

The lunch break MBA

Robert Bain 26 Jan 2016

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A full-blown business education can cost thousands and take you away from your day job for hours at a time. But much of what you need to know about how the business world works and the key trends that affect your organisation's future can be imparted before you've even finished your panini and coconut water. People Management brings together the wisdom of top experts for a breakneck tour of 10 concepts you need to understand – quickly.

Emerging markets

Don't count on 'new' economies to bolster your growth

The economies of Brazil, Russia, India and China, the so-called BRIC countries, had been growing at blistering rates – hitting 10 per cent a year in China's case.

But now they've fallen behind expectations. All four have grown more slowly this decade than the last, sometimes barely outpacing mature economies. "The rise of emerging markets has been highly exaggerated," says Rajneesh Narula of Henley Business School. "China's has slowed considerably, Brazil's economy is shot... in fact, of the BRIC countries, Brazil's out, China's out, India's a bit iffy and Russia never belonged on the list in the first place."

Mark Beatson, the CIPD's chief economist, adds: "Some of these emerging economies have caught a bit of a cold. It's a mixed picture, but it's likely that we'll see them being a bit less of an engine of global growth than they have been."

That's not necessarily a bad thing – it's an inevitable sign of maturity. On the other hand, says Beatson: "There are risks in the short to medium term – it's possible that one of these economies could go seriously wrong."

Then we'd certainly see just how important they have become – and not necessarily in a way we'd like.

Automation

The robots are coming for your job. Or are they?

We've all read the headlines. Researchers at Oxford University have predicted that a third of jobs will be lost to automation over the next 20 years. And it's not just bending metal and punching holes that are falling to automation – robots are coming for the service sector too.

"Everything looks like Argos now," says Narula. "It used to be the exception – now everything is like that. We all got so used to printing our own boarding passes and weighing our own baggage, we've moved away from [employing humans for] services. That will continue to have a profound effect."

There is a more optimistic reading of the situation, voiced by Dr Jonathan Lord, who lectures at Salford Business School. "People have always said machines are going to take over, but it has always created more jobs. Companies like Google employ thousands of data processors and software engineers. So I don't think it will reduce jobs – perhaps in certain sectors and industries, but it will create more in others."

Consulting giant Deloitte points out that technology has reduced the proportion of people in manual jobs and increased the number in creative and caring professions. "Jobs will continue to be created, enhanced and destroyed, much as they have in the last 150 years," it said in an August 2015 report (written by a human). "The work of the future is likely to have a bigger share of social interaction and empathy, thought, creativity and skill."

This is, however, very much a guessing game. In his recent book, *Rise of the Robots*, Martin Ford argued that what's different about modern robots (or, to be more accurate, any machine capable of automation) is that machine learning will inevitably multiply in capability to the level where machines can think exactly like humans. And when that happens, who needs to employ a human?

Commodities

Think oil prices don't affect your business? Think again

The prices of commodities such as oil, natural gas and coffee are constantly shifting – and the repercussions are felt all over the economy. In our fossil fuel-addicted society, the cost of a barrel of oil drives the price of everything from petrol and train fares to food and pharmaceuticals. It also contributes to inflation, which affects wages.

Volatile commodity prices are a headache for anyone trying to make economic plans or assess risks. At the time of writing, oil was at an 11-year low of \$31 a barrel – great for consumers, bad for producers. The price plummeted in 2014 and has fallen further since, because of the economic slowdown in China and Europe (which reduced demand), the fracking boom in the US (which increased supply) and Saudi Arabia's decision to respond by maintaining production levels.

The price is also affected by the mercurial mood of the markets, and by political unrest in oil-producing countries – many of which are in the turbulent Middle East. On top of that, slowing demand in China affects the market not just for oil, but also steel, meat and renewables, among others.

Beatson says: "Whatever the current outlook, don't assume it's going to last forever. Prepare some scenarios for your business."

Tax

Pay attention – tax policy is about to become a lot more important to HR

It may be dull and complicated, but you can't ignore it. The corporate tax system is becoming more intertwined with employment and, whichever way you look at it, the bill is likely to increase.

The Organisation for Economic Co-operation and Development (OECD) estimates that annual losses to tax avoidance by multinationals stand at \$100-240bn (£68-164bn), and has come up with proposals to fix it. Michael Devereux, professor of business taxation at Saïd Business School, says: "One of the main thrusts of the OECD's proposals is that [an organisation's] tax should be paid where there's economic activity, and one of the ways you identify that is where the key people are employed. So the location of your workforce would have a much bigger influence on your tax bill."

Measures like these would make it trickier for companies to benefit from being based in low-tax countries or tax havens where they actually do very little business. Amazon drew fire from tax campaigners when it booked profits from its UK business overseas despite, some claimed, technically carrying out its transactions in the UK, where it has warehouses and back-office staff (but, crucially, not the servers powering its website).

The European Commission has proposed a system where multinationals' tax bills would be divvied up between member states based on factors including the size of the wage bill. Devereux says: "In the next two or three years, most governments will formulate a response [to the OECD proposals] so we'll know what they're planning to do. As for how that affects businesses' tax strategies, we'll have to wait and see."

With corporate tax high on the political agenda, organisations also need to think about their reputations. Amazon has been joined by Starbucks, Vodafone and even U2 in facing public scrutiny of its tax affairs. "The legalities are obviously very important, but organisations also need to bear in mind the importance of their external reputation, which is not just their consumer brand but also their employer brand," says Beatson. "If you go ahead with decision that are a risk to your reputation, you have to think about how you manage that risk."

Brexit

European workers and EU regulations are facts of life for UK employers. What if we left?

Leaving the European Union is no longer just a right-wing fantasy, it's a real possibility. With a referendum due soon, we'll know in a matter of months whether Britain's future lies in Europe or outside it.

European employment regulations and the free movement of labour have shaped the nature of the UK economy for decades, so the implications of 'Brexit' – Britain exiting the EU – are huge, even if no one yet knows what it would look like.

If the UK wants to retain access to the European single market, that would probably mean continuing to play along with a lot of the rules. Leaving the single market, on the other hand, would give the government more control over immigration, and likely make it harder for employers to hire people from overseas.

David Cameron hopes to avoid Brexit by negotiating measures he hopes will cut immigration, but so far he's had a lukewarm reception from other European leaders.

Most UK employers, meanwhile, aren't keen on Brexit. The majority of members of the Confederation of British Industry favour staying in the EU, while a Financial Times survey of large companies' boards found that 70 per cent believe Brexit would harm their business. "Employers value having access to migrant labour, partly because it helps

with some issues around skills, and also because migrants are often relatively well qualified and motivated given the jobs they are applying for," says Beatson. There are also concerns over access to trade deals.

For now, the prospect of Brexit means one thing, says Professor Anand Menon of King's College London: uncertainty. Menon, who leads the 'UK in a Changing Europe' project, says the effects are already being felt: "People from other EU member states are probably less likely at the moment to apply for jobs in Britain because of a sense of uncertainty about what their status would be if we left. We would have to negotiate new relationships with Europe, and we don't even know who'd be negotiating for us, because a lot of people think Cameron would resign. Nor do we know what the mood of the other countries would be. It might be sour – or south of there."

Demographics

We don't have enough workers to keep us in our old age

Like most advanced economies, the UK's population is getting older. As those born in the mid-1960s baby boom celebrate their 50th birthdays, the number of over-50s in the workforce is set to rise by nearly 800,000 between 2012 and 2022.

Because they're enjoying better health and living longer, British citizens need to work longer to pay for retirement. The number of people of retirement age for every 1,000 of working age is set to rise from 310 in 2014 to 370 in 2039. As a result, Beatson says: "A lot of state provision has shifted, and in many cases company pensions aren't as generous now as they were before."

The government has scrapped the default retirement age of 65, begun nudging the state pension age up towards 67 and is phasing in auto-enrolment for company pensions to make sure workers can pay for their retirement. A similar story is playing out in other advanced economies, from Japan (where robots often look after the growing number of elderly people in care homes, given the paucity of care workers) to the US, which relies on immigration to replenish its workforce.

That solution is politically tricky in the UK, where there are also fewer young people entering the workforce, and those who do are spending more time in education first. "Organisations that are used to thinking their next generation of workers comes from new graduates and school leavers will be competing for fewer people," says Beatson.

Outsourcing and offshoring

If you want it done properly, it might be better to do it yourself

Outsourcing has helped companies grow while shrinking: handing bits of their operations to third parties and focusing in-house activity on what they're good at. By benefiting from the economies of scale of specialist suppliers or tapping cheap labour overseas, businesses can make big savings.

It doesn't always go swimmingly, but there are signs that companies are getting smarter at outsourcing. A survey by Deloitte in 2014 found that, following a "noticeable market shift towards insourcing" in 2012, businesses "are no

longer focusing on bringing services back in-house, but are looking at optimising vendor relationships and improving operational flexibility”.

But Narula isn't so convinced. “I think globalisation has gone too fast and people are reacting negatively across the board,” he says.

The problem with outsourcing, according to Narula, is that “it turned out not to be as cheap as everyone thought. If you outsource something, the customer shouldn't be able to tell the difference. But they've discovered in this global supply chain that customers do notice the difference, and that means you've lost something, hence the backlash a few years ago against banks outsourcing their customer service departments to other countries.”

Is it time for organisations to look again at onshoring? “To some extent, companies are doing that,” says Narula, “but the key thing about bringing things back is people, and that's where there's a problem, because there's a shortage of skilled people.”

Productivity

We need to improve productivity in the UK. But how?

Productivity is characterised as how much you do in a given time. In economic terms, it's more complex than that: the value of what workers create is more important than volume. But one thing is clear – UK businesses aren't as productive as they should be, and no one can agree why. While labour productivity in other countries has grown in the last few years, it is still lower in Britain than it was before the recession and, as a result, average weekly earnings are 6 per cent lower in real terms than in 2008.

The lack of productivity growth is particularly worrying because of the forthcoming national living wage, which will jeopardise jobs if productivity doesn't catch up.

What's causing the productivity problem? It depends who you ask. But it's not laziness, according to Linda Yueh, adjunct professor of economics at London Business School. Yueh says the idea that we all just need to work as hard as the Chinese is a red herring. “Working long hours isn't the same as working more productively,” she points out, and even measures linked to GDP aren't much help for comparing a middle income country like China with Britain. “It's comparing apples and oranges,” says Yueh.

Other explanations, she suggests, include low investment, lack of credit, diminishing skills and the UK's relatively strong employment rate during and since the recession.

Beatson says: “Businesses that focus on quality, have an internal culture that fits their intended direction of travel, and take a balanced approach to investment in both capital and equipment and in their people, are likely to have higher productivity.”

In particular, Beatson believes more attention needs to be paid to how learning influences productivity. “Even if you go to university or get a quality apprenticeship, what do you do for the next 40 or 50 years of your working life? How do we equip people to change and acquire more skills? That's something that UK employers – and employees – have often not been very good at.”

Mergers and acquisitions

Why M&A activity needs to pay more attention to people

The global value of merger and acquisition deals in 2015 reached a record \$4.7 trillion (£3.3 trillion), up a huge 42 per cent on the previous year, with cross-border deals coming in at \$1.6 trillion (£1.1 trillion), says Thomson Reuters.

Professor Florin Vasvari, who teaches on London Business School's M&A programme for senior managers, says the reason is clear: "There's a lot of money available. Since the credit crisis, companies have been accumulating a lot of cash, and banks are still happy to underwrite these transactions. We're in an environment of very low interest rates, so they're chasing any opportunities that will offer returns better than zero."

Some are also using international M&A for other purposes, such as avoiding tax in their home market (by re-establishing their headquarters in the overseas location of an acquisition) or buying technology as an alternative to investing in risky R&D. Vasvari predicts a strong 2016 too. "I don't know if the level of transactions can match 2015 but at this point there are no signs things will abate," he says.

But M&A activity has its pitfalls when it comes to people. "The most valuable asset a company has is its people," says Vasvari. "It's very difficult to find the right people, and it's expensive to hire and train them. You need to decide who the critical people are who you need to stay [in an M&A transaction], and understand what they need. Sometimes, integrations that are done on a tight timeline fail, because there's pressure to make cost savings quickly and not enough time to understand your employees. And the people who leave are the good ones."

Beatson adds: "Those involved in M&A, or contemplating it, need to think about culture, management and leadership, and, when it's a cross-border or multinational move, the extent to which you try to create a single company culture."

Globalisation

The world is getting smaller – but not small enough for some

Globalisation is the economic story of the last half century. The world just keeps getting more and more interconnected in terms of trade, money, people and knowledge.

This has been happening since the industrial revolution, but the fall of communism and the rise of the internet have accelerated it in the last few decades.

Globalisation has allowed countries such as China and India to become new economic giants. It means businesses are more likely to have suppliers, customers or colleagues on the other side of the world, and have economic fortunes more closely tied to other countries – as the world learned the hard way in the financial crisis of 2007-08.

But globalisation is not an unstoppable force. During 2010, the value of 'south to south' M&A deals, where businesses from emerging economies spent cash in other emerging economies, increased by 187 per cent. That

seems to have been a peak and, although Chinese and Qatari companies continue to snap up notable European and US assets, the predicted avalanche of acquisitions has not materialised. The DHL Global Connectedness Index, which measures countries by how open they are to trade and cultural exchange (and makes the Netherlands the most connected nation on earth) suggests connectedness has been “stagnant” recently.

For employers, globalisation also means dealing with diversity. Dr Hyun-Jung Lee, who teaches on the CEMS Global Management Practice programme at the LSE and specialises in how businesses manage multiple cultures, says companies whose leaders embrace diversity and whose employees understand the cultures they’re dealing with are more likely to prosper.

“A lot of mistakes are made because of the mindset that cultural difference is a problem,” says Lee. “That mindset is all about how to avoid disaster, and it makes you look at things in a particular way. But if you look at it in terms of making the best out of your workforce, it becomes a nurturing mindset.”

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