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STRATEGIC THINKING FOR THE 1990s

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MS. DAPHNE D. BARTLETT: Recent events have made it clear that these are difficult times for actuaries and for many of our employers. It's not business-as-usual anymore. Our guest speaker has assisted me and my employer, and numerous other American and European organizations, in the art of strategic thinking, not business-as-usual in many companies today. Meyer Feldberg is currently dean and professor of management at Columbia University's Graduate School of Business. Meyer has taught in South Africa, where he is originally from, in England, France, and in the United States where he has been director of executive education, an associate dean at Kellogg Graduate School of Management at Northwestern, dean of Tulane University's School of Business, and president of the Illinois Institute of Technology. He'll talk to us about strategic thinking for the 1990s. It's a great pleasure for me to introduce my friend, Meyer Feldberg.

MR. MEYER FELDBERG: As an educator and a professor, I'm not sure that actuaries should be allowed to meet in such large groups. Given the level of mathematical and statistical sophistication in the United States, if anything untoward should happen to this group, we could really be in even worse trouble than we currently are. Or better off, yes. Well, I would have said that possibly about a group of lawyers. That generally gets a round of applause even from lawyers. I would like to open my talk by trying to give you a sense of my understanding of the concept, strategy. You can be speaking to any group of individuals who are relatively sophisticated and successful, and if you are talking about strategy, they'll think you're talking about a tactic. You'll be talking about an objective; they'll be talking about a goal. Many of them will think that you're talking about policies or plans. There is an enormous amount of confusion about what the term strategy really means and what it means to articulate and implement and work through a strategic plan or a strategy.

To a very significant extent, you as a group of individuals should, of course, have a very penetrating and insightful view of strategy. Given the fact that most of your time, energy and effort is spent on forecasting, predicting and understanding the future, you should really have a very good sense of the kinds of imperatives that should drive and will drive what we are going to do in the future, whether we're talking about your particular industry or, for that matter, any industry. So, clearly strategy is very heavily involved in trying to understand the external environment and trying to forecast the future in some fashion. It also involves an understanding of an organization's or a firm's individual strengths, skills and resources and how the organization intends to apply those resources in the most productive, in the most effective, and the most profitable way, keeping in mind the external environment in which you will be functioning.

For me, strategy involves three key or primary areas. The first is the area of risk. In putting together a strategy for an organization, a chief executive officer needs to be

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assessing the amount and quantity of risk he or she is prepared to take – the quantity of risk to which he or she is prepared to expose the organization or the firm. Two individuals leading two successful organizations in the same industry may have a completely different view of the amount of risk they are prepared to take, or the amount of risk they're prepared to expose the organization to. So, risk is one key element.

The second key element, resources, means how the organization intends on employing its resources, how the organization intends on applying its resources, and how much of the resource the organization intends to build in at the front end as opposed to later on in the strategic plan. Once again, two organizations in the same industry, who are both successful may have two completely different approaches to the way in which they intend to utilize their resources and the way in which they intend to apply them over a period of time.

The third element in strategy, the one that is most difficult to understand and quantify, in many cases, has to do with the nature of the leadership style, the nature of the management style of the chief executive officer and his or her top team. Each organization brings its own philosophy, its own style, its own ideology to the way it intends to do business and the way it intends to take itself into the future. In many cases, an organization is a mirror of the style, the philosophy, and the ideology of the chief executive officer. This was probably best said and best presented by Alfred P. Sloan in his book *My Life with General Motors.* Early on in the book, in fact, in the first chapter, Alfred P. Sloan says that General Motors is the elongated shadow of one man, him, Alfred P. Sloan. Now, he was a modest fellow in his way, but in reality that was true. The strategy that General Motors employed, the way in which it viewed the world and employed its resources, and the kinds of risks that the company took were very largely a reflection of the style, the personality, and the philosophy of the chief executive officer. So, I think when we think about strategy we need to think about it in terms of the power and the influence of one individual and a small group that work with that individual. We need to think of it in terms of the amount of risk the institution or organization intends to take, and we need to think about how and when it intends to apply its resources.

With those opening remarks of my understanding of strategy, risk, management style and resources, let me talk a little about how we put together a strategy, keeping in mind the past, and in particular, using the United States in the global business environment as the model. As I look around the room, it's clear that there are many individuals that are essentially from my generation. So, I hope that some of what I have to say in the early part of my address will ring true or will bring back some memories.

When I graduated from high school in 1960, 45% of the world's gross national product was controlled by the United States and less than 3% was controlled by Japan. During my first year of college, Detroit produced 53% of all automobiles in the world. Japan and Germany combined produced less than 15%. My ambition in 1960 was to one day own a Cadillac. When I graduated from college in 1963, steel corporations in the United States produced 32% of the free world output. When my son started his MBA studies this year, the U.S. share of world gross national product had dropped from 45% in 1960 to 25%. The Japanese share had risen from 3% to over 15%. U.S. imports of foreign automobiles had risen from less than 2% in 1960 to the point at which today almost 40% of all cars sold in the United States will either be imported or manufactured in the United States by foreign producers. I'm now driving a European car.

When I graduated with my master's degree from Columbia in 1965, I interviewed with five companies. All five were large manufacturing corporations. Four of them were in the midwest. I eventually joined B.F. Goodrich as a trainee. My son graduates from Columbia with his MBA next year, and he figures, in spite of Wall Street, that he will be an investment banker or a consultant. He's actually rethinking the situation at the present time. We had Warren Buffett at the school recently, who is the legendary chairman of Berkshire Hathaway. Mr. Buffett was interviewing students for potential positions with Berkshire Hathaway, and when he spoke to them he told the group that he was looking for mathematically sophisticated MBAs, particularly those that had an actuarial background. So, we have a whole generation of students that are now rethinking their careers.

As I review what it was like when I was at college and compare that with the current or present generation, it's clear that a very dramatic change has taken place in less than one generation. Our emphasis, our orientation, and our value system has increasingly moved away from the great industrial corporations of our youths and away from the production of real goods to an economy that is increasingly based upon services, service technology and offshore production.

Now, there is clearly nothing undesirable about the dramatic growth in the service sector. It is, however, incorrect and undesirable to assume that this growth necessarily had to be at the expense of the industrial, manufacturing or production sector, and I believe that we in the United States are coming to recognize the absolute necessity of revitalizing our country's industrial base. This revitalization need not and must not come at the expense of the service sector. It must occur in conjunction with the continued growth and productivity in the services.

In order to revitalize and prepare for the 1990s we must understand the current state of our economic base. Not only did the rate of American production decline during the past two-and-a-half decades, but the growth and productivity of other nations, particular Asia and Western Europe, also leaped ahead, and consequently reduced the competitive edge that we enjoyed in the 1950s and the 1960s.

As labor costs rose in the United States, we sought reduced cost of labor abroad. While many other countries were discovering innovative ways to lower their unit cost of production through better use of technology in the workplace, our unit costs of production, particularly during the 1970s and 1980s, continued to climb. Increased wage demands and the use of obsolete production techniques and equipment inflated American costs to the point where our goods were no longer competitive. The exchange rate between the currencies, also in the 1970s and early 1980s, were very much against the United States.

It is important to understand, however, that the extraordinary growth of the Japanese economy, or for that matter the Korean, Taiwanese, Singaporian, German or French economies, did not take place solely in their domestic marketplaces. Their growth came from their extraordinary and aggressive participation in the world's marketplace. Much of their growth, in fact, came in our marketplace. A large percentage of the growth of the Japanese economy was built in our own United States market. While we were losing our share of our own domestic marketplace in automobiles, appliances, microchips, and textiles, we were not capturing any share of the foreign marketplace. The question is, Why weren't we more aggressive in Europe or in Asia? Why did we not take advantage of growing markets in the Third World? We allowed ourselves to be domestically driven while our competitors were globally motivated.

The best way to appreciate this is to think of companies like Unilever, Philips or Nestle, and to ask how a company like Unilever got to be a $30 billion packaged goods corporation, larger in size than Proctor & Gamble and Colgate-Palmolive combined? Unilever did not get to be one of the world's largest corporations in a Dutch market. Even if Unilever were to have 100% of the Dutch market, it would still only be a small corporation. Unilever got to be the giant that it is by growing in everyone else's marketplace, in the U.S., the rest of Europe, Africa, Asia and Latin America. How is it that the three largest chemical companies in the world are all in Germany? Did they get to be that size solely or primarily in the German market? Clearly not. Their markets are global. Their strategies are long term, and they think of their assets in global terms and in multiple currencies. This became particularly clear to me in the last three or four weeks.

Two weeks ago we had a dinner in this very room, a black tie dinner, at which Alan Greenspan and Ross Perot were the two guest speakers. We had a large number of press members at that dinner. Everybody was hoping Alan Greenspan was going to announce another half-point drop in interest rates. Interestingly enough, however, he did not choose to do that. He chose to speak about changes that had taken place in the global marketplace, and in particular, in Eastern Europe, and how absolutely essential it was that we in the United States made sure that we participated in the changes taking place in Eastern Europe and the Soviet Union. Not only should we take advantage of those marketplaces, but we should also make sure that we did not leave them wide open to our competitors from Europe and Asia.

Every time we walk away from a marketplace, every time we don't participate in a particular area of the world, not only are we giving up market share, but we're also giving our competitors an opportunity to come in and increase their market share, build larger plants, and spread the cost of research and development over a larger volume. So, it is critically important not to walk away from foreign marketplaces not only because we need to increase our share, but because we also need to maintain our competitive posture against everybody else in the world.

In this regard I should mention that I am very committed to free trade. I very strongly supported the free trade pact with Canada about 30 months ago, and I strongly support the president in his desire to fast-track the free trade pact with Mexico at the present time. I think he will be successful, and I think that free trade pact will pass. We will then be dealing with North America as an enormous marketplace that is clearly competitive but with the total marketplace of the European Community (EC) or Europe. There are, however, difficult issues to be resolved in this regard.

I cannot let the moment pass without quoting from this morning's *The New York Times.* As many of you may have noticed, the French have just appointed a new prime minister. Ricard either resigned or was asked to step down, and Mitterand appointed the first woman as prime minister of France, a lady by the name of Edith Crosson. She has created quite a reputation for herself in the global marketplace primarily by her attitude towards Japan. According to *The New York Times,* Prime Minister Crosson was quoted recently as saying the following, "Japan is an adversary that doesn't play by the rules and has an absolute desire to conquer the world. You have to be naive or blind not to recognize that." A rather dramatic statement, but one that I think we should not allow ourselves to fall into the trap of believing too completely. As soon as you move towards building barriers or closing marketplaces, you are in danger of trading down to a lower common denominator as you put your overall global strategy together. So, while we want to make sure that the Japanese do play by the rules, it would be a mistake, in my opinion, to build barriers, just as I believe it would be a mistake not to pass the free trade pact with Mexico later this year.

So, I am absolutely committed to free trade. I believe that we should open up our markets to all comers. At the same time, however, I believe that we absolutely must not walk away from foreign markets regardless of how difficult they are to penetrate and regardless of the restrictions that foreign governments place upon us. We all know that the free enterprise system succeeds in spite of, and not because of, government interference. I don't for a moment begrudge the Europeans, Asians or Brazilians for that matter for their success in the United States marketplace. I do say, however, that it's enough. It's time for us to recapture our own markets and expand our share of foreign markets, and once again I refer to what I think would be a boom for the United States, namely, the free trade pact with Mexico.

Just as managers in other countries have worked diligently to improve the quality, variety and marketability of their products for a continual frontal assault on the global marketplace, so must we. One of the major reasons why the Japanese auto industry took America by storm was not only because their cars were less expensive and more fuel efficient, but because they were also well-built and varied in style.

As an aside, let me tell you of a piece that appeared in *The Wall Street Journal* about three or four weeks ago on the United States automobile industry. It was one of the scariest stories I've read in recent years. It described how a generation of Americans, essentially our generation, men and women in their 30s, 40s and early 50s, are now at the point in their lives where they no longer think of going into an American automobile showroom when they're about to buy a car. The majority of that generation will go into an automobile showroom that carries either Japanese or European cars, and will not even visit an American showroom. That kind of change that took place over a period of a decade-and-a-half is something that's going to take a very long time to reverse and is going to require the kinds of strategies that will put us back in the position that we occupied in the 1950s and the 1960s. We must take better advantage of the international marketplace and rely less on our own domestic marketplace. We must squarely face in their own backyard Japan, South Korea and Europe whose corporations now constitute some of the largest in the world. Economic leadership in the United States requires a long-term view of return on investment and profit growth. We must change our drive from short-term profit objectives and move towards investing in the future, the research and development through new plants and market expansion and, most of all through education.

If you will forgive me, I will now talk a little about my business, the education business, in particular, business education. America has long been known for the high value that it places on education. Students choose to attend institutions of higher learning in the United States so they may pull the best from a scholarly-based education and incorporate that knowledge with the demands facing them in the marketplace. At our school, the school that I know best, the Columbia Business School, our student body comes from over 50 countries. These hundreds of students flock to our school, because they believe that they will receive an education that will provide them with skills that will make them globally competitive. The generation coming into business schools now recognize that they will increasingly be competing on a global basis rather than on a domestic or regional basis. Whether you're going to end up working in Iowa, Paris or New York, the likelihood that you will be faced by international or global competition is extraordinarily high.

In 25 years, the students graduating from college now, those that enter the business world, will inevitably be involved in global business whether they choose to or not. One of the problems, however, that we've seen over the years is that our American educational system has become increasingly bimodal. The good schools, the good colleges, the good universities, continue to get better. They are superb. The weak schools, the poor schools, the poor universities, have remained weak, and much of the tragedy has been associated with the norm, trading down to the wrong end of the distribution curve. That is what we want to correct. That is what we must correct. It is impossible to put together any kind of strategy for organization or for the nation until we correct this enormous educational problem facing us.

As I think about strategy for the 1990s, and I think about it often, I see three fundamental factors that will have to be built into everything that we do. These three factors are internationalization or globalization, an understanding of quality, and an understanding of human resource management. Let me just briefly touch on these three. I've spoken at length about the global environment in which we find ourselves, the need to prepare ourselves and prepare students to function and operate effectively in a global environment, to understand that competition does not come only from your own marketplace, your own region or your own area -- it is global. This will require a fundamental change in our attitude, in our thinking, as we put together our strategies for the 1990s and for the twenty-first century. It will no longer be possible to say I don't want to do business in that particular country. I don't speak the language. I don't like the taste of the water, and the toilet paper is too hard. It just doesn't fly anymore. We're compelled to do business all over the world today.

Let me talk a little bit about quality. For many years we tended to assume that quality was something that needed to be measured at the end of a process, that we would count the number of pieces produced, the number of forms processed. We would calculate how many of these were poorly performed or poorly done, were scrap, or in error, and we would try and adjust at the end of the cycle. What we are increasingly coming to understand and what we must increasingly accept is that quality is far more than a process, it is far more than a technique, it is far more than a method. Quality and a commitment to quality is an ethic. It is a set of values. It is a set of beliefs. Quality needs to be a way of life. We need to build quality into everything we do, not at the back-end of a process but at the front-end. We need to understand that 85%, 95% or 99% effort, performance, and expectation simply is not good enough. It may once have been good enough, but in 1991 it's no longer good enough. We need to train ourselves and the next generation of high school, junior high school, and college students to think of quality as a way of life, to develop a commitment to doing the best they can in whatever they do rather than accepting a 95% or 99% job.

The third area that we see as critically important during the next 10-20 years is the area of human resource management. The 1980s were a very unusual decade. It was a decade in which a large number of people were extraordinarily successful by being very creative in manipulating data, financial mechanisms, and financial processes. It was possible to be extraordinarily successful by sitting in front of a quotron machine and never actually have to work with colleagues, or have to manage, recruit, train, develop or lead people. In that regard it was a very unusual era. Those kinds of activities attracted some of the most talented, creative and brightest people in the United States. They didn't go into those areas or organizations in which they were going to be given the opportunity to build a human resource -- given an opportunity to build people to be more productive, more effective in the future.

We're sensing now and we see it in the attitude of our students and in the attitude of the over 350 organizations recruiting on the campus, that there is a change in the way in which we are in the process of doing business. There is a return towards management. There is a return towards strategic management, and there is a turn towards understanding the vital importance and significance of the human resource as the organization's most vital resource. One of the areas that we, for example, in the universities are working on very hard now is to create new programs in order to improve the skills and the talents in leadership, to help students understand how to manage cultural diversity, and understand how to build teams by not only leading people, but working with people and working for other people. This is an extraordinarily difficult thing to do because at the same time that we are trying to achieve this we're also trying to maintain and retain one of the things that has made our educational system and our economy particularly unique, namely, the individuality or the individualism of our people.

So, two things need to be managed simultaneously. We do not want to throw out the baby with the bath water. We do not want to trade away or trade down the unique individuality of the American executive or manager or leader. We want to retain that, but at the same time we want to increase the attention on teamwork. We want to increase the attention paid to the leadership of other people. We want to understand that the human resource is probably going to be the most fundamentally important strategic resource that we will be dealing with during the 1990s and the twenty-first century.

So, as I look forward to the next nine years of this decade, I see an emphasis on internationalization or globalization, an emphasis on an understanding of quality as an ethic, as a value system, and an understanding of the role and area of human resources as fundamental to the creation of a future strategy. And I would like to think that the next generation, namely my grandchild's generation, will be working in a somewhat different world. I do firmly believe that when my grandson or granddaughter goes to college in 25 years, our economy will have been revitalized because of our increased emphasis and understanding of globalization, the ethic of quality and human resource as the most fundamental resource that we have to work with.

MS. BARTLETT: That was a very thought-provoking and challenging address, and I think it gives us food for a great deal of self-examination as we go about our duties for the 1990s and the twenty-first century.