

A large audience of business professionals is seated in a conference hall, attending a summit. The attendees are dressed in business attire, including suits and blouses. They are seated in rows of brown leather chairs, facing towards the front of the room. The room has wood-paneled walls and a large screen at the front. The overall atmosphere is professional and focused.

REVIEW

THE
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ne year after the election of Donald J. Trump as President of the United States of America, there is hardly any political pundit who would not try to make sense of these twelve months. What were his most important achievements, what were his shortcomings? What is left from his bragging about the wall between the US and Mexico; the Muslim ban? What about the trade war with China which at one time seemed to escalate, just as the nuclear war with North Korea? Was this all just rhetoric and are we only now, more than 300 days into office, seeing the real President Trump? Interestingly enough, the public and the political sphere over here in Europe seem just as polarized as their counterparts in the US. It is difficult to say whether this is because it reflects in many ways developments in Europe or whether it is because some Europeans have only become aware of the value of transatlantic relations through the rise of Trump.

However, as was to be expected, the effects of the new American foreign policy also played a prominent role at the annual meeting of the Stern Stewart Institute at Schloss Elmau. That being said, the new US foreign policy did not overshadow our other topics of discussion. Rather, we should speak of an overlap. The Brexit and the related uncertainty of British relations with the European Union, but also the continuing conflicts in Syria or Ukraine may disappear from public consciousness for a while, but an end to these issues can not be foreseen in any of the above-mentioned cases.

Nevertheless, it is important to warn against focusing too much on individual issues, whether political or economic, so as not to lose sight of the big picture. For this reason, the Stern Stewart Institute always puts topics on the agenda of our Annual Meeting that at first glance do not appear to be among the burning issues of public discourse.

These tend to include political questions such as the expected developments after Brexit and Trump. What answers have traditional companies found to the challenges posed by the digital economy? What about China and free trade?

The threat posed to traditional businesses by agile digital companies is not a new discussion topic. What is new, however, is the impression that this development is increasingly moving from B2C to B2B. How serious is this threat to be taken? What strategies can actors use to defend themselves against it? How long will it take them to find answers?

The panel's opponent argued above all that it is becoming increasingly difficult for the old business to differentiate itself from the competition solely through its products. The focus is still on hardware, and no one really knows how the digital business works. But with this "do-it-yourself mentality", it is no longer possible to survive in today's competition.

On the credit side, however, and this was stressed several times on the panel, there is still the know-how, a mature infrastructure, and, above all, intellectual property that no one could dispute. However, in the future it will depend more and more on how these assets are handled.

It has also been emphasized several times that an openly confrontational approach is not effective. "Rather than fighting them – open up and embrace the challenge."

This year's survey showed that all these developments are generally based on longer periods of time. To the question of how long it will take to reverse OEM dominance in industrial aftermarket businesses, 62 percent considered a period of five years to be probable, while 31 percent assumed that this will never be the case.

As to why B2B is now becoming susceptible to digital ecosystems, the opinion of the respondents is even clearer: 78 percent answered that it is due to an "insufficient mindset change", followed by "Lacking know-how would be better. Missing can also be 'lost'" (30 percent), and to an "unrecognized threat" (26 percent). The fact that only 9 percent of those surveyed think it is due to financial restrictions cannot be comforting here, because it is clear that the challenges facing companies are enormous (see **Figure 1**).

WHEN ECOSYSTEMS BEAT OEMS: A NEW DIGITAL THREAT SPILLING OVER FROM B2C TO B2B?

Why are B2B businesses vulnerable to the attack of digital ecosystems?

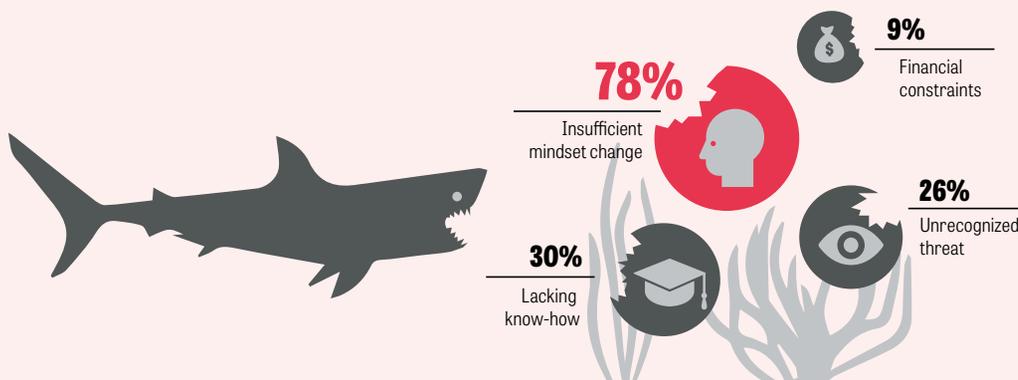


Figure 1

What is an effective way to empower corporate innovation?

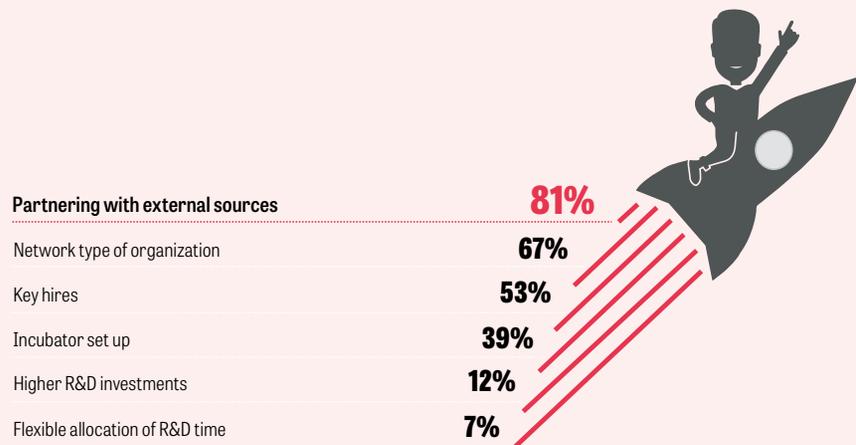


Figure 2

YOU AIN'T NO START-UP, MY FRIEND – HOW TO RE-ENERGIZE CORPORATE ENTREPRENEURSHIP AND INNOVATION?

One of the key questions in the Old Economy's approach to the New Economy is the question of innovation. How are the new ideas born? Where do new products come from? The lack of agility and flexibility of many analog companies is mainly due to the fact that: they have more to lose than small start-ups. But there are further advantages of the New Economy, which are well-known but still need to be remembered and they include: no governance and a culture that better accepts failure.

In view of this challenge, one could expect a confrontational view of start-ups from the established companies, a willingness to fight and enter into conflict. However, in the next few years it will primarily be a matter of recognizing the opportunities arising from possible cooperation.

For too long, this has meant one-sided investments and the acquisition of start-ups according to some in the panel. Today, it has been recognized that it is more a matter of interacting at eye level and that partnerships need to be two-directional.

The survey proves this point and refers to another aspect. Thus, "partnering with external sources" is considered the most effective method of supporting innovation within enterprises (81 percent), followed by "network type of organization" (67 percent), and "key hires" (53 percent). On the other hand, only 7 percent of respondents still favor a more efficient allocation of research and development funds (see **Figure 2**).

Nevertheless, time will tell whether these announcements are feasible ideas, whether the will and the ability to implement them are there, and whether some of these declarations of intent are not just the proverbial whistle in the dark.

What are the main obstacles being on a level playing field with China?

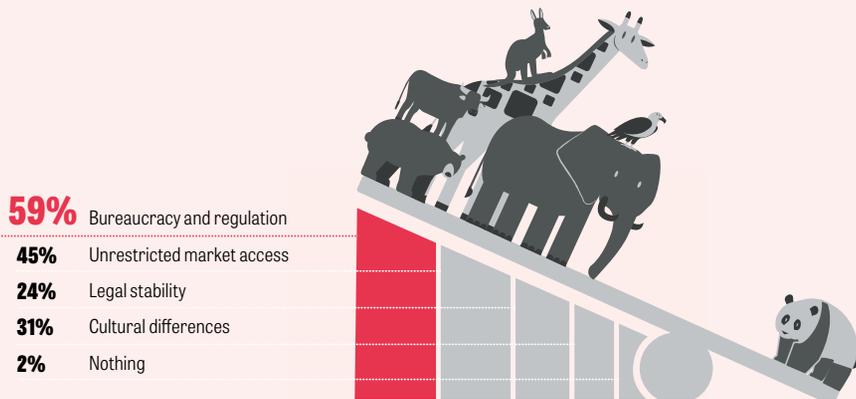


Figure 3

The continuing rise of China as an economic superpower has, in the opinion of many experts, a name that would not necessarily have been associated with it a year ago: Donald J. Trump. As ambiguous as the new US administration's protectionist policy may be, it has already led to the fact that the US in the eyes of many people has lost international influence and that China is only too willing to fill this void, both politically and economically.

The one-sided view of China as a threat to international trade, even if it is particularly pronounced in view of the large American trade deficit, does not withstand closer examination. China experts point out time and again that the self-perception of the country is completely different from the image of the aggressive trading giant. Pride in the performance of the Chinese economy is hardly recognized in the West.

Mention has been made of the frequent comparison of free trade and protectionism and the countries associated with these concepts, namely China and the United States. However, this is only part of the truth. After all, since the People's Republic of China's trade is at least half, if not completely state-run, it can hardly be considered a champion of free trade.

And it is precisely in this area that the main obstacles for a level playing field with China are also seen in our survey: 59 percent of respondents consider bureaucracy and regulation to be the main obstacle, almost half still cite unrestricted market access (45 percent) (see **Figure 3**).

Since only 8 percent of all respondents assume that changes can be expected in the protectionist trade policy of the People's Republic of China over the next 12 months and almost a third believe that the country will be even more closed to the interests of other states (29 percent), it is almost certain that it is not the last time that we have dealt with the relationship between China and the West on this issue.

CHINA SCHIZOPHRENIC...
TALKING FREE TRADE,
WALKING CALCULATED
ECONOMIC WAR?

FINALLY A NEW DEAL? HOW WILL EUROPE SHAPE ITS CORE AFTER BREXIT, USAXIT AND OTHER POISONS?

But what about Europe? The last time we met, many people in Europe were still under the shock of Brexit, and Trump was not even president...How have developments confirmed the fears of that time? Although precise assessments of the future impact of Brexit may differ, it is likely to be agreed that the current management of exit negotiations is not optimal, and that there is more uncertainty

on both sides of the Channel about the further development and economic framework conditions of the future Europe than would be desirable.

Some people on the panel expressed the expectation, or at least hope, that these secessionist movements could lead to the rest of Europe moving closer together. Good cooperation between Macron and Merkel, as well as gradual economic recovery in southern Europe were cited as the most crucial factors that gave rise to this hope.

The extent to which developments in Britain and the USA could boost nationalist and populist movements in Europe was examined in the survey. When asked what the economy's contribution to the fight against populism could be, about two-thirds responded with "creating jobs" (67 percent) or "education" (66 percent), but other means were also considered, suggesting that the problem is recognized as such and taken seriously (see **Figure 4**).

How can business help undermine populists movements?



Figure 4

How will Donald Trump proceed with his presidency?

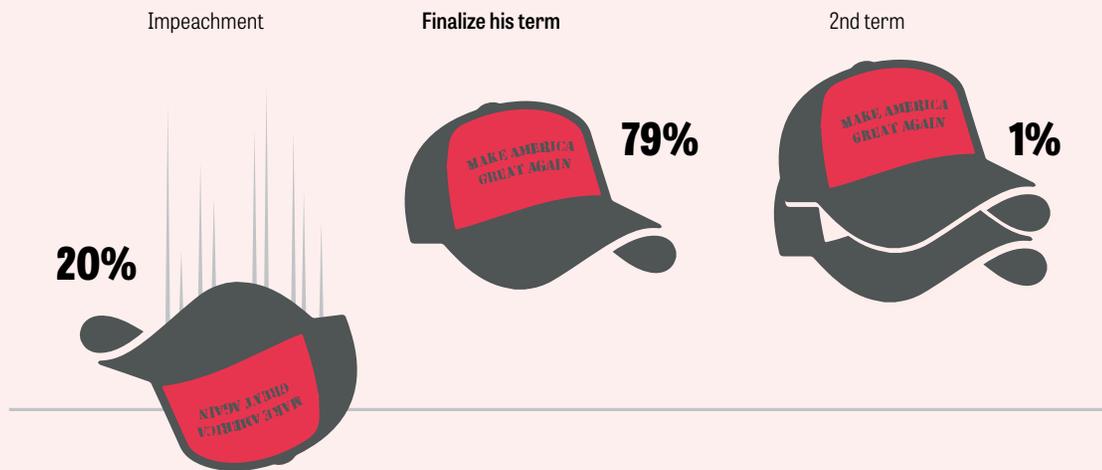


Figure 5

AMERICA FIRST – GLOBAL ECONOMIC DOWNTURN NEXT? HOW TO REACT TO TRUMP'S PROTECTIONISM.

First things first: The impact of the new US administration is much less than initially assumed or feared. Despite all the rhetoric, it was repeatedly pointed out not only on the panel that a tweet alone was not a law; the survey also made this impressively clear: almost three quarters of the respondents suspected “little impact” (73 percent), 25 percent a positive effect when asked how they would assess the influence of Trump’s “America first” policy on their company.

Nevertheless, Donald Trump is not really a President like any other before him. For never has there been an incumbent in office where, after less than a year, one in five respondents thought that the President’s term would probably end with an impeachment proceeding. Although the clear majority think that he will complete his first term of office (79 percent), virtually no one believes that there will be a second term (1 percent) (see **Figure 5**).

Despite a few nuances on individual issues, there is widespread agreement on how to deal with a President Trump, which can be summed up with a few key words: not to be taken too seriously, wait and see, business as usual.

At first glance, the headline may seem surprising, even alarming. Shouldn't the time for a status quo be over? Shouldn't the Old Economy have been busy fighting the tech giants for a long time? Yes and no. Yes, because in fact some years have already passed, which could be used by the companies from Silicon Valley to gain a perhaps unassailable advantage in certain fields. No, because the advantages that traditional companies have to offer also imply in part that they need more time for certain decision-making processes.

An important hint that has been given is to avoid throwing all tech giants into the same pot. After all, the business models of Facebook and Google are hardly comparable to those of Amazon. Only the latter can be described as disruptive.

Several factors were also mentioned in favor of the Old Economy. For example, the enormous opportunities that the Internet of Things can offer traditional companies. In addition, it was pointed out that the collection and possession of enormous amounts of customer data is not a value in itself. It is not the ownership of these assets that will be at stake in the future, but the access which is also possible for traditional companies.

All these plus points probably led to the results of the survey on this topic. A majority of respondents do not yet consider the race between traditional companies and the data economy to be decided (57 percent). Some 67 percent see the trust of traditional companies regarding data security as a competitive advantage (see **Figure 6**). And 82 percent of respondents predict that in less than ten years, up to a quarter of their business revenue will be generated through a third-party digital service provider, such as Amazon or Alibaba (see **Figure 7**).

AMAZON, GOOGLE & FACEBOOK RULE SUPREME – WHERE IS THE PLACE FOR TRADITIONAL CORPORATIONS IN THE DATA ECONOMY?

Will trust and credibility for data protection be a competitive advantage for traditional companies?

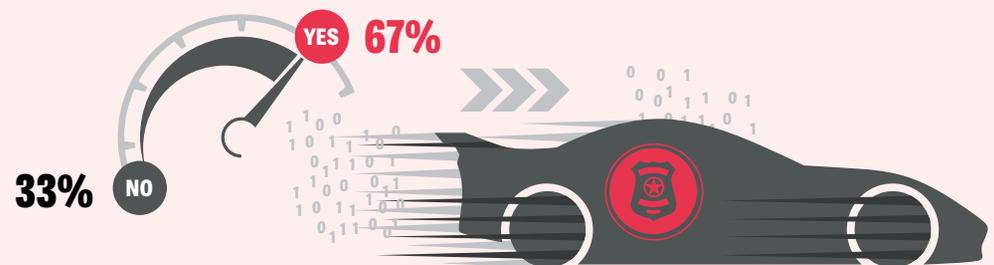


Figure 6

What share of your company's revenue will be sold via a third-party platform – like Alibaba or Amazon by 2025?



Figure 7

RAGE AGAINST THE MACHINE? WHEN WILL ARTIFICIAL INTELLIGENCE HAVE EATEN ALL THE JOBS AND HOW TO PRESERVE SOCIAL COHESION?

What is artificial intelligence (AI) and how many people will lose their jobs because of it? In variation of a German bestseller, the above question could be exaggeratedly varied. In spite of the great progress made in the field of artificial intelligence, many questions about concrete applications and the expected effects remain unanswered. However, some predictions can be made with a clear conscience.

In terms of jobs, lower income and lower skilled workers will suffer more than better qualified people. The latter will even benefit from AI.

This inevitably raises the question of how AI will affect social cohesion in societies. The panel also discussed this, pointing out, among other things, that the answer to this question should not be left to politicians alone, even if it was mainly the politicians who failed in the past to prepare people sufficiently for technological change.

Only 25 percent of respondents believe that AI will eventually reach a stage of development where it can control people. More interesting, however, are the answers to other questions. Just as many participants predict the creation of new jobs as do massive job losses (27 percent, respectively). And participants predict that 26 percent of workplaces will be replaced by automation. (see **Figure 8**).

What share of your company's jobs will be automated by 2025?

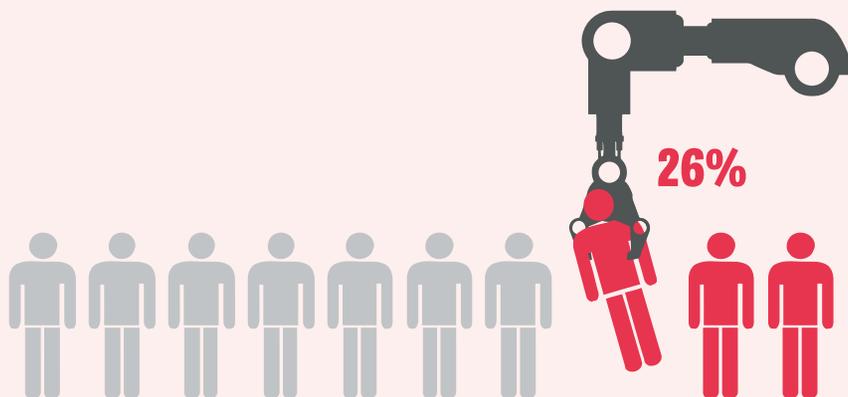


Figure 8

FIX IT, SELL IT, SHUT IT – HOW TO DEAL WITH LEGACY BUSINESSES?

Legacy Businesses are something that most start-up companies are unfamiliar with. How should the Old Economy deal with them? Is it more of an advantage or a disadvantage for the Old Economy to have legacy businesses?

Yes and no seem to be the panel's answer.

Legacy businesses offer advantages when it comes to the trust of investors with a long-term focus on security. However, this is often counterbalanced by slow decision-making processes, which in turn deter risk-related investors. The main problem of legacy businesses is probably the unbroken attraction of start-up storytelling. The fascination of the tales from rags to riches, from the garage into the penthouse seems to have lost none of its attraction. And this also applies to investors, whose patience with start-ups is often endless. And yet the discussion warned against staring at start-ups only as competitors like hypnotized rabbits. Because only those who fall for the storytelling of start-ups are bound to replace strategic thinking with mere tactics. Long-term stakeholder models and permanently adjusted metrics are therefore in demand to react to changes in the business environment at any time. The survey also underlines the immense importance of Group companies within the economy.

Why is it that legacy businesses become problems? The survey gives a clear answer to this question: 70 percent of the respondents blame the lack of innovation, followed by an insufficient management focus (56 percent) and a varnish of risk-taking (41 percent) (see **Figure 9**). Are the legacy businesses punished here for not being start-ups...?

What is the root cause of problematic legacy businesses?



Figure 9

THE END OF TRADITIONAL ORGANIZATIONS? ARE NETWORKS THE INEVITABLE ANSWER TO BUREAUCRACY AND FLUCTUATING TALENT... OR ARE THEY ITS FINAL DEATHBLOW?

When reviewing everything that has been said so far, perhaps a completely new way of thinking is needed? Do the structures need to be fundamentally rethought and adapted to today's challenges? And if so, are networks the answer we are looking for?

Networks have drawbacks. What about IP? If it is no longer clearly regulated, who has access to the company's intellectual property and in what way? Are networks suitable for all industries and business models? Is communication within companies really becoming freer through networks or do they not often apply stricter rules than traditional corporate communications?

Many questions and still few answers. And yet, some of the contributions to the discussion suggest that traditional companies may even be forced to turn to the network structure. Otherwise, it seems to be becoming increasingly difficult for them to attract talent.

In any case, 67 percent of our survey participants think companies have the ability to organize themselves in networks (see **Figure 10**).

Can large international corporates organize themselves in networks?

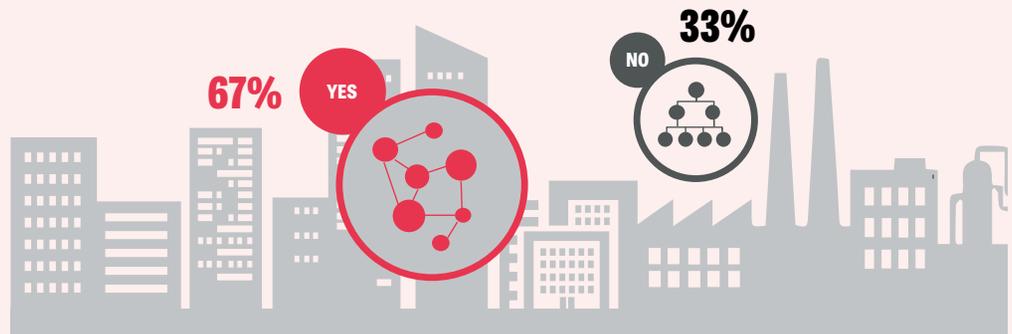


Figure 10

Will companies share significant human capital in networks that accelerate agility?

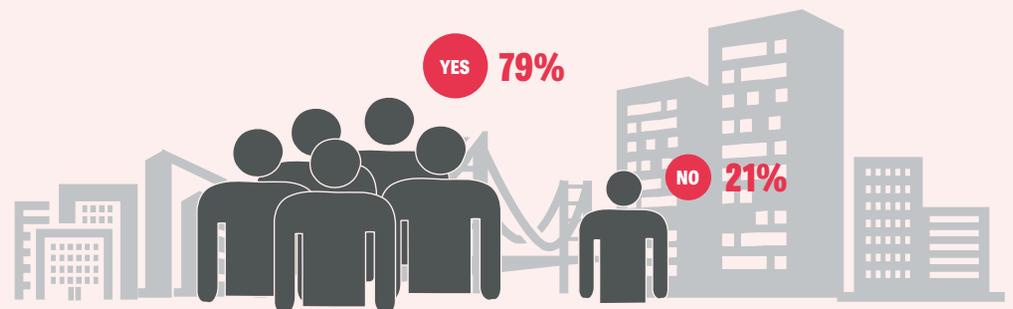


Figure 11

Even stronger is the belief that sharing human capital in networks will enhance companies' agility: 79 percent of respon-

dents say that a more efficient allocation of human capital will also lead to higher agility (see **Figure 11**). But perhaps, as the discussion also suggested, the networks will be seen less as a threat if we do not construct an absolute contradiction between them and the traditional companies, but instead take a hybrid, complementary approach. But even to accomplish this, it will take a lot of psychological persuasion to make many experienced employees forget what they have learned in the past. ■

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