

Ashurst

Future Forces 2023 Report

The megatrends shaping business
over the next decade



Outpacing change

Based on research by

**ECONOMIST
IMPACT**

Ashurst

Megatrends





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Foreword

At a time of geopolitical, economic and financial uncertainty, it has never been more important for businesses to plan for the future. Global conflict, lack of supply chain security and the end of an era of low interest rates are just some of the challenges confronting corporates in 2023.

In such an environment, it is crucial that businesses think beyond the immediate issues they face, and look out over the horizon when developing their strategic planning. It is only by understanding the deeper, underlying currents that are driving the way societies are evolving, that businesses can make informed decisions about their future plans and decide how they can meet the needs of their stakeholders.

This report discusses six megatrends that are shaping the future landscape that businesses will face. Some of these megatrends may already be part of planning strategies; others are only beginning to be understood. It is vital however that businesses focus their attention on all of them if they are to navigate the future with confidence.

Of the six, changing global dynamics and the drive to net-zero are already having a significant impact on business and the community while the scale of the challenges from digitalisation—notably generative AI—are only now becoming evident.

The other three trends in this paper—the impact of demographic change, the need for workforces to build new skills, and the development of resilient cities – are not yet well understood. And as the research indicates, too little attention is being directed to understanding the impact they will have on the corporate outlook.

Trends are cyclical, and while these six have been identified, they will shift. It is important that Government and business take the time to identify what is over the horizon, the timing of when these trends will hit, and how they might shape the global corporate environment.

A deeper appreciation of the forces behind societal change is more critical than ever. Businesses that take time to recognise the megatrends will be better prepared to face the challenges the coming years will bring.

Our *Future Forces 2023 Report: The megatrends shaping business over the next decade*, based on research by Economist Impact, focuses on helping business leaders make informed decisions about the future capabilities they will need, and how they can potentially benefit from the opportunities that the megatrends will present.

I hope the report provides valuable insights for you and your business. Please contact your usual Ashurst Partner if you would like to discuss the impact of the megatrends on your business and the changes that can be taken to address them.



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Executive Summary

In an age of increasingly intelligent technologies, predicting future developments should be getting easier for businesses. The largely unexpected public health, geopolitical and economic shocks of recent years, however, suggest that this is not the case. But business leaders do not need to predict the future to ensure that their organisations prepare for it. Understanding the major forces that are shaping the future—in other words, megatrends—can help leaders make informed decisions about the types of capabilities their businesses will need to navigate and how they can potentially benefit from the future changes shaping their environment.

The report's key findings are:



The top challenge: adapting to demographic change.

More executives expect their organisations to struggle with shifting population demographics than with any other megatrend. Concerns revolve around not just the impacts of an ageing population but also about businesses' ability to meet the increasingly diverse needs of customers. More businesses will also need to meet increasing employee demands for work regime flexibility and reckon with an increase in the bargaining power of labour. The other oft-cited challenge (reported by 45% of real estate and energy executives) is operating in, or meeting the needs of, densely populated and fast-changing cities.



Enthusiasm abounds about opportunities in creating resilient cities.

Operating in large cities may be increasingly challenging, but there is a consensus across industries that such cities also pose attractive business opportunities (the view of 43% of respondents overall). Prominent among the opportunities is the need to modernise the built environment and civil infrastructure, such as roads and utility networks, in the process of improving energy efficiency and climate resilience.



Executive unease about the megatrends is evident.

Two-thirds of respondents say that their businesses have yet to give these megatrends sufficient attention. And few believe their organisations have all the capabilities they will need to tap the opportunities that the megatrends offer. Over 80% deem their organisations' innovation capacity, adaptiveness, resilience and employee skills as insufficient to do so, and 97% say the same about their technology capabilities.



Skills for the future, digitalisation and the net zero transition are key to addressing all megatrends.

These three megatrends are cross-cutting, influencing each other and all other megatrends. For example, stronger risk management skills and cybersecurity expertise will help organisations to better navigate the fallout from geopolitical tensions. Moreover, success in an increasingly digitalised and sustainability-focused world will not only require upskilling and reskilling, but also a fresh perspective on the role of people. And the use of artificial intelligence (AI) and the Internet of Things (IoT) will be integral in helping businesses to decarbonise and cities to build climate resilience. Such cross-trend influences are numerous.



The sustainability challenge is pervasive.

More than a quarter of businesses find the transition to net zero to pose the most attractive opportunity and the toughest challenge in the next decade. The need to improve sustainability performance figures prominently in executives' thinking about the major drivers of business change, whether through net zero commitments or other ESG (environmental, social and governance) components. It not only colours discussions of skills needs and technology opportunities, but it also figures prominently in expectations of regulatory change. The respondents deem financial climate disclosure, supply-chain transparency and other ESG-related rules as more likely than other regulatory developments to impact their business over the next decade.



Change is a constant,
but effective business
leaders understand that
disruption also brings
growth opportunities.

Introduction

Business leaders may desire certainty in the environments their organisations operate in, but developments in recent years have shown how elusive certainty can be. A global pandemic, supply-chain disruptions, recessions where inflation spirals, accelerating technology change, and talent shortages—not to mention war in Ukraine and rising US-China tensions—have put business leaders and risk managers to the test.

Change is a constant, but effective business leaders understand that disruption also brings growth opportunities. To ensure they can tap the opportunities and meet the challenges, executives first need to understand where the most impactful changes are likely to come from.

To help business leaders gain such understanding, Economist Impact analysed a wide range of ongoing trends in technology, geopolitics, macroeconomics, international trade, population demographics and environmental science, among other fields. This analysis identified six megatrends—powerful forces believed to have the potential to change the global economy, business and society in the next decade. They are set out in the table below.

Megatrend	Implications for Business
Changing global dynamics	Organisations must develop their risk management capabilities and build resilience to adapt to the growing frequency of political, macroeconomic, public health and other shocks
Net zero transition	Organisations will need to decarbonise their operations and mitigate their climate risk
Digitalisation	Businesses will fall behind if they fail to derive greater value, efficiency and convenience from technological innovation and the digitalisation of their products and services
Demographic change	Remaining competitive requires businesses to adapt their products and services to meet the needs of diverse groups of customers while accommodating workforce ageing, the younger generations' changing preferences and a growing focus on social sustainability
Skills for the future	Amid workforce ageing and continued shortfalls of critical skills, organisations will need to prioritise reskilling and upskilling to fill the gaps
Resilient cities	When cities become denser, more congested and increasingly impacted by climate change, organisations can help them remain productive and able to cater to the community's diverse needs; cities must also be safe and affordable places for people to live and work

Two-thirds of executives say that their companies have yet to give sufficient consideration to all of these megatrends.

How ready are businesses to address the implications of these megatrends? Upwards of 60% say they are in a stronger position than their competitors to secure the skills they need for the future, derive value from digital technology, meet the needs of fast-changing cities, deal with changing global dynamics and make the transition to net zero. However, the survey also suggests that executives are not as ready as they may think. Two-thirds of executives say that their companies have yet to give sufficient consideration to all of these megatrends. And the vast majority deem their existing capabilities in areas such as innovation, adaptiveness and resilience as insufficient to exploit the opportunities that the megatrends offer. Almost all believe this is the case for their technology capabilities and their employee skills (97% and 92% respectively).

These results suggest that businesses recognise the need for significant change and investment to manage and take advantage of the megatrends.

No opportunity without challenge

It is apparent from the survey results that business leaders see the megatrends creating as many, or more, business challenges as they do opportunities (see Figure 2). For example, while 43% of respondents see attractive opportunities for their businesses from operating in, or meeting the needs of, densely populated, fast-changing cities, 37% also say this poses very difficult challenges for them. The gaps separating opportunity and challenge are virtually negligible when it comes to future skills, the net zero transition and geopolitical dynamics, and are small (6% or less) for the other megatrends.

There is, to be sure, variation among the different industries in the survey in their respondents' ranking of opportunities and challenges, but the above pattern still holds. For example, those working in infrastructure, real estate, and energy and natural resources sectors place cities at or near the top of both their opportunity and challenge lists.

Figure 1: Capability gaps

Respondents' description of their companies' current capabilities to tap the opportunities offered by the megatrends

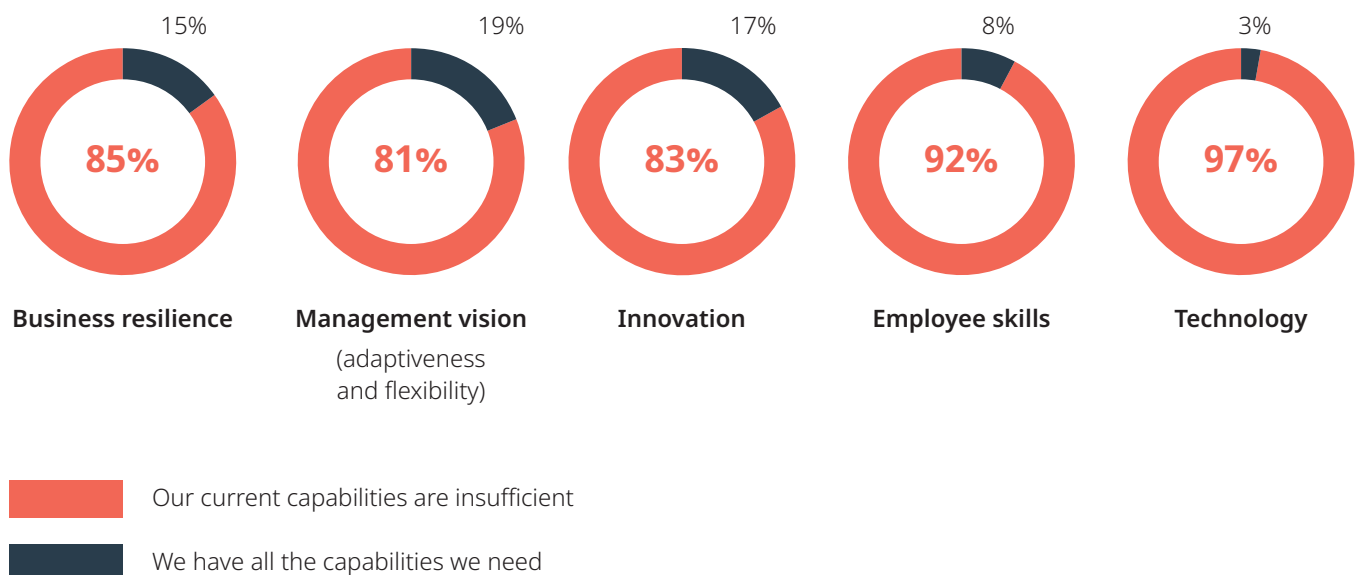
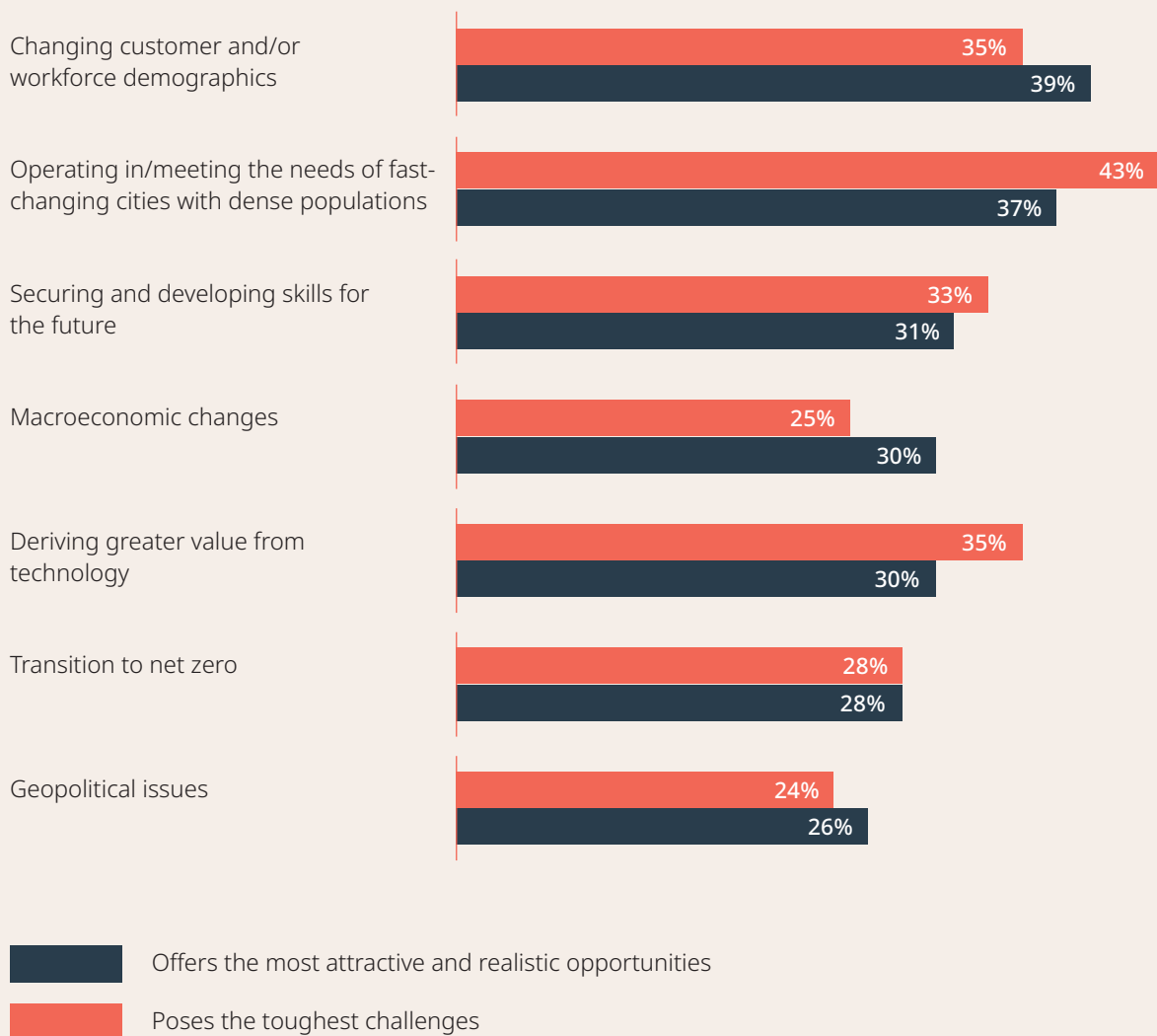




Figure 2: Challenge versus opportunity

Share of respondents citing the listed factors as offering the most attractive opportunities and/or posing the toughest challenges



Source: Economist Impact Survey 2023

Interlinkages

There are significant interlinkages across the megatrends. For instance, the research results emphasise the particularly strong influence that organisations’ progress on securing future skills and digitalising their operations will have on improving other areas. Companies’ abilities to decarbonise operations, including supply chains, will also affect their ability to address other megatrends, such as improving their attractiveness to talent and building resilient cities.

The table below highlights the key interlinkages—the influences that the three aforementioned megatrends (net zero transition, digitalisation and skills for the future) have on each other and their most important influences on the other three megatrends (changing global dynamics, demographic change and resilient cities). These emerge from the survey results and the insights obtained from the interviewed experts.

	Changing global dynamics	Net zero transition	Digitalisation
Skills for the future: types of skills or expertise that will help address each megatrend	<ul style="list-style-type: none"> • Horizon scanning • Enhanced risk management • Building more resilient institutions and organisations • Cybersecurity expertise to protect against state-sponsored threats 	<ul style="list-style-type: none"> • Identifying opportunities for investment as well as developing solutions in green technologies • Monitoring business carbon reduction targets and that of suppliers and partners 	<ul style="list-style-type: none"> • AI, machine learning expertise • Skills to act as an “interface” between AI and humans • Cybersecurity expertise • Understanding of digital ethics to ensure proper use of AI, metaverse, data, etc. •
Digitalisation: enhanced technology capabilities that will help address each megatrend	<ul style="list-style-type: none"> • Data, analytics and AI to improve risk management • Data, analytics and AI to increase supply chain transparency • Cybersecurity to protect against state-sponsored threats 	<ul style="list-style-type: none"> • Smart trading and optimisation technologies • AI for smart civil infrastructure • Augmented reality (AR)/ virtual reality (VR) & IoT for smart, energy-efficient buildings • AI & IoT for energy-efficient manufacturing and logistics 	
Net zero transition: outcomes that will help address each megatrend	<ul style="list-style-type: none"> • Greater energy efficiency and security to reduce the impact of global price rises and/or supply disruptions 		<ul style="list-style-type: none"> • Reduced carbon footprint of enterprise technology infrastructure • Greater energy efficiency of operations through the use of AI and IoT

The influences are not uniformly positive. Further digitalisation, for example, likely means more automation and wider adoption of AI in enterprise operations. While those trends should benefit companies, in the long run they will likely impact the nature of many existing jobs. And unless the power requirements of advanced technologies can be sourced in a clean manner, more digitalisation could bring higher carbon emissions in its wake, putting the company's—and society's—net zero goals at risk.¹ Business

leaders will need to be cognisant of the consequences their investment decisions may have outside the realm of the business itself.

	Demographic change	Skills for the future	Resilient cities
Skills for the future: types of skills or expertise that will help address each megatrend	<ul style="list-style-type: none"> • Skills to act as an “interface” between AI and humans • Continuous learning to keep up with technological advancements • A lack of interest in traditional occupations such as drivers and plumbers 		<ul style="list-style-type: none"> • Cybersecurity expertise to protect against threats to critical infrastructure • Collaboration skills to benefit from city-based innovation networks
Digitalisation: enhanced technology capabilities that will help address each megatrend	<ul style="list-style-type: none"> • AI to predict future changes in customer behaviour and preferences • AR/VR to meet growing demand for immersive experiences • Automation of manual tasks, enabling employees to focus on value-adding activities 	<ul style="list-style-type: none"> • Use of digital platforms (e.g. massive online open courses) for corporate training • Collaboration technologies to enhance remote working • Use of AI to better predict the skills needed in the future 	<ul style="list-style-type: none"> • AI for smart roads, public transport, utilities • AR/VR & IoT for smart, energy-efficient buildings • High-quality telecoms networks • Cybersecurity to protect critical infrastructure
Net zero transition: outcomes that will help address each megatrend	<ul style="list-style-type: none"> • Improved credibility among customers and investors • Increased attractiveness to prospective hires 	<ul style="list-style-type: none"> • Carbon reduction efforts to help attract and retain talent with needed skills 	<ul style="list-style-type: none"> • Smart, energy-efficient residential, office and commercial buildings • Climate-resilient civil infrastructure

Next we take a closer look at each of the megatrends' specific implications for businesses.

Changing Global Dynamics

Superpower tensions have been simmering, and businesses have been adjusting to growing protectionism—for example, by reordering supply chains—for several years. Few business leaders, however, would have predicted the outbreak of war in Ukraine or the severe political crackdown in Hong Kong. Few would likewise have prophesied the outbreak of COVID-19 and the economic and business dislocation it brought in its wake.





“The US-China relationship may stabilise to some extent, but the fundamental systemic differences between the two superpowers are certain to remain a problem for the foreseeable future.”

Alex Capri, senior lecturer at the National University of Singapore Business School

Changing Global Dynamics

Most respondents (59%) are hopeful that current geopolitical tensions will ease in the coming years. Alex Capri, senior lecturer at the National University of Singapore Business School, believes they could be over-optimistic, at least when it comes to US-China tensions. “The US-China relationship may stabilise to some extent, but the fundamental systemic differences between the two superpowers are certain to remain a problem for the foreseeable future.”

The best-case scenario, says Mr Capri, “would be to settle upon a form of ‘competitive co-operation’, where Washington and Beijing recognise their systemic differences and differing agendas but work to avoid a traumatic severing of all trade linkages. This would involve the decoupling of sensitive ‘strategic’ supply chains for things like semiconductors and quantum computing or cutting-edge biotechnology, but continued trade in areas such as agricultural goods and some consumer products.”

“But that’s less likely than a continued, though gradual, intensification of the rivalry,” he says.

When asked about the types of geopolitical and macroeconomic risk causing them the greatest concern for their businesses, the respondents point most frequently to the impacts of growing protectionism in their key markets. These are noted as a top concern in all industries surveyed except for real estate. Protectionist investment policies—those that favour domestic over foreign investment—are of greatest concern among businesses in the digital economy,

banking/private capital and infrastructure companies. For respondents from the energy and natural resources industry, increases in tariffs and trade barriers take precedence over other geopolitical and macroeconomic concerns.

“For CEOs and other senior executives who’ve made their careers in a largely globalised economy, the shift in many countries toward protectionist policies has been extremely unsettling,” says Mr Capri, “and it’s no surprise they fear there is more to come.”

He is optimistic, however, that the types of industrial policies that the US, the EU and other Western governments are pursuing will eventually bring a surge of innovation in advanced technology fields as supply chains are restructured and reconfigured. “Those policies will eventually result in a form of ‘re-globalisation’, as cross-fertilisation in those ecosystems overshadows competition between them.”

But China will continue to go its own way, says Mr Capri, meaning that supply-chain bifurcation (one supply chain for China-based operations and one for the rest of the world) will remain a fact of life for the foreseeable future.



When asked about the types of geopolitical and macroeconomic risk causing them the greatest concern for their businesses, the respondents point most frequently to the impacts of growing protectionism in their key markets.

Figure 3: The spectre of protectionism

Respondents' top-ranked geopolitical and macroeconomic concerns for their business over the next decade

	Overall	Energy/natural resources	Banking/private capital	Real estate	Digital economy	Infrastructure
New regulations that favour domestic investment over foreign investment in our key markets	1		1	3	1	1
Prolonged economic recession in our key markets	2	2		3	2	
Emergence of new viruses or other public health threats	3		2			1
Energy security concerns				1	3	
Tariff increases or other new trade barriers						1
Exposure to climate change impacts		1				
National security (e.g. wars)			3			
Food security issues		2				
Domestic discontent (e.g. political uncertainty, social unrest)				2		

Note: The rankings are based on the percentage share of respondents who cite each concern. In some cases, identical shares of respondents cite multiple concerns. In such cases they are given equal rank in the above table.

Source: Economist Impact Survey 2023



The risk management imperative

Effective risk management is crucial to mitigating the risks highlighted above. The respondents' views align with this, citing measures to build their risk management capabilities (36%) as their top priority for addressing the developments that most concern them.

As risk managers build their capabilities, advanced technology will be an increasingly powerful weapon at their disposal. "What we have available to us now that we've never had before is the ability to see ahead through data, analytics and AI," says Sean Hinton, founder and chief executive officer of SkyHive. Big data and AI can forecast customer behaviours, market movements and commodity trends. For example, L'Oréal developed an AI-powered tool that can detect new beauty trends before they become mainstream and implement them into product development cycles ahead of its competitors.²

Such technologies will also be instrumental in helping companies to increase transparency and traceability across their supply chains, says Mr Capri. "This is becoming a vital part of risk management," he says. "All businesses will need to understand and document where their inputs truly originate from and where their finished products end up being consumed."

Indeed, among a variety of potential new policy or regulatory developments, executives point to supply-chain transparency requirements—addressing labour practices and corruption as well as decarbonisation—as among the most likely to impact their businesses over the next decade. Incorporating visibility through data collection and monitoring, and disclosure through more engagement are key to enforcing transparency in supply chains. For this, there is a need to develop standards that dictate clear rules for engagement and digital interoperability.

Another measure that many of the surveyed companies will take to manage their exposure to the aforementioned risks is to regionalise or onshore³ their supply of key inputs (cited by 26%). This aligns with the findings in Economist Impact's Trade in Transition 2023 report,⁴ which shows an increasing trend to reconfigure supply chains closer to home. While diversification is the primary strategy to improve resilience, regionalisation and onshoring are slowly growing according to the research. These trends are increasingly also being driven by pressures to decarbonise supply chains.⁵

Effective horizon scanning and risk identification are of little use, of course, if the organisation and its management are not flexible enough to respond to such risks quickly and appropriately. As we pointed out earlier, the vast majority of respondents deem management adaptiveness and flexibility in their organisations as insufficient to tap the opportunities that the megatrends offer. Organisations must find such adaptiveness and flexibility to meet the geopolitical and other environmental challenges that the megatrends pose.



Partner Perspectives

Changing Global Dynamics



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We are living in times of unprecedented disruption.

Climate change and the energy transition, supply chain crises, digitalisation and artificial intelligence, inflation, and the war in Ukraine—all are catalysts for political and economic change. The changes will inevitably expose businesses to increased disputes as States adopt regulatory measures that change operating conditions and business partners are unable, or unwilling, to perform as promised.

Very few companies actively take measures to manage these risks and to mitigate the impact of related disputes. For most, dispute settlement is a reactive exercise that only gets attention once a specific dispute has arisen. Often, however, it is too late to achieve the best possible outcome at this stage. To stay ahead, companies must anticipate future problems and prepare for them before they occur.

Two simple tasks help our clients build resilience:

1. Reviewing the corporate structure of existing operations to ensure that strong safeguards protect investments against political risks. In times of increasing nationalism and protectionism, companies cannot take for granted the application of public international law treaties that protect investments in worst case scenarios. Likewise, contractual safeguards

in specifically negotiated host State contracts play an increasingly important role to create a stable and reliable framework for business operations.

2. Reviewing dispute resolution mechanisms in contracts with business partners up and down the value chain. The effects of a disruptive event are rarely limited to the bilateral relationship between two business partners, but often have trickle-down impacts on relationships with multiple business partners up and down the value chain. To avoid getting stuck in the middle, it is important to ensure that the respective dispute resolution mechanisms are coherent and allow for the comprehensive resolution of all disputes based on the same premises.

As change not only creates risks but also opportunities, companies should likewise keep these tasks in mind when making new investments and entering into new business relationships to outpace change amidst disruption.



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Ever since business has existed it has always been the case that the concepts of changing global dynamics and operational resilience are closely intertwined.

It is easy to understand why when you consider that at a very simple level, at any time in history, any business of any size, must predict risk, anticipate disruption, and adapt its business model and operational strategy accordingly. This applies equally to a Roman argentarius, a present day market trader, or a global corporation.

While the idea of navigating complex and evolving risks is not new, the intersection of a new era of geopolitical volatility and the current economic climate accelerated by technological and social change is giving rise to new and unanticipated forms of risks for businesses to oversee and navigate. These are indeed unprecedented times, and most businesses are sailing in uncharted waters, with neither an old-fashioned compass and map nor a modern-day GPS system to guide them!

In the context of changing global dynamics examined by this report, now more than ever, operational resilience means building robust systems, processes and strategies to mitigate risks, and responding effectively to challenges

to ensure continuity of operations. Being operationally resilient means being able to withstand, adapt to, and recover from disruptions and unexpected events, while maintaining a commercially viable business with effective critical functions.

To remain resilient businesses need to factor in governance and risk management along with regulatory requirements, business continuity planning, crisis response and recovery, supply chain resilience, and technology and cybersecurity.

Our lawyers and Risk Advisory consultants have been at the heart of helping businesses to prevent, mitigate and manage these risks. Through combining our cross-disciplinary expertise, we can offer a unique perspective by bringing together the legal, practical and commercial viewpoints.

The ultimate key to operational resilience lies with a robust and holistic risk management framework that considers both internal and external risks. A robust framework is one which acknowledges that a zero-risk model is not a recipe for success. After all, achieving rewards means accepting risks. However, achieving sustainable rewards fundamentally requires an understanding that risks must be anticipated, be well advised, and be effectively managed. This is the real solution to unlocking the map and successfully sailing through these waters!

Net Zero Transition

Wars and disruption in energy supply notwithstanding, the pressure on businesses to decarbonise is here and only going to intensify. The respondents see distinct opportunities arising from such efforts. Among the most important—particularly for infrastructure and digital economy businesses—are improving their attractiveness to key stakeholders, including customers (36%) and prospective hires (33%). Many respondents (34% overall, and 40% in digital economy and real estate) also aim to use their net zero efforts as a stimulus to develop more energy-efficient ways of working.



Net Zero Transition

Making the transition—truly decarbonising—is however a multi-pronged challenge for companies. A major one for those in our survey is gaining access to climate technologies. As Christiana Figueres, co-host of the climate podcast *Outrage+Optimism* and former executive secretary of the UN Framework Convention on Climate Change, explains, the supply of technologies is just not matching up to demand. For example, electric vehicle (EV) charging infrastructure is insufficient to meet demand on a large scale. “While we have not yet reached commercial viability for many climate technologies such as smart building materials, smart grids and regenerative agriculture technology, that’s where all the startups are. We can see that we are moving into the future and setting a trend,” says Ms Figueres. Tim Buckley, director of Climate Energy Finance, a think-tank, agrees, “at the end of the day, deployment and scale of the technologies will be necessary to force a change”. An average worldwide spending of US\$6.5trn on equipment and infrastructure will be needed annually to reach net zero by 2050.⁶

Mr Buckley recognises that the private sector is taking steps to help achieve net-zero carbon emissions. “Public and private investment in renewables and ESG funding flows are growing across the board, and the momentum

for that will remain strong,” he says. Greater transparency on how ESG ratings are scored and better quality and reliable data within a well-defined green taxonomy will help build confidence and trust in the market to convert interest in sustainable investing to actual spend.

Net zero prioritisation by businesses and investors along with increased action from governments and regulators will continue to drive the investment momentum. A triad of bills in the US, including the Inflation Reduction Act, the federal sustainability executive order and the Historic Bipartisan Infrastructure Law are expected to stimulate investment of more than US\$1.25trn in climate resilience, conservation and clean infrastructure. The policy bundle is, according to Ms Figueres, a very good example of the public-private partnership needed to spur the level of investment required for decisive climate action.

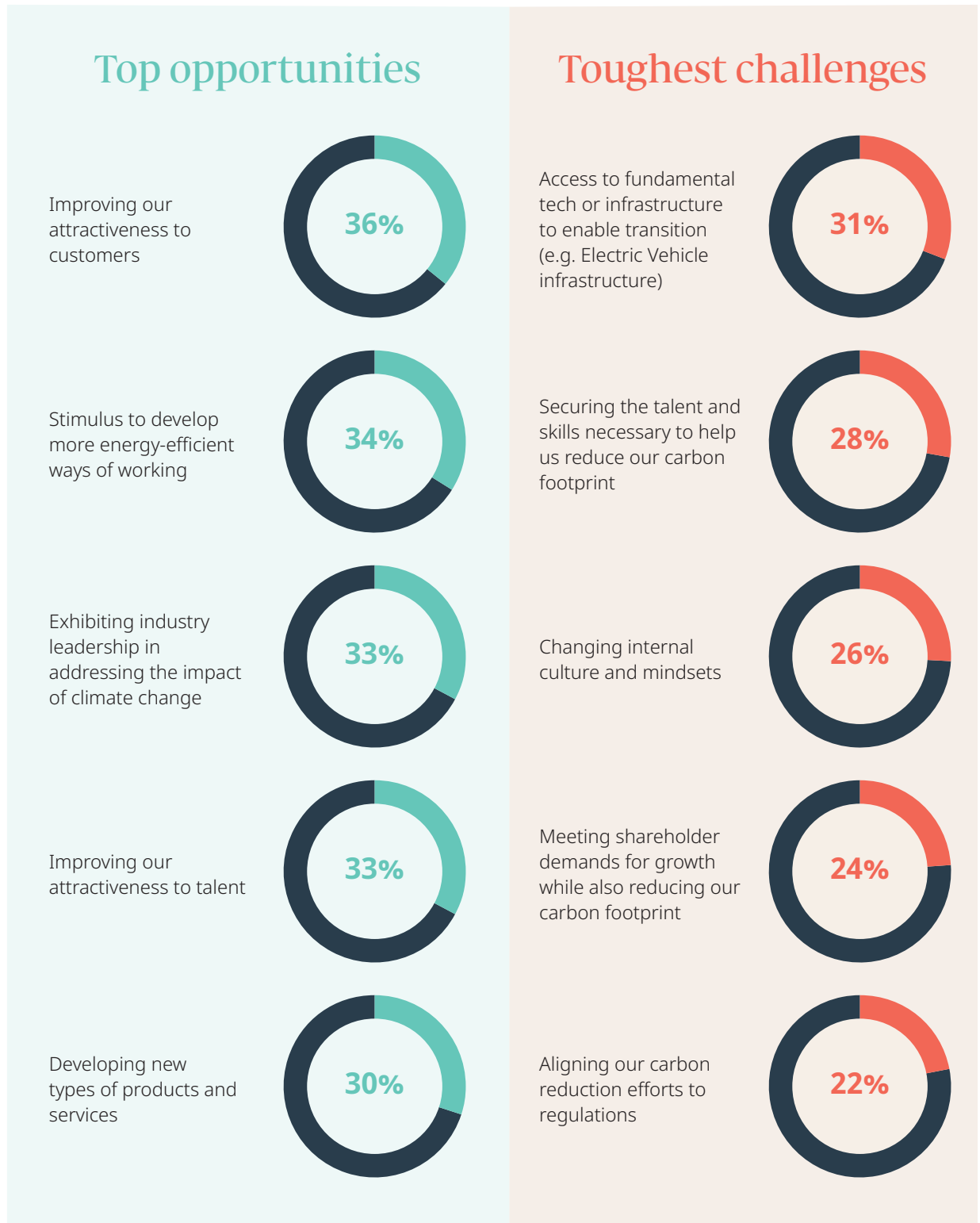
Mr Buckley expects such legislation to crowd in substantial funds. “Now it’s a global investment and technology race... this changes the whole narrative from one of the cost of actions to the opportunity cost of inactions, which will galvanise investment,” he says. Both experts believe that public-private partnerships are critical moving forward, with governments creating investment signals to mobilise private capital.

On top of access to technologies, 28% of survey respondents identified limited sustainability skills as an ongoing challenge.



Figure 4: How business leaders view the net zero transition

Share of respondents citing the most attractive and realistic opportunities, and the toughest challenges, for their business relating to the net zero transition (top responses)



Source: Economist Impact Survey 2023

Green skills are needed in a wide range of sectors, from healthcare to construction, but demand for this skillset outstrips supply.

On top of access to technologies, 28% of survey respondents identified limited sustainability skills as an ongoing challenge. Green skills are needed in a wide range of sectors, from healthcare to construction, but demand for this skillset outstrips supply. The median hiring rate for workers with at least one green skill is 29% higher than the workforce average, according to a recent LinkedIn study of hiring practices.⁷ Businesses will need to secure a workforce capable of understanding and engaging with climate technologies as investments in them continue to grow.

But the talent challenge is not just about securing green skills; it is also about good management. Meeting net zero goals will require far-reaching alignment of climate targets and decarbonisation efforts across all stakeholders, including suppliers and customers. This will be necessary as pressure for greater accountability and alignment with national carbon emissions-reduction targets grows.

“Governmental action will increasingly catalyse momentum behind the net zero transition,” says Ms Figueres. “It is in their own interest to accelerate the transition, and many are now legislating to make that happen. And we will soon see disclosure and other requirements that were once voluntary become mandatory.”





The promise of climate technologies

Brett King, a technology author and futurist, often opines about the technologies likely to attract the greatest investment in the decades to come as well as those likely to cause the greatest discomfort to societies and businesses (see the next section). Climate-mitigation technology sits firmly in the first category for him. This includes not just green energy technologies but also those that enhance the resilience of civil infrastructure to withstand the effects of climate change.

We can already see the financing grow. The global volume of equity transactions in energy transition technologies and other climate solutions has grown more than two fold between 2019 and 2022. Measures like the US Inflation Reduction Act and the EU Green Deal are expected to open up huge investments ranging from US\$9trn to US\$12trn annually by 2030.⁸

Partner Perspectives

Net Zero Transitions



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Clearly our decarbonisation journey touches every aspect of our global and local economies.

Increasingly, corporates are leading the transition to Net Zero—either by seizing the commercial opportunities to support decarbonisation or through mapping their own bespoke decarbonisation pathway. They are doing this notwithstanding the absence of legislated targets and support in many jurisdictions.

Following COP 21 in Paris (and at subsequent COP conferences), more State actors are committing to ambitious decarbonisation targets. They are also developing and implementing policy and other measures to create the conditions for a meaningful reduction in carbon emissions.

But there is more work to be done.

Current modelling suggests that without a substantive and immediate scaling of decarbonisation initiatives, we will fall short of the commitments made in the Paris Agreement.

There are a myriad of opportunities to help accelerate our journey to Net Zero.

The United States Government is leading the way with its Inflation Reduction Act and the many US\$ billions in incentives available for those seeking to decarbonise.

The re-industrialisation of economies to support supply chains to deliver critical infrastructure and equipment for our Net Zero ambitions is immense. No longer will those economies with low labour costs and more liberal regulatory and other governance settings continue to monopolise the manufacture of critical goods required for a zero carbon economy.

Social mobility and the transformation of communities required to create a non-fossil fuel legacy aligned with social licence expectations will create substantial disruption but also lasting opportunity for key stakeholders – only if appropriately and compassionately managed.

The global decarbonisation initiative has allowed Ashurst to bring the whole of our firm together in order to respond to our clients' pressing needs and opportunities (wherever they do business) – to answer the question how to thrive in a decarbonised world.



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The science is clear on the need to achieve Net Zero and the actions taken until 2030 are decisive in how that is achieved.

The opportunities are huge: estimates of the investment needed and number of projects required vary but the investment numbers are in the trillions. Those trillions are available to the first movers, companies that have gone all in on Net Zero and recognise the need for rapid and radical decarbonisation of our business ecosystems in a just and transparent manner.

What does that mean to day-to-day business? It means change. Change driven by assessment, tracking, commitment, reporting and delivery of Net Zero aligned solutions. Some of the solutions for energy transition are available currently: improving building efficiency, electrifying transport, expanding transport infrastructure, decarbonising and expanding the electricity system, shifting to renewables and implementing nature-based decarbonisation solutions. Some are in development: large scale carbon capture and storage projects, as well as hydrogen and other energy solutions.

And Net Zero transition is being assessed, through data and reporting, against the wider framework of a just transition. The long-term resilience and viability of business can only be achieved through decision-making processes that include multiple stakeholders: employees, communities, different generations and in particular groups who may be marginalised or disproportionately impacted by the transition. Governments and stakeholders, be they shareholders, employees or consumers, are holding companies to account.

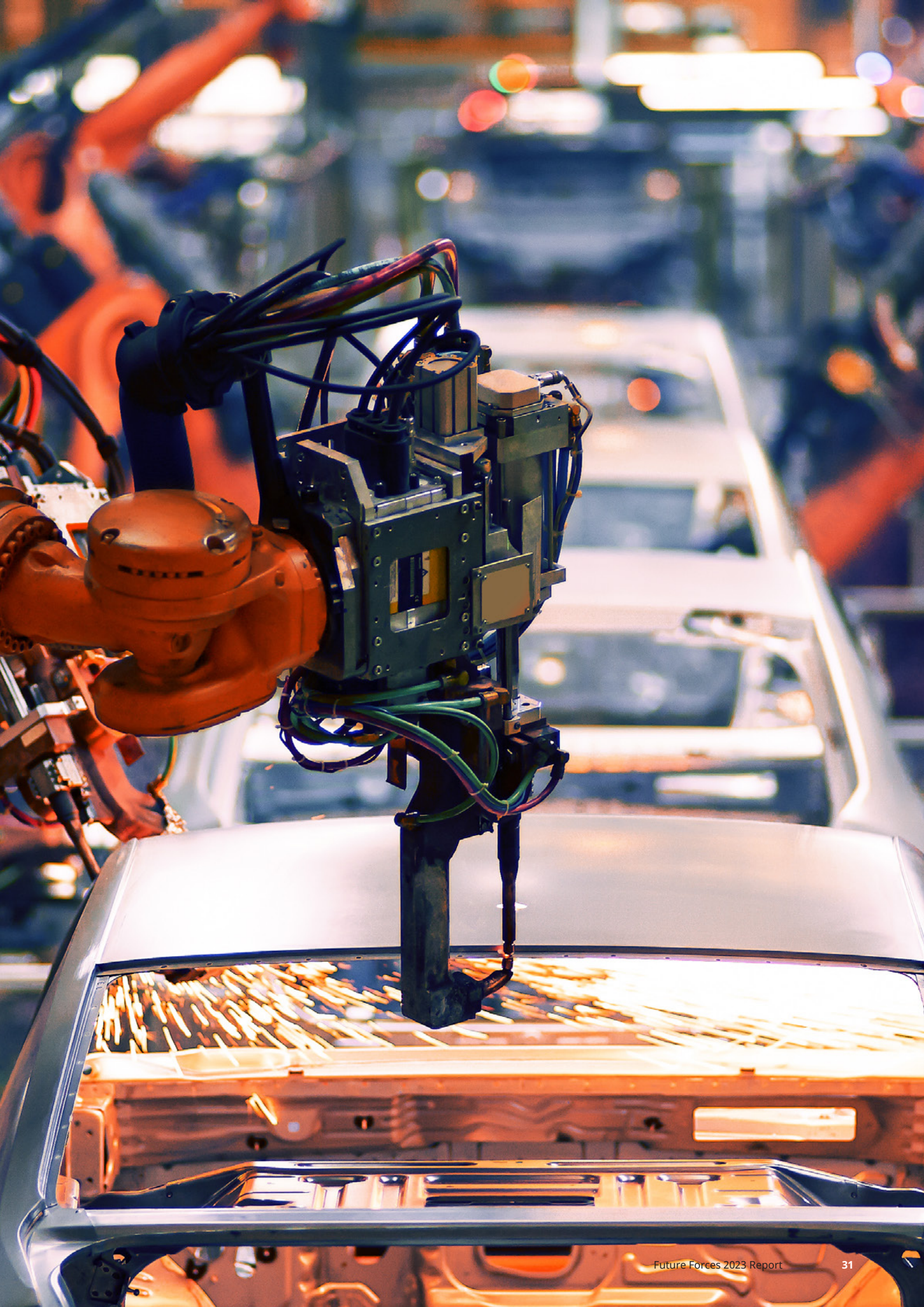
Business has an opportunity to get out in front and shape this transformation but that window is closing as the increasing urgency of climate change is driving regulation. While the USA IRA Bill is formulated as a carrot, other agencies are creating mandatory regimes. According to MSCI, in 2010 there were 51 ESG related regulations promulgated by governments, industry bodies, and statutory bodies, including financial regulators. In 2021, that number was 256, a 5 fold increase.

These deliverables are driving business agendas and boardroom decisions. At Ashurst, we work with our clients every day in delivering on their pathway to Net Zero.

Digitalisation

Asked what technology fields are likely to have the biggest positive impact on their business in the next decade, the respondents point most often to automation and the IoT. Many also see opportunities developing from the growth of the metaverse—a shared, immersive three-dimensional virtual realm where people interact with one another and the environment through digital representations of themselves. Tied at third in the frequency of response are cybersecurity and AI.





Digitalisation

The case for investing in automation technologies has never been stronger. Workforce ageing and persistent skills shortages make the automation of more and more processes imperative to maintain and increase productivity. And while business leaders doubtless prize the efficiency gains and cost savings that automation can bring, many also view it as a means of enabling employees to free themselves from repetitive tasks to engage in more satisfying and value-adding activities.

The respondents' hopes for the metaverse may seem overly optimistic, given the recent rollback in investment by big tech. Futurist Brett King, however, believes it—or at least its key technologies, AR and VR—will eventually prove impactful. “The metaverse is probably a decade-long process in terms of adoption,” he says, “but we are definitely going to see a lot more interest in it, from an entertainment and work perspective. It’s going to become a common part of our lives.”

Given the amount of (positive and negative) attention that AI has received in recent years, its placement below others on a list of impactful technologies seems counterintuitive. In fact, AI is “foundational” in that sophisticated data analytics capabilities underpin advances in automation, the IoT and the metaverse, among other emerging technologies. AI is the building block upon which these technology fields will exert their direct impact on the business.

AI will similarly drive advances in cybersecurity, both in terms of defence as well as attack capabilities. In light of the seemingly ever-growing frequency and sophistication of cyber-attacks, and financial and reputational damages suffered by organisations⁹, executives' focus on cybersecurity investment is not difficult to explain. Cyber threats are further magnified by geopolitical instabilities. For example, Ukraine saw a threefold increase in cyberattacks over the past year due to the Russian invasion.¹⁰

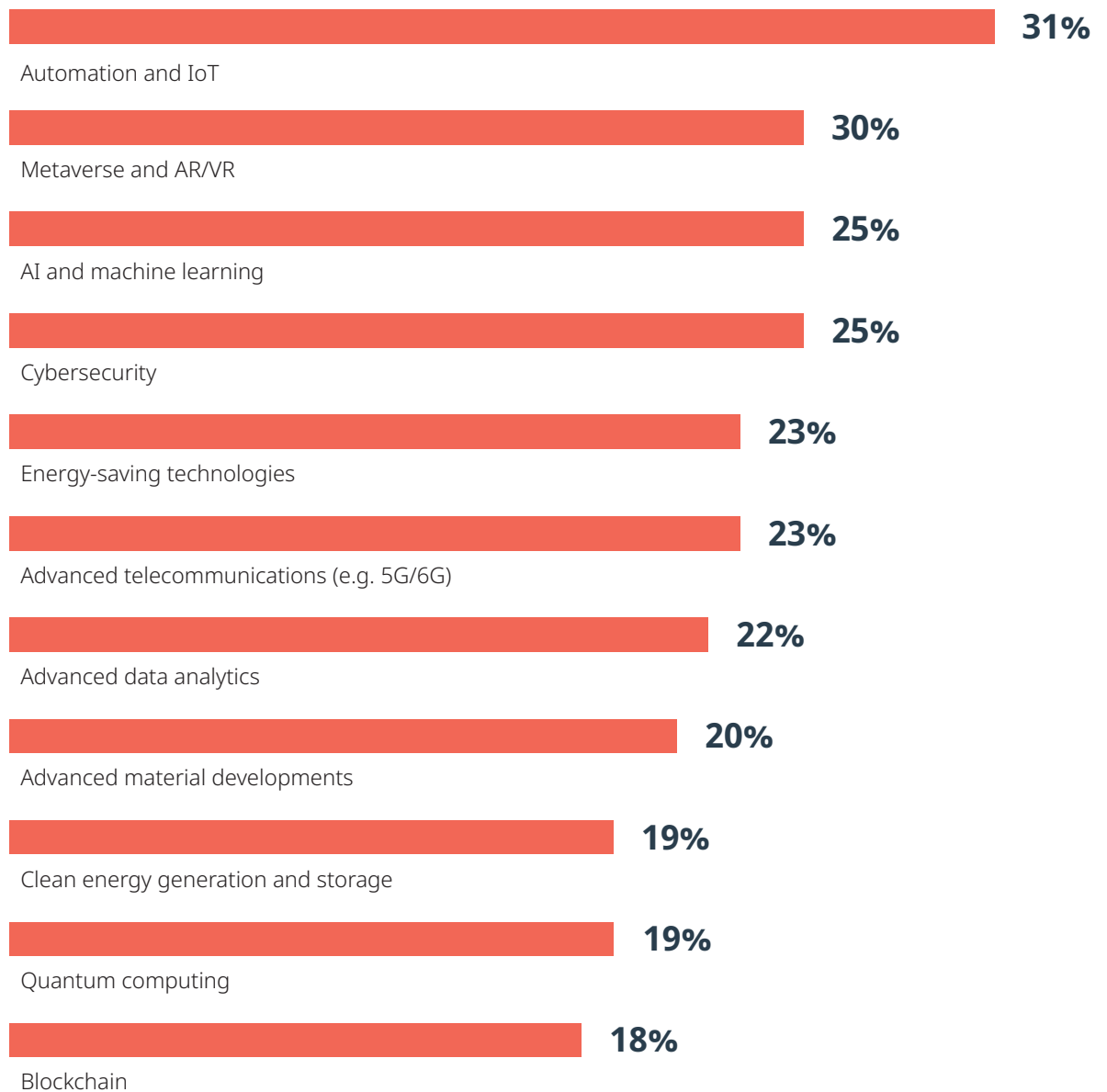
It is also worth noting the intentions of many executives to invest in energy-saving technologies. Here, too, there is overlap with other technologies, as companies use the IoT, for example, to monitor energy use and AI models to identify the means of reducing it. The drive to decarbonise operations as part of the net zero transition will continue to serve as a major impetus for deploying such technologies.

However, the extent of AI's potential impact highlights the need for comprehensive and consistent regulation, as well as strict testing, especially to enable the realisation of its true benefits.¹¹



Figure 5: Technology investing with impact

Share of respondents saying investment in these technologies or technology capabilities is likely to make the biggest positive difference to their business



Source: Economist Impact Survey 2023



The AI dilemma

Few technology fields evoke as much public discourse as artificial intelligence. For instance, recent advances in “generative AI” as showcased in the ChatGPT application that produces human-like machine-generated content, have prompted calls from a range of technology experts to pause AI’s development.¹²

Much of the apprehension revolves around AI’s potential for labour displacement. As many as 300m full-time jobs could be replaced by AI, according to a recent study by Goldman Sachs.¹³ The same study found that AI could lead to a 7% boost in the total annual value of goods and services produced globally.

Like most other technological advancements, new jobs will also be created as a result of AI, but the overall long-term impact is uncertain. According to Brett King, the next two or three decades will be an intermediate period where AI augments the human workforce. “During this period, people will need to be reskilled to work with AI and act as ‘translators’ between the technology and humans,” he says. “Areas of legal, medical and other forms of expertise will emerge that dispense advice on how to interact with AI.”

Experts will also be needed to help employees adapt to AI in the workplace, and humans will continue to play a necessary role in monitoring algorithms to minimise and, if necessary, correct the incidence of bias in AI models’ decision-making.

Sooner or later, however, businesses will have to plan for the workforce transition that AI will likely bring.¹²



How to act on digitalisation opportunities?

Digitalisation, however, is about more than investing in and deploying technology. Many organisations fail to capitalise on those investments and bring about any type of transformation. The survey responses give a clear indication of the reasons for this. When asked what are likely to be the toughest challenges that further digitalisation will pose, four of the top five responses involve a failure to make the internal changes needed to deliver business results. Redesigning processes, replacing legacy systems, securing or developing the right skills, and aligning technology investments to business strategy: the respondents expect their organisations to continue struggling with these over the next decade.

Cited more often than all of the above is identifying emerging technologies or trends that could prove disruptive. That challenge, as with all of the megatrends we address in this study, holds both risk and opportunity. Companies cannot afford to be caught unprepared by the emergence of new technology-enabled business models. But identifying the potential for such developments early can give companies a first-mover advantage in their markets.

Figure 6: Making digital count

The toughest challenges that technology transformation and further digitalisation will pose to respondents' businesses over the next decade (top responses)

29%

Identifying future technologies or technology trends that could prove disruptive to our business

28%

Redesigning existing work processes to derive value from new technologies

26%

Replacing legacy IT systems

25%

Hiring specialists and/or reskilling existing employees able to work with new technologies

23%

Aligning adoption of new technologies with long-term business goals

Source: Economist Impact Survey 2023



Partner Perspectives

Digitalisation



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Digitalisation will transform every business in the coming years, whether it is by automating internal processes using machine learning and AI, functioning using virtual assets and cryptocurrency or using the metaverse to connect with customers and deliver services.

These changes will create unimaginable new opportunities but also new risks. Businesses risk falling behind if they do not innovate and move into the next phase of the digital world, much like businesses had to move online with the growth of the internet.

As new products and services are developed and new delivery channels are exploited, businesses will need to ensure they regularly consider what new operating risks are being created. Will these changes make the business more susceptible to fraud, cybercrime and other economic crime? There are many examples of businesses that have focused completely on exploiting a new opportunity without taking time to consider what could go wrong, and how to build the right control frameworks.

Our report shows that a large majority of respondents believe that the technology capabilities and employee skills in their businesses fall well short of what is needed to take advantage of future opportunities. Businesses also need risk professionals who understand the digitalisation trends and new risks and can advise on processes and controls to protect the business. This risk awareness is not meant to slow down business and innovation, but to ensure businesses can thrive as they evolve in this new digital world.

Ashurst recognises the challenges that this megatrend presents and the needs of our clients to be able to take advantage of opportunities while building sustainable, resilient businesses. Responding with the creation of a Risk Advisory practice alongside the law firm, Ashurst has brought together legal, risk, technology and operational skill sets to work with our clients and advise them holistically.



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International banks are finding themselves at the most critical crossroads in their history.

Over the past 15 years, as a result of the nimbleness associated with start-ups and privately owned small institutions, banks are facing challenges in every single traditional business line. Areas like M&A, advisory and domestic payment transactions are suffering serious casualties. Moreover, large banks are now vacating segments in corporate lending especially in SME. Challengers comprise smaller niche banks, corporate finance boutiques, asset managers engaging in direct lending and FinTech lending platforms connecting capital with underwriting expertise.

The story is similar in market making activities in secondary markets for securities, cross border payments and merchant acquiring services. The field of peer to peer payments has become incredibly competitive and innovative to the detriment of banks' volume and margin in this segment.

A simple strategy could be to embark on an acquisition trail to maintain market share and remain ahead of competition. For reasons of differing risk appetites,

antitrust and risk of integration failures this is certainly not a panacea. Nevertheless, we expect banks to accelerate the pace of acquisitions of complementary businesses and technologies over the next 10 years.

A more prudent strategy is to invest in these building blocks:

1. Sharply increase the deployment of Emerging Technologies particularly in banking services and internal efficiencies – including Artificial Intelligence, Distributed Ledger Technology and Synthetic Data;
2. Redefine the business model relative to where banks can realistically expect to have the resources, capability and appetite to compete;
3. Implement organisational structures to facilitate agility and embracing of technology.

Banks will have to radically reinvent themselves—and this is not all about offshoring and cost reductions, which are deeply defensive. Banks need to review product ranges and types, as well as the operational platforms through which those services are delivered. We predict that those banks unable to step up to these challenges will be acquired or, worst fail at great costs to shareholders, customers and ultimately States themselves.

Demographic Change

According to the World Health Organization, almost every country in the world is affected by an ageing population. It forecasts that the number of people aged 60 years and over worldwide will increase from 1bn in 2020 to 1.4bn in 2030, rising to 2.1bn in 2050¹⁴. Businesses will need to meet the demands of older consumers and employees alike. At the same time, younger generations—Gen Z (born between the mid-1990s to around 2010) and even Alpha (born from around 2010 onwards)—will pose unique challenges of their own.







Demographic Change

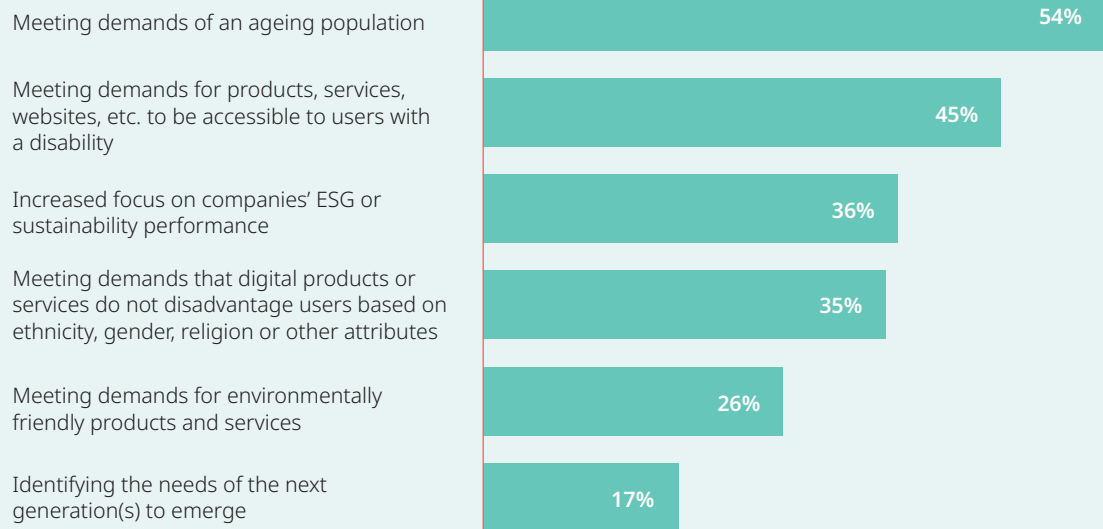
According to respondents, meeting the demands of ageing consumers (cited by 54%) will pose a major challenge for their businesses.

Far fewer executives believe that identifying the needs of younger consumers (17%) and meeting their demand for digitised services (11%) will prove difficult. Eliza Filby, a fellow of King's College London who terms herself a "generations historian", thinks executives may be underestimating the challenge. "As consumers", she says, "Gen Z has had access to the world of information and marketplaces from a very young age. Nothing surprises them. Nothing impresses them. They're hard to market to because they deconstruct marketing. They're avid de-influencers."¹⁵

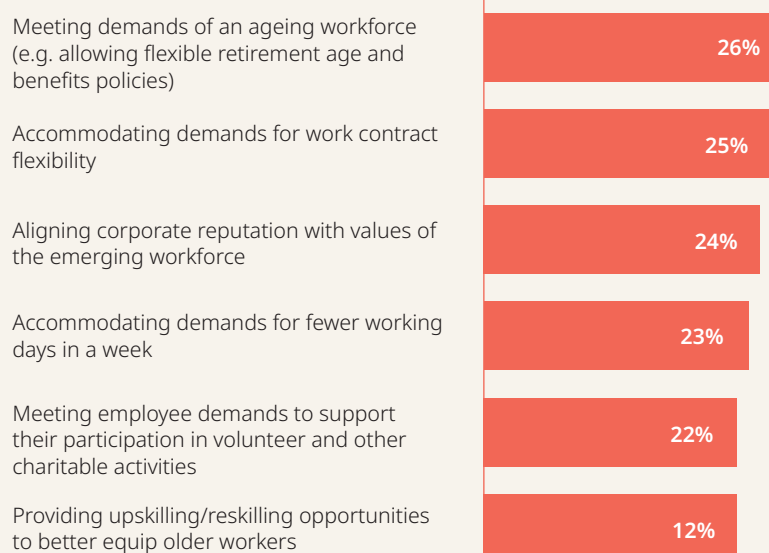
Figure 7: The generations challenge

The toughest challenges posed to respondents' businesses over the next decade by changing population demographics (top responses)

Consumers



Workforce



Source: Economist Impact Survey 2023



Don't try to fool Gen Z

Be transparent," is Eliza Filby's advice for businesses marketing and selling to the emerging generation of consumers.

"Gen Z do not want to be sold anything," according to Ms Filby. Instead, they want to be educated about the products and services they're considering, she says. "This is a generation who wants to see the process of the thing that's being sold to them—how it's made and how it can be deconstructed. Essentially they demand transparency. 'Where are you sourcing your inputs from? How are you making your products? And how can I have a say in all that?'"

Above all, says Ms Filby, "companies must not misinform young consumers." Most Gen Z consumers fact-check advertisements and shun brands that have suspicious ethics.¹⁶ They're an increasingly value-driven generation that demands truth.

“In ageing societies, talent shortages will remain the norm,” according to Ms Filby. “To attract and keep scarce talent, businesses will need to think outside the box,” she says.

In the workplace

Population ageing will also pose vexing workforce challenges for companies. Chief among those, say respondents, will be meeting growing employee demands for work regime flexibility—for flexible retirement and benefits policies, for example.

Some UK employers are addressing such challenges today as they seek to hire and retain workers aged over 50 to plug workforce gaps in certain roles. Flexible work hours and leave policies are often part of the discussion with older hires, as are tailored work regimes that accommodate health and physical conditions.¹⁷

“In ageing societies, talent shortages will remain the norm,” according to Ms Filby. “To attract and keep scarce talent, businesses will need to think outside the box,” she says. “That ought to include employer assistance to support family caring responsibilities—not just of mothers or fathers, but of adult children who care for their parents.” Paid and unpaid carer leave policies exist in some countries like Australia and the UK but are still a topic of debate in many others.

Businesses should also help employees finance continuous learning, believes Ms Filby. “There is now a constant need for upskilling—not just at 21 but at 60. Gen Z and later generations will expect that burden to increasingly be borne by business,” she says. According to Economist Impact’s 2023 employee survey on skills, 51% of workers consider employers to be responsible for providing financial incentives for skilling.¹⁸

Finally, executives realise that scarce talent increasingly wants to work for organisations that have values they can identify with. A key workforce challenge, the respondents say, will be aligning corporate reputation with the social and environmental values of the emerging workforce.

All in all, business leaders must reckon with an increase in the bargaining power of labour. Sean Hinton expects to see the traditional relationship between labour supply and demand invert this decade. “Employers have traditionally represented demand and the labour pool—supply. That will shift. Prospective hires will come to represent demand, increasingly able to choose who to work for, and under what conditions, from among competing suppliers of jobs.”



Partner Perspectives

Demographic Change



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Changes in social and workforce demography have led to a disparity between the size of the generational workforce groups.

Starting last century, these changes have arisen from a range of factors, including improvements in living standards and healthcare, increased working life spans, increased levels of immigration, a need for skilled workers and a reduction in fertility rates.

Businesses must approach these changes, just as they would respond to economic, technological or geopolitical impacts.

Businesses must gain an understanding of their organisational needs and customers' ambitions and challenges, starting with predicting the shape of their business in the future, taking into account the impacts and trends identified in this report. This review will enable an appreciation of the skill sets required of their workforce in the future, where the gaps are and the recruitment and training strategies necessary to meet those requirements and meet customers' future business needs.

But it won't be easy. The old adage many companies adopt, "people are our greatest asset", will be sorely tested as they realise a "one size fits all approach" to human resources policy won't work. What might suit one group of employees, won't necessarily suit another, and older workers will have as many expectations and demands as younger generations, with many having the benefit and protection of workplace laws.

The best businesses will be thinking well ahead to where they can get a competitive advantage with their workplace design and recruitment strategies, taking into account not only the needs of their business but the expectations and strengths of their workforce. This will require insight, clarity of vision, flexibility and, most critically of all, great communication and leadership.



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Businesses face many challenges when it comes to demographic change.

When it comes to a more elderly workforce, they need to figure out how best to harness the experience, knowledge and client relationships that senior employees bring to the job, something that was lost when many retired early or reduced their hours during COVID-19.

All generations, particularly the younger generation now value more flexibility in the way they work, a trend accelerated by technological change and the global pandemic. They don't expect to be in the office all the time. For businesses that presents challenges to traditional on the job training and with developing soft skills, such as around client interaction. Those skills are more difficult to learn remotely. This brings a sharp focus on ensuring that systems and processes, particularly IT, are designed and implemented in a way that supports this need for flexibility.

And then there is supervision. Increasingly, employers are held responsible for the actions of their staff, so having the right tools to ensure employers can properly exercise supervision when it comes to remote working is critical.

This is particularly true for financial services firms, that need to demonstrate to regulators that they are able to exercise effective oversight of staff both at the office and at home. Financial firms need to be able to demonstrate to regulators that their compliance training, rules around use of personal devices and reporting processes, all adequately take account of working from home. This has led to businesses increasingly seeking advice about the legal implications of implementing and executing greater electronic supervision of work-related devices.

Skills for the Future

An ageing workforce and the prospect of long-term talent shortages will inevitably complicate companies' efforts to secure the skills needed to support their growth ambitions. Judging from the survey, it is banking and private capital businesses that will struggle the most: 42% of these respondents say that securing the needed skills is among the toughest challenges their businesses will face in the next decade (compared with 31% of the overall sample). In comparison, securing and developing skills for the future is a much smaller concern for businesses in the real estate industry (23%).





Skills for the Future

All industries will have critical skill needs that will be challenging to meet, says Sean Hinton, highlighting the example of cybersecurity. The global skills gap in this field is currently around 3.4m workers, he notes, citing a recent study,¹⁹ and it is widening at a rapid pace. Astonishingly, this shortage means that only 58% of our cybersecurity workforce needs are currently met. "Shortages will be felt in more than technology-specific fields," he adds, saying that supply-demand imbalances will also be strong in more traditional occupations. For example, AI systems may replace truck drivers in the distant future, but driver shortages are likely to remain problematic in the US and Europe in the meantime, as younger generations are not pursuing traditional jobs, he says.

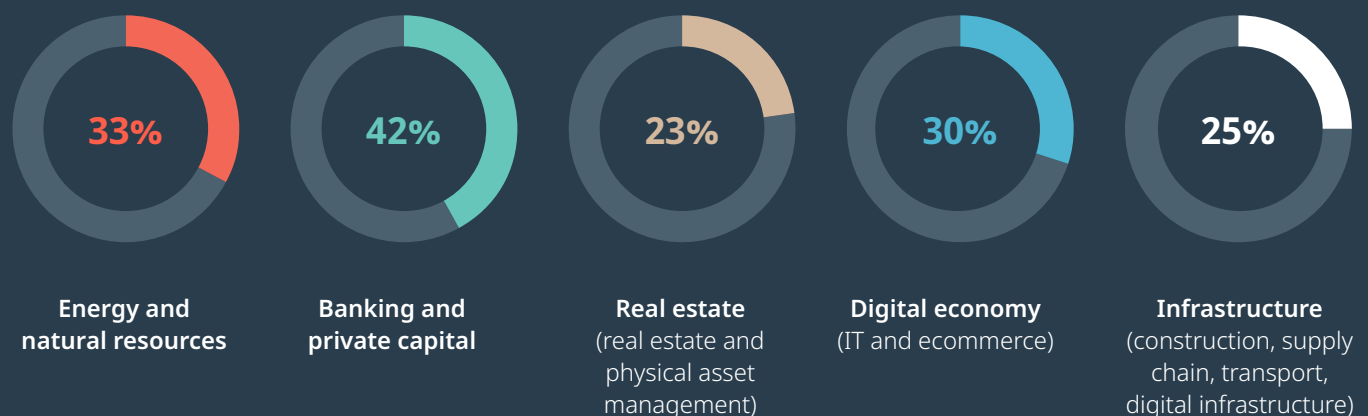
Nevertheless, AI and machine learning expertise will remain in high demand for the foreseeable future, as revealed by the survey responses. It is ranked second

on the respondents' list of needed skills for the future, slightly behind problem solving and analytical skills and ahead of leadership skills. As stated earlier in our discussion of digitalisation, AI is a foundational technology, and knowledge of this field will be integral to building capabilities in related ones, such as automation and cybersecurity.

It is also worth noting that respondents in three industries, the digital economy, energy and natural resources, and infrastructure, list emotional intelligence among their top three skill needs for the future. This underscores another point made earlier: that, for the foreseeable future, the human touch will continue to be vital, even in an AI-powered future, including to ensure that AI functions as organisations intend.

Figure 8: The uneven skills threat

Share of respondents citing the securing and developing of skills for the future to be among the toughest challenge for their business over the next decade



Source: Economist Impact Survey 2023

AI and machine learning expertise is ranked second on the respondents' list of needed skills for the future, slightly behind problem solving and analytical skills and ahead of leadership skills.



Figure 9: Where expertise will be needed most

Respondents' top-ranked skill needs that their businesses must acquire or develop to meet their growth aims

	Overall	Energy/ natural resources	Banking/private capital	Real estate	Digital economy	Infrastructure
Problem solving and analytical skills	1			1		2
AI and machine learning	2	1				
Leadership/managerial skills	3		1	1		
Entrepreneurial skills			3			
Business development and marketing		2				
Sustainability				2		
Managing and mitigating risk						1
Emotional intelligence					3	3
Cloud computing and IoT					2	
Creativity and design						
Cybersecurity					1	
Data science			1			
Skills in industrial occupations		1				3

Note: The rankings are based on the percentage share of respondents who cite each concern. In some cases, identical shares of respondents cite multiple concerns. In such cases they are given equal rank in the above table.

Source: Economist Impact Survey 2023



Surprisingly, sustainability-related skills do not feature as prominently as others on the list. This could be because cross-cutting skills—such as problem solving and analytical skills, AI and leadership, which are reflected among the top three—are also key in driving the green transition. For example, analysing energy data can provide insights to build efficiencies into a network and implement cleaner technologies.

Organisations in all industries will strive to secure expertise in sustainability, says Mr Hinton. Mirroring the experts' comments made earlier in this report, he says millions of new jobs will be required in the green economy over the next decade. "A major driver of this is government regulation mandating progress toward net zero. Companies need to start reskilling their workforce to achieve this."

Given the array of skills that businesses will need and the talent shortages they are likely to continue to face, the question emerges of whether their talent and people strategies are fit for purpose. The surveyed executives appear to have doubts, placing the need to modernise their talent management strategy and practices first among the challenges they will face in the mission to secure skills for the future.

Employers as educators

"Education is broken," says Sean Hinton, the founder and chief executive officer of SkyHive. "It needs to figure out fast how it's going to adjust to the new world that we live in."

"There is no substitute for the holistic education that a university can provide," says Mr Hinton, "but formal education is not moving fast enough to keep up with the demand for skills that businesses have." Economist Impact's 2023 employee survey on skills finds that many businesses are shifting the focus of hiring from degrees to skills to meet their changing demands.²⁰

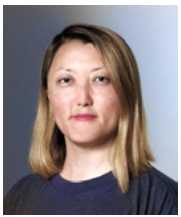
To develop these skill sets, Mr Hinton sees businesses starting to build their own private training programmes, forging relationships with curriculum developers and trainers that conduct specialised corporate training for employees. Companies that don't have the budget for that level of training are relying on online courses, he says.

"The proliferation of educational technologies coupled with the growth of social media is bringing people closer together in formal and informal educational settings than ever before," says Hinton. Businesses should be able to use these to help employees obtain the skills that formal education may not be providing.



Partner Perspectives

Skills for the Future



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We have reached a critical inflection point in the history of humanity. The existential crisis is real.

Never before has the threat of machines replacing humans been or felt more real. They are encroaching on the unique traits we have long touted as what makes us human. Machines can now learn. Machines can predict. Machines can create.

How do we possibly prepare ourselves for a future in which a new technology can completely up-end industries and livelihoods in days or weeks?

I find solace in the paradox of automation, as set out in *Ghost Work*, by Mary L. Gray and Siddharth Suri. "As technology automates some work, it creates new types of work that depend on human expertise."

A great re-skilling and up-skilling will need to occur across industries as we grapple with and adjust to both invention and crises. Call centre workers may become machine learning trainers. Researchers may become prompt engineers. Managers may become solution designers.

However, the workforce-at-large has still yet to rise to the promise of early digitalisation. I would posit that many of us don't feel truly digital and data enabled at work.

How do we uplift the competency of the world's population?

My answer: by focusing on the human experience.

The skills we need for the future should enable us to solve problems while also delivering exceptional experiences that support community, collaboration and discovery. Tomorrow's winners will be the leaders and businesses who are able to crystal ball gaze—who have built into their cultural fabric the necessary skills to not only identify what comes after next but how to prepare themselves, and their employees, for it. It is a long-game that will require investment, patience and, most importantly, empathy.

Delight the human and the rest will fall into place.



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Three themes will be important when it comes to reskilling. The first is adaptability.

Technology and the rapid pace of change in both business models and the lived environment means organisations need to train their workforces to have a core set of skills which are adaptable to the new dynamics in their market. Static skills aren't going to survive in a world where artificial intelligence can take knowledge and distribute it efficiently. What will be important instead is being able to understand concepts and place them into context, whether of the organisation, the market or the customer. The challenge is the need for training: adaptability isn't taught at university or school, and until it is, it will be up to businesses to close that gap.

The second theme is resilience. The intensity and velocity of change will grow. AI for example has shown that businesses are able to recruit a million users in a matter of days, whereas previous technologies took weeks, months, or years. Organisations that don't prepare for this will suffer a competitive disadvantage. They need to ensure their workforce understands what it all means for their day-

to-day roles, and help them identify the additional skills, knowledge, and capabilities they need.

The third theme is that technical management will become less relevant. Management models will have to evolve to become more about leadership, motivational guidance and development. The traditional management role of quality control and ensuring things are to the right standard doesn't work in a world of rapid change. Leaders need instead to guide and inspire their teams to be able to self-direct. Even if you have all the right training and skills around adaptability and resilience, if you don't have a leadership model that empowers self-direction, your workforce will struggle.

Resilient Cities

As stated earlier in this report, executives' enthusiasm about the business opportunities offered by large, fast-changing cities is palpable (see Figure 2 above). In four out of the five industries covered by the survey, over 40% of executives say such cities offer some of the most attractive opportunities their businesses expect to see in the next ten years.





Resilient Cities

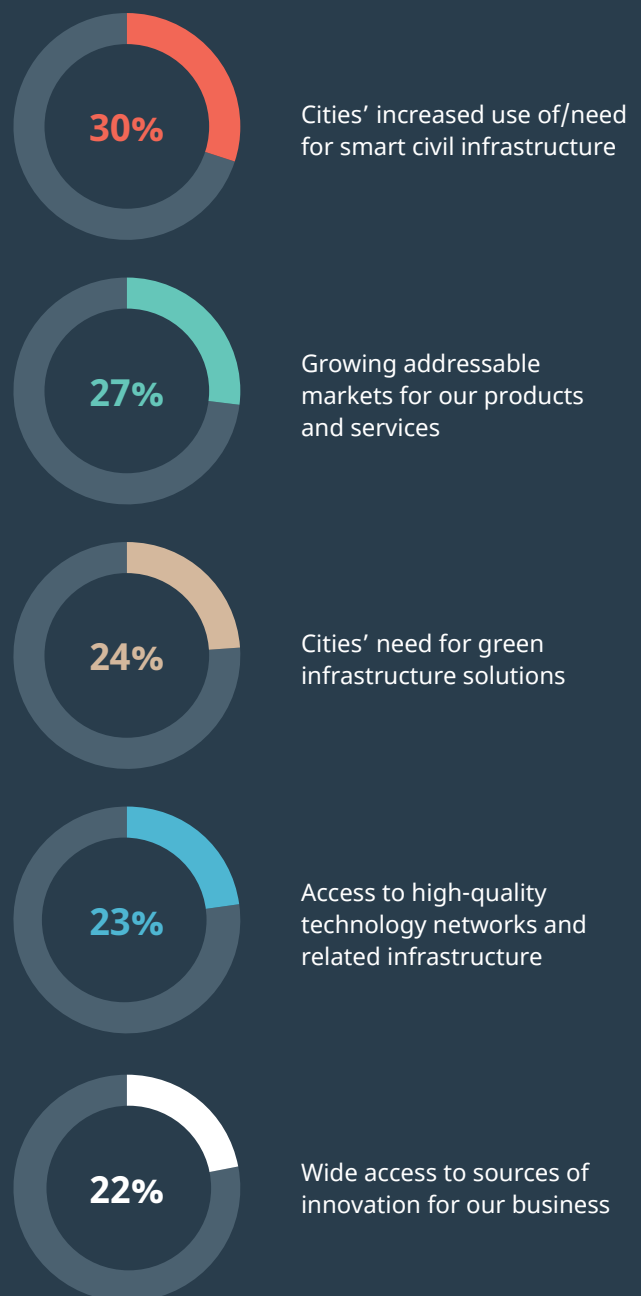
The reasons for this enthusiasm are not hard to discern. A major one involves infrastructure: growth dynamics may be different in developed and developing world cities, but all have a need for smart and green infrastructure solutions. Intelligent, connected energy-efficient buildings, roads, public transport, utility networks and other components of the built environment are likely to be prime targets for urban investment for years to come.²¹ The need for smart and green infrastructure figures in two of the top three opportunity categories that the respondents point to in cities.

The other top opportunity is the prospect of continuing growth in demand from city residents and businesses for the goods and services that companies provide. "Cities will remain magnets for talent and businesses," says Patricia Canelas, lecturer in sustainable urban development at the University of Oxford. "They will continue to be where young people want to go, and where older people want to be reasonably close to."

Growth opportunities will not be limited to mega-cities, says Ms Canelas. In Europe and America, for example, she foresees growing competition between first-tier cities (such as New York and London) and second-tier ones (such as Lisbon). "We're seeing some of the latter finding growing success in attracting global talent and investment."

Figure 10: Smart, large and green city markets

The most attractive opportunities that fast-changing cities offer to respondents' businesses over the next decade (top responses)



Urban burdens

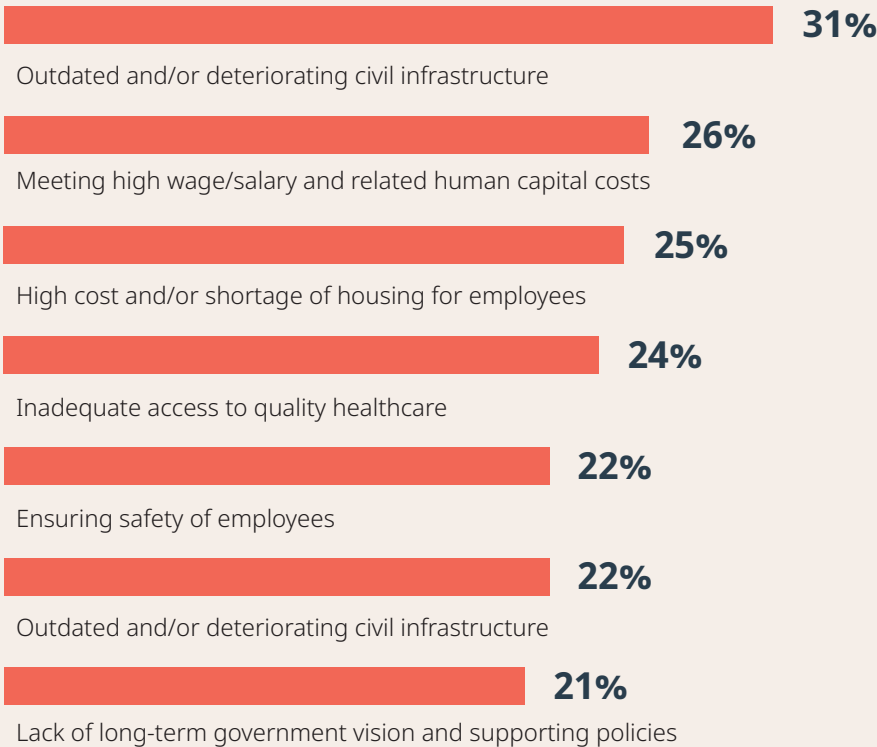
Yet the urban growth that creates opportunities for businesses also creates burdens and strains for them and their employees. The most frequently cited such strain by the survey respondents is outdated or decaying civil infrastructure, which can disrupt business operations.

High costs are another major challenge of operating in such cities. Organisations feel the cost pressure in several areas, the most prominent of which in the survey are salaries and wages. Cited only slightly less frequently by respondents is the high cost—and consequent shortage—of decent housing for employees. In the United States, some businesses are moving away from California to other states like Texas due to rising business costs, including the costs of owning a home.²² “Few cities in the developed world have found ways to solve this massive housing crisis,” says Ms Canelas.

However, rising costs will not necessarily bring an exodus of businesses from cities, Ms Canelas believes. “Many will find that the opportunities of tapping talent pools and sources of innovation that cities offer will continue to outweigh the costs of operating in them.”

Figure II: Big city blues

The toughest challenges that fast-changing cities will pose to respondents’ businesses over the next decade



Source: Economist Impact Survey 2023

Partner Perspectives

Resilient Cities



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When I think of a resilient city, I think of London: a world-leading city that has been challenged for centuries by extreme population growth, economic imbalance, health constraints and climate change.

It has proved its resilience to date by evolving effectively and embracing change at a rate exponentially faster than the rest of the country and at times, the rest of the world. Ironically, the outcome is part of London's charm. It is a city rich in diversity, not only in terms of its inhabitants, but its buildings, parks and culture.

Ashurst has been at the heart of London's metamorphosis for decades and so we're uniquely placed to guide our clients into the future. We advise our private sector clients on new housing tenures, innovative energy provisions, and how to build at scale and speed. We work with our public sector clients to create and shape law and policy on affordable housing, safe communities, healthy streets, equality and sustainable infrastructure. We create strategies which anticipate the challenges ahead and devise ready-made solutions.

The impact of globalisation and technological advancement means that the pace of change has increased dramatically in recent times. While this is one of the biggest challenges for our clients, it also presents great opportunity. Creating smarter, healthier homes and work places which are flexible enough to adapt to new patterns of working and living gives our clients a competitive edge as well as delivering ESG benefits. Outpacing change by learning from other industries, countries and businesses and welcoming new ideas and practises enables us to help London flourish even when the going gets tough.



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As a model of a resilient city in the Middle East, you need look no further than Dubai.

Growing out of the desert sands from its humble roots as a fishing village, it has become a thriving hub. Although the discovery of oil in the 1960s was a catalyst for change, it is the ability of Dubai to constantly adapt and reinvent itself that has been the secret of its continued success. Dubai has driven itself forward under the clear vision of its rulers to become the multi-cultural metropolis that stands today.

A focus on developing core transport infrastructure, as well as on building world class schools and hospitals, has maintained Dubai's attractiveness for expat professionals. But Dubai is not just about the Burj Khalifa (tallest building in the world) or the Burj Al Arab (only 7* hotel in the world): the 2040 Urban Master Plan, initiated by the Ruler of Dubai, seeks to transform Dubai into an interconnected, people-led city that balances international trade, tourism and the environment. This led to the United Nations ranking Dubai first globally for resilience in 2021. Dubai also hosted Expo 2020 (held in 2021 due to COVID-19) which welcomed 24 million visitors in six months to exhibits from 192 countries on the themes of opportunity, mobility and sustainability.

The drive towards a carbon neutral and sustainable existence is picking up pace and will be key to ongoing resilience. The Sheikh Mohammed bin Rashid Al Maktoum Solar Park, at 5,000 MW, will be the world's largest single site solar park and forms a key part of the Dubai Clean Energy Strategy 2050 under which Dubai is seeking to be carbon neutral and to obtain 100% of its energy from clean sources. This will require US\$163bn of investment over the next three decades. If anyone can do it—Dubai can.

Taking Hold of the Megatrends

An abstract, artistic image featuring a dark background with vibrant, glowing blue and orange shapes that resemble liquid or smoke. The colors are concentrated in the lower right quadrant, creating a sense of movement and depth.

In light of the surveyed executives' concerns that their organisations have yet to study the megatrends identified in this research, the hope is that this report will prompt them and your organisation to do so. It should not, moreover, be a one-off exercise but something done regularly as part of the strategic planning and risk management process.

The lessons for companies from our megatrends analysis are manifold, but six merit particular attention:

Time to expand risk horizons.

Risk management frameworks need to have in-built flexibility to respond quickly to changes in the business environment. They also need to afford more in-depth consideration to "black swan" events—those low-probability and high-impact developments that seem to have come thick and fast in recent years. Equipping businesses with the tools, organisational capabilities and supply chain visibility to manage and respond to risk is seen as a key requirement over the next decade.

There's no escaping your net zero and ESG commitments.

Companies' pledges to reduce their carbon footprint and uphold human rights standards across their operations were once voluntary. No longer. As governments increasingly regulate in these areas, businesses and their leaders will need to measure and track, and will be held accountable for their sustainability commitments.



Get creative to secure needed skills.

Talent shortages in different occupations are likely to remain a persistent feature of the business landscape. Attracting and retaining the people organisations need will require a willingness to provide more than good salaries and traditional benefits. And to facilitate upskilling, businesses may need to bear more of the costs and organisational burdens of continuing education.

Corporate culture must adapt to evolving value systems.

Securing and retaining needed talent will also entail, as the survey respondents stated, aligning their company's reputation with values that are important to the emerging workforce. This doesn't necessarily require overhauling the culture and values that have helped the business to succeed, but the culture should make it easy for employees to always do the right thing in their roles.

Build capabilities to harness technological advances.

Almost all the surveyed executives believe their organisations lack the technology capabilities they will need to tap their most attractive opportunities. Investing in advanced technologies and securing needed talent will help address this problem, but they are not enough. Changing processes and culture are tougher challenges, but businesses must pursue such change if they are to generate maximum value from their investments in technology capabilities.

Transparency must reign with all stakeholders.

Thanks to ubiquitous digital technology and ever more accessible data, customers, employees, prospective new hires, shareholders and regulators are becoming increasingly adept at discerning gaps between businesses' commitments and their actions. Organisations' culture must, over time, ingrain transparency as a core value.

Next Steps

This report outlines the scale of both the challenges and opportunities that organisations face from the multi-faceted and globally impactful megatrends the report focuses on. The underlying currents it identifies point to a series of significant changes corporates, governments and other institutions will need to make if they are to thrive in the future.

In particular, it demonstrates the extent to which the themes behind VUCA—volatility, uncertainty, complexity and ambiguity—will continue to define the business environment for years to come. The megatrends are influencing the future, interacting in different ways, and creating both significant uncertainty and an unprecedented environment for businesses to operate in. Whether it is living with geopolitical upheaval, embracing disruptive technological change, being flexible in reacting to the changing economic landscape, or managing the demands of a more diverse range of customers and employees, the report shows the extent to which organisations will need to continue to adapt in the years ahead.

Perhaps the biggest challenge the report identifies is the lack of preparedness for the changes required. A significant majority think their organisations will need to demonstrate greater adaptability and resilience in the future. There are other challenges too: meeting the demands of ageing consumers, for example, adds an additional layer of complexity to decision making.

But what is also striking is the opportunity for businesses that take time to understand these trends. There remains significant scope for them to further seize the opportunities created by digitalisation. It is also clear many have yet to fully understand the changes—both positive and negative—that Generative Artificial Intelligence will bring.

In particular, there is excitement about the creation of resilient cities. Embedding greater sustainability and better infrastructure, as well as improving utility and transport networks, will create opportunities for corporates and governments that are flexible enough to adapt.

What does this mean for organisations? Clearly, continued decarbonisation will remain a consistent theme. They will also need to think more deeply about how to embrace technological change. And they will need to think harder about how they can meet the needs of a wider, more diverse group of consumers.

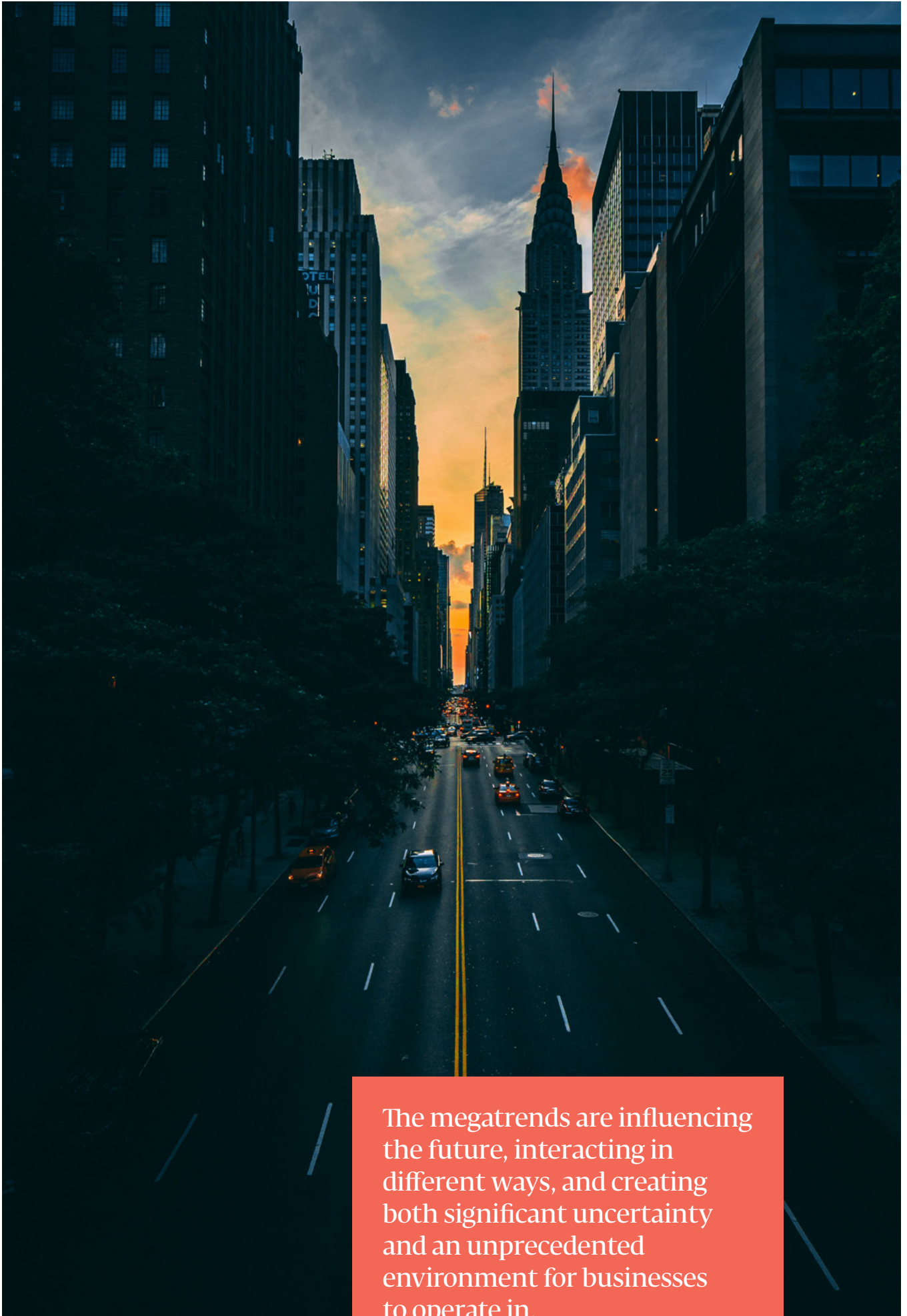
Meanwhile many will need to completely rethink the way they carry out their training. An ageing workforce and an employee base that values greater flexibility, coupled with immense advances in technology, will require a wholesale change in the way staff are recruited and trained. Indeed, businesses themselves may have to take greater steps to build a workforce with the right skills for the future, rather than relying on the education system to produce it for them.

Our clients are well aware of the need to press on with decarbonisation, and the potential for digitalisation to transform their businesses. Changing global dynamics however remain difficult to navigate, given the complexity of the international environment and the increased need for redundancy and resiliency in operations, representing a pivot from the last few decades of globalised efficiency. Many are viewing the trends more holistically, looking at them as an ecosystem of issues, rather than a series of discreet challenges, to help them identify a way forward.

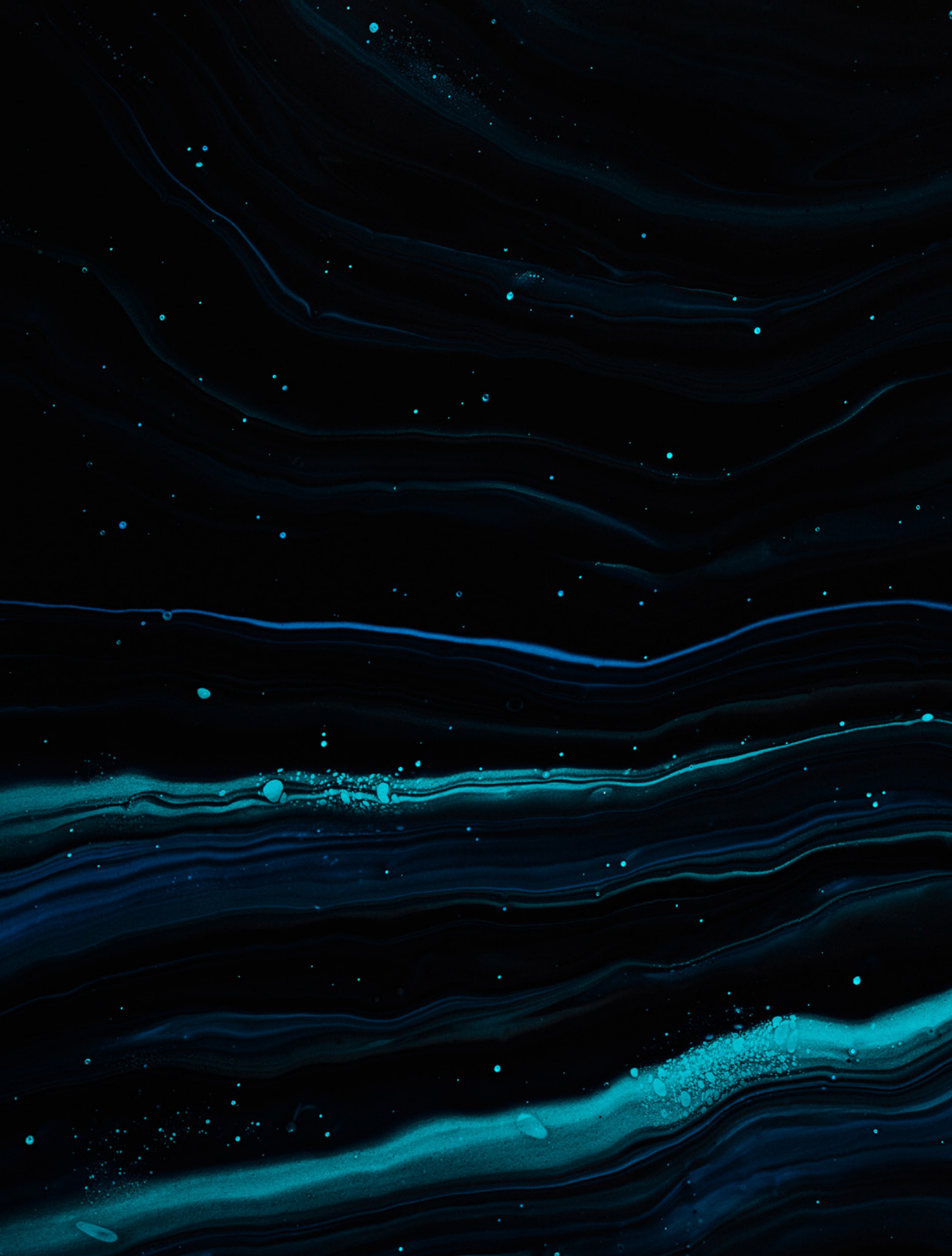
The megatrends highlight the extent to which organisations must come to grips with the unprecedented era we live in. But they also demonstrate the enormous potential for those who are adaptable. Indeed, the ability to adapt, prioritise and then execute will be crucial to success. This survey shows that the need to be nimble and flexible is more important than ever. The opportunities are huge for organisations willing to seize them.



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The megatrends are influencing the future, interacting in different ways, and creating both significant uncertainty and an unprecedented environment for businesses to operate in.





About the Research

The analysis in this report is based on a survey of 300 senior executives that was conducted by Economist Impact in February-March 2023.

The survey sample is made up of those in senior positions: 51% are C-suite and the remainder are in middle and senior management roles. The respondents hail from Australia, China, France, Germany, Hong Kong, Singapore, the United Kingdom and the United States. The businesses they work in are predominantly medium sized, 62% employing between 250 and 1,999 people, while the remainder are classed as large, having 2,000 or more employees. Five industries are represented equally: energy and natural resources, banking and private capital, real estate (including asset management), digital economy (defined as IT and e-commerce businesses), and infrastructure (construction, supply chain, transport and digital infrastructure).

To complement the survey, Economist Impact conducted a series of in-depth interviews with experts from North America, Europe and Asia. Our thanks are due to all the survey participants and the following experts (listed alphabetically by surname) for their time and insights:

- Tim Buckley, director, Climate Energy Finance
- Patricia Canelas, lecturer in sustainable urban development, University of Oxford
- Alex Capri, senior lecturer, National University of Singapore Business School
- Christiana Figueres, founding partner, Global Optimism
- Eliza Filby, fellow, King's College London
- Sean Hinton, founder and chief executive officer, SkyHive
- Brett King, founder and chief executive officer, The Futurists Network

The report was written by Denis McCauley and edited by Ritu Bhandari, Satvinderjit Kaur, Elizabeth Mackie and Charles Ross. Economist Impact has full editorial control over the content in this report.

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