

Interviews with leading minds

Prof. Jean-Pierre Lehmann on the importance of the global environment for local management

Prof. Jean-Pierre Lehmann is professor of international political economy at IMD, Lausanne, the founding director of the Evian Group, a high-ranking economic think tank, and senior scientist at Gartner. On 20 October he was awarded an honorary professorship title at IEDC-Bled School of Management for his contribution to the development of IEDC. The interview is by Mark Vanderbeeken.

Let me start with asking you about your involvement with IEDC. You have a long history with them, don't you?

My relationship with IEDC goes back 21 years. I met Danica Purg in 1986. At that time I was at INSEAD, and she had invited me to talk at one of the very first events she organized. We became good friends then and we have retained that relationship over time. My career has always been in the field of the external environment, the global political economy, and trends in trade, investments, geopolitical issues, social changes and so on. Then as now one can say that it is the external environment that drives. Companies, individuals, institutions, societies etc. have to adapt to the changes that are brought about, whether these are driven by technology, policies, climate,...

How do you implement that in your teaching?

A few days ago, I had the MBA class address five questions: Where are we in terms of the key characteristics of the global environment? How did we get

About Jean-Pierre Lehmann

Jean-Pierre Lehmann has been Professor of International Political Economy at IMD International Institute for Management Development since 1997. His areas of special interest include globalization, global governance, trade and development, the role of business in reduction of poverty and inequality and the socio-economic, cultural, and business dynamics of Asia. He acts in various leading capacities in a number of public policy institutes and organizations, as an adviser to governments and corporations, and as a frequent commentator in the international media. He is the author of several books and numerous articles and papers primarily dealing with globalization, modern East Asian history and East Asia and the international political economy.

In 1995 he launched the Evian Group, an international coalition of corporate, government, and opinion leaders, united by a common vision of enhancing global prosperity for the benefit of all by fostering an open, inclusive, and equitable global market economy in a rules-based multilateral framework. It has developed as a leading global voice on global trade and investment issues that acts as a forum for dialogue and a birth place of ideas; The Evian Group also engages actively in advocacy to counter the forces of protectionism and chauvinism.

Prior to joining IMD, Professor Lehmann's academic and business careers encompassed activities in virtually all Asian and Western European countries, as well as North America. He was founding director of the European Institute of Japanese Studies (EIJS) at the Stockholm School of Economics (from 1992) and Professor of East Asian Political Economy and Business. He established and directed the East Asian operations of InterMatrix, a London-based business strategy research and consulting organization (1986-1992). During this time he was concurrently Affiliated Professor of International Business at the London Business School.

Other previous positions include: Associate Professor of International Business at INSEAD, Visiting Professor at the Bologna Center (Italy) of the Johns Hopkins University School of Advanced International Studies, twice Visiting Professor and Japan Foundation Fellow at the University of Tohoku (Japan), and founding director of the Center for Japanese Studies at the University of Stirling (Scotland), where he also taught East Asian history. He also directed the EC-ASEAN 'Transfer of Technology and Socio-Economic Development Programs' (1981-1986).

there and what are the main historical driving forces? Where are we going to on the basis of current trends? Where do we want to go? And how do we get to where we want to go? We have got these forces that define how the world is evolving, but forces are made by people. This puts a responsibility on institutions and individuals on making our global environment more satisfactory.

Probably most students will end up working for private companies. Are they convinced that these bigger issues are important for them too, that they are their responsibility too, or do they just want to focus on running their private companies?

Well, there are two answers one can give to that. First of all, no company is immune from the global environment, whether you are looking at trade issues, competition issues, investment trends, or technology. That is why I say that it is the external environment that drives. It is not the strategies that you devise in your company, unless they are well tuned to the external dynamics.

At the beginning of my presentation I said, quoting an Indian friend of mine: "When there are periods of rapid change", which is certainly what is going on now, "you have got three kinds of actors, those who make things happen, those who watch things happen and those who wonder what happened."

So if you are saying "this has nothing to do with me", let's hope there is somebody in your company thinking differently.

It is true that these are not the kinds of issues people at junior management level are going to have to deal with. This is more arguably at the CEO level. But senior management training has been lacking in areas of political analysis, broad macro global economic analysis, or the analysis of how international institutions operate and companies can be adversely affected by this external context. We have now enjoyed a pretty high growth and low inflation environment over the course of last fifteen years. This is due to a variety of different reasons, including the fact that

there has been a relatively benign international environment. Now this international environment could turn malign – and the most obvious example can be a trade conflict between, for example, US and China. This is going to have a pretty dramatic effect for everybody, whether you are a small Slovene company or whether you are Motorola. Within this global public policy process, the role of the private sector is becoming increasingly important.



You mentioned that there were two answers?

Yes, the other aspect is that when looking at these very broad considerations, you also have to address issues related to poverty, inequality and so on. So we are also looking at what can be the role of entrepreneurship in improving global society while at the same time providing benefits to the company. We also look at demographics and how the rich world will become increasingly small because the rich world's populations are not reproducing. Therefore one of the considerations for companies has to be how to get into these lower tier markets and particularly how to look at this huge bulk of poor people – about four out of six billion of the planet are below 1,500 dollars per

annum in terms of revenue – and how to generate markets in what is called the bottom of pyramid.

Hopefully, these kinds of reflections will make these people better managers in terms of looking at how they are integrating their companies into the global environment and at the same time become more powerful global citizens and entrepreneurs.

Do you work with concrete examples; do you show videos and bring in leaders and managers who have actually done this?

Yes, of course. We looked at the case of a company in Bangladesh that brought mobile telephony to the people there, GrameenPhone. The guy who founded the company, Iqbal Quadir, came up with the idea and GrameenBank provided the infrastructure and some of the funds. The founder of GrameenBank, Muhammad Yunus, won the Nobel Peace Prize last year.

You have been asking these same five questions for many years. What evolution do you see in the topics that are important for people?

Yes, these are the questions that I have been asking for the last forty years, I guess, also in some work that I have done with Shell in the area of scenario planning and with the World Economic Forum. In the first session I usually start from a hypothetical situation of someone who has been away from our planet for twenty years and then comes back and asks what has been happening. Doing that exercise, you realize that we are living in an environment that is totally uncharted. There were hardly any trends that could have been analyzed in the early eighties to predict our environment now. The world as it is today is extremely unexpected. We live in an uncertain environment.

Do students have different perceptions of the future than the ones that you are bringing in from a more global and longer perspective?

I think there are things that they may not be focusing on so much. Like, for

example, the role of global institutions, particularly international financial institutions. We discussed why they existed, their architecture, the philosophy behind them, and these were not so much on their radar screens. We hope with these discussions to arouse a certain degree of interest and to broaden and deepen their perspectives.

Some years back you started the Evian Group. What is it, why did you found it, and how has it grown over time?

It was founded in 1995. In the course of the early 1990s, the world underwent a massive global market revolution. Many parts of the world that had not been part of the global market suddenly became part of it. In a period of five, six years there was an increase of about four billion people into the global market who were before not there, because they were in countries that were behind the iron curtain or behind the bamboo curtain, or had substitution policies.

They came to the global market at the time when there was also an institutional innovation, which was the creation of the WTO, the first institution of globalization. At that time people would say that globalization is irreversible. In fact it is not irreversible at all; it has been regularly reversed throughout history.

So I wanted to have a group that would reflect upon the dangers and the challenges to globalization and how globalization could be improved. When I started this in 1995, I had never done anything like this before in my life. So I began by writing a few letters to people and we convened a meeting. The fact that we call it the Evian Group is simply because the first two meetings were convened at Evian-les-Bains near Geneva. I was not based in Switzerland at that time.

During that first meeting the idea was mainly to have it as a talking shop, that reflects upon the world and tries to influence the public policy process.

Since then, the world has been shaken up a lot.

Well if you remember, in 1995, everything seemed to be going forward, there was all this talk about the emerging markets, changing paradigms, China taking over, etc. Then we had a rapid succession of crises: the East-Asian financial crisis in 1999, the first really massive anti-globalization demonstrations in Seattle in 1999, 9/11 in 2001. So it became increasingly clear that there are many disintegrating, centrifugal forces that are impeding globalization rather than moving it forward.

In responding to this the Evian Group has expanded its activities, and in three ways in particular. One as a forum. We organize roundtable meetings. These are meetings (we do not have conferences) by invitation, with a relatively small number of participants - 60, 70 people. We try to get a balance between leaders of industry, government and opinion leaders, the media and academia. We are now also including a much higher proportion of what we call "next generation leaders". We do not just want to have old fuddy-duddies sitting there and sorting out the universe, but people who will have the responsibility of running the planet in the future. We have these forums to generate ideas to brainstorm collectively. In fact, Supachai Panitchpakdi, the former Director General of the WTO, called the Evian Group a birthplace of ideas.

The second main function of the Evian Group is that of acting as a think tank and this involves producing policy papers. We have a brains trust of about a hundred people who are among some of the best minds on these various issues.

And the third main function is to act as an advocacy, to try to influence the public policy process and governments on greater liberalization, more open global economic agendas, but also to achieve a greater sense of global community, through more confidence building and dialogue across cultures, but always in terms of looking at the economic objectives and how we can improve the quality of the global economic pie and the way it is distributed.

How do you deal then with the criticism of globalization, the anti-global movement?

The global market economy is a bit like what Churchill said about democracy – that it is the worst possible system with the exception of all the others. Part of the opposition to globalization has come from it being oversold. Globalization was going to be "a rising tide which would lift all boats and there would be less poverty in the world", and so on and so forth. There has been less poverty to some degree. But those who were expecting that globalization would bring dramatic improvements have been disappointed.

Then the market has always generated suspicion, because it is seen, and not wrongly, not unjustifiably, as a sort of Darwinian environment. In fact, Édouard Balladur, a former Prime Minister of France, who was supposed to be centre-right, said that the "market is a jungle". There is this view that the market destroys the weak and the meek. If you look at what used to be called the protest community, they would be attacking what they call the corporate driven globalization. You had people saying globalization is fine, but what is wrong is that it is corporate driven by greedy enterprises that basically screw the workers and the people in poor countries by imposing slave-like labor conditions, by being totally careless with respect to the environment, just in order to fatten the revenue of these captains of industry. Unfortunately, there is no smoke without a fire. There is some truth in that. One of the problems certainly is that you have too many cases of very unethical and irresponsible behavior on the part of corporations, corporate leaders.

In France we are now still reeling from the former head of Airbus who screwed up totally and was given an 8 million Euro compensation package. This generates a lot of antagonism and suspicion and, as I say, in many respects totally understandably so.

So what do you do then to address this suspicion?

People now talk about concepts like sustainable capitalism, inclusive capitalism, and that there has to be a greater sense of an ethical compass. In order to make globalization sustainable, it has got to have a degree of support in the population at large.

So it is about more than just opening up markets.

The situation now is that roughly speaking 20 per cent of the world's population consumes 85 per cent of the world's goods and services, so it is a very unfair world. That poses a moral problem and also a socio-political and economic problem in the sense that it is absolutely unsustainable. You can't have a world economy functioning on that basis, and especially not now. Because of information technology, people are much more aware of what is going on, even in relatively remote villages and poor areas.

There is a term now that is very powerful in its vividness: "the aspiring classes". now you have the leisure classes, which are people who live in the rich countries, like France, my own country, where people basically do not want to work anymore, but they want to go on receiving the same benefits, so the 35 hours a week and that kind of stuff. And then you have - in the Indias of this world, in the Pakistans, in the Tunisiyas, in the Brazils - people who now perceive an opportunity for upward mobility, and if not upward mobility for them, at least upward mobility for their children, who will have a better education, be better clothed and so on, and therefore, who aspire to a better lifestyle.

This process should not to be impeded, but has to be encouraged; there will never be a world where the world's goods and services are evenly distributed, never, never, never, at least not for the next ten thousands years. But it has to improve. So one of my questions is, if you look down the road, will that 20 per cent we were talking about become 15 or 30 per cent or what is it going to be? It is my strongest conviction that solutions need to be found to bring about a greater

distribution of wealth. We need to do two things: we need to create wealth and we need to distribute wealth. Too often it is seen as opposite policy: either you are in favor of creating wealth or you are in favor of distributing wealth. And there is an element of truth in that - this is the way that, for example, political parties in Europe have tended to work. But the reality is that these two challenges have to be approached simultaneously.

You work a lot in Asia. Is this logic also accepted there and is the Evian Group also active in those parts of the world or is it more of a European group?

From the very beginning of the Evian Group, we put an emphasis on both North-South and East-West dialog. Partly because I spent a lot of my career in Asia and I have a lot of connections in Asia, Asia has tended to loom rather large in our network and our activities. There are now four main geographic pillars in the Evian Group: one is Europe which is where we are from; the other one is Greater China, so we have meetings in China, Hong Kong and Taiwan; the third one is in South Asia, so India, Bangladesh, Pakistan; and then we are also active in the Arab region. These are the four main areas, main emphases that we have. We also convene in other locations sometimes. In February we convened a meeting in Washington and I have just come back from Brazil, I'll be going to South Africa in June, to Argentina in July, so it is not as if we are not conscious of the rest of the planet, it is just that we focus on these four particular areas.

What do you recommend people who are going to be managers within companies in one of the European countries, to navigate this stormy and unpredictable waters? What is your big advice to them?

I think there are several things. One is to understand the evolution of markets and where the opportunities lie - whether it is terms of market penetration to sell your goods and services, whether it is in terms of competition etc. One of the comments

that I have made is that if you are looking at China - which is obviously the driving force of the world economy in the early 21st century and, my guess is will remain so for the next couple of decades – you see a trend. You could say that everything that the Chinese produce, prices will fall, everything that the Chinese consume, the prices will rise, so you have got to position yourself in terms of “this is reality”. In 1820 the China represented about 33 per cent of world manufacturing, this declined to less than 1 per cent by 1950, now it is back up to 7 per cent and the guess is that within the next 15 to 20 years or so it will rise to 20 per cent. Part of this will be offset by what one can expect to be rising Chinese consumer demand, so there will be more demand for consuming locally produced goods. But nevertheless, the point that China is the factory of the world economy is, I think, something that should be clear.

At the same time, what you are also seeing is the huge amount of demand and imports that the Chinese economy is generating. I am talking about China; there are other parts of the world, clearly. I am just using the example of China as the most obvious one. So if an entrepreneur from Zagreb is thinking exclusively of the Croatian, Slovene and Austrian markets, without being conscious of what the broader globally economic, business and technological trends may be, this person will probably have a relatively short history. This is not to say that the little entrepreneur in Zagreb or whatever should immediately start thinking of setting up a shop in China. This can be far too risky, far too expensive for somebody who doesn't have the wherewithal. But with the kinds of technologies that exist nowadays, there are different alternatives in terms of being able to approach these things.

What you are trying to achieve is a greater awareness of the issues of the global changes that are taking place.

The challenges! I mean both the threats and the opportunities.