



Welcome.

It has been a pleasure to work in partnership with *BusinessWeek* and *dnmStrategies* on **The Fifth Annual CEO Forum**, held at The Ritz-Carlton hotel in Hong Kong, October 23-24.

Attending a conference can be like trying to get a sip of water from a fire hose. There are so many ideas floated, and so many opportunities to interact with intelligent and experienced leaders. With a great deal to absorb in very little time, it can be difficult to solidify the knowledge that you gain, or to put it in perspective.

Our objective in writing this briefing is to assist you in doing both. In addition, if you were unable to attend the conference or missed some of the sessions, this briefing will fill you in.

We have carefully reviewed the proceedings of the conference, looking for the most critical insights and the most compelling stories. We have also leveraged the expertise within our own organization to add an independent voice, and a provocative point of view. We intend not just to summarize, but to fully engage you in thinking about the many compelling ideas, issues, and challenges discussed at the conference.

The Center for Global Leadership, located at the Tuck School of Business at Dartmouth in the United States, is dedicated to building and sharing knowledge on the best practices of global corporations, especially as they seek to create, grow, and profit from new business ventures. We look forward to interacting with you in the future, and, in particular, welcome your comments on this briefing. Please email us at glcenter@dartmouth.edu.

We hope to see you at **The Sixth Annual CEO Forum** in Beijing, on October 22-23, 2002.

Warm Regards,

A handwritten signature in black ink, appearing to read "CT", is positioned above the name of the sender.

Chris Trimble
Executive Director

A handwritten signature in black ink, appearing to read "Vijay Govindarajan", is positioned above the name of the sender.

Vijay Govindarajan
Center Director

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An Executive Briefing
Insights, Interpretation, and Inspiration following
The Fifth Annual CEO Forum
23-24 October 2001 Hong Kong

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CEO Forum Overview

The 9-11 Recovery . . . and Beyond

This year's **CEO Forum** opened with perhaps the only topic that occupied each and every mind at the conference – the world in the aftermath of 9-11. What are the prospects for peace? What are the business implications? How can my company contribute to the solution?

As business leaders, our most significant short-term responsibility lies in supporting our own communities, and our own workforce. For many, particularly those in New York City, the psychological impact of 9-11 is ongoing. It is something that can be impossible to mentally disengage from, and this can have a devastating impact on productivity. This is a time when it simply couldn't be any more important to listen, to empathize, to support. And, according to Omar Khan, senior partner at Sensei International, "Humor must not be a casualty of 9-11. Then they've really won."

Looking outside company walls, it should only be expected that at a business conference, solutions generated to advance the cause of peace focused primarily on economics—and more specifically, on globalization. Poverty, indeed, contributes to world conflict and resentment. Three-fourths of the world's population still lives on less than US\$2 per day—thus the

"History is a race between education and catastrophe."

H.G. Wells

"swamp" of ignorance that terrorists feed upon. On US\$2 per day, education is not the priority, eating is. And as H.G. Wells once observed, "History is a race between education and catastrophe."

Even at impressive economic growth rates, it takes multiple generations to develop an impoverished nation. And development is a multi-dimensional problem, not just an economic one. Most critically, and most immediately, it is a problem of security, and of political stability. Without both, economics is irrelevant. Without both, consumer and investor confidence will never be fully restored.

That is why the effort to restore security and stability is a critical battle, one that must be fought with complete commitment, with no allowance for defeat. As Alan Carroll, executive chairman, Pacific Rim Forum and Carroll Partners International, put it "It is about civilization vs. barbarism. It's that simple."

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With luck, this will be a short battle, and we will soon be able to return our focus to matters of economic growth. As Mark Clifford reminded us, the globalization backlash continues to grow, and we must, in cooperation with political leaders, continue to communicate what an overwhelmingly positive force globalization has become. In the past decade, 700 million people have been pulled out of poverty, including 200 million in China alone. Globalization is not simply integrating the world economically, but also socially. It is dramatically increasing the probability that we will succeed in nurturing an increased mutual understanding and respect among nations.

But the onward march of globalization cannot be taken for granted. That will depend on our political leaders, including both heads-of-state and the leaders of the international institutions that manage the world's economic system. They provide the context in which we do business, and therefore determine the magnitude of business leaders' opportunity to create consistent economic growth around the world.

"It is about civilization vs. barbarism. It's that simple"

Alan Carroll

This year's conference included opportunities to interact with an impressive array of political leaders, including current or former senior executives from the governments of the United States, Thailand, Hong Kong, and the Philippines, the future Director General of the WTO, and a regional director of the IMF. This briefing starts with a review of their comments—on globalization, and on Asia's economic outlook.

The companies with the greatest potential for accelerating economic growth are the large multinationals. Few companies illustrate this as well as Procter & Gamble, a company which serves 3 billion more customers today than it did 15 years ago. We will highlight a compelling discussion with John Pepper, chairman of the Board.

For the first time, this year's conference included a discussion of corporate social responsibility—a topic that is clearly a much higher priority in the aftermath of 9-11. Numerous other critical CEO issues were also discussed—we will review the latest thinking on leadership, the Internet, partnerships and alliances, branding, knowledge management, talent management, and the challenges for Asian manufacturers in today's dynamic business environment. ❄



"Globalization has been an extraordinary success story . . . but a new trade round is critical, as is making sure that the benefits trickle down to the lowest levels."

Mark Clifford
Asia regional editor, BusinessWeek



"There are plenty of reasons for optimism, but all bets are off if terrorism can't be contained."

Alan Carroll
executive chairman, Pacific Rim Forum and
Carroll Partners International

At the Podium

The CEO Forum's opening address, **A Changing World Order: Setting the Context for Asian Business**, set the tone for the Forum.

Alan Carroll, the executive chairman of the Pacific Rim Forum and Carroll Partners International, opened with the sobering observation that we might have described the economic downturn as a "perfect storm" even before 9-11.

Mark Clifford, *BusinessWeek's* regional editor in Asia, was the first to develop what became a recurring theme – the notion that the root cause of terrorism is poverty.

The ever-quotable **Omar Khan**, senior partner at Sensei International in the United Kingdom noted "the world has not become more dangerous, it has become more revealed."



"The world has not become more dangerous, it has become more revealed."

Omar Khan
senior partner, Sensei International



Globalization and the Asian Economic Environment

Globalization: Convincing a Skeptical Public

The argument for globalization was heard from many voices, and the argument is this: we cannot eliminate world conflict without eliminating poverty. Growth is accelerated by trade, because trade allows nations to focus on the activities in which they are comparatively most efficient. Growth is also accelerated by free investment flows, which can dramatically increase the rate at which capital accumulates in developing economies. And growth is accelerated by the action of global corporations, who transfer skills and knowledge around the globe, improving productivity. There is simply no more effective set of anti-poverty policies than those that support ongoing world economic integration.

As everyone seemed to be in agreement, **The CEO Forum** did not include a globalization debate. If there had been such a debate we would have been reminded of globalization's biggest foe: an ever-more contentious environment of public opinion.

Globalization is something of a "common goods" problem. Gains from globalization come slowly—so slowly as to be nearly invisible—and are spread diffusely over large populations. The negative side effects, on the other hand, are acutely and immediately felt by specific groups in specific locations. For example, when a developed-economy corporation closes a factory and replaces it with one in the developing world, it typically creates a severe, if not permanent, unemployment problem in a given locality. Suddenly, hundreds of workers become a vocal minority, agitating against globalization and free trade. On the unemployment lines, they are not likely to be impressed at year-end by a 4% growth rate at home, or even an 8% growth rate in the developing country.

So who, then, will wage the public communication and education campaign on behalf of globalization? Politics tends to be short-term and local, so politicians speak primarily to the negative side effects. Politicians spin globalization as an inevitability (which of course it isn't), the burdens of which must simply be overcome. Hardly motivational.

If politicians can't be relied upon to advocate for globalization, how about corporations? Not likely. Corporations care about profit, and when they talk about social goals, the public assumes them to be disingenuous—often with good reason.

That there is no obvious globalization advocate is alarming. As the disruptions in Seattle and Prague showed, anti-globalization forces are disruptive and non-trivial. Thoughtful globalization advocacy is needed.

Beyond the question of who should carry the globalization torch, another key question is how should the message be communicated? We err if we ignore the opposing voices, dismiss them as uneducated, or allow our own rhetoric to become as extreme as theirs. Furthermore, we err if we fail to acknowledge the negative side effects of globalization. Doing so will only further energize anti-globalization forces, and diminish the integrity of our own case. The Honorable Fidel Ramos, Former President of the Philippines, articulated the all-too-common indifference to the very real social and ethical conflicts that globalization creates in developing countries, and the gut-wrenching impact of speculative excesses, most notably felt in Asia in 1997.

Our free market fervor
must stop short of
free market
fundamentalism.

Our free market fervor must stop short of free market fundamentalism. It must be sensibly combined with, in Mr. Ramos' words, "caring, sharing, and daring." It is with this attitude that we must undertake the effort to overcome tremendous hurdles in integrating the world economy.

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What of the impact of 9-11? Will it accelerate the globalization momentum or reverse it? The immediate reactions from both political and business leaders are encouraging. There is a crisis to rally around—and an event that makes it even more urgent for freedom-loving nations to work together. Furthermore, corporate bosses seem undeterred in their willingness to invest overseas. In remarks made following his panel, His Excellency Dr. Supachai Panitchpakdi, director general-designate of the WTO, noted that despite allowing employees to cancel travel plans at their own discretion, CEOs of multinational corporations are showing no indications of skittishness. Besides, many corporations have operations so deeply entrenched overseas that a retrenchment to home base would take years.

"Globalization is not an ideology, it is a fact."

*The Honorable Mickey Kantor
Former Secretary of Commerce and
United States Trade Representative*



Nonetheless, it remains to be seen whether the coalitions assembled to fight terrorism will be sustainable and effective for economic purposes once the public is again feeling reasonably secure. In fact, it seems just as likely that 9-11 will be viewed as a dark result of globalization. Public opinion may turn against further interconnectedness—economic, political, or otherwise. While terrorism might have once been considered a local problem, the Al Qaeda network lives on every continent, and leverages the worldwide mass media and the Internet in its operations and communications.

The Honorable Mickey Kantor, Former Secretary of Commerce and United States Trade Representative, closed his remarks by saying that "globalization is not an ideology, it is a fact." We can only hope it becomes that. Globalization is a trend that could be reversed at any moment, a trend that demands vigorous, and thoughtful, advocacy. ☘

Agriculture – The Most Labyrinthine Globalization Barrier?

Food production is an important sector because it represents a tremendous fraction of underdeveloped economies—over 70% of the world's poor live on farms—but it is the most difficult sector to integrate. Developing nations that are comparatively efficient in agriculture find tremendous barriers to trade from the developed world. Subsidies and tariffs in this sector are absurdly high, as developed nations protect their own rural communities. The predictable result? Food surpluses in some parts of the world and shortages in others.

The European Union has proven particularly prickly, even advocating a 'precautionary principle' that allows blocking any import which in their judgment could pose a public health risk. This principle has been easy to justify in the wake of the mad-cow and foot-and-mouth scares, but is all too certain to be abused from a trade perspective.

Developing nations that are comparatively inefficient in agriculture also have many reasons to resist trade liberalization—take China for example. As trade with China becomes more open, many of China's 600 million rural residents will need to retrain for jobs in other sectors. Though the Chinese government has indicated willingness to be less self-sufficient in agriculture, it is not hard to see how this economic restructuring would seem overwhelming.

In addition, it is easy to understand why any nation would feel more secure with a homegrown food supply. Relying on neighbors for food—the most basic human need—requires tremendous faith in the stability of a globally integrated economy.

Rich and Poor Working Together?

If there is one key message that globalization advocates must emphasize, it is that globalization is not about the rich exploiting the poor. But for this message to be credible, developing nations must share equally in globalization gains. Currently the income gap is actually widening. As President Ramos pointed out, the average Swiss now earns in a day what the average Ethiopian earns in a year. Three concrete actions will help close the gap:

1. Investing in developing nations' public infrastructure. For markets to be effective, there has to be supporting transportation, health, and education assets, among others. Unfortunately, official development aid from rich nations has decreased dramatically. In the 1960s, the United States Government allocated nearly 1% of GDP for this purpose. Today it allocates 0.1%, despite the "peace dividend" which allowed military expenditures to decrease from 6% to less than 4% of GDP.

2. Ensuring that developing nations have sufficient power in trade talks. Mr. Kantor called our attention to the differences between rich and poor nations in terms of allowable legal representation at WTO negotiations. While a better balance of power will not be sufficient to ensure that the rising tide lifts all boats, it will help ensure fairer consideration of developing market needs.

3. Tackling complex trade issues. At this November's round of trade negotiations in Qatar, progress must be made on several fronts, including the environment, labor standards, and corruption prevention. The most critical issue may be intellectual property protection, as the latest technologies, especially pharmaceuticals, are an essential development need.

The Asian Economic Outlook: Daunting

Prior to 1997, the Asian economic juggernaut appeared invincible. But the currency crisis of that year crippled the region. Could the current situation be worse? The current economic outlook is "the region's biggest challenge since the Korean War," said Donald Tsang, head of Hong Kong's civil service.

The export-driven economies of the region are particularly sensitive to circumstances in the United States and the European Union, so conditions appeared grim even prior to 9-11. Now, the malaise has deepened. In addition to decreased demand for exports, there is concern about investor confidence, market volatility, even oil prices.

As President Ramos, explained, Asia will suffer the greatest collateral economic damage from 9-11, due to the strength of these linkages. If there is one silver lining, it is that Asia is less susceptible to a precipitous drop in consumer confidence, at least by comparison to the United States, where the terrorist attacks actually took place.

As the factors driving the current downturn are overwhelmingly external, there are few short-term fixes, other than demand

stimulus. The need for both a fiscal and monetary response from most Asian governments was mentioned by several speakers.

Focusing on the longer term, the economic agenda, in many ways, is still being driven by the currency crisis of 1997, and the perceived lessons learned from that painful experience. Kunio Saito, Asia-Pacific regional director for the International Monetary Fund, highlighted the need for additional structural reform in the corporate and financial sectors. In addition, injecting greater transparency into public financial statements and creating more effective organizations for banking system oversight are of high priority.

There is also a sense that Asia has promising potential for long-term productivity gains, if they can more fully exploit the possibilities of the Internet, and transition a greater fraction of the economy to knowledge-based services. This will depend, however, on greater regional trade cooperation, especially a smooth integration of China into the regional economy.



"China is afraid too... but it is simply a fear of the unknown."

*His Excellency Dr. Supachai Panitchpakdi
Director General-Designate, World Trade Organization and
Former Deputy Prime Minister of Thailand*



"Asia cannot be successful without a successful China."

Mickey Kantor

"Hong Kong loves competition."

*The Honorable Donald Tsang
Chief Secretary for Administration,
Government of Hong Kong SAR*

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Wide disparities among Asian economies will make for slow progress. The European Union brought together a group of nations that are similar in income levels—the richest nations have incomes about two times the poorest. In Asia, ratios are much higher—approximately 15 to one between Japan and Vietnam, for example. In remarks after the discussion, Mr. Saito said that given the difficulties of achieving more cooperative trade, a common currency can only be considered a distant hope.

“China is dominating discourse far beyond its actual impact.”

Mickey Kantor

Then there's the 800-pound gorilla: China and its entry into the WTO. The Chinese population is roughly the same size as that of all other east and southeast Asian nations combined. All of the economies in the region (including China's) will need a massive restructuring effort as their businesses face new competition. Those that fail to anticipate the necessary changes will suffer dearly. China will likely have to shift resources from food production to manufacturing while south-east Asia shifts in the reverse direction, and the most highly developed economies of Asia shift towards services.

Still, concerns over China can be overstated. “China is dominating discourse far beyond its actual impact,” said Mr. Kantor, Former United States Commerce Secretary and Trade Representative. Not only that, the fear doesn't run in only one direction, said Dr. Supachai Panitchpakdi of the WTO. The Chinese “are just as scared... about a flood of imports into their market. It is a mutual fear of uncertainty.”

Regardless of how you view the impact of China's entry into the WTO, it is clear that in both the short term and the long, there is no shortage of challenges for Asia. ☘

At the Podium

The CEO Forum proudly included Keynote Addresses from three prominent Asian political leaders.

The Honorable Donald Tsang

Chief Secretary for Administration for the Hong Kong SAR, energetically conveyed overwhelming optimism for Asia's economic prospects and Hong Kong's critical role in it, while acknowledging numerous pressing challenges.

The Honorable Fidel Ramos

Former President of the Philippines, inspired a dinner gathering by combining insightful remarks on terrorism and globalization with a human touch—he opened by suggesting that everyone greet and hug their neighbors.

His Excellency Pongpol Adireksarn

Deputy Prime Minister of Thailand, briefed a lunch-hour audience on an impressively wide-ranging economic policy agenda to continue the acceleration of Thailand's recovery from the 1997 financial crisis.



Globalization and the Values of Hong Kong

Globalization demands:

- More transparency, not less
- Open markets and open minds
- Less government control
- More faith in the power of the market
- Good corporate governance
- A free flow of information and ideas

These are the values we recognize in Hong Kong. We have always placed our trust in the ideas of Adam Smith. This is not a matter of blind ideology, but as a small externally oriented economy, we have found this to be a practical and a rewarding way to unleash the talents and energy of the population. The rule of law underpinned by independent judiciary. A level playing field for all. A free and unfettered press. A clean, accountable civil service. These are the four pillars of our society.

*From the Keynote Address of
The Honorable Donald Tsang, Chief Secretary for Administration,
Government of Hong Kong Special Administrative Region*

Hong Kong and Shanghai – On the Same Side

Though many see Shanghai as a challenge to Hong Kong, Shanghai actually complements Hong Kong. Shanghai is a manufacturing center; Hong Kong commercializes new technologies. Hong Kong is the financial center for the region and a conduit for foreign capital, whereas Shanghai is in a good position to mobilize internal capital. As the mayor of Shanghai says, “Our two cities are the two twin engines propelling the great economic airline of China.”

From the Keynote Address of Donald Tsang

At the Podium

Dr. Supachai Panitchpakdi, the next Director-General of the World Trade Organization, drew the heaviest media interest during the event, and grounded his discussion about Asian economic challenges on reflections about his recent visit to one of the most revered trade fairs in China, the Canton Fair.

On the same panel, **Driving Revolutionary Change: Asia's Place in the New Century**, Former United States Secretary of Commerce, **Mickey Kantor**, drew our attention to the extreme difficulty of trade negotiations in the agriculture sector.

Kunio Saito, director, regional office of the International Monetary Fund (IMF), called for short-term demand stimulus in most Asian nations, in addition to continued structural economic policy reforms.

On the most positive note, **Dr. Michael Spencer**, chief economist, Asia from Deutsche Bank, suggested that Asian nations should be proud of their accomplishments, and should be held up as a model for other developing nations.

- Strengthen the regulatory framework, increasing transparency and promoting good corporate governance
- Foster joint venture arrangements in agricultural goods with regional players and suspend interest on loans to farmers for 3 years
- Increase foreign investment, particularly investment that develops local technology and innovation and provides higher value-add jobs
- Expand tourism, building on the 9 million people that already visit every year

*From the Keynote Address of His Excellency Pongpol Adireksarn
Deputy Prime Minister of the Royal Thai Government*



Terrorism: The Sources, The Response

The effort to understand what drives the terrorist mind has perplexed many since 9-11. Terrorism is the classic weapon of the weak. Emanating from a culture of isolation and deprivation, it is driven by a need to satisfy a destructive urge. Its object is not to defeat, but to gain political and psychological advantage, regardless of the cost in human lives.

Conflicts expressed as religious are almost invariably rooted in disputes over ethnicity, land, water, jobs, or food. In the Philippines, it is a rebellion of the excluded, of those on the economic margins. Where there are job opportunities, communications, and social mobility, there is no violence.

The voice of fanatics cannot be given real power, because fanatics are not turned toward the future, but toward the past—in the case of Al Qaeda, toward a time when Muslim societies led the world in intelligence and sophistication. We cannot let terrorism define us. In the Philippines, for example, we deal with terrorism in only two of our 79 states. It is a very small part of who we are, and where our overall focus lies.

Now the international community is in a struggle with a faceless enemy that spans the globe. Together, free countries must fight the war on multiple fronts—with military intervention, intelligence cooperation, support operations, and humanitarian peacekeeping operations. A one-man show would not be productive, even for the world's superpower. We must look beyond terrorism and deal with one of its underlying causes—the remaining inequities of the global order, helping the poorest people take part in the adventure of development.

*From the Keynote Address of The Honorable Fidel Ramos
Former President of the Republic of the Philippines*



Thailand: Pressing on Amid a Global Slump

Thailand continues on its path to recovery from the 1997 financial crisis. The challenge for the new government taking over early this year is to accelerate growth amid the global downturn. The program to stimulate domestic demand, revitalize the public sector and strengthen productivity of the grass roots economy is working. GDP grew by almost 2% in the second quarter of this year. Continued growth will be driven by initiatives to:

- Privatize state-owned enterprises
- Empower the Thai Asset Management Corporation to clear up the bad debts in the banking sector

Global Leadership and the Corporation

Procter & Gamble: Innovating for Emerging Markets

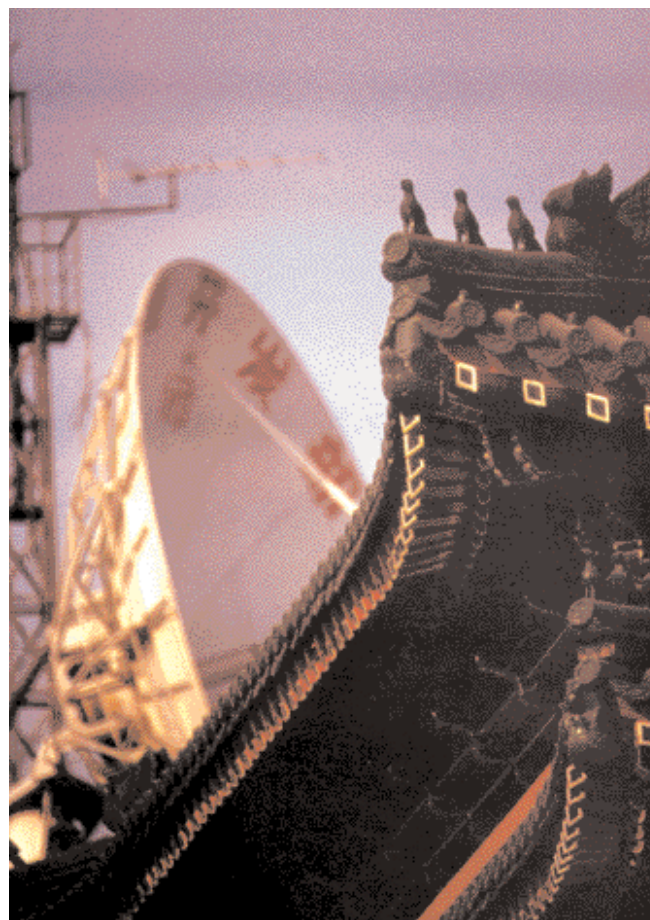
After leaving *BusinessWeek's* CEO Forum in Hong Kong, John Pepper, chairman of Procter & Gamble, traveled to China and visited some of his newest customers in one of the world's most compelling growth markets. His actions exemplify his mantra—"never forget that the customer is boss"—wherever that customer may be.

Global corporations like P&G play a critical role in the globalization effort. Without investment from outside nations or corporations, emerging economies face a restrictive limit to growth—as the ability of the poor to save is minimal, accumulation of capital is slow. Foreign direct investment brings not only capital but knowledge. Together, these are the two main drivers of productivity increases.

Though many global corporations make this contribution, only a few are able to fully exploit their potential to simultaneously increase their own growth and the growth of emerging economies.

Pursuing the obvious benefits of being a multinational—exporting existing products around the world and exploiting inexpensive labor and raw materials sources—is insufficient to reach this full potential. Doing so requires entirely new approaches to business, approaches that allow corporations to reach previously unserved low-income populations with innovative products. And this requires managing three slippery challenges that P&G is wrestling with as they enter China:

- Finding the right balance between customization and standardization,
- Protecting core values while encouraging intrapreneurship, and
- Removing barriers to the growth of new internal ventures.



Part of the reason Mr. Pepper makes a commitment to direct interaction with customers is his understanding that each country is different, or, taking it to an extreme, "every consumer is local." But there needs to be a balance between the increased market appeal possible through customization and the economies of scale possible through standardization. Corporations are far more likely to err on the side of overstandardizing.

P&G learned this lesson the hard way, particularly in the laundry detergent market. As Mr. Pepper explained, creating products for developing markets is often much more complex than simply diluting product formulations. These days, P&G is making substantial investments into research and development, including the operation of a huge R&D center in China, before introducing any product. This approach has led to both emerging-market reformulations of traditional products, like detergents, and entirely new products, such as new water filtration systems designed specifically for developing economies.

"Never forget
that the customer
is boss."

John Pepper

In many cases, it's not just the product formulations that must be altered, but the entire approach to business. Standard marketing techniques are often ineffective, as the mass media may not reach a sufficient portion of the population, and typical

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Responding to a Dynamic Global Business Environment

Key Elements of P&G's Change Program

1. Move P&L responsibility from geographic business units to product line business units.
2. Develop strengthened go-to-market capabilities in geographic units.
3. Restructure Global Business Services as a stand-alone service organization.
4. Focus the entire company on "Speed, Stretch, Innovation."
5. Increase goals for sales and profit growth.

*John Pepper
chairman, Procter & Gamble*

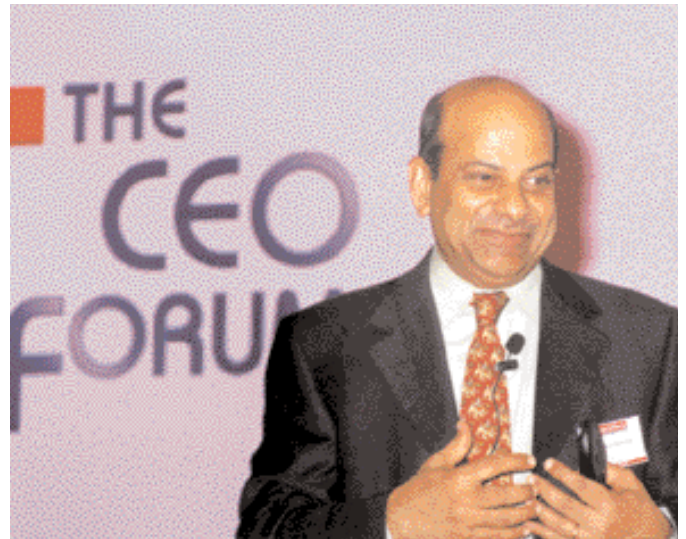
sales and distribution methods may be irrelevant. So it's not just increasing R&D effort, it's creating new entrepreneurial ventures, and that is a complex task for any large corporation.

According to Mr. Pepper, one critical success factor is differentiating those things which must be flexible versus those that must always stay the same. Especially in the Internet buildup of the late 90s, it was easy to get carried away with an environment that encouraged breaking all of the rules and trying anything new that looked remotely promising. Balance was critical, and an emphasis on basic, operational excellence was necessary. Mr. Pepper likes to compare business to baseball. "How do we win? It's simple. We just focus on the game. All you have to do is hit better and catch better and run better and score more runs. And remember that in April, May, June, July, August, September and October." In other words, it's easy to overcomplicate a business. That's why P&G will always remain committed to core values, profitability fundamentals, and an emphasis on their core strengths (creating and managing new brands, and leveraging new technology to develop innovative products).

What Keeps a Company Strong at Any Time?

1. The intrinsic worthiness and attractiveness of its purpose.
2. The ability to renew itself, without losing its foundation of excellence.
3. Committed and capable men and women who sustain and build it and regard it as their own.

*John Pepper
chairman, Procter & Gamble*



"The relevant question for most firms is not whether the rules of the global game will change; rather, it is who will take the initiative to change them..."

*Professor Vijay Govindarajan
Tuck School of Business at Dartmouth*

Still, unlike baseball, the global business game is always changing, so some adaptability is more than just necessary, it's a survival skill. P&G is currently dealing with a myriad of changes – more competition, increasingly sophisticated technologies, the impact of the Internet, the fragmentation of the media, and a constant evolution in consumer needs and tastes. Importantly, in such a dynamic environment, merely adapting is often insufficient to retain a position of industry leadership. As Professor Govindarajan put it, "The relevant question for most firms is not whether the rules of the global game will change; rather, it is who will take the initiative to change them – you, your competitors, or a new entrant." Leaders create the future. Laggards imitate.

For global corporations like P&G, with mature, standardized ways of operating, overcoming the myriad of barriers associated with growing new ventures internally is far from easy. Among the prickliest challenges are creating an ability to learn from mistakes, keeping Wall Street happy while investing in new ventures, and finding the right organizational model.

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Does Bigger Mean More Innovative?

Conventional wisdom has it that the bigger you are, the harder it is to innovate. But respondents to this year's issues survey indicated just the opposite.

Relative to maximum achievable potential (100%), how would you assess your company's progress in using digital technologies to create new and innovative business models?

Size:	Self Rating:
<US\$10M	39%
\$10 - \$100M	45%
\$100M - \$500M	52%
\$500M - \$1B	55%
\$1B - \$10B	55%
>\$10B	58%

As Mr. Pepper pointed out, things can and often do go wrong when corporations launch new ventures, as P&G has in China. The challenge is learning as an organization so as not to repeat the same errors. But this is easier said than done. Measuring the performance of a new business, especially one which shares cost with existing businesses, is tricky to say the least, leaving lots of opportunities to obscure the facts and manipulate performance perceptions. These pitfalls can only be countered with a strong commitment to truth. As Mr. Pepper points out, that mentality can only be sustained in organizations which accept failure—where new venture managers can admit defeat without recrimination.

Performance pressure is not only internal but is also external. The tendency to obfuscate heightens if new venture managers aren't shielded from the relentless pressure from Wall Street, which focuses on short-term results. Wall Street leaves little room for error, and provides little acceptance for the notion that sometimes performance must get worse before it gets better. (According to Mr. Pepper, with deft management, dips in quarterly earnings can be finessed, when necessary, but never annual ones.)

Finally, there is the question of the right organizational form to support new ventures. But there are many additional factors that drive the structuring of the organization chart. For example, P&G is currently focused on strategies to cooperate with powerful retailers such as WalMart, and is already committed to a difficult organizational restructuring from geography-centric to product-centric. Instead of an Asian division and a European division, there will be a global Pringles division and a



"Make your mission crystal clear, and show your people that you care."

*John Pepper
chairman, Procter & Gamble
(attributed to Colin Powell)*

global detergents division. This change will allow for more focused responses to global rivals, such as Kimberly-Clark, FritoLay, and Unilever, who compete in specific P&G markets. But the change may also move P&G a step further from their end-customers in each emerging market—the customers who are most likely to drive new ventures.

Hey, nobody said managing a global corporation was easy!☹

At the Podium

Many sessions focused on the dynamics of the global business environment. This one, **Strategic and Organizational Transformation in the Era of Globalization**, allowed us some insight into how CEOs actually deal with such rapid changes.

John Pepper, chairman of Procter & Gamble, captivated the audience with an impressive willingness to review the mistakes that P&G has made in addressing the changing environment, and openly discussing the lessons learned.

Vijay Govindarajan, a professor of International Business at the Tuck School, observed that most corporations spend far too much effort on operational challenges, and not nearly enough on truly transformational ones.

Not All Profits Are Equal

For the first time, **The CEO Forum** this year included a session on corporate social responsibility. The timing could not have been better.

Reflections on the impact of the September 11th tragedies permeated the conference, and in this particular session participants hungered for more than just consideration about direct business implications. Business leaders are clearly reevaluating the moral and ethical obligations of their companies to society at large.

Their energy may be new, but the debate is not. In the United States it began over 100 years ago, and was re-ignited in 1970, when Nobel Laureate economist Milton Friedman published an article entitled "The Social Responsibility of Business is to Increase its Profits" in the *New York Times Magazine*. His argument was reflective of, or perhaps it led, a rapid negative slide in public attitudes towards corporations. Between 1968 and 1979, one study showed, the percentage of the public that felt that corporations tried to strike a fair balance between profits and public interest fell from 70% to 19%. Cynicism toward corporations would appear to have recovered little, especially amid concerns about globalization.

With Responsible Individuals, Do We Need Responsible Corporations?

1. It is a company's responsibility to make a profit for its shareholders, and the shareholder's responsibility to help society.
2. There should be no inheritance tax. But wealth shouldn't be passed on to offspring, it should be given back to society.
3. Companies which do too much for the community, i.e. beyond what is needed for the good of the company, are on a slippery slope. Where does it end?

Ronnie Chan

Given that *BusinessWeek's CEO Forum* is a conference for business leaders, it's hardly surprising that the bulk of discussion was broadly in support of Friedman's overall argument. The most frequently repeated theme: healthy profits are indicative of the efficient utilization of scarce resources, and this is a core business purpose.

Furthermore, as Timothy Ong, chairman of Hotel Associates, correctly pointed out, business leaders should not be expected to solve all of the world's problems. Not every problem is a business problem. There are roles for governments, NGOs, and nonprofits. It should be clear, even to the anti-corporate crowd, that if businesses tried to be all of the above, they would fail to meet any objective.

"The social responsibility of business is to increase its profits"

Milton Friedman

Still, there are problems with such an unqualified equation of the needs of society with business profitability—both in terms of how it frames the debate and in its logical rigor.

With business advocates contending that profitability matches the needs of society, we've had, for decades now, a very polarized and nonproductive debate. Upon reflection, this shouldn't surprise us. Isn't it generally the case that an extreme and simple-minded position creates an equally extreme and simple-minded opposition? In other words, when we trumpet "greed is good," we have no reason to expect anything other than "corporations are evil" in return.

Causing further damage, pro-business advocates have often dismissed the opposition as lacking in a basic understanding of the market economy. This attitude simply insults

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Ronnie Chan



Timothy Ong

"We care about profits – and social responsibilities too!"

Unconstrained by History?

In opening his remarks, **Ronnie Chan**, chairman of the Hang Lung Development Corporation, suggested that perhaps the session title, **Revisiting Enlightened Self-Interest: Does it Pay to be Socially Responsible**, was misleading – that "revisiting" should be changed to "visiting" because while Americans and Europeans have discussed the issue of corporate social responsibility for some time, Asians have yet to seriously address the issue.

If true, then Asians are in an ideal position to provide thought leadership in this area. They can recast the debate without having to overcome a seemingly intractable thicket of misperceptions and mistrust.

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and further galvanizes them. Worse, it fails to acknowledge that—yes!—profits and the needs of society are sometimes in direct conflict.

To be fair, the entire business community can't be characterized as hewing tightly to Friedman's line. Mr. Tan, chairman of the ExxonMobil China Investment Company, commented that Friedman's approach is obsolete. And Forum participants generally agreed that corporate responsibilities extend beyond profitability.

But what those responsibilities are, and how they might conflict with the profit motive, are topics that largely remain taboo. All too often, corporate statements regarding social responsibility implicitly deny that any conflict exists. Some typical claims: "Corporate responsibility is good business," "Good corporate citizens look for ways to improve the quality of life wherever business is conducted," and "By definition, socially responsible companies are well run companies."

But conflicts do exist! In many cases, especially when either public safety or the environment is at issue, the conflict is obvious, direct, and immediate. Denying it—brushing it under the rug with meaningless aphorisms—only further undermines public trust and confidence.

Attempts to broaden the scope of corporate obligation—i.e. "We care about profits – and social responsibilities too!" – are equally unproductive. Does the following sound familiar? "Our corporate mission is to create shareholder value while serving the needs of our employees, the community, and customers." Be realistic. You can't be all things to all people.

Pursuing multiple conflicting goals only serves to engender confusion internally and mistrust externally. A better approach is to flatly acknowledge an overriding obligation to shareholders, and honestly discuss the obvious – that interests of shareholders and non-shareholders are often in conflict.

A more productive entree into the debate involves actually narrowing the scope of a corporation's social obligation. Not every mechanism through which businesses increase

profitability has a social benefit, only some do—those that lead directly to an improvement in society's collective standard of living. From this vantage point, it is the social responsibility of the corporation to:

1. *Make people more productive.*
2. *Create new products and services that improve people's lives.*

Here's the rationale. As a society, we can only increase our standard of living by improving productivity. Productivity is the total goods and services that one person produces in one day. Standard of living is the total goods and services that one person consumes in one day. As a society, we can only consume as much as we produce, so productivity and standard of living are equivalent. (In developed countries, we can anticipate and accept some resistance to equating either standard of living or quality of life to consumption, given that we consume far beyond our basic needs. In impoverished countries, however, this anti-materialist viewpoint is not only misguided, it is immoral. It is akin to telling people to starve.)

Corporations are the world's experts at increasing productivity. Because corporations are rapidly investing in new capital equipment and transferring knowledge around the globe, the world economy continues to grow. Because corporations are constantly seeking competitive advantage by finding better ways to produce—for example, by more efficiently managing information flows through the use of Internet technologies—economies of the developed world continue to grow. Finally, because corporations are constantly developing innovative new products and services, the public benefits from a broader menu of options for consuming newfound wealth.

Furthermore, when corporations are able to spread productivity gains around the world, they make a social contribution beyond standard of living. They reduce poverty, and poverty is often the root cause of conflict. We can be certain that world prosperity is a prerequisite to world peace.

This is a lofty, motivating, and, most importantly, focused statement of social responsibility for all corporations. Communicated in the right way, it will inspire passion in

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employees. Because it is a simple, limited, conflict-free and believable statement about what corporate social responsibility is and isn't, it might even inspire confidence and hope in the public.

What then, of the obligation to increase profits? The obligation still exists—but it's not a social obligation. Increasing productivity is a social responsibility. Increasing profits is strictly a business responsibility.

Increasing productivity is a social responsibility. Increasing profits is strictly a business responsibility.

So where does that leave us with the inevitable conflicts? Businesses should still pursue multiple mechanisms for increasing profits. But they should be aware that many actions taken to increase profit do not carry a direct social benefit. For example, many methods for increasing profitability simply involve transfers of income from nonshareholders to shareholders, such as price increases, cuts to employee pay or benefits, or negotiations for better terms with suppliers. In these cases, the net direct social benefit is precisely zero. (Economists may protest this conclusion—and yes, over time, there may be an indirect social benefit, depending on the health of the market mechanism in a given industry, but it is just that, indirect.)

It is reasonable to pursue a business objective when the social impact is neutral – when there is no conflict with the public good. Ethics are a bit stickier when the social impact is potentially negative, such as when corporations increase profits by endangering public safety or employee safety, excessively damaging the environment, or blocking the effective operation of the market mechanism (e.g. fighting free trade, or limiting information flows). In such instances, the social obligation of the corporation is not to forgo the pursuit of profit, but to simultaneously lead and support an open and honest debate which assists the public sector in making an informed regulatory decision regarding the net benefit of the profit motive in that specific instance. Open engagement in



Dr. Sura Sanittanont

At the Podium

A new topic for **The CEO Forum, Revisiting Enlightened Self-Interest: Does it Pay to be Socially Responsible**, drew energetic participation. It is a topic which draws close to the heart. There was agreement that everyone—corporations included—has a moral responsibility to contribute to the betterment of the planet, but more specific questions highlighted the ambiguity of the issues.

Ronnie Chan, chairman of the Hang Lung Development Corporation, placed the burden of social responsibility more on the individual than the corporation.

Timothy Ong, chairman of Hotel Associates emphasized that social obligations are secondary to a primary obligation to sustain profitability.

P.C. Tan, chairman of the ExxonMobil (China) Investment Company, observed that customers expect companies to be socially responsible, so that in the long-term social responsibility leads to profitability.

Dr. Sura Sanittanont, a geoeconomic and geopolitical analyst from Thailand, believes that the debate could become irrelevant, quickly, unless the income gap between rich and poor is reduced, dramatically. Unless this happens, the capitalist system will fail, in his view.

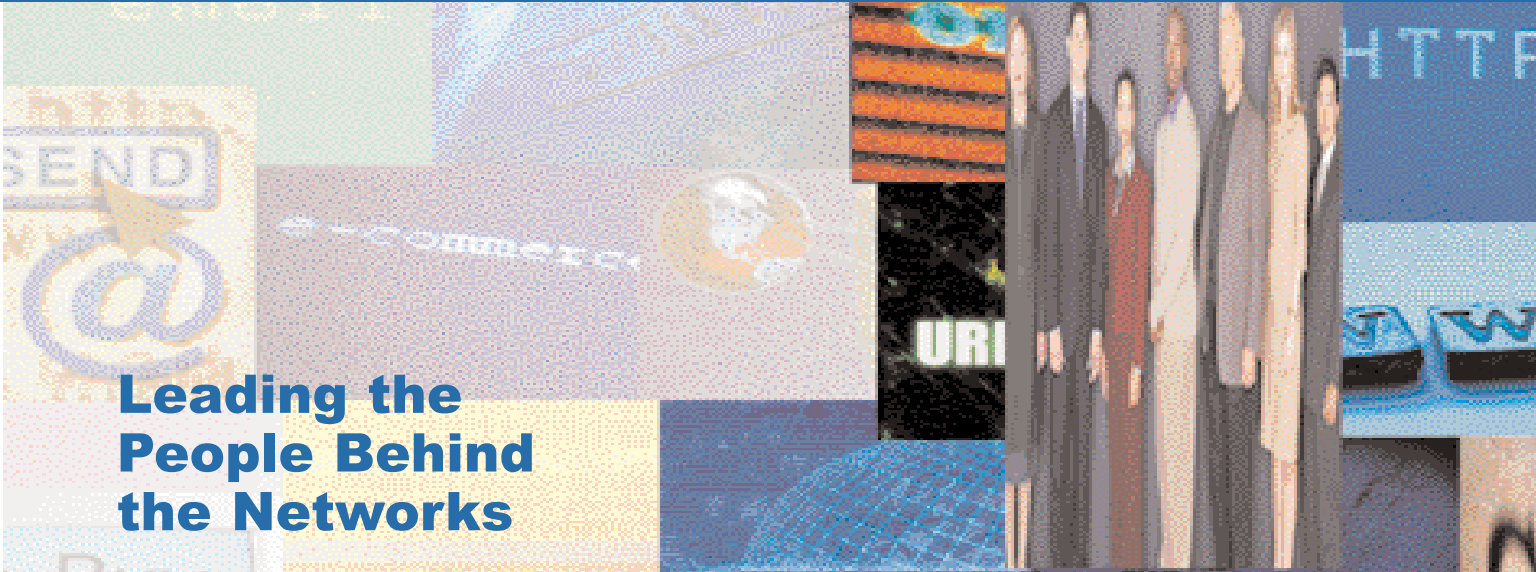
Pursuing multiple conflicting goals only serves to engender confusion internally and mistrust externally.



P.C. Tan

such forums could make a tremendous contribution to the restoration of public trust and confidence in corporations.

Mr. Friedman should have been a bit more precise. Perhaps counterintuitively, the primary social obligation of corporations is even narrower than maximizing profits—it is maximizing profit through innovating and improving productivity. ☘



Leading the People Behind the Networks

There was a time, not long ago, when our accolades were reserved for the largest, most mature, and most efficient corporations. A successful company was one that had been in the same business for decades, with the same basic approach. Then we entered a period where anything new and different was, by definition, good. Any business with a dotcom name was a pre-ordained success, and standards of business performance were (temporarily as it turned out) suspended. As we emerge from this era of breathless enthusiasm, it becomes clear, once again, that happiness lies somewhere between the extremes.

Built-to-last will still mean built-to-change, if not built-to-revolutionize-month-after-month. Darwin would find the modern business world familiar. Corporations that adapt most readily will survive to fight the next round—but corporate evolution will only be visible over multiple generations of mostly failed business models. So it is with the Internet. The Nasdaq rise and fall has created only a perception of a beginning and an end. The struggle for corporations to adapt has just begun.

Much of the challenge will be implementing the technology, but the greater struggle will be a human and organizational one.

A year ago, the opportunities afforded by new Internet technologies felt limitless, following a long onslaught of media and marketing hype. It might seem easy to dismiss that hype now; nonetheless, Internet technologies will only increase in utilization and importance for another decade at least. True, many of the revolutionary new business models have come and gone, and whether or not they are resurrected in the future is

A Revolution? Or The Same Old World...Just More Efficient

Sure, the Internet creates wonderful opportunities for completely new business ventures. Still, three-fourths of the participants at this year's **CEO Forum** said that they were at least as focused on using the Internet to make their business more efficient. Not only that, they think there's still much work to be done. On average, participants estimated that they had only captured 50% of the possible efficiency increases.

Is it about Technology, or People?

What stands in the way of your initiatives to make the most of the Internet? Solving technology snags may be part of it, but 88% of the participants in this year's **CEO Forum** said that "people problems" are at least as tough a nut to crack. Participants indicated that the most prevalent people problem is that (non-IT) employees do not feel any urgency to identify better ways to use technology, in part because they aren't rewarded for doing so, in part because there is no process in place for ideas submitted by employees to be evaluated.

There are technology issues as well, but most participants viewed technology limitations as external issues...either that software applications are not yet available to push their level of sophistication forward, or they are limited by the level of IT sophistication that their partners, suppliers, and customers are ready for.

subject to speculation. We can be sure, however, that the Internet also offers tremendous opportunities of a more prosaic form: efficiencies gained simply by automating routine information flows.

Compared to a couple of years ago, there is now much more awareness of just how much diligent effort is required to capture these efficiency gains—to make the transformation to e-business, in the jargon. Complicating matters, because much of the effort involves connecting your computer systems to customer, partner, and supplier systems, fast movers are often limited by the slower rate of progress of others in their business web.

Interestingly, though, the panelists in this session spent little time talking about technology—much more talking about leadership and change. This was appropriate. In fact, many companies are discovering that the human and organizational barriers that hinder the e-business transformation are far more difficult than the technology issues. In the end, gains will come rapidly only to the extent that a simultaneous investment is made in the development of human capital, allowing people at all levels of the company to effectively utilize the information that technology can provide.

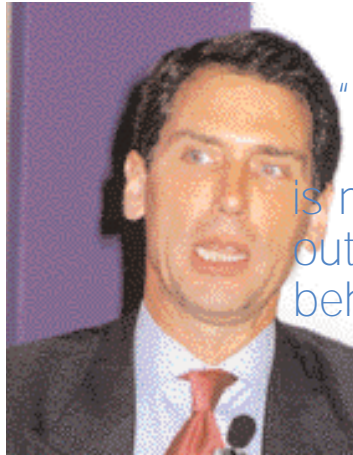
The people behind the networks will have to deal with an overwhelming amount of information, coming from multiple sources. They'll have to make decisions more quickly in order to keep up. They'll have to learn to deal with new partners, and modify the style they use to interact with existing partners.

The challenge for a CEO is to become a world-class teacher and mentor, and train additional teachers and mentors at all levels of his or her organization. Only in this way can others in the organization understand enough to act on the information that technology can

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provide, and adapt quickly to changing circumstances. And the challenge will be tougher still. CEOs will have to simultaneously lead their organizations through many of the traditional change processes that are likely to be brought about by the networking revolution, including shifts in strategy, organizational restructuring, and, in some cases, the staff reductions that are necessary to achieve expense reductions as productivity rises.

Steve Au-Yeung, general manager, IT Infrastructure and Systems Sales for HP Asia Pacific stated that leading in the coming century required the ability to look outward, look inward, and look forward. It's unlikely that he was instructing us to forget history entirely, but rather emphasizing that now more than ever, business leaders must be able to comprehend the external environment, understand the capabilities of their own firm, and find (preferably unique) opportunities to match the two of them together in new and creative ways. The wise blending of human talent with technology can, over time, enable this to happen. ❁



"If the rate of change inside your organization is not greater than that outside, you are already behind."

Nathan Rosenberg
managing director, The Rosenberg Group

If Even Cisco Struggles...

Technology marketers are quick to jump on the "business world is changing faster than ever before" bandwagon. But is it? Consider the case of Cisco Systems, which began their transformation to e-business (their effort to improve productivity by automating routine information flows, both internally and externally) well before most anyone else with a major internal technology upgrade, including an Oracle ERP system, back in 1994. But after 7 years of diligent effort, Cisco still believes that they have a long way to go.

One could argue that Cisco's transition has been slow because they have been pushing the bleeding edge of technology all along. Followers will not have to work out nearly so many 'bugs.' But consider all of the unique advantages that Cisco has had on its side:

1. Cisco transitioned during a time of rapid growth, and this allowed them to pursue dramatic productivity gains without fear of layoffs.
2. They are the most powerful player in the supply chain—their partners had plenty of incentive to keep up with them in implementing e-business initiatives.
3. They are tech-savvy from the highest levels on down, as are many of their customers, who were anxious to do business online.
4. They never had a massive tangle of legacy systems to dismantle as part of the process.
5. Their employees are young, and anxious for change.
6. They had an acute growth crisis in their customer service department, which provided tremendous motivation to migrate online.

How rapidly will your industry transform to high tech? The Nasdaq decline aside, there is still tremendous impetus for turning new Internet-related technologies into impressive productivity gains. But there's a long way between intentions and results.

At the Podium

Leading the Web-Enabled Enterprise: CEOs of the 21st Century Corporation offered reflections on the influence of technology, the pace of change, and CEO imperatives.

Steve Au-Yeung, general manager, IT Infrastructure and Systems Sales for Hewlett-Packard Asia Pacific, set the stage with a framework outlining where CEOs should look in this world of rapid change.

James Root, senior vice-president of Vsource, followed with a set of questions CEOs should be asking themselves, acknowledging that it has never been harder to be a CEO.

Yoichiro Yatsurugi, vice-president, Asia Pacific, AT&T Business, discussed the challenges, pressures and success factors for CEOs today.

Nathan Rosenberg, managing director of the Rosenberg Group, highlighted that in the end the Internet is just a tool and it all comes back to people.



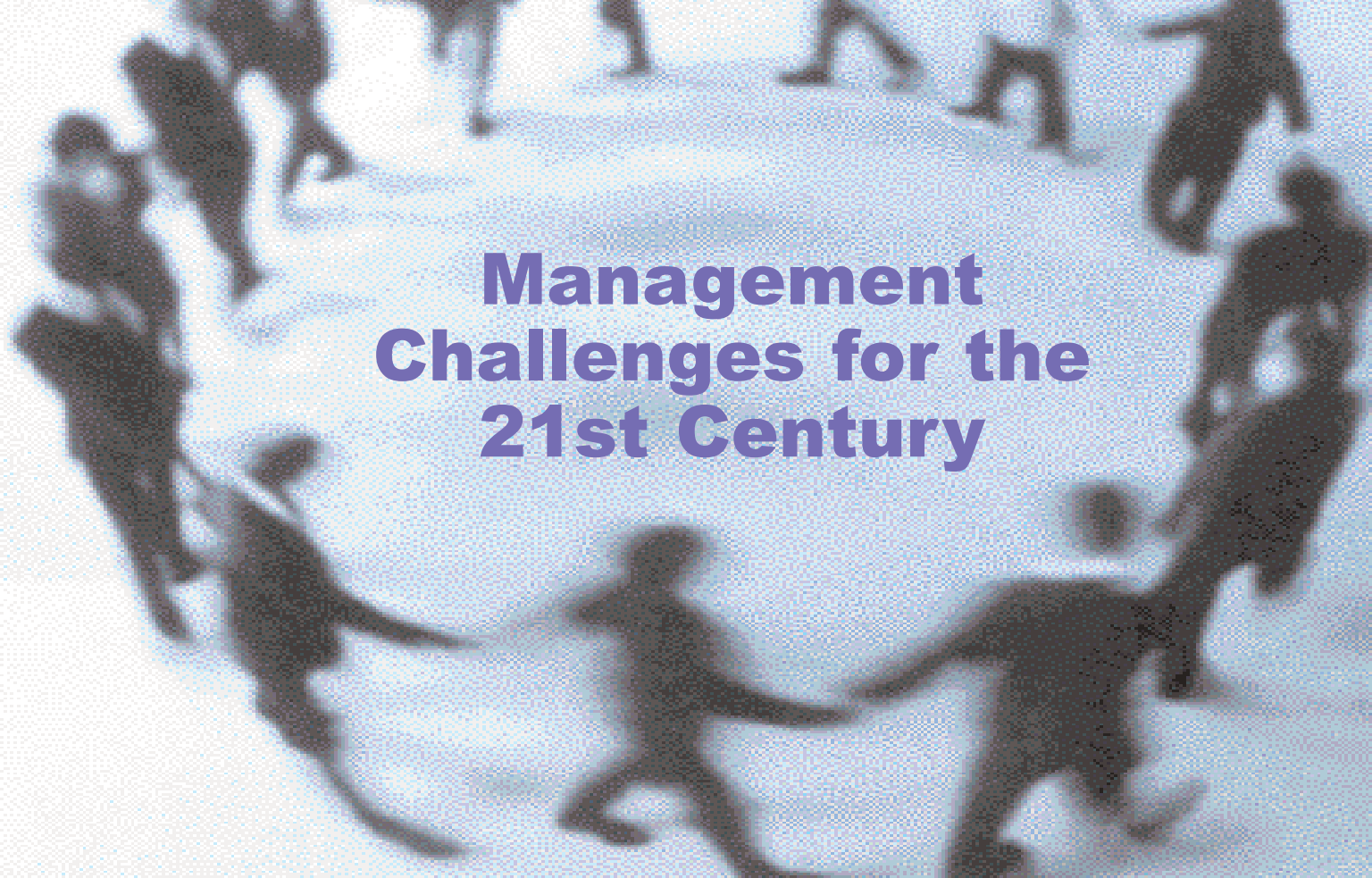
The Center for Global Leadership gratefully acknowledges the assistance of its sister organization, the Glassmeyer/ McNamee Center for Digital Strategies, Tuck School of Business at Dartmouth, in producing this briefing. In particular, the assistance of Hans Brechbühl, adjunct associate professor of Business Administration and executive director, was indispensable in writing articles about the digital economy.

The Glassmeyer/McNamee Center for Digital Strategies is dedicated to advancing the theory and practice of management in the globally networked economy. It generates insight into the way firms take advantage of innovations in digital technology to create economic value for themselves and their partners. Specific areas of focus include the challenges of implementing virtual supply chains, effectively dealing with customers in real time, and the organizational leadership challenges associated with fully exploiting new technologies. The Center for Digital Strategies fosters intellectual leadership by forging a learning community of scholars and executives at the cutting edge of management practice for the digital era.

Draw Your Own Conclusion

Of all industries surveyed, information technology industry respondents in this year's issues survey expressed the highest level of confidence that they had fully exploited the opportunities offered by Internet-related technologies.

Sure, they've accomplished the most, but wouldn't we also expect that they'd envision the greatest potential?



Management Challenges for the 21st Century

Forging Networks of Alliances

Conventional wisdom has it that one of the implications of new Internet technologies is that corporations will actually get smaller. As never before, they will focus on one or two unique core competencies, outsourcing everything else to a complex web of business partners.

“An alliance is a marriage, not a one-night stand.”

Vincent Lo
chairman and CEO, Shui On Group

And in fact, the movement towards more partnerships and alliances is clear in so many ways. As members of the panel brought out, there are staggering figures to support this. 20 years ago, most companies in the United States were vertically integrated. Only 1% of the total revenue of the top 1,000 companies was estimated to have come from operations involving alliances. In the year 2000 that figure was 18% and projected to increase to 33% by the year 2005. Companies like GM, AT&T and IBM are increasingly focused, and ever-more reliant on alliances and partnerships. In addition to new technologies, the dramatic trend is driven by a new willingness to alter traditional corporate structures, globalization, and the increased recognition of specific win-win gains to be made in partnerships.

John Hagel III and Marc Singer, in their 1999 *Harvard Business Review* article "Unbundling the Corporation", argue that most companies are still made up of three businesses: a customer relationship business, a product innovation business and an infrastructure business. They make the case that these three are quite different in their economics, their culture, and their competitive focus. As a result, we will see the further breakup of corporations into their natural parts.

The trend towards globalization is perhaps a more familiar and obvious source of the need to partner. The desire to operate around the world often launches a search for experienced players in new markets. As management guru Kenichi Ohmae recognized, even a decade ago, "...in a world of converging consumer tastes, rapidly spreading technology, and escalating fixed costs...globalization mandates alliances, making them absolutely essential to strategy."

Last but not least are the cases involving a specific, narrowly defined, advantage. Such advantages include the desire to share scarce resources, the opportunity to gain a particular technology, the chance to spread risk, or the prospect of gaining the ability to experiment with new business models.

That's not to say that partnerships are easy—many fail. So it is clear that abilities to identify new partners and operate with partners in a networked business environment are the indispensable management skills of the new era. ❁

At the Podium

Leveraging Alliances and Networks: Partnering for the New Future closed the forum with a thoughtful discussion on the continuing trend towards alliances and partnerships.

Timothy Chen, deputy president of Motorola in the PRC, opened the session by likening alliances to marriages—drawing more than a few hearty chuckles.

Vincent Lo, chairman and CEO of the Shui On Group, then shared his extensive experience in establishing joint ventures in mainland China.

Daniel Chong, managing director for Greater China for BMC Software, provided an interesting set of statistics about alliances, providing some tangible evidence as to their value.

Jamie Paton, director, North Asia of 3i then wrapped up the session emphasizing how the people that represent the parties in an alliance are what makes or breaks it.

Partnering with China: The Do's and Don'ts

With China's entry into the WTO and its growing economic role, more Western firms will soon be forging partnerships in China. The arrangements that meet success will be the ones that acknowledge, not ignore, the real cultural differences between the two regions, according to Vincent Lo, chairman and chief executive of Hong Kong's Shui On Group.

For the Chinese, for example, the relationship is paramount. For Westerners, all too often it is the legal agreements as represented by the contract. Westerners must realize that with the Chinese, they cannot negotiate everything in advance.

Differences in communication styles can also affect negotiations between Western and Chinese business partners. As Dr. Margie Li, an associate at Intercultural Business Improvement based in the Netherlands, points out, when negotiations hit an impasse, Westerners often chalk it up to the "inscrutable" Chinese. In fact, the Chinese partners may be sending messages that go unnoticed to a Western ear.

Finally, Westerners would be wise to include local government officials in negotiations, Lo said, adding that connections with and knowledge of local partners with government connections is a better approach than a greenfield operation. Overall, he said, a positive local attitude toward partnerships is emerging in China, captured in the phrase "You make a profit and we develop." It's a deal Westerners surely could live with...

The Dating Game

The first step toward a successful partnership is choosing the right partner. The second is setting a strong foundation for the arrangement. Specific tips from Timothy Chen, corporate vice-president & deputy president, Motorola China, include:

1. Define strategy and objectives to help ensure selection of a partner that provides the strategic fit you seek
2. Consider a broad overall pool of partners, including competitors, who in fact can be excellent partners
3. Ensure compatibility with existing alliances
4. Maintain flexibility, but do detailed business planning
5. Pay attention to the termination clause
6. Build in parental organizational nurturing
7. Balance partner staffing
8. Identify your implementation teams early and carefully – they are critical
9. Create relationships, not deals, and create those relationships at all strata: top management, middle management and operations.

"Asian companies have some pros and cons for building alliances. They tend to be more informal – this is good for flexibility. But they have also been notorious for not being transparent – that is not so good for trust."



*Daniel Chong
managing director, Greater China, BMC Software*

Practice Makes Perfect

"The ability to form an alliance is becoming a core competence of a company. According to a study of the top 1000 companies in the United States, for those companies who are new to structuring and negotiating an alliance, the success rate is 10%. For those companies who have had multiple experiences creating alliances, the success rate is 80%."

Daniel Chong

Not So Fast: Size Still Matters

Internet mavens agree: The corporation of the future will be much smaller. But is bigger actually better?

The technology zealot's argument goes like this. Thanks to ubiquitous networks, business processes—even ones that cross company boundaries—can be streamlined as never before. As a result, corporations will perform only the tasks at which they are superlative—everything else will be handled by a complex web of business partners.

Will acquisition be
the only route to
cooperation?

In fact, maybe the corporation will disappear completely. Maybe the economy of the future will be composed of nothing but self-employed specialists, spread throughout the world. Sales specialists will create demand and take orders. They will use computerized search engines to find desirable fulfillment specialists. Chain reactions of automatic production and transportation transactions will follow, mobilizing the remaining self-employed specialists necessary to complete delivery. Interconnected logistics, payment, and accounting systems will manage delivery, transfer funds, and tally results for each of the involved parties, all with minimal human intervention or delay. The journey to this economic nirvana will deliver unprecedented growth in productivity. We will at last be freed from mundane, ancillary activities like searching, negotiating, tracking, and accounting, so that finally we can focus strictly on producing and consuming.

Not only that, the economy will be incredibly flexible. As the world changes—new technologies are developed, tastes change, wealth grows, etc—complex webs of business relationships will spontaneously appear and dissolve, keeping supply and demand perfectly matched. Not impressed yet? Perhaps this utopian vision is one that could appeal only to an economist. And, you can be forgiven if you've now read enough Internet hype to be numb to such puffery.

Still, the notion of the "virtual corporation" is alive and well in the minds of many executive movers and shakers. But many are set to make some rather unpleasant discoveries. In fact, we may be on the cusp of a backlash in which vertical integration enjoys a renewed popularity. There are three reasons.

The first follows from a bedrock principle of business strategy. When business entities work together to deliver a product or service, the greatest profits accrue to the owner of the scarce resource. Of course, as industries evolve, the advantageous

position associated with the scarce resource shifts. The problem for strategists today is this: the Internet is causing many industry structures to shift quickly in unpredictable ways. For example, in some industries there are new intermediaries; in others, new disintermediaries. So the scarce resource of the future can be difficult to identify. Is this a time to focus, or is it a time to vertically integrate?

The second follows from an exception to the bedrock principle. The principle presumes, as so many economic theories do, perfectly informed businesspeople. But as any negotiator will recognize, power, and therefore profits, can often be shifted away from the owner of the scarce resource by keeping information hidden. That means that in any given industry, any number of players see a distinct disadvantage to building futuristic networks that make information more transparent. Despite the industry-wide productivity gains that are possible by cooperating to build these networks, many players will choose instead to protect their current profitability. Leaders of the drive to maximize the efficiency of the industry will be quickly frustrated. Will acquisition be the only route to cooperation?

Maybe the corporation
will disappear
completely.

Finally, industries often change too quickly for the construction of industry-wide networks to be economical. Projects to streamline processes across corporate boundaries are very similar to internal reengineering projects. They take 1 to 2 years, involve precise definition of tasks and information flows, and usually require at least some creation of custom software. They are costly, and can take several additional years to pay off. Unfortunately, industry structure and industry relationships are less stable than the organizations within corporate walls. The company that invests most heavily in building a superefficient industry-wide computer network risks a quick obsolescence. Does the stability of the vertical conglomerate now look attractive?

Perhaps information technology will in fact continue to bring us ever closer to an economy of "virtual corporations," even one-person ones. The potential for productivity gains are alluring. But the probability of losing money while chasing those gains seems unrecognized or underestimated. As a result, the trend could be reversed. ☞



A Brave New World for Asian Manufacturers

Asian manufacturers have traditionally maintained an edge as a source of low-cost manufactured goods. Their competitive advantage has come mainly in the form of either inexpensive labor or very efficient production lines. As more low-labor-cost countries become easier to access and the Internet enables competitors to streamline operations, these advantages are proving insufficient.

Thus Asian manufacturers must embrace significant change to continue to thrive. Embracing a level of transparency to which they are totally unaccustomed, they must utilize Internet technologies to bring unprecedented efficiencies to all business processes. And, they must continually reassess their role in the value chain, exhibiting high levels of flexibility and adaptability as market conditions change. In some cases, this will mean offering new dimensions of value—beyond lowest costs, while in others it will mean outsourcing to new partners.

A first priority for Asian manufacturers seeking to gain efficiencies online is to automate information flows throughout their traditional physical supply chains. This will allow them to reduce inventory levels, cut lead times, cut production costs, and ultimately be more responsive to customers. The crux of the effort will involve utilizing XML technology to link legacy systems. While this process is not painless, and in certain areas new systems may be needed, XML offers a remarkable range of solutions. One caveat: "It's important to note that introducing these technologies is not enough," notes Tuck School of Business professor Dave Pyke, co-research director for e-business and supply chain at the School's Center for Digital Strategies. "These efficiencies will not be achieved without using the information gained to rethink inventory, logistics, and production planning policies."

Next, firms need to turn to their financial processes, from purchase order generation to final settlement. A survey by the Association of Financial Professionals in the United States shows that in the next 24 months, 52% of companies in the United States intend to automate these financial processes. Kurt Cavano, chairman and CEO of TradeCard, points out that Asian manufacturers that sell to these companies will need to make these adaptations in parallel. At the same time, Cavano acknowledges these changes can be slow, even in the United States. Last year 78% of Cisco Systems' sales were made online, but Cisco still generated and mailed a paper invoice afterwards!

"Don't be just a pair of hands manufacturing parts. You have to move up into the value chain, to do the product development, to collaborate with your customers..."

*Hanson Cheah
co-founder and executive director, AsiaTech Ventures*

In addition to seeking web-related efficiencies, new positions in the value chain must be examined. Accustomed to running low-cost commodity operations, Asian manufacturers must find ways to enhance their role in the overall manufactur-

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ing process. Hanson Cheah, co-founder of AsiaTech Ventures, observes that partnering in other aspects of the supply chain process is one possible avenue. For example, becoming collaborators in the product design process. Tuck professor Eric Johnson, who studies web-centric product design collaboration between Western manufacturers and Asian suppliers at the Center for Digital Strategies, says "Asian firms that participate in the design process are better able to migrate their businesses away from commodity products to higher value customer goods." Increased collaboration, for supply chain efficiency or for product design, can help set apart a manufacturer, increase the value added, and lock in customers.

"Introducing technology is not enough. These efficiencies will not be achieved without using the information gained to rethink inventory, logistics, and production planning policies."

*Professor Dave Pyke
Tuck School of Business at Dartmouth*

Asian manufacturers must also be prepared to outsource where it makes sense. Corporations should examine their core competencies and their cost structures and take advantage of competencies others have to offer. The shift may be to their Asian neighbors in less developed and lower labor-cost manufacturing countries, or, in the case of China, perhaps to regions further inland.

Asian corporations have always been leaders in efficiency and in traditional networking skills. They now must combine these talents with web technology, ingenuity and collaborative flexibility, to create a new competitive advantage that will enable them to retain their role as preferred manufacturers and global suppliers. ❁

Finding a Niche in the Value Chain

A few years ago, Taiwan's Powerchip Semiconductor and Hewlett-Packard came out with similar scanners that originally sold for US\$3500. Today HP sells that same scanner for about US\$40. Powerchip Semiconductor has responded to the margin pressure by repositioning itself. Now, rather than competing directly with HP, Powerchip Semiconductor has become a manufacturer for HP's scanner.

*Frank Huang
chairman, Powerchip Semiconductor*



Opportunities for Partnership?

Asia's Industrial Models

- China: Plentiful Manufacturing Resources
- Japan: System Integration, Diversified and Deep R&D
- India: Software; OEM Capabilities
- Korea: Key Components Production
- Taiwan: Flexible Resource Management

Frank Huang

At the Podium

Retaining the Edge: Migrating Asia's Manufacturing Online, brought to light the importance of the transition Asia's manufacturing stronghold is undergoing.

Kurt Cavano, chairman and CEO of TradeCard, opened the session by emphasizing the need to use technology to manage the increasing complexity of all aspects of the supply chain, including the financial supply chain.

Hanson Cheah, co-founder of AsiaTech Ventures emphasized the need for adding value through being a collaborative partner.

Dr. Frank Huang, chairman of Powerchip Semiconductor gave us a targeted summary of production and supply chain trends.

Zhang Yue, CEO, Broad Air Conditioning gave us a unique CEO's perspective from the inside of one of China's most successful manufacturers.



Grasping the Intangibles

When sports commentators can't put their finger on exactly why a team is succeeding or failing, they often chalk it up to "intangibles." So it is with modern business.

In an increasing number of industries, the assets that really matter are just that—intangible. Your brand, your talented staff, your organizational knowledge. The fraction of market valuation of companies in the United States attributed to intangibles has risen from 1% in 1950, to 30% in 1975, to 60% in 2000, according to one study. Expect emerging economies to follow the same trend as they make the transition from agriculture to manufacturing to services.

As round as those percentages seem, intangibles tend to elude quantification. In fact, the US Securities and Exchange Commission is currently expending a great deal of resources trying to devise reporting standards to make the value of intangible assets easier for investors to measure. That will be tricky—there is more art than science here.

Connecting with the Soul Ad Copy from Harley-Davidson

1. "It's one thing to have people buy your products. It's another for them to tattoo your name on their bodies."
2. "Thumbing the starter of a Harley-Davidson does a lot more than fire the engine. It fires the imagination."
3. "Stop browsing. Start living. Start here."

Measurement, of course, is at the heart of management. Without performance feedback it is difficult to judge the effectiveness of past actions or the need for changes in strategy.

So how can intangibles be sized up? Here's where we can borrow a bit from traditional accounting, at least as a qualitative framework. If intangibles could be easily measured, they'd

show up on the balance sheet, with income and cash flow statement items associated with the buildup and decline of the asset. (In certain situations, this actually is approximated in the form of "goodwill.") Discussions about intangibles can be focused around these accounting concepts. How successfully are we generating new brand equity/talent/knowledge? What forces could potentially inflict damage on our brand / talent / knowledge?

Creative Titles to Retain Your People?

1. Inspired Value Maniac
2. Chief Catalyst
3. Guardian of Diversity and Openness
4. Process Artist
5. Finisher Extraordinaire
6. Protector of New Ideas
7. Enthusiast-in Chief

Omar Khan
senior partner, Sensei International

If it still sounds inchoate, the good news is that to a large extent these assets have much in common. Each intangible is not a new discipline to be mastered separately.

For starters, all three need more managerial attention than they generally enjoy. "When the talent review gets as much attention as the budget review, then we'll get the performance we deserve," according to Omar Khan, a senior partner at Sensei International.

Second, they have little to do with IT. Despite all of the effort put into maximizing Internet-related possibilities over the past few years, IT remains at the periphery when dealing with these "soft" assets. Technology can be a tool to help connect people, but success in developing and preserving these intangibles has much more to do with human, face-to-face interactions.

Finally, because these are all very human assets, because they exist in the minds and souls of people or groups of people, the most effective way to build them up is through *conversations*.

Branding is about conversations in that a brand becomes a verbal shorthand for a wide range of thoughts and emotions. Consider what is now conveyed by the Harley Davidson brand.

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“Mission/Vision/Values becomes a laughing stock, when senior executives don’t practice what they preach.”

*Louise Ho
managing partner, Amrop Hever Group*

Like most brands, it initially only connected with consumers’ minds. But through countless human interactions, it has gained meaning that connects with the heart and soul as well.

Brand managers should worry about more than just external conversations, however. As Mike Murphy, CEO -Asia Pacific for Ogilvy & Mather, pointed out, brand building starts with getting employees to live the values of the brand—to fully internalize its promise. This requires diligent internal communication. In rebuilding their brand, British Petroleum spent more effort communicating internally than externally.

New Sources of Competitive Advantage

<i>Industrial Age:</i>	<i>Knowledge Age:</i>
1. Scale	1. Imagination
2. Efficiency	2. Experimentation
3. Replication	3. Agility

*Dr. Hirotaka Takeuchi
Dean, Graduate School of International Corporate Strategy
Hitotsubashi University*

Meaningful conversations also drive the creation of new talent. It is rare to hire someone that both already possesses all of the talents you need and is a great fit for your organization. That means that most talent must be developed in-house. As Mr. Khan pointed out, the most frequently identified deficiency in leaders is a failure to spend sufficient time coaching and mentoring.

Finally, conversations are critical to the development and preservation of knowledge. The types of conversations that are most valuable are those that allow for combinations of tacit knowledge and explicit knowledge, said Dr. Hirotaka Takeuchi, Dean of the Graduate School of International Corporate

Winning Attitudes for Building and Retaining Talent

1. Information technology is just the ticket to the party. To win you need talent.
2. You need both someone to generate ideas, and someone to listen to them.
3. You can’t have imagination unless you are being yourself.
4. If anyone agrees with you all of the time, fire them. (Corollary: If you and your spouse agree on everything, one of you is redundant.)
5. You win in mind before you win in marketplace.

Omar Khan

Strategy at Hitotsubashi University. Ultimately, creating new organizational knowledge involves taking what is understood in the gut, based on experience—tacit knowledge—and converting it into formal processes and procedures—explicit knowledge. Ultimately that explicit knowledge turns back into tacit knowledge as specific information is permanently internalized throughout an organization.

Claude Green’s experience as deputy CEO at Factiva, a joint venture between Reuters and Dow Jones, is instructive. As Mr. Green pointed out, it had been easy for each organization to get locked into a single mode of thought, as viewpoints on core values and success drivers got deeply institutionalized through the promotion process. Through the joint venture, each group was challenged with tough questions from folks with a different point of view. These exchanges lead to a great deal of new knowledge, subsequently incorporated into the new venture.

All this said, there are differences between intangibles that need to be appreciated. They differ most in their degree of vulnerability. Talent is the least secure. As Charles Wang chairman, Computer Associates, once described, “Everyday my most valuable assets walk out the door at the end of the work day, and I wonder if I’ve done enough to bring them back the next day.” Knowledge is a bit more safe, but a brand may be the most valuable asset because it is the most durable.

Why Are Brands So Valuable Today?

1. Brands are ownable in an age of commodities. Product differences are not.
2. Brands are a necessity not a luxury in the Information Age.
3. Only strong brands will survive in the e-commerce world.
4. Strong brands command greater loyalty. Loyalty pays.

Mike Murphy, CEO, Asia Pacific, Ogilvy & Mather

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A Knowledge Mixer?

What do you get when two companies that traditionally have competed against one another create a joint venture? That's exactly what Dow Jones and Reuters did when they created Factiva, a global provider of web-based news and business information services.

As the two companies were in the same industry, they had much in common. But they also had developed quite distinct cultures and operating processes. Much of the knowledge about "what is valued" and "how the work gets done around here" had become, through years of socialization and promotion, tacit – that is, deeply embedded within the subconscious of employees from either side of the partnership.

You can imagine the difficulties early on. Miscommunications. Misperceptions. Misunderstandings. But working out differences gave employees from both Dow Jones and Reuters the necessary stimulus to question a great deal about how they did business—and learn from the process.

None of this happened automatically, however. Management had a critical role, especially in two areas: *asking questions* and *connecting people*. These activities stimulated conversations that surfaced underlying assumptions, and made tacit knowledge explicit. Two frequent approaches included "Do you have everything you need to do your job?" and "Are you aware that there is someone else in the organization working on a very similar problem?"

Of course, not every company is in this unique joint venture situation. But the same principles can be applied to external organizations. Whether the inspiration is something intriguing about how your competition, customers, or suppliers run their operations, new knowledge is generated by making new connections between people, and stimulating their conversations with provocative questions.

From the comments of Claude Green, deputy CEO, Factiva

Talent is vulnerable because organizations are susceptible to violent chain reactions of employee departures. For many, the most important reason they continue in their current job is because of a handful of valued colleagues and mentors. When one leaves, the probability of a second departure rises, and so forth. With enough of a push, a company can implode, as a few professional services organizations have discovered the hard way.

Knowledge can of course suffer in such a rapid-fire exodus, when a certain fraction of important organizational knowledge exists only in the minds of a few critical employees. But this risk can be mitigated to the extent that knowledge is made explicit and rigorously documented. A bigger danger to organizational knowledge is simply that it becomes obsolete, especially in fast-paced industries.

Finally, though a brand may be the most expensive of the intangibles to build, it is the most durable. Barring major public catastrophes, brands have proven their ability to overcome a myriad of minor mistakes. Once customer loyalty is created, it is not easily destroyed.

In sum, though intangibles elude the measurement tools so effective with tangible assets, they are as or more critical than their physical counterparts. The leader who recognizes the importance of intangibles, who can deal with the ambiguity of imprecise measures, and who has the human intuition and patience to nurture intangibles will reap very real rewards. ❁

At the Podium

*This article was inspired by three **CEO Forum** sessions:*

Valuing Talent as a Strategic Asset: The Challenge Continues; The Knowledge Creating Company: Insights as Advantage; and **The Mindshare Manifesto: Building Winning Brands in Asia.**

In alphabetical order, the panelists for these sessions were: David Clark, partner, Linklaters; Claude Green, deputy CEO, Factiva; Louise Ho, managing partner, Amrop Hever Group; Omar Khan, senior partner, Sensei International; Peter Lau, chairman and CEO, Giordano International; Mike Murphy, CEO of Asia Pacific, Ogilvy & Mather; Dr. Hirota Takeuchi, Dean, Graduate School of International Corporate Strategy, Hitotsubashi University; James Thompson, chairman, Crown Worldwide Group; Cecile Saavedra, managing director, Asia Pacific, Standard & Poors

Forum Chairman & Moderator; Dr. Chandru Rajam, Chief Knowledge Officer, dnmStrategies and associate professor of Strategy, The National University of Singapore Business School.

