

Singapore den 17 September 2002

Lecture at Copenhagen Business School 18 September 2002.

The Changing International Business Environment: New Challenges for Asian and European Enterprises.

By Adjunct Professor J. Ørstrøm Møller.

Most of us have heard about James Bond – 007 – and some of us have seen the movie called ‘Live And Let Die’.

When we saw it few of us if any realised that this headline would announce a new set of parameters in today’s world be it in politics, economics or business.

The purpose of this lecture is how this new set of parameters influence, or should we say fence, the business environment for Asian and European enterprises with the modest ambition of describing how the challenge is comprehended in Asia and in Europe.

Let me start by telling you that the world economic model I see emerging is entirely different from the international economic system designed in the years following the end of the Second World War and implemented primarily in the 1950’es.

That model was characterised by

- restraint exercised by the powerful actors be it in politics, economics or business
- an understanding of the need to shape a consensus for most if not all major issues even if the major player could force the chosen solution through
- a mutual understanding that there was a place for others on the scene even if we did not agree with them
- an acknowledgement that other people’s destiny had to be taken into account.

It was a model – nationally and internationally – dominated by restraint, magnanimity, thoughtfulness by those in possession of power combined with respect sometimes even awe for previous achievements recognised as part of the cultural heritage so necessary for long term stability.

The key word for the international system which despite

- the cold war,
- the de-colonisation
- the new technological wave
- a resurgent Islam and
- tremendous problems in most of the countries in what is called the third world

served the world admirable as a framework for prosperity and peace in the broad sense of these words was: Self discipline. That is why the system worked and why it was open to trade, investment, ideas and people.

I do not see the same trend for the world ahead of us.

And that will change the outlook for Asian and European enterprises fighting their way through or perishing.

1) Growing competitiveness.

A couple of years ago a fine word called 'new economics' was coined. It described the economic development, business activities and stock market exuberance through most of the 1990's. There is no such thing as new economics. There is new technology. And new technology changes the composition of the competitive parameters. When that happens and coincide with a new wave of consumer behaviour it goes without saying that the business environment and the way enterprises compete changes.

It is not about being big or small. No, it is about concentrating on what the enterprise is best at and neglecting everything else. In doing that an enterprise may be small or big, focusing upon production of one single good or a diversified producer.

Many people thought some years ago that the conglomerate was and is dead. That is wrong. A conglomerate can easily survive provided that it knows exactly what it is good at and is concentrating on doing this instead of doing five things where it is the second best.

Any enterprise must scan the world to find the people to be combined into a mass of talent putting the enterprise ahead of the others.

Money and capital are of interest only as long as they can be used to buy the talents needed by the enterprise. It is of no interest in itself. And it is no solution to buy another enterprise in possession of talents if the conditions to keep the talent there after the take over is not thought through. There are example after example of take overs, amalgamations etc among enterprises where the mass of talent which inspired the original ideas for the take over and/or merger disappears precisely because the new combined enterprise does not offer the opportunities for talent embedded in the original enterprises.

The need for talent may actually mean that the trend towards international mergers comes to an end. A merger is often not always made in order to buy market shares and obtain critical mass of capitalisation. It works in the way that the large and more powerful enterprise buys the smaller and less powerful ones. Publicly this merger is being presented as having synergy with regard to a whole string of things but most observers know very well that market share, distribution net, geographical presence are the drivers of the venture. After the merger the powerful enterprise the predator so to speak gradually empty the smaller ones for its research and development, its planning activities, its financial expertise – in short its brainpower while keeping the body and muscles intact.

This may work for a while and in some cases it actually works very well giving rise to a stronger and more competitive enterprise but it seems to me that in most cases we see the stronger company paying for the phasing out of the less competitive one. The

mass of talent that triggered off the original interest has disappeared leaving an empty shell.

The implication of this is that it may be cheaper and more cost effective for the predators to go for the jugular and offer more money to attract talented people working for other enterprises instead of wasting a lot of money purchasing the enterprises. This is what is being done in the sports world and among many American universities. Why bother with all the less glamorous and cumbersome flesh and bone if we can buy the key people inside the brain centre of the other enterprise.

So lesson number one: Mass of talent as the measure of competitiveness gives rise to a chase for talented people and that makes the traditional merger obsolete.

This takes us to the next item, which is whether these considerations lead to the same conclusion when facing the question: Merger of several enterprises or organic growth.

Experience shows that mergers do rarely result in the advantages originally sponsoring them. The explanation is that it is after all more difficult to merge two different cultural profiles into one than blueprints describe. Most of the successes in this context are not mergers but purchasing by one enterprise of another with the explicit purpose of taking over its market share and emptying it for brainpower. That actually means that the preponderant enterprise gets rid of, because it wants to, the talented people in the acquired enterprise to avoid a battle of wills to shape a new common cultural profile.

The reason for this is that the most successful enterprises in today's world are not rule based, not controlled by command but managed by a set of values. When that is the case organic growth where the enterprise expands slowly and gradually by taking in people giving them time to understand and adopt the set of values governing the enterprise may be much more rewarding in the long run.

And the reason that enterprises governed by a set of values are more successful than rule based or command controlled enterprises is quite simple. Decisions have to be taken on the spot without referring to a supervisor and/or submitted to conformity with rules.

A set of values signifies

- that the staff knows exactly what the enterprise is best at
- why customers are supposed to prefer its products instead of the products offered by competitors
- what the message and/or competitive parameters to customers should be and
- how the staff intercommunicate.

In short: A set of values ensures that the enterprise can adapt immediately and on the spot without referring the matter upwards. Performing this the enterprise can achieve what General Patton called 'getting their firstest with the mostets'.

Lesson number two: Organic growth may in the future be the chosen instrument for increasing competitiveness by size instead of mergers with outright take overs as a second best option.

The quest for talent and organic growth can only blossom inside a certain international framework. And that international framework is characterised by a free and open society obliterating borders for goods, ideas and people.

One of the major risks in the aftermath of September 11, 2001 is that the increased focus upon security may introduce barriers for exchange inside and between the free and open societies having served us so well. The container traffic is already subjugated to security measures having some negative effects for speed and costs. Ideas may still flow freely but certain ideas may not flow as freely as before. People may still be able to move but not so freely as before and in case of certain religious beliefs and/or ethnicity admission to some countries may not be so easy as before.

In short. Competitiveness and efficiency may suffer from the changed international environment after September 11, 2001.

That is especially the case where an economic integration has not been put in place and the name for this geographical area is Asia. North America is a single market already. EU is close to having achieved the same label. But not Asia.

The major conclusion of this short analysis about competitiveness is that to stay ahead enterprises need to be domiciled inside an economic integration.

Not because of the traditional doing away with trade barriers however important that may be but otherwise they risk to be cut off from the mass of talent they need and thus suffocate. Or to be more precise: If the enterprises and the mass of talent do not happen to be inside the same economic integration the mass of talent faces an obstacle trying to join the enterprises in need of talent.

In general terms it can be phrased in the way that the most important reason the US took over as the leading economic and technological power in the world was its openness to people offering the most gifted ones the highest benefits.

The most competitive enterprises in to-morrows world will be those placed in or operating in the part of the world offering the same be it North America, Europe or Asia – time will show.

2) Globalisation at a turning point.

A coalition is shaping up consisting of

- political leaders from a number of semi-developed countries such as Malaysia, Thailand, Indonesia all questioning the conventional wisdom that globalisation is good for their countries
- Political leaders from developed countries adopting a nationalistic not to say populist policy (Berlusconi from Italy, Koizumi from Japan, maybe Putin from Russia).

- activist such as the Attac movement inside the developed countries rejecting globalism
- A large part of the population in the developing nations putting the question about globalisation 'where is the beef for us?'
- a part of the population in the developed countries being hit by the increasing competitiveness leading to closing of enterprises and loss of jobs in their home country
- business leaders not realising their responsibility for evolution of societies; only focusing upon the bottom line
- international institutions operating without connection to the real world in the countries they advise almost dictate policies to

The question is whether this unholy alliance, this coalition among the unwilling will gather sufficient steam to roll back more than fifty years of uninterrupted internationalism.

The key to the answer lies only partly with our political system albeit politicians can definitely do more to explain the workings and benefits of internationalism and smooth out some of the unwanted and negative effects.

The key lies to a large degree with business leaders. Their understanding of the social fabric in the many countries and cultural entities their enterprises operate in.

The first step for business leaders is to analyse and understand the present economic system having won the day after the defeat of the Soviet Union and the discreditation of communism, socialism and Marxism/Leninism. And realise its shortcomings.

A free market model universally applied does not dominate the world. It is dominated by a world wide adoption of the American business system or American capitalism if we prefer to phrase it that way. There is nothing wrong in that and this model has worked wonders in the USA but it is not necessarily working wonders in other parts of the world.

As the US is the overwhelming economic, industrial and technological power it does not give much sense for most businesses outside the US to operate a system or a model not in conformity with the almost sacrosanct US system. If or when it is tried international analysts (Moody's, Standard & Poors and others) is unable or unwilling to penetrate such new systems with the inevitable result that a low grading or down grading will follow reducing the scope for activities. The American banks may not be favourably disposed to extend credit lines. International institutions such as the World Bank and the International Monetary Fund may draw in their horns. Most important of all – the American home market may be extremely difficult to penetrate thus denying the necessary economies of scale for enterprises in countries having chosen to operate outside the American capitalism model.

We live in a world, which can rightly be called American style globalism.

So many of the protesters may actually not protest against globalism or internationalism as I prefer to name it but against the fact that the only acceptable model of internationalism is the American style model. This interpretation is being

deepened when the US adopts an approach to international agreements and/or rules saying that if they suit US interests the USA participates and if not the USA does not participate. This stance has been labelled selective globalism. My own wording is unilateral multilateralism saying that international rules shall be in conformity with US rules to ensure US participation. Most countries and most enterprises will reel back faced with the prospect of doing without access to the US market.

The two other economic superpowers – EU and Japan – do not leave much to be desired in following the same tactic. It is a well-known fact that the EU Common Agricultural Policy is detrimental to the economic interest of million of farmers around the globe and Japan is masterminding a spectacular string of barriers for entering the Japanese market.

The model is lopsided because it hails free trade as a the cornerstone of globalism primarily if it benefits US or EU or Japan while it is difficult, not impossible but difficult for new enterprises from new countries to access this free trade system. Only enterprises and countries with sufficient clout may be able to climb the ladder. Even China attracting foreign direct investment of about 50 billion Usdollars a year found it extremely difficult to negotiate terms for its entry into WTO (World Trade Organisation) providing transitional periods for the weak sectors of the Chinese economy such as agriculture and finance – and that despite the obvious even enormous benefits to the US economy of Chinese participation in the global economy.

It all boils down to the basic fact that in the eyes of a considerable number of people around the globe, globalism in its present form is tailor made to safeguard the interests of those already strong and constitutes tall barriers for the weak and embryonic enterprises and countries.

My point here is twofold.

Firstly economic globalism even in its present inequitable form has produced enormous advantages for the world economic system. The model can and to my mind should be reengineered but the basic model has no alternative if we want to preserve economic growth and broadly speaking free trade.

But that requires a determined effort by politicians and business leaders not only to defend the model but also to remedy its negative side effects. Living in South East Asia it strikes me to see how little help countries like Indonesia and Thailand have got from the advocates of globalism in their endeavours to maintain a broadly speaking global economic model. The two countries which did best after the financial crisis in 1997 are Malaysia which rejected terms dictated by the International Monetary Fund and Korea which accepted IMF terms but slipped them off.

Secondly economic globalism cannot be expected to last unless it is modified to be truly global. As long as it is perceived and for the moment rightly so as an American form of globalism it will be under threat.

Business leaders can shirk this debate. That may suit them well. For some time. But in the long run they will be hit by increasing criticism directed against the globalism, which is the lifeblood of a modern enterprise.

So there is no way to escape the dilemma. Whether they want it or not they have to go to the barricades and defend the system and to be able to do that they must beforehand ensure modifications of the system. As long as business leaders stay silent there is little hope that political leaders will go to the drawing board to amend and modify the model. Why should they?

These are the considerations which lead me to the observation that in today's world globalisation is of increasing importance for the modern enterprise while at the same time coming under more and more dangerous attacks from circles outside the enterprise.

The large international or as I prefer to call them supranational enterprises cannot exist without globalisation. Because of their global presence they amass an almost phenomenal power in form of money, capital even political power or at least political influence.

Such power is not consistent with absence from the political system be it on the national or international level.

The bitter pill business leaders in Europe and Asia has to swallow is to recognise that free trade in its present form is forged by American enterprises and adjusted to conditions prevailing on the American market. The market and especially that market is not an infallible God. It has its shortcomings and makes its mistakes. There is scope for alternative models based upon other parameters. They may work as well or better than the so called full fledged free market model which definitely has let many countries and many enterprises down in the last five years. The time may have come to recognise that not only are political systems build around checks and balances but so are the most successful economic and business systems.

Quite simply:

The global economic and business model has to produce more equitable results to resist the onslaught being prepared by the coalition I mentioned a little while ago and business leaders in Asia and in Europe need to participate in this economic and political architectural work to make sure that we transform the model from American globalism to true globalism.

3) Political uncertainty and insecurity.

Business thrives best if there is

- transparent rules governing business activities known and respected
- a legal system operative and efficient as a body for settlement of dispute
- an agreed but unwritten set of values keeping everybody inside a well-known pattern of behaviour.

No nation-state can hope to constitute a home base for flourishing enterprises without these three set of parameters.

And no global system can hope to work well without a similar set of parameters.

The encouraging factor is that as far as the two first items are concerned the world economic system is actually moving towards an international system embodying exactly such factors. That is due to the economic integration which has taken place first internationally (GATT, WTO) and afterwards in a much stronger sense regionally (first of all the EU but also NAFTA and emerging in East Asia hopefully similar institutions).

There are two sides to it but as mentioned the sum comes out largely positive.

As enterprises operate more and more internationally they cannot be satisfied with a national system for rules and a national legal system. A Danish enterprise operating in East Asia will find it of little relevance to rely on Danish rules and Danish legal system if a dispute arises with a customer or a competitor in that part of the world.

The problem or the snag is that international texts may not always be as easy to interpret as national texts and the participants in international institutions may actually disagree over the content of the text.

It is well known that most of the developed countries favour strong rules to safeguard the environment and labour standards while many developing nations may feel that restrictions imposed upon their goods and/or services under this pretext is due to economic protectionism. Even more important and vulnerable, sensitive is restrictions based upon genetically engineering. Is it dangerous – yes or no, who knows? Should we play safe or should research and development be allowed to bring forward new products?

We will do well in recalling that international treaties are only worth the paper they are written on as long as they benefit the signatories and rules can only be respected if the signatories do agree about what they actually means.

The threat to global business in to-morrows world is not the uncertainty and insecurity brought about by global political crisis. That have been seen many times before and the world learned to cope with that sort of insecurity. A military attack on Iraq – if it comes – will certainly bring about a lot of insecurity but in this case we operate inside a well-known conceptual ballpark.

That is not the case when we speak about the impact of new technology upon globalisation and the future of businesses in Asia and in Europe.

How can we maintain economic globalisation if a major agricultural exporter such as US finds it acceptable to use products made by genetically engineering while another is adamantly against and a third one takes the position that it is all right provided that it is written on the label? It won't work.

How can we make use of the information technology in international trade in services fx entertainment if one country takes the view that scantily clad women is fine, another that it is forbidden and a third that they want to censure it before it is relayed to the population? It won't work.

How can we use news media on a global scale if one country that produces most of the newsreels want to focus upon dissidents trying to bring down the government in another country while a third country finds it offensive to its taste to voice opposition to the elected government. It won't work.

How can we operate an international financial system if some countries insist that white washing of money earned by selling fx narcotics is a crime while another country take a relaxed attitude and a third country maintains secrecy about inflowing funds? It won't work.

Until now economic globalisation in its American style has prevailed allowing what has been regarded as minor or at least acceptable discrepancies in perception about the rules to exist. This let us call it lenience with flaws in the system was of little significance because we were still operating inside the industrial society where trade in goods was what mattered.

But now when we take the jump from the industrial society based upon trade in goods to the non-material society based upon trade or rather exchanges of services it will matter. And that is what we see coming downstream imposing upon us a solution.

There seems to me two solutions to this problem. Both of them are based upon the simple premises that a common set of values is necessary to create the common interpretation of the rules that again creates certainty and security for businesses.

One solution is that the international system breaks in two, each having their own set of values. The insistence on a theocratic society in many Muslim and/or Arab countries augur such a solution. Exactly when dealing with services it is difficult to see a common thread among countries favouring a secular state and countries insisting on a theocratic state.

This alternative – doubtful if the word solution can be applied – is of particular interest for Asian enterprises as several Asian countries have Islam as the dominating religion but still secular nations.

The other alternative is that most of the countries outside the Western value system moves towards this system. This is actually what is happening in China if I should speak my mind. China and the Chinese have not adopted and probably will never fully accept Western values but they are moving towards this set of values coming – with a bit of luck - sufficiently close to allow a world trade system in services to include China. That was completely off the map one or two decades ago.

It should not go without saying that there is a parallel here to the world political system where we see more or less the same dilemma.

My main message to Asian and European enterprises and business leaders are simple but not so simple to carry out.

They will have to enter the fracas and face the music. Time has run out for the business leader only. A stand has to be taken with regard to what kind of set of values they prefer.

The sweeping changes of trade in services means that there is no refuge for business leaders anymore. They are born members of the select group to shoulder a political responsibility.

CONCLUSION.

Politicians alone created the post World War II international system. It worked well. We should be grateful for the work they did.

More than half a decade later this model is withering away.

Politically we can see how terrorism has changed the picture and how alliances are changing and some of them under stress.

International integration has eroded the nation-state but now finds itself under attack accused of an incomplete political system.

Economical globalism in the form of American capitalism has dominated but while admittedly having brought about a tremendous rate of growth also produced strong and apparently persistent disparities around the globe –inside nation-states and between nation-states.

Information technology and biotechnology changes the agenda for our societies and the international trading system.

All the omens point to a new international political and economic system. No one really knows how it will look even if some may think they do.

But I venture one bold statement - prediction. And that is that the new system will not be designed and implemented by politicians alone or almost exclusively. Business and business leaders will be asked to contribute and that will open the door to a completely new setting for what it means to be a business leader.

J. Ørstrøm Møller

References:

- 1) "The Future European Model".
By J. Ørstrøm Møller, published by Greenwood Publishing House (Praeger), Westport, CT, 1995. ISBN 0-275-95187-1
- 2) "The End of Internationalism or World Governance?"
By J. Ørstrøm Møller, published by Greenwood Publishing House (Praeger), Westport, CT, 2000. ISBN 0-275-96701-8.