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The Future of Management: More Agile, More Digital, More Global

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Guest Contributor

Last month, McKinsey Quarterly published a special edition, Management: The next 50 years, to commemorate its 50th anniversary. The special edition includes interviews with leading thinkers like Lou Gerstner on corporate reinvention and Robert Solow on the prospects for growth, as well as articles by McKinsey experts on the challenges of tomorrow, from the next frontiers for strategy to the evolving organization. The full issue can be downloaded here.

Its lead article, Management intuition for the next 50 years, examines the disruptive forces shaping our environment. It starts by looking back 50 years at the 1964 environment as characterized by three key events: IBM had just announced the new System/360 mainframes; the Summer Olympics–the first telecast via satellite around the planet–took place in Tokyo; and the last of the baby-boomers were born that year.

> "Fifty years later, the forces symbolized by these three disconnected events are almost unrecognizable. Technology and connectivity have disrupted industries and transformed the lives of billions. The world's economic center of gravity has continued shifting from West to East, with China taking center stage as a growth story. The baby boomers have begun retiring, and we now talk of a demographic drag, not a dividend, in much of the developed world and China."

Over the next 50 years, these three forces will undergo equally dramatic changes. Technology will continue its relentless march toward the *Second Machine Age*, where AI, Robotics and other such advances will usher innovations we can barely begin to imagine. Economic activity and dynamism will continue to shift to emerging markets and to their rapidly growing cities. And the world's populations will continue to age, starting with the advanced economies and later including emerging markets as well.

> "Any one of these shifts, on its own, would be among the largest economic forces the global economy has ever seen. As they collide, they will produce change so significant that much of the management intuition that has served us in the past will become irrelevant. The formative experiences for many of today's senior executives came as these forces were starting to gain steam."

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Innovation	352	Social	87
Mobility	336	Risk Management	86
Talent & Management	299	Collaboration	81
Implementation	242	Application Development	62
Vendor Management	229	Automation	53

Let's take a brief look at each of these forces.

Technology and connectivity. In a recent Pew Research Center study on Digital Life in 2025, experts predicted that "the Internet will become like electricity–less visible, yet more deeply embedded in people's lives for good and ill." And a more recent Pew study on AI, Robotics and the Future of Jobs, concluded: "Experts envision automation and intelligent digital agents permeating vast areas of our work and digital lives by 2025." Given the rapid advances in AI and robotics, we can expect that increasingly smart applications will be integrated into nearly every aspect of our lives. As one of the experts put it: "Over the next decade the ubiquitous computing era will come into full force. Computers will disappear and ordinary objects will become magic."

Dynamism in emerging markets. Emerging markets are going through many of the changes that the more advanced economies went through over the past 100 years. By 2009, the combined economic contribution of emerging markets had already surpassed developed markets. By 2025, emerging market companies will constitute 45% of the Fortune Global 500, compared to just 5% in 2000 and around 20% today. China is expected to have more such companies than the U.S. or Europe. Most of the population and economic growth will take place in urban centers, with urban populations growing by 65 million per year, and 440 cities in emerging markets accounting for almost half of the GDP growth between 2010 and 2025.

"The shift in the weight of the global economy toward emerging markets, and the emergence of nearly two billion consumers who for the first time will have incomes sufficient to support significant discretionary spending, should create a new breed of powerful companies whose global expansion will take place on the back of strong positions in their home markets," said the McKinsey article.

Aging populations. The last of these forces is the *graying* of the world's population. Fertility rates have significantly dropped in the more advanced nations and are starting to do so in emerging economies as well. Japan and Russia area already experiencing population declines, as will more nations in coming years. About 60% of all people live in countries where the fertility rate is below the 2.1 replacement level. Germany expects that by 2060 its population will be up to 20% smaller, and its workforce will decline by 30%. China's working-age population is estimated to have peaked in 2012. "These trends have profound consequences. Without a boost in productivity, a smaller workforce will mean lower consumption and constrain the rate of economic growth."

The article notes that we're on the verge of a *great collision*, an inflection point affecting both the demand and supply side of the global economy. Global trade has created many jobs in emerging economies, raising the incomes and standard of living of their citizens, while reducing the prices of imported goods in advanced economies. As emerging markets get richer, their economies can't be so dependent on labor arbitrage and exports, and must rely on their own consumers as their main growth drivers. Innovation and productivity will now be required to effectively compete in the world stage.

It's not clear how all this will play out over time. McKinsey has modeled optimistic and pessimistic global GDP scenarios, and the results differ by as much as $17 trillion, depending on the underlying assumptions. Variables at play range from the extent to which emerging-market consumers will become the key global growth engine, to how developed economies will adjust to no longer being able to rely on low-cost imports and low-cost capital from emerging markets.

> "It's likely that different regions, countries, and individuals will have different fates, depending on the strength and flexibility of their institutions and policies." For example, "as aging boosts the importance of productivity-led growth in many emerging markets, progress will be uneven because many known productivity solutions depend on effective regulatory regimes and market mechanisms that are far from standard in emerging markets."

How can you best manage amidst such disruptive changes? The article offers a few guidelines.

Strategic agility is required at both global and local levels. Companies need to develop coherent global strategies across geographies, industries, competitors and partners. At the same time, they must be able to customize their offerings by countries, by cities within a country, by distribution channel and by demographic segments. Strategies must also span multiple time frames, warding off competitive threats in the short term, while developing long-lived, hard-to-replicate capabilities for the long term.

Management talent is critical. As digitization permeates every nook and cranny of every company, managers at all levels must be fluent in how to best leverage technology and data–the opportunities they present as well as the threats they introduce. Millions of workers could be displaced by increasingly smart machines, while labor shortages might arise due to insufficient technical skills and the retirement of experienced workers. Managing geographically dispersed organizations across countries and cultures will be particularly challenging.

Rethinking Resources. Combining IT, nanoscale materials science and biology with industrial technologies could lead to substantial increases in productivity and resource utilization. This is particularly important to meet the rising demands for food, water, energy and other resources by the billions around the world whose standard of living are expected to rise over the next decades.

Management: The next 50 year concludes by reminding us that change is hard. “Research by our colleagues showed that between 1990 and 2010, US companies almost always allocated resources on the basis of past, rather than future, opportunities. Even during the global recession of 2009, this passive behavior persisted. Yet the most active companies in resource allocation achieved an average of 30 percent higher total returns to shareholders annually compared with the least active.”

> “The period ahead should raise the rewards for moving with agility and speed as digitization blurs boundaries between industries and competition in emerging markets heats up. . . Those who understand the depth, breadth, and radical nature of the change and opportunity that’s on the way will be best able to reset their intuitions accordingly, shape this new world, and thrive.”

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