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TUCK SCHOOL OF BUSINESS AT DARTMOUTH
WILLIAM F. ACHTMEYER CENTER FOR GLOBAL LEADERSHIP

Managing in Times of Turbulence
An Executive Briefing

THE CEO FORUM™

The Sixth Annual CEO Forum

Rethinking the 21st Century Corporation: *Balancing Turbulence, Power and Responsibility*

Beijing, October 2002

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WILLIAM F. ACHTMEYER
CENTER FOR
GLOBAL LEADERSHIP

It has been a pleasure to work in partnership with *BusinessWeek* and dnmStrategies on this year's CEO Forum, held at the Grand Hyatt in Beijing, October 22-23.

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 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've carefully reviewed the proceedings of the CEO Forum, looking for the most critical insights and the most compelling stories. We've also leveraged the expertise within our own organization to add an independent voice and a provocative point of view. As a research organization, the Center for Global Leadership does not take an "official" stand on public issues. We have introduced opinion into this briefing to make it more compelling for the reader. By doing more than just summarize, we hope to fully engage you in thinking about the many important ideas, issues, and challenges discussed at the Forum.

The Center for Global Leadership, located at the Tuck School of Business at Dartmouth College 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 next June in Shanghai for the 12th Annual Asia Leadership Forum.

Warm regards,

Vijay Govindarajan
Center Director

Chris Trimble
Executive Director

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Managing in Times of Turbulence

An Executive Briefing

Insights, Interpretation, and Inspiration following the Sixth Annual CEO Forum

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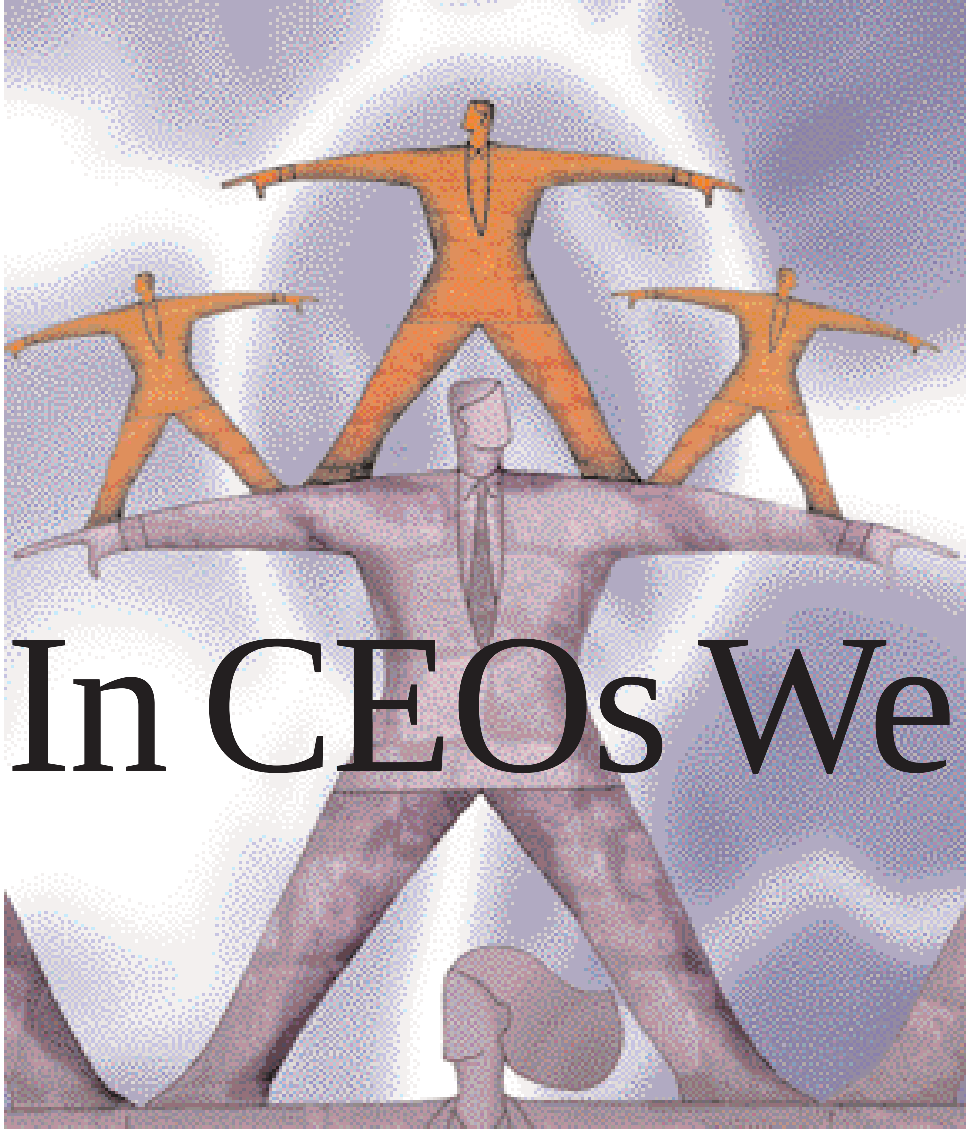


In CEOs We Trust

Over 500 CEOs and senior executives gathered in Beijing for this year's CEO Forum. Toward the end of a year marked by scandal and political instability, many longed for simpler times. The opening topic of discussion, "Is the CEO's an Impossible Job?" was aptly titled.

Nonetheless, undaunted by the challenges of the current environment, panelists were unabashedly positive about the job of the CEO. According to Harold McGraw, CEO of McGraw-Hill, "The CEO's job is not impossible. It is a great job. Only when people act unethically—when they get too caught up in their own personal gains—does it become difficult."

The extent of unethical behavior unmasked by the recent downturn in the United States has been no less than shocking, especially given the United States' reputation for having some of the world's strongest institutions of law and governance at the foundation of its economy.

The job of the CEO is wide ranging, but the ethics scandals have returned focus to one critical aspect of that job—that of establishing and maintaining core values. Although CEOs often speak proudly of unique aspects of their corporate culture, much as citizens speak proudly of unique aspects of their national culture, in this year, business leaders need to be more cognizant of universal values. According to Jiro Nemoto, chairman of Nippon Yusen Kaushiki Kaisha (NYK Line), "There should be a harmonization of the values of the East and the West… moral discipline, freedom, and liberty should be universal."

"The CEO's job is not impossible. It is a great job. Only when people act unethically—when they get too caught up in their own personal gains—does it become difficult."

Harold McGraw III
chairman, president and CEO
The McGraw-Hill Companies

More than anything else, moral discipline is about a commitment to the truth. It is about trust. It is about integrity. As Mr. McGraw put it, "Trust matters most… credibility is our calling card. Business can't succeed without it. Business leaders must model ethical behavior."

Now that it has been damaged, the value of trust will become all too readily apparent. For months, the ethics scandals in the United States have dominated headlines. As a result, costly new rules and regulations will become the substitute for lost trust. This briefing opens with a discussion of proposed solutions for improving the governance of corporations.

The urgent need to restore trust is unique to current times. However, as Richard Brown, chairman and chief executive officer of EDS, pointed out, the fundamentals of the CEO's job remain the same. They have always been to set a strategic direction, mobilize the necessary people and resources, establish specific operational commitments, and monitor progress toward achievement.

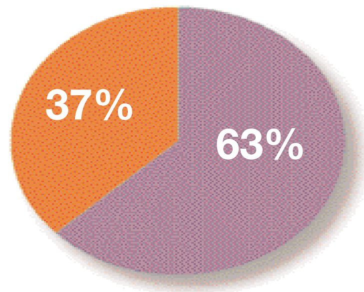
> "We are in an age of globalization. What is important is patience and tolerance."
>
> Jiro Nemoto
> chairman, Nippon Yusen Kabushiki (NYK Line)

The job could almost be routine, except that the global economy evolves, sometimes changing suddenly and dramatically. This requires that CEOs predict the future and judge whether their approach to business today will be relevant tomorrow. For the CEO, there are few challenges as complicated as that of organizational transformation. And 57 percent of participants at this year's Forum agreed or strongly agreed that transformational leadership skills are important for a CEO's success.

Sure, the need for transformation is often overstated, but the forces that may require such transformation—some more certain than others—are numerous. There was hardly any shortage of such forces discussed at this year's Forum. For starters, there is political instability, particularly that resulting from the ill-defined threat of terrorism. Several prominent political leaders offered their viewpoints during the Forum, including current and former heads of state from the United Kingdom, the Philippines, and Australia.

More rules, or more ethical behavior

According to survey respondents, to improve investor trust, CEOs should focus on reinforcing ethical values.



Also shaping the playing field for CEOs is the evolving status of trade agreements, China's accession to the World Trade Organization (WTO), and its on-going transition to a market economy. The head of the WTO, as well as several representatives from the Chinese government, were on hand to address the current status of these changes.

If this weren't enough, many CEOs face threats to their current approach to business from the onward march of information technology. After the burst of the NASDAQ bubble, it is easy to be dismissive of this threat. This is unwise. Although purchases of new IT equipment have declined dramatically, figuring out how best to apply new technologies will take another decade at least. The threat to existing industry structures will last as long.

After a review of these transformational forces, this briefing shifts to a discussion of how CEOs can respond. Sessions at this year's Forum focused on how transformation can be approached and the significance of core competencies in planning this transformation. In addition, the specific transformation faced by many business leaders in countries transitioning to a market economy—that of instilling a performance-based culture—was debated.

In many forum sessions, panelists touched upon more specific, functional business challenges. Two such challenges warranted full panel discussions: developing business partnerships in China and building brands in Asia. This briefing closes with a discussion of each. ⌘

Keynote Address

Harold McGraw III
chairman, president and CEO
The McGraw-Hill Companies
United States

Plenary Session

Is the CEO's an Impossible Job?
Balancing Turbulence, Power, and Responsibility

Vivek Bharati
advisor, Federation of Indian Chambers of Commerce and Industry (FICCI), and former editor, *The Economic Times,* India

Richard Brown
chairman of the board and chief executive officer, EDS, United States

Robert C. Hagerty
chairman of the Board, president and chief executive officer, Polycom, United States

William Kupper
president and publisher, *BusinessWeek*, United States

Jiro Nemoto
chairman, Nippon Yusen Kabushiki (NYK Line) and honorary chairman, Japan Business Federation, Japan

Wang Xianzhang
president, China Life Insurance Company, People's Republic of China

The Weakest Link

The damage done to faith in corporations by the recent scandals is difficult to underestimate. Trust has been broken. The natural response to broken trust is a demand for more information—for greater transparency. Investors want a better picture of what is going on inside corporations.

Although angry fingers have been pointed in many directions, ensuring investors get the information they need requires more than just identifying a single group of irresponsible actors. Attention to the entire system is necessary.

Specifically, information arrives at investors only after passing through several intermediaries. Starting with employees, information is communicated to senior executives, then to the board of directors, then to analysts, and finally to investors. The entire system must be sound. A break in any link in the chain is fatal to the entire system.

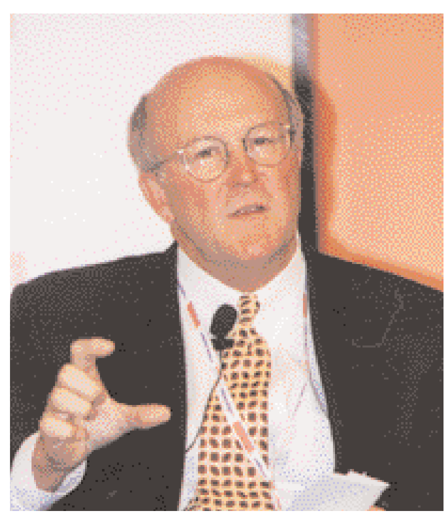
On several different panels over the course of this year's Forum, speakers addressed each link in the chain. The recent decision in the United States requiring CEOs to certify the financial results submitted to investors has resulted in more than a few squeamish reactions from CEOs. How can any one person, even the CEO, have complete-enough knowledge of what is going on within a huge organization to be able to certify financial results with full confidence?

Some CEOs, such as Robert Hagerty, chairman and president of Polycom, have passed on the certification requirement to certain key employees within their organizations. At Polycom, salespeople are required to certify certain aspects of sales agreements to ensure revenue is recognized on the books at the appropriate point in time. More generally, CEOs must concern themselves with whether employees are disciplined enough to be open about bad news. Maintaining the right attitudes, the right values, the commitment to transparency and truth is as much an issue within organizations as it is between organizations and investors. William Kupper, president and publisher of *BusinessWeek*, likes to remind employees that "bad news never gets better with time."

> "Bad news never gets better with time."
> William Kupper
> president and publisher, *BusinessWeek*

According to Vivek Bharati, an advisor to the Federation of Indian Chambers of Commerce and Industry, strict vertical hierarchies can actually reduce the likelihood that CEOs can rely upon the information they receive. Communications are much more robust when social interactions are more networked and unstructured. This way there are many more paths by which information can reach the top.

While CEOs worry about whether they are actually getting the information they need, boards of directors must concern themselves with whether the executives they supervise are trying to hide anything. It is hard to believe that



any number of rules and regulations will prove sufficient to prevent an executive who is determined to commit a fraud from doing so. Perhaps this is the reason there have recently been several calls for ensuring that business leaders are screened somehow for moral and ethical aptitude in addition to intellectual competence. Business schools are now under pressure to create exactly such a screen.

Meanwhile, expect the volume of information passed from executives to analysts and investors will increase dramatically. Part of this increase will be the result of regulation, and part will be rooted in a belief that going beyond the rules may lead to a better stock price.

"These are tough times for CEOs. Many are facing the biggest challenges of their careers. They are being branded by the performance of their stock, and media coverage is intense."

Richard Brown, chairman and CEO
EDS

Many companies are already choosing to go far beyond what is required by Generally Accepted Accounting Principles (GAAP).

A new governance rating service by Standard & Poor's (S&P) will accelerate this trend. As Vickie Tillman, an executive vice-president from S&P, pointed out, "There are a lot of gaps in GAAP."

For governance ratings to work, ratings agencies such as S&P will have to judge the accuracy of the information given, not just its volume. This tricky judgment will rely on a subjective reassessment of whether the board of directors is providing adequate oversight. As Alan Carroll, executive chairman of Carroll Partners International, pointed out, intense focus is quite appropriately now being placed on audit committees. Based on his experience, it can take up to 2 years for new audit-committee members to gain enough knowledge of the companies they supervise to do the job well. In addition to sufficient tenure, good oversight requires independence and objectivity. CEOs will have to stop the practice of filling board seats with close acquaintances. Further, the practice of mixing auditing and advisory functions, both by board members and consultants, will have to stop.

The next link in the communication chain is the analysts, who have also faced no shortage of criticism. Their role is critical, as individual investors—even institutional investors—hardly have time to fully review all the materials that are publicly disclosed.

In fact, the vast majority of individual investors never read past the perfunctory letter to shareholders at the beginning of the annual report.

"The obligation of the CEO is to the real owners of the company, the shareholders. More disclosure and documentation are required."

Robert C. Hagerty
chairman, president and CEO, Polycom

Analysts are tainted by the potential for a conflict of interest because the companies they cover also buy high-fee investment banking services from the analysts' employers. Although it is easy to say independent analysts are necessary, it is harder to say how they will be paid. Who will provide the effective subsidy now provided by the banks? Analysis is likely to become much more expensive as the flow of public information from corporations increases.

We will certainly see improvements at each link of the communications chain over the next few years. And a greater flow of information will improve trust. But just how much?

There are more important bases for trust than information. A more powerful foundation is a shared set of values. Unfortunately, the general public views the values of the private sector as highly suspect. Specifically, while CEOs equate profit with success, many in the general public equate profit with greed and irresponsibility. Although increasing transparency is important, CEOs can improve trust much more dramatically by communicating more clearly the overlaps and similarities between private and public values and interests. (See "Not All Profits Are Equal.")

Although this review so far has focused on the governance crisis and response in the United States, governance is a global issue and requires a global perspective. Despite recent difficulties, the United States is still recognized by most experts as having one of the strongest sets of governance institutions in the world. Developing nations, as they move from state-dominated or family-dominated economies to economies run primarily by large public corporations, should not discard the governance practices of the United States. They should not presume that a completely different approach can be superior.

"There are a lot of gaps in GAAP."

Vickie A. Tillman
executive vice-president
Standard & Poor's

Ronnie Chan, chairman of the Hang Lung Group from Hong Kong, speaking from experience on boards of directors in both Asia and North America, put it this way: "Just because the United States needs improvement doesn't mean that we don't need even bigger improvement in Asia." The governance issues exposed in the United States actually increases pressure to improve governance practices around the world. There is no aspect of the global economy that is subject to fewer barriers than the highly fluid capital markets. And in the global race for capital, investors will pay more attention to governance practices than ever before. ⌘

"Just because the United States needs improvement doesn't mean that we don't need even bigger improvement in Asia."

Ronnie Chan
chairman, Hang Lung Group

Plenary Session

The Ungovernable Corporation
Failure of Markets or of Oversight?

Alan Carroll
executive chairman, Carroll Partners International, Australia

Rajendra S. Lodha
president, Federation of Indian Chambers of Commerce and Industry (FICCI) and chairman, BDO Lodha Limited, India

Vickie A. Tillman
executive vice-president, Standard & Poor's United States

Chris Trimble
executive director, Center for Global Leadership, Tuck School of Business at Dartmouth, United States

Miles Young
chairman, Asia Pacific, Ogilvy & Mather Group, Hong Kong

Zhang Yun
executive vice-president, Agricultural Bank of China, People's Republic of China

Not All Profits Are Equal

Recently, a group seeking volunteers for social work posted a flyer here at the Tuck School with a peculiar headline: "Do you want to make a profit or make a difference?"

Of course, positing the pursuit of a profit and the pursuit of a social contribution as complete opposites is nonsense. Still, even at a business school, I suspect the headline caused hardly a second thought. Fallacious or not, a sharp disconnect between serving public good and seeking private gain is deeply ingrained in the public consciousness.

Strong emotions are associated with the word "profit". In the business community, where we speak of "profit maximization" and "profitable growth," there is a strong psychological connection between profit and goodness, between profit and success. This could hardly be more distinct from the emotions evoked by the term profit among those who are distrustful of the business community, such as environmentalists, labor unions, consumer groups, and, of late, the voting public. Amongst these groups, profit is often equated with greed, immorality, even wickedness. It is telling that many social sector organizations refer to themselves as non-profits.

It is not hard to think of examples to support both viewpoints. When a corporation develops and commercializes a new medical imaging device, it is clear that the pursuit of profit has simultaneously produced a social benefit. At the same time, when a business finds a loophole in an environmental law that allows marginal cost decreases while emitting substantially more pollution, there is a clear conflict.

To get beyond profit's harsh and counterproductive emotional associations, a simple diagnostic is needed—one that quickly identifies whether an initiative to improve profitability also contributes to public good. In a recent article published in *Across the Board* magazine, the Center for Global Leadership introduced a new framework intended to meet this need.

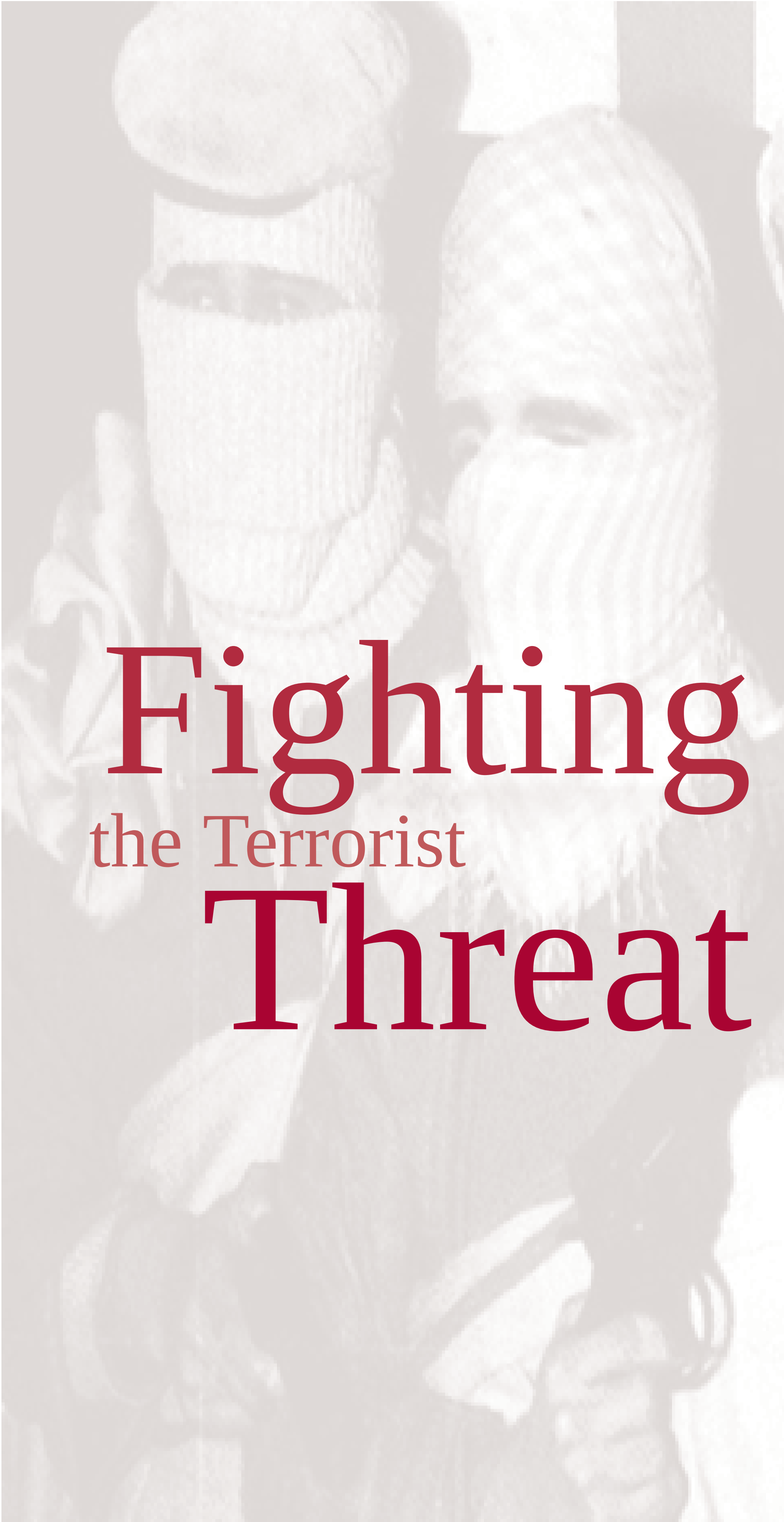
Corporations face numerous options for improving profitability. We believe these options can be categorized in one of three ways. Some make a social contribution, some make no contribution, and some potentially diminish social well-being. These three categories—social profits, neutral profits, and debatable profits—are quite distinct.

Social profits come in one of two ways. First, any time a corporation finds a way to increase the productivity of existing work processes, it makes a social contribution. Our total income, and the limit to our total consumption as a society, are directly determined by our productivity. The more we produce, the more we are able to consume—from educational programs to health services to video games—and the higher our overall standard of living. The second route to social profits is through the introduction of new products and services that consumers desire. When corporations pursue social profits, they are creating something out of nothing. They give society the capacity to consume more and provide more options for consumption.

Neutral profits arise through routine negotiations—with suppliers, customers, and employees. In such negotiations, one party gains and one loses, and the net benefit to society is zero. There is no direct social contribution, but it is important that businesses pursue neutral profits. If they did not, markets would fail to set prices appropriately and resources would be misallocated.

Debatable profits are similar to neutral profits, except, the transfer of wealth is not from one private entity to another; it is between a business and society as a whole. In pursuit of debatable profits, corporations seek to enrich themselves at the expense of a publicly owned asset—usually public health, safety, or the environment. Businesses are not necessarily wrong to pursue debatable profits. However, they should feel the highest obligation for transparency in such pursuits, so that the public can weigh costs and benefits.

Especially in these times, when corporate ethics and responsibility are in the news daily, the distinction between social, neutral, and debatable profits can make a difference. Clarifying how businesses can both contribute to and diminish our overall societal well-being creates a basis for trust among adversaries and builds a more productive foundation for discussion of the roles and responsibilities of corporations. ⌘



Fighting
the Terrorist
Threat

The Right Honorable John Major, C.H.
Former Prime Minister
of Great Britain and Northern Ireland

The Honorable Bob Hawke
Former Prime Minister
of Australia

Her Excellency Gloria Macapagal-Arroyo
President of the Republic
of the Philippines

The Honorable Fidel Ramos
Former President of the Republic
of the Philippines

Businesspeople rely on stability. Without it, long-term investments are foregone, opportunities are lost, and economic growth suffers. Since September 11, 2001, stability is anything but assured. As physicist Neils Bohr once quipped, "Predictions are difficult, especially predictions about the future." This reality is a heavier burden now than it has been for decades for business leaders worldwide.

The threat of terrorism was revealed most starkly in the United States in 2001, but it is hardly just a U.S. problem. Her Excellency Gloria Macapagal-Arroyo, President of the Philippines, who addressed the Forum on the topic of terrorism, also understands the threat at a very personal level. The Philippines has suffered attacks of its own, and neighboring Indonesia recently suffered senseless violence as well.

"Terrorists are not guided by moral or religious conviction. They are nothing more than murderers driven by an ideology of mayhem."

Her Excellency Gloria Macapagal Arroyo
President of the Republic of the Philippines

"From the moment I took office, I declared war on terrorism," asserted Ms. Arroyo, but as she also recognized, the fight against terrorism is a good-versus-evil struggle that must be waged through a global partnership, not by one nation alone. Indeed, the Philippines has participated with the United States in the fight against terrorism through a number of initiatives.

Fighting terrorism may very well require such cooperation among nations, but the reality is that the United States dominates the world today like no other nation has since the days of the Roman Empire. As The Honorable Fidel Ramos, Former President of the Philippines, pointed out, the domination is not based on military strength alone. The United States is also the world's biggest economy, the world's most powerful cultural exporter, and the home of a system of higher education that is the envy of the world.

As Mr. Ramos noted, it is this domination that has made the United States a target of envy and resentment. It is this domination that has resulted in the image of an intrusive, secular, consumerist, corruptive "Great Satan." Terrorist objectives are generally not based on rational goals but rather on a violent expression of rebellious emotion.

As holder of the greatest power and target of the greatest resentment, it is expected that the United States will lead the global fight against terror. But President Bush's approach so far has not inspired the global coalition that Ms. Arroyo envisions. According to President George W. Bush, "If we wait for threats to materialize, we will have waited too long." The reaction is mixed.

Mr. Ramos was generally supportive. "My feeling is that we in this part of the world should nurture and utilize the umbrella of 'Pax Americana' just as the European Union has done over this past half-century."

But The Honorable Bob Hawke, Former Prime Minister of Australia, cited the Vietnam War as the example that signals what we can expect when the United States acts unilaterally. While acknowledging the benefits of U.S. steadfastness in creating a peaceful and prosperous world order since 1940, Mr. Hawke insisted that when leaders of allied nations disagree, it is their duty to voice dissent. According to Mr. Hawke, it is not only his voice but the voices of many inside the United States' government itself that are warning against the perils of exuberance of power and moral monopoly. In his view, an attack against Iraq cannot be supported.

"If we are right to wage war on terror, then we are right to wage war on poverty as well."

The Right Honorable John Major, C.H.
Former Prime Minister of Great Britain and Northern Ireland

Taking a middle ground, The Right Honorable John Major C.H., Former Prime Minister of Great Britain and Northern Ireland, highlighted the devastating ambiguities facing political leaders as they craft a response to the terrorist threat. Nobody can know the answers to questions such as "Does defeating an aggressor demonstrate stronger leadership than deterring the aggression in the first place?" and "If [Saddam Hussein] feels he has nothing to lose, would he use his weapons of mass destruction?" (See "If Iraq is invaded, what next?")

In resolving the immediate struggle over the best approach to fighting terrorism, business leaders have a minimal role. Some may feel powerless to even contribute to the struggle. But in the long term, business leaders do have a role. As Ms. Arroyo noted, the handmaiden of terrorism is poverty. And it is the private sector that has the tools and the expertise to improve productivity and, therefore, living standards through investment and ingenuity.

Of course, alleviating poverty is not sufficient to eliminate terrorism. Dr. Robert Kapp, president of the US-China Business Council, argued "to link terrorism with poverty is simplistic…terrorists would be coming from Africa, the most impoverished place in the world." And in fact, the most infamous terrorists have been highly educated. Still, it is horribly poor living standards that create an environment of ignorance ideal for terrorist leaders in search of new recruits. By investing in the developing world, business leaders can have an impact.

To create conditions conducive to this impact, rich governments must pay more attention to the developing world. The flows of capital and aid to poor countries is far short of the full potential. Rich governments must recognize that, in Mr. Ramos's words, "the peace and prosperity of the rich depend upon the well-being of the poor." At the same time, governments in the developing world must do their part. In particular, they must build the institutions that provide solid public and private governance. Finally, governments—rich and poor alike—must work together to improve trade agreements. These are daunting tasks, but their urgency has never been greater. ⌘

"The peace and prosperity of the rich depend upon the well-being of the poor."

The Honorable Fidel Ramos
Former President of the Republic of the Philippines

If Iraq is invaded, what next?

1. If [Saddam Hussein] feels he has nothing to lose, will he use his weapons of mass destruction?
2. Can we protect against a strike at the Saudi or Kuwaiti oil fields?
3. Can we protect against a strike at Riyadh?
4. Would a strike come at Tel Aviv in the hope of drawing Israel into the war and other Arab nations into the war on the side of Saddam?
5. Who will govern Iraq? Will there be internal chaos? Will anyone going into Iraq be left with the responsibilities of government?
6. If a domestic government is formed, will it be seen as legitimate or viewed as a puppet regime?
7. Democracy in Iraq suggests a Shiite government. Will we see a Shiite Iraq neighbored by a Shiite Iran, something hard-liners in both countries might welcome?

From the keynote address of The Right Honorable John Major, C.H. Former Prime Minister of Great Britain and Northern Ireland.

Keynote Address

Trade Liberalization as a Paradox:
What Will Reverse the Growing Rich-Poor Gap?

Dr. Supachai Panitchpakdi
Director General
World Trade Organization
Switzerland

Negotiating for Development

Simple and elegant in theory, international trade—and the negotiation of trade agreements in particular—is startlingly complex and esoteric in practice. This is but one reason why the most significant institutions governing the international economy—the World Trade Organization (WTO), the World Bank, and the International Monetary Fund—are so vulnerable to simplistic public perceptions.

In theory, opening markets benefits all. By allowing nations to specialize in the processes at which they are most productive, it accelerates growth—and economic growth is the only avenue to eliminating poverty.

Unfortunately, making this case to voters in the developed world is difficult. Although the benefits of freer trade are powerful, they are long-term and diffuse. However, the offsetting costs, although always lesser in magnitude, are usually immediate, intense, and local and, therefore, highly activating politically. (See “The Invisible March.”)

Dr. Supachai Panitchpakdi, the new Director General of the WTO, who addressed the Forum via videoconference from Mexico, takes over an organization with a stigma: It is viewed as a puppet of rich-country corporations bent on bullying and exploiting the poor nations of the world. Not only are globalization protesters misguided in this assessment, they vastly overestimate the real power of the WTO.

The WTO is something of a professional association of nearly 150 nations operating by consensus. Although Dr. Panitchpakdi will spend some time countering negative press, the perceptions of rich-country members of the organization are far more likely to limit what he can accomplish during his tenure. Fresh from the initiation of the Doha "Development" Round, rich nations can reasonably be concerned that the new Director General will bias the WTO's agenda heavily in favor of the developing world. He is the first Director General from a developing country. And, after all, the vast majority of international trade occurs between developed countries, not between rich nations and poor ones. Pushing and cajoling rich-country representatives to adopt a framework that accelerates growth in the developing world will be challenging at best.

> It [the WTO] is viewed as a puppet of rich-country corporations bent on bullying and exploiting the poor nations of the world . . . .

There are good reasons to believe developing nations need special exceptions in certain areas. One of the problems developing nations face is that they are generally far too dependent on commodity markets, many of which have suffered from falling prices. To get new, higher value-added industries off the ground, some protections are needed. Infant industries need some breathing room to get up the learning curve and become competitive in the global economy.

In addition, many developing nations desperately need exemption from certain intellectual property rules, particularly those for pharmaceuticals. CEOs from the richer nations will

naturally resist such moves. And, unfortunately, the developing world has few bargaining chips. Interest among rich-country CEOs in the current round of negotiations pales in comparison to their interest in the Uruguay Round. There is simply less for them to gain.

More frustrating for the developing world may be the existing barriers to trade in agriculture, a market to which the developing world desperately needs fair access to accelerate growth. Although tariffs have come down, production subsidies, export subsidies, and trade discrimination still leave developing countries with little chance to compete. Unfortunately, both the U.S. and the E.U. are loathe to alienate their domestic agriculture industries by forcing them to compete with third-world producers. In fact, rich countries still spend six to seven times their allocations for foreign aid on direct subsidies to their own agriculture industries.

> . . . unfortunately, the developing world has few bargaining chips . . . .

The WTO has other challenges. The modern complexities of trade make negotiating in a multilateral format extremely difficult. As such, there has been more progress in many areas toward free trade through regional and bilateral negotiations. Unfortunately, the WTO doesn't yet have the resources or processes in place to monitor exactly what has been agreed to and by whom. To make a multilateral environment successful, the WTO will have to gain at least minimal involvement in these agreements to ensure that they become, in Dr. Panitchpakdi's words, "building blocks, not stumbling blocks." ⌘

Climbing Out of Poverty

1. The number of people living in poverty has fallen by 400 million in the last 2 years.
2. The proportion of people living on less than US$1 per day declined from 20 percent to 5 percent since 1970.
3. There are no definitive conclusions that the income gap between rich and poor is widening.
4. Still, the ratio of income for the richest 20 percent of the world and the poorest 20 percent is 30 to 1.

From the remarks of Dr. Supachai Panitchpakdi, Director General, WTO

The Invisible March

If only we could get more people talking about the positive aspects of globalization. Perhaps the problem is that such conversations are too short. How much is there to say, really? By stimulating investment, globalization accelerates economic growth and increases living standards worldwide. Simply put, there is no stronger set of antipoverty policies than those that support the ongoing integration of the world economy. And it seems clear that prosperity improves prospects for peace.

It's a powerfully important but static message—hardly news. There are no headlines and no photo ops. The benefits of globalization help most, but there is little to notice from day to day. Over the course of even a good year, living standards increase by only a few percent. That is why globalization inspires little activism. It is the invisible march.

In early December, an advocacy group in Australia staged its own nearly invisible march. The global "Walk for Capitalism", held in more than 100 cities around the world, attracted only about 60 people in New York and not too many more in other cities. Such a turnout hardly competes with the thousands of antiglobalization protesters who disrupted WTO events in Seattle and Prague.

The side effects of globalization are much more activating. They make great headlines because they create specific, short-term points of pain. For example, when a corporation moves a manufacturing facility from a developed nation to a developing one, a severe, localized unemployment problem can result.

Politicians find themselves in a bind, forced to focus on short-term and local issues. Every U.S. president since World War II has supported globalization, but none has found an easy way to sell the associated abstract and long-term policies to a skeptical public. People facing unemployment do not easily accept their uncertain future as part of an economic restructuring that will eventually improve living standards worldwide. Rather than focus on the positives, politicians tend to respond by spinning globalization as an inevitability (which, of course, it isn't) and, therefore, a challenge that must simply be overcome. Hardly motivating.

CEOs, unlike politicians, are not subject to popular election. So they are in a better position to laud globalization's positives within the walls of their own corporations, if not to the larger public. But they don't often take advantage of this opportunity. Ask CEOs what globalization means to them, and they most likely will identify globalization as: (1) a tremendous source for future growth, as we move our products and services into new markets; (2) a critical challenge, as we face stiffer competition; or (3) a crisis-level threat that all too often results in CEOs actually lobbying against trade liberalization.

Opportunity? Challenge? Threat? Shouldn't CEOs also view their developing-world investment activities as a contribution to the greater good?

CEOs are well aware that the general public does not readily trust them when it comes to such social issues as health, safety, and the environment. In these cases, the conflicts of interest are too obvious. But with globalization, trust is possible because the essence of globalization is win-win. Corporations invest in emerging economies and, yes, if successful, they profit. But at the same time, the developing economy grows and poverty is reduced.

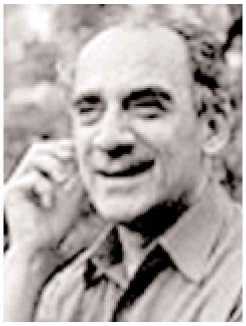
And maybe there is a photo op with two panels. On the left, a laborer uses basic tools in a field. On the right, the same person, 3 years later, in front of machinery, holds training manuals. The caption might read, "Investment in equipment and training increased productivity by a factor of five". All over the developing world, more productivity, more prosperity, more peace. ⌘

Economic Development in the Age of Globalization

Not so many decades ago, heads of state aiming to secure a future of peace and prosperity generally envisioned a high degree of self-sufficiency. Today's era of globalization means that no nation, not even the largest and most powerful, can be the master of its own destiny. Not even the United States. That is because the reality of the new economic order is an unprecedented level of interdependency.

This is not to say being large doesn't have its advantages. The main advantage is diversification. Larger economies are active in so many industries and so many different stages of the value chain that the forces driving transformation in individual industries are unlikely to have a dramatic impact on the economy as a whole. As Mark Clifford, Asia regional editor for *BusinessWeek*, pointed out, India and China may have a chance at this level of relative security, but the opportunities and threats for smaller nations will always be highly dependent on the shifting winds in the global economy.

As developing nations shape strategies for their economic futures, they must not only predict opportunities several years in advance, they must identify niches in the global economy within which they are especially likely to succeed. Often, growth is marked by a gradual shift in focus up the value chain from the least to the most value-added activities. Early in development, nations may focus on providing direct labor for manufacturing in low-tech industries. But to sustain growth, they must gradually shift to higher levels of skill and high technology, moving into processes such as services, marketing and distribution, research, and product development.



"We have enough brainpower to supply the world and help ourselves."

His Excellency
Dr. Arun Shourie
Minister of Disinvestment
Government of the Republic of India

As The Honorable Stephen Ip, Secretary for Economic Development for The Government of the Hong Kong Special Administrative Region, noted, Hong Kong has followed this path. Its services sector now makes up 86 percent of its economy, with a particular focus on a burgeoning tourism industry. In addition, Hong Kong's strong financial sector is playing a critical role in directing capital to the adjacent Pearl River Delta—now one of the world's largest manufacturing centers.

If developing nations have an advantage over developed nations in the race to secure the hottest growth sectors in the global economy, it is their demonstrated ability to "leapfrog" ahead to capture leading-edge positions in markets, especially in high-tech industries. For example, even with little participation in the long development of the IT industry, India was able to build one of the most significant concentrations of software development activity in the world. According to Sunil Mittal, founder of Bharti Enterprises, "India had no option but to leapfrog. It missed out on the manufacturing and electronics revolutions entirely."

Developing nations can make these types of jumps quickly because they are building from scratch, rather than transforming existing industries. Reflecting on one aspect of such transformations, John Chen, chairman and CEO of Sybase, pointed out the ability of many Asian companies to effect significant transformations without enduring the agonizing task of migrating legacy IT systems to modern computer architectures.

Many developing nations are also shifting the bulk of their economic activity from the public sector to the private sector. This raises the question of just how active governments should be in identifying the most promising niches for investment. Although several panelists agreed that entrepreneurs, in partnership with other private-sector institutions, are best suited for directing capital to new business opportunities, governments have a critical role beyond simply creating the conditions that allow the private sector to flourish.

> “[In Hong Kong] our future is our past. It is important for us to know our strengths and weaknesses and focus on what we do best.”
>
> The Honorable Stephen Ip
> Secretary for Economic Development
> The Government of the Hong Kong Special Administrative Region

Jay Davis, president of EDS in Asia and Japan, identifies the top two priorities as building strong economic infrastructures—from transportation to computing and telecommunications—and robust institutions, especially in education. Of course, the primary angst for many developing nations that have invested heavily in education is that they lose far too many of their best and brightest to the prospects of better jobs and higher standards of living in the developed world. Dr. Arun Shourie, India’s Minister of Disinvestment, put the brightest possible face on the situation, “We have enough brainpower to supply the world and help ourselves.”

> “If you stay still, you get eaten. You must continue to move up the value chain to more and more complex services.”
>
> Dr. Mohanbir Sawhney
> McCormick Tribune professor of Technology, Kellogg Graduate School of Management, Northwestern University

Although to some extent the “brain drain” is inevitable, developing nations can often attract their expatriates back home later in their careers. As Dr. Chandru Rajam, dean of Universitas 21 Global, pointed out, this return home creates quite different opportunities for Asia’s two biggest economies, India and China. Although Chinese returnees have tended to be highly entrepreneurial, India’s have tended to be professionals (doctors, scientists, professors, and so forth). According to Dr. Shourie, India has plenty of entrepreneurs at home, so the challenge is to match returning expats with entrepreneurs in creative ways that spur accelerated growth.

> “The Pearl River Delta has become the manufacturing center of the world.”
>
> Mark Clifford
> Asia regional editor, *BusinessWeek*

Presuming that such investments in education and infrastructure are sufficient, where can business leaders in developing nations look to catch a new wave of activity in an emerging market? According to Dr. Mohanbir Sawhney, professor of Technology, Kellogg Graduate School of Management at Northwestern University, there are several opportunities, many of which relate to markets outside information technology. In particular, alternative energy sources are promising, as are alternatives to the internal combustion engine, such as fuel cells. Even within information technology, there may be “low-tech niches” to be exploited. In Dr. Sawhney’s opinion, many of today’s IT products are extremely overdesigned, particularly software from Microsoft, Oracle, and others. ⌘

Keynote Panel

Masters of Our Own Destiny:
Locomotives for Prosperity in the Asian Economies

Mark Clifford
Asia regional editor, *BusinessWeek,* Hong Kong

The Honorable Stephen Ip
Secretary for Economic Development,
The Government of the Hong Kong Special Administrative Region

His Excellency Dr. Arun Shourie
Minister of Disinvestment, Government of the Republic of India

Plenary Session

The Technology of Leapfrogging:
How Companies Can Cede Battles, Yet Win Wars

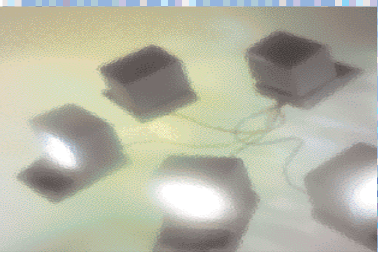
John Chen
chairman, chief executive officer and president, Sybase, United States

Jay Davis
president, Asia and Japan, EDS, Hong Kong

Sunil Mittal
founder, chairman and group managing director, Bharti Enterprises, India

Dr. Mohanbir Sawhney
McCormick Tribune professor of Technology, Kellogg Graduate School of Management, Northwestern University and co-author, *Seven Steps to Nirvana: Strategic Insights into eBusiness Transformation*, United States

The Networked Corporation



Still the Future

Although the NASDAQ bust is well over a year old now, the pain is hardly forgotten. At events like the CEO Forum, the level of passion in discussions about the Internet's possibilities is only a fraction of what it was during the peak of the frenzy.

It is easy to forget that while an Internet startup can rise and fall in just months, enabling a corporation to take full advantage of the Internet takes years. E-enablement within corporations is still progressing, and corporations can still find a myriad of ways to build competitive advantage through the intelligent application of network technologies.

Every process within a corporation generates information, some of which needs to be shared with people managing related processes. Although early computer systems were excellent at storing, manipulating, and retrieving information, they were decidedly clumsy at sharing it. One of the biggest advantages of new Internet technologies is dramatically cheaper sharing. Suddenly, it is possible to tightly coordinate business operations taking place in all corners of the globe. This creates the potential to dramatically reduce costs, eliminating paperwork and enabling the reduction of inventories.

Cost reduction is only the beginning. Technology can also enable more rapid growth by making processes more scalable. Doubling the size of a people-based process requires time-consuming hiring and training. Doubling the size of a well-designed computer-based process may require nothing more than replacing a small server with a larger one.

In certain industries, Internet enablement is a minimum requirement for entry. For example, Dr. Lee Yong Teh, chairman of TriGem Computer from Korea, observed it is simply impossible to keep pace with certain industries without depending on technology. "The PC industry is now rolling out new models every 45 days. Cost and performance of components change every day. Information technology is not just a tool, it is the backbone of our company." Doing business on the Internet is sometimes also a requirement simply because the customer demands it. To be a supplier to certain corporations requires the ability to coordinate processes over the Internet.

Furthermore, the Internet can be used to improve relationships with customers. Never before has it been so inexpensive to communicate with customers and gather information on their needs and preferences. Daniel Mao, chief executive officer and member of the board, Sina.com, described how his company has developed a strategy of using the Internet to proactively push information to prospective customers and later follow up with a human pitch to close sales. With the benefit of more information and more tools, his company's sales force has become markedly more productive.

Finally, for some state-owned enterprises undergoing the transition to public ownership, more sophisticated computer systems can be critical. Ying Wu, president of UTStarcom in China, told the story of his firm's effort to go public in 1997. PwC Consulting, a U.S. consultancy, helped UTStarcom identify more than 70 "major adjustments" to its accounting system before it would be ready. UTStarcom was able to make the necessary changes within 2 years. Without the use of sophisticated Internet tools they would have never been able to manage it.

There is certainly no shortage of reasons to invest in digital technologies. But there are also many pitfalls in the process. According to Scott Hartz, former CEO of PwC Consulting, senior executives only go through a major computer infrastructure upgrade once or twice. It is critical to get outside help from experts.

"If you are not online, you can't do business with bigger companies."

Scott Hartz
former CEO, PwC Consulting

"The Internet forces corporations to touch every aspect of the value chain and transform it in some way."

Dr. Chandru Rajam
dean, Universitas 21 Global

But the entire job cannot be delegated to outsiders. The most common pitfall of IT change efforts is that leaders assume the job is all about technology. In fact, the much bigger challenge is getting employees to use the technology effectively. According to Dr. Lee Yong Teh, ensuring that the chief information officer has sufficient power is the first step. For most companies, the position should report directly to the CEO. In addition, the CEO must lead by example, requesting operating reports online instead of on paper, for instance.

Once a company catches the IT fever, it is tempting to try to digitize every process in the company. Selectivity is better. Mr. Mao recommends calculating an ROI on every investment. In addition, once projects are completed, it is important to implement measures that indicate the extent to which the new technology is being used. Without diligent monitoring, investments in technology are unlikely to pay off fully.

"The CIO should be treated as though the position is just as important as the CFO."

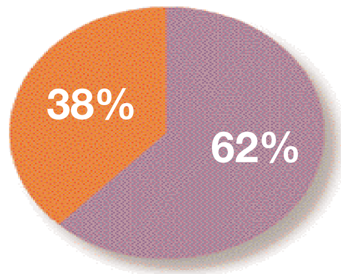
Dr. Lee Yong Teh
chairman, TriGem Computer

Finally, it is important to remember processes that cross company lines can be digitized as well. For this reason, participating in, or even trying to control, the development of industry standards for information technology usage is crucial. Ensuring the adoption of standards compatible with your own existing systems can save tremendous time and money. Failing to do so can result in lost customers and damaged competitive position.

Although the potential for making an existing business run better, cheaper, and faster on the Internet is enticing, there are still opportunities for developing entirely new business models online. The dotcom boom and bust was driven to a great extent by the alluring promise and subsequent disappointment in the potential for online advertising revenues. Other revenue models based on a more sophisticated Internet infrastructure are likely in the future. Mr. Mao described a possible progression from advertising to online games, and, ultimately, to robust online learning, with many other possibilities in between. In the current environment, most companies will focus on efficiency first, but the possibilities for growth are still profound. ⌘

Buying technology, getting it to work

Survey respondents believe investment should focus on utilization of existing technology.



The Many Facets of Information Technology

According to panelists, information technology is:

1. Good
2. Irrelevant, in and of itself
3. A fact of life, for better or worse
4. Creating a social divide between the haves and have-nots
5. A foundation for creating value
6. Something people invest in long before they have any idea what to do with it.

Plenary Session

E-Enabling Entails Everything Eventually: Digitalization as Managing Change

Scott Hartz
former chief executive officer, PwC Consulting, United States

Daniel Mao
chief executive officer and member of the Board, Sina.com, People's Republic of China

Dr. Lee Yong Teh
chairman, TriGem Computer, and honorary chairman, The Federation of Korean Information Industries, Korea

Ying Wu
president, UTStarcom (China) and vice-chairman, UTStarcom (United States) People's Republic of China

Transformation to the Core

Few challenges stir the hearts of CEOs as readily as the challenge of transformation. CEOs don't want to be known simply for quantitative results, such as growth and profitability. They want to leave a definitive signature. They want to leave a company that is distinct in character from that they inherited.

There is also no shortage of voices—from consultancies and academia—claiming an immediate need for transformation. And why not? Few are inspired by ambitions for stability and incremental improvement.

"The barriers that we have grown up with will soon completely dissolve."

Dr. Paul Danos
dean, Tuck School of Business at Dartmouth

Nonetheless, transforming an organization is hardly a task for the meek and mild. It would be one thing to transform by destroying that which exists and building from scratch. Business leaders have a more difficult challenge: they must morph an existing organization into something different while keeping the trains running on time. For this reason, it is important to ensure a transformation effort is undertaken at an appropriate time and for a legitimate reason.

According to William Achtmeyer, chairman and managing partner of The Parthenon Group, the development of a sensing capability—a group that constantly monitors the business environment and issues warnings of relevant changes—is a common characteristic of companies that are successful in the long term. Although the specifics vary by industry, participants in this year's CEO Forum discussed three general forces that create a need for transformation: globalization, technology, and the trend toward vertical disintegration.

Globalization, the ongoing integration of the economy across borders, is proceeding at a breathtaking pace. According to Dr. Paul Danos, dean of the Tuck School of Business at Dartmouth, "The barriers that we have grown up with will soon completely dissolve." Although trade agreements may accelerate on a regional basis, panelists viewed their industries as becoming more global than regional. Dr. Danos observed, "There is an incredible globalization going on in the management education industry. The fundamental topics studied in MBA programs are standard around the world. Executives in multinationals all need to know the same things and be able to communicate with each other worldwide."

But what are the implications? To compete in the global economy, companies must adapt to best practices around the world along a number of dimensions. For China, given its recent accession to the WTO, the challenges are monumental. Chinese enterprises will have to build processes from scratch that simply were not a part of business in a planned economy. For example, they will have to adopt processes for strategic planning, market sensing, branding, and pricing.

"It is only a core competence if it provides differentiation."

Bruce Claflin
president and CEO
3Com

Overwhelming, to be sure, but Chen Quansheng, China's Director General of the Department of Industries and Trade, is optimistic: "The changes have already been great. More than 1000 rules have been abolished. Everyone has seen it. 30 years from now, this will be viewed as an extraordinary time. There will be global Chinese brands."

In fact, although China is concerned with effecting a much broader set of transformations, Ronnie Chan, chairman of the Hang Lung Group, suggested that because of its ability to dictate change from above, China could leapfrog past other Asian nations in the transition to a mature market economy. And although the United States is today the world's dominant economy and sets the standard in marketing and technology, it has weaknesses too. As Mr. Chan noted, "The United States has a strong culture, but it does not understand it well. As a result, it does not understand other cultures."

Despite the lull in interest in information technology after the NASDAQ crash, the forces unleashed by IT advances can have implications for corporations that are every bit as demanding as the challenge of globalization. But not every industry will be equally affected. The first challenge for CEOs is to determine just how vulnerable their existing approach to business is to new approaches enabled by the Internet.

"30 years from now, this will be viewed as an extraordinary time."

Chen Quansheng
Director General, Department of Industries and Trade

CEOs leading information-based businesses have perhaps the most to fear but also have the greatest opportunity. Dave Shaffer, president and CEO of Thomson Learning, recalled the reaction to his decision to embrace Internet business models despite the impact it could have on the core business of textbooks. "It is crazy for Thomson to move to the Internet. IT could make textbooks obsolete. There will be no textbook business." Mr. Shaffer's approach was to use Internet technologies to make his products even better. As a result, over half his business today is derived electronically. "The technology that was going to destroy our business did not destroy it at all. It created growth."

The growth of the Internet helped to accelerate another trend that has been reshaping industries for years: vertical disintegration. For example, there was a time IBM dominated information technology by producing all parts of computer systems—from chips to hardware to software. Now each piece of the value chain is its own industry.

Because the Internet enables transactions to take place electronically, and cheaply, it is theoretically more economical for companies to be smaller. They can focus on the one or two processes they are best at—their core competencies—and turn to partners or suppliers for everything else. (For an alternate viewpoint, see "Size Still Matters.")

This slimming and focusing approach has been used successfully by dozens of companies. For example, Richard Harrington, CEO of the Thomson Corporation, related how his company identified its core competence ("providing tools and information to help customers make better solutions") and then went about transforming the corporation to one focused strictly on this mission. As a result, Thomson sold unrelated businesses totaling nearly half of the company's revenues, such as their leisure travel business, and reinvested the proceeds to build scale and technological capacity in its core businesses.

Another example is Digitalway, a small Korean manufacturer of consumer electronics that has succeeded by focusing on style and design. Digitalway's CEO, Woo Jung Ku, explains, "Everyone is using the same components now, and the consumer understands that the quality of product is similar for big and small companies…therefore, people want something that allows them to establish their own style." Mr. Woo went on to indicate that the competence his company has built in online communications with customers, at very low cost, has enabled Digitalway to compete with industry titans, such as Sony.

"The United States has a strong culture, but it does not understand it well. As a result, it does not understand other cultures."

Ronnie Chan
chairman, Hang Lung Group

Identifying a company's core competence is difficult to do in such a way that everyone agrees. Bruce Claflin, CEO of 3Com, shared the trials of managing a process aimed at identifying his company's core competence. "Our employees identified everything that customers felt were important as core competencies, but this is not a sufficient reason to do it in-house. It is only a core competence if it provides differentiation."

3Com ultimately recognized that because outsourcing in the networking industry had become so popular and because everyone was using the same suppliers, supplier/partner management could be a core competence. The level of seamless integration that 3Com has achieved with its partners is unique and valuable.

Where and in what should CEOs be investing?

Survey respondents are bullishly focused on growth

> "The technology that was going to destroy our business did not destroy it at all. It created growth."
> Dave Shaffer
> president and CEO, Thomson Learning

There are other possible core competencies, such as serving a focused customer niche. For example, Wang Songshan, chairman of China Hualu Group, asserted that because of his company's intimacy with its customers, the firm successfully identified a unique customer desire in China to take advantage of an intermediate video technology between the VCR and the DVD. Although this can be an important competence, he noted that many Chinese state-owned enterprises (SOEs) still have little understanding of the market.

Many predict the trend toward more "atomic" companies will continue, including Johannes C. Aurik, vice-president and managing director of A.T. Kearney. He recalled, "If you look back, Ford once made not only its own tires but also ran its own rubber plantations." That seems hard to imagine in the current environment.

Still, despite all the hype, particularly that around technology, transformations do not take place overnight. As Mr. Aurik noted, entire new supplier industries sometimes have to be created before larger corporations can implement a strategy focusing on only one or two competencies. It will also take many more years before the full impact of the forces of globalization and technological revolution is felt. But the time and effort required to effect such transformations will not dissuade aspiring CEOs. All want to leave their marks. ⌘

Plenary Session

Atlas Stretched: Strategic and Organizational Transformation in the Era of Globalization

William F. Achtmeyer, co-founder, chairman and managing partner, The Parthenon Group, United States

Ronnie Chan, chairman, Hang Lung Group, Hong Kong

Dr. Paul Danos, dean, Tuck School of Business at Dartmouth, United States

Dave Shaffer, president and chief executive officer, Thomson Learning, United States

Chen Quansheng, Director General, Department of Industries and Trade Research, Office of the State Council, People's Rebublic of China

Plenary Session

The Core is the Crux: Profiting from Corporate Competencies

Johannes C. Aurik
vice-president and managing director, A.T. Kearney and co-author, *Rebuilding the Corporate Genome,* The Netherlands

Bruce Claflin, chief executive officer and president, 3Com Corporation, United States

Richard J. Harrington
president and chief executive officer, The Thomson Corporation, United States

Woo Jung Ku, chief executive officer, Digitalway, Korea

Wang Songshan, chairman of the Board, China Hualu Group, People's Republic of China

Size Still Matters

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

Technology zealots argue that thanks to ubiquitous networks, business processes can be streamlined as never before. As a result, corporations will perform only tasks at which they are superlative; everything else will be handled by a complex web of business partners.

In fact, maybe the economy of the future will be composed of nothing but self-employed specialists, scattered across the world. Sales specialists will create demand and take orders using computerized search engines to find fulfillment specialists. Chain reactions of automatic production and transportation transactions will follow, mobilizing the remaining 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 handling and delay.

The journey to this economic nirvana will deliver unprecedented growth in productivity. We will at last be freed from mundane, ancillary activities, such as negotiating, tracking, and accounting, so we can focus strictly on producing and consuming. The economy will be incredibly flexible. As the world changes—embracing new technologies, varied tastes, and greater wealth—complex webs of business relationships will appear and dissolve, keeping supply and demand perfectly matched.

Unimpressed? Perhaps this utopian vision appeals only to economists. Perhaps you've read so much Internet hype that you are numb to such puffery.

Many executive movers and shakers continue to subscribe to the notion of the "virtual corporation." But some rather unpleasant discoveries await them. In fact, we may be on the cusp of a backlash in which vertical integration enjoys a renewed popularity.

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 that the Internet is causing many industry structures to shift quickly in unpredictable ways. In some industries there are new intermediaries, while in others there are new disintermediaries. The scarce resource of the future can be remarkably difficult to identify. Is this a time to focus or a time to vertically integrate?

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. This 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 industrywide productivity gains made 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?

Finally, industries often change too quickly for the construction of industrywide networks to be economical. Projects to streamline processes across corporate boundaries are similar to internal reengineering projects. They take one to two years, involve precise definition of tasks and information flows, and usually require at least some creation of custom software. They are costly and may take several additional years to pay off. Unfortunately, industry structure and relationships are less stable than the organizations within corporate walls. The company that invests most heavily in building a superefficient, industrywide computer network risks a substantial loss on an investment that quickly obsolesces. 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 those involving single individuals. The potential for productivity gains is alluring, but the probability of losing money while chasing those gains seems unrecognized or underestimated. As a result, the trend could be reversed. ⌘

Leading the Transition

Developing a Performance-Based Culture

From the economist's point of view, economic development is about trade, investment, and institutional reform. CEOs working to adapt to new environments in the developing world understand a different reality. Economic development is also about organizational change, and it presents a tremendous leadership challenge.

CEOs operating in countries making a transition from a planned economy have a particularly difficult challenge. Their organizations have a long history of operating in a "command and control" structure. Such structures do have advantages. Roles and responsibilities are unambiguous. Decision-making authority is clear. Practiced routine creates operational efficiency.

However, transitioning to a market economy—particularly a globally integrated market economy—presents problems for such organizations. Changes in the environment are no longer the exception, they are the rule. In fact, 78 percent of participants in this year's Forum responded that their industry is in turbulence. Unfortunately, rigid command and control structures do not adapt easily. The number one change challenge for transitioning CEOs is making the organization more flexible.

To accomplish this, leaders will have to overcome the deeply ingrained defining influences of education and cultural indoctrination. Chinese leaders at the Forum commented repeatedly that China's greatest asset was the passion of their people. But can that passion be unleashed? Nimble organizations are more decentralized. They have more leaders and fewer followers. They encourage a focus on individual achievement. They inspire employees to take risks. They have established norms that allow or even encourage challenges to authority. (In some of the more successful high-tech corporations in the United States, the norm is even stronger; when employees disagree, they feel obligated to confront their superiors with their opinions.)

As William King, general manager, AT&T Greater China Region, pointed out, direct investments into China from multinationals can play an important role in shaping this new mindset. Still, it is a long way from the historical norm in China. Omar Khan, senior partner at Sensei International, described one aspect of it this way: "Once you are a senior leader, you never have to hear the unvarnished truth again."

Empowering employees who have differing ideas does not always mean allocating the necessary resources for them to pursue these ideas. Allowing such opinions to be voiced gives employees the powerful sense that they have some ownership and some input into the future direction of the company.

For those who are given authority to pursue new directions, it is equally important to hold them to delivering results. The discipline of rigorously managing the bottomline must extend deeply into the organization. Leaders who also set clear, challenging, and achievable quantitative goals on measures other than profitability can deepen the extent of an organization's performance focus.

To achieve such a transformation, CEOs must start by shifting values. At every opportunity, they must communicate the need for greater initiative, greater risk-taking, greater performance discipline, and more upward feedback. But they must also understand, as Mr. Khan pointed out,

People management drives performance

Nearly one-fifth of survey respondents are focussing on the quality of their leadership team

that changes of this magnitude are not an event—they are a lengthy process. Therefore, they must repeat the same messages frequently and accelerate the rate of change by using other techniques.

> "Once you are a senior leader, you never have to hear the unvarnished truth again."
>
> Omar Khan
> senior partner, Sensei International

For example, leaders can develop incentives to push employees in the right direction. These may be financial incentives, but nonfinancial rewards may be even more important in China, according to Wang Xinmin, president of the Scitech Group from China. Recognition among peers can be a powerful motivator.

Formal performance evaluations can also be altered to reflect new priorities and new values. In addition, broadening views of employee development—from that of company training to career training—can also motivate employees to innovate and excel.

Smartly intermingling staff from the outside can also help shape a new culture. Mr. Wang liberally used consultants from Japan to help with his transition. Adding some permanent international staff is also wise.

Once the change process is underway, inevitably there will be those who resist it. Dr. J. Stewart Black, professor at the University of Michigan Business School, noted that in many cases, Asians fear the worst of the West—particularly a mindset that allows aggressive layoffs during downturns. It is important to communicate that the change is not indiscriminate—that the goal is to create a culture that adopts the best of both worlds.

Still, change will inevitably be resisted. Most leaders recognize and act to counter such resistance. Equally important is the way leaders react to "apostles"—those employees most eager to accept and embrace the change. They should be highlighted as models of the new behavior that is expected of employees. ⌘

An Eight-Stage Process for Creating Major Change

1. Establishing a sense of urgency
2. Creating a guiding coalition
3. Developing a vision and strategy
4. Communicating the change vision
5. Empowering broad-based action
6. Generating short-term wins
7. Consolidating gains and producing more change
8. Anchoring new approaches in the culture

From John P. Kotter, *Leading Change*
Harvard Business School Press, 1996

Plenary Session

Forging Competitiveness: On the Challenge of Instilling a Performance Culture

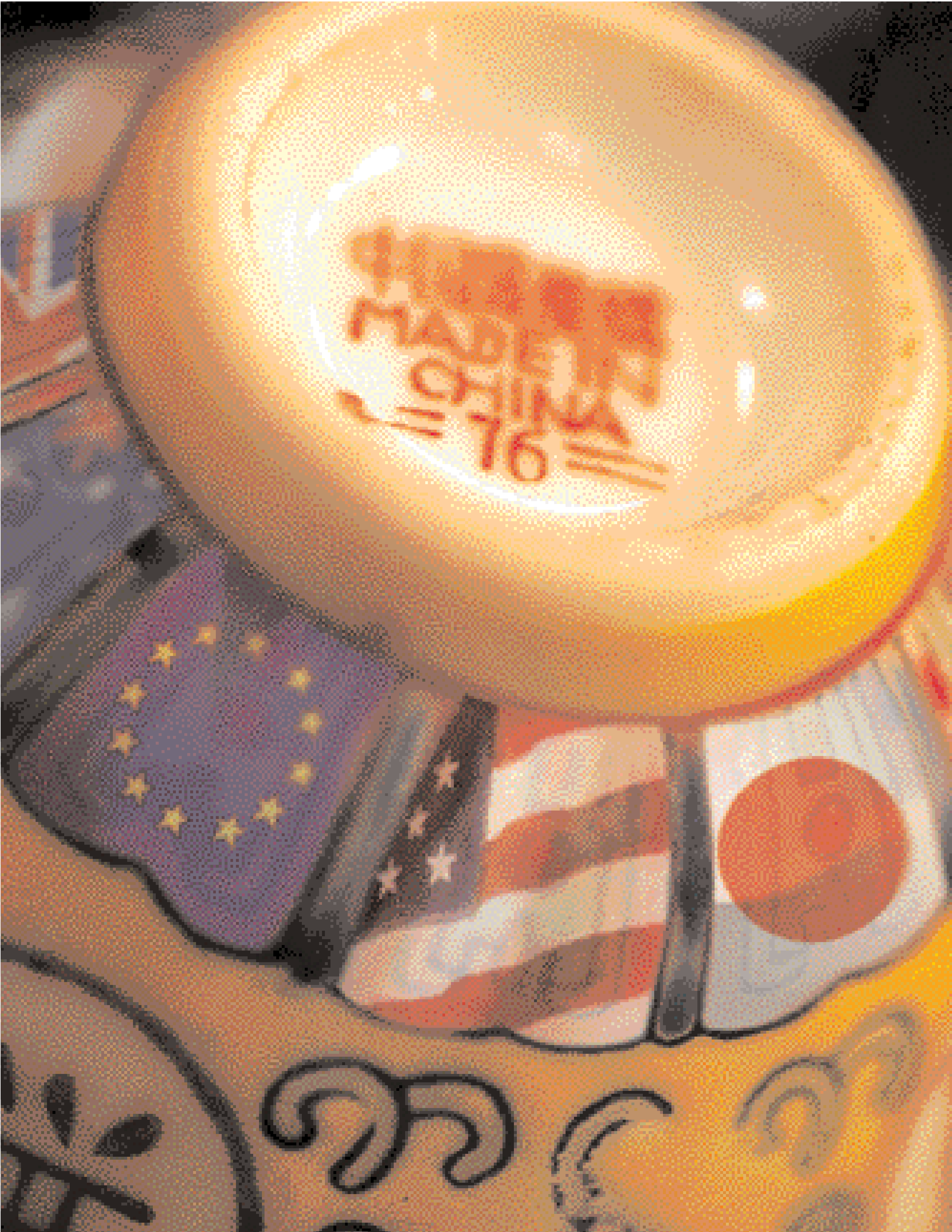
Dr. J. Stewart Black
professor of business administration, University of Michigan Business School and co-author, *Leading Strategic Change,* United States

Peter Hand
president, Asia Pacific, Teradata (a division of NCR), Australia

William King
general manager, AT&T Greater China Region, Hong Kong

Omar Khan
senior partner, Sensei International, United Kingdom

Wang Xinmin
president, Scitech Group Company, People's Republic of China



Venturing into China

China has captured the hearts and minds of Western businessmen for centuries. During the 1990s, hopes for the future of China rose again, following the commitments to market reform made by Deng Xiaoping.

Struggling to create growth in domestic markets, Western CEOs were in a China frenzy, aggressively seeking to capture early advantage in the race to serve China's 1.3 billion consumers. China was deemed so important to many multinationals' futures that no price was deemed too expensive for entry into its market. Although fortunes were certainly possible, investors have just as often become disillusioned. And many of the corporations that threw money at China in the 1990s came away with significant losses.

China's accession to the WTO, combined with its sustained economic growth of 8 percent, has business leaders abuzz once again. But as Laurence Brahm, CEO of the Naga Group, warned, "China is not just like any other WTO country. There is room for many mistakes." What steps can investors take to increase their odds of success? This year's Forum included a wide variety of speakers from Chinese business and government organizations and an entire panel devoted to the topic of doing business in China.

Investors considering a foray into the Chinese market must first remember the changes that China has embarked upon—those toward a market-oriented economy—are extraordinarily complex and difficult and will take many years to complete. Investors must therefore have a long-term perspective.

CEOs intimately understand the difficulty of transforming their own organizations. China is undergoing a transformation of its entire economy. Banks that once essentially acted as accounting departments for the government are learning the discipline of credit decision making. State-owned enterprises are creating entirely new processes for marketing, branding, strategic planning, and corporate governance. Government organizations are slowly relinquishing decision-making authority to the private sector. (See "No Small Challenges for China.")

Panelists offered many suggestions for successfully entering China. First, it is important to develop good relationships with government—at multiple levels. As Mr. Brahm warned, "The CEO handshake with Zhu Rongji is completely insufficient." Business investors must connect with both the central and local governments. They must develop relationships with both party representatives and government administrators.

"The free world expects China to succeed. And wishes to be a part of that success."

The Right Honorable John Major, C.H.
Former Prime Minister of Great Britain and Northern Ireland

"State-owned enterprises are the bedrock of the economy. SOE reform is at a critical stage."

Li Rongrong, Chairman
State Economic and Trade Commission,
People's Republic of China

Fortunately, as Vincent Lo, chairman and CEO of Shui On Holdings in Hong Kong, pointed out, it is much easier than it used to be to align the incentives of all concerned parties because the number-one priority for everyone in the Chinese government right now is economic development. In his keynote address, Chen Jinhua, president of the China Enterprise Confederation, clearly emphasized economic growth but also discussed the need to ensure environmental protection and maintain honesty between businesses and government.

Unraveling the maze of necessary government connections can be difficult, but expert help is available, especially in Hong Kong. Although the opportunity and the temptation to advance business interests through corrupt means may very well be present, it is not advisable. According to Mr. Lo, because business in China is based on relationships and relationships, in turn, are based on trust, you take a tremendous risk by signaling a lack of trustworthiness to potential partners when your actions are not completely above the table.

To develop trust, it is important to pay attention to Chinese culture and values. In particular, according to Zhang Yue, CEO of Broad Air Conditioning from China, it is important to honor the notion that businesses have an important contribution to make to the community at large.

The flip side of the coin is that because of the emphasis on trust and relationships, you may not be able to acquire the same sense of security from official contracts and agreements as is customary in the West. As Mr. Brahm wryly observed, "If you really need an 'official' receipt, you shouldn't be doing business in China." In fact, reliance on written documents is so minimal that multibillion-dollar agreements are sometimes executed with only a two- or three-page contract. Because of this, it is advisable to study the track records of partners thoroughly.

"There are a lot of MNCs operating successfully in China, but it has taken them a long time."

Vincent Lo
chairman and CEO, Shui On Holdings

Once a partnership agreement to enter China has been reached, it is advisable to build a staff that includes a mix of expatriates and local Chinese. Although it may seem easier to rely on the proven business expertise of existing employees, local knowledge is critical. Mr. Zhang and Mr. Lo both warned, however, that despite China's ongoing transformation, the country still has precious little experience with management in a market economy. As a result, it can be expected that local hires will

No Small Challenges for China

1. Continue transition to a "social market economy"
2. Manage accession to the WTO
3. Stimulate domestic demand with aggressive fiscal policy
4. Optimize the industrial structure, including reforming state-owned enterprises
5. Increase trade
6. Attract increased foreign direct investment
7. Promote innovation
8. Encourage entrepreneurship
9. Improve competitiveness
10. Create a fair playing field for all enterprises
11. Reduce number of projects that require administrative approval
12. Establish an improved system of corporate governance
13. Help small and medium enterprises acquire financing
14. Transform industries with improved technology

From the keynote address of Li Rongrong, Chairman, State Economic and Trade Commission People's Republic of China: A selection of priorities for China

need significant training and development. Mr. Zhang also warned that local hires may be less accustomed to the discipline of deadlines and may need extra work on interpersonal skills because China's education system focuses heavily on knowledge acquisition without offering sufficient opportunity for self-expression and interaction.

"China is not just like any other WTO country. There is room for lots of mistakes."
Laurence Brahm
CEO, Naga Group

Although the potential for growth in China is tremendous, there are macroeconomic risks. Most significantly, China's banking system is still replete with nonperforming loans. The new asset-management companies have their hands full. The problem will get much worse if, as some observers expect, the construction boom proves to be a vulnerable bubble. On the positive side, in Mr. Lo's judgment, the government recognizes the magnitude of the nonperforming-loan issue and is capable of managing the problem without major disruption. If it does, this could be a time like never before for investors entering China. ⌘

Keynote Address

Chen Jinhua
president, China Enterprise Confederation and vice-chairman, Chinese People's Political Consultative Conference, People's Republic of China

Keynote Address

Li Rongrong
Chairman, State Economic and Trade Commission,
People's Republic of China

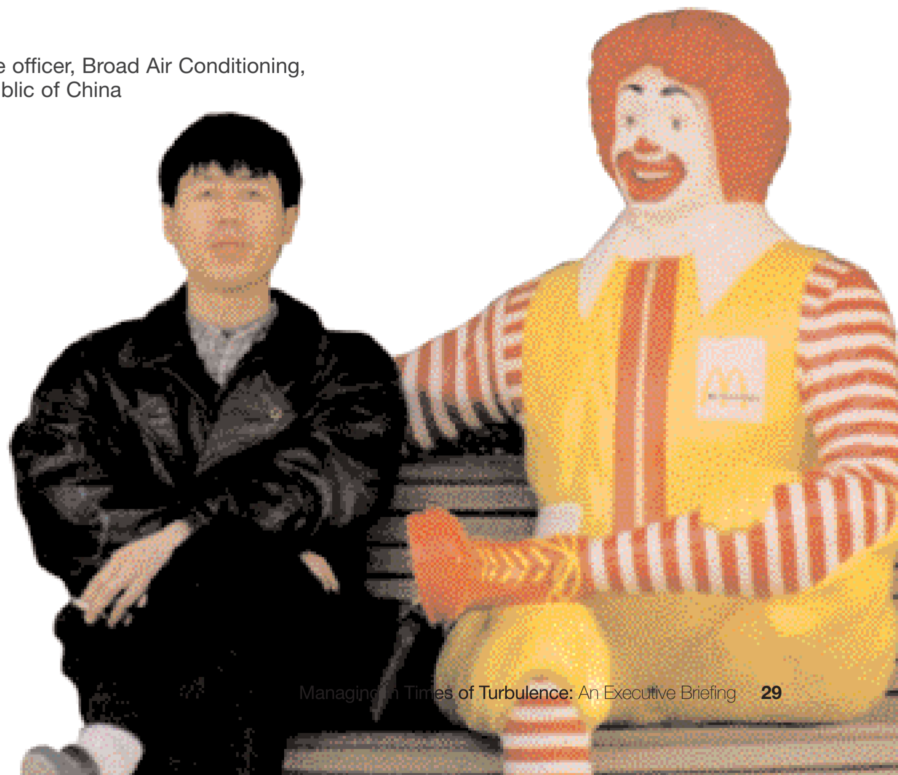
Plenary Session

Beyond the Hype and the Superficial: An Insider View of Managing in China

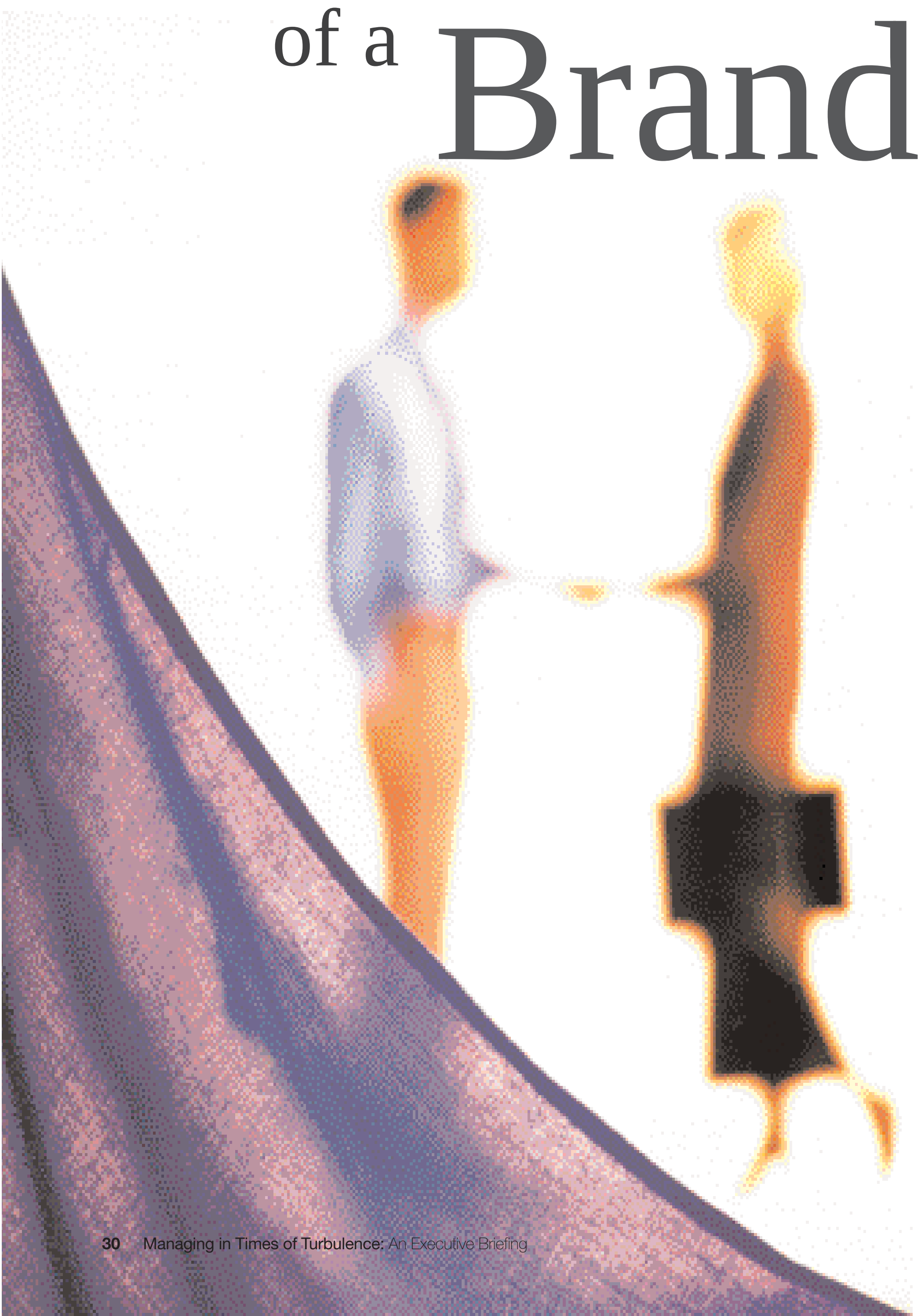
Laurence Brahm
chief executive officer, Naga Group, and author, *China's Century* and *Zhu Rongji and the Transformation of Modern China,*
People's Republic of China

Vincent Lo
chairman and chief executive officer, Shui On Holdings,
Hong Kong

Zhang Yue
chief executive officer, Broad Air Conditioning,
People's Republic of China



The Promise of a Brand



China is becoming the manufacturer for the world. Following some of their East Asian neighbors, further economic development will require shifting emphasis to processes farther up the value chain. In addition to research, product development, and distribution, this will include an entirely new activity for the former planned economy—marketing and branding.

This is a significant change in mindset. A company's product is no longer central; the relationship with the customer is. For many multinationals and companies in developed economies, the brand is the company's most important asset. Consider the power of brands like Sony, Coca-Cola, and Adidas.

"To understand a brand, there are four building blocks:

1. Differentiation
2. Relevance
3. Esteem
4. Knowledge"

Sakie Fukushima
regional managing director
Korn/Ferry International

In principle, a brand is a straightforward concept. A brand is a promise to the customer. It is a promise about why a product is relevant and why it is different from others on the market. Brands also convey messages of identity and emotions of affinity and aspiration. These are part of the promise—they might even be considered a psychological contract. The golden rule about managing the brand: You must never, under any circumstances, break the promise. You must never lose the customer's trust. A brand is difficult to build and easy to destroy.

Maintaining a brand requires diligence. In particular, it is critical that the values embodied in the brand be consistent with the values of the organization. Every employee, particularly those who interact with customers, must "live" the brand. That discipline must be part of the indoctrination for new employees and part of regular training for others.

This gets especially complicated given the trend toward outsourcing. Companies are focusing their efforts on one or two core activities at which they are the best in the world. This may be sensible from a strategic standpoint, but it increases the level of complexity for maintaining the promise of the brand. It is difficult to build a culture within your own company that is consistent with the brand. In the new environment, it can be just as important to ensure the values of the brand are respected by each partner in your business network.

" The real asset at Microsoft is not the software–it's the brand. Ultimately, the company that gets a product to market, communicates its value, and builds its brand will win."

Sunil Mittal
founder, chairman and group managing director, Bharti Enterprises

Ten Characteristics of Strong Brands

1. The brand excels at delivering the benefits customers truly desire.
2. The brand stays relevant.
3. The pricing strategy is based on consumers' perceptions of value.
4. The brand is properly positioned.
5. The brand is consistent.
6. The brand portfolio and hierarchy make sense.
7. The brand makes use of and coordinates a full repertoire of marketing activities to build equity.
8. The brand's managers understand what the brand means to consumers.
9. The brand is given proper support that is sustained over the long run.
10. The company monitors sources of brand equity.

From Kevin L. Keller, "The Brand Report Card," *Harvard Business Review*, January–February 2000.

Globalization is also complicating matters for brand managers. It is true that extending an existing brand to additional countries is often less complicated and less costly than building a new brand from scratch. And doing so is a logical way to leverage a valuable asset and achieve an economy of scale.

Still, variations from one country to the next, particularly in culture and in level of development, affect brand-related communications more than they affect other business functions. Strong brands are built with consistent, clear communications, but because of these variations, the notion of a "global brand" is easy to talk about but often impractical. Multinationals face tremendously ambiguous decisions about which elements of a brand must stay consistent worldwide and which demand local customization.

Although the challenges of branding are significant in today's business environment, the power of brands is tremendous. There is almost no product or service that cannot be branded. Within 20 years, there will almost certainly be new Asian brands recognized worldwide. ⌘

Plenary Session

Living the Promise: The Organization as a Manifestation of Its Brand

Stephan Bassett
managing director, Global Strategic Business Development, Doyle Dane Bernbach, United States

Zhang Ying Dan
member, Board of Directors, ChongQing Yingda Real Estate, People's Republic of China

Sakie T. Fukushima
member, International Board of Directors and regional managing director, Korn/Ferry International, Japan

Peter Lau
chairman and chief executive officer, Giordano, Hong Kong

K.K. Modi
chairman, Modi Enterprises, India

Clay Timon
chairman and chief executive officer, Landor Associates, United States