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WORLD ECONOMIC FORUM

Davos During the Downturn

By Mark Foster

The financial crisis has spread and deepened since the last World Economic Forum. Now's the time to find a way forward during these times of economic downturn.

This will be my eighth World Economic Forum meeting in Davos, and I fully expect it to be a special few days. Last year's meeting took place against the backdrop of the first waves of global meltdown, with markets crashing around the world in the days before the great and the good met in the snowy Swiss village.



REUTERS

The annual meeting of the World Economic Forum is taking place in Davos, Switzerland this week.

Questions about how far the ripples of the crisis would reach and how many sectors would be affected dominated the meeting. There was much talk of global "policing" mingled with debates on whether the rates of growth in emerging markets could create a decoupled model and how deep the various forms of economic bailout would need to be.

Such discussions now seem like a far-off dream. The waves of bad news have only grown over the past year, with the breadth, depth, and severity of the shocks to the global economy increasing every month. The responses by governments, corporations, and other global agencies have reached ever-greater levels of urgency, scale, and, in some cases, desperation. Solutions that would have seemed left-field a year ago are now commonplace, and we all have a clearer sense of how the combination of massive interdependence and pervasive local difficulties can combine to create a perfect storm.

At the same time, I expect the 2,000 leaders who gather in Davos on January 27-31 will arrive with a heightened sense of the "new normal" to which we are all now accustomed. They also will come with a resolve to talk about solutions and a way forward.

Finding a Balance

The truth is that all leading organizations are learning to live in a world in which they must try to balance the hard actions necessitated by the current crisis with the strategic options for business development that exist in a still-shifting, multi-polar global economy. Many companies will come to Davos in the midst of taking drastic steps to reshape their cost bases. At the same time, they are taking advantage of the severity of current circumstances to do the unthinkable: fix the "sacred cows," many of which have had problems that required action for years.

They will be accelerating right-sizing activities to meet the new realities of the bubble of demand and capacity that built up over the past few years. They will also be cutting the costs and overhead that accreted from an extended period of relatively unchallenged growth. While some will be acting out of the urgency of survival, many high performers will be creating a new, leaner, and more agile foundation for the next stage of growth. They will come to Davos to share their perspectives, check their thinking with their peers, and gain insight into the global economic opportunities and threats that lie ahead.

I expect the Chinese, Indian, Latin American, and other emerging market representatives who have

become an increasingly important part of the Davos scene over the past few years will come to stay engaged with the evolving world views of the West and to continue the networking momentum that has characterized their growth in recent years. They will be facing the realities of significant declines in their export markets and stock exchanges.

Companies in these markets are entering a new phase of maturity with the commensurate shift in sophistication and complexity of business issues and approaches. It is also true the majority of these businesses continue to sit in growing domestic markets and find they are relatively cash-rich in a liquidity-starved world, with key choices to make. I also expect Eastern European and Middle Eastern companies, whose growth has been overshadowed in the past by the BRIC story, to be more visible at Davos this year.

Evolving Regulatory Response

European companies will be in force as ever at Davos, but this time with a heightened desire to seek strategies and answers. In many cases, these companies are feeling the true impact of the current crisis for the first time as their domestic markets sink into clear recession. The economic circumstances in many countries in the region have raised the bar on national interests and interventions just as these organizations seek a way to be competitive in a fast-changing global environment. The evolving regulatory response will be a big theme for these companies as will the challenges of stimulating consumer demand in these markets.

It will be interesting to see how many North American companies choose to attend Davos this year. Many of those companies, in particular those in financial services, retail, and the auto industry, were among the first affected by the crisis and are beginning to chart their course to respond to the "new normal." However, they may feel a strong imperative to be and to be perceived as utterly focused on the management and leadership tasks at hand. The new U.S. Administration will have a clear role and voice in the emerging debate. We can expect the reshaped North American giants to play actively in the post crisis world, depending on the degree to which they are able to make the right strategic adjustments.

In an environment in which corporations are increasingly on the back foot and governments are intervening to unprecedented degrees, I expect the dialogue to center on new forms of global governance. Indeed, the recent reality of the G20 has served to bring home the new diversity of consensus required to make progress. There will be much discussion of the different strategies for governmental stimulus alongside important perspectives as to how these stimuli can also target such issues as sustainability, energy security, and development infrastructure.

The war for talent, which has been a theme at Davos for the past few years, is now placed in a new context. Governments are seeking to alleviate the immediate specter of unemployment while also shaping the new sources of durable innovation and economic specialization that will underpin their role in an interdependent world.

This is a good time for the various stakeholders of the global economy to come together. I don't expect there will be solutions emerging directly from the week, but I do look forward to important aspects of the future agenda being set, which will be picked up by subsequent activity at the global, national, and corporate levels, as well as by civil society and NGOs. One of the casualties of the recent downturn has been trust in the corporate and political elite in terms of management and foresight into global challenges. The journey starts here to rebuild that trust through thoughtful, cross-sector dialogue to balance the more emergent activity we continue to read about every day.

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