

A World at Risk: Redefining the role of business

KEY TAKEAWAYS FROM THE NORTHERN LIGHT SUMMIT 2019

The climate crisis is the challenge of our time

Whereas trade and tech wars create tangible risks here and now, the number one existential risk that we face is the climate crisis. Not that trade and tech wars do not matter; on the contrary, the fact that they are becoming the new normal will have a profound impact on how companies make strategic decisions about their future. Yet, finding global solutions to our shared existential problem is the greatest challenge – especially, at a time, when countries are turning inwards and catering increasingly to their own interests.

Capitalism is not in crisis – but it does not have all the solutions either, yet

Most businesses understand the need to make sustainability part of their DNA. Yet consumers are not always ready to make the sustainable choice or vote with their wallets. Just think of the Volkswagen emissions scandal, after which the company has emerged to post record results. We lack sufficient market mechanisms, which would make the climate debt we create to future generations visible to the consumers. So, it was suggested, the problem is too little, rather than too much capitalism.

Right regulation can convince investors

When it comes to financing the transformation, taxes and public investment alone will never do the trick. Also, as institutional investors are not – at least yet – willing to sacrifice their profits for the sake of the climate, we have to bring about the conditions in which you stand to make more money by investing in climate than not doing so. This is why it is also important for the regulators to step in – first and foremost the European Union, which should take leadership in creating mechanisms to support the shift towards a carbon-free society. The updating and broadening of the EU Emission Trading System and integrating carbon sinks were proposed, but the EU should also use its trade and development policy toolbox to push for ambitious global solutions. The next EU long-term budget, the Multi-Annual Financial Framework, should have its climate priorities right, and not subsidise activities which are counterproductive.

Business and democracy and in the age of disruption

The climate crisis is not just something you can ignore; it will transform our economy as we know it. We need to redesign the earth for its 10 billion people to live sustainably by 2050, and secure FEW – food, energy and water – for all. Today, business models are based on a linear economy. The necessary shift to a circular economy requires fundamental changes in how we teach and think of business and design value chains. Fundamental changes require societal resilience. This requires tighter cooperation between business and the rest of society.

Technology can be of great help, but it also divides societies into those who master the new tools and those who do not. Inadequate governmental responses to rapid change in technology and productivity have eroded trust and led to antipathy towards politics – business will be next. Even the root causes of Brexit are global in nature, with the antipathy towards politics mirrored in antipathy towards business.

The climate crisis can only be won with popular support. This is why strengthening societal resilience is so important, and here education plays a key role. In the future, the essence of success will be talent. Value creation will increasingly depend on embracing tech and fostering a culturally curious and continuously learning workforce with a clear sense of purpose.

Tech is everywhere, and it is just the beginning

Deep tech means spreading knowledge throughout the company, seeing technological proficiency as a fundamental skill. Leaders need to take responsibility over how we use technology both within businesses and more broadly within society. Meanwhile, the broader conversation surrounding tech in general and tech giants in particular has become quite negative. Our approach to tech resembles a constantly swinging pendulum and right now we are undergoing a period of tech phobia – just on the heels of tech utopia.

While business and Brussels negotiate their approach to tech, European capitals must acknowledge the risks of not sharing enough information. This is especially true as we shield ourselves from terrorism and other threats and decide what kinds of technological capabilities European security services should possess. Europe should be better at analysing the digital behaviour of terrorists as well as at collecting biometric data and sharing on the Schengen Information System. On security, too, digital companies bear a great responsibility in terms of what they publish. They have the data and when you have rich data, you should be able to understand everything about yourself and your clients wherever in the world you or they may be.

Navigating the global economy in the age of trade and tech wars

In trade policy, the EU is already a global power. Yet it has been more hesitant to use political bargaining power to link trade to other goals such as climate, development or human rights. With the Mercosur agreement now in place – alongside other successes with Japan and Canada – what should the EU focus on: What is next? What could the EU do to solve the US-China trade dispute? EU should take its global role seriously.

As the WTO is not working, the EU has also more room to spread its regulatory standards – if it assumes a more active role. Instead of turning to protective measures to support European

champions, the EU should invest in the completion of the Digital Single Market and invest more in research, innovation and education. We need more European venture capital. Europe's old money still goes to real estate instead of the ecosystem, we should all contribute to. This is slowly changing, but for Europe to compete, the shift must take place soon.

In this multilateral vacuum, Europe has room to manoeuvre. If there is a will, there will also be leadership. European business must stand up for free trade and global cooperation. To anchor change, we need to provide solutions by the many, for the many. This will not be easy, as people are willing to make counterintuitive choices. In the case of Brexit, they voted to make themselves poorer. They were willing to pay an economic price, as their national story did not correlate with their own stories. If the City of London suffered, they did not mind it, as it seemed not to have provided for the well-being in the first place.

Incredibly difficult to distinguish friend from foe in trade war

While there is no way of denying that global business faces challenges, we should not forget that companies hold their destiny in their own hands. Business needs to stop feeling too defensive. If the ongoing trade wars have taught us anything, it is difficult to design an approach to tariffs that has its intended effect. We have witnessed many cases of hitting erstwhile friends instead of targeted foes. Too many tariffs hit harder at home than they do abroad. A result of both trade and tech war could be the decoupling of China and the US. If this is already happening, it is so because China is reacting to US pressure. For example, it is offering even more market share to national champions instead of keeping its domestic market open to international companies.

All in all, European business must work to avoid a situation in which it has to choose between the US and Chinese markets. Instead it should focus on building internal direction and capabilities in arenas such as 5G development, a Digital Single Market and access to capital. China's venture capital sector is among the best, if not the best, in the world. China is no longer a developing country – with standards of living at European levels in its primary and secondary cities.

How will China fare in comparison to competitors? Well, but not necessarily too well

The US economy is experiencing a historical stretch of growth, but so is the Chinese. This leads some to wonder whether China will surpass the US as the global hegemon. By purchasing power parity, China has already done so. In the last few years China has also become a country known not only for its prowess of imitation but also its strengths in innovation. Those who believe China is destined to lead also tend to believe that the current trade and tech war will hurt the US more than it will hurt China.

If China's strengths are on display, so are increasingly its weaknesses. Its indebtedness may lead to restructuring, compounded by the impact of trade war. The country has little tangible appeal to foreigners. Despite this, Chinese expats do wish to return, and contribute to the rise of China. Of course, some of the Chinese elite continue to send their children abroad. China's increasingly oppressive political system is on clear display and the country is destined to get old much sooner than it gets rich.

Corruption is also deep-rooted and a handicap not only for business but for anyone trying to get on with their daily life in China. You bribe your child's teacher by offering her an Apple iPhone, rather than the fruit.

How about Shenzhen versus Silicon Valley as a place for new innovations? While Shenzhen offers tremendous speed, driven as it is by a motto of working from 9am to 9pm 6 days a week (plus overtime), it still only attracts talent from China. While that is no mean thing, Silicon Valley's catchment zone is the entire world.

Both Shenzhen and Silicon Valley have many characteristics in common and these are not shared by anyone else. These include a low cost of failure, fast learning and adaptation, and a huge market at your doorstep upon success. It is time to develop such a venue for growth and innovation in Europe.