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This article appears in
the February 2010 issue of

Outlook

The journal of
high-performance business

Multi-Polar World

Creating a winning geographic strategy

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As business leaders look for the best places to locate operations, raise capital, and source talent and ideas, prudence demands that they invest wisely throughout the world. To be successful with their geographic strategy, however, they must build a portfolio that reflects a sophisticated understanding of five underlying fundamentals.

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Successful investors recognize the wisdom of holding a diversified portfolio. The approach isn't fail-safe—the recent downturn destroyed value across the board—but it's usually a sensible way to earn stable returns while limiting risk. For similar reasons, companies seeking to compete in a multi-polar world should develop and execute a diversified geographic strategy.

The task isn't as simple as it may sound. In the past, developed economies were the primary sources of consumer demand, abundant capital, and innovative ideas and products. They were blue-chip sites for investment, providing safe and steady returns to companies that executed effectively. Emerging markets, meanwhile, offered cost-competitive labor and plentiful resources— attractive assets, to be sure, but not sufficient on their own to constitute an entire geographic portfolio.

Needless to say, the world today is considerably more complicated.

Because economic power has become so widely dispersed, emerging economies compete with developed countries on the same terms across what Accenture has identified as the five key dimensions of a multi-polar world: talent, capital, resources, consumers and trade, and innovation. Even within emerging markets, economic clout has extended beyond the traditional contenders—the so-called BRIC economies of Brazil, Russia, India and China—to another wave of high-growth countries, including South Korea, Mexico and Malaysia.

Accenture's research shows that high-performance businesses are already creating broad geographic options for themselves within these five dimensions more successfully than the competition. But with so many possibilities to consider, how do businesses go about building a balanced geographic portfolio? Where should they start looking for the best talent, new consumer demand or the most innovation-friendly environment?

To help businesses better understand potential sources of geographic value, Accenture dug much deeper into the five dimensions of the multi-polar world. Drawing on 60 variables derived from a wide variety of sources, including an exclusive survey of global business leaders, we assessed the competitiveness of countries within each of the five dimensions (see sidebar, page 3).

The resulting analysis, Accenture's Multi-Polar World Index, provides executives with a more sophisticated understanding of the determinants and dichotomies in the multi-polar world that will help them formulate their own geographic strategy. In adopting a more diverse portfolio of geographic options, businesses can not only spread risk more effectively, they can also ensure that they get the very best out of the global economy.

(Continued on page 4)

About the research

Accenture uses the term "multi-polar world" to describe the diffusion of economic power in the global economy beyond the developed nations to include a wider range of regions and countries. Three factors underpin this redefinition of the world economic order: information technology, greater economic openness, and the growing size and reach of multinational companies.

Many of these new poles of economic activity and influence are found in the emerging world—notably in what Accenture calls the "Big 6" or "B6" emerging economies (Brazil, China, India, Mexico, Russia and South Korea). But they also include the next wave of emerging-market challengers. Together with the more established centers of economic activity, these economies are radically reshaping the geography in which businesses must operate. Accenture first explored the characteristics and drivers of this new phase of globalization in its 2007 study titled "The Rise of the Multi-Polar World."

In putting together the Multi-Polar World Index, we compared the relative performance of economies based on five dimensions of globalization: talent, capital, resources, consumers and trade, and innovation. For each dimension, we identified those key indicators that suggest how well positioned an economy is to compete in a multi-polar world. We assessed each indicator using a range of primary and secondary data variables.

Primary data were drawn from a global survey of more than 400 business leaders, conducted for Accenture by the Economist Intelligence Unit. Secondary data were drawn from sources such as the International Monetary Fund, the United Nations and the World Bank.

The number of variables totaled 60 across all five dimensions of the index. Data points on each variable were normalized so that each country observation was measured in terms of the number of standard deviations from the mean of all countries, and ranked accordingly.

Data coverage

The minimum data coverage required across all dimensions for an economy to be included in our analysis was 75 percent. Similarly, the minimum data coverage required for each indicator to be included was 75 percent. For the majority of economies, the actual level of coverage was significantly higher than this (typically 95 percent to 100 percent). Where data were lacking, we used reliable alternative sources.

Timing of data

To paint as fair a picture as possible, we have done the following. First, we have always used the most recent data available (in this case, typically from 2008). Second, we have focused on long-term indicators of growth that, for the most part, are not sensitive to short-term shocks. Third, while some indicators may be sensitive to the economic downturn (for example, GDP growth or FDI flows), we have partly controlled for this by looking at relative performance. And last, our survey of business leaders helps ensure that we have captured the most up-to-date business views.

Accounting for size

Examining the absolute size of a particular stock or flow of capital (for example, FDI or consumer spending) alone would give significant bias toward larger economies. For example, it would be unfair to compare the absolute levels of inward investment in China and Slovenia, given the disparity in the size of their economies. Consequently, where appropriate, we have used either gross domestic product or population size as denominators, to normalize any potential distortion on the basis of an economy's size. To use a sporting analogy, we are comparing economic performance on a "pound-for-pound" basis.

(Continued from page 2)

Segmenting talent

While many Western economies are grappling with the effects of contracting workforces and shortages of workers with specialized skills, emerging-market workforces are set to expand dramatically. Between 2008 and 2015, the working-age population of emerging economies is expected to increase by more than 400 million, compared with an increase of only 7 million in developed economies, according to Accenture analysis.

All companies today talk about the importance of talent. But without further qualification, the term is too broad to be useful. When looking for new talent pools, business leaders have to ask whether they primarily need large numbers of people with more general skills or smaller numbers of specialized, high-end talent. We explored three different aspects of the workforce equation to understand how businesses should assess talent pools geographically:

- *Attractiveness* of the talent environment, as measured by

such indicators as government expenditure on education, enrollment and participation in education, and the number of world-class universities;

- *Quality* of the general workforce, as measured by indicators such as adult literacy, employment flexibility and productivity;
- *Availability* of top talent, as measured by the number of scientists and engineers, for example, as well as top management talent,

The new workforce equation

Only two countries—the United Kingdom and the United States—are able to offer all three aspects of a rich talent pool: an attractive talent environment; a high-quality general workforce; and top talent in the form of engineers, scientists and managers.



as determined by our survey of global business leaders.

The chart on page 4 shows how some of the world's most attractive locations for talent break down when measured against these criteria and viewed through the lens of a Venn diagram. Predictably, the United States and the United Kingdom perform well in each area, but it is surprising that there are not more economies with similar all-around strengths.

For businesses, this points to the need to be clear about what aspect

of talent is really important and to recognize that few economies will be able to meet all of those requirements: A broader portfolio of options is required. For example, China, India, Iran, Malaysia and South Korea all perform well in producing top talent, but less so in terms of the general workforce. There is variation even within the "top talent" category. India, for example, owes its position to the attractiveness of its management talent; other countries in this group get their high ranking because of the proportion of scientists and engineers among their graduates.

Accessing and investing capital

In the aftermath of the subprime financial crisis, companies need to survey the altered landscape of investment capital sources. Although Wall Street and the City of London remain highly attractive financial centers, pools of capital are increasingly visible in the emerging world as well—not only in nascent capital markets but also via a new cast of players such as emerging-market multinationals and sovereign wealth funds.

Today, capital flows freely throughout most of the developed and emerging worlds. Within this complex environment, however, two questions continue to vex business leaders around the world. First, where should I make long-term investments in plants, machinery and other physical assets? And second, where do I find the best sources of financing in its different forms, such as equities, bonds and private equity?

In our analysis, we therefore focused on two indicators:

- *Potential* for long-term investment, as gauged by, for example, GDP growth, foreign direct investment flows, quality of life and property rights;
- Sophistication of *capital markets*, as measured by factors including the size of the bond and equity

markets relative to the size of the economy.

The results of our analysis confirm that what Accenture calls the the Big 6 or B6 economies (the BRIC countries plus South Korea and Mexico) are becoming even more attractive destinations for inward investment. And some of them (in particular, China, India and South Korea) are becoming significant sources of outward foreign direct investment as governments ease restrictions and their companies expand internationally. South Korea's Hyundai Motor Company, for example, has invested more than \$1 billion in the United States alone, where it is now the seventh-largest auto-mobile maker (No. 4 globally) and where it saw a 47 percent sales increase from August 2008 to August 2009.

Our analysis also confirms that while the more established capital

markets remain important sources of investment capital, there is an increasingly rich but complex panoply of other financing options open to business. Stock markets are growing quickly in size and sophistication in many of the B6

countries as well as in emerging Asian markets such as Singapore and Malaysia; in addition, emerging-market sovereign wealth funds (investment funds owned by governments) are becoming increasingly important sources of capital.

Resources: Endowment versus efficiency

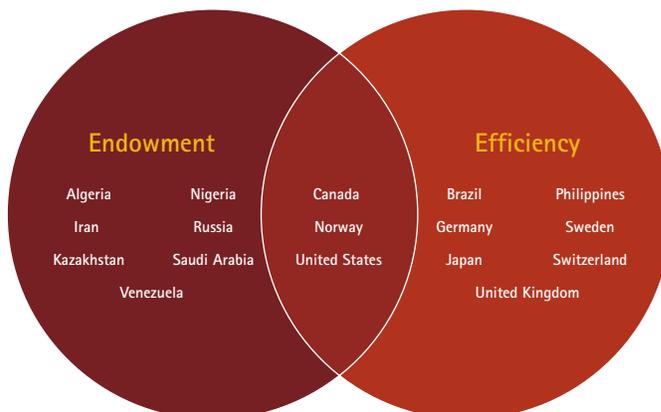
With geopolitical uncertainty continuing to roil global commodity markets, it is clear that a new era of chronic volatility in resource prices has arrived. And most companies, with their optimized supply chains, feel the effects more quickly than ever before. At the same time, the prospect of a carbon-constrained world means that businesses will be faced with something closer to the full economic cost of their resource-intensive activities.

Access to fossil fuels such as coal, gas and oil is a concern for many businesses, not just those in the energy and extractive industries. Increasingly, however, the efficiency with which an economy uses its resources is top of mind as businesses prepare for the transition to a low-carbon economy and its attendant regulation.

Against the background of the Copenhagen climate change summit in December 2009 and the development of carbon pricing mechanisms, all businesses will need to understand how they can benefit from more sustainable energy systems and sources of renewable energy. We therefore examined

The natural resources trade-off

It is important to consider not just how many resources a country is endowed with—for example, oil, gas and coal—but also how efficiently it uses those resources by virtue of its infrastructure and production systems. Only three countries—Canada, Norway and the United States—have abundant resources and perform well on efficiency measures.



indicators that reflect both sides of the resources equation:

- Resource *endowment*, as measured by an economy's levels of proven natural reserves and its ability to produce energy to meet its consumption needs;
- *Efficiency* of energy infrastructure and systems, as measured by indicators such as the proportion of renewable energy, carbon dioxide emissions per unit of GDP and level of energy intensity (that is, energy consumption per dollar of GDP).

Our analysis suggests that, with a couple of notable exceptions, the concepts of resource endowment and efficiency are often mutually exclusive (see chart, page 6).

This dichotomy is not necessarily unexpected, since those economies

well endowed with resources are typically home to energy-intensive extractive industries and produce higher levels of carbon dioxide emissions. However, Norway is a good example of how a balance can be achieved: It is one of the most active offshore oil producers in the world, as well as the fifth-largest oil exporter, and it is the second-largest gas producer in Europe. But it has also taken major steps to increase the contribution of renewables to its energy supply. For example, Norway's hydro-power sector accounted for about 98 percent of electricity production in 2008. Norway is, however, very much the exception rather than the rule.

For businesses—especially those that rely heavily on natural resources—this points to the need to carefully consider where to source inputs and to weigh the trade-offs between resource endowment and sustainability.

Consumers and trade: Seeking openness

Many emerging markets continue to enjoy impressive growth in consumer spending, bolstered by long-term fundamentals such as population growth, an emerging middle class of aspiring consumers, rising per capita incomes and greater credit availability.

It is a paradox of the multi-polar world that seemingly attractive consumer markets often have less participation by foreign multinationals than their growth rates would suggest. Policy restrictions and poor infrastructure can limit the ability of companies not only to penetrate a new consumer market but also to use an economy as a launch pad into adjacent markets through globally integrated supply chains. In order to tease out these potential contradictions, we focused on three factors:

- *Attractiveness* of the domestic consumer market, as measured

by, for example, the size and growth rate of that market;

- *Accessibility* of the domestic consumer market, as measured by the imports-to-GDP ratio and the World Bank's quality of infrastructure rating;
- *Ability to provide a launch pad* into adjacent markets and global supply chains, as measured by exports-to-GDP ratio and participation in regional trade agreements.

Some economies that perform particularly well are smaller consumer

Li & Fung: The “flat-world enterprise”

Companies in the global retail industry often turn to Li & Fung to help devise and implement a diversified geographic strategy and tap into the best sources of geographic value in a multi-polar world (see story).

For Hong Kong-based Li & Fung, the openness and accessibility of markets through globally integrated supply chains is paramount. The company acts as a one-stop shop for retailers, providing a vast network of factories and supply chains from which it sources, designs and transports products around the world. It has clients in more than 100 countries and outsources its manufacturing to around 12,000 factories all over the world, generating revenues of \$16.7 billion in 2008.

Say a retailer is looking to open up a buying office in a particular market but lacks either the resources or the skills to run it. In this case, Li & Fung can run the office on the client's behalf, bringing its local knowledge and skills to bear. And while Li & Fung may have a global footprint, the firm also realizes the value of being geographically close to the consumer. To this end, it has already opened a base for imports in the United States, and plans are afoot for similar expansion into other developed economies.

markets that have adopted an open position in the global economy through liberal trade and investment policies. Both the Hong Kong Special Administrative Region and Singapore, for example, are benefiting from balanced inward and outward flows of products and services, making them particularly

attractive locations for businesses seeking access to the wider region.

For example, alcoholic beverages producer Rémy Cointreau has located its regional headquarters in Singapore, where the company is test-marketing products before launching them into the wider Asia Pacific region.

Innovation: Inputs and outputs

Innovation is no longer the exclusive province of developed markets. A combination of investment, education and a strategic policy focus on new technologies has spurred the development of new clusters of innovation in emerging economies. In recent years, for example, we have witnessed the rise of nanotechnologies and biotech in Beijing, digital media and genomics in Seoul, biofuels in Brazil and automotive technologies in Poland.

Excelling at innovation requires a focus not only on input factors (such as investment in R&D and education) but also on measuring output (such as the ability to produce valuable

new products, services and business processes). For a business, unpacking innovation in this way is essential when making decisions about where to locate innovation functions.

Cyberjaya: Malaysia's Silicon Valley

Malaysia is rapidly developing a reputation for innovation excellence, one of the five key dimensions a company needs to consider when developing a diversified geographic strategy (see story). Its success lies in the ability to deliver significant innovation outputs (such as the number of patents and the level of high-tech exports) more efficiently than many other economies.

The high proportion of scientists and engineers in Malaysia's university graduate population means there is a ready supply of highly skilled local talent. Furthermore, similar to other emerging markets that have closed the innovation gap with developed economies, Malaysia has benefited from centrally coordinated, long-term initiatives. For example, the Malaysian government has launched the MSC Malaysia (formerly known as the Multimedia Super Corridor), which seeks to develop excellence in this specific field of innovation and

promote clustering. At its heart is Cyberjaya, a township and technology park that aspires to be known as the Silicon Valley of Malaysia. Nokia Siemens Networks, Ericsson, IBM, Microsoft, NEC and Oracle have all set up offices within this corridor.

With the relative distance of many emerging markets from the technology frontier, the output gains (for example, through technology leapfrogging and value-chain specialization) are potentially higher for these economies, representing an attractive proposition for businesses looking to tap into global innovation excellence.

To help provide a compass, we chose two indicators that reflect the fact that economies may excel at creating the right environment for innovation without necessarily realizing a high level of innovation output:

- *Availability and quality of innovation inputs*, as measured by such indicators as expenditure on R&D and the availability of university researchers, scientists and engineers;
- *Ability to commercialize research and realize innovation outputs*, as measured by such indicators as the number of patents granted, the size of the creative economy (in relation to GDP) and high-tech exports as a proportion of total exports.

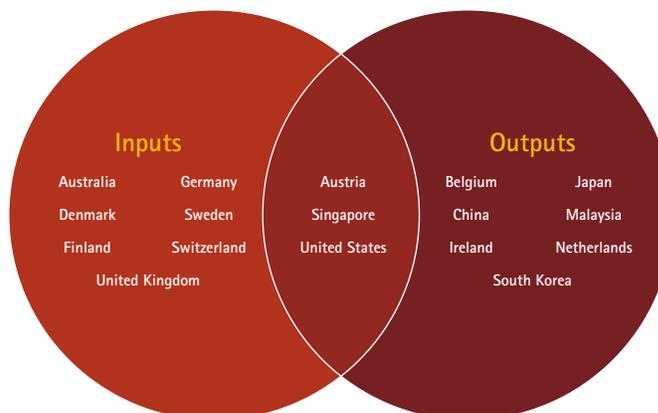
Only a handful of economies perform well in both creating the right environment for innovation and

realizing innovation outputs (see chart, page 10). For a business, an economy that is good at creating the right environment (such as Finland or Denmark) may be more suited as a location for pure research and development activity. One that is better at realizing outputs (such as Malaysia or South Korea) may be more suited to commercialization and product development activities.

One company that understands this is Nokia, which established a high-value research center in the United Kingdom with the University of Cambridge to develop nanotechnologies for mobile communication and ambient intelligence, electronic environments that are sensitive and responsive to the presence of people. On the other side of the world, the cell phone maker's research facilities in China focus on adapting these technologies to local tastes and needs, ensuring that their commercialization is as successful as possible.

Unpacking innovation

Some countries excel at offering good inputs for innovation, such as a strong education system or high R&D expenditure. Others are particularly adept at producing valuable new products, services and processes. Three countries—Austria, the United States and Singapore—excel at both.



Source: Accenture analysis

For further reading

"Strategies for achieving high performance in a multi-polar world: Global choices for global challenges," Accenture, 2009

"The new globalization playbook," *Outlook*, June 2009

"Back to the future," *Outlook*, September 2008

"Brave new world," *Outlook*, May 2008

Developing a portfolio of geographic options is an essential but tricky exercise for any business. Our Multi-Polar World Index and analysis provide a framework that businesses can use to assess these options, but that framework must be tailored to meet the individual needs and concerns of businesses across different industry sectors. Every portfolio will be different. For example, the requirements of a fast-moving consumer goods company will differ significantly from those of an engineering business.

Today's business leaders need little introduction to the potential opportunities of the global economy. But it is critical that they gain a more nuanced understanding of what drives performance and makes an economy attractive. Unpacking the drivers of country performance in each of the five dimensions of the multi-polar world and making use of appropriate analytics can give businesses a significant edge. Only then will businesses be able to make the best decisions about the configuration of their geographic portfolio and take the necessary steps to achieving high performance in a multi-polar world.

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