Hands-on Artistry
OUT OF THE BLUE

WHAT SHOULD GLOBAL BUSINESS LEADERS KNOW?

by Jeffrey E. Garten

WHEN I WAS PREPARING MY WELCOMING address to the students of the Yale School of Management this past September, I searched for one trend or one upcoming event that would highlight the environment in which the professional lives of these young men and women would be unfolding. I pondered the influence of technology, the reduced role of government in our lives, the importance of life-long learning. But in the end I decided to describe the following scenario: Because of the explosion of capitalism and democracy around the world, combined with lower trade barriers and freer flowing money across borders, within the next decade an estimated one and one-half billion young people around the world will be entering the global workforce. They will be educated, energetic, and hungry to advance. They will be working for $5 to $10 a day, compared to $100 per day in the United States. Because they will have access to Western technology, and because their business operations are likely to be supervised or at least heavily influenced by advanced Western management techniques, these young workers are likely to be 85 percent as productive as most American workers. One and one-half billion people—that's more than six times the American workforce, and more than the total population of Japan and the Asian "tigers." (And we know what they have done to revolutionize the world economy.)

It is hard to exaggerate the implications. Within a short period of time, for example, competition in the business world will be far more brutal than it is today. Countries like China, Indonesia, India, Mexico, Brazil, Turkey, Poland and South Africa—the big emerging markets (or BEMs)—will have the wherewithal to produce most of what we can, with nearly the same efficiency, only at much less cost. Today's import bill, already the highest in American history and soaring, will seem like small change by comparison. In addition, the temptation, if not the imperative, for American firms to move abroad where they can tap into foreign labor and be near growing markets, will be irresistible. Downward pressure on wages in America will be excruciating, making today's problems of stagnating middle-class incomes and corporate downsizing look minor—unless we as a country are able to rise to the challenge.

AMERICAN FIRMS WILL HAVE TO RUN EVEN faster than today to stay ahead of capabilities in the BEMs. More sophisticated management, more use of the most advanced technology, more education and training of executives, workers and boards of directors will be required. Because of the enormous labor dislocations ahead, our leaders will have to know the meaning of the bottom line, but also the meaning of operating with a labor force under great pressure.

Business executives will need to gain a much better understanding of how to operate in the BEMs, too, where both the opportunities and especially the risks will be far greater than anything that has been seen in countries like France or Japan. They will need a sophisticated understanding of how private and public sectors interact in countries like Indonesia or Brazil, where governments have played a much bigger role in their economies than has been the case in America. They will need to understand foreign cultures, and the importance of building long-term relationships among those in Asia, as well as the special sensitivities required to operate in Islamic cultures like Turkey or Indonesia. They will need to have serious foreign lan-
guage skills. They will have to confront difficult questions relating to different standards of human rights, treatment of workers, even environmental protection. They will have to be able to assess risks with the most imperfect of information, and move very fast or lose out to others. They will have to figure out how to manage a multinational workforce, all the while maintaining a strong and consistent global corporate culture.

American foreign policy itself will have to give priority to forcing the BEMs to open their markets further, honor obligations to protect intellectual property rights, reduce corruption, and otherwise create a decent legal and commercial framework so that our companies can have a fair shot at prospering in these markets. For Washington to do this, it will need close cooperation from the business community in place of the tension between the two worlds that so often exists today.

America’s own national policies will have to adjust. National standards and requirements for secondary education, faster economic growth, more attention to programs that stimulate and spread innovation—these are just the obvious steps.

THE BIG QUESTION IS, OF COURSE, how to prepare students for this brutally competitive world. As a new dean, I have focused my efforts in the last several months on this challenge, often with considerable help from the broader Yale community.

For example, we inaugurated a high-powered speakers program that is bringing some of the most impressive business leaders around the world to SOM to discuss management requirements in an extremely competitive global economy. Several of the key presentations are a mandatory part of the curriculum. For example, Herb Allison ’65, recently named president of Merrill Lynch, came to the School this past fall to dissect the enormous challenges of managing a global financial firm in tomorrow’s treacherous environment. Ed Muller ’76JD, president and CEO of Edison Mission Energy, explained to the student body how to finance a multi-billion dollar energy project in Indonesia and India, and explained the political and social hurdles involved. Joe Duffey ’63, currently director of the United States Information Agency, talked about global business and American culture, and how they are likely to interact in the next few decades in such regions as the Middle East and Latin America.

We have asked some of Yale’s most distinguished practitioners to co-teach with our professors, so that deep scholarship is married to real-world texture. And we’re bringing back some wonderful professors who once taught at Yale, this time as multi-year adjunct faculty, such as Albert Fishlow, one of the great scholars on Latin American trade and investment, and Nicholas Lardy, who is among the most prominent experts on the economy of China.

We have embarked on a policy to link SOM to other great schools at Yale so as to give students the breadth of a truly interdisciplinary education that will be so essential to operating in the global pressure cooker. Next year, SOM and the Yale Law School will mount a joint program focusing on emerging markets in Asia and Latin America from both a business and legal point of view. We have been working with the Medical School to mount special courses in business and biotechnology, and with the Department of Engineering to build a program centering on business, engineering, and information technology.

WE HAVE ALSO BEEN TAKING STUDENTS to visit innovative companies that are searching for new ways to deal with the upcoming global business environment. A good example is the program put together by Fred Frank ’54, vice chairman of Lehman Brothers. Students spent several hours studying the anatomy of a major international merger with the people who managed it, and they interrogated traders who deal with complicated securities of emerging markets. This spring Robert C. Pozen, ’72JD, general counsel of Fidelity Investments, hosted a group, and focused attention on how Fidelity breaks into foreign markets.

We have established a new board to advise SOM on its global strategy. Roberto Goizueta ’53, chairman and CEO of the Coca-Cola Company, Michael Jordan ’57, chairman and CEO of Westinghouse Electric Corporation, Len Baker Jr. ’64, general partner of Sutter Hill Ventures, and Reed Hundt ’69, ’74JD, chairman of the Federal Communications Commission, are some of the members. We met for the first time in February, and the group’s theme was loud and clear: Tomorrow’s leaders need to be ready for mind-boggling global change. The guidelines and the goal posts will be moving every day.

All these programs are merely a prelude to an enormous transformation that will have to take place not only at SOM, but in graduate business education more generally. At issue is not just what will be taught, but how.

THE ACADEMIC WALLS SEPARATING traditional disciplines like finance and operations, or marketing and organizational behavior, will have to come down. Professors who have developed exceptional expertise in one area will have to become more collaborative in their teaching and their research with scholars in other fields. New areas like international business ethics and negotiations across cultures will have to be added to the curriculum. Links between classrooms and the real world will have to be vastly expanded. The desire for new directions is reflected in the efforts of great companies like General Electric, Motorola, and Coca-Cola to set up their own graduate schools.

In the past several years we have seen a revolution in our society when it comes to financial innovation, regulation of telecommunications and information technology, and management of health care. Perhaps graduate business education is next.

Before becoming dean of SOM in November 1995, Jeffrey E. Garten was the Under Secretary of Commerce for International Trade in the Clinton Administration, and spent 13 years on Wall Street. His new book, The Big Ten: The Big Emerging Markets and How They Will Change Our Lives is being published this month by Basic Books. "Out of the Blue" is an occasional column open to alumni, faculty, and other members of the extended Yale community.