Addressing the Leadership Deficit

Global Business Policy Council CEO Retreat
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About the A.T. Kearney CEO Retreat

Since 1992, the A.T. Kearney Global Business Policy Council (GBPC) has been committed to helping business leaders anticipate and prepare for the future. The centerpiece of the Council’s meeting program is the CEO Retreat—the forum that brings together the world’s top chief executive officers in a highly exclusive and intimate setting.

Each year, world-class corporate, policy, and thought leaders assemble to decipher the big issues of the day and compare notes on how to address them. The event represents a time for leaders to develop new ideas and fresh approaches to the challenges they face. It also is a chance to exchange views and stress-test assumptions with subject matter experts and other leading policy figures.

The Retreat is held under Chatham House Rules of non-attribution, so this summary offers a general description of the subject matter discussed without reference to participants’ specific points or positions.

About the Global Business Policy Council

A.T. Kearney’s Global Business Policy Council (GBPC), established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through regular publications, strategic advisory services (global foresight, boardroom briefings, scenario planning, and strategy), and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that affect business and governments around the globe.

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This year’s Retreat explored among other topics the dramatic social and geopolitical shifts and growing deficit in global leadership, and asked the question: How do we chart a principled, visionary, and effective path forward?

Inexorably sweeping global change is transforming the fundamental nature of leadership. Ironically, leaders today, who have access to information and knowledge unimaginable to their predecessors, nevertheless find their decision making constrained by the complexity, scale, and speed of transformation in the world around them.

All too often, in government, business, and civil society, the signs point to a growing deficit in leadership precisely at the time when more—in some cases, far more—strategic vision is required.

The 2013 CEO Retreat in Marrakech was dedicated to examining this overarching challenge to leaders. The elite gathering included three former heads of state or government (two of whom represented the current leadership of the Club of Madrid), two former ministers, prominent business leaders from around the globe, and other world-class thought leaders representing academia and civil society.

What follows here is a general summary of discussion at the Retreat. It reflects the longstanding commitment of A.T. Kearney through its internal think tank, the Global Business Policy Council, to assist leaders in anticipating—and preparing for—an increasingly challenging future strategic environment.

Setting the Context

Sir Winston Churchill once said, “The nation will find it very hard to look up to leaders who are keeping their ears to the ground.” To be sure, he had every good reason to make that point. His tenure as prime minister, of course, was framed by remarkably dangerous short-term circumstances through which he steered his country, the totality of which impelled many of his counterparts elsewhere in the world to focus almost exclusively on the daunting challenges of the short term. As we now know, what distinguishes Churchill (among other things) from other leaders in history is the capacity he had, and consistently demonstrated, to look beyond the immediate environment, no matter how pressing the circumstances, in order to take
a broader strategic view. He was able to have his ear to the ground and thereafter scan the more distant horizon.

Today, more than a half century later, leaders worldwide are confronted with a host of challenges that bear little resemblance to the awful world war conditions that framed Churchill’s experience as leader of his country. But the need for leaders to engage in leadership that is proactive—rather than merely reactive—is no less important today than it was in the mid-20th century.

Armed with big data, instantaneous information, instantaneous reporting and relentless 24/7 media coverage, the rapid rise of social networking, the steady drumbeat of scientific and technology breakthroughs, continuous improvements in management and scanning techniques, and more educated and capable workforces, one would think leaders would possess more foresight when it comes to anticipating and addressing future opportunities and challenges. The reality, however, is strikingly different. Increasingly, authentically strategic leaders—that is, leaders with genuine foresight and vision—are embattled by organizations, procedures, and attitudes that are merely tactical in nature. Many of the organizations they lead—ranging from governments to corporations to non-governmental organizations to academic groups—are geared more to the past than the present. Many are encumbered by attitudes and practices that have become fundamentally obsolete, and many more are held back by cultures that are deeply resistant to change. In short, many institutions around the world are simply losing their relevance. In addition, the data shows that many are demonstrating a trend of decline in the level of trust in their respective bases—their citizens, their communities, and their customers.

The same applies to individuals. One would think that in a more informed society, the public would be more easily led by being better able to understand the leadership propositions being advanced. Rather, the tsunami of data, information, and opinion can be debilitating: whether it is a shareholder trying to make an investment decision, an employee trying to understand how better to advance a career, a student trying to understand what kind of career options to pursue, or a voter looking to follow or find the right policy prescription, the average individual today is left more bewildered than ever before. By virtue of this veritable Tower of Babel of insights about the most critical issues of the day, more times than not the result is confusion and alienation.

These challenges to leaders, as serious as they are, are compounded by the scope, scale, and speed of the profound transformational change at work across the world. All too often, for many, this leads to a growing dysfunction that is beyond the capacity of leaders to reverse. The result is a growing deficit in global leadership.

The sweeping changes around us suggest the need to redefine what we mean by leadership. In the end, successful leadership must emerge from grounded principles, to ensure more than a simple or temporary experience. Successful leadership has to be able to inspire those being led to reach beyond the here and now—beyond themselves to a higher, more advanced state of purpose. It has to be effectively executed so that those who follow can be confident that there is a reasonable expectation that the vision of the future is achievable.

Of course, in an environment of extreme economic duress, such as the one we have experienced during the past few years, the leadership threshold requirements are more daunting than ever. Individuals are expected or asked to suspend belief and follow a vision in which they may not be sufficiently confident. And this challenge to leadership is compounded by the noisy marketplace of claims and counterclaims that this IT-enabled, social media-fueled, 24/7 360-degree platform of causes, complaints, and cures subjects us to every day.
Through its publications, strategic advisory services, and top-level global meetings, the Global Business Policy Council engages in thoughtful discussion and analysis of the trends affecting business and governments across the globe.

Erik R. Peterson, managing director of the GBPC, discusses the latest key GBPC initiatives.
Leadership—purposeful, visionary, determined, and executable leadership—is further encumbered by the insecurities of this under-performing global economy. Average individuals feel the power of connectivity, but at the same time feel vulnerable that their own welfare might be at risk by forces that are beyond their control.

These are the over-the-horizon, terra incognita things that explorers have worried about since the beginning of time. Today, however, these have become concerns of the average individual.

Effective, strategic leadership has to be principled, visionary, and executable. It is often so further complicated by the asymmetries of time and space that we need to be making decisions that are medium- to long-term in focus and cross-border in nature. Yet, our economic and political cycles often constrain us into thinking shorter-term and intra-border. This obviously complicates the way decisions are made.

In this globally enabled, informed, albeit oft-confused world of speed, paradox, complexity, and fear, how do we chart a principled, visionary, and effective path forward? How can we inspire and enable those whom we lead to rise above these strong gravitational pulls?1

In the light of all these considerations, this year’s Global Business Policy Council CEO Retreat was devoted to addressing this growing leadership deficit. As a point of departure, participants examined the nature of change in several key areas—the outlook for the global economy, the complex implications of the energy revolution under way, the pronounced social and geopolitical shifts at work in regions across the planet, the growing lack of trust in institutions, and the consequences of unrelenting technological innovation and diffusion. After assessing these areas of profound change, the participants shifted to what can and should be done.

Above all, the Retreat asked what leaders can and must do differently to bring their strategic vision to fruition—what they can do in pursuit of strategic leadership.

Key Takeaways for Business Leaders

1. Five years after the onset of the global economic crisis, upside surprises materializing

A global economic recovery is gathering strength. The United States dragged the world into the recession five years ago, and today—supported by robust corporate profits, a new oil and gas boom, recovering housing and construction industries, declining unemployment, and increasing public confidence—it is poised to lead the world to higher levels of economic dynamism.

The principal risk, given how reliant the world now is on unprecedentedly loose monetary policy, is a premature tightening by the Fed and other central banks, on the one hand, or other self-imposed fiscal restraints, on the other. The word “tapering” strikes fear in the heart of financial markets, and even a slight hint of future tightening has caused bond yields to spike in recent weeks. Anything less gentle, and the effect could be panic and overreaction—at least temporarily. On the fiscal side, uncertainty surrounding the political standoff in Washington, D.C., continues to be a major variable.

The risk of a eurozone meltdown, the world’s greatest worry for the past two years, is also receding. Europe may be underperforming, but the medium-term outlook may be better—perhaps

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1 For a detailed discussion of these challenges, see Paul Laudicina, *Beating the Global Odds: Successful Decision-making in a Confused and Troubled World* (New York: John Wiley & Sons, Inc., 2012).
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much better—than many think today. One of the objectives of the euro was to enable the whole of Europe to become one single supply chain, and this has indeed happened as Germany, Northern Europe, Poland, and the Baltics have opened up, specialized, and fused their economies together. Where the euro was “misused,” in a binge of cheap borrowing, domestic consumption, and putting off reform to another day, painful adjustments are being made. But in contrast to Greece, such countries as Ireland, Spain, and Portugal have taken surprisingly decisive policy actions.

In Asia, China and Japan remain wild cards. In Beijing, despite the murkiness of the economic data, the country’s fundamentals continue to show the biggest demographic shift in human history, from rural to urban and from manufacturing to domestic services and consumption, with a surprising openness. Some one-half of China’s exports are manufactured by foreign companies operating in China, and foreign brands dominate China’s shelves for the rising middle classes. In Tokyo, despite the brand-new experiment in “quantitative easing on steroids,” the short-term outlook is encouraging.

2. Getting a technical boost: from robotics and the new industrial revolution to the North American energy renaissance

In recent years, it seemed that bold dreams of progress hardly existed outside the tech industry and Silicon Valley. In comparison with the indisputably life-changing innovations of the 20th century (telephone, automobile, jet plane, computer, containerized shipping, antibiotics), many somehow feel that technological change has somehow slowed or plateaued—aside, of course, from the steady advance of IT.

The signs suggest a very different tech horizon. We are starting to see astonishing new advances in a variety of fields other than IT—with robotics providing one good illustration of these advances. Networked robots now do most of the work in Amazon’s vast warehouses, and Volvo has demonstrated the viability of “autonomous platooning” of cars—with a single driver leading a convoy of driverless cars. Perhaps the most remarkable area of rapid progress is the rise of aerial robot swarms: unmanned aerial vehicles (UAVs) now represent a fast-growing $10 billion industry that is primarily civilian in use (versus the stereotype of military “drones”). Small, agile, autonomous aerial robots, for example, are already doing precision farming (“flying tractors”), search and rescue, emergency first response, and security monitoring—to name only some current real-life applications.

Dr. Edmond Alphandéry, former French minister of economy and current member of Nomura’s European advisory panel
In energy, new technical advances offer the potential of major economic impacts and still-unforeseen geopolitical consequences. The United States and Canada together will very shortly change the global energy calculus thanks to the tapping of massive amounts of unconventional oil and gas and hydraulic fracturing (fracking) of shale. The economic boost is already significant. The surge in production of unconventional fuels could end U.S. dependence on Middle Eastern oil—and possibly be the end of the line for U.S. energy imports altogether from east of Suez.

Post-Fukushima, however, nuclear power will remain out of favor in many countries, and renewables will continue to be a small and expensive source (supplying perhaps 5 percent of global energy by 2040). Of the world’s key economic powers, only China and India find themselves reliant on external energy sources—with significant geopolitical implications for Asia.

3. A tale of two continents: Africa rising, but a further inflamed arc of instability from the Maghreb to the Hindu Kush

Another development that has caught many by surprise is the vibrancy of sub-Saharan Africa—now the world’s second-fastest-growing region, thanks to a resource boom and a range of other positive factors. Improvement in the African policy environment, growing regional economic integration, burgeoning middle classes, technological leapfrogging, rising local consumer demand, and a new sense of possibility and entrepreneurship are all undeniable. The young “Cheetah Generation” has no memory of European colonialism and wants to get ahead on its own terms.

There is also a new “scramble for Africa” under way, as Chinese, Turkish, Brazilian, and many other governments and companies hustle for resources and influence. While somewhat diminished, the risks for which Africa is famous are still present: ethnic and tribal frictions, corruption (that is, “a joint venture with business”), youth unemployment (a problem worldwide, admittedly), the isolation of landlocked areas with minimal infrastructure, and the gravitational pull of radical movements for those who are feeling disaffected or left behind. Still, the improvements—and the resulting growth—are impressive by any standard.

To the north, in a vast arc from the Strait of Gibraltar to the Pakistan-India border, things look decidedly more uncertain: Egypt, both central and deeply troubled following the Arab Spring; civil war-ravaged Syria; a chronic Israeli-Palestinian conflict; the Sunni and Shia divide; and continuing challenges in Iraq, Iran, Afghanistan, and Pakistan. The combination of youth unemployment, frustrated middle class expectations, a frayed social contract, economic...
stagnation, political calcification, and instant Internet and mobile connectivity are pushing the regional temperature from simmer to boil.

4. Storming the barricades: a new age of protest and rebellion in a time of growing distrust

Institutions of all kinds are facing a crisis of trust and legitimacy, though the causes are complex and certainly predate the global economic crisis. Citizens and consumers across the world have lost their faith in governments, traditional political parties, banks, corporations, professions (such as law), and many other institutions. Public disillusionment and anxiety feed many things, from conspiracy theories to new populist movements of the right and left, single-issue parties, and popular rebellions ranging from the Occupy movement to the Arab Spring to the recent dramatic street-level protests in Turkey and Brazil. The “three Fs”—food, fuel, and financials—mean that changes in price or availability of key staples and family purchasing power are often the triggers for violent explosions.

Strained economic times contribute to growing distrust, as does political gridlock and drift. Extensive polling worldwide has shown that the more educated and better off the citizenry, the higher the potential for disenchantment. People with middle class aspirations and Internet, mobile, and media connections have high expectations and will increasingly take to the streets and the ballot boxes when their expectations are not being met.

Morals, reputation, laws, and technical security systems are the age-old underpinnings of our ability to live and work in an environment free of fear. But in a time of rapid social and technological change such as ours, there is a growing security gap: agile, innovative cyber-criminals are managing to stay ahead. Cyber warfare has become a core form of conflict; and the public is not reassured or more trusting in the wake of the recent revelations about state surveillance.

5. Worldwide, visionary leadership, long-term strategy, and steady execution needed more than ever

In recent years, there have been too many reactive, ad hoc responses by government and business alike to acute situations. Likewise, there has been too little long-term strategy inspired by participatory leadership and solid execution. All too often, government, business, and civil society have worked at cross-purposes. The result is the erosion of public trust.

Corporations can no longer tune out things outside their own immediate sphere of interests. For the same reasons, governments need to think “less red tape and more red carpet.” There has never been a more urgent time to rebuild and rekindle trust with citizens, clients, and consumers.

The Improved—and Still Improving—
Global Economic Outlook

It will soon be five years since the collapse of Lehman Brothers sent profound financial and economic shock waves across the world. The subsequent Great Recession, in which cascading economic and financial crises enveloped wholesale countries and regions, represented an acute challenge to stability and security across the world.

The period immediately after the recession was marked by a growing divergence between the respective outlooks of emerging and developing economies and advanced economies.
The chain of events that brought us to this point will be a case study in the failure of authentically strategic leadership.
More recently, a widening gap has developed among the advanced economies themselves. Some industrialized economies have succeeded in stabilizing their financial structures and implementing reforms, while others—the eurozone periphery states, for example—continue to confront traumatic and urgent economic and financial issues.

The upshot is that the short-term global economic outlook is flat. In April, the International Monetary Fund (IMF) once again downgraded its growth projections for 2013—this time, from 3.5 to 3.3 percent, only slightly higher than last year’s 3.2 percent. For 2014, the IMF is only marginally more optimistic—with a global growth projection of 4 percent.

From a policy standpoint, the challenges confronting all three tiers of this global economy are profound. Developing and emerging economies, which have accounted for three-quarters of global growth during the past five years, must continue to promote economic dynamism as loose monetary policy elsewhere exerts pressure on exchange rates and capital flows. For advanced economies that have enacted reforms, the overriding challenge is to parlay short-term stability into a medium-term strategy supporting equitable growth. For struggling advanced economies, it is a continuing triage proposition.

In the future, the chain of events that brought us to this point will be regarded as a case study in the failure of authentically strategic leadership that began with what a U.S. Senate committee characterized as a toxic mix of “high-risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, credit rating agencies, and the market itself to rein in the excesses of Wall Street.” Many of the systemic failures revealed during the recession have yet to be fully addressed.

Arguing that the “underlying problem is that economic change seems to have outrun economic understanding and control,” economist Robert Samuelson recently concluded, “what looms as the most significant legacy of the crisis is a loss of economic control.” If that is true, what are the new imperatives for leadership?

**Improved outlook for the global economy**

Compared to a year ago, when the A.T. Kearney CEO Retreat convened in Istanbul, confidence in the outlook for the advanced economies has improved markedly. Of course, many of the economies continued to be vastly below potential. Several economies in Europe, which has weathered six consecutive quarters of recession, continue to face serious challenges. Japan is in the middle of a bold policy experiment—significant quantitative easing to reduce or eliminate deflation, the ultimate outcome of which remains to be seen.

The outlook for the emerging markets, which have been the source of world growth for many years, is less favorable. Their economies have slowed quite dramatically from their peaks in 2010. The Brazilian growth rate has fallen from 7.5 percent to less than 1 percent last year, and probably will be in the 2.5 to 3 percent range this year. China has gone from a growth rate of 10.5 percent down to 7.7 percent. The rate of economic growth in India has declined from 8.5 to 5 percent. Recent trends in exchange rates and stock markets suggest lingering doubts about the capacity of all of these economies to address the range of obstacles they face.

There are encouraging signs, however. While the United States led the world into the crisis five years ago, it is clearly the first large advanced country to emerge from it. It is at the top

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3 U.S. Senate Permanent Subcommittee on Investigations, April 13, 2011.
of the A.T. Kearney Foreign Direct Investment Confidence Index this year, having overtaken China. Moreover, as a result of the painful structural reforms that have been implemented, Europe could be on an unexpectedly positive trajectory. And China’s core circumstances suggest continued vibrant growth in that economy despite the shorter-term challenges.

**U.S. economy leading the global recovery**

A number of factors suggest a positive outlook for the U.S. economy in the short term:

- The easy monetary policy by the Federal Reserve Bank continues to stimulate the economy. The statements regarding the potential tapering of the quantitative easing support generated a harsh reaction on Wall Street but were an acknowledgement that the stimulation was having its desired effects on the broader economy.
- The Federal Reserve has maintained an interest rate environment close to zero since late 2008.
- There has been a significant recovery in U.S. corporate profits during the past five years. They have more than doubled, and profit share of GDP is now at a 60-year high.
- Banks in the United States have experienced a strong recovery in profits. Among other things, this has encouraged more lending.
- The housing market is showing strong signs of recovery. There have been strong gains in housing starts and home sales, both of which could create huge employment potential. During the downturn of five years ago, the United States lost 2.3 million jobs in construction. It has since regained only 300,000 jobs. If housing continues to increase at recent rates, the economy could generate one million new jobs in the next 12 to 18 months.
- The United States is in the middle of an oil and gas boom, with huge increases in both oil and natural gas output. This will make the country much less dependent on the Middle East or Africa for oil and has resulted in big declines in natural gas prices. This has obvious benefits for the chemical industry and other energy-intensive sectors.

A recent IMF assessment of the U.S. economy concluded that the recovery in growth would be even more profound were it not for restrictive fiscal policy. Such self-inflicted measures were highlighted by the U.S. political debate on extending the debt ceiling and the political standoff over the budget sequester at the end of 2012.

While it seems we can look forward to an even more robust economy in 2014, two core uncertainties continue to cast a shadow over the country’s economic prospects.

The first is political: the ideological polarization that has characterized public debate on fiscal and monetary policies. The second is the impact of higher levels of debt. In the past four years, the Fed has quadrupled the size of its balance sheet—from $800 billion in 2008 to $3.2 trillion today. By the end of the year, it will be at $4 trillion because the Fed is still buying $85 billion per month of government and mortgage securities. Moreover, this growing fiscal overhang is compounded by growing pension and retirement obligations associated with the Baby Boomer generation.

It is highly unlikely that either Federal Reserve Chairman Ben Bernanke or his reportedly most likely successor, Janet Yellen, would tighten monetary policy prematurely and risk driving the economy back into recession.

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Potential upside in Europe

The drumbeat of reports of continued economic and financial instability in Europe notwithstanding, there is good reason to anticipate a fairly steady and strong phase of economic growth and recovery in that region. At the core of this shift is the euro, which is leading to a new phase of efficiency and competitiveness across the eurozone. Emerging is a new business model in which companies are no longer national but rather European in nature. The reality is that within the eurozone, there is a much larger number of success stories than of failures. Many of these countries have gone into a new phase of development in which they have opened up, accepted foreign competition, and specialized their economies.

Business leaders are using the eurozone as the basis for their supply chains. By finding the right places across Europe to locate segments of their supply chains, they are gaining a great deal of global competitiveness. The absence of exchange rate risk in Europe has opened up a new era in which companies can operate more efficiently than in the past. This structural shift may continue, especially if Europe can correct for the southern periphery’s major failures.

Another reason for optimism is the impact of the various policies in many European countries on fiscal consolidation. While there are still countries that need additional tightening, the others have already undertaken the difficult reforms. In the process, they have overcome what remains one of the most important sources of uncertainty in the world economy—large public deficits in countries such as the United States.

To be sure, there are a number of continuing challenges. The banking sector, for example, continues to be a major problem. Banks are not yet operating well, and as a result, credit is not flowing sufficiently. The other symptoms of this painful adjustment are reflected both in the official economic figures and on the streets. The high levels of unemployment, and especially youth unemployment, are certainly evident in the statistics. The challenges in addressing the austerity measures have been reflected in public demonstrations and continuing day-to-day hardship.

Prospects for economic revival have been boosted by strong leadership—especially from Germany and the northern countries. The approach has been focused on the long term, maintained consistency, and shown necessary pragmatism when making adjustments. There are still a number of uncertainties, however, including divergent levels of public trust in leadership between northern and southern Europe. But there are a number of examples—the 1997 financial crisis in Asia, for example, which in the final analysis represented an opportunity to restore growth on a more sustainable basis—that should serve as a precedent for undertaking critical reforms in the short term.
China’s strong structural growth factors

When assessing future economic prospects for China, there are a number of key considerations that must be taken into account:

- The urbanization rate in China is 51 to 52 percent of the total population (compared to, for example, about 60 percent in our Retreat host country, Morocco). If an additional 10 percent of the Chinese population were to live in cities, the total urban population would be 140 million people. That, of course, presents significant upside potential in output and demand.

- The service sector in China, only 43 percent of GDP, is well below the corresponding levels of 82 percent in the United States and 77 percent in the Organization for Economic Cooperation and Development (OECD) countries, and is also below countries such as Brazil and India.

- China is the world’s largest workshop. In 2008, however, 40 percent of China’s GDP was generated by exports. So, what is good for China is good for global consumers as well.

- China’s economy is more open than many may think. As the largest exporting nation, China’s trade as a percentage of GDP is as high as 55 percent. It is important to note that much of this export flow comes from the investments of foreign companies.

- The Chinese government continues to be very influential in allocating resources. State-owned enterprises are prevalent in several sectors. Nevertheless, last year the private sector contributed more than 65 percent of GDP and more than 90 percent of new jobs. The private sector will continue to drive the economy forward.

In 2009, the most aggressive economic policy of all the G20 countries came from China. In late 2008, it announced $600 billion of new infrastructure spending, and in 2009 it allowed bank lending and money supply to increase by 30 percent. This led to a rapid recovery in the Chinese economy.

While the United States and Europe were still in recession, the Chinese upturn set the stage for big recovery in commodity prices. This reflects the fact that China is now by far the world’s largest consumer of raw materials. Last year, China accounted for 40 percent of global consumption of copper, lead, zinc, nickel, and other base metals compared to only 10 percent 12 years ago.
Japan’s improved prospects

The most dramatic change in the monetary front is taking place in Japan, which is now pursuing the most aggressive monetary policy of any country in the past 50 years. In the next 24 months, Japan will double its monetary base by buying more than 90 trillion yen of government debt.

This will probably give Japan a growth rate this year close to 2 percent. A big challenge for Japan next year will be the planned increase in the value added tax (VAT) from 5 to 8 percent. The big VAT increase of 1997 helped drive the economy into recession. Therefore, Japan will be strong for a year, but it will face the danger of weaker growth by the second half of next year.

Growing uncertainties in emerging markets

The second-most robust part of the world economy during the past three years has been sub-Saharan Africa, where growth rates are now close to 6 percent. This has been driven by high commodity prices, Chinese investment, and a major improvement in the quality of government leadership. There’s no doubt that Africa is now becoming a potentially high-profit, attractive place to make investments, as increasing numbers of global investors are finding.

False dawn or fast restart?

As a result of these considerations, there are two big scenarios. The first—and less likely—is what we can call “false dawn”:

- At the center of this scenario are the undesirable consequences of policy actions from the advanced economies. For example, if the U.S. Federal Reserve Bank tightens too quickly, it could affect the U.S. economy and undercut the recovering housing market. It could also happen if a new wave of political or credit shocks occur in Europe. Both of these outcomes are possible.

- In this scenario, the next couple of years could look somewhat like 2012. They would be marked by slow growth. There would also be more uncertainty. The ominous build-up of deficits in government debt and expansion of central bank balance sheets would continue. When the policies need to be reversed sometime in the future, this will only make things more complicated and certainly will undermine business confidence. In addition, slow export growth, commodity price declines, and wider current-account deficits are likely to cast a pall over a large number of emerging markets in this less likely false dawn scenario.

The more likely scenario is a “fast restart.” This would involve continued recovery of the global economy, particularly in the advanced countries:

- In this scenario, the U.S. recovery proceeds at a fair pace. It would be helped by continued progress in the housing sector, unleashed pent-up demand, a recovery in the automobile sector, continued loose monetary policy, and the energy revolution. The recovery of the U.S. economy would accelerate in 2014—with unemployment diminishing at a steady pace.

- Things also would improve outside the United States. With the ongoing Japanese experiment in monetary policy, inflation would shift from negative to slightly positive. The European periphery would continue to create deficits and confront the collapse of domestic demand, as it restrains wages and forces a reorientation of the periphery economies toward exports. Ireland would be the fastest to recover, but Greece and Portugal also would begin to see stabilization of GDP and very modest growth late this year or in 2014. Adjustments in Spain and Italy would likely take longer, but would continue. The eurozone would continue to build its institutions to form a functioning monetary union.
In this consolidating recovery scenario, the big question mark relates to emerging markets—how they will respond to the tapering of Fed stimulus a year or two down the road. Three groups of economies might react differently, as follows:

— Several developing countries—beginning with China, oil exporters, and the so-called Asian tigers—would have ample reserves and strong external and fiscal positions to help them deal with the big internal problems built up during the large credit expansion. These countries will find a way to sustain moderate growth rates.

— Several other large developing economies would have big external deficits that are financed by volatile capital flows—equity portfolio flows, short-term loans of various types, bank loans, and debt of various types—as distinct from foreign direct investment. They could be affected by changes in monetary policy in the United States and elsewhere. In these economies, corrections are already overdue. This class could include Brazil, India, and Turkey. These are also countries where the middle class is growing very rapidly—as we have seen—and is restive and impatient.

— The third group of countries, commodity exporters in Africa and Latin America, has withstood 10 years of high and rising commodity prices. Commodity prices are unlikely to fall sharply, but big increases in supply due to large investments and slower demand in emerging markets could mean that the era of rapidly rising commodity prices is over. This could lead to significantly slower growth as a result of the shift in external circumstances.

The New Energy Calculus

In May 2013, the International Energy Agency (IEA) threw the spotlight on a major oil shock in the global energy market. This shift will not only shape market conditions for at least the next five years, it will also reshape the way companies formulate and execute their global investment strategies and transform the way energy is transported, stored, and refined.

The source of the shock? North America. The IEA forecasts that North America’s supply will grow by 3.9 million barrels per day from 2012 to 2018—nearly two-thirds of all non-OPEC supply growth. This supply increase could be as important to the global energy balance as the explosive demand growth in China during the last 15 years.

The latest forecast builds on earlier projections that the United States could replace Saudi Arabia as the world’s largest oil producer by 2020. It suggests that a surge in unconventional supplies will push the level of non-OPEC oil production to more than 53 million barrels per day by 2015, after which it will decline to 50 million barrels by 2035.

This shock is happening just as new contours of the international energy market are materializing. On the demand side, the second quarter of this year marks the first time ever that non-OECD economies will consume more oil than OECD countries.

The new energy calculus means a new supply and demand balance, shifting production and consumption, new patterns for energy trade, and the transformed geopolitics of energy. This is precisely the kind of disruptive change for which strategic leaders need to be prepared.

Fundamental shifts in global energy

The world now consumes about 198 million barrels equivalent per day (MBOED). Out of that, nearly 40 percent comes from oil, 25 to 26 percent from natural gas, and 24 percent from coal. That leaves about 10 percent for all the rest. Accounting for hydropower and nuclear, there is about 4 percent left for all other resources, including renewables—solar, tide, biofuels, and biomass. Out of these numbers comes the reality that humanity will continue to rely on fossil fuels for a long time. When it comes to renewables, then, it cannot be an either-or proposition; instead, it is an all-of-the-above imperative.

The situation has shifted significantly since the peak oil discussion some five years ago. It underlines the recurrent vulnerabilities we have in forecasting the future. Now, the projections suggest that we may have 50 to 70 years of oil and as many as 100 years of natural gas supply remaining.

Conventional reserves are 6,200 trillion cubic feet (TCF) of natural gas. Three countries have half of that: Iran, Qatar, and Russia. For a time, liquefied natural gas (LNG) was seen as a potential global integrator of gas markets that had been regional, expensive, and politicized. With the shale gas revolution, however, things have changed considerably. The United States is planning to export gas. There are 14 projects in the pipeline that would account for about 80 million tons per annum of LNG. One of them is already approved, and as much as 6 to 7 TCF could reach the market.

The shale oil revolution in the United States began in Texas, moved quickly through the Midwest, and then leaped to North Dakota. In that state, fracking and horizontal drilling have increased production from 20,000 barrels a day in 2005 to 800,000 barrels a day this year. The United States has experienced the quickest growth in oil production and is becoming a real powerhouse. Recent IEA reports indicate that it could become self-sufficient by the year 2030.

Apart from the consequences for energy markets, these shifts also will have profound geopolitical implications. In the Western Hemisphere, for example, Venezuela, Colombia, Ecuador, and Mexico will all have to redefine their strategies to account for the changing circumstances. In the Middle East, the implications include the potential impact of lower oil prices on the political balance in the Persian Gulf and even the course of the Arab Spring movement.

The U.S. Department of Energy’s Energy Information Agency (EIA) recently carried out a study of potential global resources of shale gas. The study came up with a number that is exactly

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equivalent to conventional reserves—6,200 TCF. The experience of the United States is going to be very difficult to replicate, however. The capacity of other countries to follow suit with their own shale reserves is governed by important physical differences: sedimentary and geological conditions, pressure, temperature, and surface and subsurface migration. But there are also other important differences. First of all, land rights—in the United States, production has been possible because most of the land is privately held. Second, the mastery of key technologies is vital. Third, there are strong capital markets.

What energy transition in the United States?

The United States is entering a period marked by fundamental shifts in its energy situation. One key uncertainty as the country moves into this phase of its energy development is how well its leadership will adapt to dramatically changed circumstances.

This represents a massive departure from previous U.S. positions and attitudes. In years past, the existing view of the future of oil and gas was that in an era of scarcity, the country needed to husband these resources. In 2008, for example, an inter-agency group reached the conclusion that the country was locked in to large imports of natural gas no matter what it did—no matter what new technologies were deployed, no matter what new government land was leased for exploration and production, and no matter what new techniques (such as the Hubbard method) could be employed.

This highlights an overarching challenge to policy, but especially to U.S. energy policy. Policy makers are often locked into perceptions about the future that do not correspond to reality. Many are responding to stakeholders whose interests are ideological rather than based on the best available empirical evidence. In this environment, effective policy making at least requires an attitude of: “We don’t know what the future looks like, but let’s design policies that are robust against uncertainties.”

Projections suggest that by the year 2022, imports to North America will be less than 0.1 percent of the region’s output level. The United States will remain connected to the world market, but there will be no flows east of the Suez into the Western Hemisphere. U.S. political and economic leaders, therefore, will need to address the economic and geopolitical implications in their totality. To what extent should the United States export its natural gas or seek to capture lower energy costs by husbanding domestic energy for domestic use? How should the shift in flows affect U.S. policy toward the Middle East?

There are two important examples of leadership variables, with a significant impact on global energy markets and the U.S. energy position within them:

- The first is the Keystone Pipeline, which, if completed, will take the massive reserves from Canada to the deep Gulf. One of the most significant challenges in realizing the “energy renaissance” is rationalizing the transportation of crude oil throughout the North American land mass. The pipeline will take the oil sands from Canada to big cokers in the Gulf, where they will be processed. It will also provide a lot of efficiency in the movement of crude oil throughout the continental land mass. Despite these benefits, the political debate on whether to approve the pipeline has focused on the supply side. In the process, the continuous delays and failure to proceed have had severe consequences. OPEC and the world oil market both question Washington’s ability—or will—to effect this massive energy transition, leaving a very important ally of the United States confused and alienated.
Oil and gas have always been subject to geo-political interference. Now the industry is also operating in a climate of insecurity.
The second example is the country’s preoccupation with biofuels. The dilemma here is that it is not possible to produce the volumes of biofuels as mandated by Congress. The problem is even more serious because under U.S. law, so-called obligated parties—refiners and importers—are required to accept, process, and market ever-increasing volumes of biofuels regardless of cost, availability, or any other relative conditions. The conditions at the time the mandated volumes were put into law no longer exist.

What is to be done? Leaders must assess more effectively a range of outcomes and contingencies when addressing critical issues such as the energy future of the country. This will be especially important in the debate over continued use of fossil fuels, the emergence of alternative energy sources, and the debate over the future of existing practices and institutions—such as the National Petroleum Reserve—that no longer apply to current circumstances.

**Energy challenges from the European perspective**

Four developments have somewhat modified the energy landscape and affected European attitudes and policies: the Deepwater Horizon incident in the Gulf of Mexico, the Fukushima nuclear accident in Japan, the Arab Spring revolutions (which have modified the political landscape in the Middle East), and the emergence of shale gas. The first three are relevant to cost: cost of security, cost of safety, and also costs of policies (in particular, the nuclear). The last of these developments—the shale gas revolution—is translating into major geopolitical shifts and realignments as well as modified supply lines. All of these elements are extremely important for Europe.

Security of supply has become an obsession in terms of oil and gas. This is due in large part to the emergence of China, whose consumption of oil has more than doubled in the past 10 years and is expected to soon exceed 10 million barrels per day. Other emerging countries are also putting pressure on security of supply. At the same time, Russia has become a large producer of oil and gas. From the standpoint of both conventional and unconventional resources, during the next 20 years the Americas, Europe (to a lesser extent), and Russia are all in a position to cover their domestic energy demand requirements. Clearly, Asia is not in the same position. It will continue to rely on the Middle East and other sources, notably Russia, to fulfill its requirements.

Oil and gas have always been subject to political and geopolitical interference, but the industry is operating these days in a climate of increasing insecurity. Operations are subject to threats of terrorism, piracy, kidnapping, and extortion. Regime change has also hampered the ability to operate as governments bring into question past decisions on foreign involvement.
At the same time, U.S. shale production has more than quadrupled since 2007. Much remains to be done before shale resources can be developed in the rest of the world. There are 16 countries around the world that are likely to have substantial reserves of shale gas. They range from Pakistan, Mexico, Bolivia, Brazil, and Russia to China and North Africa (especially Libya and Niger). In Europe, Poland appears ready to begin development, providing it can be done safely.

Regarding nuclear power, Fukushima, of course, will have lasting consequences for the industry—among other things the tightening of nuclear safety, the review of plant operation, and the review of safety governance. This is quite likely to increase costs that are already hampered by the intrinsic structure of nuclear plants’ return on investment. It is not, however, the end of nuclear power. Construction programs continue in Asia, Russia, and the Middle East. There are projects in South Africa, Bosnia, Finland, France, the United Kingdom, the United States, and Turkey.

The combination of factors will have a substantial impact on European energy policy in a number of ways:

- It will put additional pressure on an energy policy for the region that no longer conforms to the realities of the international energy situation.
- Germany’s policy to replace nuclear with a mixture of coal, gas, oil, and renewables is putting additional pressure on the European regional position. Thirty percent of European gas comes from Russia, with a substantial amount also from North Africa.
- The current French position has led to missed opportunities for shale gas (a ban on fracking for environmental reasons contributes to the uncertainty).
- Weak points include the oil-gas relationship with the Middle East and Africa. How will the shipping lanes and pipelines be secured?
- Potential misalignment with the United States on the Middle East may be an outcome. Will a gap develop between Europe and the United States as their interests in the Middle East diverge?

The Race for Competitiveness

It seems like a lifetime ago, but it has only been six years since the global economy and foreign direct investment soared to all-time highs. Then came the Great Recession: the collapse of the U.S. housing market, failures in global financial institutions, sharply higher unemployment, plummeting consumption, and cascading government crises.

Now, across the world, leaders are trying to restore momentum in their economies. At issue is the collision between short-term priorities, such as the need to restore economic growth and dynamism, and the need to invest in actions to address the challenges of the future.

Many of the major emerging economies, which have enjoyed strong catch-up growth, are showing signs of exhaustion: excessive credit growth, real estate bubbles, excessive reliance on high commodity prices, and a need to change growth models.

For 30 years, China’s large, low-wage manufacturing workforce reshaped its economy—and with it the global manufacturing landscape. Now, the fundamentals that made China the clear choice for such work are changing rapidly. Chinese labor costs have more than doubled since 2007, reflecting the country’s success in creating a new consumer class, but also sparking debates about China’s ability to move up the value chain.
Meanwhile, the eurozone remains mired in debt, with undercapitalized banks, high unemployment, and poor growth. While fiscal consolidation is necessary, it weighs on growth-inducing spending and consumer confidence. In many peripheral countries, it remains an open question whether social and political cohesion can survive the pressures. After three years of painful belt-tightening, the European Commission recently made a striking U-turn on its policy of blunt and universal austerity, allowing three of the EU’s five largest economies to overshoot budget deficit limits and pushing instead for broader reform.

Although U.S. growth since 2009 has been less than inspiring, glimmers of hope are appearing. U.S. workers are more competitive, exports are improving, the housing market finally may be recovering, and the production of unconventional oil and gas is surging. Yet, growth may still be disappointing by historical standards, and fiscal gridlock still poses a major risk to business and consumer sentiment.

The competitiveness challenge transcends the role of government, as essential as it is and will continue to be. What roles should be played by the private sector and other groups such as non-governmental organizations (NGOs) and academic institutions?

**Business: Defining the intersection with government and civil society**

Redefining the linkages between government, civil society, and business is a necessary precursor to addressing the world of change around us. To reengineer those linkages, the intersections of interests and capabilities need to be identified.

Business leaders cannot disengage from this process. They cannot opt out of the notion that they should do well by doing good. That requires a departure from many of the attitudes and practices of the past. The reality for business is that its leaders are public leaders, and that its leaders are public figures no matter how—or even if—they engage. They are defined all the time—every single minute, every single second—as the chief reputation officer of their companies. On behalf of their companies, it is incumbent on them to intersect with a wide range of individuals, groups, and situations.

Another core intersection highly relevant to business is time—specifically, the linkages between short and long term. This underlines the need for leaders to step into the future by defining what their direction is and adapting to the volatility and the uncertainty of our times. All this highlights the need for scenario planning linked with the willingness and capability to change direction.

When it comes to the manufacturing sector and competitiveness, another important intersection is the extent to which there are enabling environments. Some countries have set national priorities to create growth-conducive environments. They take into account their citizenry’s requirements—security, positive economic conditions, ample healthcare, and affordable energy—knowing that a vibrant private sector is central to a government's ability to deliver on constituents’ needs. They typically have less red tape and more red carpet—incentives for engaging business.

Another dimension of this interaction between government, civil society, and business is adapting to technology disruption, which implies the retooling of sectors to reflect the changing circumstances. There are some important examples of current joint efforts to define a new course. In the United States, the Advanced Manufacturing Partnership generated a plan to enable innovation—replicating Silicon Valley throughout the country by pinpointing technology platforms from advanced sensing technology to nano-manufacturing to bio-manufacturing. With the participation of leaders from government, academia, and industry, the recommendations were based on a careful assessment of capabilities. Similar efforts are under way in Europe.
To create this kind of intersection, a national strategy is essential. Six areas are vital to a robust strategy: taxation, trade, energy, regulation, infrastructure, and education. In the final analysis, to create these intersections governments must play defense by addressing these areas and play offense by defining partnership models and pursuing an integrated national strategy conducive to the disruptive change around us.

**The emerging business imperative**

We live in a world marked by ever-higher levels of integration, but the reality is that there is also still a very critical local component to the global story. This has important implications for competitiveness. The resulting imperative for business leaders, then, is to play a more significant role in defining broader outcomes—in trade, finance, and other areas—both at the local and global levels.

One especially important area in which we should be bridging local and global is technology, which could have an even greater impact in the next 20 years and beyond. Technology will also be the defining factor in the capacity of both government and business to provide leadership—and to address the many global leadership deficits that continue to exist.

Changing expectations are another key consideration. People across the world have become more aspirational. They are substantially more knowledgeable, and therefore their demands of leaders have risen correspondingly. Among other things, this puts enormous pressure on governance systems, service delivery systems, and other challenges of leadership. At the end of the day, it is a complete circle—accelerated by the vast flows of information and technology, people empowered to do things for themselves in a framework that civil society enables.

The unfolding information revolution has profound implications for developed and developing countries alike. Across the world, the information age allows for equal access to opportunity. That, of course, is an important element of competitiveness, prosperity, and stability.

**Restoring growth and competitiveness to Europe**

Getting growth back on the fast track in Europe is indispensable to reignite the original dream of the European founders. In this context, there has never been a greater need for leadership from the business community. Shaping the debate and being part of the solution is an integral part of the new leadership challenge of the 21st century and also a critical part of the accountability of business leaders. For most leaders in Europe, this requires a significant change of behavior. They must venture beyond their business sectors and their usual lobbying practices.
The vibrancy of sub-Saharan Africa—now the world’s second-fastest growing region—has caught many by surprise.
This calls for getting out of their comfort zone and addressing global societal issues that are impacting the whole interconnected economy—such as youth employment, investments in infrastructure, free trade, healthy active living, the green economy, and so on.

To this end, there was a unique and interactive meeting in early June 2013 in Brussels with economists, think tank representatives, professors, unions, a group of 30 CEOs, and other business leaders. The conference, called “The State of the European Union,” was dedicated to revitalizing the European dream. After intensive discussion, there was alignment on five points:

1. Reviving economic growth in Europe should be the number one priority—well ahead of other important priorities because it is a prerequisite for youth employment and, more generally, for job creation. In the final analysis, this is the only way to preserve at least the heart of the EU social model—the pride of being a European citizen in today’s world.

2. To generate revived growth, restoring competitiveness must be the major goal. It was characterized appropriately as “the competitiveness imperative.”

3. There is a strong need for concrete, targeted actions with a clear sense of urgency. The clock is ticking in Europe. Several key pragmatic ideas and actions to tackle Europe’s competitiveness challenges were highlighted:

   — A large majority insisted on the absolute need to bring to life a real single internal market. This implies the removal of the many remaining barriers and obstacles, especially as regards services, transportation, and the digital arena.

   — Finding pragmatic solutions to productivity is a must. To that end, labor costs must be lowered and labor flexibility and mobility strengthened. Economic incentives to go back to work must be put in place.

   — Europe needs to promote entrepreneurship. In that vein, it must demonstrate that it accepts risk-taking and even failure.

   — Strong political and economic governance at the EU level is critical, especially in fiscal harmonization and slowing down the trend of over-regulation. EU businesses have a major responsibility to develop and implement voluntary initiatives and self-regulation.

   — Europe should design and implement a special program for small and midsize companies with a small business act to support trade inside and outside the EU and provide these midsize or small businesses with much better access to capital. A parallel requirement is to foster employee mobility, including effective language training, so that European diversity remains an asset and does not become an obstacle.

   — To be competitive in the high-tech and digital arena, there is a need to set up a strategic European loan to fund new technology clusters (a European Silicon Valley), supported by venture capital and public or private partnerships in innovation and R&D.

   — Youth employment has to be at the heart of all European strategies to jump-start innovation and competitiveness. This will require much closer relationships and links between business and the education system.

4. The key to success is to rebuild trust and invent a new leadership and collaboration model that includes all stakeholders in Europe: NGOs, civil society, government, and all types of businesses.

5. Given the current youth unemployment crisis that is raging in Europe, a subsidies scheme is necessary to encourage employers to hire young people.
To achieve these goals, a new level of cross collaboration is necessary—a “golden triangle” of cooperation between business, governments, and civil society. Such a robust set of interactions is critical to restore and strengthen levels of trust among EU stakeholders—in other words, a kind of pact of trust for competitive growth. Only trust-based relations will enable a common, bold ambition to bring to fruition this new competitive Europe.

Geopolitical Horizons Transformed

The seminal strategic and geopolitical changes taking place across the world clearly add a new layer to the challenges that leaders must now confront. The aggregate effect of these phenomena—as diverse, complex, and fast-breaking as they are—is to overwhelm even the largest of governance structures at both the national and international levels. This obviously serves to undercut the level of public trust and adds to the overall leadership deficit.

On the one hand, progressively, the challenges that leaders face are multilateral rather than bilateral. Often, solutions to the challenges of global trade and environmental degradation depend not on a handful of governments but rather on many—in some cases, even the entire 193 member states of the United Nations. In addition, the functional linkages between various global issues have never been more apparent. On the other hand, the international system is weak and increasingly dysfunctional, especially where contentious political issues are concerned. As a result, we see an emerging dual-track international structure in which the specialized agencies manage to address micro issues and in which traditional multilateral organizations continue to struggle with core global challenges.

Of the core elements shaping the geopolitical horizon, several were highlighted:

- The first, and most obvious, is the global economy. Core economic circumstances obviously have important implications for prosperity and stability. The impact transcends security, however. The profound shifts in the balance of global economic production have corresponding effects on the geopolitical balance.
- Second, the outcome of the ongoing transformation of the Arabic-speaking countries—from the Pillars of Hercules to the Hindu Kush—remains uncertain and will likely take some time to develop, from the ongoing instability in Egypt to the escalating violence in Syria.
- Third is the Arab-Israeli conflict. There seems to be some momentum in restoring peace negotiations between Israel and the Palestinians, but it is clear that many highly contentious issues loom large. To move the process forward will require active engagement from a number of outside powers in addition to the role the United States has carved out for itself.
- Fourth, in the face of disruptive change internationally and weak international institutions, the major powers will need to redouble their efforts to reinforce cooperation and reduce tensions. The recent negotiations between Washington and Moscow regarding reductions in strategic nuclear weapons highlighted the need to stress partnership over rivalry.
- Finally, the geopolitical future will depend on the capacity of leaders to address a range of critical and highly interrelated global issues. This range runs the gamut from poverty reduction and economic growth and development on the potential upside to international crime, narcotics, and failed and failing states on the downside.

As daunting as these elements are, perhaps the biggest challenge to national governments is to address them in a whole-of-government fashion. Because they are so interlocked, it follows that
to be effective, governments must promote a high level of institutional cooperation across structures that in many cases are still segmented, stove-piped, and driven by parochial interests and objectives. To this day, many governments are operating with 60-year-old systems put together after World War II. At the international level, the urgent need is to modernize and adapt both the way that governance structures identify opportunities and challenges and the way that they execute their strategies. Very little attention is paid to foresight. Likewise, learning from the past—how and in what way earlier governments dealt with issues—is usually overlooked. This process, as it now stands, is unsustainable. In the face of sweeping geopolitical change, government leaders need to reconfigure their approaches to dealing with the formidable array of issues that currently exist and that will arise in the future.

The Outlook for Africa

What are the two fastest-growing areas in the world today? Asia, not surprisingly, tops the list—with projected growth above 7 percent this year. Second place goes to sub-Saharan Africa—with expected growth of 5.6 percent this year and more than 6 percent expected next year.

As the Economist recently summarized: Never in the half century since it won independence from the colonial powers has Africa been in such great shape. Foreign direct investment (FDI) has tripled in the past decade; consumer spending is expected to double during the next 10 years; and the number of countries with average per capita income above $1,000 will grow from less than half of the African states to three-quarters of them.

According to the IMF, the long-standing growth in Africa will continue to be broad-based, going well beyond the region’s export economy. Ongoing investment in infrastructure, continued growth in domestic consumption, and new production capacities have all injected significant dynamism into the regional economy.

The outlook for the Maghreb is slightly more nuanced. The IMF is projecting more than 6 percent growth this year, but the overall figure reflects a two-speed economy of higher dynamism among oil exporters and continued challenges among oil importers. The entire region, however, will see substantial upside in the event of an economic recovery in Europe.

The optimistic forecast for Africa also includes an upturn in governance structures. Although notable exceptions remain, many countries have undertaken free and fair elections. Political
leaders now seem to be more accountable. Long-standing corrosive practices, such as bribery, appear to be waning. And the number of conflicts among and within states has declined.

Is this, as the Economist claims, the “aspiring Africa”? By all means, yes. It will need continued momentum, however, to propel the region to a higher stage of development. Nelson Mandela once said: “I dream of the realization of the unity of Africa, whereby its leaders combine in their efforts to solve the problems of this continent.” Once well beyond the pale, such a new Africa may now be in sight.

**The new Africa for business**

The dynamics shaping the economies in sub-Saharan Africa have changed significantly. The economic growth the region is now experiencing is fundamentally different than before. Formerly, the economic trajectory of the region was inextricably tied to volatile commodity prices. While commodities still play an important part in the sub-Saharan economy, they are no longer the only driver of growth. In fact, some of the fastest-growing economies are not necessarily commodity exporters. Rwanda, for example, has no oil or any substantial natural resources; rather, its economy is more diversified. Nor is the new growth driven by aid. In fact, dependence on foreign assistance has declined. In many respects, then, the current dynamism is “African-driven.”

What are the factors explaining this shift?

- The first is quality of policy. The management of economies has improved substantially. The region has better managers. With a few exceptions (such as Zimbabwe), most of the region is characterized by fairly stable policy making.
- The climate for business has also improved. The region still faces challenges in promoting a stable business environment, but World Bank data indicates that Africa is the most improved continent in terms of business.
- Another important factor is the emergence of new partnerships. There has been a new scramble for Africa—from countries such as China, Turkey, and Brazil.
- Another important driver is technology. Africa has a real digital divide, but recently the gap has narrowed—especially because of mobile technologies.
- FDI inflows have increased, and the destinations of investment have changed.
- Finally, Africa has a strong emerging consumer class.
Where is Africa headed? Institutional strengthening has reached a point where the gains of these various reforms cannot be easily reversed. In addition, Africa has the youngest population, with growing segments that are educated and very innovative.

Infrastructure continues to be a major constraint, but there are important opportunities for partnerships with other countries. Africa has the resources to finance a lot of its own infrastructure needs but it needs to ensure its resources are used well. Agriculture represents an important opportunity. Although there is still significant traditional production, the potential for growth is noteworthy.

Much of Africa’s outlook is a function of leadership. In this regard, there are some important obstacles to overcome:

- The first is that in many places, people continue to think of themselves as a part of an ethnic group. Ethnic identity is still strong, and necessary institutions have not yet been created to harmonize the ethnic interests and claims. This underscores the need for trustworthy leadership.
- Corruption continues to be a problem, especially around the natural resource sectors. Business can play an important role by pushing an extractive industries transparency initiative.
- High youth unemployment also poses a serious risk.

**The expanding potential of Africa**

What is the dividing line between developing and developed country? According to one definition, it is the point when per capita GDP reaches $10,000. By that definition, 86 percent of the world’s people live in developing economies. This, of course, comprises all of Africa.

When Africa’s future is considered, a number of important elements need to be taken into account. Consider Africa’s vast geography and complex linguistic makeup. When you look at the landmass of the whole African continent, it could contain the entire United States, China, India, and the European Union and still have room to spare. Another core geographical characteristic is the number of countries that are landlocked. In addition, a vast number of languages—perhaps more than 3,000—are spoken in Africa. This diversity begins to suggest how daunting it is to develop a differentiated approach to the region—or for Africa to define and execute a pan-Africa strategy.

What issues are likely to shape Africa’s future? There are four key factors:

- The combined GDP of the continent’s 52 countries and population of one billion people exceed that of India. There are several countries where GDP per capita is higher than China’s. Beyond that, there is a significant informal economy. Together, it all suggests that Africa has already attained a significant level of economic power.
- There are 25 million tourists who travel to Africa every year—more than those visiting China and India combined. The hospitality industry has remarkable potential.
- The young and technology-savvy generation is changing the rules of the game.
- The African diaspora sends home by way of remittances the same amount of money as the Chinese and Indian diaspora remit to their homelands. In 2008, total remittances approached $40 million (excluding informal transfers).
The energy imperative for Africa

One of the most important variables, not only for economic growth but also for social welfare in Africa, is realizing the huge energy potential of the region. At present, the needs are enormous and there is a gap between those needs and the availability of energy. Closing this gap remains a tremendous challenge to the continent.

The region accounts for 10 percent of oil reserves worldwide and 8 percent of natural gas reserves. Africa also has huge potential in renewable energies (hydro, wind, and solar). The paradox is that the main source of energy in Africa is coal, the most polluting source of energy. Coal represents nearly 50 percent of the power mix (before hydro at 26 percent). Therefore, despite the remarkable potential on the supply side, there are a number of significant challenges:

- First, resources need to be better managed. For instance, natural gas, which is a relatively clean source of energy, currently provides 25 percent of OECD consumption and 17 percent of non-OECD energy needs. Africa relies on gas for only 11 percent of its energy needs despite the fact that, according to the World Bank, the gas flared annually in Africa could produce 200 terawatts more than all African power consumption combined.

- The second reason is there is an urgent need for investment in infrastructure. Only 31 percent of the population has access to electricity. Thirty countries face regular interruption due to power outages. Universal electrification, according to the World Bank, is more than 50 years away.

- Third, many countries do not properly set energy prices to make investment attractive, except for exploration and production, which is largely exported. On the consumer side, government subsidies are extremely costly. According to the World Bank, they absorb $2 billion per year. That represents 0.4 percent of GDP in Africa. These subsidies distort relative prices, and due to pressure on the public finance, they are an obstacle to policies that should favor energy consumption and energy production. On the demand side, there are huge discrepancies among countries. In 2008, according to World Bank data, lack of access to electricity, for instance, varied from 95 percent of the population in Chad and 25 percent in South Africa, to less than 1 percent in Mauritius. Furthermore, 54 percent of Africa's urban population was covered by electricity versus 11 percent of its rural population.

- Fourth, increases in regional economic growth are driving up demand. Increased social needs, strong demographic growth, continued rapid urbanization, and the emergence of an African middle class (expected to triple in the next 30 years) are also contributing factors. At present, electricity consumption in sub-Saharan Africa represents only 1.9 percent of world consumption. Yet the region constitutes 12 percent of world population.

To close these gaps, there have been a number of important initiatives:

- Public-private partnerships have successfully leveraged private capital to finance significant projects. Specific examples of this cooperation include the Azito gas power plant project in Cote d'Ivoire, the Chad-Cameroon pipeline, and the West African gas pipeline.

- Countries are pooling their approaches to addressing the energy challenge. In the past 20 years, for example, four power pools were created to optimize electricity planning at original scale and to develop connections between national power grids. Their goal was to boost the creation of a large, free energy market based on advantages flowing from economies of scale. To date, 20,000 kilometers of regional transmission networks are under way.
At the micro level, there are initiatives undertaken with the assistance of NGOs and other private or public institutions to promote construction of small hydro, wind, or solar plants—approaches well adapted to the needs of populations in isolated villages.

Policy reforms that aim at suppressing subsidies and the pricing of electricity distribution losses, or on the collections, can have a very positive impact. In Kenya, 1.3 percent of GDP has been saved annually through such reforms; in Nigeria, 1.7 percent of GDP has been saved due to increased power tariffs and utility reforms.

The sub-Saharan countries have enormous potential in renewable energy. Renewable power capacity should go from 22 megawatts in 2007 to 48 megawatts in 2035, with a growth rate of 24 percent per year in hydroelectricity.

Market forces alone cannot bridge the gap between supply and demand, however. The World Bank has estimated that in a business-as-usual scenario, from now to 2020, installed capacity would go up from 78 megawatts to only 81 megawatts in sub-Saharan countries; power consumption would rise from 124 kilowatt-hours to 174 kilowatt-hours; and electrification, as a portion of the population, would rise from 30 to just 34 percent. In a concerted action scenario, there would be significant improvement. Installed capacity in 2020 could be 100 megawatts, instead of 81 megawatts. Power consumption of 164 kilowatt-hours could rise to 235 kilowatt-hours. And the portion of the population with access to electricity could increase from 34 to 49 percent.

To reach these ambitious goals, there are four overarching imperatives. The first is that subsidies must be reduced. Second, governments need to emphasize confidence-building by promoting stability, quality of contract to investors, and enforcement of payments for energy by all users, without exception. The third imperative should be to create all the conditions to attract capital to the energy sector. Finally, public-private partnerships—leveraging public aid and introducing public service obligation investment—would accelerate meeting the energy needs of the African people.

The Growing Challenge of Trust and Relevance

Increasingly, authentically strategic leaders with genuine foresight and vision are embattled by organizations that are merely tactical in orientation. Many of the organizations they lead—ranging from governments to corporations to NGOs to academic groups—are geared more to the past than the present. Many are encumbered by attitudes and practices that have become
fundamentally obsolete, and many more are held back by cultures that are deeply resistant to change. In short, many institutions around the world are simply losing their relevance.

These challenges to leaders, as serious as they are, are compounded by the scope, scale, and speed of the profound transformational change at work across the world. All too often, the result is growing dysfunction that is beyond the capacity of leaders to reverse.

Relevance and trust are both necessary pre-conditions of strategic leadership. Certainly, leaders must be relevant to be effective in addressing the strategic issues that confront them. Likewise, greater support—and trust—from key stakeholder groups enables organizations to carry out their mandates more effectively.

The notion of public trust in institutions is elusive—and constantly changing. Therefore, it follows that specific correlations in the leadership-trust-performance equation are also difficult to pinpoint.

Still, the evidence of the importance of relevance and trust is growing quickly. International surveys are yielding vital information on how various target groups regard the institutions around them. At the government level, the polls reveal day-by-day shifts in popular trust in their leaders. At the corporate level, various studies have explored the impact of the lack of trust on efficiency, productivity, capital accumulation, retention of employees, and transaction costs.

Leaders face this important question: What are the principal dynamics at work in restoring trust, and how should they be managed to restore trust?

Addressing the challenge of declining trust in government

Democracy is now in crisis. In nearly all developed democracies, including the United States, Britain, France, Germany, and Japan, substantial majorities of citizenries indicate they do not have confidence in their governments.

This is not to suggest that there has been a loss of faith in the ideal of democracy. Quite the contrary. In international polls, clear majorities indicate that they would prefer to live in countries with democratic political systems. Overwhelming majorities agree with the principle that the will of the people should be the basis for government. Even in Iran, two-thirds of the population believes the will of the people should empower government.

What is disconcerting, however, is that there is a strong negative correlation between high popular support of democracy and confidence in government. It would appear that as democracies
develop, confidence in government declines. This is not related to downturns in economic performance. Rather, it seems to be intrinsic to democracies at a certain level of development. There is reason to believe, then, that there is a structural problem in modern democracies that undermines public trust.

What are the causes for this decline in confidence? Perhaps the most significant is the perception that leaders are working less for the common good than for special interests. This perception, moreover, seems to be growing.

This lack of confidence undercuts the legitimacy of government and makes it more difficult for democratic structures to operate effectively. Low confidence in government can also reduce the readiness to make short-term sacrifices in the pursuit of long-term gains.

What can be done? To give citizens a greater voice in governance between regular elections, it could be helpful to poll the electorate. But while polling gives the public a voice, it does have serious limitations. For many issues, respondents simply do not have enough information to come to a meaningful conclusion, or are subject to misinformation or disinformation. When presented with trade-offs rather than up-or-down questions, respondents can and do make more meaningful decisions. These public consultation methods—sometimes called deliberate polls, citizen juries, or citizen cabinets—are increasingly being used in developed democracies around the world.

The increasing challenges for the private sector

The implications of these developments for the private sector are profound. In nearly all democracies, trust in corporations is at the same low level as trust in government. One important reason for this is that corporations are perceived as a major part of the special interest phenomenon that is undermining confidence in government.

Across a broader scan of countries, however, the results are more skewed. In a number of countries, business is more trusted than government. In Brazil, for example, twice the number of respondents in a recent survey indicated that they trust business more than government. In Argentina, the difference between confidence in business and government was more than double. At the other end of the spectrum are the countries that harbor more trust in government than business. A recent survey in South Korea showed that 44 percent of respondents trust government as compared to 31 percent for business.

Similarly, international surveys show that government officials are among the least trusted, but they also show that the credibility of CEOs is not much better. In contrast, academics and other “experts” engender substantially more trust. This suggests that business outreach strategies need to be spearheaded by the CEO, but that a diversified strategy with other channels may be preferable.

In the final analysis, what can corporations do? It is in the interest of corporations to support efforts to give the public a greater voice. This implies support for a cooperative form of leadership in which the public is part of the process. Beyond that, they can tailor their communication strategies to account for these trends in diminishing trust.

The unfolding situation in Egypt as case study9

By virtue of its central position in the region and its significant influence, Egypt is an extremely important case study of the wider Arab Spring phenomenon. The country’s predicament also
sheds light on what the trust and relevance challenge means to Egypt and to the region as a whole. The inescapable conclusion is that a Pandora's box has been opened in Egypt, and the ensuing instability and continued fragility of the country can easily spill over to other countries in the region. Until a new state of trust and relevance is reached, the costs could be heavy.

The political transition in 2005, when 88 members of the Muslim Brotherhood won seats in the Egyptian parliamentary elections, reflected a more fundamental change. Despite robust macro-economic growth, the Egyptian economy was increasingly unable to maintain the social contract created during the Nasser years, when citizens benefited from a range of subsidized services (including free education, subsidized healthcare and transportation, and guaranteed government jobs). Increasingly, the population felt their needs were not being met. In addition, the growing middle class demanded greater political engagement.

On January 25, 2011, the situation reached another critical inflection point. The massive demonstrations reflected profound popular alienation across a wide segment of Egyptian society. There is also evidence to suggest that during the demonstrations a significant number of Hamas militia crossed from Gaza into Egypt. The totality of these forces brought a stagnating Mubarak government to the point of no return, precipitating the resignation of Hosni Mubarak and the transition to a military government to set the stage for elections.

With the election of Mohamed Morsi as president on June 30, 2012, the Muslim Brotherhood leadership focused the consolidation of power. No serious attempt was made to create an environment of political inclusiveness, political amnesty, and harmony with the opposition. Instead, the response of the government was to push through a radical constitution with only 7 percent of eligible voters in Egypt having voted. In parallel, the economy suffered dramatically. Egypt has an unemployment rate of nearly 15 percent. During the past two and a half years, it has experienced value destruction of some $94 billion. Reserves are down to less than two months of billed imports.

This is the backdrop to today's conditions: mounting demonstrations, violence, and the decision by the military to deploy its troops in all major cities. At this important crossroads, there are three potential outcomes. The first is an explosion of violence and instability. The second is a decision by the government to bring in the opposition, showing true modernity and moderation, to seek to define a new trajectory for the country. The third, and most probable, outcome is the intervention of the military, which would restore stability in a transition period until new elections could be held.

For these reasons, Egypt is suffering from a major leadership deficit and a breakdown of trust. The current environment can now be characterized by zero-sum solutions and an unwillingness to compromise on core issues.

**Implications of the Arab Spring for East-West relations**

To be sure, the trajectory of the Arab Spring—with all of its twists and turns—has veered off the path of rapid political reform and liberalization that many observers had hoped to see after the initial movement in Tunisia began to spill over into other countries.

While it is too early to write off Samuel Huntington's "clash of civilizations" when it comes to relations between the Arab countries and the West, it would also be premature to suggest that the region has abandoned the promise of participatory democracy and is retreating to the autocracy of the past. As Arab societies continue to become more responsive to popular will, more empowered publics will force governments to deliver pragmatic, social, and economic results (even if populous accommodations will sometimes complicate global relations).
These priorities can serve as the foundation to forge partnerships with the international community. The polling data shows, for example, that since the Arab Spring, Western public opinion has demonstrated greater respect for Muslims—particularly in places such as Tunisia and Egypt, where there were peaceful revolutions. This suggests another potential upside of successful democratization. If the Arab Spring movement can continue to reform political institutions and practices, it might help transform the relationship of what is now perceived as victim and villain. It could lead to higher levels of mutual respect and interest—and, ultimately, to more productive relations.

According to research, those who see the nature of tensions between Western and Muslim societies as driven primarily by political rather than religious differences are more likely to see them as resolvable. In contrast, those—both in Western and Muslim societies—who see them as driven by religious differences are more likely to see the conflict as inevitable.

The Overarching Leadership Conundrum

The past two decades—the hinge period of two centuries—have been characterized by remarkable change. The fall of the Berlin Wall signaled the end of a bipolar world and gave rise, in a moment of unipolar power, to the predominance of the United States. That has shifted now to a multipolar world. In the information-knowledge sphere, with the digital technologies and the Internet era that followed, the world became even smaller—and even flatter. Then there were the terrorist actions in New York, Washington, Madrid, London, Jakarta, New Delhi, and beyond. Finally, we witnessed a profound shift in the world’s economic center of gravity to the east and south.

The daunting list of global problems we now face will require a global cooperative effort. Addressing the global economic crisis, clearly, is at the top. Adding to the pressures, aging populations are putting new stress on social welfare systems, generating downward pressures to wages and to costs, and at the same time raising unemployment—especially among youth. Other global problems include climate change, lack of food, terrorist acts, organized crime, and drug trafficking.

The operative question is whether leaders have the appropriate institutions and approaches to effectively address challenges and exploit opportunities. Many existing mechanisms are dysfunctional or even obsolete. Others are limited in their capacity to address the scope, scale,
We have the tools to begin the transformation to a more bravely and honestly led world. Will we use them?
and speed of change around them. Whether these institutional shortcomings manifest themselves in a deterioration in the quality of democracies, a decline in the capacity of international institutions to operate effectively, or in the ability of leaders to modernize institutions and procedures over which they preside, the challenge of governance is immediate and urgent.

**Identifying challenges and defining priorities**

Many of the issues that generate mistrust and questioning of leadership are well known:

- First, there are hot-button economic issues such as food, fuels, and finance. When the price of food or fuel increases dramatically, or the cost of public transportation goes up, people blame the government, even if it has nothing to do with the change. The same applies to the financial sector and fluctuating exchange rates, evaluations, and frozen bank accounts.

- Second, there are social and political issues—starting with corruption—that can affect public attitudes. In today’s hyper-connected society, these issues can assume immediate prominence. Strong judicial systems with full and accurate public disclosure help create trustworthy institutions. All too often, national debates are dominated by social policy instead of by a dialogue about how to make government work more effectively with safeguards that can help ensure an environment free of corruption.

- Third, conditionality. If a political leader appears to promote the interests of an outside group over domestic interests, it necessarily creates a high level of frustration. This observation applies to foreign assistance, balance of payments support, privatization of industries, and a number of other areas in which leaders must ensure that they have the sustained trust of their citizenries.

In the final analysis, only joint efforts by government, business, and civil society will be able to restore trust between all parties and restart sustainable, robust growth to meet the changing needs of society.

**Addressing growing public mistrust**

Global political and business leaders must acknowledge that there is a worrying amount of mistrust in the general public. What can be done to restore confidence and trust?

As a first and immediate priority, leaders must effectively address the global financial crisis and the hardship it has represented to citizens. Across the world, but especially in Europe, people need significantly greater confidence that their leaders are making steady progress in bringing the economic and financial crisis to an end. It goes well beyond simply addressing the causes of the crisis, as important as that is. The general lack of confidence is also related to a more fundamental desire that people have for a new social compact grounded in a universally accepted set of values. Such values must embrace inclusiveness and fairness on the part of both government and business.

For business, the overriding challenge is to make the work of companies beneficial to society as a whole. How, then, can social impact be measured? How can it be communicated? Many companies issue reports on corporate social responsibility (CSR). But the total sum of individual CSR reports falls far short of addressing the most pressing problems we have ahead of us—including, for example, huge structural unemployment.

Europe—and, for that matter, the rest of the world—faces a paradox. On the one hand, the financial crisis has demonstrated the need for more robust governance—more integrated policy making and decision making on fiscal policies and on economic coordination. On the other hand,
there is a high level of mistrust and confusion and lack of confidence among citizens. A greater number of people are attracted to nationalistic and populist approaches. The unfortunate reality is that saying “no!” now seems to be more rewarding to many than taking responsibility for addressing challenges and opportunities.

Leaders, therefore, must transform their practices to conform to these changed circumstances. To regain trust, they can begin by:

- **Being clear and honest.** This should be done not only after elections but also before them. They should be frank about what can be done and what cannot be done. At the same time, they should not create expectations that can never be fulfilled. Moreover, they should engage in dialogue with the electorate that compels their opponents to be equally forthright and accountable.

- **Working to build coalitions rather than engaging in partisan politics.** The days of top-down approaches are over. Lack of transparency and openness, as consistently indicated by the surveys, are at the core of the loss of public trust. Leaders must therefore work to build coalitions to address the complex set of issues around them.

- **Renewing their commitment to participatory democracy.** How can people be involved in the decision-making process? It is incumbent on leaders to invent new techniques in order to consult with constituencies, to inform the public, and to convey complete truth.

**We Have the Tools. Will We Use Them?**

There is a great paradox shadowing our world today. With leaders, citizens, and institutions of all kinds armed with an endless supply of information, one would think we would all feel—and be—more confidently and clearly led. Yet, that constant stream of news, data, and technological invention and improvement has contributed to a cynical and distrustful world, one where governments, businesses, and academic and not-for-profit institutions are mired in short-term, outdated thinking that hobbles otherwise strategic and forward-thinking leaders or fails to promote them from the outset.

We can hardly afford this way of governing our world. Societies face deep unrest, from Egypt’s tenuous current events, to war-ravaged Syria, and continuing challenges across the Middle East. The results of global economic crisis have left countries weary and anxious.

It is true, however, that promising opportunities shine a light on another way of thinking. The vibrancy of sub-Saharan Africa brings new possibilities. The outlook for advanced economies in Europe and the United States has improved markedly, despite continuing challenges. And new sources for energy promise greater future independence and flexibility.

The direction we take depends on the quality of our leadership. How we overcome the current global leadership deficit is critical. Successful leadership must emerge from grounded principles that go beyond the temporary experience. It must inspire those being led to reach for a higher state of purpose. And it must be effectively executed, leaving a clear and realistic path for those who follow to continue pursuing a vision for the future.

In acknowledging the state of flagging leadership worldwide, we know where we stand today. We have the tools to begin the transformation to a more bravely and honestly led world. The question is, will we use them in the months and years ahead?
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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.