand and anticipate the world of tomorrow.

They are also creative stimuli that may initially irritate us but can later inspire and finally fascinate us. These are the stimuli that – sometimes gently, sometimes abruptly – entice us out of our intellectual comfort zone and motivate us to act. And this is good, since without action there is no effect, and without stimulus there is no impact.

*Torsten Rehder,
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1. New World Order

Trend Insight

What will the world look like in 20 years? It is difficult to make forecasts of a global nature, for example, about changes to the global economic and political balance of power. Even if Republican political scientist and strategy advisor, George Friedman, suggests otherwise with his provocative geopolitical forecasts and even when he may be right on some of his points. He accordingly sees the USA in a strengthened position as the dominant world power through to the end of the century. He sees China, India and Russia losing importance, the EU disintegrating and Germany being outperformed by its neighbour, Poland, as a result of a more favourable demographic situation. Friedman obviously does not attach sufficient importance to Africa and South America to even bother mentioning them in any appreciable way.¹

If we take a closer look at reality without America-centricity, we must at least admit that the lines of force have seen a significant shift over recent decades. The USA still leads the field in economic terms, but the G8 nations are no longer the largest eight economies. The six or seven most powerful economies in the world that came together to form the group in 1975/76 have long since been overtaken by economic reality. The (part-)expansion that added Russia to the exclusive club before the turn of the millennium did not change this fact. China, as the world's second largest economy², and Brazil (sixth) have long since entered the top eight, while Canada – overtaken by India and Russia – is currently only in eleventh place.³ The economic focal point of our planet is on the move. It is currently shifting eastward from its former position somewhere between Western Europe and North America. This can also be seen when we take a look

1 Friedman, G.: The next 100 years / Die nächsten 100 Jahre. Campus Verlag, 2009

2 <http://databank.worldbank.org/data/download/GDP.pdf>

3 World Bank, GDP Rankings, 2011

at German and European trading relationships. Exports to and imports from Asia have grown disproportionately over the last 20 years.

Shifts can also be observed at other levels. After the collapse of the Soviet power bloc, the West, with its institutions, was the control centre of global power that no important decision could ignore. Today, new political powerhouses are forming, for example, in the form of regional alliances and federations among the large emerging economies that are underrepresented on the global political stage. The viability and potential of these new powerhouses is, however, in doubt, owing to internal problems and a lack of political and institutional integration.

The declared aim of the eight states that currently make up the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA) is greater independence from the USA. Originally established as a left-wing alternative to the US-dominated pan-American Free Trade Area of the Americas (FTAA, Spanish: ALCA) by Venezuelan President Hugo Chávez, ALBA has its own development bank and, since 2010, its own regional currency, the SUCRE, for trade among member states. However, doubts concerning the degree of integration of the ALBA states emerged even before the death of Hugo Chávez, who held the other members in line with the help of Venezuela's petrodollars. Chávez was, however, unable to convince Brazil and Mexico, the economically stronger states in the region, of his idea of Bolivarian unity. It is more than doubtful whether his successor, Nicolás Maduro, will be any more successful. On the other hand, the efforts being made by the USA in the FTAA have not made any noticeable progress for a number of years, either. Much in the region will depend on how the large emerging economies of Brazil and Mexico behave. Together they could easily assert their interests vis-à-vis the USA; however, they have little in common.

A new powerhouse, with increasing geopolitical relevance, are the BRICS states.⁴ These countries, which represent 40 per cent of the world's population and which account for one quarter of global economic output, began to assert their independence as a group (at that time as BRIC states, without South Africa) on the world political stage a few years ago through joint consultations and summits. For Germany, the importance of the four large emerging economies in particular – Brazil, Russia, India and China – has increased enormously. The value of German exports to these countries has grown almost sevenfold to 121.2 billion euros over the last 15 years. In 2011 imports totalled 138.8 billion euros, growing twice as fast as imports as a whole.⁵

4 The BRICS states are Brasil, Russia, India, China and South Africa.

5 <http://www.welt.de/wirtschaft/article108854722/Exporte-in-BRIC-Staaten-haben-sich-verseiebenfacht.html>

At their meeting in Durban in March 2013 the state and government leaders of the BRICS countries agreed to set up their own development bank, intended to rival the IMF and the World Bank, where the USA and the EU hold sway, while China and the other countries have been trying to establish a power base for some time. However, their demands for representation in the top management bodies and for institutional reforms, have so far fallen on deaf ears. While it is true that all BRICS states are already represented in regional development banks, the new institution would have significantly greater influence on the global stage – provided it is set up appropriately.

Nevertheless, it is also true that the five countries have very different interests and that their collaboration so far lacked a clear, common agenda. All that exists of the BRICS bank so far is the declaration of intent from March, and it remains to be seen how systematically the project will be put into practice. Even so, it is advisable for the USA and EU not to lose track of the activities of the BRICS countries. Growing pressures in the form of a perceived lack of significance is likely to result in the members being forced into closer cooperation with each other. The free trade negotiations being conducted between the EU and the USA, which exclude the BRICS states, are certain to provide further motivation in this respect.

Time will tell whether China will prove to be a paper tiger in the course of the 21st century, as predicted by Friedman.⁶ The ever louder rumours of a Chinese debt crisis that are currently emerging, point at least to a period of consolidation in China. The volume of debt is estimated to be around 200 per cent of gross domestic product⁷ and growth has slowed significantly for the first time. The world's second largest economy⁸, which is also one of Germany's top five trading partners, is still currently a powerful player and is skilled at playing its hand. For example, in its relations with Europe, where Beijing is developing a relationship with weaker countries through bilateral agreements in order to create a counterweight to the powerful EU, following the Machiavellian principle of "divide et impera" (divide and conquer). In 2012, an office opened in the Chinese capital representing 16 Central and Eastern European states, ten of which are EU members. The aim is to intensify and consolidate economic relations with the CEE states⁹ by means of special loans and joint projects. Once that has been achieved it will be very difficult, in future, to ignore Beijing's voice in the EU. The fact that Switzerland has also concluded a free trade agreement with China has done very little to calm concerns in the western part of the EU. Even if fantastic growth rates can no longer be achieved, China remains a gigantic global political factor, at least for the time being, and is far from being a paper tiger.

6 Friedman, G.: The next 100 years / Die nächsten 100 Jahre. Campus Verlag, 2009

7 <http://www.tagesanzeiger.ch/wirtschaft/konjunktur/Die-ChinaStory-duerfte-ein-Ende-finden/story/25025341>

8 <http://databank.worldbank.org/data/download/GDP.pdf>

9 Central and Eastern Europe

Companies must closely monitor shifts in the global political lines of force and the development of new powerhouses especially with regard to global value chains. Only those who develop the necessary flexibility and ability to adapt, in order to respond rapidly to changing overall conditions, will assert their position in global competition.

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“Globalisation cannot thrive without the order provided by freedom” – What path the globalised world will take

Interview with Dr. Theo Waigel,
former German Federal Finance Minister

What economic and political changes will shape the world in 2030?

It will no longer be a monolithic world. Instead, it will be a multilateral world. The United States of America will of course continue to play an important role in 15 years' time, and is likely to be the strongest economic power, but it will no longer be alone. This applies to gross national product, to foreign trade and also to currency relationships. The days when the US Treasury Secretary, when asked, “What will happen with the dollar?” answered, “It’s my currency and your problem”, will be over, since other currencies will play an important role in the market besides the dollar. The euro will certainly continue to be one of these, but increasingly, the renminbi, too.

If you just imagine that the Chinese central bank president and the Chinese finance minister are already sitting on a portfolio of some USD 4,000 billion, showing the extent to which the USA is indebted to China, then you know that China’s stated intention of making its currency compatible to the dollar in a relatively short space of time, is no bluff, but reality. This will make the Chinese currency not just a regional currency but a global currency. In addition to this, the yen will continue to play a role as will a number of European currencies.

India will also play a role, along with Central and South American countries such as Brazil. This is why it is also important and necessary to involve these emerging nations and continents more closely within the G20 framework. It was an absolute must to turn the G7 into the G8 with Russia as a member. Now we must focus on involving Asia, South America and perhaps Africa, too, for it is not just globalisation, which has been playing a significant role in the past 10 to 15 years – the world is gradually becoming a global village. However, the village has no order, or insufficient order. And that will become the decisive question of the future – what order will this globalised world take on, with regard to

finance, trade and currency collaboration? It will be necessary to combine our strengths. Europe will certainly not be able to act with 20 or 30 different nations. As its significance decreases as a result of emerging economic areas, it will only be able to play its role if it concentrates its energies and develops its common interests, which it then represents.

Will the euro area still form a homogeneous unit in 2030?

Yes, I am quite certain of that because Europe would fade into insignificance if it were to fall apart. What would Europe hope to achieve against the major economic areas in North and South America, Asia or Africa? Europe would be at the mercy of global politics, the global economy and other currencies. In this respect I am quite sure that Europe will solve the crisis. No less than Henry Kissinger expressed this in simple terms when he said, "I don't know how the Europeans will solve it, but they will solve it – of that I'm sure."

That is why I believe that Europe is on an acceptable path despite all the setbacks that it will continue to encounter. And the question will arise as to what will happen with Japanese sovereign debt or the sovereign debt of the USA. I think that Europe, if it concentrates its efforts, will succeed in escaping the negative viewpoint. There will be renewed and increased confidence in European politics and the future of Europe. Part of this is a common currency, because if Europe fails to defend it, it will be unable to hold onto the common internal market in the long term. This would lead to a race to devalue and revalue, to establish subsidies and protective measures within Europe and we would become an international laughing stock for other large economic blocks.

What course will continental economic development take through to 2030?

New centres of power always develop around successful countries. That is why I think that it is very possible for one or two other countries in Central and South America to emulate the success achieved by Brazil. I do not think that this will be the case for the Cuban principle or the Chávez principle. However, I see this happening above all in Asia, where countries such as India and even Pakistan will have to show that they can undergo the same sort of positive progress that China is likely to continue to see. And then Africa must emerge from its crisis. This is, of course, currently a continent that is still fragmented and devastated by civil wars. Nevertheless, in my opinion there are promising initial signs, and the world, the World Bank and we in Europe, too, should do all that we can to export stability to Africa. We should follow with great attention what ex-German Pres-

ident Horst Köhler began and what he is continuing to do as part of a mandate given by the UN and other bodies, because Africa is, of course, a continent that is very close to Europe and we cannot ignore development there in view of ties that go back centuries.

What is your opinion of the evolution of the rule of law in the globalised world?

I believe international law will play a significant role. When I was still at school, a young man from the region where I come from, who devoted himself to the subject of law in outer space, was laughed at. Now I know that that ridicule was wrong. The man predicted an incredible future and that was back in the late 1950s when Sputnik had only just been launched into space. The removal of customs barriers under the WTO¹⁰ and OECD¹¹ has played an important role in the last two decades.

In future, it will not be tariffs that constitute barriers to trade but, first and foremost, laws. Where are laws unequal, where are laws discriminatory, where are they used to prevent fair competition? International laws and their harmonisation, while taking into account national legislation and national interests, will play a tremendously significant role. International trade will also be of central importance in all this. What will be the source of growth in the coming decades? I suspect, to a large degree, increased trade. It is estimated that it could account for 2 per cent growth and two million jobs. The European trade treaty, or the European-Transatlantic cooperation alone, could result in growth in Europe of 0.5 per cent. But this is of course linked to the question of whether laws are easily understandable – this is particularly important for small and medium-sized businesses. Large companies can afford to set up their own legal departments. Small businesses are dependent on help provided by industrial and trade bodies and chambers of foreign trade. The most important thing is to avoid these companies getting entangled in a forest of incomprehensible rules and regulations.

The business of many companies is global but their culture and management are very often not. Will that change?

I am extremely certain that that will change. It does not necessarily mean that you will have to appoint people from all over the world to your managing board.

¹⁰ World Trade Organization

¹¹ Organisation for Economic Co-operation and Development

But the people that you have in your management team must be internationally experienced and educated. First and foremost, they must be able to speak foreign languages. It will be a matter of course that anybody working in a qualified position in the world of business will need to be fluent in a third language, in addition to German and English, in order to be able to move about other continents.

The second point is living abroad for a time. Our younger generation is starting to do this. I was born in 1939, went to school in the 1940s and 1950s and did not have the slightest chance to go abroad. And at university the most important thing was to complete my studies as quickly as possible in order to relieve my parents financially. That was what mattered. My children have taken a totally different path, and my grandchildren, too. People's mentality will change.

Will topics relating to compliance also still be on the business and political agenda in 2030?

We will achieve international balance in sensitive problem areas such as compliance, as well. One thing that many people are reluctant to acknowledge is that bribery and corruption do not pay off anywhere. And businesses that learn the real lesson from their mistakes and say, "Only clean business is our business, everywhere and every time", will not experience any disadvantage – on the contrary, they will see success. In this case it is better to pass up a chance or two in order to be able to say, "No – we refuse to join in!" That will not mean that the world will suddenly become full of saints. There will, of course, continue to be mistakes and cases of corruption. But the decisive question will be about how we deal with it. Corruption is estimated to cause USD 1 trillion in damage each year. You only have to imagine what could be done with the money, particularly in the problem continents such as Africa. These represent huge reserves that could be invested and used differently.

“Intellectual property is a matter of mutual trust” – The changes facing the global flow of goods and knowledge

Interview with Professor Helmut Haussmann, former German Federal Minister for Economics

What global economic changes will we see in the period up to 2030?

2030 is a medium-term perspective and many people today even venture to make predictions up until 2050. But in the period up to 2030, it is of course safe to say that the BRICS countries will have a greater influence on the global agenda, initially through their above-average economic growth but then, as a consequence, through greater political leverage. This means that it will not only ostensibly be about how we can generate growth, which we no longer have in Old Europe, through exports, but also about not transferring a whole range of value chains abroad. However, less additional investment will take place in Old Europe. More will be invested in the BRICS states.

We must be a little cautious here since there are naturally large differences between the BRICS countries. South Africa, for example, is completely different to India. And a strategy for China can, in turn, not be applied to India. But generally speaking, they are important emerging economies on the path to industrialisation. They are attracting foreign direct investment and thereby generating increased added value. That is also helping the old industrial countries to continue to grow, practically at world-class level.

What are the concrete effects of growth in the emerging nations on the German economy?

The German economy, of course, stands out in Europe. This has partly to do with the fact that we have always maintained and cultivated a strong industrial core. In this point, we can, today, see the weakness of the United Kingdom, which has focussed too much on financial services. If you have an industrial core, you

also have the possibility to generate additional growth. Large, well-known German brands, but also the “hidden champions”, retain their core functions such as market research, research & development and the production of high-value equipment and machinery in their home country, Germany.

However, additional elements in the value chain must be transferred, step by step, to the growth countries since the emerging economies naturally attach great importance to the fact that it is not just the old industrial countries that export – they also want to have their share of jobs, and parts of the value chain. One way is, for example, to have a large proportion of local content, as is the case in the Russian car industry. Other countries are more open in this matter. In China, the necessity to form joint ventures will, of course, remain since the country naturally does not wish to be just a sales market for other countries, but has to create between 20 and 25 million new jobs each year. That is why the Chinese government attaches great importance to joint ventures, in order, for example, to manufacture essential components for aircraft construction in the country.

On the whole, however, we can be very satisfied with the position of the German economy. It is not just large DAX companies – who entered the growth economies at an early stage – that have made sure, in the area of personnel, that it is only possible to ascend to the board after gathering long experience in the BRICS countries. Not only large companies such as VW in China but also medium-sized, often family-managed, businesses have a very globally oriented structure. Thanks to the emerging markets, they are increasingly seeing growth in Germany, too. They maintain their core value-generating activities here, but create new growth in emerging countries. Germany is unique in this respect.

What must politicians do in order to support the economy over the next ten to 20 years?

One vital point is unfortunately underestimated – namely to ensure that general conditions in the field of trade are organised in the best possible way, i.e. with markets that are as open as possible. The idea of a free trade agreement between the USA and the EU is, for example, the right one. This is, naturally, a bilateral matter; ideally, there would be a completely global, open trading system that included Asia and later also Africa. There is currently a trend towards bilateral agreements, e.g. between the USA and Europe or certain Asian countries and the Americans.

The protection of intellectual property is, of course, very important for our SMEs – it is practically economic foreign policy. Domestic policy must always strive to ensure that taxation policies promote innovation. It must also ensure that in addition to reasonable collective wage agreements there are still incen-

tives for demand and innovation, meaning that unit labour costs remain favourable in a global comparison. This is where unions and employers have been extremely sensible in the past.

What are the greatest challenges for global sourcing, currently, and in the period up to 2030?

One current topic is, of course, the issue of rare earths. And the example of the company Putzmeister, shows that global sourcing also has a wide range of implications. The Chinese do not buy up a product in order to practically transfer the entire production to China. Instead, they buy expertise, engineering services, branding, names and services that complement what can already be done in China. That is the reason why we should also arouse greater enthusiasm among young people for the incredibly large number of opportunities that this global economy ultimately offers. You can, for example, work for a Chinese-Indian company in Germany, but with the appropriate vocational training you can also work for a German company in an emerging economy. What will be important, however, is that businesses open up more mentally. This means that they must integrate more managers from emerging countries onto their boards – and it is not just Germany that has a lot of catching up to do in this area – because companies cannot adapt their mental approaches to intercultural behaviour through training courses. They must also open their governing bodies up to managers with different cultural and religious backgrounds.

How can the German economy assert itself in the global war for talents?

We should start with education, where progress can already be seen, for example, in the internationalisation of hidden champions from business, with partner universities in China. It is not just Chinese and Indian students that obtain knowledge about Germany there – placements and degree courses also open up completely new perspectives for German students. This type of personnel is in great demand. There are medium-sized companies that practically organise family partnerships. Middle managers from China and India then spend a certain period with German families. This family link forms a very strong bond – not only in terms of business, but also with regard to the family and ways of thinking.

However, we are only just starting out with this. One problem continues to be Eurocentricity. A great many people in the West still maintain the illusion from the past that we are the leading economic power. They underestimate the fact this that has long since changed and that, for example, countries such as China

and India achieved far greater economic performance around 1850 than Europe and America. The BRICS states are not developing countries of the old type, without history, without economic expertise. China and India, in particular, are two nations with a rich cultural and economic history stretching back a thousand years. It is of decisive competitive advantage to accept and engage with this fact, and to adopt this way of thinking and behaviour. The West will fail in the long run if it thinks it can convince people in these countries to trust us and to transfer their most valuable property to us – their intellectual property – on the basis of short management courses on etiquette and other such things. It is a question of mutual trust. In effect, the West actually has more to give than Asia. There are already far more Asians who can speak German and English better than we can speak their languages.