

The giant jigsaw puzzle



THE UNIV
BU

AUCKLAND
OL

The giant jigsaw puzzle

Globalisation brings more opportunities for businesses, but also more competition. So how can small countries find their way in a networked world?

Professor Peter Williamson came to New Zealand as a guest of the University of Auckland Business School and its New Hemisphere Speaker Series. Williamson is based at the Euro Asia Centre of INSEAD. He holds a PhD in business economics from Harvard University, and is a consultant to governments and multinationals for issues related to globalisation, entering emerging markets, joint ventures and alliances, and building corporate capabilities particularly in Asia.

Associate Professor Doren Chadee spoke to Williamson about globalisation and its implications for Asia. Williamson believes that the world is now entering into a new phase, where success will depend a company's ability to collect and connect with different capabilities and knowledge from around the world.

UABR: Can you tell us what globalisation is and what are we experiencing?

Williamson: The standard definition of globalisation is increasing flows of money, people, goods and particularly knowledge around the world. But from a business point of view, I would like to make an important distinction about the globalisation of the past and the globalisation of the future.

I think most businesses have seen globalisation as a problem of penetrating the world's markets. That's still true today, but I think there's a new, emerging issue of globalisation: learning from the world or connecting different clusters of resources and knowledge. I think these two ways of looking at globalisation mean we have to think fairly differently about what kind of business organisation might thrive in that environment.

In the second view we're really thinking about how we find complementary knowledge, complementary capabilities and resources to the distinctive things that we have here in a country like New Zealand, and how do we bring them together to produce something that is world-class in this global market and then distribute and sell it in markets around the world? So I think



this additional view is very important—not just seeing it as penetrating world markets; not just seeing it as exporting; but seeing how can I leverage what I have at home by combining it with the best of knowledge, resources, money, capabilities that I can find everywhere in the world.

UABR: That sounds like a very complex picture out there. Who are the major players?

Williamson: Well we know the major companies like General Electric from the U.S. or Unilever from Europe are still important in the game, but what I think is interesting are the new players and new countries that are emerging from the game. I can give you a couple of examples to illustrate the point.

The first is a company I've worked with in Finland, which is literally on the edge of the Arctic circle. With a small population of about 5.5 million - a little larger than New Zealand - it's the home of Nokia, a global leader in business and mobile telephony, and certainly the handset area.

In the past, we used to see geography as destiny and you had to come from a big market and the most sophisticated economy, with big muscle in the political game. But now you can connect and collect different capabilities and knowledge from around the world. This is why companies like Nokia are emerging from countries like Finland, which are none of those things. So the opportunities for New Zealand to be a major global player in this new environment are there. You don't have to start from the U.S. or a major European country, and I think the other emerging players who are not to be underestimated are the Asian companies.

Traditionally we used to see most Asian companies as behind the leading edge of world business, mainly focusing on their local markets. But that's not the case today. We've seen numerous recent attempts from Chinese companies to acquire major U.S. multinationals. There are many other examples including St. Miguel of the Philippines outbidding Fonterra to acquire National Foods Company of Australia.

For this reason, I think our definition of the global players needs to extend beyond the usual suspects. Of course the big companies out of America and Europe are still important but there are some new people on the block who are coming from smaller markets.

UABR: Obviously things are changing rapidly. How is Asia changing? We've heard of the "flying geese" theory? Is this still relevant?

Williamson: In my recent book (entitled *Winning in Asia: Strategies for Competing in the New Millennium*) I mention this wonderful cartoon of a bear in a Chinese Jet Fighter running right through a flock of geese and scattering them in all directions.

The first big thing that is happening in Asia is China's growth. The interesting thing is that many people outside Asia see China as the factory of the world—probably for things like toys and t-shirts—but the reality today is that China is in everything from toys to telecommunications

equipment, and some companies are becoming serious competitors throughout the world. Therefore they really are scattering the geese, and I think that means the key change is that we need to rethink where everybody fits in the Asian jigsaw. Bringing China into the game fundamentally changes the kind of cosy place that everybody previously had in the system, with Japan leading the pack.

Second, you now have the emergence of India, which in 2050 will probably pass China in terms of population and it is really pushing much faster in service businesses such as IT, software, pharmaceuticals and biotechnology. The big question for India is whether or not there will be enough jobs for lower-skilled people coming out of the cultural sector to develop a mass movement in the economy. The current economic growth has been around 6 to 8 percent per year, quite substantial but largely confined to the educated graduates and those able to work in these kinds of professional services.

Third, if you are a southeast Asian country and you used to survive in and protect your own market, you would look at these two big elephants (China and India) and say, "Unless I can form a trade relationship, a closer integration with other small countries in Asia and beyond, I really cannot compete in this system. I just don't have the scale and if you put the countries of ASEAN together, you have a population base of around 500 million people." So it is not negligible, but it will require them to become more integrated and not to have national fortresses which really I don't believe can survive in the next round of competition in Asia.

The last thing I would like to mention is the fact that although the markets in Asia are growing very fast, there is excess capacity in almost every industry you can imagine. Therefore, the idea that there is this big commodity market waiting to take our product out there is a myth. We are going to have to fight for every one of those customers and that means we need to have something that makes us different, distinctive, and unique. There are just too many people out there with too much capacity.

UABR: We have talked about China and India, and these are the countries which have been more proactive in this area of globalisation. How can small nations benefit from the changes you have outlined?

Williamson: Well I think there is both good news and bad news for the smaller countries playing in this game. The good news is that in this kind of globalisation system where it is more of a network and you are combining different capabilities and skills, it is possible if you are a small country to be one piece of the jigsaw; say by focusing on design, new product development, or just a key resource within the supply chain like the knowledge or services part of the supply chain. So in a more integrated world where people are assembling supply chains that look like a network—more than a completely integrated chain—there are new opportunities for small countries to be part of the chain with

some of these other big countries and big companies that are in the system.

I think the bad news is that if you're going to be a specialist piece of the jigsaw, you have to be the world's best, because if I am looking for a piece of my supply chain, I am not going to take two or three of these businesses. So there are new opportunities for small countries, but it means that we absolutely have to be world-class in those things that we are offering to this network. Otherwise there really is no place for us in the system. So the opportunities have expanded, but the bar has also gone up.

UABR: Recognising that New Zealand is still predominantly an exporter of land based products, what are the new opportunities for New Zealand companies in this new environment?

Williamson: I think those traditional strengths are still going to be important, but I think that fundamental issues and opportunities here for companies and governments to think about. One of them is the idea that maybe it is not always the raw material or the product that I am exporting, maybe it is my knowledge in the system. If we take yoghurt as an example, maybe it is not the raw milk which matters but rather how to brand it, how to produce it reliably, how to store it, how to distribute it through the complex channels and how to do local sourcing.

The second thing that is going to be an opportunity in Asia is in the services area. We always think of Asia as highly productive and very low cost. Well it is true that Asia has the most productive and lowest cost manufacturing

in the world, but if you look outside the manufacturing and basic operations, the services around that including distribution, administration and sales systems are actually very unproductive compared to what you find here in New Zealand or the U.S. or Europe. Therefore there is a big opportunity to take services into Asia and to sell to companies who are fighting now to improve their productivity beyond the factory gates.

The third major opportunity is that we are moving from a system where people are used to a standard product to a system where the Asian consumers are becoming more brand conscious. There is an opportunity for New Zealand companies to say how do I build this brand that leverages off some of the distinctive strengths of New Zealand - its location, its natural beauty, its culture and so forth.

And the final opportunity I see is in innovation. This is the catchword in Asia now, because nobody can make any money out of a pure commodity in this over-supply situation. And the question is how to leverage innovation in a big complex area like Asia where your intellectual property will be copied by somebody else, almost before your product is on the market. So I think there are issues, but there is generally a hunger for innovation among Asian companies—and in many ways they are much more accepting of new things than some of the much more traditional markets.

UABR: Rapid economic growth in Asia has produced more consumers who can spend more money buying more imported goods. Are there any downsides to Asia's rise for New Zealand?

BRANDING IN BUSINESS

www.allaboutbranding.com
number 1 on Google for branding

Auckland 09 378 1582 Wellington 04 488 0828 www.dna.co.nz info@dna.co.nz



It's the seamless service that counts



Our Service Includes

PROPERTY DEVELOPMENT AND FINANCE

Julian Brown
IN 404 5207
jbrown@hbs.com

Michael Miller
IN 404 5204
miller@hbs.com

Pauline Smith
IN 404 5202
psmith@hbs.com

RETAIL/COMMERCIAL PROPERTY AND IT

Elizabeth Jones
IN 571 5200
ejones@hbs.com

John Foster
IN 404 5203
jfoster@hbs.com

At Brookfields we know the importance of meeting our clients' needs

We know how important their business is to them

And their business is vitally important to us



Brookfields' people work with you to provide sensitive solutions – whether it be litigation, banking, employment, commercial, research management, property law or whatever your needs

It's one team working to give you the winning edge

Brookfields

LAWYERS

navigating your success

CORPORATE AND COMMERCIAL LAW

Paul Hackett
☎ 070 614
p.hackett@brookfields.com

Julian Hogg
☎ 070 614
j.hogg@brookfields.com

**London 00 44 20 7596
London 00 202 2346
brookfields.co.uk**

Williamson: Yes there are some downsides, I am afraid to say. I do not think they are insurmountable downsides, but I think we do need to take them into account. Asia is becoming more competitive, and with the rise of strong local players there, the foreign companies don't have it all to their own. Secondly, there are a lot of people out there who are fighting for a share of this Asian market. It is now very firmly on their radar screen, because where else is the growth going to come from in the next decade for the large western multinationals?

UABR: As you know we are currently negotiating a free trade agreement with China. What are the implications for a New Zealand-China free trade agreement?

Williamson: New Zealand needs to define the few key

We need to think which products and which piece of China is really going to benefit from this and how do we gradually build our position in the China market and in particular regions.

UABR: To summarise, what are the four key challenges facing small nations such as New Zealand?

Williamson: The first one is the challenge of thinking beyond exports. How do I become part of the Asian and global networks, and what piece in this complex jigsaw puzzle am I going to become so that I don't have to do the whole thing myself? I can be a piece of the puzzle, I can attach myself to someone else's supply chain or strategy and I can benefit from that. Or can we build networks out of New Zealand as Nokia has, by taking what we have that is distinctive and adding things that we can pull together from the rest of the world?

Secondly, we should focus on pin-pointing what is distinctive about New Zealand, because we need to be different and that difference really comes from what is special about what we have learnt here; the way we do things here; what products and what innovations we have. Building connectivity is also critical. I think one of the great dangers for small countries that are on the edge of the system is that you just get left out. Therefore you have to work



things that we absolutely want out of this agreement and not dissipate our effort across all sorts of things that might be nice, but are not absolutely essential. The bargaining power is on China's side and therefore we need to focus our power on the things that really count for New Zealand.

We should not underestimate the role of services as well as products in this free trade agreement. Because they are harder to get your hands around, we often emphasise the product side of these agreements, but I think the services side is very important and related to access to distribution. Having a line of sight to the customers that we want to have in China, I think, is going to be important.

We should also be thinking about where we focus on particular areas in China in terms of industry and geography.

hard to build connectivity and build relationships; to build knowledge of these markets; and to push yourself forward to become part of the game.

A strong international business requires organisational capability and developing people who are loyal to you, who understand the country and are immersed in your culture and systems. You need to really immerse people in the market that you are going into and that means not just sending expatriates, but bringing people into your company here in New Zealand so they really understand what makes you different. Combining the world's best with what you have is the key lesson from companies like Nokia that have come from the edge of the global competition, to become the global players.