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Productivity and Fragility: The Strategic Cost Hidden Behind Low Price

Executive Economic Intelligence Report — The Fragility-Adjusted Productivity Model

CLASSIFICATION · Public · Economic Assessment

Contents

01 Executive Summary

Source synthesis: This report is produced from a cross-reading of two bodies of work — a study examining the Euro Area's geopolitical, energy, financial, and systemic fragilities, and a presentation that lifts the concept of productivity out of the cost axis and redefines it at the level of value-added, capital quality, regulation, incentives, projects, and ecosystems.

The core lesson of the post-Covid period is this: a structure that looks productive but breaks under stress is not, in truth, productive. Running on thin inventory, tying oneself to the cheapest supplier, growing on short-term debt, standing only because of subsidies, treating regulation as nothing more than a compliance cost, and measuring a project solely by output volume — these were the old world's idea of productivity. In the new world, each of them, when poorly managed, turns into an element of fragility buried inside the balance sheet.

The Euro Area study shows that, with the war in Ukraine, Europe's military, energy, and industrial fragilities surfaced all at once: energy prices feed inflation, inflation feeds interest rates, and interest rates trigger public debt and systemic financial risk. The study's most important judgment is that geopolitical risk has now become a "risk matrix" that gives birth to all the other risks.

The productivity presentation enters the same room through a different door: the logic of "more output from less input" is no longer enough; what truly matters is value-added, capital quality, the return on support measures, the output effect of regulation, project selectivity, and ecosystem productivity.

> **IRIS Intelligence's synthesis judgment:** in the new era, the main indicator companies and institutions must measure is not bare productivity but fragility-adjusted productivity.

The question is no longer "how cheap is this production?" The right question is: can this production still create value under an energy shock, an interest-rate rise, a supply disruption, a regulatory change, currency pressure, a cyber outage, and a contraction in demand?

02 The Core Strategic Problem and the Current Picture

For the last thirty years, the managerial mind confused cost optimization with productivity. Just-in-time inventory management, global low-cost sourcing, debt-fuelled growth, and economies of scale delivered good results for a long time. But the pandemic, the war in Ukraine, the energy crisis, supply breakdowns, and geoeconomic bloc-formation exposed the cost this model had been hiding.

In the Euro Area, the 2026 picture shows that this fragility persists. The OECD expects Euro Area growth to slow from 1.4% in 2025 to 0.8% in 2026, with private investment held back by uncertainty.

> Capital is no longer free, energy is no longer a secondary cost, supply is no longer mere operations, and regulation is no longer a matter for the legal department. All of them have moved onto the board’s strategic radar.

Current Macro Indicator Panel · 2026

Indicator	Value	Source
Euro Area growth (2026)	0.8% (2025: 1.4%)	OECD
Annual inflation (May 2026)	3.2%	Eurostat
Energy inflation	10.8%	Eurostat
ECB deposit rate	2.25%	ECB · 11 Jun
ECB main refinancing rate	2.40%	ECB · 11 Jun
ECB marginal lending rate	2.65%	ECB · 11 Jun
EU debt/GDP (2027 exp.)	85.3% (2025: 82.8%)	EU Commission
Labour productivity (2026 Q1)	+0.1% y/y (2025: +1.4%)	Eurostat

Figures are carried over from the source studies; on 11 June 2026 the ECB raised its three key rates by 25 basis points.

03 Cross-Reading: Fragility Is the Shadow of Productivity

At first glance the two studies belong to different worlds: one describes the Euro Area's macro-financial fragilities, the other argues that the definition of productivity must change. Yet they answer the same deep question: **can a system convert the resources it holds into sustainable value under crisis?** In Europe's case, high competitiveness, strong industrial integration, and financial standing can turn into fragility under geopolitical stress. While strong industrial economies such as Germany, Austria, and Slovakia were shaken by their energy and supply dependencies, some southern countries — once the weak links of the debt crisis — proved relatively less exposed to the energy shock.

Transformation of the Productivity Question

OLD-WORLD PRODUCTIVITY	FRAGILITY-ADJUSTED PRODUCTIVITY
"How cheap is this production?"	***"Can this production still create value under an energy shock, a rate rise, a supply cut, currency pressure, and a demand contraction?"***
▪ Thin inventory · cheapest supplier ▪ Growth on short-term debt ▪ Survival on subsidies ▪ Regulation = compliance cost ▪ Project = output volume	*Glass productivity: it looks bright, but it cracks at the first geopolitical stone.*

The reversal is the critical executive lesson: *yesterday's competitive advantage can become today's channel of fragility. IRIS Intelligence calls this **glass productivity**: it looks bright, it measures hard, it comes out well on the charts — but it cracks at the first geopolitical stone.*

04 Current OSINT Picture: Europe Remains a Stress Laboratory

Europe today is an early-warning laboratory for companies and states alike. What happens there is not unique to Europe; through energy dependency, financing costs, industrial fragility, and regulatory pressure, it generates lessons for every open economy.

> In one sentence: Europe is an economic space with high productivity but a rising fragility coefficient. For every company that works with Europe, this is both a risk and an opportunity.

Public finances — European Commission, Spring 2026: the energy shock is slowing growth and pushing inflation up; the EU debt/GDP ratio is expected to rise from 82.8% at end-2025 to 85.3% at end-2027. Eurostat reports Euro Area debt/GDP climbing from 87.0% at end-2024 to 87.8% at end-2025.

Energy — IEA Q2 2026 Gas Market Report: the war in the Middle East disrupted global gas and LNG markets through the Strait of Hormuz; the temporary loss of roughly 20% of global LNG supply raised price volatility across Europe and Asia. The name of the risk changes, but the mechanism stays the same.

Financial stability — ECB May 2026 Financial Stability Review: banks' links to non-bank financial intermediaries can amplify credit, liquidity, and funding fragilities. The financing channel is not limited to bank interest rates; the chains of funds, insurance, bonds, private credit, and supply finance must all be monitored.

Productivity — Eurostat · Draghi competitiveness report: hourly labour productivity in the EU rose 1.4% in 2025 but only 0.1% year-on-year in Q1 2026. Slowing productivity, demographic pressure, rising energy costs, and global competition are together suppressing long-term prosperity.

05 The IRIS Model: Fragility-Adjusted Productivity

The classic formula, **Productivity = Output / Input**, is incomplete. Producing the same output with less input — if it ties the system to a single supplier, a single energy source, a single financing channel, or a single market — produces not productivity but concealed fragility. The formula IRIS Intelligence proposes is more strategic; its aim is not an accounting standard but a change in the managerial mind:

FRAGILITY-ADJUSTED PRODUCTIVITY

$$\frac{\text{Value-Added} \times \text{Resilience} \times \text{Optionality}}{\text{Total Factor Cost} \times \text{Dependency} \times \text{Volatility} \times \text{Replacement Time}}$$

A company's true productivity is revealed not on a normal day but on a crisis day. The four zones below are this model translated into a management verdict.

05 The Four Management Zones

Productivity × Fragility Matrix

LOW PRODUCTIVITY / LOW FRAGILITY ***Strategic reserve*** Reform · tie to the value chain	HIGH PRODUCTIVITY / LOW FRAGILITY ***Strategic core asset*** Protect · grow · scale
LOW PRODUCTIVITY / HIGH FRAGILITY ***Balance-sheet trap*** Exit · close · radically transform	HIGH PRODUCTIVITY / HIGH FRAGILITY ***Glass productivity*** Back up · diversify · insure

Vertical axis: productivity rises upward · horizontal axis: fragility rises to the right.

Zone	Definition	Management Verdict
High productivity / low fragility	Strategic core asset	Protect, grow, scale
High productivity / high fragility	Glass productivity	Back up, diversify, insure
Low productivity / low fragility	Strategic reserve	Reform, tie to the value chain
Low productivity / high fragility	Balance-sheet trap	Exit, close, or radically transform

> *For senior management the real danger is the second zone:* **activities that generate high profit but carry high fragility.** *They report well and are questioned poorly; they are heroes until the crisis arrives, and when it does they lock the balance sheet's fire exit.*

06 Productivity Must Now Be Measured Across Six Layers

Capital, incentive, entrepreneur, regulation, project, and ecosystem productivity must, in today's risk environment, become direct economic-intelligence indicators.

The Six Layers of Productivity

CAPITAL 1	INCENTIVE 2	REGULATION 3	ENTREPRENEUR 4	PROJECT 5	ECOSYSTEM 6
Era of cheap debt over; equity-weighted, shock-resilient structure	Manage subsidies like capital — capacity, or postponement?	Is regulation a shield or a friction? A strategic-friction measurement centre	Not many startups; scaling, export-linked, resilient innovation	Does it create strategic value — what capacity did it give birth to?	A firm cannot survive alone; network productivity is decisive

Capital — The era of cheap debt is over. The real question: is the capital structure resilient to interest-rate, currency, and demand shocks? A company that grows on short-term cheap financing is not productive — it may be hostage to the interest-rate calendar.

Incentive — Subsidies must be managed like capital. A project that stands on subsidies, but stops working the moment the subsidy is cut, has produced budget dependency rather than economic value.

Regulation — Is regulation a shield or a friction? The regulation department is not a cost centre but a strategic-friction measurement centre.

Entrepreneur — Not many startups, but resilient innovation. Ecosystem productivity should be measured not by the number of companies founded but by the share that scale, connect to exports, and survive a crisis.

Project — Not every project produces strategic value. The real question is not "is it completed?" but "what strategic capacity did it give birth to?"

Ecosystem — A firm cannot save itself alone. A single company may be productive; but if the ecosystem around it is fragile, that productivity is unsustainable.

07 What Does Europe’s Fragility Tell Companies?

The Euro Area study gathers Europe’s fragilities along three lines: a military/geopolitical capacity gap, energy dependency, and industrial supply-chain fragility. These three headings translate directly into company terms.

Energy dependency = margin risk

In energy-intensive sectors, profitability calculated in the cheap period erodes fast in a crisis. If energy cost carries high volatility, energy efficiency is no longer an environmental-department matter but a CFO and CEO desk issue.

Industrial integration = contagion risk

Europe’s automotive, machinery, chemical, and electronics chains are deeply integrated. The structure that produces productivity in normal times becomes a contagion channel under stress: a gas cut in one country can disrupt an export delivery in a third.

Financial tightening = capital-quality test

A rate rise does not only raise the cost of credit; it changes inventory financing, customer payment terms, project returns, and debt-rollover capacity. The debt structure is the invisible denominator of production productivity.

Political risk = demand and regulatory risk

Inflation and the withdrawal of support measures raise social pressure; social pressure feeds populism; and populism raises volatility in taxation, price controls, and regulation. Political risk is the volatility of market demand and regulatory cost.

08 Türkiye and the Regional Connection: Risk Transfer or Window of Opportunity?

This report centres on Europe; but for Türkiye-based companies the message is direct. Europe's energy and productivity crisis creates both an export opportunity and a risk transfer for Türkiye. When Europe — pressed by high energy costs and strategic supply security — strengthens its search for supply from nearby geographies, Türkiye can gain an edge in automotive sub-industry, machinery, technical textiles, defence, food, logistics, white goods, electrical-electronics, and renewable-energy equipment.

But this advantage is not automatic. A company that carries Europe's fragility onto its own balance sheet becomes a "supplier"; a company that produces solutions to Europe's fragility becomes a "strategic partner."

Supplier or Strategic Partner?

Profile	Outcome
A company offering only cheap production	**Absorbs price pressure**
Energy-efficient, certified, traceable, low-carbon, fast-delivering, with alternative-sourcing strength	**Becomes a strategic supplier**
A company with a weak financial structure	**Drowns under a large order**
A company with strong ecosystem connections	**Scales**

> Europe's fragility is not, in itself, an opportunity for Türkiye; it is a stress transfer that can turn into an opportunity only if it is well managed.

09 Early-Warning Indicators for the Board

Fragility indicators must now be added to the classic KPI set. The panel below is proposed as the core foundation for IRIS Intelligence's "Fragility-Adjusted Productivity Panel."

Area	Indicator	Management Meaning	Area	Indicator	Management Meaning
Energy	Impact of energy cost on EBITDA	Margin's sensitivity to an energy shock	**Regulation**	Cost of certification / regulatory delay	Market-access risk
Supply	Dependency on the top 5 suppliers	Concentration risk	**Project**	Project value-added / total funding	Project productivity
Time	Replacement time for critical inputs	Ability to sustain output in a crisis	**Incentive**	Self-sustaining ratio after subsidy ends	Support dependency
Capital	Debt-repricing calendar	Fragility to an interest-rate shock	**Ecosystem**	Depth of domestic / alternative suppliers	Resilience capacity
FX	Net open position and natural-hedge ratio	Exchange-rate pass-through	**Cyber**	Critical-system outage tolerance	Operational continuity
Inventory	Critical-stock days	Just-in-time fragility	**Market**	Single-region / single-customer concentration	Demand-shock risk

> The panel's aim is not to create reporting clutter but to make the board ask a single question: **on which fragilities does today's profitability rest?**

10 Scenario Horizon: 12–24 Months

Over the next 12–24 months, four scenarios test companies' fragility-adjusted productivity capacity along different axes.

Scenario Horizon · 12–24 Months

S1	S2	S3	S4
Controlled Adjustment	**Energy–Finance Squeeze**	**Protectionist Fragmentation**	**Technology Productivity Leap**
Energy choppy but manageable; ECB tightening limited; low but positive growth.	The energy shock drags on; inflation becomes persistent; rates stay high for a long time.	Trade tension, carbon regulation, and raw-material restrictions become the decisive forces.	AI, automation, and energy management accelerate productivity gains.
Winner: *flexible companies with strong capital quality.*	***Pressure:*** *high headline growth but low cash quality.*	***Advantage:*** *regulatory productivity and supply traceability.*	***Decisive:*** *the speed at which technology creates value-added.*

> *The shared lesson of all four scenarios: the winner is not the cheapest producer, but the company with strong capital quality, flexible to energy and demand shocks, able to convert technology into value-added.*

11 IRIS Intelligence Strategic Recommendations

1

Rewrite your productivity calculations

Unit cost, labour, and machine productivity are necessary but insufficient. For every critical activity, a fragility-adjusted productivity calculation must be made.

2

Compare cheap supply and secure supply in the same table

The cheapest supplier can be the most expensive fragility in a crisis. Insurance, delay, replacement time, political risk, and quality deviation must all be added to the supply cost.

3

Test the capital structure for resilience

Growing on credit creates an illusion of productivity once the interest-rate cycle turns. Equity strength, cash-conversion time, and debt maturity must be made strategic KPIs.

4

Use incentives as capacity-building

Every incentive must face one question: when this support is cut, will the company's competitiveness have increased?

5

Build regulatory intelligence

Regulatory change — especially for companies working with the EU — generates cost, market access, and competitive advantage. Reading regulation must be an early-warning activity, not passive compliance.

6

Pass the project portfolio through a strategic-value filter

A project is not successful merely because it is completed. A successful project gives birth to new capacity, new knowledge, a new market, new supply flexibility, or a new technology threshold.

7

Manage ecosystem productivity

If the suppliers, logistics providers, financiers, technology providers, public institutions, and educational infrastructure around the company are weak, the company's internal productivity stays limited.

> *The common axis of the seven recommendations:* **the shift from cost accounting to economic-security management.**

12 Final Judgment and Colophon

The old world defined productivity as doing the same job with fewer resources. The new world imposes a harsher definition: sustaining higher value-added under crisis, with less risk of breaking.

Reading Europe's fragility map together with the productivity model says this: companies can no longer be run by cost accounting alone. Energy, financing, supply, regulation, technology, human resources, public support, and political risk all sit inside the same productivity equation.

> **IRIS Intelligence's final judgment:** productivity is no longer an operational performance indicator but an economic-security indicator. A productivity report that does not measure fragility is merely a photograph with the good lighting switched on in the mirror of the balance sheet. Real management is knowing whether the company is still standing once that light goes out.

Method and Source Note

This report is a corporate economic assessment produced from a cross-reading of the Euro Area fragility study and the productivity-redefinition presentation. The content holds the status of a public assessment; it does not constitute investment advice.

Data and Verification Note

The numerical indicators in the report (growth, inflation, interest rates, debt/GDP, productivity) are carried over from the source studies with reference to sources such as the OECD, Eurostat, the ECB, the European Commission, the IEA, and the Draghi report. At the time of use, the decision-maker should confirm the current versions of these indicators from the relevant institutions' publications; the figures may be revised over time.

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