

GLOBAL SCENARIOS 1995-2020



A b o u t S c e n a r i o s

This booklet gives an overview of the Shell Global Scenarios for 1995-2020. The original scenarios are described in rich detail in two volumes – so these ‘public scenarios’ can offer only the major themes and issues, trusting in the reader to flesh out the bare bones using that characteristic combination of imagination and common sense that is necessary for scenario-building.

Scenarios are plausible and challenging stories, not forecasts. They do not extrapolate from the past to predict what will happen in the future, but instead offer two very different stories of how the future might look.

These stories serve three major functions. First, they help us prepare for discontinuities and sudden change. Unlike forecasts, which can sometimes lull us into thinking we can predict the future, scenarios mirror the unpredictable, world-changing events that we must be ready to face, even if we cannot know what they will be. Scenarios help us to anticipate (by asking ‘what if’ questions) and to recognise and interpret important events and new developments.

The scenarios also help create a common culture, or language, through which the future can be imagined. In a group of companies as decentralised as the Royal Dutch/Shell Group, in which the operating units have a great deal of autonomy, scenarios create unifying themes and images and help foster group cohesion.

Third, scenarios challenge the mental maps we all hold. These maps in themselves are stories about reality – but they affect which opportunities we notice and what strategies and actions we undertake. When our perspective changes, our view of what is possible also changes. By challenging our mental maps, scenarios help us envision and create new possibilities.



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TINA and the Learning Scenarios

Stretching the social fabric

'No Business as Usual'

The learning scenarios

Two possible futures

Just Do It!

Libertarianism and the angry fringes

The US – how to *Just Do It!*

From atoms to bits

'Bubbles of value' and other business challenges

大我 - *Da Wo* ('Big Me')

The Asian century

Straining the social fabric

Positioning in Asia as an Asian company
and other business challenges

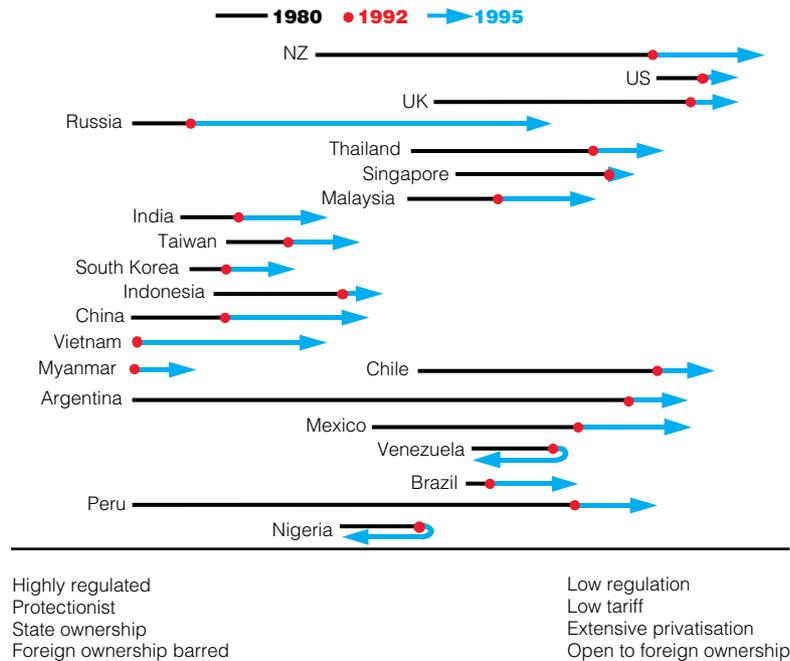
Being Asian



TINA and the Learning Scenarios

Whatever the future holds, it will be shaped by three powerful forces: liberalisation, globalisation, and technology. No alternative economic or

Progress in Liberalisation

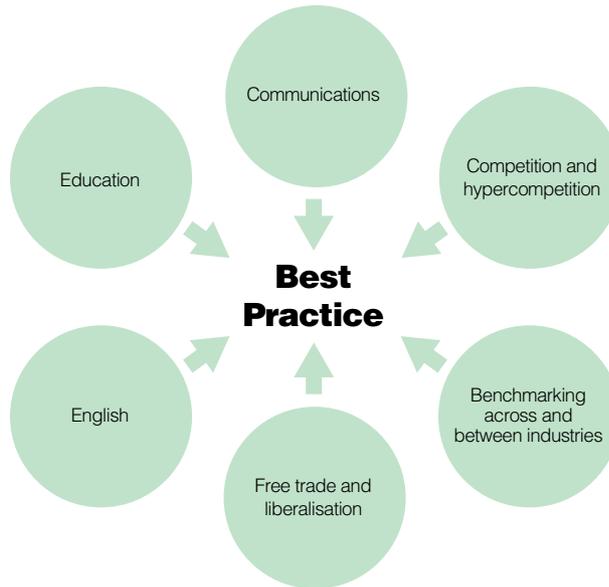


ideological model competes with the emerging global consensus about the value of open markets and the necessity for macroeconomic prudence. This consensus has gathered strength through the globalising influence of technology, especially information

technology. What the world has learned in the 1990s is that 'THERE IS NO ALTERNATIVE' to adapting to these powerful forces – 'TINA'.

TINA is strengthened by both a carrot and a stick. The carrot is the competitive advantage afforded to countries and organisations that heed the best practices of *TINA* – these groups simply do better than those who resist. And because communications technology immediately globalises these

**“It’s a ‘Copy
Cat’ World”**



stories of success, a ‘copy cat world’ of intense benchmarking is created.

The stick is carried by the world financial markets, which function as an implacable and impersonal enforcer of macroeconomic prudence.

Even governments cannot resist the power of this policeman, for that power is created by the actions of millions of individuals and institutions.

The policeman is both everywhere

and nowhere in particular, enforcing the rules of the game – and TINA is the only game in town.

**Stretching the
social fabric**

TINA is a rough, impersonal game, involving stresses and pressures akin to those of the Industrial Revolution. Under these pressures, some people do well – the knowledge elites, for example, who can seize opportunities whenever and wherever they arise. But others, who are not so entrepreneurial or well educated, feel the pressure of job insecurity, and income inequality grows in almost all developed nations. Precisely because ‘There Is No Alternative’, people in many parts of the world fear a growing loss of control over their own destinies and also fear that the lives of their children will be more difficult than their own.

The growing gap between rich and poor leads many people to fear that no matter how hard they work, some unpredictable event in a market halfway around the world, over which they have no control, could lead to a catastrophic fall in their own lives from middle-class comfort to relative poverty.

These fears are wide-ranging, in spite of the fact that the emerging consensus about TINA, the evolving information technologies, and the increased number of players will likely bring greater long-term economic growth. The issue is, therefore, not whether a country or company can refuse to play the game – but what is the best way to play it? What are the strategies necessary for success?

‘No Business as Usual’

In at least five areas of the world, the forces of TINA mean that change is predetermined because there is no plausible scenario where business as usual can be sustained:

- the European welfare states
- the Gulf economies
- Chinese politics
- Japanese regulation
- former communist and socialist state-owned enterprises, particularly in India, China, and Russia

These are the ‘NBAU’s – areas where there is NO BUSINESS AS USUAL, and where what is required is not simply adaptation but radical transformation.

The learning scenarios

In the world of TINA, failure to learn leads to economic, political, or commercial underperformance. Customers and voters are better informed, and they increasingly demand better products and performance. Those companies and economies that learn and adapt quickly have the advantage. The carrot and stick that accompany TINA will move the world in the direction of best practice, no matter what the scenario – even when that direction runs against the grain of inherited culture and tradition.

Two possible futures

The power of TINA does not mean the end of history. Other forces – cultural, social, political – interact with those of TINA. The question arises as to what sort of political, social, business, or economic systems are best able to exploit the forces of TINA in order to gain maximum benefit for their people and their organisations.

Just Do It! – In the first scenario, success comes to those who harness the latest innovations in technology to identify and take advantage of quick-moving opportunities in a world of hypercompetition, customisation, self-reliance, and ad-hoc informal networking. This world allows the fullest expression of individual creativity and offers a large stage for exploring visions and for new ways of doing business and solving problems.

Da Wo ('Big Me') – In the second scenario, countries and companies discover that success calls for a committed investment in relationships, where relationships of trust and the enabling role of government provide the long-term strategic advantage. In this world, Asia already has an advantage because its

societies and businesses are at home in a world in which the individual – the ‘small me’ – understands that individual welfare is inextricably linked to the welfare of the whole – *Da Wo* (‘Big Me’).

In a sense, the next twenty-five years will be about learning which of these two pragmatic ideologies – *Just Do It!* or *Da Wo* – is best practice. If best practice is *Just Do It!*, those companies and societies that are moving slowly and deliberately to create structures for success will discover that the bubbles of opportunity pass them by. They will simply not be innovative enough nor will they learn and change fast enough to compete or to respond to rapidly evolving societal expectations. If best practice is *Da Wo*, then the agile innovators will discover that the world is more complex in the long run, and that those societies and businesses that create harmonious, efficient structures and sustain an inclusive vision of the whole, gain a long-term strategic advantage that neither the old command-and-control models nor the nimble-footed individualists can match.



Just Do It!

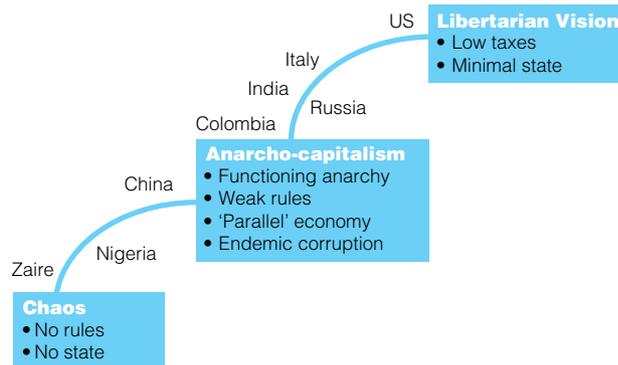
Just Do It!

Just Do It! describes a world in which new technologies and intense competition require flexibility and quick, well-informed reactions. Successful companies and societies stress innovation and individual initiative and tolerate a high degree of creative anarchy. People in these societies value freedom and autonomy and find satisfaction in the feeling that they are in control of their lives and destinies. They define themselves not by the state or nation they belong to, but by their interactive networks of friends and colleagues and by their 'lifestyle' choices, driving goods and services towards greater and greater customisation. Working groups come together to solve specific problems and dissolve again when the task is done. These groups tend to be ad hoc and action-oriented. For the most part, this is a self-organising world with no agreed-upon common culture, in which groups are conscious of themselves and their own organising principles.

Libertarianism and the angry fringes

In *Just Do It!*, government failure is seen as both more common and more harmful than market failure. There is a growing consensus that the private sector is more successful than government in managing such services as pension schemes, power utilities, and even education. National governments shrink as citizens insist on solving problems at the local level, just as they do in business, where power is delegated close to the customer. Even in the international sphere, drivers for change often arise from ad hoc or virtual organisations, linked together through information technology. Action-oriented alliances of NGOs, businesses, and local government officials are common.

Individualism and the State



People who are uncomfortable with the relentless pace of change feel alienated from the political process, especially because TINA has narrowed the scope of practical political debate at the same time that information

technology has increased the number of people involved in it. Isolated acts of violence occur as an expression of protest, but the disaffected are

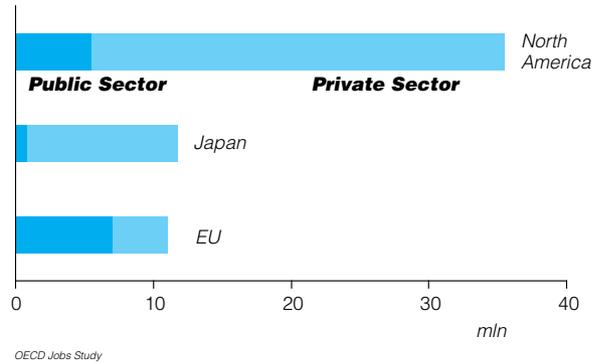
never quite able to unite around a common theme or shift the dominant concerns.

The US – how to Just Do It!

In *Just Do It!*, some societies are better placed than others because of the inclinations of their people or the forms of their institutions. The 'anarcho-capitalism' of Russia allows it to thrive in this environment, and the less regulated economies of Italy and India do well, too. Japan, China, and some European countries such as Germany find it much harder to adjust to this new world than does the United States. The US retains its position as a main innovator and job creator, particularly through the increasing number of entrepreneurial enterprises, some of which spring up within large corporations.

Information technology plays a key role in the way business systems are organised and in the opportunities for new kinds of businesses that emerge.

**Net Job Creation
1973-1992**



But most of the jobs in these volatile markets are at the extreme ends of the wage scale, and the gap between rich and poor continues to widen. Disaffection is directed at those in

power, from government officials to corporate executives, who are felt to be partly responsible for shrinking job and retirement benefits. Governments struggle to bring down their fiscal deficits as ageing populations put pressure on social security programmes.

“Sweden is no longer what it was. Sweden will never again be what it was. Don’t believe the time for changes is over. Don’t believe that everything can go back to how it was.”

– Göran Persson, Leader of the Social Democratic Party and Prime Minister of Sweden

Social Security increasingly becomes the responsibility of individuals with governments only choosing to provide basic safety nets for the disadvantaged.

From atoms to bits

The forces of TINA plus a high degree of innovation and hypercompetition move the world towards dematerialisation – more is done with less, and the sinews of economic development are bits rather than atoms.

Dematerialisation creates two kinds of transformation: one in terms of input intensity (energy, material, labour); and another in lifestyles and the structure of the economy.

In the dematerialising world of *Just Do It!*, world energy demand increases at about the same rate as the world population growth of 1.3% per year. Slight growth in energy demand per capita in Asia is offset by increasingly effective

conservation efforts and declining energy per capita in the developed countries. World energy intensity decreases by an average of 2.1% per year, in part because of more fuel-efficient cars. The combination of technology and deregulation transforms many industries – the electric power generation industry, for

example, is transformed into widely distributed and fiercely competitive locally based networks.

Major structural changes in both work and social patterns occur as advanced information technologies (IT) are applied. With IT, emphasis shifts from the physical movement of atoms (including people and things) to the transfer of digital information over telecommunications infrastructures. Telecommuting, virtual reality, and intelligent appliances are among the major enablers, resulting

“New technologies such as advanced electronics, ultra-light materials, computer-aided design, and a host of others could change cars more radically in the next 10 to 20 years than in the last 100.”

– A. Trotman, *Chairman, Ford Motor Co.*

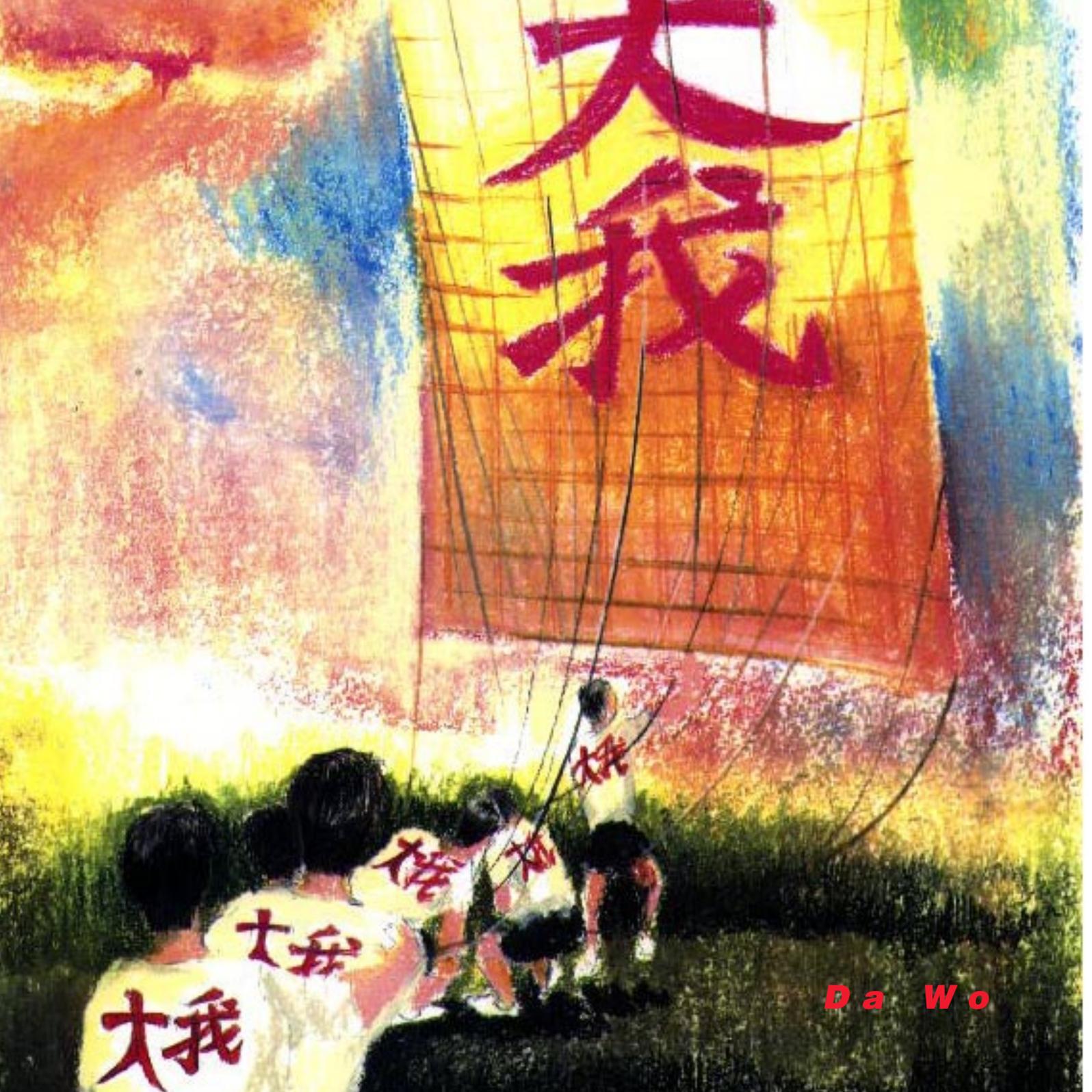
in a decline in energy intensity (ratio of total energy demand to GDP), especially in the US. As information becomes both cheaper and more plentiful, innovations transform almost every sector of the economy, increasing the intensity of competition and introducing an ever-changing array of new competitors.

'Bubbles of value' and other business challenges

In both scenarios arising from TINA, it's a 'copy cat' world, but in *Just Do It!* the availability of information creates 'bubbles of value'* that the more agile companies seize and exploit. The intensity and speed of benchmarking mean that these opportunities, while highly profitable, are profitable only briefly, so that companies must be prepared to move on to the next opportunity. Just as species that reproduce rapidly can quickly evolve successful adaptations, so companies and societies that are willing to experiment with a large number of innovations find ones that work in this hypercompetitive world – even though many fail. This environment of relentless change and perpetual looking over one's shoulder makes *Just Do It!* a world exhausting for some and invigorating for others. But in this scenario, people learn that while the market is an imperfect shaper of societies, like democracy, it's better than anything else. The world of *Just Do It!* may look chaotic and uncontrolled – but that's how all complex adaptive systems look as they evolve.



* a term coined by McKinsey and Co.



Da Wo

大我 - *Da Wo* (‘Big Me’)

The liberalisation revolution has taught us to respect the power of TINA's invisible hand – but in the long run, we'll eventually come to understand that TINA is a whole body, held together by complex systems that interact with each other. Like all living systems, which function together through the rhythmic interplay of their various parts, businesses and societies are healthiest when they are held together through a vision of the whole and can operate through stable teams with a long-term commitment to the organisation. This model relies on complex systems of mutual obligation and trust, not on discredited command-and-control models. It reflects a deep understanding of the way healthy human societies are sustained. As a proverb well known to Chinese speakers puts it:

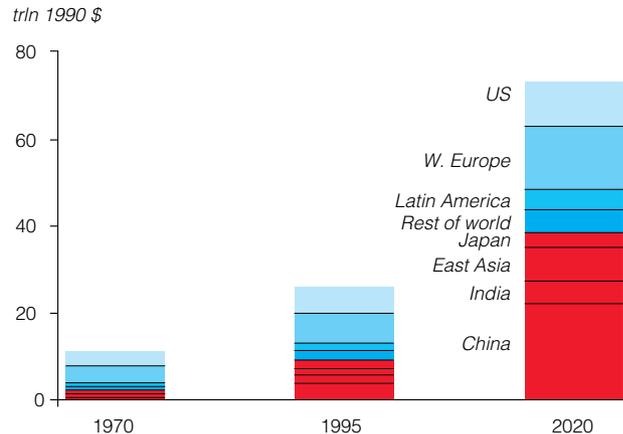
<i>Xi Sheng Xiao Wo</i>	Sacrifice ‘small me’
<i>Wan Cheng Da Wo</i>	to benefit ‘Big Me’

The Asian century

Seeing one's own interest as inextricably bound up with the community as a whole is characteristic of many Asian societies, even though it is expressed in different ways from society to society – so it is no surprise that in *Da Wo*, Asia does very well. Asian economies are the fastest growing in the world, and Asian ways of doing business the most efficient. In these societies, networks of trust substitute for the web of legal contracts and other expensive transaction costs associated with doing business in the West. An even greater strategic advantage lies in the approach to the workforce. People respond to the sense of security and cultural identity that these societies offer and are able to give more in return.

Da Wo is not just a simple extension of the 'Asian model' or the 'German model', though these embody many of its values; nor is it a cosy, welfare-

**Asian Growth
GDP (PPP)**



oriented world.

On the contrary,

the duties

associated with

cohesion are

significant, and

sanctions on free

riders are severe.

The emphasis is on

responsibilities,

not rights. This scenario reflects a new synthesis between the social and cultural values of cohesion and the maverick, impersonal forces of TINA. To find a model for this synthesis would require looking at particular features of such countries as Chile, Singapore, or Switzerland.

In *Da Wo*, successful economies and companies evolve from societies, like

many of those in Asia, where people come to learn the lessons of TINA without forgetting the values of cohesion and inclusiveness inherited from their cultures. Only economies and companies with an

educated, inspired, and loyal workforce can maintain long-term competitive

advantage. Only governments and government institutions can solve many of

“The American way is not the way of the whole world.”

– Yutaka Kumo, Chairman, Nissan Motor Co.

the problems thrown up by globalising forces. Governments matter, not as the source of welfare benefits but as the provider of key elements of infrastructure, such as education and primary research, and as the enabler of the major societal changes necessary to take maximum advantage of new opportunities.

Straining the social fabric

Individualistic societies in *Da Wo* continue to invent many new technologies, but they fail to profit from these because of internal fragmentation and because they lack the ability and will to develop the necessary long-term vision and commitment to innovation and to research and development. Russia and the US struggle to adjust to this more cohesive world. Germany, after a painful reform of its welfare-state system, leads Europe into a more closely knit union.

Companies in many parts of Asia are very successful in *Da Wo* because they blend ideas and technology acquired from outside the region with their own indigenous values and traditions that encourage the kind of efficiency that comes from loyalty and trust. In many western nations, growing crime, income inequality, and deterioration in the quality of life begin to lead to a re-appraisal of what is needed for competitive success.

Positioning in Asia as an Asian company and other business challenges

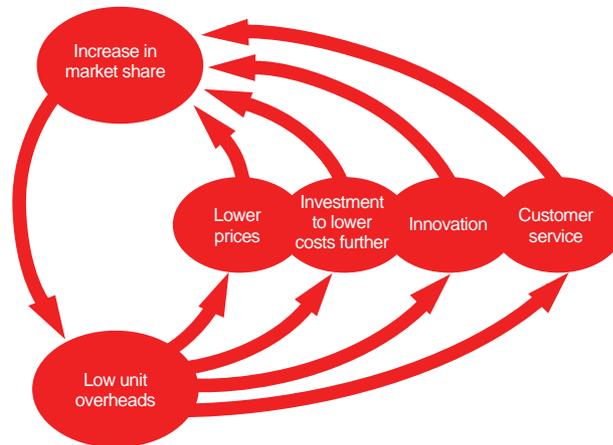
Successful companies in *Da Wo* build on their competencies and on the identification and strengthening of key relationships. Longer-term relationships allow steady reduction of cost because there is a mutual understanding of the capabilities of each partner. The role of employees is key. They are motivated by a clear understanding of the company's vision, a strong sense of belonging,

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and the enthusiasm to work hard for the rewards offered by a globally successful company. Companies develop key competencies for success, including core technologies, and direct their businesses into areas where these competencies lead to competitive advantage. Growth is a key ingredient for success, not least because it allows for a combination of security of employment and ever-higher productivity.

Other than in real commodity markets, competition revolves around the pursuit of increasing returns. By gaining market share, successful companies

Increasing Returns



are able to spread larger costs for product launch and research and development over bigger volumes, simultaneously driving down costs and allowing faster innovation.

Virtuous circles of this kind lead to global concentration in many industries. Governments attempt to create the conditions necessary for the value-adding parts of these processes to be located in their countries.

Understanding strategic drivers in the world of *Da Wo* is not, of course, easy. Among a number of possible strategies – for example, ruthlessly reducing

costs, or relentlessly innovating to create new products, or single-mindedly improving customer service – the key is to identify which is the crucial strategic driver for a particular industry or competitive challenge.

In the global economy of *Da Wo*, businesses are closely integrated with society – and societies raise their standards for business behaviour. In this world, the job of managers is much more complex. Not only must they pay a

“In the end, integrity is all you’ve got.”

– Jack Welch, CEO, General Electric

great deal of attention to customers and shareholders, but they must pay just as much attention to employees and society. Societies show

their disapproval of misbehaviour by harnessing both governments and customers to put pressure on companies. Companies that lose their reputation for good behaviour can suffer badly in the marketplace and in other relationships with governments around the world. In *Da Wo*, a close connection with the feelings and values of different cultures is a critical success factor for global companies.

Being Asian

The biggest challenge for western companies is in Asia, where trust, long-term relationships, and personal knowledge are as important as contracts and deals, not least because they dramatically reduce transaction costs. The western companies that succeed are those that develop strong brands and that painstakingly build a web of alliances and relationships in the region.

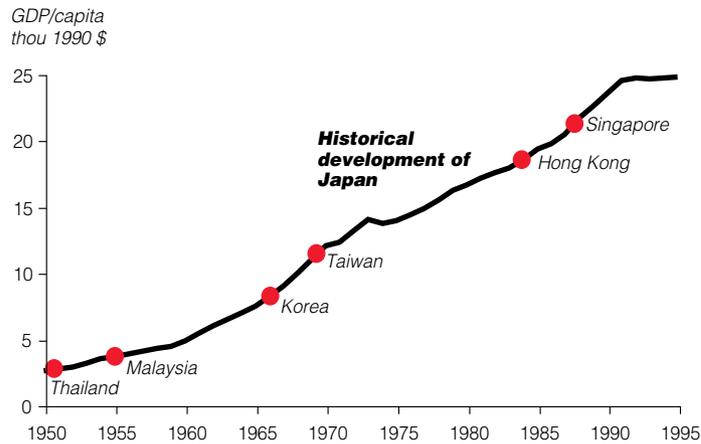
As Asian markets grow, it becomes even more important for senior

management to reflect these Asian values, even if only to ensure they can attract good people. The best employees in *Da Wo* do not necessarily

feel that western management techniques and training are superior, or that a western brand is more prestigious than an Asian brand. Wiser companies begin to devise methods of keeping their workforce both invigorated and

secure. Even so, East Asia is the powerhouse of the twenty-first century, and Asians feel with increasing confidence that history is on their side.

**Asian Cousins:
Where They Stood
in 1994**



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The Learning Scenarios

Just Do It!

Da Wo



Individualism	Themes	Cohesion
Libertarianism	Politics	Governments matter
Hypercompetition	Economics	Increasing returns
Dematerialisation	Energy	Sustained growth
Bubbles of Value	Business	Being Asian
Blurring boundaries		Balancing stakeholder pressures
Rapid technological change		Building long-term advantage

