



The world is bumpy

Globalization and new strategies for
growth

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 **ERNST & YOUNG**
Quality In Everything We Do

Introduction



About this report

The world is bumpy: Globalization and new strategies for growth is the third annual report from Ernst & Young that explores trends in globalization and their impact on multinational companies.

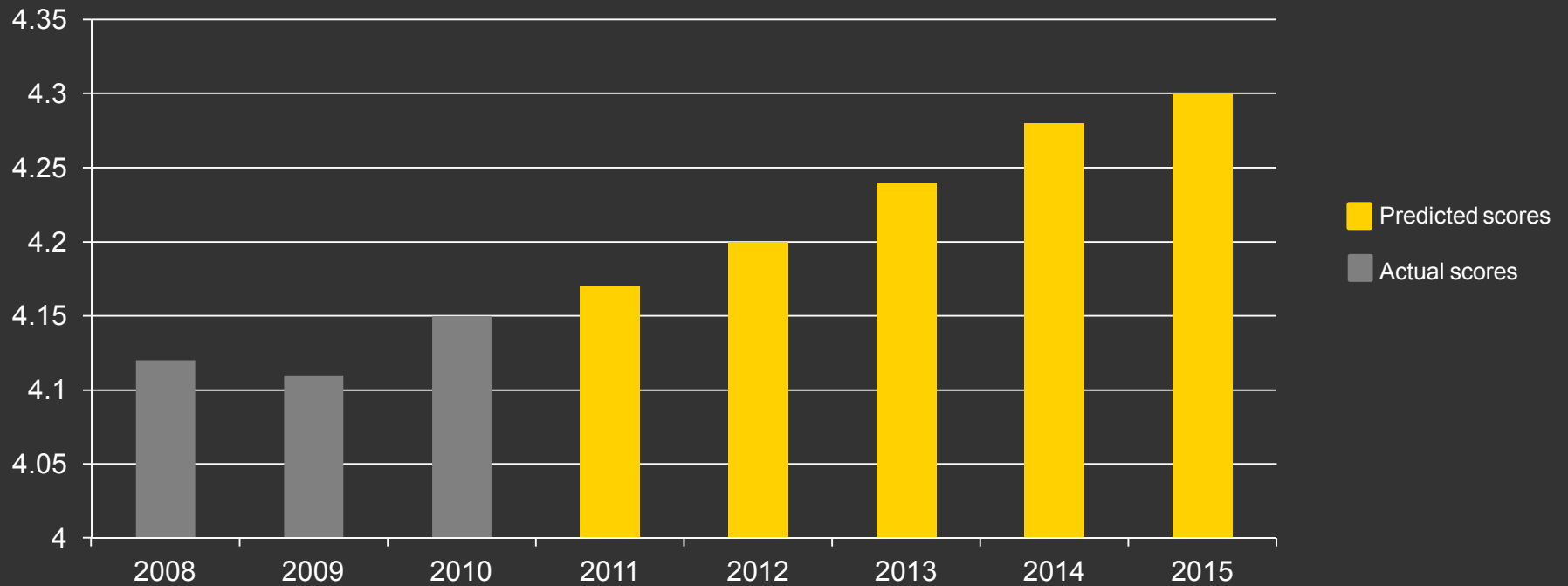
The report is based on a series of research inputs. These are:

- ▶ A globalization index, which measures and tracks the performance of the world's 60 largest economies across five dimensions: openness to trade; capital movements; exchange of technology and ideas; labor movements; and cultural integration.
- ▶ A survey of 1000 senior executives from around the world
- ▶ A program of interviews with CEOs, leading academics and other globalization experts

Globalization continues to deepen

- ▶ After a brief pause in 2009, the overall average globalization score for the world's largest economies is estimated to have increased in 2011 and is expected to continue increasing through 2015

Globalization average score



The globalization index

- ▶ The Globalization Index was created to measure the extent to which the 60 largest countries (by GDP) are connecting to the rest of the world.

Rank	Country	2011 Score	Change in score since 2010	Change in score since 1995	Trade	Capital	Labor	Technology	Culture
1	Hong Kong	7.42	-0.24	-1.91	9.8	7.4	4.6	6.0	9.3
2	Ireland	7.24	0.13	-2.50	6.7	7.8	6.0	9.5	5.8
3	Singapore	6.88	-0.14	-1.13	10.0	6.2	4.4	6.5	6.9
4	Belgium	5.81	-0.07	-1.40	6.4	6.8	5.2	6.1	4.0
5	Sweden	5.72	-0.11	-1.83	5.4	6.0	4.4	8.4	4.0
6	Denmark	5.70	0.21	-1.64	5.3	6.2	4.4	8.3	4.0
7	Netherlands	5.58	0.09	-1.15	6.3	5.8	4.9	6.5	4.0
8	Switzerland	5.46	-0.19	-1.70	4.9	5.4	6.3	5.9	4.8
9	Finland	5.39	-0.09	-1.72	5.0	5.6	4.0	8.1	3.8
10	Hungary	5.19	0.06	-1.07	6.4	5.1	4.5	5.7	3.8

The focus of this report

Companies face a highly challenging and uncertain economic environment and a highly competitive global marketplace, in which:

- ▶ Mature markets face sluggish growth prospects and high levels of indebtedness
- ▶ Rapid-growth markets such as UAE, although expanding more quickly than developed markets, are slowing
- ▶ Competition is increasing as companies chase more elusive growth prospects and as rapid-growth market companies grow in sophistication
- ▶ Policy is becoming more complex and uncertain
- ▶ Operations are increasing in complexity and risk
- ▶ Talent is becoming more scarce everywhere

Key findings



Companies face four key challenges

1. **Succeeding in rapid-growth markets is harder than it used to be.** Costs are rising, competition is becoming more intense and growth, while still rapid, is slowing. Betting the future on rapid-growth markets just because they have the right economic and demographic conditions is not enough.
2. **One size does not fit all markets.** As companies diversify into new markets, they face increasing operational complexity. These include additional risks, such as supply chain disruption, poor visibility into the performance, and lack of flexibility.
3. **Policy has become more important and less predictable.** An uncertain and dynamic policy environment — especially rising protectionism — is causing concern. Business leaders are also worried about a rise in tax risk.
4. **Good people are hard to find.** Companies find it increasingly difficult to match suitable candidates with available positions. Senior managers with local knowledge are particularly scarce. In rapid-growth markets, increased competition for talent from local players compounds the problem.

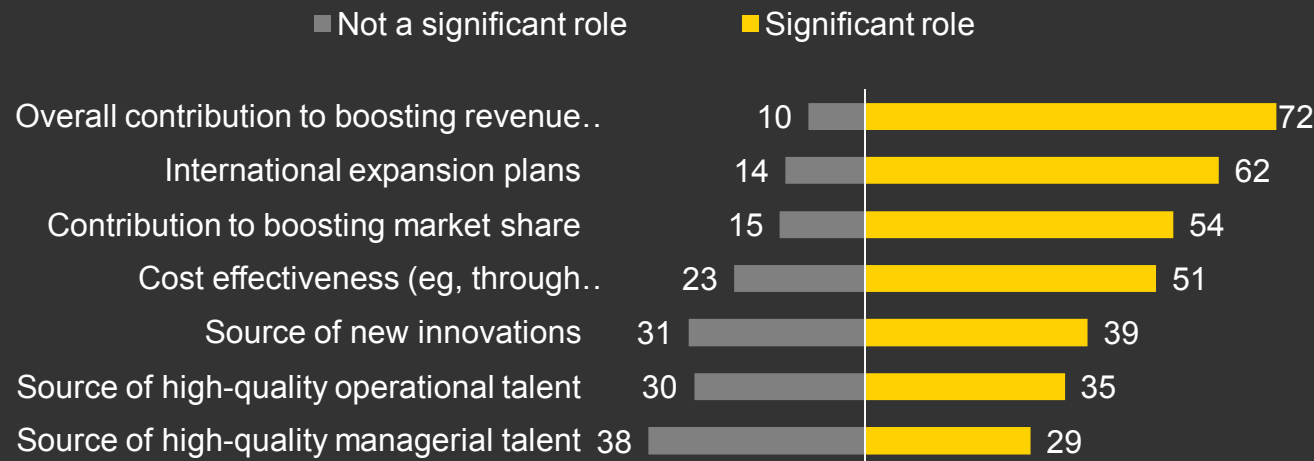
1. Succeeding in rapid-growth markets is harder than it used to be



The challenge

- ▶ Companies are increasingly looking to rapid-growth markets as their best opportunity for growth. Almost three-quarters say that these markets will make a significant difference to their revenue growth.

What role do you expect rapid-growth markets to play in the following aspects of your business over the next three years?



- ▶ More than half of respondents think that rapid growth markets require longer time horizons, and almost half believe that the cost of entering is greater than expected.

Response: Think like a start-up

- ▶ Shed organizational baggage.
 - ❖ Look at each new market afresh
- ▶ Devise innovative strategies that will secure a quick pay-off.
 - ❖ Achieve growth in rapid growth markets via self-sustaining models
- ▶ Take a broader stakeholder view toward the investment.
 - ❖ Think holistically – cannot simply focus on the investment alone

2. One size does not fit all markets



The challenge

- ▶ As companies adopt a more global approach, they inevitably encounter greater complexity.
- ▶ Two-thirds say that they will increase the number of external partners over the next three years, and more than half say that their supply chain will become more complex.

Q: Over the next three years, what change do you expect to see to the following aspects of your company's operations?



Response: Adapt your approach to new operational complexities

- ▶ Integrate networks according to logically grouped markets.
 - ❖ Striking a balance between global and local markets
- ▶ Rethink approaches to outsourcing.
 - ❖ Increase flexibility by shifting cost structure to one of variable rather than fixed
- ▶ Investigate the benefits of near-sourcing.
 - ❖ Shifting supply chain from a sea-based one to a land-based one

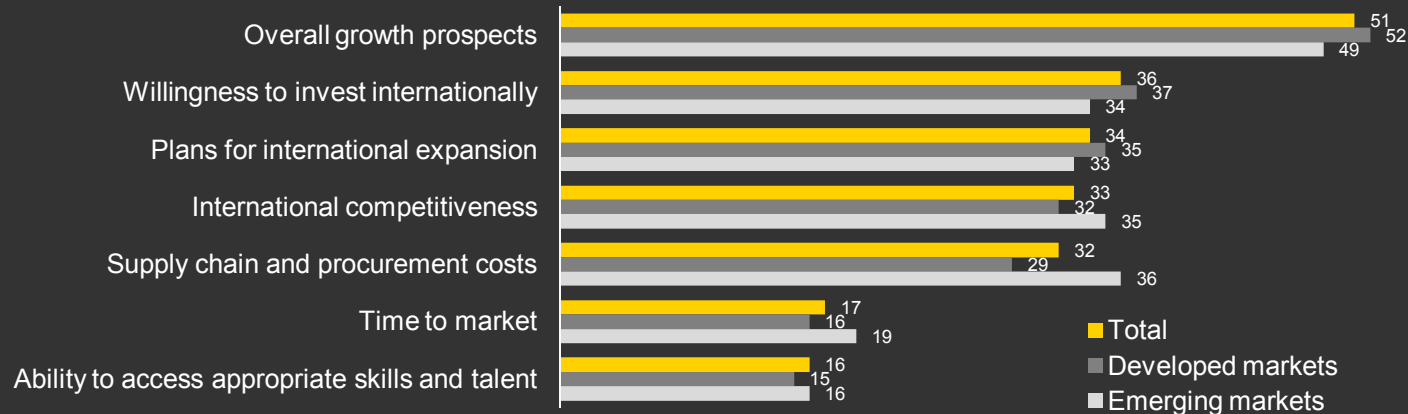
3. Policy has become more important and unpredictable



The challenge

- ▶ There are concerns that governments could resort to protectionism to bolster flagging economies. More than half of respondents think that a deteriorating economic environment will cause a dramatic increase in tit-for-tat protectionism.

Q: Should there be a rise in protectionism in the overseas markets in which you operate, which of the following areas of your business would be negatively affected?



- ▶ Only 15% of companies say they are fully prepared for an increase in protectionism and have factored it into their strategic plans.

Response: Build a strategy for connecting with governments

- ▶ Engage with policy-makers to make the right decisions.
 - ❖ Many business leaders may conclude that the issue is out of their hands
- ▶ Combine local knowledge with global co-ordination.
 - ❖ Consider implications of local decisions and ensure that they are taken in the context of the broader corporate strategy
- ▶ Build stronger relationships with tax administrations.
 - ❖ Companies are encountering a high degree of tax risk, particularly with cross-border investments

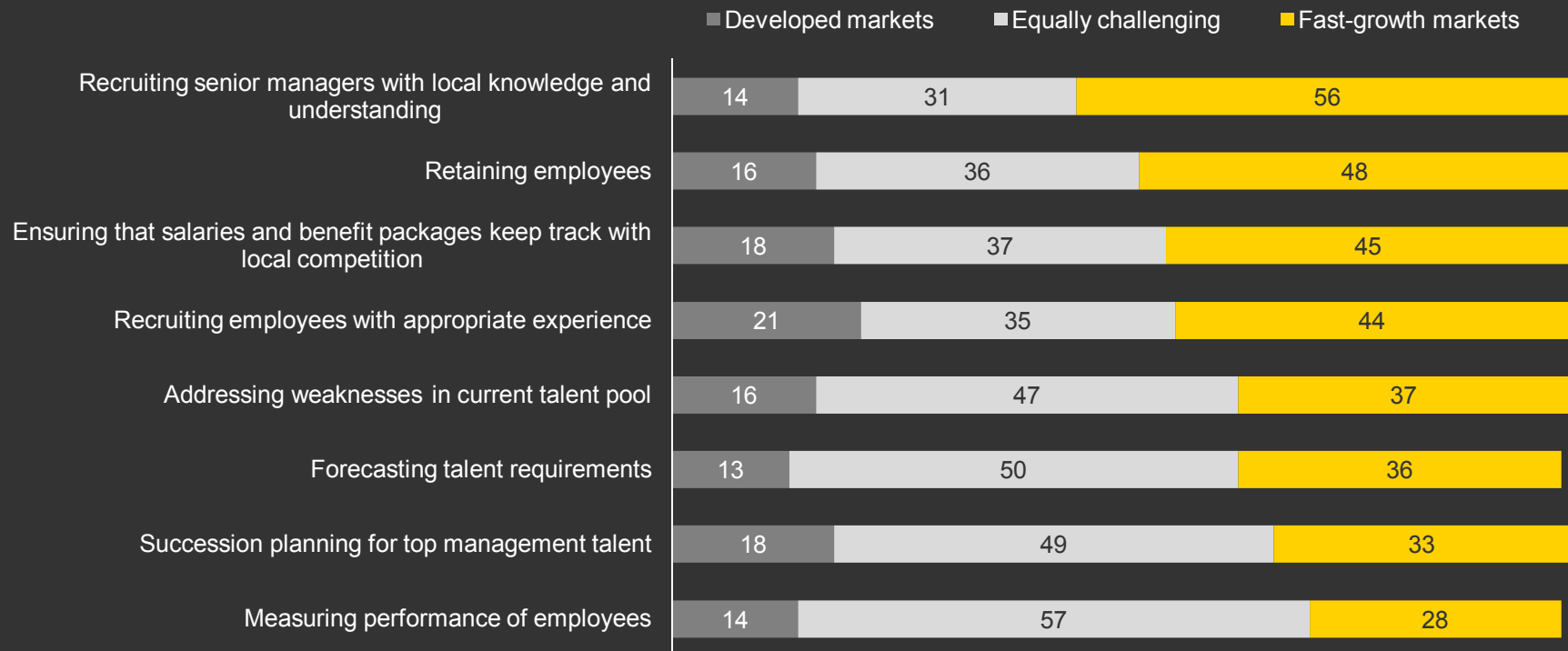
4. Good people are hard to find



The challenge

- ▶ Although the economic prospects of developed and emerging markets are diverging, there is a common thread running across all markets: companies everywhere find it increasingly difficult to match skilled professionals with available positions.

Q: Compared to this time 12 months ago, in which markets are you currently experiencing most difficulty in the following dimensions of talent management?



Response: Embrace bold approaches to talent management

- ▶ Put the best talent in the most promising markets.
 - ❖ Send the best talent available on the basis that these markets are changing rapidly and highly competitive
- ▶ Promote managers in line with the pace of the market.
 - ❖ Invest heavily in training
 - ❖ Promote from within the organization
 - ❖ When things are changing so quickly, the potential of managers is more important than having large amounts of experience
- ▶ Revamp the expatriate model.
 - ❖ Give local managers exposure to key functional areas in established markets – “reverse expat”

Closing remarks



What's next?

- ▶ Global businesses face an ever-tightening squeeze of slowing growth, increasing competition and increased volatility.
- ▶ Globalization continues its unavoidable march forward, but the challenges of becoming truly global are harder and the responses less clear-cut.
- ▶ Managing across divergent economic environments demands new management capabilities and the ability to lead diverse teams across multiple time zones and geographies
- ▶ To succeed in this environment, companies may need to give more decision-making weight to the markets with the best growth potential, relocate key executives to fast-growth markets and shift their focus to a model that takes into account a broader range of stakeholders.

Thank you



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