
PART

I

Preparing for an Adventure

COPYRIGHTED MATERIAL
<http://www.pbookshop.com>

<http://www.pbookshop.com>



Today's Interconnected Globe

Consider a world in which China accounts for more than a third of the world's industrial output.¹ Meanwhile, India and the major European economies make up another 33 percent. The United States, on the other hand, contributes a mere 2 percent of the global gross domestic product (GDP). Does this sound like a horror story of things to come? Perhaps. But these figures, according to research published by economist Martin Wolf, actually depict the global economy in 1820. Before the Industrial Revolution, Western economies waited for sailing fleets and horse-drawn wagons to deliver riches like silk and spices from the Far East. Worldwide economies, of course, are nothing new; they have functioned for hundreds of years with political and economic empires dictating their terms. Over the past 150 years, the world's economic power has been concentrated in the hands of Americans, Europeans, and the Japanese. We are now, however, entering another growth period for non-U.S. economies. Today, 95 percent of the world's consumers, constituting two-thirds of its purchasing power, reside outside the United States. By 2015, the list of the world's top 10 economies,

4 PREPARING FOR AN ADVENTURE

which already includes cities in China, will grow to encompass other emerging economies such as cities in India and South Korea.² The twenty-first century, therefore, will no longer be an age of empires or even one of the lone economic superpowers. We are instead witnessing a new era of economic interconnectedness. As Parag Khanna wrote in his piece for the *New York Times*, “Waving Goodbye to Hegemony”:

The more we appreciate the differences among American, European, and Chinese worldviews, the more we will see the planetary stakes of the new global game. Previous eras of balance of power have been among European powers sharing a common culture. The Cold War, too, was not truly an “East-West” struggle; it remained essentially a contest over Europe. What we have today, for the first time in history [sic], is a global, multicivilizational, multipolar battle.³

Back to the Future

Accenture, a global consulting company, describes this new global economic model in which the uni-polar dominance of nations like the United States has ended as the *rise of the multi-polar world*. Numerous developing economies now enjoy the economic power and influence formerly held exclusively by empires. These developing regions or countries contribute an ever-growing share of the world’s output, trade, and investment. Accenture’s 2008 report, “The Rise of the Multi-Polar World,” indicates that developing nations now account for some 49 percent of global GDP—and should, within two decades, surpass the combined GDP of what we now call the “developed world.”⁴ The report’s authors assert: “Globalization is now becoming a two-way process in which developing/emerging economies are changing from passive recipients to active shapers of globalization.”

Tremendous change frequently provokes resentment and reactionary defensiveness. Executives and managers who allow such

Today's Interconnected Globe

Table 1.1 Top 15 Consumer Markets in 2025

Country	2005*	2025*	Growth Rate (%)
China	3,088	14,527	8.0
United States	7,335	12,512	2.7
India	1,924	4,264	4.1
Russia	749	2,489	6.2
Japan	1,780	2,291	1.3
United Kingdom	1,058	1,707	2.4
Germany	1,180	1,512	1.2
Brazil	757	1,465	3.4
France	917	1,374	2.0
Italy	836	1,168	1.7
Mexico	648	1,139	2.9
Canada	539	1,045	3.4
Spain	560	945	2.7
South Korea	413	914	4.1
Australia	339	592	2.8
<i>World</i>	<i>30,374</i>	<i>54,293</i>	<i>3.0</i>

*Based on consumer spending in billions of U.S. dollars.
 Source: Accenture, "The Rise of the Multi-Polar World," 2007, p. 22.

attitudes to influence policies deserve the fate that awaits them. Americans, in particular, have grown accustomed to a world in which they have great economic, cultural, and political influence. Many still perceive globalization and outsourcing as threats to their well-being. The news media play to these fears by focusing on horror stories of towns and cities decimated by factory closures due to foreign competition. A poll conducted by the *New York Times* and CBS News in the spring of 2008 found that 68 percent of Americans favor tighter restrictions on free trade in an effort to head off threats like China's deep pool of cheap labor—the highest percentage since the poll was begun in the 1980s and a substantial increase over the same poll taken in 2000, which concluded that 56 percent favored tighter restrictions on trade.⁵

6 PREPARING FOR AN ADVENTURE

However, competition from abroad benefits Americans as much as it hurts them. A company such as Wal-Mart, which is so often criticized for using its size and buying power to lower its costs, established a new standard for low-cost production by sourcing outside of the United States. If Americans want to buy products at cheap prices, they must endure having these products manufactured by cheap labor. The lower cost of labor gained by outsourcing creates new standards for costs as well as improved efficiencies. Wal-Mart, however, is only one marketplace. During 2007, as the U.S. dollar weakened, competition for U.S. real estate and services brought money into the United States, benefiting U.S. landowners, businesses, and investors. As the global economy continues to change, Americans, as producers, sellers, and buyers must change with it.

India prepares more than 400,000 U.S. tax returns every year and China produces the bulk of children's toys sold in the United States, indicating that geography no longer controls how tasks are assigned in both the service and manufacturing sector economies. Lower cost drives these task assignments.⁶ Yet, some leaders of both companies and governments respond to new cost standards by ignoring them or by hoping that the situation will simply return to what it once was. Media figures Pat Buchanan⁷ and Lou Dobbs⁸ use their public platforms to sound the alarm and take up defensive positions. They imply that our lives will improve if we wall ourselves off from the new economy. But this approach does not protect us from or fend off competition. In fact, it cripples our ability to respond with vigor. As William D. Green, the chairman and CEO of Accenture, put it in his firm's report: "We are at a critical moment as a global economy. Move one way, toward greater freedom of trade, the possibilities of new technologies, the promotion of education and skills training on a vast scale, and the opportunities are endless. Step the other way, toward the retrenchment into tariffs, a rejection of the newest new things and a reluctance to change the social and cultural patterns of generations, and those opportunities could be lost."⁹

Bringing Down the Walls

Mr. Gorbachev, tear down this wall!

—Ronald Reagan, June 12, 1987¹⁰

Many Americans refer to 9/11 as a critical date in their nation's history; Europeans also consider 9/11 a critical day—but for different reasons. November 9, 1989, written as 9/11/1989 in the common European calendar format, is the day the Berlin Wall came down. It is one of the most important days not only in recent European history, but for the global economy as well. The fall of that wall opened up new opportunities for collaboration among nations.

Europe's recent embrace of a multicultural and cooperative economic system presents a model for Americans to consider. In 1993, European nations formed the European Union (EU) as an unprecedented effort at collaborative free trade that today boasts 27 member nations.¹¹ In 2007, the collective GDP of the EU nations was \$16.6 trillion, representing about 30 percent of the global GDP. To form this unified EU, European leaders overcame popular opposition to the loss of local currencies, fear of new work patterns, and even the subordination of national economic control to an umbrella agency based in Brussels. It wasn't easy for the French to give up the franc, for instance, or for the Italians to trade in the lira for the euro. However, the EU has been an undisputed economic success. Not surprisingly, African nations are now discussing a future African Union, and China is leading the way toward a new East Asian Community.¹² Cooperation between countries in close proximity provides an initial cross-cultural experience. In each of these instances, national currencies, values, laws, and many other cultural expressions must be transformed to serve regional rather than parochial needs. New economic rules are being formed without the participation of the United States.

Americans, in turn, may have to face the loss of cultural and financial controls similar to those experienced by Europeans in the

8

PREPARING FOR AN ADVENTURE

past decade in order to maintain their lifestyles and their economic and political stability. Europe has learned its lesson. As Jose Manuel Barroso, the European Commission president said: “The right approach to shape and respond to globalization is to build an integrated and open Europe, socially and economically dynamic—and highly competitive.”¹³

The North American Free Trade Agreement (NAFTA) is a very small and hesitant step in the right direction for the United States. Yet, even it has spurred political outrage and cultural defensiveness. The new model of global interconnectedness, like that embraced by Barroso and others, is one U.S. leaders ignore at their peril. “Borders don’t protect us,” Jim Steinberg, vice president and director of the foreign policy studies program at the Brookings Institution, said. “The movement of people, ideas, capital, and goods has now become a fact of life.”¹⁴

The Interconnected Globe Hits Home

I first became aware of the global economy in 1969 when I was 12 years old. As an assignment for school, I wrote about the impact of the Prague Spring, that moment in history when the Russian military invaded Czechoslovakia to clamp down on the democratic reforms begun by Alexander Dubcek in January 1968. (The country would remain occupied for another decade.) The Russians raised barriers to further separate the East from the West. My blithe conclusion in my paper was that we would have trouble obtaining “the wonderful hops to make our beer.” One month later, I changed schools and, during that quarter, a boy named Jiri Sonek joined the class. The thing I noticed first about him was that he wore the same two shirts over and over. I later learned that he and his family had fled their home city of Prague during the invasion with literally one suitcase to hold all of their belongings. Of course, I didn’t really appreciate what it meant to Jiri and his family to emigrate from Czechoslovakia to the United States to escape oppression, even though I had written a paper about their home country. In time, I remember

Today's Interconnected Globe

9

realizing how narrow-minded my first response was to such an historic event. Why did I worry about hops for beer? Why did I focus on what a refugee was wearing rather than asking him what he had escaped from? To his credit, Jiri took full advantage of the new opportunities his parents had given him. Today, he is Dr. Sonek, a medical director of maternal fetal medicine at a hospital in Dayton, Ohio. When I think of Jiri today, a man who had to reinvent himself to survive, I realize these encounters broadened my worldview and perspective about the interconnected world.

One informative source leaders can use for help in understanding the shifts in the balance of globally competitive markets is the World Economic Forum (WEF). The WEF is an independent, not-for-profit international organization based in Geneva, Switzerland, that is committed to improving the state of the world by engaging leaders in partnerships to shape global, regional, and industrial agendas. One of the groups associated with WEF is the Global Competitiveness Network (GCN), a team that works with leading academics worldwide to tap into the latest thinking and research on global competitiveness. Beginning in 1979, the GCN has produced an annual study called *The Global Competitiveness Report* that is considered by governments, academics, and business leaders to be the most comprehensive and authoritative assessment of the comparative strengths and weaknesses of national economies.¹⁵ The rankings are calculated from both publicly available data and the *Executive Opinion Survey*, a comprehensive annual survey conducted by the WEF together with its network of leading research institutes and business organizations (partner institutes) in the countries covered by the report. For its 2007 report, more than 11,000 business leaders were polled in 131 countries.

The report ranks the 131 nations from A to Z—Albania to Zimbabwe—and computes a global competitive index for each country based on the relative competitiveness of its economy. To do this, each country is rated in 12 categories, called pillars, which include: *Institutions, Infrastructure, Macroeconomic Stability, Health and*

Primary Education, Higher Education and Training, Goods Market Efficiency, Labor Market Efficiency, Financial Market Sophistication, Technological Readiness, Market Size, Business Sophistication, and Innovation. Each pillar is then divided into specific components, for instance the *Innovation* pillar includes “company spending on R&D” and “capacity for innovation.” To arrive at the overall rankings, experts were asked to assign a value from 1 (does not meet the needs of the global economy) to 7 (meets the needs of the global economy) to each of the 110 components that comprise the 12 pillars. The higher the rating a country received for the 12 pillars, the higher competitive ranking it received. Along with the ranking, the report also listed the most problematic factors or biggest threats to the future competitive prospects of each economy. In other words, the WEF’s index is not only extremely useful in pinpointing the most competitive economies of today—but it also indicates those economies that will soon find themselves under siege along with those that are well-positioned to grow rapidly.

Looking at the results from the 2007 WEF report, we find that while the U.S. economy is ranked first in overall competitiveness, earned largely on the strength of the U.S. consumer market and its strong tradition of innovation; the top three most problematic factors in doing business in the United States are tax rates, tax regulations, and an inefficient bureaucracy. In the opinion of the experts asked by the WEF, these are the biggest factors that threaten the future competitiveness of the U.S. economy. In fact, the United States ranks only seventy-fifth in the world when it comes to macroeconomic stability because the country faces serious threats from its low national savings rate and the enormous debts and trade deficits created by U.S. government spending.

When you look deeper at the rankings, you see that the education systems in the United States cannot keep up with the new demands of the global economy, nor can it keep fueling the types of innovative breakthroughs in technology that have been the economy’s strength over the past 50 years. Not only do the WEF experts rank the work ethic of American workers as low when compared to many countries, but they also raise a warning flag about how

Today's Interconnected Globe

11

inadequately educated Americans are given the needs of the interconnected economy. In an era where computer and engineering skills are valued at a premium, the United States ranks forty-fifth when it comes to the quality of math and science education provided to its young people. This means that U.S. companies will have no choice but to look beyond their national borders to find the necessary human capital they will need to remain competitive in the high-tech, high-growth sectors of the future.

Simply stated, by analyzing the information supplied by the WEF and similar organizations, today's leaders can stop knee-jerk responses to news supplied by the subjective news media and instead begin understanding the news in context of the future trends. This will improve decision making and will increase the likelihood of discovering new opportunities before they emerge elsewhere.

Jingoism, however, can be a particularly daunting barrier for leaders in the interconnected economy. Americans in particular succumb to the sometimes virulent habit of waving the national flag as a means of protesting change. "Made in America" has become a rallying cry not only for things like Ford and Chevy trucks sold in the heartland, but also for opponents of everything from outsourcing to immigration. Politicians and commentators place the blame for economic malaise and downturn on the companies who send jobs overseas. Pat Buchanan even goes so far as to say America is coming apart as a direct result of its multiethnic diversity.

The American economy and others will flounder without a pipeline of diverse talent. Studies published by the National Foundation for American Policy decisively concluded that increasing the number of H-1B visas granted to foreign professionals would not only help spur growth in U.S.-based companies, it would also create more jobs for Americans.¹⁶ An H-1B visa is a nonimmigrant visa that allows U.S. companies to employ foreign guest workers in occupations only when qualified U.S. citizens or residents are not available. And yet Congress, under pressure from constituents who operate on fear rather than on facts, continues to use an arbitrary number to decide how many foreign workers will be allowed into the country

each year. (The limit was set at 65,000 visas for 2008.) As Microsoft Chairman Bill Gates said in his testimony before Congress, “We live in an economy that depends on the ability of innovative companies to attract and retain the very best talent, regardless of nationality or citizenship.” Due to better educational systems and more demanding cultural norms, young people in other countries provide much of that “best talent.”

Americans don’t have a monopoly on xenophobia. Japanese restaurants in Tokyo protest the number of stars given to them by the distinctly French Michelin Guide¹⁷ or Russian hockey players eschew the greater salaries available in the North American-based National Hockey League to play at home.¹⁸ Cultural differences remain barriers to a truly connected global market. As Parag Khanna writes in the *New York Times*:

The rise of China in the East and of the European Union within the West has fundamentally altered a globe that recently appeared to have only an American gravity—pro or anti. As Europe’s and China’s spirits rise with every move into new domains of influence, America’s spirit is weakened. The E.U. may uphold the principles of the United Nations that America once dominated, but how much longer will it do so as its own social standards rise far above this lowest common denominator? And why should China or other Asian countries become “responsible stakeholders,” in former Deputy Secretary of State Robert Zoellick’s words, in an American-led international order when they had no seat at the table when the rules were drafted? Even as America stumbles back toward multilateralism, others are walking away from the American game and playing by their own rules.¹⁹

In our highly interdependent world, we cannot ignore non-U.S. cultures and the demographic and social forces they bring to bear—nor can leaders of other nations overlook the opportunities that exist outside of their turf. Stopping the world and getting off has never been an option. Neither can we go back to the way things were. Rather, we need to reach out and embrace change, shaping it to our benefit. Fueled by technology like the Internet, satellite communications, and fast computer processors, we now have almost

Today's Interconnected Globe

13

instant access to far-flung populations and cultures that represent tremendous avenues for growth, not threats. Indeed, the best way to mitigate future economic risks is to invest in emerging markets. The fact that U.S. ownership in foreign equities has increased more than 14 percent over the past few years indicates that our future-looking leaders already understand we are at a historical inflection point that requires them to avoid conventional paths and avoid retreating behind walls.²⁰ We need our leaders to adapt to and participate in many new and different cultures not only to tap new sources of talent, but also to open new markets for their companies' goods or services. We need to cultivate leaders who are hungry to learn the facts about key existing connections and decide how they will affect not only their lives, but those of the people they work alongside of as well. That also means having leaders willing to immerse themselves in the global economy by traveling to cultures different from their own, and then embracing them rather than forming second-hand opinions parroting what they hear from media personalities. As Joel Kurtzman, a senior fellow at the Milken Institute and co-author of *Global Edge*, writes: "In the United States in particular, international news reports are often better at misinforming than they are at educating business leaders."²¹ After all, the difference between a leader and a follower is the courage to take on the responsibility of making change. Fortunately, there are already such leaders out there not shaking from fear, but bent on shaking loose new opportunities.

Five Factors That Shake the Multi-Polar World

Mark Foster, the group chief executive of Accenture's management consulting and integrated markets practice, had great insight as to what will drive high performance of both businesses and governments in the multi-polar world. This knowledge can help shape the characteristics needed by leaders to confront the new conditions. Mark thinks the companies and governments that master the

14 PREPARING FOR AN ADVENTURE

following five factors will be the winners in the new wave of competition that will shake the interconnected world in which we live:²²

1. *Developing talent:* By the year 2050, 97 percent of the 438 million people that make up the global labor force will come from developing economies. As the populations in most Western economies age and, in some cases, even shrink, competition for talent will intensify. It's a race in which countries with tight immigration laws such as the United States could find themselves quickly falling behind. Looking ahead to the workforce of 2020, 70 percent are already out of both high school and college, so businesses will need to train and retrain talent.
2. *Attracting multidirectional capital flows:* In the past, companies based in developed nations looked to emerging markets for expansion opportunities. This practice, known as *foreign direct investment*, has since been turned on its head. Emerging economies now account for 17 percent of global direct investment. As there is for talent, there is growing competition around the world to access this new source of capital.
3. *Participating in new consumer markets:* Emerging markets are no longer seen merely as low-cost suppliers of goods and services—they have now become crucial destination markets in their own right. Consumers in countries such as China, India, and Mexico are expected to account for more than half of global consumption by 2025. (See Table 1.1 for a breakdown of the Top 15 Consumer Markets in 2025.) Accessing these markets will be key to the growth of any transnational company or rival emerging economy.
4. *Winning the battle for resources:* Led by economies such as China, emerging economies have spurred an 85 percent increase in world energy consumption since 2000. This increase in demand for energy is mirrored by a surge in demand for commodities such as wheat and copper. The demand for energy and raw materials is expected to increase further in the coming years, which means that competition will also increase for these scarce resources.

Today's Interconnected Globe

15

5. *Reading the new map of innovation:* As the number of engineers produced in the United States continues to drop, and tighter immigration laws keep prospective international students away, new clusters of technology have emerged in up-and-coming innovation hotbeds like Beijing, Bengaluru, Greater Seoul, and Krakow. China, for example, holds 12 percent of the world's patents for nanotechnology. In short, emerging economies continue to move up the innovation food chain, evolving from technological imitators to epicenters for R&D breakthroughs.

Leaders who are already adapting to the realities of our interconnected world show the tremendous success available to those who look forward instead of backward. Consider, for example, the actions of a division management team of General Electric (GE).²³ Founded in 1890, you might expect GE to advertise its heritage and longevity whenever it could. However, as a company built on manufacturing, GE, which has its headquarters in Fairfield, Connecticut, is struggling to compete and keep its foothold in the U.S. market. The company's revenues continue to grow, largely due to the strength of its sales overseas. In 2007, for the first time in the company's history, sales from outside the United States outstripped domestic accounts. One source of this growth is attributable to a division of GE based in Erie, Pennsylvania, that produces 150-ton railroad locomotives that typically carry a price tag of \$4 million apiece. Facing a dwindling market for its locomotives in the United States, the future of this division looked dismal. Like many towns founded on heavy industries, the town of Erie faced the prospect of losing more jobs if this particular GE division failed. Fortunately, for both GE and Erie, they had a secret weapon: John Dineen, president of the division. Rather than shutter the 100-year-old locomotive plant, Dineen pushed internal efforts to improve quality and cut waste while he searched the global marketplace to find new customers in rapidly developing economies such as Brazil, Kazakhstan, and China, where trains remain an integral component of the transportation structure. China alone bought 200 trains in 2007, which leads Dineen to joke that Erie is now one

of the few areas in the United States to have a trade surplus with an emerging superpower. “What we are doing in Erie is really a play on globalization,” he says. Rather than waving the flag and blaming others for his division’s struggles, he looked for new opportunities for growth. Today, Dineen’s division, with \$4.5 billion in revenues for 2007, is twice as big as it was five years ago. GE has emerged as the world leader in producing diesel-electric freight locomotives: a clear success story from the multi-polar world.

GE is not alone in cultivating leaders who see opportunities instead of threats in the international market. Caterpillar Inc., for example, is another heavy industry company that has hitched its future growth to selling its backhoe loaders, harvesters, hydraulic excavators, and paving equipment overseas. Like GE’s locomotive division, more than half of Caterpillar’s \$45 billion in annual revenue now comes from countries such as China, Russia, India, and rapidly industrializing countries in the Middle East. In fact, demand for its products is now at a level that warrants the planning of new plants in China and India to supply its customers. “No matter what happens, we’re going to flex our workforce, flex our manufacturing facilities to meet the demand of our customers wherever they are,” David Burritt, the company’s CFO, has said.²⁴ Large, public corporations are not alone in seizing opportunities beyond traditional borders. Entrepreneurs who shake the globe seek currency advantages in attracting international customers and investors to their home country.

We are, as these examples help illustrate, witnessing the resurgence of the “transnational company,” a term used by business guru Peter Drucker to describe a company for whom national boundaries have become irrelevant. A transnational company is distinct from its multinational cousin because its leaders look upon the world—not just individual nations—as its market. As Drucker put it in 1997, “The transnational company is not totally beyond the control of national governments. It must adapt to them. But these adaptations are exceptions to policies and practices decided on for worldwide markets and technologies. Successful transnational companies see themselves as separate, nonnational entities. This self-perception is

Today's Interconnected Globe

17

evidenced by something unthinkable a few years ago: A transnational top management.”²⁵

Drucker possessed an uncanny ability to see into the future. But other leaders in the world today provide additional case studies from which we can learn. For example, Bruno Bich, son of the founder of Société Bic Group, under whom I served as executive vice president and chief financial officer from 1999 to 2002, understands the notion of what a transnational leader is. Bic recruited me to its Paris headquarters from Portland, Maine—part of its strategy to tap into new talent worldwide. Bruno once told me that you can't be successful relying entirely on your own people—you need to enroll others. In other words, in an interconnected world, we need to collaborate with people who may be foreign to us and learn from them. What's interesting is how Bic, the company, has itself become transnational by blending in and blurring traditional boundaries in what some have called combining a global scope with a local focus. Many Americans, for example, think of Bic as a made-in-the-United-States kind of company, when it is truly a French company. The same principle holds for Bic subsidiaries in South Africa or the United Kingdom; many countries perceive Bic as a local company. Bic recruits and trains employees from all over the world to think like transnational leaders, hiring local leaders when possible—all of which has contributed to Bic's growth and continued success over the years. Rather than think of the multi-polar world as some kind of barrier or hurdle to overcome, therefore, Bic is one example of a transnational company that, because of its exceptional leaders, has transformed itself to take advantage of new global opportunities. As Robert Louis Stevenson wrote, “There are no foreign lands. It is the traveler only who is foreign.”

What, then, are some of the keys to grooming transnational leaders? One key is that today's leaders need to have the courage to move beyond the comfort zone in their home country and venture out into the world to both learn and embrace new cultures. As Tom Neff, U.S. chairman of Spencer Stuart, has said: “The value is clear: for CEOs, an experience overseas can provide a real competitive edge.”²⁶

Key Points to Consider

- In our interconnected global economy, it takes courage to look beyond cultural barriers and create new customs for the future. How do you keep past products and traditions and modify them to be relevant for future business?
- A key success factor for leading in the interconnected economy is responding quickly to the five factors of the multi-polar world. Every country and culture works differently. How can the successful leader search for business outside his domestic market and accelerate his decision-making pace?
- Successful leadership requires flexibility. Do you make a plan and alter it regularly to reflect updated financial results or current conditions?
- With change comes volatility. What steps can you take to look beyond the fears of others to see the opportunities that lie ahead?
- To fit in and stand out in the interconnected economy is to recognize that success comes from collaboration. Have you identified the champions for going global who can help you?

In short, the new realities of the global markets mean that we need leaders with the courage to break from the old and begin again with the new. The next chapter explores how new financial realities increase the urgency for consistently reporting results and how it reflects market volatilities.