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Stéphane Garelli

BUSINESS AS UNUSUAL

A Competitiveness Outlook for 2011, and Beyond



IEDC-Bled School of Management

Prešernova cesta 33

4260 Bled, Slovenia

Tel: +386 4 57 92 500

Fax: +386 4 57 92 501

info@iedc.si

www.iedc.si

BOOK OF THE YEAR

BOOK OF THE YEAR

“We need more people asking “Why not go ahead with this idea?”. That is the secret of competitiveness!”

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Management

A School with a View

Introduction

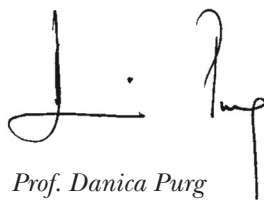
I am very happy to present you with this year's Book of the Year entitled "Business as Unusual: A Competitiveness Outlook for 2011 and Beyond" with the lecture of Professor Stéphane Garelli of IMD Lausanne followed by a discussion on competitiveness in Slovenia and the countries in our region. We think that this is also a task for our school: an investigation of the reasons for Slovenia's low level of competitiveness, low at least according to some reports. For that purpose we invited Professor Garelli to be our speaker at this year's Annual Presidents' Forum.

Next year we will be celebrating the 25th anniversary of our school's founding. We have already received a confirmation from the President of Slovenia that he will be in attendance and he will be joined by a number of world renowned professors who will be lecturing on change management and innovation. I invite you all to attend that special event on October 14, 2011.

We believe that during the 25 years of its existence, our school has contributed significantly to the competitiveness of the economies of Central and Eastern Europe by setting the highest standards of management education and serving as a benchmark. In 2009, IEDC-Bled School of Management was placed by the Aspen Institute among the 100 top business schools worldwide for having demonstrated significant leadership in integrating social, environmental and ethical issues in its Executive MBA program. The financial and economic crisis has taught us that we have to develop a more sustainable way of organizing our businesses and our lives. We have a responsibility to train leaders in new skills and attitudes in the globalizing world, because they should develop a new mindset which does not focus on short-term profits and rewards but takes a long-term perspective.

The most successful companies are based on trust among people and social partners. To them, trust is a basic value. In addition, they resolve conflicts in a cultural way. Therefore, raising the quality of leadership in society is of great importance: trust can only be built by means of responsible leadership. It is the kind of leadership that can build a society of equal opportunities for all citizens and integrate the knowledge and wisdom of all generations.

I wish you a pleasant reading and look forward to meeting you at IEDC on October 14, 2011!



*Prof. Danica Purg
President*



Prof. Stéphane Garelli

Business as Unusual, A Competitiveness Outlook for 2011, and Beyond

I am first going to describe the competitiveness environment in which we will be operating in the next few months. It is going to be quite unusual, hence the topic of this forum. I also think it is going to be quite exciting. Antoine de Saint-Exupéry once said that our task is not to see the future but to make it happen. I will share with you some ideas about the future and your responsibility will be to make it happen. If it goes wrong, it is not my fault.

Here is a great forecast made by Ben Bernanke: "I do not anticipate any problems for the large international banks." And how about this one: "In today's regulatory environment, it is actually impossible to violate the rules." Do you know who said that? Bernard Madoff. He now has 150 years in prison to think about it.

In 1907, there was a crisis that was very similar to this one. Wall Street collapsed. Then John Pierpont Morgan and his friends poured 20 million US dollars into the financial markets to save them. Another defining moment occurred in 2008 when the Lehman Brothers went into bankruptcy. Seeing the way that they were dressed, you might have expected something to go wrong. But this time business did not step in. Instead, the government was expected to clean up the mess. Since that moment, everything has become different. The rules of the game have changed. Now we have an economy that is increasingly dominated by the state. The state used to be a stakeholder, defining the rules of the game. Now it is becoming a shareholder. It is incredible that General Motors and Citigroup belong to the American government. We never would have expected that before.

[03]

We are in a situation where we have to redefine the rules of the game. It is like going out on the playing field and asking people what kind of game we are playing today. Everybody tells you that it is going to be football and you get ready for football. But then you discover that the other team is playing rugby, and that gives you a nasty problem. As you know, the rules of football and rugby are not the same. In football, you are not supposed to touch the ball with your hands, unless you are on the French team. But the situation that we are in is even more confusing because the government, which used to be the referee, has become a player.

Thus, the world of capitalism is being redefined because of the government's greater participation in the economy. Our Indian

friends, who know something about state capitalism, say that their economy grows at night, when the government is sleeping. I do not know if we can make our governments sleep, but that is another story.

What has happened to us resembles a tragedy in three acts. Act One: a financial crisis in which 50 trillion US dollars-worth of assets are destroyed overnight. Act Two: an economic crisis in which 5 percent of the world's gross domestic product is destroyed. Then in 2010 we had Act Three: a social crisis, with 50 million jobs destroyed worldwide. Maybe there is a fourth act in the making: a monetary crisis.

There are a number of questions about the crisis that need to be answered. The first one is whether there is a risk that the economy will slide back into a recession. For a long time, economists pondered the question about the shape of the recession. Is it V-shaped, meaning that it started with a steep fall but would then pick up rapidly? Or is it U-shaped, involving a prolonged recession? It might also be a W, reflecting a double dip, or an L, which is what Japan has experienced for a long time.

[04] It may seem that the shape is a U because the recession has lasted longer than expected: 18 months in the United States. But it is actually a reversed J: we are coming out of the recession but we are at a lower level than when it started. This means that for many companies the name of the game is how to manage capacity. In many countries, including Slovenia, there is too much capacity for the current level of activity. However, this is not the case in every country of the world, as we will see in a moment.

The Euro area is currently growing at 2.1 percent, whereas the United Kingdom is doing much better at 2.8. Germany's performance is even more encouraging, currently reaching 3.5 percent. It is a boom by recent German standards, and a phenomenon that nobody expected.

Still, some developing nations have rebounded even higher. Russia is growing at 5.8 percent, although the rest of Central and Eastern Europe is not looking very good. Latin America is experiencing a boom, led by Argentina with 11 percent and Brazil with 8.8. However, the real miracle is in Asia, with the exception of Japan. India and Malaysia are growing at 8.8 percent, Thailand at 9, China at 9.6, South Korea and Singapore at 10, and Taiwan at 12. This constitutes an enormous geographic imbalance in the recovery from the crisis.

As numbers are boring, I am making a world economic weather map which, in my view, is much more exciting. In the United States, it is stormy. There is a 33 percent chance of a double dip. This is a lousy estimate, of course. Suppose that the weather forecast tells you that there is a 33 percent chance of rain. Do you go out or not? Do you cancel that barbecue with your friends? The likelihood is too high to be disregarded, but it is not high enough to be certain. This makes everybody nervous.

In Europe, the economic weather is surprisingly good. It is rainy in the British isles but that is normal there. The south of Europe does not look too good either: it is a bit overcast, as you know.

In Latin America, the weather is improving, although it is not great in Venezuela. There is a wind of change in Africa. We do not know what direction it is going to take but something is certainly happening. It is stormy over Russia and overcast over Japan. It is improving in Australia and New Zealand and there is a heat wave in Asia.

This weather map tells you one thing. The world economy is no longer in synchronization. This is the fifth recession that I have observed, and the fifth recovery. I have to tell you that I have never seen such a mess. Things are moving in every possible direction. You see economies in recession: Venezuela, Spain, and Greece. You see overheating economies, such as China. Some are running the risk of inflation, such as New Zealand. And there is Japan, which is headed toward deflation. All this means that we have to be extremely flexible in the way that we do business and approach the economy.

[05]

In the United States, large banks were considered too big to fail. That did not prove true but is no longer an issue. The real issue is one level down: the smaller banks whose capital is less than 1 billion dollars. There are many such banks in the United States and they can go bankrupt at any moment. That is what worries the Fed.

In Southern Europe, there is the question of sovereign debt, reaching 2 trillion euros in Spain and Portugal. These countries are not likely to go into bankruptcy but we will certainly see a rescheduling of debt. This process has already started in Greece, and it will probably continue.

Everywhere else, be it Shanghai or Dubai, the problems are related to the real estate market. As you know, these countries have been on a building spree for quite some time but nobody knows the occupancy rate of their buildings. It is a secret, but there is a suspicion that many are empty. This is what can cause problems.

The good news is that the financial crisis is practically over. The bad news is that we now have to pick up the bill. We are managing the consequences of the crisis, not the crisis itself. I think it is very important to make this distinction. We need to consider several things. First, the cost of the crisis has been enormous. According to the European Central Bank, it amounts to 27 percent of GDP on both sides of the Atlantic. Seven trillion US dollars have been spent to deal with the crisis in various ways. The amount is so huge that it does not mean anything anymore. This reminds me of a statement by Ronald Reagan: "One billion dollars here, one billion dollars there; sooner or later, we'll be talking about money." We are now talking about a huge amount of money.

The first impact that we observe is the budget deficit in the largest economy of the world, the United States. When Clinton left the White House, he left a surplus of 260 billion dollars. When Obama took over the White House, he was faced with a deficit of 1.85 trillion. Obviously there must have been somebody in between. When Obama was elected, he was smiling. He is not smiling anymore because he realizes the magnitude of the issue. The budget deficit is 4 billion dollars a day.

[06] The largest economy in the world is running a budget deficit of 11 percent of GDP, and every other nation has felt obliged to imitate it, with great success. The absolute winner is Ireland, with a budget deficit of 32 percent this year. It is closely followed by the United Kingdom, then by everybody else. Fortunately, Slovenia is not doing too badly in this respect.

We are in a world where almost everybody is running a budget deficit. Year after year, this produces an impact on debt. Consider the G20, the largest economies in the world. In 2007, they had a debt of 70 percent of GDP. At the moment they are at 106 percent. This has an enormous effect on everybody. Yet, these numbers do not tell the whole story.

The national debt of the United States is estimated at 13.6 trillion dollars. But this is just the federal debt. One level down, some states are bankrupt. Another level down, some cities are bankrupt. The total debt of the United States amounts to over 50 trillion dollars. As for Medicare and the pension system, they are indebted to the tune of 111 trillion. This means that the real debt of the developed countries is two to three times their official national debt.

We used to want everything. We wanted it immediately, and we wanted it paid with other people's money. A system of this kind is

bound to collapse. In a situation like this, governments must find money somewhere. To do that, they have to work on something called credit-worthiness. They have to be credit-worthy, meaning that they should be trusted; otherwise nobody will be willing to lend to them.

How do you establish trust? Surprisingly, the best definition of credit-worthiness that I have found was not proposed by an economist, but by Charles Dickens. He defined the concept thus: Credit is a system whereby a person who cannot pay gets another person who cannot pay to guarantee that he can pay. This is a beauty; a real Christmas Carol.

A bank that cannot pay gets a government that cannot pay to guarantee that it can pay. We live in a world where bankrupt people are guaranteeing that other bankrupt people can pay. This cannot work.

In this situation, you have to hope. You do not get anywhere without hope. What should you hope for? First, that the austerity measures will work. Yet, as you know, austerity measures are not a good way to re-launch an economy. You also have to pray that growth will come back. That is also hard to combine with austerity.

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One way to find money is to create inflation. In the past, 50 percent of the world's debt was repaid by means of inflation. This is going to happen again. Most central banks and governments will resort to inflation because it is such an easy way to find money. For the first time in my life, I have heard the government of the United States complain that inflation in that country is too low. This is an innovation.

The truly easiest way for a government to find money is to print it. But the problem at the moment is that we are running out of ink. There are limits to this approach.

Another way to get money is to borrow it. But you need somebody who is willing to lend it to you and that is not easy at the moment.

A third way is to sell something. But what can governments sell when they are saddled with toxic assets?

There is yet another option that governments have: they can raise taxes. And that is exactly what is going to happen. We can look forward to higher personal taxes. If you go in that direction, you have to decide whom you will tax more: the rich or the poor. If you focus on the rich, remember that they have the nasty tendency to evade taxes. You must first of all close all tax havens. The fact that I am

Swiss has nothing to do with this statement. Switzerland is not a tax haven.

Remember what one American president said: "If the government is big enough to give you everything that you need, it is also strong enough to take everything that you have."

You do not have to be a genius to figure out that recessions tend to repeat themselves every 9-10 years. If this is so, the next one will strike before the end of this decade. Will we have enough money to confront it?

What are the burning issues at the moment? We are confronted with a currency war. The US dollar and the euro are very volatile. This is important because we still live in a dollar world. Over 60 percent of the currency reserves in the world are held in dollars, whereas 27 percent are in euros. The other currencies are marginal. This means that the British pound and the yen are vulnerable to the swings in the exchange rates of the dollar and the euro. As a result, we are going to see more countries joining either of the two main currency blocs. Estonia is likely to adopt the euro in January next year, and others will follow. Sweden has set up a commission to study the probability of there being an opportunity that a likelihood will arise for Sweden to consider joining the euro area. Denmark has set up a commission to study the results of the Swedish commission. Iceland wants to join the European Union and the euro area. Iceland wants to join everything.

[08]

Of course, there is China in the background, and the other developing nations in Asia, who hold huge currency reserves. A year ago China held 1.8 trillion US dollars. By now, China has increased that amount by 600 billion. That is just amazing. Japan, Russia, South Korea, and Brazil also hold significant amounts of dollars.

An interesting question is how this money is invested. Most of it is in US treasury bonds, much less in euros. Attempts to invest in other currencies can have a destabilizing effect. For example, purchases of yen drove the value of that currency so high that the result was a diplomatic problem. The Japanese economy was stagnating, yet the value of the currency was skyrocketing. The problem at the moment is that there are such huge amounts of money floating around the world, and when they land somewhere the result is a disaster.

My feeling is that the euro is going to rise in the mid term because if I am in Beijing, worrying that the dollar is going to fall, the only other option that I have is to invest in euros. Therefore, despite all the uncertainties, the euro is likely to climb against the dollar.

The second threat is unemployment. It is around 10 percent in most developed countries. Even worse, youth unemployment in the United States and Western Europe is around 20 percent. In Spain it is 42.9 percent. When an economy cannot provide jobs for young people, it is in trouble. There is also another dispiriting statistic: 20 percent of the young people in Europe who find jobs work below their qualification level. This is a major issue because it means that these people's education has been wasted. It is one of the most important effects of the crisis that we have to deal with.

How do consumers react to this situation? Are we spending or saving? To answer this question, you have to make an inventory of the goods that you have at home. The next question is how many more you can bring in without throwing something away. In the United States, Japan and Europe, we live in a replacement economy: the purchase of a product replaces an existing product. I buy a cellphone although I already have one. I buy a computer, although I also have a computer. This means that during a recession, I can go a whole year without buying anything new without experiencing a drop in my standard of living. Last year, I did not change my cellphone and I did not suffer. But it is disaster for the economy.

What do you do with the old things that you have? You put them in a drawer and hope that they will disappear. In the United States, there are more than 1 billion drawers. But right next to this economy, you have another one: a first-purchase economy. This is what you observe in the developing world. That is why in those regions domestic demand is going up. People do not want to wait anymore. They live in the world of "I need it". We are in the world of "I want it". The best example that I can think of is the iPad. Nobody in his right mind needs an iPad. It does not have a camera, or a USB. You do not need it, but you want it. It is ridiculous.

[09]

Remember that if there is debt somewhere, somewhere else somebody has money. That somebody is a creditor. At the moment, the world is split. If you draw a line from Mexico City to Moscow, you will notice that there is everything below that line: money, raw materials, high technology. This bloc is becoming more and more self-sufficient. Last year, for the first time in history, China directed 56 percent of its exports not to the United States or Europe but to other emerging nations.

The new financial masters of the world are the sovereign funds, the largest of which is the Abu Dhabi investment authority. It manages 620 billion US dollars. How many people live in Abu Dhabi?

800,000, and this includes expatriates. How do you use such a huge amount of money? Some of it is going into government bonds because it is liquid. But more and more is going into infrastructure projects, both local and regional. There are also 700 Chinese corporations buying companies in Africa, Latin America and Central Asia.

There is another development, too, and it amounts to a revolution. A lot of money is invested at home, so that local companies grow and become multinational. All of the 20 largest Chinese companies are directly financed by the government. This means that the largest business owner today is the Chinese communist government. It is a crazy world.

Another development is that new brands are hitting the markets all the time and they are produced by companies that we have never heard of before. Four months ago, Heier became the largest household appliance company in the world, surpassing Whirlpool. Ten years ago nobody had heard of Heier. The same thing is going on in the banking world. Ninety-three of the Fortune 500 companies now come from emerging economies. This is a new world with new actors. Countries like Slovenia need to turn to those markets much faster than before because the growth is there, and you need a high level of growth. You cannot achieve that in Western Europe

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What are the new business models? I want to share with you the outlook of the world's markets in 2050 as defined by the United Nations. North America will increase by 60 million people, whereas Latin America will increase by 250 million. Europe will decrease by 100 million. Africa will grow enormously. Something is going to happen there: it will become either a land of opportunity or tragedy, but something is definitely bound to happen on that continent. We need to consider it in our strategies. Finally, Asia will grow by 1.2 billion. Imagine that a country like Slovenia manages to capture a small part of those markets. What would the impact on your economy be?

A large middle class - 2.5 billion strong - is emerging across the world. These people are ready to buy anything. They want better housing, healthcare and food, and more traveling. The middle class wants to buy happiness. The good news is that our companies know how to provide what the middle class wants. According to General Motors, in 2020, China will buy twice as many cars per year as the United States. The next time that you are stuck in a traffic jam, comfort yourself with the thought that it could be worse.

Another important development is that the percentage of urban dwellers is rising rapidly. As a result, an increasing part of the global economy is urban.

However, there is another revolution triggered by what I call the emerging poor. They are emerging from absolute poverty but they are not yet middle class. They are in between. They need special products. That is why you start seeing \$2,500 cars. That is why micro-finance is spreading. The name of the game is that we have to move from philanthropy to a new business model. Everybody is working on that today. Africa used to rely on aid. Now there are emerging brands there and 260 million people use cellphones. We all need to have Africa on our business radar screen and approach it with the right model.

Do we have enough commodities in this world? Throughout the Middle Ages, people tried to convert lead into gold. Now we need to do the opposite. We are in an extraordinary situation: the price of industrial products is going up, but so is the price of food. The reason is that there is an emerging class with a different pattern of consumption. What is driving this change is obviously the enormous appetite of emerging nations, such as China. That country is now consuming 90 percent of the world's aluminum, 47 percent of its cement, 40 percent of its coal, and 20 percent of its copper and steel. It is also eating 33 percent of its fish. You do not want to be a fish in China. [11]

How much of the world's oil is China consuming? Only 8.5 percent, for the time being. What will happen when China consumes 20 percent? The price will go up. China and India are going to account for 45 percent of the increase in oil consumption in the next decade. As a result, the price of raw materials will continue to rise.

Another strategic commodity is water. Only 2.5 percent of the available water in the world is fresh. Of this 2.5 percent, 70 percent is frozen. I think that water is going to be priced in a new way. All this is going to have an impact on the environment. A cow produces 300 liters of methane a day. It is a dangerous animal. Sixty percent of the agricultural lands of the world are used to grow animal feed, not food for human consumption. A kilo of beef takes 15,000 liters of water to produce. There is a campaign going on in some countries to reduce meat consumption. This is going to have an impact on the environment but we have to be careful that it does not degenerate into something crazy.

The World Wide Life Fund calculates ecological footprints. The University of Wellington in New Zealand calculated the ecological

footprint of a standard SUV Toyota. Then they calculated the environmental impact of a dog. It turned out that it was twice as high as that of a car. Why? Because the dog eats. You have to give that dog a lot of meat and cereal every year. The production of that food has a greater impact on the environment than the car. They concluded the study by saying, "It is now time to eat the dog".

Our life expectancy has increased over the past 30 years by five hours a day. By the end of my presentation, your life expectancy will have increased by 12 minutes. If you insist, I can talk longer. But if you are worried about age, remember what Mark Twain once said: "Age is an issue of mind over matter. If you do not mind, it does not matter".

Of course, longevity has its cost. In the OECD countries, we devote 20 percent of our GDP to social expenditure. In China that figure is 4.5 percent at the moment. Sooner or later, developing countries will catch up with the developed economies here.

[12] How should a company confront a situation in which it has to drive through a great black hole? In the 1980s, the name of the game was to work better. It was about quality and re-engineering. That has been done. In the 1990s, the goal was to outsource. That has also been done. After 2000, we have been trying to work elsewhere. We call that globalization. We have achieved that, too. What is next? Where are the reserves of competitiveness today? I think they are to be found in the simplification of existing business models.

Think of a standard TV remote control and all the buttons on it. Think also of an iPod. It has only four buttons. You can offer one to your parents and they can operate it without calling you every 10 minutes. Simplicity is the name of the game. As Peter Drucker put it, there is nothing more useless in life than doing something efficiently when it should not be done at all. How often do we do things simply because we know how to do them well, although nobody needs them? How often are we too complex, although we call that "sophistication"? In fact, we are so sophisticated that we do not understand what we are doing anymore.

We also have to accept that today's world is more regulated. There will be more rules in financial services and more regulations concerning the environment. But customers want more simplicity and more transparency. They also want more accountability. A major goal for a modern company today should be to transform the complexity of the environment into simplicity for the customer. If you do that, you have a winning model. As Albert Einstein nicely put

it, everything should be made as simple as possible but not one bit simpler. It is a very profound statement. Leonardo da Vinci said that simplicity takes a lot of sophistication. That is nicely said, because simplicity requires a lot of work to achieve.

How much does a cup of coffee cost at production? About 20 cents. Now take the same cup of coffee and drink it at Starbucks. It will set you back two euros. Take the same cup of coffee and drink it at Piazza San Marco in Venice. It will cost you 10 euros and you will be happy. Why? Because that will be the experience of your life: a great cup of coffee in a great square. You will be surrounded by tourists and pigeons. That's what happiness is about. The Harley Davidson people understand this well. Ask them if they sell motorbikes and they say, "Of course not". What do they sell? Experience, freedom, belonging to a community. Here is how they put it: "We give a 43-year old accountant an opportunity to to dress in black, ride through town and scare everybody".

Let me conclude. There are many ways in which you can survive in this world. The first approach is to think globally and act locally. It is not what happens to you that matters, but how you react to it. There are many situations that we cannot prevent. We can simply react to them appropriately.

[13]

I have an example. Ralph Guldahl was a genius at golf. One day he stopped playing and decided to write a book on his success. He filled it with charts, graphs, and tables. Since that day, he has never won another tournament. Woody Allen summarized this nicely: "Confidence is what you have before you understand the problem". Why are entrepreneurs so successful? Because they do not think too much. They just do it. As Peter Drucker put it, changes in society have a far greater impact on companies than changes in management. At present, the real issue is not the management techniques that we are using but the challenges that society is throwing at us: the environment, ethics, social networks. Andy Warhol said, "Manage your brand. A day will come when everybody will be famous for 15 minutes or infamous for more than 15 minutes". What this means is that in today's world of social networks, there is no possibility that you will escape the gang of four: Google, Facebook, YouTube, and Twitter. No matter what you do you will end up there, and once you are there, you will stay.

Where is British Petroleum in the United States? Not in the media. It is in the social networks. I think this is important, because ethics is going to occupy an enormous place in management. As

Mark Twain said very well, "Never do wrong. Especially, when somebody is looking". Today everybody is looking. This makes a hell of a difference to the world's economy. Despite all the problems that we have, we have to keep in mind that secure is not safe, as English writer Tom Fuller put it. It means that if you want to avoid risk at all costs, you are taking a hell of a risk. Risk should not be avoided. It should be managed.

We should not eliminate ambition either. It is good for the company. It is good for everybody. The master of ambition was Salvador Dali. He said that at the age of six he wanted to be a cook. At the age of seven he wanted to be Napoleon. Then he added, "Since then, my ambition has grown steadily".

Let me conclude by saying two things. In a period of economic uncertainty, timing is everything. The question is not whether something is right or wrong but when it is right and when it is wrong. The first low-cost airline went bust. Apple's first Blackberry was also a failure. The company almost went bankrupt. Nowadays, both low-cost airlines and smart phones are part of our lives, despite the fact that they failed when they appeared on the market for the first time.

[14] One potential lesson is that you should never launch a product in August. A second is to remember a saying by Montaigne: "It is very wrong to be right before everybody else." A last one is what I consider the epitome of competitiveness. Jean-Baptiste Charcot was a French explorer who travelled to both of the Earth's Poles. He had a ship, which is very useful when you are in that business. He gave it a wonderful name: "Le pourquoi pas" - "The Why Not". We need more of a why-not mentality in government and business. Robert Kennedy said once, "There are two types of people. There are those who look at problems as they are. They always ask 'why'. There are also those who ask 'why not'". We need more people of the second type, asking "Why not go ahead with this idea?". That is the secret of competitiveness.

Before finishing, I have to be myself - very honest and transparent. Charcot's ship sank, and the whole crew died. Still, Charcot's philosophy was right.

PANEL WITH POLITICAL AND BUSINESS LEADERS AND DISCUSSION

Peter Kraljič, Director Emeritus, McKinsey & Co. Inc.

I am glad that the IEDC is organizing this forum on competitiveness, which today is a crucial topic for both our economies and our corporations. Unfortunately, it has not received the attention that it deserves to have in this country. I call competitiveness a “*conditio sine qua non*” if you want to be successful in the globalizing world.

Unfortunately, the countries represented on this panel are not doing well according to that indicator. Slovenia has just dropped 20 places on the IMD index, from number 32 to number 52. In sports, this is not a position that you would write a lot about. The current government is the first in this country to talk about competitiveness as a target. Italy is in a better position, but not impressive either: it is number 40, even though it is a country with an enormous industrial tradition and excellent entrepreneurs. There must be something wrong in Italy to account for the observed situation.

Then, we have our friends from Croatia, a country that started from a much more difficult position than Slovenia. The war in Croatia left much deeper scars in that country than our short war here. Still, being in 56th position is not a great achievement either.

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Competitiveness has to be ensured across several interdependent levels. We are competing at a global level, which I call the giga level. The G20 countries are trying to set up some rules for the game at that level, but we see how divided they are. There is no coherence because of their divergent interests.

The next level is the mega level of the big economic entities, such as the European Union. Unfortunately, the Union did not meet its objective of becoming the world's most competitive region by 2010, as specified in the old Lisbon Strategy. Mr Turk, who is a member of the Reflection Group on the Future of Europe, can give us a perspective on that. What are some of the barriers that we have?

Then, there is the macro level, at which states compete with each other. As I said, Slovenia is 52nd in the world's competitiveness ranking, while Singapore, though not a big country, is no. 1. What do we have to do to climb to a higher position?

The mezzo level, which comes next, is often neglected. This is the level of sectors, regions or clusters. Italy has a prospering North and a problematic Mezzogiorno. The Slovene regions are also very different. Some sectors are dying. The textile industry has almost disappeared, although it is booming in Italy. There is hope with our automotive cluster.

The micro level is that of companies. In Slovenia, we have a mix of small competitive companies and less competitive ones. Since we do not have large companies, we obviously cannot compete on scale and scope. We must compete on specialization, speed and skills. How we can cooperate to achieve a critical mass is a crucial question.

Last but not least is the nano level, where individuals compete. This is a very important level, as Europe has to rely on its human resources. It does not have any structural advantages, such as cheap labor or natural resources. We need innovation and innovativeness, higher productivity, entrepreneurship, and a new set of values. This is particularly true for the transition countries that have to move from a communist mentality to a Protestant work ethic.

[16] Each year IMD and the World Economic Forum produce their competitiveness indices. Our task is to consider what can be done at the national or corporate level to boost competitiveness. It is fine to analyze, but the analysis should turn into concrete action. In particular, we have to think about the BRIC markets, which have so far been under-exploited by many European companies.

Therefore I ask our panelists to dwell on three questions:

1. Why is competitiveness important from your individual perspective?
2. What are the challenges to competitiveness and the opportunities that you see in the future? I would be glad if Mr Illy could tell us whether the difficult situation in which the Italian economy currently finds itself poses a risk to the world economy. It would also be nice if Mr Radman could give his Croatian perspective. Similarly, it would be interesting to hear Mr Gantar's take on Slovenian competitiveness. Finally, Mr Turk could tell us about the European Union's perspective.
3. What kind of action would you propose?

Mitja Gaspari, Minister for Development and European Affairs, Government of Slovenia

Some time ago I read an interesting article on the Scandinavian experience, called "The Nordic Model". What the Scandinavians have tried to do is combine competitiveness in the private sector with solidarity in social affairs. This is quite interesting for a country like Slovenia, which went through the transition process with the philosophy that social solidarity is important. However, we have not paid much attention to the question of how to combine this solidarity with a strongly competitive private sector. We are still in a situation where many interest groups are ready to talk about solidarity but there is not much talk about the competitiveness and productivity of the economy.

What we need in Slovenia is a serious debate on these issues. For example, we have relatively low taxes. That is not the case in the Scandinavian countries, though. In Slovenia, there is a heavy tax burden on highly educated and qualified employees. This reduces our competitiveness with respect to other countries in the region. Highly qualified employees are costly and employers are not excited about hiring them.

As for the general tax burden, we are comparable to the European average. This means that we do not have much room for manoeuvre but we could probably raise some environmental taxes and reduce some taxes on labor.

[17]

We are far behind other countries in terms of administrative procedures. Construction permits and access to financing for small and medium-sized companies are examples. We have more than 300 regulated professions, which is insane in view of the fact that the European average is 150. The government has asked the relevant ministries to simplify the regulations. At the moment, much of the complexity stems from the attempts of some interest groups to fence off their markets. The opening up of the services market is the first very important job that the Slovene government has to deal with in the next five years.

Second, we need less involvement of administrative bodies in the extension and issuance of licenses and permits. At the moment it takes about 199 days to obtain a construction permit, and many institutions can interfere and slow down this process without any accountability. In Denmark that period is 25 days. Our goal is to halve the period necessary to obtain a permit from the government, and we want to achieve it in the next year or two.

The third task is to reshuffle the public sector. We have to introduce economic thinking and efficiency considerations. For example, in public hospitals we need good financial management and organizational skills. The providers of public goods should be efficient, no matter if they are private or public. This is so because our resources are stretched. To achieve all of this we need more responsible managers and better organization. We need supervisory boards and better management of the salaries in the public sector. Our current salary system is archaic and nonsensical, and is badly in need of reform.

The public sector must become responsible for its results, its organization, and its procurement of resources. Once that has been achieved, the government can reduce its participation there. Without an efficient public sector, we cannot have an efficient, productive and competitive private sector either. Many services in the public sector are critical for the success of the private sector.

[18] We are trying to introduce what is lacking in Slovenia - horizontal coordination of activities. There are a lot of vertical activities in the ministries but there is very little horizontal exchange. We also want to build a network of financial institutions because reform is impossible without their participation. We have banks and insurance companies that are independent of the government. But we know about the lifecycle of an enterprise, and there are loopholes in it. There are too many institutions which lack mutual coordination. We have an enterprise fund that should be primarily focused on venture capital and financing of small businesses. We have a development bank, focused mainly on project finance, which should be based on solid evaluation of the quality of the projects. In the past, these institutions worked completely independently and there was no synergy between them. Fortunately, during the crisis last year, when there was not much financing going on, those institutions began to work together. Yet there is still a lot to be done in that respect.

We take the reports by the WEF, the World Bank and the IMD very seriously. We are counting very much on a new research and development policy which tries to connect the private sector with the research and development domain. The public institutions that are active in this area have no incentives to work with the private sector. The reason is that they have access to easy money for their research. They do not produce enough commercial projects and the government is not pushing them enough to do so. On the other hand, after the collapse of Yugoslavia, research and

development in the private sector lost a great deal of its capability. It has never been in a position to invest in new hubs of research. I think that the government needs to give up its direct intervention in the economy. What we need is horizontal coordination in order to have practical applications.

There is a very simple explanation for the fact that Germany has boosted its export capacity to a greater extent than Slovenia. Germany went to Asia. Slovenia did not. All countries that did not go to Asia or Africa have lost competitiveness positions in the past three years. We still rely too much on nearby markets, such as Italy and Austria. Without expanding our activities across the globe, we will not be able to preserve our social cohesion and solidarity.

I will conclude by saying that I am a bit pessimistic about the situation in Europe. The level of horizontal coordination in the European Union is low. This hampers the progress of small members, such as Slovenia.

Riccardo Illy, President, Gruppo Illy, Italy

This panel is dealing with a very important issue and I am happy to have this opportunity to participate in it.

Competition is the driver of progress. It is also the driver of evolution as described by Darwin. However, because of the economic crisis, competition is under threat. The markets are becoming polarized at the moment. On the one hand, customers expect quality at a reasonable price. On the other, they are looking for prices that go with reasonable quality.

[19]

As an entrepreneur, I interpret competition in two ways. First, it leads to continuous improvement of product quality. Second, it provides an opportunity to satisfy customers better than other companies do. Competition creates threats and opportunities.

At the moment there is increasing global competition between companies as well as competition between territorial systems. There are also some countries that are trying to avoid competition. Yet, if we want to have continuous progress we have to guarantee the continuation of competition, despite the difficulties that we face in the economy. We need some clear global rules to guarantee competition. However, we do not have global economic governance, and I wonder who would enforce these rules if they existed. Perhaps the prime ministers of the G20 would do it?

As far as the Italian situation is concerned, the World Bank issues an index that reflects a country's capability of improving the

conditions for doing business. Unfortunately, Italy is doing much worse on that indicator than in the IMD competitiveness ranking. Italy is 22 positions behind Rwanda and 28 positions behind Botswana. This is mainly due to our excessive bureaucracy, which is much greater than in the other developed European countries. I used to be a member of the High Level Group of the European Union, appointed by the European Commission. Our task was to supervise deregulation and simplification of European regulations. Thus I happen to know something about these things and I can tell you that the impediments Italian businesses face because of red tape are much more serious than in the rest of the European Union.

We also have a serious deficit of infrastructure, and the price of energy is 30 percent higher than in the rest of Europe. I would say that we have some competitive disadvantages in Italy. Nonetheless, we have a number of companies, such as Gruppo Illy, that are successfully competing on the international markets despite insufficient support from the government.

[20] About 10 percent of the Italian population has a university degree, which is the same as the world's average. Yet we are competing with countries, such as those of East Asia, where this percentage is 30, 40 or close to 50 percent.

I see an increasing polarization between quality and price. I also see some concentration of companies in specific sectors. It is a moment of a peculiar competition: you have to improve your products while being global. Illy Cafe is present in 140 countries and we are planning to go global, along with the other companies in the group. In addition to Europe and North America, our markets are now in Asia, where Illy Cafe is producing 70 percent of the whole company's growth; in South America; and in a number of African countries. We provide coffee to several large international hotel chains, such as Marriott and Hyatt.

What about the future? I hope that the unfair competition in finance, which was started by the United States, will stop. I also hope that no other countries will do what that country did. Another hope that I entertain is that protectionism will be avoided. There is still a lot to be done at the European level to improve our internal market. The more competitive the internal European market is, the more competitive we will be as a whole on the international markets.

There are also other issues to be resolved. For example, think of the pension systems that we have. Unless you have worked at least

three or four years in each different country, you cannot get a pension when you retire. Think also of the protectionism in infrastructure. Unfortunately, Slovenia is one of the bad examples here.

Think also of the energy market. The pan-European market is still only a theory. Import and export from one country to another is made difficult by all sorts of bottlenecks.

Think also of common language. We are speaking English here because it is the language of business. It is also the language of science across the world. Why should it not become the main language for communication in Europe? I do not understand this. In the European Union we are wasting huge amounts of money to translate all patent applications into all the official languages of the 27 member states. Discussion on this issue is blocked because the proposal was to have not only English but also German and French. Some countries, including Italy, vetoed this proposal.

Finally, think of our defense system. We have 27 national armies. Many of them are ridiculous and cost a lot of money to maintain. Even when a war had to be fought in Kosovo, it was the Americans that started it, not the European Union. We still have no serious defense role in any of the world's conflicts.

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As far as Italy is concerned, I think that we have to restructure our pension system. We have one of the most expensive systems in Europe, in which the contributions toward the pension system amount to 40 percent of the cost of labor. We have to build more railroads and highways and we need to cut the cost of energy. For that purpose, we need good governance of the country. I was mayor of Trieste and president of our region because we have good electoral laws. They allow the citizens to choose their mayors and presidents directly. Yet we do not have a good electoral law at the national level, for parliament and the prime minister. We could copy the electoral law of France.

Finally, at the company level, we need to improve quality, reduce costs and go global.

Matjaž Gantar, Chairman of the Board, KD Group, Slovenia

There is an old Roman saying which goes, "If you do not know where you want to go, any path is the right path". Think of Illy Group on the other side of the Gulf of Trieste and Droga Kolinska on our side. How has Illy managed to sell their products in 140 countries? Because they decided to. If you ask Droga Kolinska what

stops them from implementing various projects, they will give you all kinds of reasons. But the real reason is that they have not really decided to make a move.

In the United States, they did not have real coffee, at least by European standards. But now they have Starbucks. Even McDonalds serves good coffee these days. We live in the age of coffee. But this was a matter of decision. The problem with Slovene business is that we do not make decisions.

We talk a lot in our country about the kind of economy we want to have. This may not be so important for a country like Italy, because it has a long tradition. In Italy, some companies are now run by a 10th generation of managers. In Slovenia we still have the first generation, because everything was nationalized after the Second World War except the smallest businesses. So, our debates have focused on restitution, privatization, tycoons, and yuppies.

I also have the feeling that we have always had anti-business governments. Business was never a topic for them. This is a problem because the structure of our economy is quite peculiar. Most companies are in the middle of the supply chain, meaning that they do not have access to final customers.

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It is true that we have some companies that produce goods which customers want to have, rather than goods that they need to have, but the reality is that these companies are small. Their revenues amount to a few million euros a year. On the other hand, all of the 20 largest companies are supported by the government. The economic crisis showed that governments can save businesses. But in Slovenia, we are still talking about minimizing the government's interference in business.

Slovene companies are currently restructuring. They need to reinvent their business models because the business world, as we knew it before 2008, is gone. Slovenia needs to do something so that it attracts investment, rather than allowing capital to flow out of the country. We should do the same for knowledge; we should encourage it to come to Slovenia rather than have it migrate to other countries. If you want to be competitive, you need to have knowledge. Money is a commodity; knowledge is not. It is a good idea to have educated people from abroad come to work in Slovenia. However, to achieve that we need to improve the business environment.

Finally, I have a comment on niches. I have competed in them. A niche is something that you can invent. Illy is a good example of

a company that is competing in a specific niche and we can learn from their example.

**Goran Radman, Dean, University of Applied Science
VERN and Vice President National Competitiveness
Council, Croatia**

Thank you for this opportunity to talk to you on behalf of the Croatian Competitiveness Council. This Council has been around for nine years trying to develop a competitiveness agenda for Croatia, and I am a little frustrated by the fact that Croatia is not moving ahead fast enough. In addition, I think that we are all scared by recent global developments, wondering how we allowed this to happen and what we can do in the future in order to build a more sustainable social and natural environment for humanity.

As a lecturer on competitiveness and innovation at my university, I have always perceived competitiveness as 'being better than others'. It looks simple; if you want to be competitive, try to be better than everybody else. But behind this simplicity is a hard question: how to achieve this goal? If competitiveness is all about efficiency and productivity, what does that mean for us as individuals?

Thinking of myself, I have never been a very competitive person. I did not try to run faster than the other kids at school. I did not try to be a better student than everybody else. The agenda that I set up for myself was to be different and compete in a different race than everybody else. Creating my own race was based on what I perceived to be my strength. It turned out to be a creative choice, helping me to become a successful person. By success, I mean being able to provide for myself and my family, as well as being happy. I have chosen to enjoy what I do and the way that I live.

[23]

Do we want to compete against ourselves or in favor of ourselves? Do we want to see others as human beings that we can work with or as competitors that are working against us? Competing does not necessarily mean that we see others as our enemies. We are all human beings and share something together. As individuals, we need to remain responsible for that. Competitiveness is not an agenda for our own individual success against others. It is an agenda for all humans and for our human civilization.

I have also always seen an element of choice in competitiveness. I remember when I became chief executive officer of Croatia's subsidiary of Microsoft. When companies like Microsoft approach a new market, they first tend to legalize it. They build the basis of the business, which is very much virtual and intangible. Legalization, or

respect for individual intellectual property, was always the first thing that they did. Back then, Croatia was not doing well in that respect. I discovered that the Slovenes were ahead of us and decided to set up an advertising campaign whose slogan was "How can Croats afford to be worse than Slovenes?" The campaign was hugely successful because Croats decided not to lag behind Slovenes. This was emotional but a matter of choice. Being able to affect people's choices is also an element of competitiveness.

The Croatian Competitiveness Council was set up nine years ago. It developed out of a private sector initiative. The private sector approached the government and said that we needed to do something about our competitiveness. There was an understanding that we all needed to perform better in order to achieve stronger competitiveness. We chose the Irish competitiveness model, based on the major stakeholders in the game: government, private sectors, trade unions and academia. Our main idea was to steer, coordinate and catalyze the efforts of all the key players in the game.

[24] Our first goal was to put Croatia on the global map of competitiveness. We began to partner with both the IMD and the World Economic Forum, and were successful in getting Croatia into the game. We developed objective and comparable sets of criteria that helped us to understand our performance. The second job was to raise the level of competitiveness understanding in the public and private sectors. We made many educational efforts. Eight years later, these sectors have accepted the notion of competitiveness. They are not only talking about it, but are also integrating some of the competitiveness criteria into their activities. Nowadays, every Croatian politician talks about competitiveness even without knowing what it really means.

The third element of our agenda was harder. It is about achieving results. Unfortunately, Croatia is stagnating in the global competitiveness rankings. It is also unfortunate that Slovenia has dropped in the ranking because we cannot play the Slovene game anymore. We are now quite close in performance.

We are trying to understand why Croatia is lagging. We have too many layers of history behind us. For one thing, we have not properly addressed the legacy of our socialist economic system. We inherited many dysfunctional elements that we have not dealt with successfully. We envied Slovenia's success in the transition period, but despite the different approaches that we took, both countries are now essentially at the very beginning of the game. The goal of

the game is not to understand what happened in the past, but to figure out what will happen in the future.

Croatia is hoping to close all chapters in the negotiations for European Union membership by the end of March next year. We also believe that we will be successful in the national European Union referendum, even though the current situation looks bad. Motivation among Croatians to join the European Union appears to be very low these days, at below 30 percent of the population. Despite the consensus of all political parties, the general public is pessimistic.

There have been many Council initiatives to boost national competitiveness, but they have not been very successful. With final EU membership in mind, our focus now is on restoring the general consensus on what we want to achieve in the next 15 or 20 years. Here there are a couple of major issues. Croatia can double its GDP by 2025 and reach the European average if our economy grows at 4 percent. We believe we have the economic potential to do that, but still don't know how.

Another goal that we pursue is to make Croatians more employable. The percentage of working people in the population is very low, below 50 percent. Our target for the next 15 years is 75 percent. We think there is no other way to do that but to encourage entrepreneurship, and boost our SME sector and exports. Besides getting closer to the growing markets of Asia and Africa, we need to better exploit the potential of the wider region of South Eastern Europe.

[25]

We also need to improve our education. The percentage of people with higher education is too low, below 20 percent. We need to boost that. A realistic goal for the next 15 years is to have 30 percent of the population with a higher education degree.

In order to achieve these goals we need to redefine and promote some core social values. Principles of work, responsibility and solidarity have to be reaffirmed. These are the goals on which Croatia's new social and political charter should be built. We need a wide consensus on them among citizens and key institutional stakeholders in order to make us more economically competitive and keep us socially sustainable in the future.

Žiga Turk, Secretary General, Reflection Group on the Future of EU, Slovenia

As an introduction, let me try to answer the question that dr. Kraljič asked at the outset of this panel discussion: "Why has the European

Union failed to become the most competitive entity?” as was the goal of the Lisbon Strategy. The answer that is not entirely serious, but as every joke has a grain of truth is, that Europeans do not wish to live in the most competitive economy of the world. Do you, as entrepreneurs want to work in the most competitive markets? You normally try to find a place where the competition is not so tough, don't you? And Europeans want steady jobs, many holidays and long retirement period.

This being said, it is also true that we do not have policies that support competitiveness. Research and development investment in the European Union has been flat over the duration of the Lisbon Strategy. While Europe has been resting on its laurels, other nations were progressing. The biggest growth in scientific publications nowadays is in China, which surpassed all other countries but the US to become the second in the number of scientific papers published.

In Western Europe, many people think that competitiveness and growth are not a good thing. That there are more important things beyond GDP, such as quality of life and human development.

[26] There is a movement to move “beyond the GDP”. This is wrong. It should be “GDP and beyond”. Our problem is that we are not quite sure in what race we want to compete. Competitiveness, quality of life, GDP ... ?

The title of Prof. Garelli's talk was “Business as Unusual”. The current situation calls for that, because nothing usual awaits us in the future. During the debates about the new commission about a year ago I proposed to set up a commissioner for "Business as Unusual". Much like the Ministry that was set up by the previous Slovenian government, for growth, reform and business as unusual. In spite of having 27 commissioners, each with a special portfolio, there is no commissioner for the “business as unusual”.

In Brussels, it seems, the limits of the “unusual” were reached with this Reflection Group on the Future of the European Union. It was chaired by Felipe Gonzales and its members are top business people, scientists and former politicians. We identified five drivers of change that Europe needs to do something about, five drivers that will be making life unusual in the future:

- A) Abundance and automation
- B) BRICs (Brazil, Russia, India, China ...)
- C) Climate change

D) Demography

E) Electronic communication

Reflecting on these challenges, the Reflection Group concluded that Europe has a choice: reform or decline.

But what kind of reform do we need? There are many things that need to be done, but the most difficult one, from a political viewpoint, will be to change the social and economic model for the unusual people, unusual jobs and unusual businesses. In the unusual is the growth of the future.

The usual type of growth is only partially possible in Europe - to develop the underdeveloped. They do not have the problem of abundance. Infrastructure, flats, cars are still scarce. There are real needs to be fulfilled. We still have poor areas in the European Union that need better infrastructure. There are plenty of things to do in the East in that respect.

Growth in the unusual

Europe is proud of its social and economic model, actually models. We like it so much that it is entrenched in all institutions, reflected in social services, propagated through social dialogue and collective bargains. Yet it is rooted in the reality of the 19th century industrial society and a nation state: a person living in one country first goes to school, then works, then retires. She/he goes to work to a particular place because that is where the machines are. She/he is supported by the social services of a state. She/he works to survive. [27]

These and other patterns of production are now being challenged. The welfare state is being challenged by completion from places where social standards are much lower, like India and China. The second, more difficult challenge is coming from the unusual jobs.

In the future we are going to see a segmentation of the workforce in the developed world. The majority will be serving coffee to each other. They will be kept busy by providing services to their fellow citizens. But a very small part of the workforce will have to be globally competitive. Not every German and Slovene company will be globally competitive, though. Yet, the ones that are, will bring home the cash that it takes to buy the coffee beans.

Global competitiveness will be based on talented, creative knowledge workers. Knowledge workers will not study during the first third of their lives, work during the next third, and be retired

during the last. All this will be mixed. They will not have a steady, lifetime employment. Work will be their hobby. They will not be “going to work”. Work will be chasing them.

For this kind of workers we need to adapt our social and economic model, because they will be the most valuable ones. They do not need Europe, they can take their skills elsewhere. They will be creating value and meaning. They will be able to create products and services for the growing middle classes of the world.

A matter of values

The European Union is an unfinished project when it comes to markets. The coal and steel market is fine, but the service markets are not. The digital markets, which are also extremely important, are not working either. None of the recent innovations, such as genetically modified foods, nanotech, biotech has a common market in the European Union.

[28] And most importantly there is no European political market. Many good proposals of groups like the Reflection Group in the end depend on the political will. And the political will does not exist because there is no European political market. Unless decisions in Brussels are motivated by the electorate, the Union polices will be less than optimal.

I started my talk by saying that Europeans do not want to be competitive. This is a matter of values and priorities. Personally I think we have to return to the values that made Europe great 500 years ago. At that time, Europe had a civilization that had a deep respect for human life, human dignity, and the quality of people, at least by the standards of that period. Compared to China, India and the Muslim world of that time, Europe was far ahead in the way it treated its people, how much it valued human life, how much it allowed anyone to be empowered by knowledge.

That is what we have to return to: provide opportunities to everybody, unleash entrepreneurial spirit, do away with clientelism, vested interests and all kinds of arrangements that hamper human creativity and entrepreneurship; open up opportunities to Europeans, who were never before so well educated, had access to so much knowledge and information and to so many other smart people. “Empower the Individual” is the title of one of the chapters of the report of the Reflection Group on the Future of Europe as well.

Stéphane Garelli: Conclusion

The great Roman philosopher Seneca once said that there is no favorable wind for those who do not know which way they are sailing. Competitiveness is like driving your car on a Sunday. You have a map and you know what kind of car you are driving but it is you who decide where you want to go. Nobody can make this decision for you.

Danica asked me to give you some advice but I will refrain. Remember that I am Swiss, and have to be neutral. I will simply tell you what works elsewhere. The first thing regarding government is predictability of legislation. Why was China successful? Not because it was business-friendly, but because it was predictable. Why did India not work well? Because it changed direction every three years: now it was an open economy, now it was closed. There was no predictability.

The next two things are transparency and accountability. I want to know who is responsible for what in government and in the civil service.

Number four is simplification. In our country, if the government does not respond to a demand within two months, it is considered approved. At the level of the European Union, this rule has been implemented for mergers and acquisitions: the deadline for a government response is six months. [29]

Another good approach would be to create a parliamentary commission for the simplification of legislation. In every parliament, deputies dream of having a law with their names on it. There is a need for a permanent commission whose only task is to simplify existing laws. At the end of the day, the name of the game is to make business easy to do. Another goal should be to step up the speed of doing business. We want to be fast because the world is fast.

Of all the countries that I have seen, none are competitive unless they invest in infrastructure. What is needed is traditional infrastructure, as well as advanced infrastructure such as technology and knowledge. What amazes me in Asia is the amount of investment that goes into infrastructure. You see the best airports and the best trains. You no longer find this in Europe.

Mr Radman was correct in saying that you have to increase the percentage of employed people. The only way to keep your tax burden down is to have more people paying taxes. If 40 percent of

the population is employed, as in France, the only solution is to have high taxes, especially if people work only 35 hours a week.

Even in the poorest countries there are large competitive companies. But what makes all the difference, and what you do not see everywhere, are a lot of small and medium-sized companies. You need such companies, with their technology and strong export capabilities. This is what explains the success of Germany, Denmark and Switzerland. These companies provide diversification, which is what we all need.

Slovenia has a problem with foreign direct investment. However, let me give you a warning. You need foreign investment only if it helps you develop your own enterprises; otherwise it is useless. The Gulf states have understood that. Now they expect foreign investors to provide know-how for their own companies. They are using their foreign direct investment to generate a new layer of small and medium-sized companies.

[30] Do not repeat the mistake of the Irish, who are now the victims of their own success. Simply attracting foreign investment without creating an Irish enterprise on the side was a major mistake. During the crisis, foreign companies reduced their investments; that is all that they did. Can you give me the name of an Irish company that is active abroad, other than Guinness?

Then you need applied technology. I cannot think of a competitive country that has developed its enterprises without local technology and manufacturing. Without these, we will not get anywhere.

In 1992, a blessing in disguise occurred in Switzerland. We voted on accession to the European Union. The outcome was negative. Yet, it was a blessing in disguise because we realized that if the European Union markets were closed to us, we would have to diversify and invest in Asia and Latin America. That is what saved us. In a country like China, whose economy is growing at 10 percent a year, you take just one street in Shanghai and that can save your economy. We discovered that Europe is important, but the future is elsewhere.

Competitiveness does not mean anything to the man in the street. It is about providing prosperity to people. And what is prosperity? Economic growth plus something else. It could be quality of life, security, or something else that is defined differently in every nation of the world. Unless you define 'that something

else' in Slovenia, people will not follow you. They need to know what is in it for them. Competitiveness is not a final goal. It is a tool toward prosperity and we have to define what we mean by that.

Ronald Reagan once said that there are three types of people: those who make things happen, those who let things happen, and those who wonder what happened. Which of them do you want to be?

Stéphane Garelli

Dr. Stephane Garelli is a Professor at both the International Institute for Management Development (IMD), one of the world's leading business schools, and at the University of Lausanne. He is also the director of IMD's World Competitiveness Center and is an authority on World Competitiveness: his research focuses particularly on how nations and enterprises compete on International markets.

He publishes the IMD World Competitiveness Yearbook - the most comprehensive and reputed study in the field of the competitiveness of nations. This yearly report compares the competitiveness of forty-six nations using more than 300 criteria.

Professor Garelli is closely connected to the world of business. He is, among others, Chairman of the Board of Directors of "Le Temps", the leading French language Swiss newspaper. He was formerly Chairman of the Board of the Sandoz Financial and Banking Holding, and member of the board of the Banque Edouard Constant. The author of numerous publications in the field of competitiveness, international trade and investments, he is also a columnist in several magazines. For twelve years he was permanent senior adviser to the European management of Hewlett-Packard, and before that Managing Director of the World Economic Forum and of the Davos Symposium for many years. He is a member of a number of institutes, such as: China Enterprise Management Association, Board of the 'Fondation Jean Monet pour l'Europe', The Swiss Academy of Engineering Sciences, the Mexican Council for Competitiveness, etc. In 2006 he published his best-selling book "Top Class Competitors - How Nations, Firms and Individuals Succeed in the New World of Competitiveness" with Wiley.

[32]

IEDC “Books of the Year”

- 2010** Stéphane Garelli, *Business as Unusual; A Competitiveness Outlook for 2011, and Beyond*
- 2009** Hermann Simon, *Role Models of Leadership beyond the Crisis*
- 2008** William A. Fischer, *New Generation Innovation*
- 2007** Jean-François Manzoni, *How to Avoid the Set-Up-To-Fail Syndrome*
- 2006** Ichak Adizes, *What is a Leader?* (a video lecture)
- 2005** Peter Drucker, *Manage Yourself and Then Your Company: Set an Example*
- 2004** Manfred Kets de Vries, *The Bright and Dark Sides of Leadership*
- 2003** Fons Trompenaars, *The Challenge of Leadership - Visions, Values, Cultures*
- 2002** Milan Kučan, Jean-Philippe Deschamps, William George, *Leadership for Innovation*
- 2001** Milan Kučan, Peter Kraljič, Peter J. Rohleder, *Competitiveness of Companies in Central and Eastern Europe*
- 2000** Paul Strebel, *Focusing on Breakthrough Options* [33]
- 1999** John M. Stopford, *Harnessing Organizational Knowledge for Strategic Innovation*
- 1998** Pedro Nueno, *Maintaining Your Personal Value*
- 1997** Lecture by Peter F. Drucker on the occasion of the 10th IEDC Anniversary: “*Manage Yourself and Then Your Company: Set an Example*”
- 1996** 10 years of IEDC
- 1995** George Taucher, *How to Succeed with Strategic Alliances*
- 1994** William A. Fischer, *The New Faces of Manufacturing*
- 1993** The European Presidents’ Challenge; Beyond Restructuring
- 1992** Developing Managers for Eastern and Central Europe
- 1991** Thomas J. Peters, *The American Way of Managing – A Model for the Whole World?*
- 1990** Arnaldo C. Hax, *Redesigning of Strategic Concepts and Processes*
- 1989** Derek F. Abell, *Management in the Organization of the Future*
- 1988** Peter Kraljič, *Ways to Industrial Success*

About IEDC – Bled School of Management

Established in 1986 as the first business school of its type in Central and Eastern Europe, the IEDC – Bled School of Management is one of the most prominent international management development institutions in Europe. It is a place where leaders come to learn and reflect, an international center of excellence in management development, a business meeting point, and a unique place where works of art complement a creative environment for creative leadership. Some of the world's most eminent professors and consultants teach here, and participants attend from all over the world.

In 1999 the IEDC – Bled School of Management was one of the first two business schools to be awarded the IQA (International Quality Accreditation), while in 2005 it received international accreditation from the Association of MBAs (AMBA) and re-accreditation in 2010. In 2009, the IEDC was the only institution from Central and Eastern Europe to be named among the 100 top business schools worldwide in the Aspen Institute's Beyond Grey Pinstripes ranking, for having demonstrated significant leadership in integrating social, environmental and ethical issues into its MBA program. Prof. Danica Purg, President of IEDC, has been named the 2010 Dean of the Year by the Academy of International Business (AIB) for her outstanding achievements in international business education. As the third European awarded she joins an elite list of deans from top international business schools around the world.

The IEDC – Bled School of Management is also the headquarters of CEEMAN, the association of 185 management development institutions, the International Management Teachers Academy (IMTA), the European Leadership Centre (ELC), and the UN Global Compact Slovenia.

Along with its highly-ranked International Executive MBA, Presidents' MBA and Doctoral programs, the IEDC offers short executive seminars for top management, customized programs for corporate partners, and a wide range of general management programs including a five-week General Management Program and an International Summer School for Young Managers.

IEDC – Bled School of Management

Prešernova cesta 33, 4260 Bled, Slovenia

Tel.: +386 4 57 92 500

Fax: +386 4 57 92 501

info@iedc.si

www.iedc.si

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