Economic development in a Rubik’s Cube world: How to turn global trends into local prosperity

Moderator: Jim O’Keeffe
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Jim O’Keeffe: Hello. My name is Jim O’Keeffe and I’m involved in media relations for IBM in Ireland. IBM’s Global Center for Economic Development is based here in Ireland and is part of IBM’s Institute for Business Value which creates fact-driven thought leadership aimed at senior executives and decision makers. Economic development is very much a hot topic at the moment, so IBM recently undertook its own analysis of the major trends at work that are shaping the world of 2020. In today’s discussion we’d like to explore what those trends are and how they affect the organizations involved in economic development and investment promotion.

With me today is Ronan Lyons. Ronan is a Managing Consultant with IBM Global Center for Economic Development and an economist with an expertise on the topic of economic development and growth. He’s one of the authors of IBM’s report which is entitled Economic Development In A Rubik’s Cube World: How To Turn Global Trends Into Local Prosperity.

Ronan, thanks for joining us today.

Ronan Lyons: Thanks, Jim. I’m delighted to be here.

Jim O’Keeffe: So let’s get right to it, Ronan. What exactly is a Rubik’s Cube world, and how does it relate to economic development?

Ronan Lyons: Well, Jim, as we all know, the Rubik’s Cube is a game based around different dimensions where the player has to work out the relationships between all the different sides before they can hope to win. For us, that’s a very appropriate metaphor for the world in which economic development professionals find themselves. Their challenge is to understand how the world is changing and the relationship between the different forces at work. On one side of the cube lie powerful forces, or megatrends, that when changed force businesses to change, and they’re another side of the cube. That business response to megatrends has an impact for the third aspect of the cube. That’s the organizations involved both in economic development, known as EDOs, and those involved in investment promotion, known as IPAs.

Jim O’Keeffe: Interesting. So how does your team go about this work?

Ronan Lyons: Well, Jim, as you know, the IBM Institute for Business Value produces a range of medium to long-term sector and industry future agenda studies. To gain an insight into the world of 2020 for economic development professionals, we reviewed those studies building the megatrends and the business response from the sector and industry level up to form a broader picture. Our Global Center for Economic Development also conducted a
review of long-term economic and social forecasts out to 2020 and performed our own analysis of major global trends such as investment, technology, and globalization.

Obviously we also needed to understand how investment promotion and economic development organizations are preparing for the future. So to do that, in conjunction with IBM Plant Location International, we surveyed over 250 organizations around the world, including members of the International Economic Development Council (IEDC), and the World Association of Investment Promotion Agencies, as well as clients of IBM Plant Location International.

Jim O’Keeffe: Ronan, you mentioned these megatrends. Are they relevant only for those working in economic development? And what are they?

Ronan Lyons: Well, actually it’s a good question. No, we see six megatrends at work, which both individually and collectively have an impact on a wide range of actors, not only organizations involved in economic development but also businesses, governments and public administrations, non-governmental organizations, and lobby groups. The six megatrends are: deepening globalization; large-scale population changes; accelerating technological progress; the rise of what we call the omni-consumer; the corporate social responsibility imperative; and growing political uncertainty and unpredictable risk.

Now, the first of these, globalization, is something that’s not new, but it now encompasses people, companies and ideas and not just trade and economics. The global labor force is profoundly changing in age and location, becoming older and moving more to the East. And at the same time technological progress is more pervasive than ever before. And closely related to this, the new consumer, the omni-consumer thrives on knowledge and wields unprecedented power in the market. Also, previously non-market forces are increasingly shaping business activities. We see corporate social responsibility not just as an optional add-on, but now as a business imperative. And, lastly, unpredictable risks, in particular political uncertainty, are looming in the background of decisions being made that will shape 2020. These are the six megatrends that we see at work, and they impact on all actors in society.

Jim O’Keeffe: So these trends have a direct impact on the work of economic development organizations, yes?

Ronan Lyons: They do, but equally important is the effect they have on economic development through the impact they have on businesses. At its most succinct, the business innovation response to the megatrends is to focus on core competencies, those activities that the companies themselves are best at. This leads them to analyze which activities they should shed or outsource to specialty service providers, which activities they should partner for, which new activities they should expand into, and which they should retain as core activities. And those that are retained in-house as core activities are increasingly being re-organized and re-located around the world as businesses strive to be as efficient as possible. IBM refers to the firm that responds in this way as the globally integrated enterprise and sees the globally integrated enterprise as the 21st century counterpart to the 20th century’s multi-national.

Jim O’Keeffe: Interesting. So how can organizations involved in economic development and investment promotion emerge among the winners in 2020?
**Ronan Lyons:** In a Rubik's Cube world, the challenge for organization involved in investment promotion and economic development is to get all the pieces to work together. And to do that, obviously they must understand and respond to the world around them, to three key aspects of their business: their clients, their environment, and their competition. To understand their clients, which essentially are businesses, businesses as we said are responding to the megatrends by changing their underlying models and by focusing on core competencies. Organizations like IPAs and EDOs need to consider how they will respond. For example, they could consider widening their focus to include firms of all sizes as investing abroad becomes easier for all firms to do. They could respond to the rise of outsourcing by targeting those firms that have grown up as specialist providers to firms that outsource. They could take an active role in helping firms form partnerships, or they could indeed form partnerships of their own, liaising with previous competitors to add value in new ways.

Secondly, they need to understand their environment, which is the changing investment market. IPAs and EDOs around the world do agree on the importance of the work force and the skills challenge, the war for talent as they call it. But our surveys show that they disagree on the importance of heightened competition due to globalization. This is very much a concern of organizations in Western Europe and, indeed, elsewhere in the world, but hardly registers with their North American counterparts. To understand the changing investment market, first and foremost don't lose sight of the main markets. There are a few key economies that are the source of the majority of projects, and organizations need to be aware of those and to be active in them. Secondly, while that's obviously true, it needs to be balanced with winning your share of projects coming from new and emerging sources. And, thirdly, they need to adapt their strategy to capitalize on changes in the sectoral distribution and in the mix of activities that make up FDI as investment moves from being clustered around sectors to being clustered around activities.

The third thing that organizations need to do is to understand their competition, what they're being measured on. So if they benchmark their factors, they can then use that to provide a unique offering, to develop a differentiating selling point. However, currently those differentiating selling points are actually common to many organizations. For example, more than 40 percent of North American EDOs stressed one or more of transport infrastructure, market access, or cost of living among the key selling points. Across regions, common selling points differ, but within regions, there's often similarity in what they stress to potential clients.

As opposed to that, what they can do as they move towards the world of 2020, they need to stay alert obviously in a world where competition for projects is more intense and new locations emerge for investment projects. They need to benchmark the criteria by which they're being measured. They need to leverage new priorities and location decision as new criteria emerge. And they need to rise to the opportunity and challenge presented by technology.

As IBM Plant Location International will tell you, the winners in the world of 2020 won't be the most knowledgeable IPAs and EDOs. They'll be the ones that were best at execution.

**Jim O'Keeffe:** Ronan, thanks for sharing your insights into the world of 2020 and how organizations involved in economic development and investment promotion can succeed.
That was Ronan Lyons, Managing Consultant with IBM Global Center for Economic Development. Thanks for your time, Ronan.

Ronan Lyons: Thanks, Jim. My pleasure.

Jim O'Keeffe: To find out more about the IBM study, Economic Development In a Rubik's Cube World, visit us on the Web at www.ibm.com/ibv. Thank you.