

## Conference Summary

### Leadership Summit Asia 2008: Is Asia riding – or writing – the future?

7 November 2008

As the world falls into a period of significantly slower growth, the dynamics of the world economy appear to be changing. People are looking to Asia—and China and India, in particular—to help stave off a worldwide recession (or depression, as the case may be). This increased responsibility will require business and political leaders in the region to demonstrate leadership as never before.

Asia's new role as an engine for growth will bring with it huge challenges. As China and India strive to achieve the economic transformations that Japan and Korea undertook in recent decades, they will have to carefully balance their economic and social policies. The sheer scale of these two economies and populations will change the nature of the leadership that we'll see from these countries and the region in the coming years.

On November 7<sup>th</sup>, 2008 the INSEAD community and global business leaders came together at the Claude & Tuulikki Janssen Auditorium on INSEAD's Singapore campus to discuss the role of Asia as a leader in the global economy, and the prospects and challenges of leading a business in this environment. A series of engaging dialogues analysed the current and future roles of Asia and its political and business leaders, while also raising questions that business leaders would do well to consider as they guide their organisations forward in the coming months and years.

#### **SESSION 1 – Opening dialogue: The new American leadership**

**Speakers: Steven Okun** - Chairman, American Chamber of Commerce Singapore & Vice President for Public Affairs, United Parcel Service with Dean **Frank Brown**

#### **Great expectations in difficult times**

The recently concluded election in the US has given way to a sense of great anticipation. Observers around the world are now eager to see how Mr. Obama will go about forming his team and planning his policies—yet some are wary of what lies ahead. The huge expectations for Mr. Obama are likely to lead to some level of disappointment as the realities of governing taking over from the rhetoric of the campaign trail.

What needs to be recognized, argued Steven Okun, Chairman of the American Chamber of Commerce Singapore and Vice President for Public Affairs at UPS, is that while Mr. Obama's victory gives him a strong mandate, the Executive must still work within the framework of the US system, which has three co-equal parts: the Executive, the Legislature and the Judiciary. This means that Mr. Obama's highly anticipated campaign of "change" may be tempered at times by the interests of other branches of government.

It is, however, broadly expected that the new administration will, if nothing else, be more open and participatory on the world stage, with greater dialogue than under the present leadership. And while it will be necessary to look to Washington to see how things will play out, it is important to recognize that Asia and the international business community will also play a role in shaping the policies of Mr. Obama's presidency.

**Asian governments must realize that their policy decisions in the near term will set the tone for relations with the US and how the new administration forms its global views.** At the same time, the international business community, and US companies, in particular, must take on the role of educating all branches of the new government about the benefits and importance of free trade.

There are those who are concerned that, after 16 years of pro-trade administration, the prospects of free trade may take a turn for the worse. They cite Mr. Obama's less than enthusiastic stance on trade during the campaign; companies' lack of focus on free trade lobbying as they struggle to survive the economic downturn; and the strong influence of trade unions on the Democratic Party as contributing factors that may lead to more protectionist policies. Whether these concerns are well-founded will not become clear until early in 2009.

Ultimately, much remains to be seen regarding the Obama presidency. There are many tasks to be undertaken and decisions to be made, and these will all be measured against the world's huge expectations for change. Whether these are met will depend not only on Mr. Obama, but also on the role that Asia and global business community are prepared to play.

## **SESSION 2 – CEO Roundtable**

### **Speakers:**

**Phil Anderson** - The INSEAD Alumni Fund Chaired Professor of Entrepreneurship, INSEAD

**Gautam Banerjee** - Executive Chairman, PricewaterhouseCoopers

**Franz Humer** - Chairman, Roche Holding Ltd & Chairman, Diageo plc

**Simon Machell** - Chief Executive Asia Pacific, Aviva

### **Moderator:**

**Christina Pantin** - Editor for South East Asia and Pacific  
Reuters News, Thomson Reuters

## **Addressing ethics and tapping innovation**

In the high-performance cultures that dominated the financial sector before the crisis, incentives were almost exclusively based on financial achievements. This, explained Gautam Banerjee, Executive Chairman at PricewaterhouseCoopers, led to the two main causes of the current financial crisis: greed and dishonesty. To be incentivised solely on financial performance leads to unethical behaviour—this is human nature.

While some are calling for much greater regulation to address the causes of the crisis, many argue that overregulation is not the answer, and that ethics must be instilled at the company level. People need guidance, argued Mr. Banerjee, but not too much; what is more important is the proper incentives. He believes the answer is more ethical training, and more use of a balanced scorecard approach to evaluation and incentives.

While it could be argued that ethics are more difficult to instil when faced with relentless drive for growth that there is in Asia, Phil Anderson, INSEAD Alumni Fund Chaired Professor of Entrepreneurship, pointed out that "research will show you that it's easier to get people to do the right things for the right reasons when the pie is growing." In short, growth and ethics are compatible; in fact, growth can be the catalyst for better ethics. Companies and people are in business for profit, but profit

may need to be redefined in order to be sustainable and ethical—a concept that fits nicely with current CSR thinking.

Unethical business conduct is not just a minor challenge to doing business in Asia, it is hurting investment and innovation in the region. Franz Humer, Chairman of Roche Holdings and Diageo, explained, "**Asia needs innovation, but there will be no innovation without IP protection.**" Also, as money becomes tight in a crisis, investors will be scrutinizing more than ever where the best place for their money is, which may hurt economies where there is more corruption or counterfeiting.

Further to innovation, Mr. Anderson believes that despite the sometimes difficult business conditions in Asia, there is a valuable ecosystem of innovative entrepreneurs that can be tapped into in the region. He gave three reasons why these Asian entrepreneurs want to do engage Western companies: 1) they are a source of institutional trust; 2) they can help to create a trusted brand; and 3) Asia is a hierarchical society, while Westerners are willing to support people and ideas based on merit. Western companies need to make their organizations capable of leveraging this opportunity.

The meltdown in the financial sector and the ensuing global downturn are having a significant effect in Asia. Yet the fundamental Asian story remains unchanged—growth prospects are driven by the demographics of a growing and increasingly rich population. But a return to pre-crisis levels of growth will take some time. China—the main economic engine of the region—is in for a difficult period as export demand drops significantly, and consumers are unlikely to loosen their traditionally tight purse strings under the current conditions, despite the many policy initiatives that the Chinese government is undertaking.

Going forward, many businesses will be looking to reassure their customers and instill some level of confidence in the global systems of finance and commerce. Simon Machell, Chief Executive Asia Pacific for Aviva, explained that consumers have lost a huge amount of confidence in the products and services of the financial industry, in particular, and that it will take a significant effort to restore this. A focus on improved ethics and good corporate governance will be a start in the right direction, and will have to be driven by today's business leaders.

### **SESSION 3 – Asia as a power: Financial and macroeconomic challenges**

#### **Speakers:**

**Vaseehar Hassan Abdul Razack** - Chairman, Unicorn International Islamic Bank Malaysia Berhad

**Eddy Fong** - Chairman, Securities and Futures Commission Hong Kong

**Ilian Mihov** - The Shell Fellow of Economic Transformation and Professor of Economics, INSEAD

**Rajat Nag** - Managing Director General, Asian Development Bank

#### **Moderator:**

**Cynthia Owens** - Managing Director, AsianEdge Network

#### **Stimulus now, regulations later**

"Human beings have a habit of straying from their original objectives, and the financial services industry has joined this group, which is why we are in the situation we are in today", explained Vaseehar Hassan Abdul Razack, Chairman of Unicorn International Islamic Bank Malaysia. More explicitly, the issue is that derivatives

became far larger than the actual assets they were based on. Mr. Razack pointed out that, in this respect, some of the principles of Islamic banking may be worth considering for the wider banking industry, particularly the idea of an investment being based on an actual asset.

While the West opted for more self-regulation in the financial industry in recent times, Asia's somewhat tighter controls imposed a greater discipline on its banks. Having worked through the Asian Crisis and undergone painful financial and economic reforms, Asian businesses and banks are stronger, better governed, and better able to weather the current storm. However, further reforms are not only likely, but also necessary, according to Rajat Nag, Managing Director General at the Asian Development Bank.

Moving forward, Eddy Fong, Chairman of the Securities and Futures Commission Hong Kong, believes a collaborative approach is still required: "Regulators can do relatively little at the moment, and the market still needs to self-regulate. Regulators can lay down the basic framework, but the institutions, the markets and the regulators need to sit down together to move forward," he said. Mr. Fong explained that regulators are currently waiting to see what the new business model of the financial industry will be before coming out with any major reforms, but tipped three areas that are likely to be addressed: ratings agencies, investor education and appropriate selling.

A more immediate response to the current situation is also required, and INSEAD's Ilian Mihov argued that lessons from the Great Depression and Japan in the 1990s show that a lack of or insufficient action can be disastrous: "If we let demand to crash now, it will be much harder to restore later." **"There is not one 'Asian' prescription, but a rather a broad need for expansionary fiscal and monetary policies, although some countries will have to balance this with their high levels of inflation"**, added Mr. Nag.

Overall, the fundamentals in Asia remain strong, and the region will need to take on a much greater and proactive leadership role, both politically and economically, than it has in the past. With the developing regions of the world now producing more than the developed world, we are seeing a historic shift of economic power, which will be sustained by Asia's young and growing populations, and increasing levels of education and skills.

However, the short term will throw up significant challenges for Asia. The financial crisis has now filtered through to the real economy, and the combination of lower growth rates and the huge labour pool in Asia will lead to increased unemployment. While it may be an extreme case, social unrest as a result of the downturn and growing inequality is, of course, a possibility. Mr. Nag argued that income equality should be a goal of countries in the region: "Governance should work to achieve income equality in terms that are in their self interest. If they don't, it will be done for them in ways that are not in their self interest."

#### **SESSION 4 – Asia and social innovation**

##### **Speakers:**

**David Schmoock** - Senior Vice President & Chief Information Officer, Lenovo

**Rob Routs** - Executive Director Downstream, Royal Dutch Shell plc

**Vinod Sekhar** - President & CEO, Petra Group

##### **Moderator:**

**Luk Van Wassenhove** - Director of INSEAD Social Innovation Centre, The Henry Ford Chaired Professor of Manufacturing, INSEAD

### **Staying the CSR course**

The role of the corporation within society can be difficult to define. One view may be that it is to maximise shareholder value and stay within the limits of the law, while a more progressive view might be to minimize risk and negative impacts and maximize positive impacts. This latter definition is at the heart of a paradigm shift that needs to take place in order for companies to adopt social innovation principles—they should be seen as an opportunity, rather than a constraint on business.

Lenovo and Shell are excellent examples of companies that have adopted social innovation into their core processes. David Schmoock, Senior VP and CIO at Lenovo, explained that his company starts by asking: "Is the world a better place with Lenovo in it?" He cited the importance of full commitment to social innovation: "In today's information age, people will figure out if you're not genuine, and this will hurt your company."

Shell has similarly made a full commitment to what it calls "sustainable development", with a focus on economic, environmental and social factors. "You need to embed CSR in all of your business processes and systems," commented Shell's Executive Director Downstream, Rob Routs. "Oversight of CSR comes from the highest level within the organization. I regularly have to report to the Board on our CSR activities."

There are fears that the current difficulties in the global economy will lead many companies to put CSR on the back burner. While this inevitably will happen, it is heartening to see that many larger companies have made firm commitments to continue their CSR activities, including retail giant Wal-Mart. "Smart companies will push through with their initiatives. They will come out of the crisis stronger, with greater trust and stronger brands," commented Mr. Schmoock.

These larger companies also have an opportunity to have a much greater CSR impact through their supply chains. Many require their first-, second- and third-tier suppliers to meet minimum CSR requirements. Furthermore, INSEAD's Luk Van Wassenhove commented, "In what is perhaps a paradigm shift, there are companies that are moving from just auditing their suppliers and business partners to see that they meet a minimum requirement, to actually looking for 'soul mates', companies that share similar values to their own." The larger companies also provide a template for CSR, which SMEs can then adopt. The importance of this should not be underestimated, as without SME buy-in the CSR process will hit a roadblock in Asia.

While the current financial crisis is on the front pages, it is argued that the impending energy crisis and climate change pose a far greater, and less easily reversible danger. The actions required to deal with climate change need a globally coordinated response; however, we're several years away from this, with most countries having their own (or no) regulations on carbon emissions and environmental standards. Mr. Routs said, "The technologies and products that are going to make a difference today are those that can sustain themselves. We need to move away from subsidies, and shift to incentives. **Green initiatives need to be commercially viable, or they won't succeed in the long term.**"

This is where the government plays a key role, both in offering certain services and setting regulations and incentives. The importance of collaboration in CSR is becoming increasingly evident. As problems become more complex, they require more sophisticated responses that leverage the pooled resources and knowledge of multiple partners. Public-private partnerships collaborating for CSR, such as the Clinton Global Initiative, are likely to become more common in the near future.

## **SESSION 5 – Keynote dialogue: The Hon. Anson Chan**

**Speaker:** The Hon. **Anson Chan**, GBM, GCMG, CBE, JP

Former Legislative Council Member

Former Chief Secretary for Administration, Hong Kong SAR

With **Narayan Pant** - Dean of Executive Education & Professor of Strategy, INSEAD

### **Sustained growth and democracy in stages**

China has seen remarkable progress in the 30 years since it opened up, with a huge number of people having been lifted out of abject poverty. Yet an economic transformation brings with it significant challenges: as the transition from a centrally managed economy to a market economy takes place, the leadership is stuck somewhere in the middle. They don't have the control of the former system, but also lack the usual levers that manage the latter. The current economic downturn will be a severe test of the Chinese leadership's ability to manage the economy after several decades of rapid growth.

Indeed, Ms. Chan believes that the biggest challenge that the leadership faces today is sustaining economic growth. Only with sustained growth and a decrease in social inequality can stability and harmony be maintained. The ability to do this successfully is what will legitimize one-party rule, and China's leaders recognise this and are very concerned about both stability and harmony. Sustaining economic growth is now the leadership's top priority.

The reality is that China's rural population is receiving less of the wealth that is being created in China, and the wealth gap is growing. This is potentially a ticking time bomb. The authorities need to deal with this proactively, although closing this gap during a global slowdown may be difficult. China has the reserves to spend its way out of the problems, at least in the near term, but more needs to be done, such as implementing rural reforms. These are underway, but their success depends not just on the political will to carry them out, but also on whether the institutional underpinnings to deal with reform and corruption are in place.

China's sheer size makes tackling corruption a huge challenge, yet it is one that must be faced—and, as Ms. Chan pointed out: "the longer you wait to tackle it, the more difficult it will be." She believes China needs to achieve a total change of mindset—there currently is not an appreciation of the need for the institutional underpinnings to deal with corruption and unethical business conduct: rule of law, independent judiciary, and a free press that will expose the issue of corruption. It is no coincidence that these institutions are also the trappings of democracy, another source of much debate where China is concerned.

While the focus of democracy is often on the concept of "one man one vote", it includes accountability, fair government, transparency, rule of law and the institutions of civil society. With all of these in place, a country is on its way to

creating a fair society. Furthermore, Ms. Chan said, **“With democracy and the right to vote comes power and responsibility. Democracy can not be imposed from without, it needs to come from within.”** She believes that a country needs to be ready socially, economically and politically for full democracy—a belief that the Chinese leadership shares—and that it may be premature to be considering one man one vote for all of China at this point in time. However, she is quick to point out that Hong Kong, having developed at a different pace and enjoying many of the trappings of civil society under British rule and since reunification, is ready for full democracy and looks forward to implementing universal suffrage in 2017 and 2020 as promised by Central Government.

Around the world, many observers expect China to progressively exert greater influence both regionally and globally, taking its rightful place as a leader on the international stage. But to achieve this, China will need to adopt at least some of the values that the international community treasures, such as social equity, participation and democracy. Ultimately the most populous country in the world must be engaged globally in a world that is becoming increasingly interdependent.