Sacred Heart University
John F. Welch College of Business

Commencement

Luxembourg

18 June 2011

Norbert Becker

Uncertainties

Today, these commencement exercises will confer the degrees of Master of Business Administration to 11 students and a Graduate Professional Certificate to one student.

First of all, congratulations to all of you for another accomplishment in your professional life. Completing your education by an MBA or Certificate is an important step towards a more specialized knowledge.

In today's world, the *"Jack all Trades"* will have difficulties to survive against people with specialized knowledge and know-how.

You have made the right decision to complete your studies. It was certainly hard to walk the extra mile, hard on you, hard on your families, but today it's done. Congratulations from the Board of Regents.

I have chosen to talk to you about *"Uncertainties".*

Why?

Because the world is full of them, and we are confronted with them daily.

We are faced with uncertainties in many different fields of our life. The pace of change has increased incredibly. I have picked 5 of them to illustrate the world of change in which we are operating today.

1. In 2050, the global population will be in excess of 9 billion on the planet, versus 7 billion today and 3 billion in 1960.

The growth will not be in the industrialized nations. The growth will be in other parts of the world, those parts that we call emerging markets. Well, in my opinion, those markets have emerged already. The world's economic growth is dependent upon them. Any derailment in their GDP growth will cause significant adverse impacts.

The uncertainty is how this growth in population will continue to happen, how will it impact the economies, how will those growing markets be supplied with commodities they need, how will they educate their children, where will they work, how shall they secure energy, how will they address health care….

The population explosion will create a whole lot of new stress factors, such as urbanization issues - people moving more and more to the large cities with the hope of finding jobs.

Urbanization issues will include food shortage, energy and contagious diseases. They will include also issues around ageing populations and migration.

We start to witness right now, and right here, one of the consequences of the Arab Spring. Young people running from their countries to immigrate to Europe.

We are witnessing how little we were prepared for this and the reactions of the political system about Schengen. Something that was applauded by everybody, is questioned only a decade latter.

2. Another uncertainty is derived from the technological revolution that we are living. We can't think of a world without Internet. At the same time, do we really understand that we are relying socially and economically on a technology which has less than 20 years of existence. What about the cyber - attacks, intrusion into our private spheres and protection of intellectual property?

The social networks are playing a more and more important role in society, as seen lately in the Maghreb countries.

What does an MBA have to do, to stay attuned with these developments? Yet another uncertainty that we need to deal with.

3. Our national economies are heavily indebted, almost, all over the world. Lately the credit rating for the US has been questioned and discussions commenced about the consequences of a potential downgrading. The US has reached its upper limit on its 14 trillion dollar debt. How will the system deal with this issue. Increase the upper limit and continue to spend, or reduce the spent? This question has a formidable impact on future generations. Its outcome is uncertain. It is not only an issue in the US, some countries in Europe introduce debt limits in their constitution, only to increase them when and if needed. Our currency, the Euro, has gone through a significant crisis, and it is not over yet, I am afraid. Will we all be able to create the conditions necessary for a stable monetary policy? What about countries who consider opting out, or politicians campaigning for the exit of their country of the currency? A big uncertainty that the fathers of the Euro did not predict. What would happen if a sovereign state in the Euro zone has to file for virtual bankruptcy?

What we see today is that the rescue packages imposed on some of those states, might put them into a deep recession. An uncertainty that will cause the markets to increase further the cost of their debt. You see that this might lead us to a negative spiral of which again, the outcome is unpredictable.

4. A big uncertainty is around how we will deal with the global decline in fertility rates in the so called rich countries. They go down from 5,0 in 1959 to 2,0 at the end of this century, in the rich world. How do we deal with the increase in life expectations from 45 to 65 years, and +75 years in the rich world? Added to that the complicating factors in the rich world of earlier retirement, increased jobless, unfunded pensions and growing cost of healthcare.

The implications of all this will be that the ratio of the 65+ years old to the 24-64 year old will go from slightly over 20% to almost 50% in 2050. For example the worker retiree ratio will fall from 16:1, in 1950 to 2:1 in Europe 2050, only a 100 years latter.

The challenge for the so called rich world will be a rise in public retirement benefits of 10-15% of GDP, requiring increasing State Revenues, either through significant increases of tax, or deep reforms of the pensions systems. There shall be no way around it. More taxes, less pensions, or severe cuts in other government programs. So far, no other recipe has been found.

The unfunded public pension liabilities exceed 100-250% of GDP, more than the official public debt. By 2030, all G8 countries could be rated BBB according to today's rating norms. We are on that trajectory right now, including the US, as mentioned a minute ago.

How certain or uncertain are our rights to a funded pension?

5. I mentioned Energy before. We are witnessing oil depletion as another major uncertainty. In a nutshell, we produce 85 million barrels a day. The demand is up by 1% per year. In 2020, the existing oil fields will be down by 4% leaving a daily production of 35 million barrels. With this, Fukushima will not go by unnoticed and whilst there is a popular move against nuclear energy, that has found its way also into the political system, people are also against alternative sources of energy.

With what will it be replaced?

Uncertainty!

These are only a few examples of uncertainties that we are facing.

You have acquired now the analytical skills that will help you indentify uncertainties in their early stages, think through mitigating factors and develop and propose appropriate actions.

So much for uncertainties. That is the easy part.

What about those "*black swans",* events that have a major impact and are only rationalized by hindsight?

In 2007, Nassim Nicholas Taleb[1] developed the notion of *"Black Swans"*. He defined it as:

"*events of disproportionate high-impact, hard to predict, and rare and which are beyond the realm of normal expectations in history, science, finance and technology.* "

Psychological biases make people individually and collectively blind and unaware of the massive role of those rare events.

I talked about uncertainties of which I gave you only a very few examples. For all of those many precursor signs exist today.

But then there are also those *Black Swans* that could hit.
In my professional life I have gone through many uncertainties and one day a big fat *Black Swan* landed in my back yard.

Totally unpredictable, no precursor signs. My company was hit by a fatal event beyond my control which took it down.

After 25 years, we had to start all over again, and we did.

With determination people can surpass any sort of crisis.

---

[1] Nassim Nicholas Taleb, born 1960, is a Lebanese American philosopher, essayist and practitioner of mathematical finance.

What I have learned from all this is that every situation, no matter how bad it is, also bears an opportunity for those who are ready to make the extra efforts with tenacity.

You have now received a great education. You have achieved the first obstacles in life.

Make no mistake, this does not give you a free ride through life and does not provide you with any entitlement for anything. It is not because you have one or several degrees that the people and events around you will treat you differently. Quite to the contrary, you belong now to the future leadership wherever you are working or whatever you are doing. People have high expectations in you.

All this may sound pessimistic, but with Mark Twain, who said after listening to Wagner, *"it is much better than it sounds"*, I would say that whenever there is change resulting from an issue there are opportunities for those who recognize them, those who are not biased or blind, those who are flexible and those who engage. Their individual attitude is what makes you and the organization for which you will be working to be amongst the frontrunners in dealing with complex issues in the future. What you have learned is to make decisions unselfishly for the greater good and not the own self- interest. Don't be passive, make an impact on the mission, strategy, goals and priorities, of your companies. speak up. Assume best intentions in one another, even if you disagree. You walk the talk and live the values your organization stands for. You are acutely aware of the shadow you cast on your organization; people will look up at you and take you as an example.

Understand that change is a certainty, be alert to what is going on around you, show interest for those parts of the world and problems that are not necessarily part of your day-to-day job.

Again sincere congratulations and I wish you all the best in your careers.

Thank you.