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The Disruptive Setting for Disruptive Procurement

“What if?” That was the simple and elegant title of an opinion piece that *New York Times* columnist Thomas Friedman wrote in January 2013 about circumstances that applied then and continue to apply today. The point of Friedman’s essay was to ask whether “the recent turmoil in international markets isn’t just the product of tremors but rather of seismic shifts in the foundational pillars of the global system, with highly unpredictable consequences”?¹ In short, he wisely challenged us to consider the proposition that “a bunch of eras are ending all at once.”

Our answer to that challenge is categorical: Yes, they are. A bunch of eras are ending all at once.

In light of the significant global uncertainties that have emerged since Friedman’s column, spanning geopolitical, macroeconomic, social, and commercial spheres across diverse geographical regions, there can be little doubt that we are indeed in the midst of a “seismic” redefinition of fundamental conditions. There can also be little doubt that the repercussions for the future of globalization, a phenomenon that many of us have come to take for granted, will be profound.

We need to emphasize, however, that this confluence of circumstances, as important as it appears to be, is by no means unique. We saw a similar constellation of seismic changes a decade ago, for example, in the financial turmoil generated by the Great Recession. Similarly, a quarter century ago, we saw the confluence of a number of profound transitions when the end of the Cold War, the sweeping political and economic transition in Eastern Europe, and the transformation of systems in many developing countries ushered in a remarkable period. It was a period that many of us thought and hoped was the immutable reaffirmation of democratization and market-based economic policies.²

After the devastation of WWII and the fight against rising fascism, we saw the fundamental transition that was part and parcel of the geopolitical redefinition of the world, from the United Nations system to the Bretton Woods framework for economic ties. We saw a global “rebalancing” in the aftermath of WWI, the consequence of the rise of nationalism and populism, and as a result of the seminal technological advances of the time. Of course, in the vast historical sweep, there are countless other examples we could point to.

Each one of these historical inflection points, and the varying disruptions they have engendered, has challenged the very nature of commerce. They have generated new and unique combinations of opportunities and challenges for business. They have transformed marketplaces in important and differing ways. And they have stepped on the accelerator—or slammed on the brakes—of globalization, and the cross-border movement of goods and services, as well as capital, technology and ideas.

Considering this, the right starting point for the discussion about the changing nature and role of procurement is in recognition that the macro environment within which the procurement story is unfolding, and will continue to unfold, is itself

1 Thomas L. Friedman, “What If?” *New York Times*, January 20, 2016.

2 Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books, 1992).

disruptive. The current prospects suggest that we are moving from a quarter-century of rapid globalization, marked in particular by the stunning rise of China in the global economy, into a phase of heightened nationalism and mercantilism. We therefore want to advance some thoughts here, not on “what if?” but rather “what now?” when it comes to practicing Disruptive Procurement in an increasingly volatile environment.

Anticipating the Next Phase

What, then, will be the disruptive external context for the continued evolution of procurement?

We start with Friedman’s proposition that “a bunch of eras may be ending all at once.” In our view, the main areas of the ongoing “seismic” redefinition of the marketplace include the changing geopolitical balance, core shifts in economics (across the spectrum, from production to policy), the impact of exponential technologies, eroding institutions and the decay of public trust. Some analysts have dubbed it an “age of insecurity,” and indeed, many of the core assumptions, knowledge sets, relationships and institutions that have defined our world over the past 25 years are shifting rapidly.

Each one of these “ending eras” is in itself highly significant. When considered together, however, they signal a wholesale departure from the world of liberalization and globalization that we have known. Similarly, they signal the need for new and ever more innovative approaches to procurement, sourcing strategies, management of global supply chains, and interlinked international operations.

To set the context for our deep dive into Disruptive Procurement, we offer here an examination of each of these forces and their implications for commerce. Because they each generate uncertainties about the outlook for globalization, we also will assess potential future directions for globalization and the general environment for procurement.

Immutable Shifts in the Global Geopolitical Balance

The first of these “ending eras” is the move away from a quarter century of U. S. supremacy and relative geopolitical and economic stability that followed the ignominious collapse of the Soviet Union in 1991. Have we reached *the end of “the end of history,”* the compelling thesis of preeminent democracy and market-based economics advanced by scholar Francis Fukuyama?³ It certainly looks that way. Under the current circumstances, Fukuyama himself has expressed concern about the rapid erosion of liberal democracy and the weakness of the same established institutions whose legitimacy and sustainability he earlier believed to be incontrovertible. In a recent article, he bemoans the rise of the “very worrisome phenomenon” of populist nationalism.⁴

3 Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books, 1992).

4 Francis Fukuyama, “The rise of populist nationalism,” in Credit Suisse Research Institute, *The Future of Politics: 2018 Davos Edition* (Zurich: Credit Suisse: 2018).

Great power relations and the shifting balance of power are at the center of the new environment in which leaders worldwide must now maneuver. In place of the earlier “hyper-puissance”⁵ order, during which the United States was the uncontested global superpower, what has emerged is a multipolar system in which old rivalries have been renewed, traditional regional contests have reheated, new contests have materialized, and new actors, including non-national players such as the terror group Al Qaeda and ISIS militants, are playing an increasingly important role.

Speaking to the U.S. Senate Armed Services Committee, former U.S. Secretary of State Henry Kissinger recently described the overarching geopolitical shifts in these terms:

» The international situation facing the United States is unprecedented. What is occurring is more than a coincidence of individual crises across various geographies. Rather, it is a systemic failure of world order which, after gathering momentum for nearly two decades, is trending towards the international system’s erosion rather than its consolidation, whether in terms of respect for sovereignty, rejection of territorial acquisition by force, expansion of mutually beneficial trade without geo-economic coercion, or encouragement of human rights. In the absence of a shared concept among the major powers expansive enough to accommodate divergent perspectives of our national interests, partially derived from our diverse historical experiences, traditional patterns of great power rivalry are returning.⁶

The sharp deterioration of relations between Washington and Moscow, punctuated by the escalating debate over Russian interference in the 2016 U.S. presidential elections, is eerily reminiscent of the deep-seated tensions that marked much of the Cold War period. So, too, is the abrupt revival of the strategic arms race and the escalation of proxy conflicts—from Ukraine to Syria—across the planet. It is no exaggeration to assert, as Council on Foreign Relations President Richard N. Haass has, that we have entered a new Cold War.⁷ Certainly the recent vitriol from Russia’s President Vladimir Putin, in announcing the development of a new generation of “invincible” nuclear missiles, echoed the famous “we will bury you” threat issued by Soviet Premier Nikita Khrushchev some six decades ago.⁸

The rapid political, economic and diplomatic rise of China, of course, is another major factor in the altered geostrategic landscape. In the space of a quarter century, on the basis of an historically unprecedented economic expansion, the country is seeking to strengthen its role both regionally and globally in ways that were nearly inconceivable when the process began.

5 The expression was introduced by former U.S. National Security Advisor Zbigniew Brzezinski in 1997, in his seminal book *The Great Chess Board: America and the Rest of the World* (New York: Basic Books, 1997). Brzezinski posited that the United States was the only power to have supremacy in the four key areas: military, economic, technological and cultural. The rubric was later (1999) used by then French foreign minister Hubert Védrine to describe the position of the United States in the post-Cold War world.

6 Henry A. Kissinger, Opening Statement, Senate Armed Services Committee, January 25, 2018.

7 Richard N. Haass, “Cold War II,” Project Syndicate, February 23, 2018. Haass argues that a “quarter-century after the end of the Cold War, we unexpectedly find ourselves in a second one.”

8 See “Russia’s Putin unveils ‘invincible’ nuclear weapons,” *BBC News*, March 1, 2018.

These distinct factors all add up to massive uncertainties. How will the new geopolitical balance evolve in a genuinely multipolar world? With U.S.-Russian relations currently under serious pressure, how will they change? Will we see direct conflict and indirect competition through proxy states and actors, due to a new period of structural tensions? How will the rapid rise of China affect the international system and the rules that have governed relations since the end of the WWII? And what are the implications on business of global pandemics, such as the coronavirus?

What happens will define the degree to which there is a secure, stable and prosperous operating environment for companies worldwide. It will foreordain – or determine beforehand – global supply-demand trends, the path of globalization, the balance between globalism and regionalism, the level and flows of trade and investment, the role of governments in legislation and regulation, and the future shape of markets.

New Macroeconomic Uncertainties

Leaders today must also address profound uncertainties in macroeconomics. In particular, they must answer new questions about our understanding of economics and its core measures, the “return of history” when it comes to monetary policy and cost of capital, a growing public backlash to the paradigm of globalization, and persistent questions regarding stratification of wealth, income, opportunity, knowledge and more.

At the core of this challenge facing leaders is the nagging question of whether the “dismal science” of economics has stayed up to speed with the very circumstances it endeavors to explain. The answer is not clear. Ever since the onset of the Great Recession, which itself came as a surprise to most prominent economists, the field has been characterized by lingering debates over what new approaches and measures should be used to define economic activity.

In fact, ironically, some of the most prominent economists themselves have been the sources of the most virulent criticism. Paul Krugman, the Nobel-laureate who is Distinguished Professor of Economics at the Graduate Center of the City University of New York and columnist for *The New York Times*, argued way back in 2009 that macroeconomics over the previous 30 years was “spectacularly useless at best, and positively harmful at worst.”⁹ For leaders, this is hardly an academic debate. The capacity of the economics profession to get things right—from deciphering the dynamics to pinpointing the right measures in growth, inflation, productivity, and a number of other economic fundamentals—has staggering real-world implications.

Then there is the “return of history”—the gradual return of economic circumstances that prevailed prior to the Great Recession. In particular, this translates into the end of the period of monetary policies and practices that brought interest

9 Speech before the London School of Economics, Lionel Robbins Lecture, June 10, 2009, as reported in “The Other Worldly Philosophers,” *The Economist*, July 16, 2009.

rates down to zero (or, in some cases, rates that were negative). The current outlook for the gradual return of higher rates—and its consequences for debt-servicing by a range of countries across the planet—suggests continued uncertainty. So, too, does the potential asymmetry between the policies of the Federal Reserve Bank, the European Central Bank, the Bank of Japan, and other central banks.

Another source of uncertainty, as we will see later in this chapter, is the growing backlash to globalization. As public dissatisfaction with dislocation continues to grow, the corresponding rise of economic nationalism and protectionism is a clear and present danger. At the time of writing, the prospect of additional trade tensions loomed large, and the uncertainties for leaders were multiplying rapidly.

The underlying numbers are sobering. Trade as a share of global growth domestic product (GDP) has still not recovered to the level before the global financial crisis. The share of exports moving through cross-border supply chains has also stagnated at just under 60 percent since 2007, after rising from about 50 percent during the previous decade. These trends are due in part to a rise in protectionist actions. Furthermore, while some notable bilateral trade deals have been completed, the passage of large multilateral trade deals is increasingly rare. The Doha Round of World Trade Organization (WTO) negotiations, first launched in 2001, remains stalled and shows little sign of life. Policy uncertainty remains a top risk. Should more anti-trade measures materialize, the WTO warns, “this proliferation of trade restrictive measures and the uncertainty created by such action could place the economic recovery in jeopardy.”¹⁰ In late 2018, the trade impacted by import-restrictive measures was estimated at 588 billion dollars—no less than seven times greater than the previously reported WTO figure.

There are other crucial questions regarding the medium-term global economic outlook that business leaders need to take into account. In particular, as the world’s major economies emerge from the low interest rate environment, uncertainties loom large about whether leaders have made use of the low cost of capital to make necessary fiscal adjustments in their economies. In its latest *World Economic Outlook*, the International Monetary Fund (IMF) warns that “beyond the next couple of years, as output gaps close and monetary policy settings continue to normalize, growth in most advanced economies is expected to decline to well below the averages reached before the financial crisis of a decade ago.”¹¹ The IMF also highlights the potential for a slowing of growth in China and other Asian economies. The overarching conclusion is that with “shrinking excess capacity and mounting downsides risks, many countries need to rebuild fiscal buffers and strengthen their resilience to an environment in which financial conditions could tighten suddenly and sharply.”¹²

This outlook is absolutely critical to market stability and continued prosperity. It will define rates of economic growth, the balance of economic dynamism worldwide, the level of productivity, the degree of employment, government, corporate

10 WTO, Remarks by Director General Roberto Azevêdo, Trade Policy Review Body: Overview of developments in the international trading environment,” December 11, 2018.

11 IMF, “Challenges to Steady Growth, *World Economic Outlook* (Washington, DC: IMF, October 2018).

12 *Ibid.*

and private debt overhangs, and the economic prospects for future generations. Every single one of these elements will be highly relevant to corporations. They will surely shape the future of procurement.

Impact of Exponential Technologies

There are few words in the business vocabulary these days that strike fear as much as “digital.” As fuzzy as it is, “digital” has come to represent the massive wave of digitalization now transforming all organizations—public and private, big and small, complex and straight-forward, global and local. It symbolizes the prospect of more ambitious goals, higher efficiencies, faster operating speeds, and higher impact. At the same time, the term carries with it serious concerns about dislocations, security issues, higher complexities, the pressure of greater costs, and the constant need to reframe thinking and planning about the theory of organization.

Above all, the fashionable mantra of “digital” reaffirms the prevailing view that we have also reached an “end of era” point when it comes to technological innovation and diffusion.

In our view, there are seven areas of technology that are transforming the fundamental nature of business as we now know it, including the way we work, source, design, produce, market, supply, invest and consume. Together, in a relatively short period of time, these “exponential” technologies could also change the way we live, the quality and longevity of our lives, the kind of data, information, and knowledge we use, the ways in which we communicate and interact with one another, what we eat and drink, the ways that we entertain ourselves, and the ways in which we govern ourselves, our companies, our organizations, and our governments. In a relatively short period of time, the new technologies might even redefine what it means to be human. Think of the 2018 claims from China regarding the birth of twin girls who were “genetically edited.”¹³

We can call these the “5 + 2” technology transformations, on grounds that there are five production-related technologies (artificial intelligence (AI), Internet of Things (IOT), 3D printing/additive manufacturing, augmented reality, and advanced robotics) linked to two other crucial tech areas, which are nanotechnology and biotechnology. The upshot is that individually and collectively, these technologies could abruptly alter the entire value chain for organizations the world over. Certainly, they need to be at the center of thinking for leaders in extended supply chains and procurement.

Recently, Kearney worked closely with the World Economic Forum on its “Shaping the Future of Production” initiative — which analyzes how much production-relevant technologies will transform the very nature of production

13 In November 2018, immediately prior to the Second International Summit on Human Genome Editing, Chinese scientist He Jiankui (attached to the Southern University of Science and Technology) announced that he had successfully “edited” the genomes of two babies when they were embryos by using the groundbreaking CRISPR-Cas9 technique. See, for example, “Chinese Scientist Claims to Use Crispr to Make First Genetically Edited Babies,” *The New York Times*, November 26, 2018.

through 2030.¹⁴ The point of departure for the analysis is that in the fourth industrial revolution,¹⁵ five “exponential” technologies can and likely will permanently alter the production landscape:

- *Artificial intelligence (AI)*: At the core of the ongoing remarkable advances in AI is the continued breathtaking progress in computational speeds and capacities. The current (and fast-changing) assessment of the fastest supercomputers places the Oak Ridge Summit at the top of the list—at 122 petaflops, or 122 quadrillion calculations per second. As staggering as this level is, the introduction of quantum computing systems may soon provide significantly faster speeds. This implies an even faster evolution from “narrow” AI, in which machines outperform humans in narrow functions, to “general” AI, in which machines are able to successfully integrate multiple areas of function. All the while, they will be *en route* to “super” AI—machine-learning at the level where machines can teach themselves and outperform humans at virtually every level.
- *Internet of Things (IoT)*: Propelled by the advances in AI, the IoT is also growing rapidly. Recently released projections suggest that worldwide spending on IoT may reach 1.2 trillion dollars by 2022. The installed base of IoT devices is expected to rise from 27 billion in 2017 to 73 billion in 2025.¹⁶ These and other forecasts emphasize in no uncertain terms the transformative nature of the growing universe of connected devices. Soon more things around us will be connected than are not. For business, the advances in IoT will serve as the foundation for sweeping digital transformations in which they will optimize existing models of operation as well as innovate for the future.
- *Additive manufacturing/3D printing*: According to a recent report, the market for industrial applications for 3D printing could reach 6 billion dollars by 2022 and 7 billion dollars by 2024 with a CAGR of 27 between 2015 and 2024.¹⁷ What has brought the technology to the take-off point is the proliferation in materials that can be printed. The menu of materials that can be printed, which formerly was restricted mainly to plastics and resins, now includes metals and even bio-material.

14 See World Economic Forum, *Future of Production* (► <https://www.weforum.org/communities/the-future-of-production>). See also World Economic Forum, “Shaping the Future of Production,” ► <https://www.weforum.org/system-initiatives/shaping-the-future-of-production>. The purpose of the “system” initiative is to provide a global, diverse and dynamic platform for leaders to understand the transformation of production systems, develop new and unique value for their organizations and drive the application of technologies to build more innovative, sustainable and inclusive production systems that benefit all.

15 See Klaus Schwab and Nicholas Davis, *Shaping the Fourth Industrial Revolution* (Geneva: World Economic Forum, January 15, 2018).

16 Louis Columbus, “2018 Roundup Of Internet Of Things Forecasts And Market Estimates,” *Forbes* ► <https://www.forbes.com/sites/louis columbus/2018/12/13/2018-roundup-of-internet-of-things-forecasts-and-market-estimates/#4a9abd307d83>

17 “Additive Manufacturing Market is Expected to Exceed U.S.\$ 6 billion by 2022,” *MarketWatch*, December 16, 2018 ► <https://www.marketwatch.com/press-release/additive-manufacturing-market-is-expected-to-exceed-us-6-billion-by-2022-2018-08-06>

- *Augmented reality (AR)*: The integration of business training and operational functions associated with artificial reality and virtual reality (VR) is growing rapidly. Here, too, the numbers begin to tell the story. Worldwide spending on AR and VR is expected to be 17.8 billion dollars in 2018, up from 9.1 billion dollars in 2017.¹⁸
- *Advanced robotics*: The global balance of power in the use of industrial robots has shifted rapidly from western countries to Asia and is forever changing the business model underpinning global value chains. A recent report has documented this shift, revealing that select economies (South Korea, Singapore and Germany, followed by Japan, Sweden and Denmark) have the highest levels of industrial robots in the world.¹⁹ The report also says that on a “wage-adjusted basis, Southeast Asian nations lead the world in robot adoption, occupying six of the top seven positions in the ranking.” The report said South Korea leads the world with 2.4 times more robots adopted than expected, followed in order by Singapore, Thailand, China, and Taiwan.”²⁰

Of course, tomes can and will be written regarding these and other technology trends transforming the business landscape. The point of outlining them here is to emphasize how important they will be in defining the contours of the global economy of the future—and to decisions involving procurement.

Two additional points regarding this technology transformation need to be emphasized. The first is that levels of national “readiness” regarding these exponential technologies vary greatly. The economies that are able to pre-position themselves to thrive in this altered tech environment—and all the adjacent changes it engenders—will be in a position to prosper. Those left behind will likely face extremely difficult circumstances.

To measure the respective levels of national readiness, Kearney undertook a country-by-country assessment of some 100 economies around the world as part of its collaboration with the World Economic Forum. The results (see ■ Fig. 1.1) indicated that within the four quadrants of the future, ranging from least-prepared to most-prepared, only 25 countries in Europe, North America, and East Asia were positioned to benefit from the changing nature of production.

The second point is that from the standpoint of global value chains, this shifting balance may translate into a “re-shuffling of the global production cards” that have been so fundamental to procurement and management of extended supply chains for the past quarter century and beyond. Further, recent changes put at risk

18 “Worldwide Spending on Augmented and Virtual Reality Forecast to Reach \$17.8 Billion in 2018, According to IDC,” *BusinessWire*, November 29, 2017 ► <https://www.businesswire.com/news/home/20171129005097/en/Worldwide-Spending-Augmented-Virtual-Reality-Forecast-Reach>

19 Robert D. Atkinson, “Which Nations Really Lead in Industrial Robot Adoption?” ITIF ► <https://itif.org/publications/2018/11/19/which-nations-really-lead-industrial-robot-adoption>

20 See Sintia Radu, “Too Few Robots in the West Compared to Asia: When it comes to automation, advanced economies are not the ones performing best,” *U.S. News & World Report*, December 5 ► <https://www.usnews.com/news/best-countries/articles/2018-12-05/too-few-robots-in-the-west-compared-to-asia-research-says>

■ **Fig. 1.1** Readiness of countries to benefit from changes in production. **Note:** Average performance of the top 75 countries is at the intersection of the four quadrants

the competitiveness paradigm of low-cost manufacturing exports as a means for growth and development. Of particular relevance to business will be the capacity of national law and regulatory systems to keep up with the hyper-change that goes with these technologies. Those national systems that can put into place conducive environments for the next generation of production will likely see significant returns on investment.

Eroding Institutions and the Decay of Public Trust

The final outgoing era can be linked to the ongoing deterioration—or even rapid decay—of institutions and practices that have defined economics and commerce for centuries. The list of “extinct” structures—governments, companies, academic

institutions, and non-governmental organizations that have failed to keep up with changes in the theory of their business—is growing by the day. Leader after leader has failed to heed the warning made by consulting guru Peter Drucker in his now-famous article that appeared in the *Harvard Business Review* nearly a quarter century ago:

- » The root cause of nearly every one of these crises is not that things are being done poorly. It is not even that the wrong things are being done. Indeed, in most cases, the right things are being done—but fruitlessly. What accounts for this apparent paradox? The assumptions on which the organization has been built and is being run no longer fit reality. These are the assumptions that shape any organization's behavior, dictate its decisions about what to do and what not to do, and define what the organization considers meaningful results.²¹

Moreover, many more existing organizations are becoming progressively dysfunctional and obsolete. In the government sphere, certainly, the pressures on democracies have been growing steadily. Freedom House, for example, chose to assign the name “Democracy in Crisis” to its latest *Freedom in the World* assessment.²² And for good reason. It points to the “12th consecutive year of decline in global freedom” and notes that since 2006, democracies have been in decline.²³

Furthermore, the rise of nationalism and populism has been evident in countries across the world. In many cases, traditional political institutions and practices have been overshadowed by what embattled groups believe is the incapacity of established structures to adopt to new opportunities and challenges. In the corporate sphere, companies falling short of seeing fundamental shifts in the theory of their business have paid a massive price. From Kodak's decision to forgo development of digital photos to preserve its film business, to the decision at Blockbuster not to focus on the meteoric rise of Netflix, to the inability at Nokia to embrace the smartphone, the examples of epic declines reflect a significant disruption in business models that leaders could not anticipate or act on.

Moving and unifying stakeholders who may have unaligned or even conflicting points of view has always been a difficult proposition. But under the current circumstances, in which social media and other technology-enabled social mobilization has made the gaps between many groups all the more profound, fewer and fewer leaders have the “right stuff” to reverse the centrifugal forces at play. Moisés Naim, in his book provocatively entitled *The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn't What It Used to Be*, has it precisely right when he argues that in the twenty-first century, “power is easier to get, harder to use—and easier to lose.”²⁴ By extension, for these reasons, the challenge of leadership has become all the more daunting.

21 Peter F. Drucker, “The Theory of the Business,” *Harvard Business Review*, Sept-Oct 1994.

22 Freedom House, *Freedom in the World* 2018.

23 Michael J. Abramowitz, “Democracy in Crisis,” *Freedom in the World* 2018, p. 1.

24 Moises Naim, *The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn't What It Used to Be* (New York, Basic Books, 2013), p. 2.

One of the main underlying reasons for the mounting public ennui regarding globalization is the growing level of disparity or even inequality within societies. In a number of societies, high levels of resentment are undercutting the legitimacy of institutions and resulting in populist positions and policies. Often times, the growth of this kind of corrosive populist opinion can manifest itself in a more sweeping renunciation of institutions—from governments to business to media.

The Edelman Trust Barometer is a valuable annual indicator of changes in the way the populations in 28 countries regard the institutions around them. In the results for 2018, there is compelling evidence for what Edelman refers to as the “fourth wave of the trust tsunami”—the loss of trust in information and information sources.²⁵ The earlier waves leading to loss of trust were: (1) job insecurity resulting from globalization and automation brought about by technology; (2) the far-reaching negative effects of the Great Recession; and (3) the impact of migration.²⁶

The latest results indicate that a significant majority of general populations in the countries surveyed—that is, all respondents without university/college education and below the top 25 percent in income—distrust their institutions. In fact, 20 of the 28 countries surveyed were considered to distrust institutions.

As ■ Fig. 1.2 shows, the overall level of “general population” trust of institutions is low. Government and the media have the lowest scores in 2018, at 43 percent. Business and non-governmental organizations (NGOs) scored roughly ten points higher. The message here is crystal clear, however. The strong majority of countries surveyed have populations that distrust their institutions. Leaders need to be acutely aware that they are navigating in this environment.

The Repercussions for Globalization: Imagining the Future

At the center of the uncertainties is the phenomenon that has contributed so greatly to the trajectory of the global economy: globalization. Globalization has transformed the business environment for the past quarter century, and—at least until the onset of the Great Recession in 2007—business and political leaders took for granted the continued growth in cross-border movement of economic factors: trade in goods and services, direct and portfolio capital, people and labor, and intellectual property.

25 See Richard Edelman, 2018 Edelman Trust Barometer, Executive Summary, January 2018
► https://www.edelman.com/sites/g/files/aatuss191/files/2018-10/2018_Edelman_Trust_Barometer_Global_Report_FEB.pdf

26 *Ibid.*, p. 2.

■ **Fig. 1.2** Trust in institutions: Edelman Trust Barometer. (From the 2018 Edelman Trust Barometer (► <https://www.edelman.com/trust-barometer>)). Percent trust in each type of institution. Change from 2017 to 2018. A global study by Edelman. N = 32,200

The reality, however, is that a decade after the Great Recession, the 2018 flows in most categories are only now reaching their pre-recession levels. Aside from the savage effects of the sharp economic downturn, there were also the more enduring social effects that would weigh on the process. In 2008, Henry Kissinger described globalization in this way: “For the first time in history, a genuinely global economic system has come into being with prospects of heretofore unimagined well-being. At the same time—paradoxically—the process of globalization tempts a nationalism that threatens its fulfillment.”²⁷

As we look to the future of procurement, then, it is necessary to consider—and plan for—alternative and plausible futures that might materialize. Kearney’s

27 Henry A. Kissinger, “Globalization and its Discontents,” *The New York Times*, May 28, 2008.

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Global Business Policy Council has released precisely such a study outlining how four compelling and contrasting futures might materialize.²⁸ We call them “Globalization 3.0,” “Polarization,” “Islandization” and “Commonization.”

- If what we call “*Globalization 3.0*” were to be the new future, the world would return to the high levels of economic growth and trade of the early 2000s (pre-Great Recession). Commodity prices would be low, prosperity high, and improvements in information and communications technologies would continue to be commonplace.
- The second paradigm, “*Polarization*,” would set up the world in political and economic rivalries and divide the global economy into competing blocs of countries.
- “*Islandization*” is the third potential future. If this were to occur, nationalism will have gained ground in key economies around the world, leading to dramatic protectionist measures and drastically reduced global economic flows.
- The fourth possible future, “*Commonization*,” represents a greater break from the past than ever before, with the rise of a new global commons through the continued rise of additive manufacturing and the sharing economy. This would be a future in which millennials, many of whom base their decision-making on altruistic considerations, would prevail in terms of policy and consumer-preference.

No matter which of these potential outcomes materializes, the world is arguably more segmented and defensive than in the past. It becomes a place in which populations are uncomfortable with the status quo and afraid of their futures—with particular concern about the role of technology in the workplace (including automation), the impact of continued migration, and the collapse of institutions.

In ■ Fig. 1.3, we speculate on the impact of these contrasting environments on a number of important short-term variables. The current circumstances seem to suggest that we are moving toward a world that is progressively polarized, even islandized. It remains to be seen how leaders can adapt to the profound forces of change that we have described briefly, but the pendulum appears to be swinging to the revival of populist nationalism. In the final analysis, what the economists Carmen Reinhart and Kenneth Rogoff observed about the history of financial crises in their book applies to each of these potential narratives: Although leaders invariably claim that “this time is different,” the financial consequences strike with surprisingly consistent frequency, duration and ferocity.²⁹

28 Paul A. Laudicina and Erik R. Peterson, *From Globalization to Islandization* (Kearney Global Business Policy Council, January 2016). See also Paul A. Laudicina, Erik R. Peterson, Peter Munro, and Robert Holt, *World Out of Balance: Challenges and Opportunities for Australia* (Kearney Global Business Policy Council (Washington, DC, 2017).

29 Carmen M. Reinhart & Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009).

■ **Fig. 1.3** From Globalization to Islandization. **Note:** ICT is information and communication technologies

The Challenge of the Disruptive Environment to Disruptive Procurement

What do these forces of change mean for multinational companies and the procurement function, as seen in ■ Fig. 1.4?

In his “What if?” column, Thomas Friedman concludes with what he characterizes as the worst “what if” of all: “What if we’re having a presidential election but no one is even asking these questions, let alone “what if” all of these tectonic plates move at once? How will we generate growth, jobs, security and resilience?”³⁰

In procurement, leaders need to be asking their own questions. Are these sweeping changes plausible? If yes, when might they happen? How will circumstances change in the meantime—before the tectonic forces actually converge to reshape

30 *Ibid.*

	Globalization 3.0	Polarization	Islandization	Commonization
Economic growth	High	Moderate	Low	Low
Unemployment	Low	Moderate	Moderate	Low
Inequality	Moderate	Moderate	High	Low
Trade flows	High	Moderate	Low	Moderate
Capital flows	High	Moderate	Low	Low
International migration	High	Moderate	Low	Low
Regulatory convergence	High	Moderate	Low	Low

■ Fig. 1.4 Global growth and interconnectedness per alternative future

markets and realities? What are the consequences of a mistake in judgment? And how will all these elements affect competitors?

Disruptive Procurement leaders, in order to address the disruptive setting within which they will be operating, will need to begin by addressing five important priorities:

- *Put surveillance into place:* The first-order priority must be to monitor ongoing change, either to validate current assumptions or to revisit strategies and actions that may not be aligned with shifting circumstances. To do this, it means putting together a robust conceptual framework with clear-cut roles and responsibilities on what needs to be observed, what benchmarks might suggest the onset of a transition, and how signals (faint or otherwise) can and should be communicated within the organization. In addition, establishing a network of subject-matter experts and independent organizations relating to the content of the surveillance can often provide welcome returns.
- *Double down on strategic foresight:* Many of the quantitative tools and empirical approaches long associated with procurement make it challenging to integrate strategic foresight, which more times than not is qualitatively based, but it

is nevertheless extremely important. Strategic foresight may include visioning, trends analysis, scenario planning or crowdsourcing, and it challenges procurement planners to consider contingencies that might not arise in their normal day-to-day operations. Even with advanced quantitative tools and analytics, the gaps in prediction capabilities have been abundantly clear in recent years—from the Great Recession, to Brexit, to the election of Donald Trump.³¹ As the oft-quoted saying goes, “it is better to be imprecisely right rather than precisely wrong.” Planning for multiple futures makes sense in the light of all the complexities we have highlighted here.

- *Strengthen organizational agility*: Even if robust surveillance and strategic foresight capabilities are developed, if the organization is unable (or unwilling) to respond quickly and effectively, it defeats the point. Authentically “disruptive” procurement means constantly innovating on established practices in order to take advantage of accelerating change. As this constellation of changes materializes, chances are that the stakes will rise—and the difference between winners and losers will become increasingly profound. The priority, therefore, must be to connect foresight with action in such a way that the organization can respond effectively. Those falling short, especially in the face of the totality of change ahead, are likely to become roadkill.
- *Redefine risk management*: Procurement leaders must now consider the full spectrum of forces at work—and the reverberations of all the eras that are now ending—by expanding their aperture on both the risk-mitigation and opportunity-leveraging sides of their operations. On the risk-mitigation side, that means addressing current-time operational risk as well as pushing the envelope as far out as possible on future risks and strategies to cope. It is the same on the opportunities side: “Eat-what-you-kill” attitudes may suffice in the short term, but longer-range strategies necessarily must depend on more proactive planning and execution.
- *Reinvent your culture*: Failure to adjust to changing circumstances could be life-threatening. Effective leaders have managed to implement visions across their organizations that ultimately become a part of the corporate culture. This is especially applicable to Disruptive Procurement—a core feature of which is a fundamental reset of the mindset that leaders have had in the past. The challenge to leaders is to implant an authentically strategic DNA in their operations that will position their teams to succeed in the future.

In the end, procurement planners can either carefully consider the menu, or they can be on it. Procurement leaders understand that more widely integrated, more proactive, more inclusive actions are essential for them to get ahead in this time of disruptive change in the external environment.

31 See, for example, Rudolph Lohmeyer, Erik R. Peterson, and Paul A. Laudicina, *No One Saw it Coming: Strategic foresight is a powerful tool for managing uncertainty in an age of disruption*, Kearney Global Business Policy Council ► <https://www.kearney.com/web/global-business-policy-council/article/?a/no-one-saw-it-coming>