

# TORONTO HR LEADERSHIP SUMMIT

2009

In October 2008, more than 100 of Canada's most senior HR leaders gathered in Toronto for Spencer Stuart's eighth annual human resources summit. The morning's main event was a presentation by Dr. Fariborz Ghadar — better known as F.G. — an author, researcher and leading authority on business trends. Named one of *Business Week's* 10 "Stars of Finance," he has served as a consultant to a score of major corporations, governments and government agencies, including Aramco, AT&T, Cisco Systems, The Dow Chemical Company, Eastman Kodak Company, Ericsson, UBS, the U.S. Department of the Treasury and the World Bank. He is currently a professor at Penn State's Smeal College of Business and is the founding director of The Center for Global Business Studies.

F.G. spoke to the HR audience about long-term trends in the global business environment and their implications for corporate strategy, particularly as it relates to the HR function. He shared the main conclusions that can be drawn from research conducted over the years relating to global strategy and its implementation, and also looked at key emerging trends for the future.

## THE FOUR BUSINESS STRATEGIES

According to F.G., up until the early 2000s, companies doing global competitive positioning could place themselves into one of four major categories that he referred to as A, B, C and D companies:

- > **A companies**, such as the supercomputer company Cray, create innovative, leading-edge technology.
- > **B companies** such as IBM sell proven technology. “They look at A companies and say, ‘don’t buy their product, they’re leading-edge technology. If you buy their product, you’ll need a team of engineers to hold your hand,’” said F.G.
- > **C companies** are value providers, Toyota being a prime example. “They say, ‘we’re good, we’re reasonable, we listen to the customers,’” said F.G.
- > **D companies**, like GoldStar in its early years, are the inexpensive providers in any market.

F.G. said that wherever companies position themselves, they need to maintain a consistent strategy, from how they treat managers to how they market and finance themselves, that matches their positioning.

“Describe the person who works for an A company. These guys are nerds ... The bigger the beard, the smarter the guy.” Employees in A companies are paid well, have good benefits and flexible work schedules. Because of this flexibility, there are six times as many women managers percentage-wise in A companies versus C companies.

“Move from A to B companies, what happens to the beard? You better shave it. If you want to keep it, you better trim it. If you trim it, we’ll put you in R&D,” said F.G. “A companies talk bits and bytes and gigahertz; B companies speak the language of business. They used to say all IBM executives looked the same ... They dress the same: the white shirt, red tie, wingtip shoes. They also think and act the same way.”

At B companies, hours are more standard, but employees are still paid well, with the caveat that things like stock options are more available to those employees who are higher in the organization. In C companies, salaries are lower and benefits less comprehensive. In D companies, things like clocking out, minimum wage and contracting out become the norm.

“If a company in North America slipped from A to B to C, you saw a rise in unionism, because when you take things away from associates, they don’t like it,” said F.G. “Not only that, but your CEO would change. An A company might be led by a college dropout who started his own

company, but the B company is led by an M.B.A. in marketing and finance. The head of a C company has typically come up through the ranks, and in the 'cheap' D company, the chief executive comes from accounting.”

F.G. then detailed the differences in how the four kinds of companies treat their customers. “What does an A company think of customers? They think, ‘You should be grateful I’m even talking to you’ ... and B company guys are often referred to as arrogant.” He noted that because C companies sell value, and value means something different to different people, employees in these companies need to be able to get into customers’ minds to understand their concepts of price, performance and quality.

“C company executives are generally sensitive ... If you’re going to sell value, you have to adapt to the marketplace yourself,” said F.G. It is these companies that often hire local executives as they move into international markets. “Many say ‘why take Joe and turn him into a Giuseppe? Why not just hire a Giuseppe?’” He also noted that executives in D companies are not just local, but also located predominantly in the most inexpensive markets, since “cheap” is their key attribute.

## THE ROLE OF MARKETING

F.G. then discussed the different role that marketing plays for companies in each traditional category. “What does marketing mean for an A company? Not much,” he said. But in B companies such as IBM, brand name is critical. “Stop the first person on the streets of Vancouver and say, ‘Who is IBM?’ and they would say ‘good computer company.’ Ask them to name five products and they can’t, but the brand name can help the company sell anything. The true gods of marketing are in the C category. These are the guys who convinced me to pay \$13 for a glass of water and my wife to pay \$100 for a cheap shirt because it has somebody else’s initials on it.”

He then defined what constitutes excellence in each of the four categories. “Excellence in an A company means innovative,” he said. “In a B company, it means brand management, sales force management. Excellence in a C company means listening very carefully to the customer. In a D company, it means you have to be cheap.”

By the late 1990s, some experts were combining the B and C categories together. “In *The Discipline of Market Leaders*, a friend of mine from MIT, Michael Treacy, says that companies either have to be innovative, phase one; customer intimate, phase two; or operationally excellent, phase three.”

## THE NEW RULES OF THE MARKET

By the early 21st century, according to F.G., two growing trends had already been largely implemented in the marketplace — trends that have dramatically blurred the traditional distinctions between the different company categories. One is the speed by which products spread across the globe and through the categories.

“In the old days, if you came up with a product, it would take a long time before it would be globalized,” he said. “In 1947, the U.S. had a pretty good television industry. In 1963, the Koreans had a pretty good television industry. That product life cycle was 15, 20 years. Now, if Intel comes up with a chip, Samsung will have it within eight to 14 months. Some of you may say, ‘well, it hasn’t happened in my industry,’ and if you’re in nuclear power generation that’s probably correct. But if you’re in financial services and you come up with a new innovation, your competitor is there within days.”

At the same time, according to F.G., the cost of developing new products and bringing them to market has skyrocketed. He cited several examples: at General Motors, the cost of developing the power train has gone up tenfold; at Ericsson, the cost of developing the telecommunications switch has gone up 18-fold; and at Intel, chip-development costs have gone up 52-fold and software development costs have increased even more dramatically.

The combination of accelerated life cycles and increased product development costs, according to F.G., has put A companies, which rely on innovation, in a bind, since they have to invest more to stay ahead and their competitors can copy them more quickly. “If you don’t invest, you’re dead. If you invest and are not successful, you’re dead. If you invest and you’re technically successful, you have to take the same gamble again in less than two years. It’s like Russian roulette.”

In such an environment, F.G. said, A companies need to get close to the customer — and try to shift from A to B to C. Many that choose not to make the shift are merging, being acquired or forming strategic alliances with B and C companies. He cites Fiat’s ownership of Ferrari, Audi/Volkswagen’s ownership of Lamborghini and the alliances between biotechnology and pharmaceutical companies as examples. “All of the A companies have sugar daddies in the B and C category that want them to contribute to and pay for their research and development, which is very, very expensive,” he said.

Meanwhile, the D category is going away as consumers demand higher quality at more reasonable prices. “No one wants a Yugo,” said F.G. “Everybody wants a Toyota at the Yugo price.

If you're a Yugo manufacturer, you either go bankrupt or you desperately try to move up, which is very, very difficult, but maybe Hyundai will be able to do it."

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As a result, by 2002 or 2003, "the whole issue of whether you innovate or are customer sensitive or operationally excellent was out the window. Now, you have to be all three, you have to do it globally and you have to do it rapidly ... This is why everybody's got ulcers."

## CORE VERSUS NICHE PLAYERS

F.G. then discussed the results of a McKinsey & Company study that showed that all markets share some common characteristics that companies should always keep in mind. "In any market, be it global, regional or subregional, there are only three big players — two that make money and the third that doesn't. You'd better be number one or number two." Then there are a few with returns lower than their cost of capital and finally a group of niche players.

The niche players are able to make money, as are the market leaders, but "you can't be the fifth guy selling the same stuff," according to F.G. He views the market as a core where the top three players reside, surrounded by a bunch of niche players attacking the fort.

"If you are in the core, you've got to monitor the outside for the breakthrough technology of all the niche players, and you have to have a team that attracts them, quickly copies them or buys them," he said. "You have to cover the innovations and be ready for convergence and modernization."

If there are five or six players in the core, according to F.G., consolidations and mergers need to take place to get the core down to the two or three profitable players. He used network television as an example. "In the U.S., ABC, NBC and CBS used to take turns being profitable. Then all of a sudden Disney came in, Fox came in. There were five in the core and they started killing each other and lost over a billion dollars. It wasn't that the market was bad, because the niche players were making really big money. It was that too many companies were in the core."

## GLOBAL TRENDS

F.G. identified 12 global trends that will present the most formidable challenges to world business leaders in the next 30 years. One set of global trends arises from the interactions of people with their environment. For example, the global population is growing, cities are burgeoning, and these demographic changes impact resource management, health and the quality of life for people and businesses around the world. Another set of global trends focuses on commerce and knowledge. These trends have been enhanced by faster communication, improved transportation and the proliferation of technology. Technology, the third tectonic driver, powers economic growth and development. According to F.G., advances in biotechnology, nanotechnology and information systems have enhanced global economic integration. The final set of trends — conflict and governance — is transforming the fundamentals of international business.

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Many of these trends overlap in both degree and direction, often compounding their impact on industry. For instance, the availability of land, labor and critical inputs such as energy depends on trends in population growth, biotechnology, urbanization and natural resource management. F.G. also noted that the growth of the knowledge economy and enhanced economic integration have risen mainly from developments in the field of information technology. Every business must view day-to-day operations in light of these global developments and trends.

## THE RISE OF THE HR FUNCTION

Looking at all these trends, F.G. feels that certain functions will be critical moving forward, including HR. “How do you manage a diverse employee base, geographically and technologically? It is HR that must manage this diverse workforce. Coming up with a new innovation and putting it in the marketplace at a reasonable price globally and rapidly is a major, major job.”

If consolidation starts to happen in the market, companies need to be ready to move quickly, which means assimilating different cultures — again presenting a major challenge for HR. Often it is the niche players who are growing much faster than the core, which presents the opportunity

for one of the core players to buy the niche player. “When you buy these niche players and bring them in, you have to make sure you preserve the essence of what you have bought,” said F.G.

F.G. said that he did a survey to determine which is more important: innovation, customer intimacy or operational excellence. The winner was listening very carefully to the customer, and he listed the creation of a corporate culture that listens very carefully to the customer as another major task for HR.

“You have to have an organizational capability to deliver these: the shared mindset, the leadership, the structure, the reward system — and all of that is HR’s job,” he said.

According to F.G., it’s also HR’s responsibility to encourage personnel to identify and track the potential new A companies that will appear in the coming years. He noted that many of these companies will, moving forward, come from emerging markets like China and India. Each of these countries are developing, producing and educating more engineers and scientists each year than North America and Europe combined, where getting young people to embrace math and science is an ongoing struggle.

“Why are our kids not wanting to do it, why are math and science not cool? This is a major problem from an HR point of view. It’s a major problem from a societal point of view ... How do we convince our younger generation that this stuff is important? Especially when we look at IT, biotech and nanotech. These are the technologies of the future, and they require firms to have excellent scientists and engineers.”

To deal effectively with all of these challenges, F.G. feels that HR must gain greater prominence in organizations. “HR really has to sit next to the CEO. It’s going to take some time to convince the CEO of that, but it has to be the case.”

## ABOUT SPENCER STUART

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