

Global growth in the era of Industry 4.0
Realizing the full potential of technology and
globalization

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Frank Friedman
Deloitte Global COO

From the Deloitte Global COO

As businesses across the world make the transition to Industry 4.0, global executives face significant challenges as it relates to growth, however, opportunities for economic transformation remain in sight.

Business is at a crossroads. The rate of change is faster than ever before and leaders need to find a way to leverage technologies to positively speed up growth. While governments are required to advance economies, businesses' role is becoming clearer—and more pervasive. So, where must business focus its efforts to ensure continued growth?

Deloitte Global's new survey with Forbes Insights of 379 executives across nine countries worldwide reveals how Industry 4.0 is impacting business and its outlook for the global economy.

Looking ahead, businesses must take a long term, broader view. While it is positive that businesses are seeing favorable returns from technology as a driver of growth, there are important societal implications to consider such as an uneven distribution of opportunity. Succeeding at shaping the economic future calls for business to adopt a nuanced view of growth and reinforce its focus on social issues, currently at the root of strains on globalization.



Frank Friedman
Deloitte Global COO

A handwritten signature in dark ink, appearing to read 'Frank Friedman', written in a cursive style.

Frank Friedman
Deloitte Global COO

Introduction



The outcome of the globalization debate depends partly on the role that executives will play in shaping how globalization impacts society. Our survey found that executives believe that business, along with national governments, has a role to play in the transformation of economies.

Industry 4.0 is characterized by the integration of smart, connected and autonomous digital and physical technologies that drive business operations, processes and production. These interconnected and interdependent technologies are making the world flatter and have the potential to speed up worldwide growth. And yet, our survey of 379 executives paints a less optimistic picture of the future. While a vast majority of them believe that they are keeping up with the pace of change, their outlook for economic growth is flat (the other type of flat), with only a quarter expecting growth of three percent or more for the world, their countries, their industries or their companies.

Why the disconnect between the technology potential and the reality on the ground? Part of the reason for this lackluster growth forecast is that globalization, which is an important engine of growth, is facing some setbacks caused by restrictive measures and trade disputes. A majority of executives we surveyed depend on globalization for growth. Despite the recent strains on globalization, a majority of executives believe that pro-globalization sentiments will prevail.

The outcome of the globalization debate depends partly on the role that executives will play in shaping how globalization impacts society. Our survey found that executives believe that business, along with national governments, have a role to play in the transformation of economies. However, succeeding at shaping the economic future calls for business to adopt a broader view of growth and a bigger focus on social issues, which are at the root of current strains on globalization.

Our findings support Deloitte's belief that "business' challenge will be finding ways to design and create models for driving transformative change that also result in positive social impact."¹

¹ The Fourth Industrial Revolution is here – are you ready?, Deloitte Insights, 2018

Growth outlook: Potential vs. reality

Industry leaders are confident about their ability to keep up with the pace of change, but this confidence does not carry over into their outlook for growth.

Industry 4.0 offers potential for growth by creating new revenue streams, opening up new distribution channels, streamlining design and manufacturing processes, or creating innovative products and services. Harnessing technology advancements for growth is key, but it can be challenging considering how quickly new technologies are emerging and being adopted, disrupting current business models.

Our survey reveals that executives, by and large, feel confident about their ability to harness technology for growth, as 77% say they are confident or extremely confident with their ability to keep pace with change. And yet this ability to keep up with the speed of change will not lead to faster growth. Roughly half of executives expect global and their country economies to stall or contract. Just a quarter expect growth of 3% or more for the global economy or their country, and just over a third think that their companies and industries will grow by 3% or more.

How confident do you feel in your business' ability to keep up with the rapid pace of change?

77%

Of global executives are confident or extremely confident in their ability to keep up with the pace of change.

49%

Expect global and their country's economies to stall or contract, with just a quarter expecting growth of 3% or more.

37%

Expect their businesses to grow by more than 3%, with the same percentage also expecting their industry to grow by the same rate.

In this report, we will look into some reasons for the disparity between the potential for growth versus growth projections, analyze how executives view their role in impacting the growth outlook and their top challenges, as well as point out some new areas of focus that could help alleviate the chasm between the potential of technology and reality on the ground.

Globalization: Will the engine of growth continue to work?

Business leaders depend on globalization as an engine for growth. They also believe that, despite some recent anti-globalization sentiments and protectionist regulatory actions, the benefits of globalization so far outweigh its political and social costs that support for globalization is bound to prevail.

Business needs continued globalization to succeed. A vast majority of executives (76%) agree that their companies depend on continued globalization and international cooperation for growth. By now, companies have created intricate and vast supply chains to source raw materials and manufacturing around the world, formed partnerships with local entities to both manufacture and market their products and services, and are selling their brands in multiple markets across the globe.



76% of executives agree their company depends on further/continued globalization for its growth—**31%** very much so rely on it.

Global business is big business. Multinational corporations produce 33% of global output, and they account for half of global exports and for just under one-fourth of global employment.² In recent years, however, multinationals' growth has undergone some periods of slowdown. Their continued growth is, to a large degree, dependent on the political climate toward global business. Viewed in this context, globalization is not only a growth opportunity but also a growth risk: Anti-globalization views could still prevail.



68% of business leaders say the overall economic benefits of globalization are so great that support for globalization is bound to prevail over concerns about its costs to individual groups.

Despite the initial pledges by the G20 leaders after the 2008 financial crisis to avoid protectionist measures in order to speed up economic recovery, anti-globalization views have been increasing. Even countries that have been staunchly opposed to protectionism in the past are now resorting to populism and its restrictive policies. That's because globalization has not equally benefited all social groups or geographical regions, leading to increases in inequalities. The speed of the technology-fueled global economy threatens to further deepen those divides.

While globalization can be perceived as being under some strain, a majority of executives (68%) believe that its benefits are so enormous—and technological forces so unstoppable—that pro-globalization views will prevail.

² Multinational enterprises in the global economy, OECD, May 2018

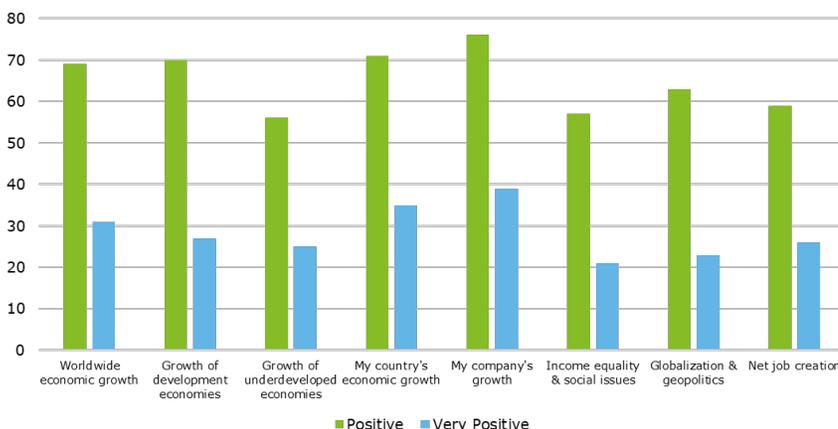
Technology: A path to convergence?

Technology has the potential to make the world flatter, speed up globalization and lead to more economic equality across countries and regions. However, executives believe that technology will benefit developed countries more than the underdeveloped ones.

The opening of global markets has created economic growth in multiple emerging regions and has put the world on a path of economic convergence. Back in the 1950s, 750 million people lived in industrializing countries and the remaining 4 billion-plus were left behind, writes Michael Spence, winner of the Nobel Prize in economic sciences, in his book *The Next Convergence: The Future of Economic Growth in a Multispeed World*. He predicts that the endpoint may likely be a world in which perhaps 75% or more of the world's people live in economically advanced countries.

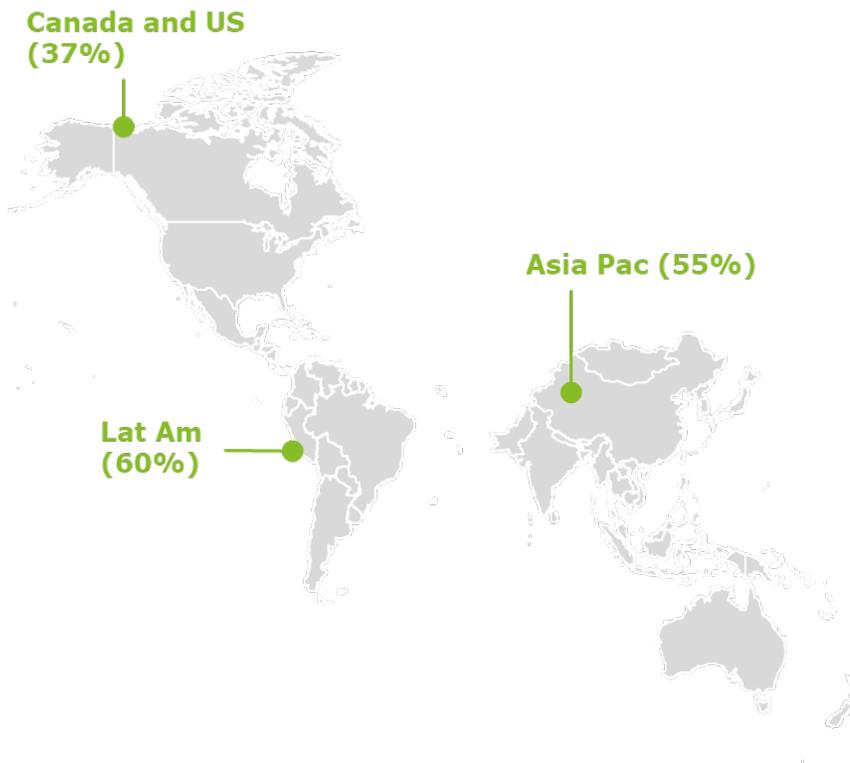
Technology-fueled globalization should only speed this convergence. But when asked about the benefits of technology, executives do not see it as benefiting everyone equally. It is especially troubling that in our survey so many more executives believe that technology will have a positive impact on developed (70%) versus underdeveloped (56%) economies. So far, the impacts of globalization have been viewed mostly as positive for its potential to put underdeveloped economies on a more equal footing with developed economies, while causing more inequality within specific countries, including developed countries. But our survey shows that executives believe that technology will not benefit all regions equally.

What will be the short-term impact (3 to 5 years) of technological advances in Industry 4.0 on the following?



In fact, emerging economies have much lower average levels of connectedness than advanced economies. The largest gap is found in information flows, an area in which advanced economies are nine times as deeply integrated.³ Our study confirms that emerging markets see technology as a bigger challenge. Sixty percent of executives from Latin America say that the pace and cost of technological change is a challenge to growth, compared with 45% of executives globally.

Pace and cost of technological change challenges regions differently



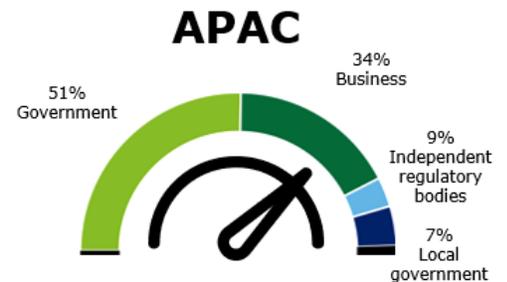
³ DHL Global Connectedness Index 2018

The race for responsibility heats up as challenges remain

While executives recognize their role in the transformation of the economy, they are not sufficiently focused on the societal issues connected to business growth. A broader focus will not only alleviate social strains but also contribute to companies' returns on technology investing.

Executives look to national governments to transform economies (41%), but business is not far behind (36%). While it is positive that executives see a role for themselves in the transformation of economies, this may require adopting a broader view of growth. Our survey reveals that executives focus on the most immediate issues, such as cybersecurity or the pace of technological change.

Who is most responsible for transforming economies?



However, in APAC leaders still place a majority of responsibility on governments, highlighting a growing divide between other markets.

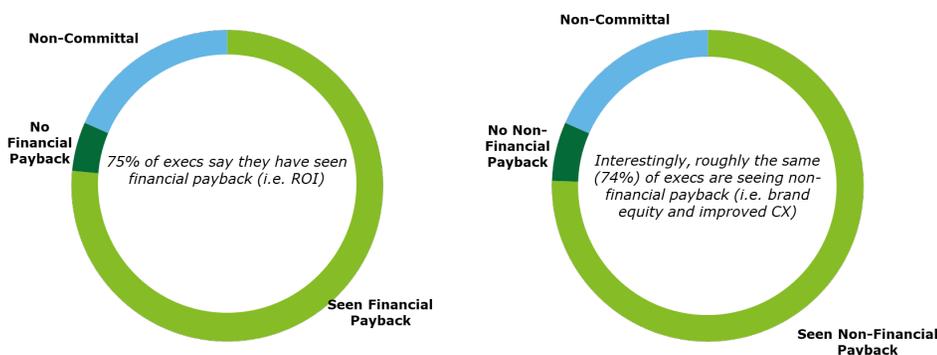
Developed regions and countries seem more focused on the social aspects of growth than emerging economies, with almost a quarter of executives from Europe and North America recognizing them as a challenge, compared with just 10% of executives from Latin America. There are no differences in approach by seniority. There are, however, some differences by company size, with the smallest companies we surveyed (revenues from \$500 million to \$999 million) feeling less challenged by social issues (13%). In their case, it is likely due not to lack of interest but to the focus on the business challenge of keeping up with bigger companies with more resources.

What are the greatest challenges to your growth outlook in the era of Industry 4.0?

Cybersecurity threats	48%
Pace and cost of technological change	45%
Lack of talent or skills shortages	34%
Infrastructure (currently available vs. what's needed)	27%
Impact of policy/regulations on business (tax, trade, monetary)	26%
Financial capital needs	22%
Stakeholder expectations or short term expectations	21%
Geopolitical risks/threats to globalization	19%
Social Issues (e.g. widening income gap)	19%

The focus on technology-related risks is not surprising, considering the possible repercussions of a cyber-attack. At the same time, it is imperative for companies to stay on the cutting edge of technologies, as those who fall behind become obsolete. But while ROI on technology investing has been elusive in the first years of digital transformations, our survey shows that 75% of executives say they've seen financial payback (i.e., ROI) from their technology investments, and 74% say they've seen non-financial payback in the form of things like brand equity and improved customer experience. Not surprisingly, investing in technology will continue to be the top way to grow over the next year (63%).

To what degree have you seen payback from your technological investments in the following ways?



This puts an onus on executives to approach technology investing with a societal mindset. Deloitte Global's research reveals that many are still in the

early stages of thinking about technology in broader terms. “Leaders acknowledged the ethical implications inherent in new technology, but few companies are even discussing how to manage those challenges, let alone actively putting policies in place to do so.”⁴

Deloitte believes that if executives truly expect business to play a leading role in the far-ranging societal implications of Industry 4.0, then its leaders must factor into their strategic planning the interrelationships among a broader set of stakeholders, such as employees, communities and customers.⁵

Companies may soon discover that returns on technology investing are increasingly becoming tied with a positive social impact. Harnessing Industry 4.0 technologies for social impact can help build markets, drive adoption and light a powerful beacon for attracting and retaining top talent.⁶



⁴ Success personified in the Fourth Industrial Revolution, Deloitte Insights, 2019

⁵ The Fourth Industrial Revolution is here – are you ready?, Deloitte Insights, 2018

⁶ The Fourth Industrial Revolution is here – are you ready?, Deloitte Insights, 2018

About the survey

Methodology

Forbes Insights surveyed 379 senior executives globally across a range of sectors. 85% of respondents are C-Suite executives or board members, while the remainder are VP level and above. 44% of the executives surveyed are from the Americas, 29% are from EMEA, and 27% are from APAC. All executives are from organizations with a minimum of \$500 million in annual revenue, with 34% coming from organizations with \$5 billion or more.

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