

THE ENTERPRISE OF THE FUTURE

...IN GROWTH MARKETS



As organizations around the world develop the five traits envisioned by more than 1,100 CEOs and public sector leaders in the IBM Global CEO Study, what are the key implications for CEOs in Growth Markets?¹

● HUNGRY FOR CHANGE

Four out of five Growth Market CEOs believe that their organizations will need to undertake substantial change in the next three years. This does not frighten them, however, as two-thirds believe they have successfully managed change over the past three years, a higher proportion than their Major Market counterparts. Growth Market CEOs highlight a range of change drivers impacting their organizations, such as globalization and technological progress, but the two most important are people skills and market factors, both cited by more than half of all Growth Market CEOs.

Implications: In the midst of economic growth that is three to four times the global average over the coming five years, change will come fastest for Growth Market CEOs.² As their economies handle diverse pressures, such as the growing prominence of services, urbanization and the maturing of the formal economy, Growth Market CEOs must also deal with more intense competition with each other and from Major Markets. These CEOs will want to be asking key questions like: Does our organization have the appetite for such fast-paced change? What programs are in place to manage change in a structured fashion? How will we measure the effectiveness of change management? How will we access increasingly scarce talent?

WHAT IS A GROWTH MARKET?

IBM defines Growth Markets as those markets around the world that have the potential to grow at above-average rates over the coming decade. Growth Markets include Asia Pacific (outside Japan), Latin America, Central and Eastern Europe, the Middle East and Africa. Other markets, including Japan, North America and Western Europe, are referred to as Major Markets. Throughout this report, we use the term Growth Market CEOs to refer to the 350 participants located in Growth Market regions who were interviewed as part of the 2008 IBM Global CEO Study.

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“The speed of change, with regard to the Chinese market, is very quick. You have to be ready, or you are left behind.”

*Richard Lavin, Group President,
Caterpillar Inc., China*
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● **INNOVATIVE BEYOND CUSTOMER IMAGINATION**

“In India, 400 million consumers will demand new housing in the next 20 years – that’s more real estate than the United States has built since the Second World War.”

CEO, Real estate company, India

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Four-fifths of Growth Market CEOs foresee a positive impact from rising purchasing power in rapidly developing economies and prosperity in Western economies. As a result, Growth Market CEOs plan to increase the proportion of their investment devoted to these opportunities by one-sixth, from 29 percent to 33 percent. This future investment level of 33 percent will only be matched by financial outperformers across our full sample. In India, where domestic demand is expected to double between 2005 and 2012, and in Latin America, where it is expected to grow by 67 percent in the same period, the proportion of investment will be even greater, topping 40 percent.³

Implications: Rising consumer power excites Growth Market CEOs. As incomes rise and the nature of demand changes, the challenge will be to stay one step ahead of the customer. With customers wanting to participate more directly in the development of the products and services they consume, Growth Market companies will need new ways to collaborate. They’ll also need to integrate disparate data and systems to gain new customer insights. Key questions to consider include: How can we learn from the changes we see in our customers and industry? How are we planning to break new ground and open entirely new segments?

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● **GLOBALLY INTEGRATED**

“Our inability to find talent has been an inhibitor to growth globally.”

Lorman Correa, President, Inelectra S.A., Venezuela

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Growth Market CEOs are planning radical changes to their businesses to become globally integrated enterprises. Over the coming three years, their top two priorities are partnering extensively (rather than doing everything in-house) and deeply changing the mix of capabilities and assets. On these two points, Growth Market CEOs share the same priorities as CEOs in Major Markets. However, CEOs in Major Markets tend to strive more for one organizational culture, whereas 40 percent of Growth Market CEOs are keen to drive multiple cultures.

Implications: In this time of accelerating change, Growth Market companies will have to integrate differentiating capabilities, knowledge and assets from around the world into networked centers of excellence. And they’ll need custom strategies for global integration of the supply chain and the workforce that are based on the history and future plans of the organization. CEOs should ask: Do we have a globally integrated business design? How will we decide which markets to enter? What is our plan for mergers and partnerships? How can we develop new competencies in-house?

● DISRUPTIVE BY NATURE

Almost three-quarters of Growth Market CEOs are planning major business model innovations. As for what kind of innovation they have in mind, almost half (44 percent) – a significantly higher proportion than in Major Markets (33 percent) – are targeting their enterprise models, i.e., reconfiguring what is done in-house and through collaboration. Another apparent contrast relates to companies' roles in their industries: Half of all Growth Market CEOs are moving into new industries, while less than one-third of Major Market CEOs are doing so. On the other hand, Major Market CEOs are more focused than Growth Market CEOs on redefining their current industry (78 percent versus 62 percent).

Implications: From Brazilian minerals companies to Indian service providers, Growth Market businesses are increasingly shaping the global business world – and global business models. A confluence of factors, including intense global competition and convergence across traditional industries, is prompting significant business model change, from how revenue is generated to what defines an industry. Business model innovation is as relevant for Growth Market CEOs as it is for Major Market CEOs. Growth Market companies planning only limited or moderate changes to their business models may be left behind by bolder innovators. Those that intend to be the drivers of change in today's global economy are asking questions like these: Which emerging innovations are most likely to disrupt our status quo? Which competitors have the potential to engage in disruptive innovation and how will they do it? How can we adopt concepts and business models from other industries and regions to transform our own markets?

● GENUINE, NOT JUST GENEROUS

Growth Market CEOs see customers' increasing expectations of corporate social responsibility (CSR) mostly in positive terms: 77 percent of Growth Market CEOs expect this trend to have a positive business impact, a higher proportion than their Major Market counterparts (65 percent). This optimistic outlook is prompting Growth Market CEOs to increase investment in CSR-related areas by 35 percent, bringing this expenditure to one-eighth of their overall investment. With dramatically increased spending in this area, Growth Markets' CSR investments will soon catch up with those of Major Markets. Environmental initiatives are the clear winner among Growth Market CEOs as the preferred area of focus for CSR investments.

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“For us, enterprise model innovation is primarily about having the right business model to enter other markets and secure new capabilities.”

Andrew Bandler, CEO, CLP Holdings Limited, Hong Kong
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“The consumer's concept of quality will no longer be measured by only the physical attributes of a product — it will extend to the process of how the product is made, including product safety, environmental compliance and social responsibility compliance.”

Victor Fung, Chairman, Li & Fung, Hong Kong
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Implications: Corporate social responsibility is moving from an optional extra to a corporate imperative. In fact, many firms now cite the ability to attract staff as one of the main benefits of CSR activity. The fact that Growth Market CEOs intend to invest as much as their Major Market peers suggests customers in those markets have similarly high expectations – and demonstrates the tremendous international pressure Growth Market companies are under to act responsibly. Understanding those expectations and how they differ across industries may require businesses to collaborate with nongovernmental organizations (NGOs) and customers in the development of new solutions. Growth Market CEOs will need answers to questions like: Which NGOs are our customers listening to? What processes are in place to ensure that actions taken throughout the extended value chain are consistent with our values and stated policies? How are these positions being communicated to different stakeholders, from investors and regulators to customers and workers?

BUILDING YOUR ENTERPRISE OF THE FUTURE

Thoughts and views on the future of business – or the Enterprise of the Future, as we call it – are evolving quickly. We look forward to learning more about where you think business is heading – and working with you, as you build your Enterprise of the Future.

For additional information about the IBM Global CEO Study or to discuss the implications for Growth Market companies, we invite you to e-mail Susanne Dirks of the IBM Global Center for Economic Development at susanne_dirks@ie.ibm.com.

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NOTES AND SOURCES:

- 1 The 2008 IBM Global CEO Study is based on interviews with 1,130 CEOs, general managers and senior public sector and business leaders from around the world. For readability, we refer to this collective group as "CEO" throughout this report.
- 2 IBM analysis.
- 3 Ibid.