

# Frame the Future Thought Pieces



## Regulation for the Future



**Margareta Drzeniek**  
Managing Partner, Horizon Group

Since the first regulatory agency was created in the United States in 1887 (for railroads), regulation has evolved and adapted to the needs of society and the economy. Today, we are once again at an inflection point, when many changes present themselves that could impact regulation in a variety of ways.

One of the most important is certainly the convergence of different technologies coupled with the speed of technological development and deployment in different economic and social contexts — the fourth industrial revolution.

With technological advancement, innovation and the adaptation of technologies, which often go hand in hand, are becoming more important. Regulation can be a means to slow down or to drive innovation, depending on how forward looking and agile it is. One key aspect is the degree of risk taking embodied in regulation. Government processes and procedures are generally built to minimize negative financial outcomes, which can stifle innovation and always entails a risk.

One example where this plays a role is the area of public procurement, which in many countries makes up for a significant share of the market. On average, public procurement amounts to 12 percent of global GDP, with some countries spending more than 20 percent of their GDP (including India, Brazil, Egypt, Turkey and the Netherlands).<sup>1</sup> Many of the areas where public procurement is taking place

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are innovation intensive, such as the healthcare sector and defense. Regulation of public procurement processes for these sectors needs to evolve to allow for prototyping, testing of new processes and products, and factoring in a higher risk of failure.

But technological progress is not the only trend. We also observe that many markets are impacted by ongoing systemic changes as societies, governments, and consumers increasingly focus on addressing what has become known

<sup>1</sup> <https://blogs.worldbank.org/developmenttalk/how-large-public-procurement>

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as the global challenges, e.g. climate change, biodiversity, ageing-related health challenges, and inequality.

For markets that are at the heart of systemic change (e.g. logistics and transportation, energy, utilities, food and agriculture, etc.), the level of complexity of regulation will likely increase exponentially. Not only in terms of outcomes, but also how regulatory institutions and processes are organized. Systemic change needs new models of collaboration and engagement of a wider range of stakeholders. Regulation needs to take these into account and move towards a more dynamic and collaborative regulatory environment that brings together different stakeholders.

In the context of systemic innovation and change, reflexivity in policy and regulation is key, understood as the ability to correct course based on whether policies reach objectives. While regulation adapts on a continued basis to keep up with change, regular reviews of the impact of regulation are needed to ensure it is rethought as situations evolve.

Forward looking, advanced regulation can help a country create competitive advantages, as other countries tend to build on the experience of the first mover, and local businesses can adapt to regulatory requirements at their own pace and co-design them. Also, advanced regulation can help drive new approaches to systemic change that can be exported.

The perhaps most important change will come from the fact that regulation will also have to adapt to changing societal and economic priorities. Efficiency and safety have been central to date and will remain important, but regulatory measures will have to target a wider set of objectives going forward. These include equity considerations such as impact of individual regulatory measures on a wide range of different social and stakeholder groups (e.g. by gender or ethnic background). One example is unconscious bias in recent years in the context of recruitment, which has been exacerbated by the use of technology in some cases (algorithms used for screening CVs make decisions on past data and repeat past, biased hiring decisions). As policies and industries are embracing technologies, regulatory measures may not be free from unconscious bias either and may require regulatory framing. Much of this is still to be discovered, because we never researched how regulation affects some societal groups differently.

Last but not least, regulation in the post-COVID economy will be affected by the higher priority given to strengthening resilience. There is consensus that more frequent crises are likely to emerge in coming years, and reducing vulnerability to crises and strengthening resilience will change some underlying premises on which regulation is built, such as the focus on efficiency, which in some contexts can stand at odds with resilience.