AUSTRALIAN GRADUATE SCHOOL OF MANAGEMENT MAGAZINE ISSUE:3 ★ 2003

AGSM

Nothing ventured...

Insiders' views of private equity

BACK TO SCHOOL

Former McKinsey boss joins AGSM

‘How well trained are your customers?’
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upfront

NEWS UPDATE KEEPING YOU IN TOUCH WITH WHAT'S GOING ON AT THE AGSM

Back to school

At age 57, Rob McLean brings impressively wide experience to the top job in Australian business education. **Debra Maynard** reports.

LEADERSHIP
"The notion of self-renewal is an important one."

Rob McLean's approach to business is said to be somewhat like the principle of Occam's Razor: that one should seek the simplest explanation of a phenomenon, or find the end game that requires the fewest leaps of logic.

In other words, the AGSM's new dean "articulates a wonderfully insightful conclusion in a simple way", says Adam Lewis (McKinsey & Company's managing partner, Australia and New Zealand) about his former boss.

"Our clients would often call and say: 'I need someone like Rob who can cut through the complexities and give us a simple, clear and practical answer'."

McLean spent eight years in the top job at McKinsey, leading the Australian and New Zealand practices through a significant growth phase. Then in 1997 he turned 50 and clocked up 25 years with the global consulting firm, which triggered his decision to retire to find new challenges.

"I had had a terrific run at McKinsey, I wanted to stay in Australia, and I felt that it was time for me to do other things where I would learn – and those things were a combination of being on corporate boards, getting involved in private equity investing and giving back to the community through not-for-profit involvement, which I really hadn't had the time to do at McKinsey," says McLean.

He became a director of CSR, Pacific Dunlop and GS Private Equity, as well as president and chairman of the Benevolent Society and chairman of Australian Landscape Trust. He was an investor with the now-defunct angel investment group, Tinshed, through which he put money into start-ups like award-winning Plantic™ – which makes biodegradable packaging.

He is currently not serving on any Australian company boards, but he remains a director and co-founder of investment company WM Capital with Australian publisher Kevin Weldon. "It's a vehicle for putting our own money into deals and, yes, it's the kind of business you only stay doing while you're having more thrills than spills!" he says.

He was a founding shareholder of US-based Ticketmaster Online Citysearch that went through a successful IPO in 1998. With Kevin Weldon he managed a successful buy-in and subsequent $56 million sale of Australian Media Holdings in 2000 to global Sportsworld Media Group.

Deanship certainly heralds a different path for a management consultant, company director, venture capitalist, conservationist and social welfare leader who "had never thought about doing anything like this before I was called and asked would I be interested in applying for the role".

"We all have a sense in the business community that we want this school to be successful and relevant to business in Australia," says McLean.

"As I talked to a few people about the school I started to see it as both exciting and a challenge … and it also came along at a time when I wanted more structure around the things that I was doing."

When asked to reflect on the meaning of leadership in the context of his new role, McLean recounts a meeting he had some time ago with John Gardner, an adviser to US presidents and leaders in business and community. "He emphasised the role of energy, stamina and vitality in leaders, and popularised the notion of self-renewal as a strategy for leaders to avoid stagnation.

"I think Gardner's notion of self-renewal is an important one because it outlines a process that permits leaders to rejuvenate themselves in changing circumstances and to redefine the path forward.

"Self-renewal in people is not well understood: it comes from aspirations, what I think of as the wellspring of leadership," says McLean.

McLean has an MBA from Columbia Business School in New York, a school renowned for its investment theory leadership through professors like Ben Graham of value investment fame. Its alumni include the US's famous investor Warren Buffet and leveraged buyout leader Henry Kravis.

"There were big ideas put in front of us – my finance professor Sam Hayes later became Harvard's first professor of investment banking – and you just felt that you were in a hothouse of ideas that were going to have their day," says McLean.

"The notion I've always had of an MBA is that it's just an extraordinary experience in preparing business leaders."

So what does he say to recent critics of the value of an MBA – people like Stanford University's professor Jeffrey Pfeffer?

"To my mind, the debate about whether MBAs are worth it, or whether there is a future for MBAs, is just an absolutely nonsense set of discussions.

"Whether you are talking about the AGSM, Harvard, Stanford or Columbia [business

schools], their programs are attracting some of the most talented people there are in our communities, and the MBA puts them through a set of experiences, both academic and practical, to prepare them as business leaders.

"Now that sounds to me like something that is a fairly sound proposition and I just don't see that notion going away.

"If the point is that employers want to see more value for the cost of hiring MBAs, then that's a good challenge to schools like ours to take up.

"A *Forbes* survey [13 October, 2003] concludes that the best business schools, including the AGSM, provide a payback of three years or less on [MBA graduates'] investment. That's a return of over 30 per cent per annum.

"So much for questioning the value of an MBA!

"Ironically, in Australia I think the issue is a different one. It's more to do with communicating the transforming experience the MBA programs provide for outstanding students to build MBA recruiting into more corporate recruiting programs," says McLean.

> 'The debate about whether MBAs are worth it … is nonsense.'

"How many of our large employers really understand the kind of skills and roles that MBAs can play in their organisations? How many have tried an organised program rather than a one-off hiring? How many have assessed the results of such programs, in terms of building their management team and future leaders?" asks McLean.

"So I will be interested to see what is required to have more companies like Boral with MBA placement programs that seem to work well."

COUNTRY ORIGINS

The AGSM's new dean has always struck McKinsey's Lewis as a man "of intense intellect … always pushing for the really big insight … and he will work with people and make them aspire to things that are beyond what they would have gone into a meeting thinking.

"But he's also a down-to-earth, Broken Hill kind of bloke," says Lewis, referring to McLean's Silver City origins. Born in 1946, McLean went to Broken Hill High School. He won scholarships to study at the University of New England in Armidale, NSW, where he gained a Bachelor of Economic Statistics (First Class Hons.) and a Fulbright award to the United States to attend Columbia.

"In some respects, Broken Hill was a harsh place to live, but it was also a supportive environment because emerging business leaders of the time – people like CRA's John Ralph, who supported me – encouraged young people."

He says there were great role models because the mining town had organisations that turned out business captains like MIM Holdings' Sir James Foots and CRA's Sir Russel Madigan and, more recently, Vince Gauci of MIM, Newcrest's Tony Palmer and John Pascoe of George Weston Foods.

OTHER VENTURES

"Rob is driven to make a difference, and as a leader he is very thorough in the way he thinks through strategy and the whole business model," says Jane Schwager, chief executive of the Benevolent Society.

McLean has been chairman of the Benevolent Society since 1997, where he helped create Social Ventures Australia, which brings venture capital disciplines and funding to social enterprises. He has made a significant contribution to "making sense of the choices and leverage that we can best get from the resources we invest in social programs", Schwager says.

McLean's other not-for-profit interest is conservation (he is a former director and chairman of Australian Landscape Trust and was chairman of Earthwatch Australia from 1985 to 1990). He set up the McLean Fellowships and Projects in Conservation to promote private conservation. He says a high point was convincing The Nature Conservancy of the US to come to Australia. Already it has resulted in commitments of several million dollars, people and skills towards developing private conservation in Australia in partnership with local organisations like Bush Heritage and Australian Wildlife Conservancy.

Unique challenges appear to be something McLean seeks in life. He walked the tough Kokoda Trail in Papua New Guinea this year, following in his father's WW2 footsteps. He admits to feeling "a very youthful 57" and says that all his life he has felt he wanted to run to work. Whether it has been consulting, investing or not-for-profit work – or, for that matter, climbing Tanzania's Mt Kilimanjaro in 2000 – "I'm driven by that great sense of feeling that you can do something and shape things." ✪

PHOTOGRAPH: FRANK LINDNER

Measuring up

If you missed it, check out the US's *Forbes* magazine (13 October 2003), which published the results of its biennial survey into the payback of doing an MBA. It concluded "B-schools paid back quite nicely for the class of 1998 – that worked through the boom and bust since graduation" based on survey responses from more than 5000 graduates of 85 business schools worldwide.

The survey found that the average class of 1998 graduate almost tripled his or her salary five years out of school.

The AGSM placed ninth (out of 18 non-US business schools ranked) for return on investment. It was the only school in Australia and the Asia-Pacific region included in the survey, which acknowledges the achievements of the AGSM's alumni and the contribution the school makes to graduates' career advancement.

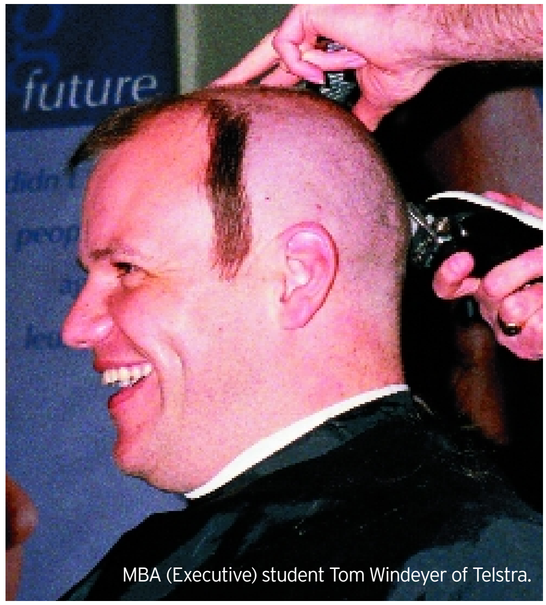
AGSM graduates' average five-year gain, according to *Forbes*, was $US79,000, and it took an average of three years for graduates to recoup their investment (tuition fees and forgone salary).

The *Forbes* findings call into question the controversial paper published last year by Stanford Business School's professor Jeffrey Pfeffer and Christina Fong that claimed there was little or no evidence that an MBA degree increases a person's later earnings.

Design talk

International consultant on workplace planning and design, John Worthington of DEGW, spoke to an AGSM audience in September about how companies could better understand and use organisational and building design to communicate and share knowledge. His lecture was made possible by a legacy in memory of Neil Hanson, who designed the AGSM's café and courtyard and was studying for an MBA (Executive) when he died in 2001.

To see Worthington's lecture in PDF format, go to: **www.agsm.edu.au/worthington**.



MBA (Executive) student Tom Windeyer of Telstra.

Close shave for charity

MBA (Executive) students raised more $20,000 for Oxfam Community Aid Abroad and the Leukaemia Foundation at their inaugural head shaving challenge on one of the final nights of their executive-year residency at the school's Little Bay Conference Centre in October.

It was the main event of the EY Charity Challenge, which saw 15 executives succumb to the razor. Others paid up to $800 to avoid losing their hair, and some students not brave enough to bare all raised money on the night by dying their hair.

"We gained incredible support for this, including participation from people outside our EY group," said Nigel Bedford, one of the instigators of the challenge. Two of his colleagues at Agility Management and AGSM PhD candidate Michael Collins also shaved their heads to raise funds.

The charity challenge organisers are planning an additional fundraiser at their graduation in 2004. They hope to pass the baton to a new crop of executive year students in 2004 and encourage those interested to contact: **ey2003charity@agsm.edu.au**.

Keeping the cup

The debating skills of four full-time MBA students have kept the Deloitte Consulting Cup at the AGSM for another year.

Tony Chappel, Zain Moloobhoy, George Argy and Colin McLelland first won selection with the AGSM's student Speaker's Club before representing the school at the annual Deloitte Touche Tohmatsu debating event.

The team was coached by **Justin Di Lollo (MBA '00)**, and a support team of about 20 MBA students travelled to Melbourne to cheer them on.

And the winning strategy? "It was our consistency and capacity to corrupt MBA frameworks into arguments for our position," said team member Tony Chappel.

In another annual business school event, the Boston Consulting Group's strategy competition, this year's AGSM MBA team won the regional final against Macquarie Graduate School of Management and other universities in the state. That put them into the national final, where they came third. The team members were Nuno Brissos, Markus Svensson, Pedro Reynoso, Carlos Vasquez Fernandez, Matthias Heinzelmann and Tony Chappel.

From left: Zain Moloobhoy, Colin McLelland, George Argy and Tony Chappel.

JOINT VENTURE AGREEMENT

The initial recommendations of the review of the AGSM joint venture agreement between the University of New South Wales and University of Sydney strongly support its continuation.

The purpose of the review was to assess the first five years of the joint venture, covering a full range of issues and arrangements, including governance, funding and the AGSM's contribution to its shareholder universities.

"Continuation of the joint venture presents us with an opportunity for greater collaboration with our parent universities.

"We want to find ways to work together that add value to our shareholder universities' programs and make the AGSM a stronger and more interesting place," said AGSM dean Rob McLean.

Completion of the review is expected by the end of the year.

WINNERS
The AGSM's touch football team at Duke in the US this year: (back row, from left) Elina Winnel, Nicole Cowell, Elizabeth Harvey, Jenny Bond and Monique Ridley; and (front row from left) Caroline Ong, Alex Birrell and Susan Copeland.

Keeping the ball in hand

With the excitement of the Rugby World Cup still resonating, it seems appropriate to reintroduce the AGSM Wombats Rugby Club and outline its plans for 2004.

The AGSM Wombats teams represent Australia at Duke University's World MBA Championships, and with this in mind we aim to do a great rugby nation proud by taking away a very strong team to next year's competition (scheduled for early April). We are seeking more involvement from MBA (Executive) students and alumni. We need players, both men and women, for the tour to the US, and people willing to join the Wombats committee to help organise the tour and associated events.

We are now seeking sponsorship for our 2004 tour to Duke from companies that would like to form a relationship with the AGSM and gain brand exposure in the international business school environment. Log on to **www.agsm.edu.au/wombats** for sponsorship opportunities, tour dates and event information.

We aim to host an inaugural Australasian MBA championship during the June long-weekend in 2004, inviting participation from business schools in the Asia-Pacific region. For more information, contact: **Chris.Tziolis.03@student.agsm.edu.au** – *by Chris Tziolis*

For your diary

Networking: Don't miss an opportunity to meet the school's dean and director Rob McLean at Christmas functions around the country for alumni, students, faculty and instructors. All functions will be held 6pm–8pm; dates and locations as follows: **26 November**, Melbourne (The Naval and Military Club); **1 December**, Brisbane (Vino's Restaurant & Bar); **2 December**, Canberra (The Boat House by the Lake); **4 December**, Sydney (AGSM CBD campus, limited space); **8 December**, Perth (AGSM Perth Office); **9 December**, Adelaide (The Chapel Café).

2004

1–3 March Understand and explore the value of emotion in workplace communication in Emotional Intelligence and Leadership, Sydney Randwick campus.

4–5 March Hone your people management skills in Managing People for Performance, a two-day residential program led by the AGSM's Dr Anne Lytle, Sydney CBD campus.

8–9 March Learn how to judge whether an alliance is right for your company with the US's professor David Wilson in Creating and Managing Successful Strategic Alliances, a two-day non-residential program, Sydney CBD campus.

21–26 March Designed specifically for general and divisional managers responsible for delivering performance, the General Manager Program updates executives with new skills in vital business disciplines. It is a one-week premium management program led by professor Philip Yetton at the Sydney Randwick campus.

28 March A great way to stay connected is to attend your alumni reunion. If you are a member of the MBA class of 1979, 1984, 1989, 1994, 1999 or 2002; or MBA (Executive) class of 1993, 1994, 1999 or 2002, put this date in your diary.
If you would like to help with the event contact:
alumni@agsm.edu.au.

29–30 March Discover how to negotiate your way to a better result in Negotiation and Conflict Management, a two-day non-residential program, Sydney CBD campus.

For details on any of the above executive programs, call client services on: (02) 9931 9333, or e-mail: ***enquiries@agsm.edu.au.***

LETTERS COMPETITION

Is there a management or business issue getting under your skin? Have your say in *AGSM Magazine* by writing a letter to the editor and you could win business books from McGraw-Hill to the value of $100.
The best letter submitted to the editor by 31 January (for publication in the March issue) will receive the prize courtesy of McGraw-Hill Professional.
Please keep letters to a maximum of 200 words and include all your contact details.
E-MAIL: debram@agsm.edu.au
MAIL: The Editor, *AGSM Magazine*, Australian Graduate School of Management, UNSW, SYDNEY NSW 2052 FAX: (02) 9931 9539

IN BRIEF

International forum

The AGSM hosted the first accreditation seminar held in Australia by the US-based Association to Advance Collegiate Schools of Business (AACSB) in August. The seminar attracted participation from 14 Australian universities and business schools and 20 institutions from China, Germany, Hong Kong, Japan, New Zealand, Pakistan, Saudi Arabia, Taiwan, Thailand and the US. In 2002, the AGSM was the first Australian business school to be awarded international accreditation by the AACSB, which is widely recognised as a symbol of quality in world-class management education.

Top rankings

The AGSM retained its position as the top business school in Australia and one of the best in Asia, according to *Asia Inc* magazine's 2003 MBA rankings published in August. The school also ranked in the top band of business schools in Australia for the second consecutive year in the *Australian Financial Review BOSS* magazine MBA rankings published in September.

Hong Kong program

Professor Mark Hirst has been appointed director of the Hong Kong MBA program, spearheading the AGSM's increased commitment to Hong Kong and the region.

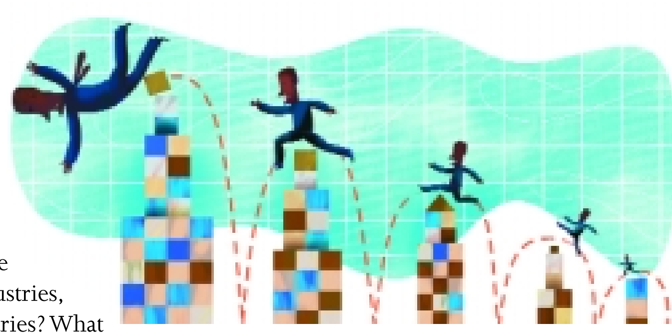
From 30 November, the Hong Kong-based administration and marketing of the program will transfer to NewSouth Global, the international education, training and consultancy arm of the University of New South Wales.

The AGSM Hong Kong office will be managed by Liddy Korner, who is chair of the Australian Chamber of Commerce education committee and a member of the Hong Kong Business Coalition on Education. ✪

SYDNEY FINKELSTEIN,
professor, Tuck School of Business
at Dartmouth College, US

WHY SMART EXECUTIVES FAIL

Why is it that seemingly successful executives running thriving companies sometimes stumble and fail? What can account for the dramatic business failures that we see every year, in different industries, and even in different countries? What types of mistakes do these managers and business owners make, and how can they be avoided? These are some of the questions that a research team at Tuck School of Business set out to answer six years ago.



Some of the answers uncovered were as surprising as the sudden fall from grace of many of the business leaders studied. In fact, many of the qualities that sound like the attributes of a dream enterprise turn out to be the basis for a business nightmare. For managers, many of the qualities we aspire to emulate, or feel guilty for not having, turn out to be ones we are better off without. For investors, many of the signposts of success that we strive to identify turn out to be markers for failure.

The real fiascos can be blamed on surprisingly few causes. And these causes almost certainly apply to businesses in Australia as much as they do to companies in the US, Asia and Europe.

CHOOSING TO IGNORE CHANGE

Companies that have been successful in the past often let their history and culture take over – a combination that closes down new ideas. When the mobile telephone business shifted from analogue to digital, for example, formerly dominant Motorola was slow to respond. With a fortress-like mentality, engineers who believed they knew more than their customers ignored the overwhelming demand for digital. The result: Nokia became the market leader, a position it still holds today. Remarkably, Motorola and other companies in the study, such as Rubbermaid and Wang Labs, were *fully aware* of how the market was shifting but chose not to do anything about it.

ILLUSTRATION: GREGORY BALDWIN

FULFILLING THE WRONG VISION

One of the biggest management strategy ideas that came out of the 1990s was the notion of strategic intent. In principle, strategic intent is a powerful and seemingly straightforward idea. In practice, people just seem to get in the way. What looks like a logical intent often breaks down when executives let themselves get caught up in 'the one big idea' fallacy without regard for the limits of logic. A good example of a strategic *misintention* is the advertising group Saatchi & Saatchi in the mid-1980s. For the Saatchi brothers, being No. 1 was the only acceptable outcome, leading it to make acquisitions in businesses where it had no real capability. When the company proved unable to manage its too-diverse empire, the losses piled up and the two founders were forced to resign.

IDENTIFYING TOO CLOSELY WITH COMPANIES

While most investors and employees would like their leaders to be fully committed to their jobs, some of the most egregious mistakes occur when executives are too closely connected to their companies. Such executives treat the company as an extension of themselves, and act accordingly. For example, Samsung's chief executive Kun-Hee Lee decided to enter the automobile industry simply because he liked cars, despite the industry already suffering from overcapacity. Surprisingly, everyone we interviewed at Samsung pointed out how chairman Lee's predilection for autos eventually drove the company to a $3 billion mistake.

ENCOURAGING ARROGANCE

Many of the executives whose businesses we studied were not only arrogant – they were proud of it. People who dealt with General Motors and IBM in their glory days remember vividly the condescension with which these companies regarded everyone outside their ranks. Saatchi & Saatchi had a reputation for arrogance in the world of advertising. Webvan, eToys and most of the other dotcoms made little secret of their disdain for traditional businesses. Cabletron, Motorola and Wang believed they had the only technology in their industries worthy of being taken seriously.

RELYING ON PAST FORMULAS

Executives often revert to harmful or inappropriate strategies as the result of a 'defining moment' earlier in their careers. It's usually the one thing they are most known for, and the thing that gets them their subsequent jobs. Unfortunately, once people have passed this professional milestone, they tend to let it define them for the rest of their careers. For William Smithburg of Quaker, the defining moment had been his successful promotion of Gatorade. Yet when it came to Snapple, a 'cult' drink that relied on entrepreneurial distributors, his choice to repeat the textbook marketing and warehousing distribution strategy of Gatorade could not have been more unsuccessful.

All of us know that it is important to learn from mistakes, but how often do we take the time to do so? Those who run organisations are subject to the same biases, pressures and misjudgments that all of us are, yet the price they pay for these mistakes can be immense. If we do not learn, we are destined to fall into the same traps. An understanding of why smart executives fail offers a real opportunity to choose a different path.

Sydney Finkelstein, a professor at Tuck School of Business in the US, is the author of Why Smart Executives Fail *(Portfolio, 2003). He will teach the AGSM's Strategic Leadership program, 24–26 November. To buy his book, go to:* ***www.amazon.com.***

A healthy appetite for risk

Having the courage to take chances and the aptitude to follow through are part of the secret to a great career. **Karen Hunt*** reports.

"You're so lucky. How do I get to do what you do?" When people say that to Gillian Biscoe, she usually observes, like golfing great Gary Player, that the harder you work, the luckier you get.

She rarely talks about herself but made an exception for the AGSM's Distinguished Speaker lecture series. Her subject was risk and how it helps chief executives get to the top. Knowing an opportunity when you see one is part of the secret, says one of the first women in Australia to be appointed a hospital CEO.

Biscoe, who began her career as a nurse in the mid-1960s, has worked to make the most of life's opportunities. She was the youngest ever deputy director of nursing at a teaching hospital in Australia. Her later appointment to the federal Department of Health in Canberra led to her becoming the first woman secretary of a health, then human services, department in Australia. In turn, that led to her current career as a consultant to the World Health Organization (WHO), governments and non-government agencies.

TAKING THE RIGHT TURNS

Every life has turning points, Biscoe says. "Turning points come along and people miss them," she says. "Or we recognise them and get scared. In which case don't expect great things, because you'll never get there if you don't take some risks."

One of the career chances Biscoe took was accepting the job of assistant secretary of the Department of Health in 1985. She knew whether or not national health policies worked where it counted – in hospitals and community-based health services – but she had limited experience in developing them. Even so, it turned out to be a natural step. "Sometimes you take risks that others perceive as a risk, but you don't [see it that way] because you're ready for that next step." Biscoe also points out that those with the power to appoint you also take a chance. She says she is grateful to the Department of Health executives for taking a risk on her and for their subsequent and ongoing mentoring.

Luck has also played a part. In 1987 a Department of Health journalist, who was determined to liven up the departmental magazine, persuaded Biscoe to tell her story. She couldn't have known it, but the journalist sent the magazine around the world, where it landed in a WHO tearoom.

Meanwhile, Biscoe had been seconded as the chief executive of Canberra Hospital and then appointed the senior change consultant and deputy director-general of the Ministry of Health in New Zealand. It was there that she received a call out of the blue (it was 1989) from the WHO. Could she come to China for six weeks? She jumped at the chance. It was the first in a series of WHO consultancies that led to her taking up consulting on a full-time basis.

SEEKING KNOWLEDGE

Along with turning points, being inspired by others has been important, says Biscoe. She trained at the Royal Hobart Hospital, where a nurse she admired as a clinician and manager had taken qualifications in intensive care and open-heart surgery at St Vincent's Hospital in Melbourne. Biscoe followed her lead and as a result was appointed a charge nurse in her early 20s. She then studied part-time to gain a Bachelor of Health Administration.

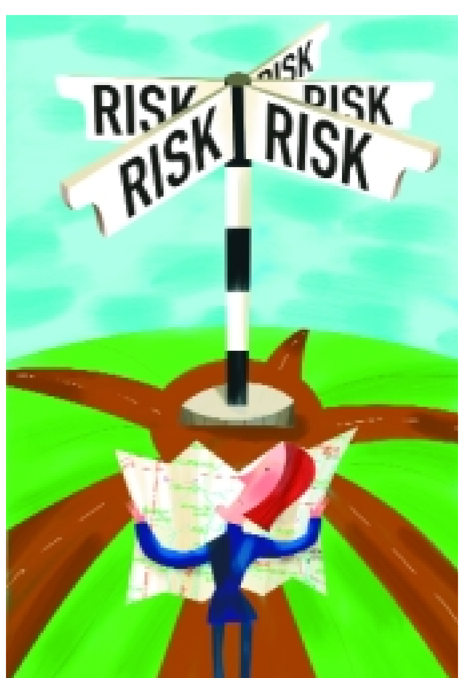


ILLUSTRATION: GREGORY BALDWIN

After that she chose to do a masters degree in the US, thanks to two friends who insisted she apply for a Kellogg Fellowship to study for the degree. She did so, despite wondering whether she could successfully compete against "those clever Americans".

"My two friends led me towards a significant turning point, the impact of which I only fully realised on reflection," says Biscoe.

"Having the encouragement of mentors was vital," she says. "It helped me overcome what I now perceive as an early, somewhat self-limiting attitude to potential career opportunities." Her director of nursing at the Royal Hobart had faith in her, appointing her as deputy director over more senior applicants and, in later years, suggesting she be considered for the job at the Department of Health in Canberra.

REACHING CLARITY

Biscoe acknowledges a talent for management – and that her various bosses saw she had what it took and were willing to take a risk on her. "I do not believe you can teach someone to be a good manager," she says, "unless they have certain innate qualities that can be released and built upon."

So what are the essential qualities for managers? "Courage, lack of pomposity and a bit of humility for a start," says Biscoe. "You also need enough skills in people management and procedures, systems and processes for people to give their loyalty to you.

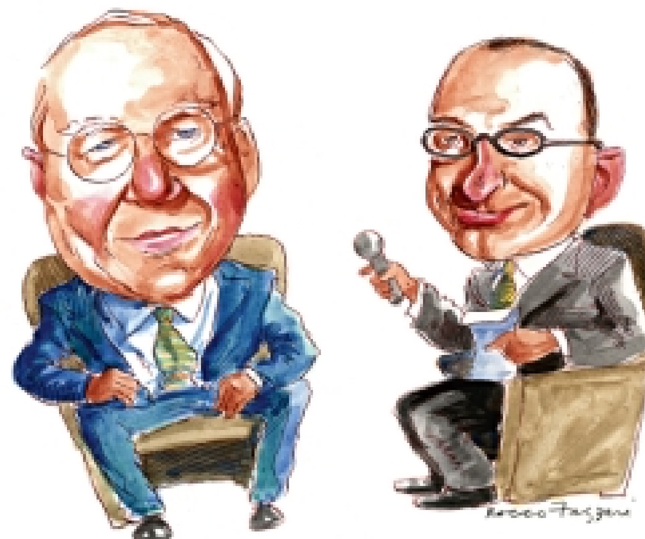
"You have to provide an enabling environment for staff, bridging and integrating management and leadership."

How does Biscoe make the big decisions? "Most of the time I use both experience and intuition, along with factual data." Reaching clarity, she says, is a bit like going through the process of assessing tender bids – a continuous process of assessment and making judgments."

* *Karen Hunt is a writer with the Editor Group.*

Survival of a message-maker

Provocateur, guru or management boom strategist? *In Search of Excellence* author Tom Peters invites all tags. He spoke to the AGSM's **Shayne Gary**.*



TOM PETERS SHAYNE GARY

ILLUSTRATION: ROCCO FAZZARI

Q: If you're reflective about the term management guru, or thought leader, how do you add value and contribute to managerial practice?
A: By provoking people, period. There's no premium on being right at all.

Q: So, not normative prescription?
A: Absolutely not, it's to piss them off, to annoy them, to challenge them with ideas that appear to be patently absurd but maybe aren't. No, I have never run much to prescription. But, again, I believe the whole process is about good storytelling. And finding good stories and transmitting them in memorable ways – that's the essence of leadership, fundamentally. Man was never convinced by charts and graphs. I tend to deal with relatively senior audiences, and it's to find a way, without turning people off, to take them pretty far beyond their comfort zone. I think people are way short of the kinds of radical moves that I suspect are going to be required for survival.

Q: We've seen a number of management fads come and go; how does that reflect on what you do?
A: I figure *caveat emptor* – let the buyer beware. If you have a lot of ideas, then by definition you're going to have a lot of shitty ideas. And it doesn't matter. I mean, that's what the CEO gets paid for, to sort 'em out and figure what applies and what doesn't. I would much rather have a world of a thousand ideas in which 997 were lousy, than have a world of six ideas in which all six where blah. Roughly, the right ones will catch on. And the other piece of that is some people take an idea and apply it right and some won't. I'm not looking for wall-to-wall wisdom.

Q: What process do you use to bring together new management ideas, to stay at the forefront of management thinking and practice?
A: Right near the heart of the matter, which I realise is incredibly pedestrian, is just an insane amount of reading. I'm always looking for the peculiar, somebody who's doing something differently. And, frankly, what I discover with the *Forbes*es, the *Fortunes*, the *Business Weeks* and the business section of *The New York Times* is they basically grab hold of ideas long after they've proven themselves. And yet, somebody out there is living in the year 2013 in 2003 and you have to find it.

The secret is not secret. Jim Collins – the *Built to Last* guy – looks at huge reams of data and digs stuff out. I've always been compelled by the little story that tells of something going on that's very peculiar. To my mind, on some level, by the time it makes its way into a database it's too late to be interesting. The issue is the pre-database companies, if you will.

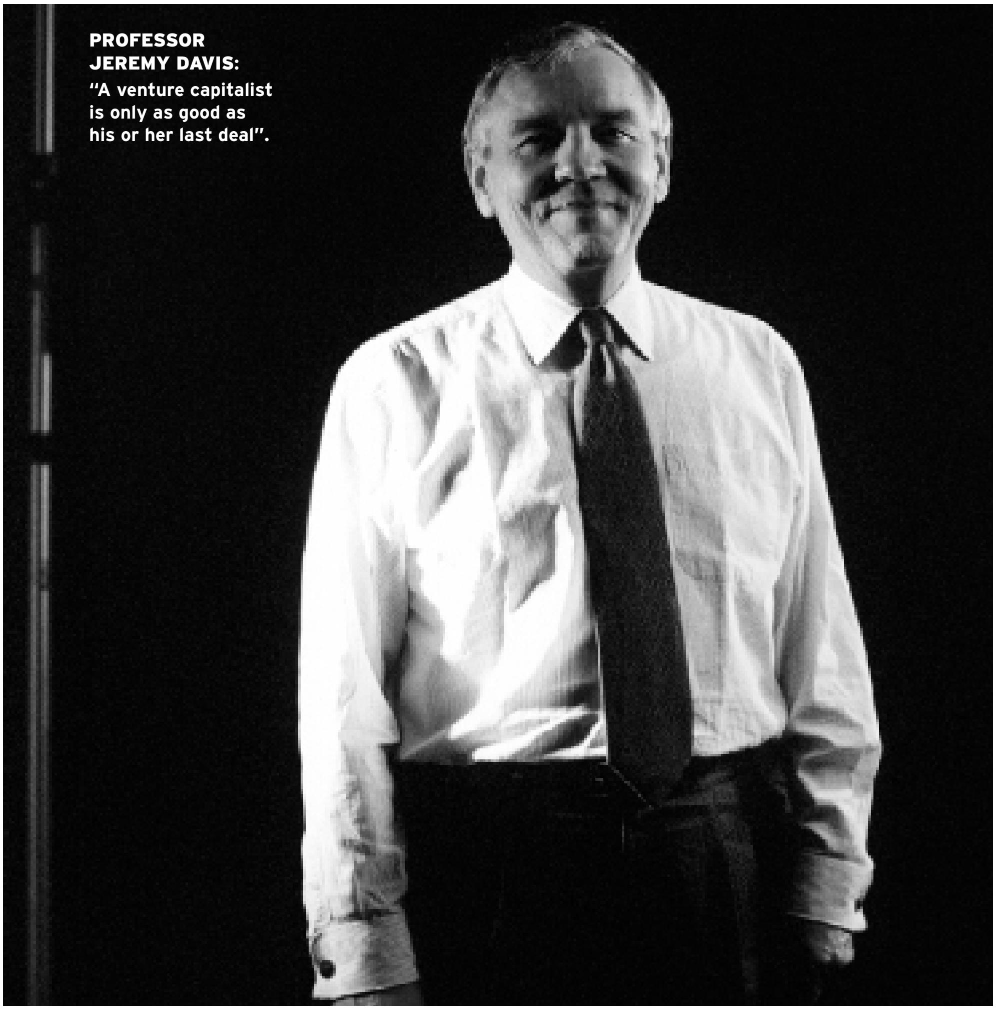
Q: How has the way you work changed over time, since you published *In Search of Excellence* in the 1980s?
A: *In Search of Excellence*: we didn't start out with some race through tonnes and tonnes of data. We went around to McKinsey partners and university professors and we simply said: 'Know anything interesting, any interesting companies?' So we did it in the reverse of the normal route. Once we had gotten a bucket of companies that size, we put them through a data screen and weeded out the ones that didn't work. Now, as hard as it is to believe, perhaps, in 1983, nobody had written one word about Hewlett Packard … Wal-Mart … 3M.

Q: You mentioned you are under no illusion that in the next 10 years the role you play in speaking to management audiences is likely to become obsolete. Are you thinking about changing the process you use?
A: Not necessarily. On the one hand I'm still doin' books because that's what the hell people do, but on the other hand I'm at least as comfortable with the Web, and that's obviously the wave of the future.

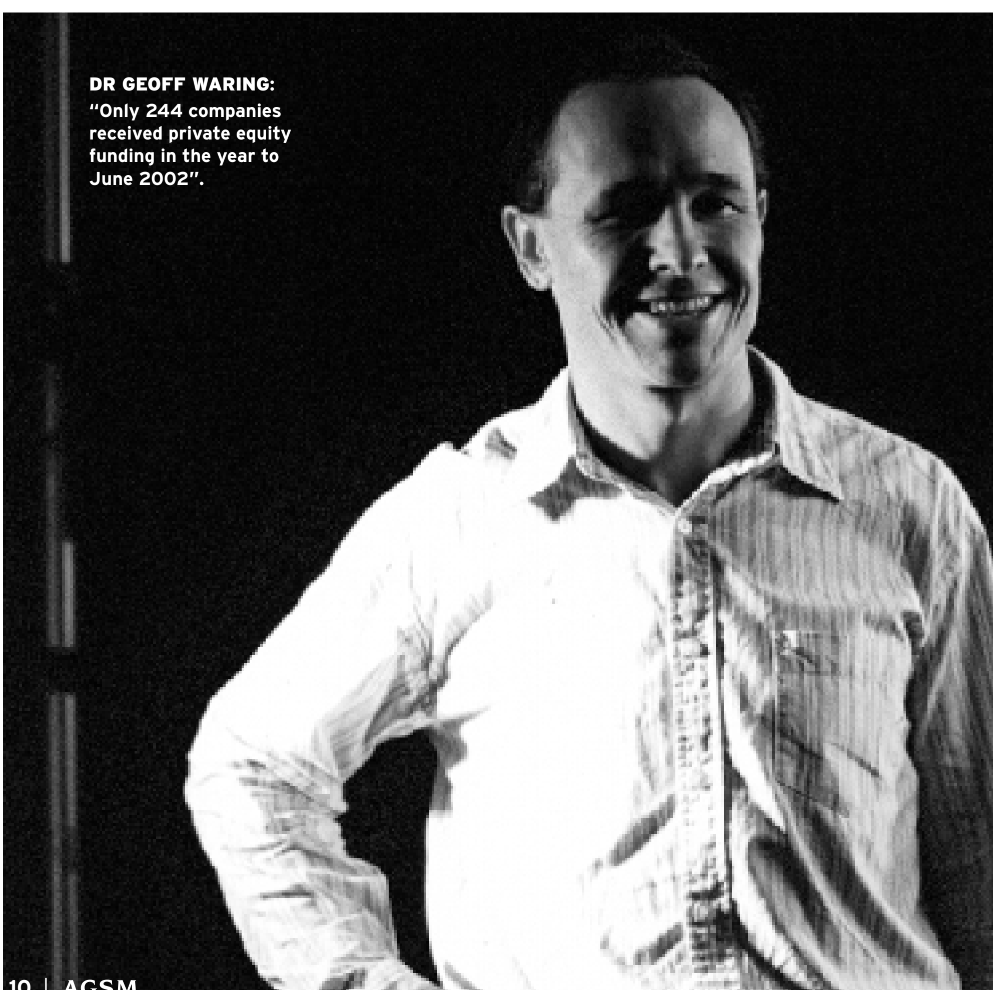
Q: How do you define 'management guru' in this increasingly Web-based age?
A: I define management guru as some 21-year-old who says interesting things. As I said, I am on a perpetual hunt for the peculiar, wherever I can find it. I think the management guru thing, the whole idea, is an artefact associated with a period of uncertainty, and I think people were looking for the idea makers.

Q: Who inspires you at the moment?
A: If I give you the answer to that I'm going to get in so much trouble in so many places, starting at home with my wife … I am not arguing that I agree with many, many, many things that he does, but the most inspiring change agent to me right now is Don Rumsfeld. I didn't say policy! I've been around the Navy all my life, and there's no more recalcitrant bureaucracy than the military, and Rumsfeld is actually changing it. And I find people who change enormous, unchangeable institutions to be utterly intriguing. ✪

*Tom Peters spoke to business executives in Sydney on 22 August. * Shayne Gary is a senior lecturer in general management at the AGSM.*



PROFESSOR JEREMY DAVIS:
"A venture capitalist is only as good as his or her last deal".



DR GEOFF WARING:
"Only 244 companies received private equity funding in the year to June 2002".

INVESTMENT MANAGER JONATHAN KELLY:
Getting hired "boils down to who you are as an individual; you need to be a generalist and very commercial".

PHOTOGRAPHY: FRANK LINDNER

Risk and reward

Helene Zampetakis* takes a look at recent trends in an industry that has notoriously few openings for new players.

If you have ever yearned for a professional life rich in abstract thinking, full of the thrill of risk and freedom of flexibility that can deliver huge financial rewards – you may have considered the life of a venture capitalist.

But considering that there are no more than 200 tightly held positions across Australia, the chances of breaking into this industry are slim. Indeed, with just $1 billion in funds under investment for early-stage expansion across Australia and very few recognised players in the industry, there are not a lot of open doors.

Unlike the consulting industry, where firms such as McKinsey & Company or Boston Consulting Group may hire 20 graduates a year, venture capital (VC) firms can go for several years without taking on any new blood. When VC firms do hire, a single new employee may represent a 25 per cent increase in headcount, given that many operate with an average of just four, predominantly male, investment professionals.

Many on the outside looking in believe that becoming a venture capitalist is a matter of serendipity. The truth is more complex than that. Being a venture capitalist is as much about being at the right place at the right time as it is accruing the right combination of skills and pure perseverance.

As a seasoned observer of the VC industry, professor Jeremy Davis, quips: "The harder I work, the luckier I get". Davis is the AMP professor at the AGSM and deputy chairman of AMWIN Management, which is responsible for a $40 million early-stage fund under the federal government's Innovation Investment Fund program. He says the old joke reflects how little can be left to chance to succeed in the volatile and competitive venture capital industry.

Nevertheless, becoming a venture capitalist is an attractive enough proposition that some are willing to wait in the wings for years for an opportunity to enter. There are several reasons for this.

For a start, it's a potentially highly lucrative field. The rule of thumb is that a fund's seniors, or general partners, earn a base of roughly 2 per cent of committed capital each year for the life of the fund and about 20 per cent of the carried interest, or capital gain (the 'carry' as it is called) when the firm exits investments at a profit. The remainder goes back to the investors (limited partners). "The general partners get that without putting up any money. That's not a bad reward for skill," says Davis.

Second, equity investment is slowly but surely growing, heralding new opportunities. In the 12 months to June 2002, VC funds invested in Australia grew by 13.5 per cent to $2.5 billion, and new funds raised dropped only marginally (by around $200 million) compared to a dramatic plunge in the US from about $75 billion to $30 billion in VC investments for that period.[1] Most investment in Australia now focuses on the safer options of expansion capital and management buyouts.

Third, there is a shortage of critical skills in the industry, especially for early-stage ventures, so when a door opens entry can be swift if your expertise fills a crucial gap.

Finally, and perhaps most compelling, the profession is regarded as a deeply satisfying one. AGSM senior lecturer, Dr Geoff Waring, attributes this to the richness of life as a venture capitalist.

"People do MBAs and get into investment banking or consulting and can feel unfulfilled. They write reports that they may not have an opportunity to see through, or they make recommendations that their clients may not follow," says Waring.

In contrast, venture capitalists: "work in very small firms where there's a high level of trust and more flexibility; they are more involved with their investees, and they're measured on results rather than on the time they spend at the office.

"I've met unhappy investment bankers and consultants, but I've never met an unhappy venture capitalist," he says. How then do you become one of the select few?

Generally, firms rely on trusted sources for referrals to people with a specific set of skills that fill gaps in their portfolio.

Sometimes they advertise vacancies: this year, CHAMP Ventures advertised for one analyst.

However, investment manager at CHAMP Ventures, **Jonathan Kelly (MBA Exec '01)**, says: "Hiring is not a regular process; we generally only look for additional people as we expand and expansion only occurs over time as our funds under management grow".

> 'Firms rely on trusted sources for referrals to people with a specific set of skills.'

Nevertheless, getting a job in the VC industry is not as hopeless as it appears. Kelly says he knows "people who were geologists coming straight from university".

STRATEGIC MOVES

Rarely, however, will high intelligence alone open doors to the industry. Insiders say it is wiser to prepare for a VC career with a number of strategic moves. Davis suggests acquiring skills that potential employers will notice. A degree from a top-tier business school and some industry experience on your resume will help you stand out.

The chief executive of the Australian Venture Capital Association (AVCAL), Andrew Green, says: "I would aim to leave the AGSM asking, 'What business can I start?', not 'Who will I work for?'"

Experience with an entrepreneurial, VC-funded company can provide insight into the start-up's perspective and give you credibility with other entrepreneurs, as well as delivering profit and loss accountability, says Green.

Gaining credibility with entrepreneurs is vital to success. **Anthony Kongats (MBA '87)**, chief executive of supercapacitor manufacturer cap-XX, a successful investee of capital, says deep operational or functional skills help here, together with an ability to take both short- and long-term views of the enterprise and bring networks to the business.

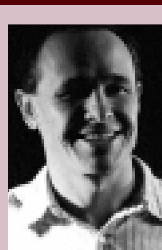
By all accounts, networking is crucial as a venture capitalist. Davis recommends finding ways to introduce yourself to the key decision-makers and raising your profile by writing articles and taking AVCAL courses. Sending a CV into a firm can help. If it raises the interest of the decision-makers, they may file it away until they need it.

Waring also commends experience in commercialising a product developed by a

VENTURE CAPITAL IN PROFILE

Venture capital is long-term, hands-on equity investment in high potential companies by professional investors, for the primary purpose of growth of the companies' valuations.[1]

In Australia, the term venture capital (VC) often includes less risky investment classes such as mezzanine (pre-initial public offering) finance, expansion capital, funds investing in other funds and buyouts. In the US this broader definition is called private equity because it excludes investments in public equity markets. In the future, venture capitalists are likely to expand



their scope. For example, there is a proposal in Australia to allow venture capitalists to invest in listed companies such as 'penny dreadfuls' – small-cap listed companies that need the turnaround skills of venture capitalists as an alternative to liquidation.

Information means power

Private equity, by its very nature, is one of the least transparent investment sectors, and the limited accessibility of information inevitably generates power for a select few. However, the Australian Venture Capital Association and VC research firm, Venture Economics, have been working to improve access to information by surveying industry members.

Nevertheless, the superannuation funds, which are the largest source of VC money (36 per cent in 2002), still rely on an elite group of asset consultants to choose which VC managers to invest with. The funds do this because there is such a big variance in returns across VC funds and over time, and also because funds are all privately run and many lack transparency. For example, internal rates of return to June 2002 for 53 funds formed between 1988 and 2001 ranged from –77 per cent to +82 per cent! This illustrates what can be at stake in choosing a VC manager – a fact that partly explains a recent trend of new VC firms being established solely for putting capital into other VC firms, rather than taking a bet on directly investing in companies.

Venture capital's cyclical nature partly drives this volatility in returns. Following the global technology bust in 2000, Australia's VC industry moved towards more conservative investments in terms of dollars,

HOW VC MANAGERS SPEND THEIR TIME

WEEKLY ACTIVITY	DAYS
Sourcing deals	1.0
Assessing investments	0.5
Monitoring	1.0
Advising	1.0
Recruiting resources	1.0
General administration	0.5

Source: Chris Golis, Nanyang Ventures

big multinational company, such as Intel or IBM. This delivers an added bonus of good contacts with prospective customers.

Clearly, it also helps to have skills that are in short supply. Waring says one of the biggest skill shortages is an ability to stay calm and focused on the value proposition when short-term, 'hairy' obstacles arise.

He also cites advanced negotiation skills, effective use of personal networks in investee industries, credibility with entrepreneurs and a willingness to be a consultant and sounding board for start-up businesses.

VC investment managers also need specialist financial skills such as knowing how to structure deals and monitoring financial accounts, as well as an ability to diagnose problems and evaluate new deals. "A combination of all these skills is hard to find," says Waring.

Waring has conducted courses that train people in these areas. As well as his entrepreneurship course at the AGSM, each March he helps AVCAL put together a course taught by practitioners that uses a series of exercises that simulate typical problems in the VC cycle. But while these courses may help you to brush up on practical skills, success will depend on core capabilities.

Kelly cites people skills and the ability to forge relationships with entrepreneurs and professional peers as essential (in addition to financial and analytical skills) to working as a venture capitalist. Beyond that, "it all boils down to who you are as an individual," he says. "You need to be a generalist and very commercial."

Kelly himself trained as an engineer before beginning an MBA at the AGSM. He was taken on by CHAMP Ventures two-thirds of the way through his degree with no solid financial background. Part of the Castle Harlan Australian Mezzanine Partners (CHAMP) group, the firm focuses on expansion investment and management buyouts, investing up to $20 million in each opportunity.

Kelly is part of a team of six that also includes former chartered accountants and lawyers, and is responsible for identifying and assessing new investment opportunities as well as portfolio management and exit planning.

He says there is no typical career progression within the industry. VC firms tend to run small teams with fairly diverse backgrounds but with strong financial knowledge.

"The job is very broadly based in terms of skills. It's not the case that you rely strictly on accounting or financial knowledge or that you're a technical expert – all of these are important." However, he adds: "Obviously it is hard to get away from the need for core finance skills and commercial know-how".

Kelly does not use technical knowledge from his engineering background on a day-to-day basis: "Normally the companies we work with have a wealth of technical ability – they tend to have business problems rather than technical ones".

Nevertheless, some technical expertise can be very important. Michael Panaccio, investment principal at Starfish Ventures, says: "It's almost mandatory to have two types of qualifications – that is, a mix of skills with one being technical".

Starfish, a relatively new firm, is establishing a technology fund investing in early- to middle-stage companies, predominantly in the high-growth areas of information technology, communications and life sciences. The firm includes two people with science-based PhDs and five MBAs.

Panaccio says technical knowledge can help venture capitalists select promising technology-based companies by helping them determine whether the technology is world-class and how it ranks against all possible alternatives.

As much as 50 per cent of early-stage venture capital goes into life sciences, including biotechnology, and some of these may be very risky undertakings, says Panaccio.

"These companies have around a 0.1 per cent chance of making it all the way.

"Even when it works in the lab, it may not be approved by the regulatory authorities, it may not be preferred by the market and so on.

stage of development and industries. There was less new capital raised (the year to June 2002 saw a 28 per cent decline on the previous year). More capital went into later-stage investments (almost 70 per cent of the $2.3 billion invested in the year to June 2002 went into acquisitions, while expansion-stage investments received 19 per cent). Capital was also directed to relatively stable industries such as consumer goods (almost half) and health. Only about one-third went to the more risky high technology areas of computers, communications and biotechnology.

Sydney-based AMWIN Management's experience illustrates the sector's volatility. While it made a $256 million profit on Looksmart, it also invested $20 million (with others) in the dotcom Dstore, which was later sold to Harris Scarfe for only $3 million. Equally, the highly visible success of investments in medical equipment firms such as ResMed and Cochlear are contrasted with failures – such as Colonial First State Private Equity's loss of $5.8 million on shoe retailer Solesbury, and the forced sale of Impulse Airlines to Qantas when US dollar-denominated fuel costs rose as the Australian dollar sank.

> "Following the global technology bust in 2000, Australia's VC industry moved towards more conservative investments."

Banks, insurance companies and corporations are also big investors in VC funds. They have not historically done well investing directly themselves owing to their inability to offer their senior investment managers the kind of governance systems and incentives that match those in boutique VC firms. For example, corporations invest for strategic reasons (to help their core business) for which returns can be sacrificed. Banks have difficulty retaining successful investment managers who can raise a fund of their own. These institutional disadvantages are unlikely to change, creating a clear niche for boutique VC funds.

A fragmented market

Venture capital brings great gains to society, and some groups, such as VC partners, their service providers and technology consumers. However, others, at the very early stage, bear excessive risks for their returns. I know one prominent angel investor, at the seed-capital stage, who saw himself as a charity given the difficulty he faced extracting a return on his investments.

(continued on page 14)

"You need that understanding at the earliest possible stage," says Panaccio.

Failure to anticipate these kinds of problems can spell disaster for budding venture capitalists, who are measured by the return on the investments they back.

"A venture capitalist is only as good as his [or her] last deal," says Davis. "The principal form of failure is when you raise money for an investment and the return is not very satisfactory, so when you try to raise extra funding people say, 'No thanks'."

Failure rates are high – typically, one in 10 investments work really well, two return a reasonable profit and the rest make a loss or simply recoup the funds invested.

It can take years before a venture capitalist knows if his or her hard work has paid off. The profit is only reaped at the end of the investment cycle and even then it may not measure up to expectations.

"I work with five people on a daily basis, on what can be very complex problems with high stakes," Kelly notes. "Things get tense sometimes and you need to develop a strong relationship with your colleagues so the team can achieve its goals."

Venture capitalists typically spend the first four years of a fund investing. Kelly says firms generally pick out three or four investments a year that will deliver very high rates of return out of the 300 or 400 proposals they receive each year. The focus then shifts to managing the portfolio and selectively realising each investment as value is maximised over the life of the fund, which is typically 10 years.

The firm will then look to raise the next fund – competing largely for equity allocated by the main investors: the pension fund managers, as recommended by their asset consultants, who are known in the industry as 'the gatekeepers of power'. Domestic pension funds are the single largest contributor to the VC industry (accounting for about $2.7 billion of the $7.4 billion in private equity under management at 30 June 2002). However, private equity still accounts for only 0.5 per cent of total pension funds under management (worth about $550 billion at 30 June 2002).

Winning funding largely depends on demonstrating a good track record across multiple funds; only around 70 per cent of venture capitalists in the US get follow-on funding. "People don't go bankrupt from the first [capital] raising – failure comes from not raising subsequent funds," notes Davis. He says a venture capitalist's reputation may be undermined if he or she takes on too much and is unable to meet his or her obligations. Many venture capitalists struggle with the more mundane processing tasks and outsourcing these functions may emerge as a trend in the future. Indicative of this is that law firms are establishing VC practice areas to handle VC firms' legal work – a sign that the industry is maturing.

SIGNS OF AN UPSWING

In the US and Europe, private equity accounts for a much bigger percentage of GDP than in Australia, partly owing to the fact that the main supporters of the VC industry, particularly in the US, are the endowments and foundations.

Nevertheless, the asset class is increasingly winning the confidence of the main investors. "There's a very orderly build-up of funds due to our conservative approach, which makes a strong case for Australia," says AVCAL's Green.

Even during the dotcom boom years, when US VC firms were liberal to an extreme with funds, "very few deals were done in Australia because the expectations were so unrealistic", notes Green.

But the industry's prospects overall are improving following a ruling in 2002 in which capital gains tax was abolished for a wide class of offshore investors, putting Australia on par with the US and Europe in its treatment of various classes of offshore investors, who can now conduct business on the same terms as Australians. As a result, up to $1 billion in foreign capital is expected to pour into Australia over the next five years, according to Green.

This should bring in more venture capitalists and create new opportunities by opening new fields in investment and generating 'deal flow', says Green. It suggests that the industry is poised for an upswing.

Confidence has also been lifted by a spectacular success this year – Atlas Steel, which delivered a 580 per cent rate of return in 18 months to its investor, Quadrant Capital. As prospects for the industry improve, so too will the chances for aspirant venture capitalists. "A rising tide lifts all boats," says Green. ✪

** Helene Zampetakis a freelance writer.*

FOOTNOTE

1 **www.ventureeconomics.com.** Venture Economics is a leading world authority on venture capital.

VENTURE CAPITAL IN PROFILE

Entrepreneurs feel they have too little power as venture capital is very hard to get and venture capitalists are not readily available. A reason for this is the sheer number of business plans that hit venture capitalists' desks (300 a year can be normal). Venture capitalists have adjusted to these demands by becoming less available and relying more on their personal networks to source deals. Only 244 companies received private equity funding in the year to June 2002, and half of these were follow-on investments from previous years.

Universities invest heavily in research but are not equipped to take on the commercialisation role. Their commercialisation arms lack the results-orientated incentives of boutique VC managers. Venture capitalists and the government have sought innovations with the pre-seed funds to address the incentive and risk-allocation problems, but new investment vehicles are needed.

Signs of maturing

The Australian VC industry is growing and, at the same time, showing signs of maturing. There is an increasing importance placed on reputation. This should see the role and power of asset consultants diminish as venture capitalists develop reputation mechanisms such as brands and more transparent performance ratings. This greater emphasis on reputation means new entrants and poorly performing funds have had difficulty attracting investors.

This is reflected in fewer new funds relative to follow-on funds. There were only 17 new funds created in the year to June 2002, compared with 47 in the previous year. Of the 17 new funds, 13 of them were follow-on funds, whereas new-entrant funds usually dominate the mix.

There is a saying that in a strong wind (such as the dotcom boom), even a turkey can fly. But when the wind drops you find all the turkeys.

** Geoff Waring is a senior lecturer at the AGSM. He teaches an entrepreneurship course at the AGSM and helps AVCAL design VC skills courses.*

FOOTNOTE

1 The source for this definition and the statistics in this article is the AVCAL 2002 Yearbook. See **www.avcal.com.au** where copies can be downloaded.

HUMPHREY ARMSTRONG, director,
Lifelong Learning Systems

THE J-CURVE OF CHANGE

Have you ever been really surprised by the negative reaction a seemingly minor organisational change can generate – such as a proposal that individual offices be replaced by modern, open-plan workstations? Equally, you might have puzzled over why a well-planned and well-communicated change generated virtually no response and simply fizzled out.

What you may have experienced is the J-curve of change (illustrated at right). This curve reflects the common experience of things often getting worse before they get better in circumstances of change.

Most change has a loss as well as a gain side. Even positive changes like a promotion or an opportunity to do a more challenging job in a new organisation can have their downsides – such as the loss of trusted colleagues and staff.

Of course, unexpected and traumatic changes such as a sudden merger or retrenchment can generate much stronger responses, including shock, denial, loss and anger.

Generally, the messier and more disorganised the change, the deeper and more prolonged the disturbance curve.

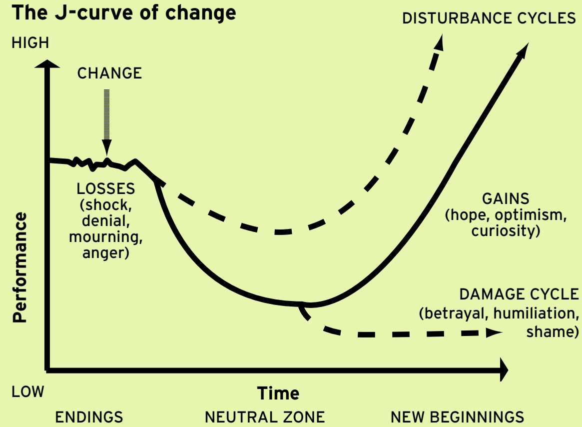
For some people, change can also trigger old memories and attached feelings. This is why seemingly small changes can generate such big reactions – the responses are, in fact, emotional echoes from the past and can lead to immediate dips in performance – the downward part of the J-curve. In some highly traumatic change situations, feelings of betrayal, humiliation and/or shame can push people down into a much more prolonged and destructive damage cycle. In contrast, the upward side of the J-curve is usually driven by feelings of hope, optimism and curiosity.

MANAGE ALL PHASES OF CHANGE

So how can loss of performance during organisational change be minimised and the upside maximised?

The American change practitioner William Bridges believes there are two processes in change, both of which need to be planned for and managed.[1]

The J-curve of change



Source: Lifelong Learning Systems

First comes physical or operational change, characterised by moving offices or merging with another organisation. Such change is generally external, situational, event-based and defined by outcome. It often occurs quickly.

Next are the emotional responses or, as explained by Bridges, the 'transition' processes of change. These tend to be internal, psychological, experience-based and defined by process. They always take time.

Some organisational changes are predominantly mechanical in nature (for example, system upgrades) and cause few transitional effects. However, structural changes, which involve people and disturb established relationships, job relativities and reward systems, can create intense and long-lasting transitional reactions.

Bridges believes transitions have three distinct phases: **endings, neutral zones** and **new beginnings**. The endings phase leads to disengagement; the neutral zone is a kind of fallow time when old habits are extinguished; and the new beginnings period is when people really buy in, get on board and feel at home with the new.

It is important, says Bridges, to provide for each phase, especially when people's jobs or the way things are done are changing. For example, in the initial endings phase it may be important to symbolically recognise the valuable contribution that previous knowledge, skills, processes and structures may have made to an organisation's image and reputation. Being valued for what we have contributed helps most of us to let go of the old and encompass the new – especially if we also know and understand why the change is needed.

Equally, in the neutral 'confusing' zone, when old systems and procedures are being dismantled and replacements installed, regular face-to-face communication is often vital to pick up potential glitches and oversights. Resistance is a natural (and potentially valuable) reaction that is so often underpinned by the very real and practical concerns of experienced people.

ACKNOWLEDGE ENDINGS

Unlike in personal grief counselling, where the expression of feelings can be beneficial, in organisational change accurate acknowledgment is often all that is needed.

Both the downside and upside of the change curve need to be carefully anticipated and managed. Sometimes it can be useful to have separate process planning teams managing the operational and transitional aspects of a major organisational change.

Sometimes an appropriate ritual to mark a significant organisational ending can, within the space of a few hours, swing a whole division through the downside and into the upside of change.

Todd Jick of Harvard University has astutely observed: "… resistance is as natural as self-protection and can be vital energy to work with".[2] The important point is not to ignore it. To do so is to almost guarantee a journey down through the J-curve of change. ✪

FOOTNOTES

1 Dr William Bridges, 'Both Change and Transition must be Managed', *HR Monthly*, p. 14, AHRI, Sydney, May 1996.
2 Professor Todd D. Jick, *The Recipients of Change*, Harvard Business School, Boston, December 1990 (Ref. 9-491-039).

How well trained are your customers?

New research examines how new-economy purchasing is changing the shape of customer management. **Kirsty Harris*** reports.

It is commonly thought that focusing on overall customer satisfaction is the best way to develop a large and committed customer base. However, AGSM lecturer Markus Groth's new research contends that this is not the only, or even the best, way to think about or deal with customers – particularly in the service industries. Groth's research examines "the growing trend for customers to be increasingly involved in producing the services they purchase, and the impact such behaviour has on service outcomes".

Of course, customer involvement in producing services is not a new phenomenon. Think of customers visiting their doctors or fitness studios – the service outcome, in part, depends on how accurately the patients or clients can describe their symptoms or stick to their exercise schedules. Banks have developed customer involvement through ATMs, and the new economy of online purchasing requires customers to do the majority of work – from booking their plane tickets to purchasing books.

Groth refers to this involvement as 'customer co-production' and describes it as the basic tasks that are required of customers to purchase a service.

Groth also examines another aspect of customer involvement he refers to as 'customer citizenship', which describes "helpful voluntary actions that a customer might undertake as part of the service delivery". Examples of these voluntary actions include submitting a book review after purchasing a book from, say, Amazon, recommending an accountant to a friend or giving feedback on a Web site. These types of actions benefit a company, but they are not things a customer must do in order to purchase a service or product.

Groth's research investigates how companies might use customer co-production and citizenship behaviours to be more profitable.

"Understanding and managing such behaviour allows organisations to reduce costs and improve the service experience from the customer's point of view, which ultimately increases an organisation's bottom line," he argues.

Customer co-production has been on the radar screen of managers in businesses such as self-service petrol stations and banking transactions via ATMs or the Internet – where customers perform tasks that were traditionally carried out by service employees. It is a trend that has increasingly blurred the lines between customers and employees, and companies are treating highly-involved customers like partial employees or organisational human resources.

However, what is less understood, according to Groth, are the drivers and consequences of customer citizenship behaviour and how they affect organisational effectiveness.

Customer co-production relies on customers understanding the tasks required of them. One example is where a customer dissatisfied with a bank's service is still likely to fulfil the customer tasks that are required (such as supplying account numbers at an ATM), but will not perform extra voluntary tasks such as recommending the bank or giving helpful feedback.

Groth's research shows: "Voluntary behaviours are dispensed at the discretion of the customer and, therefore, are more strongly linked to service satisfaction.

"It is important that companies distinguish between the tasks that are required of a customer to purchase a product or service and those tasks that are not, so as to allow managers to identify those behaviours that customers perceive as mandatory and others they perceive as discretionary.

"By understanding the different drivers and consequences of these two types of behaviour, managers can motivate customers more effectively to increase desired behaviours and decrease undesired actions."

Groth explains that customer behaviour contributes to the overall success of the service organisation, given that customers are often physically present and actively participate in the delivery process. For example, consultants are not able to deliver useful reports unless their customers actively participate in providing necessary information and data. From another point

ILLUSTRATION: REG LYNCH

Lufthansa Airlines conducts regular focus groups and personal interviews with its most complaining customers. These sessions, internally known as 'horror day', provide valuable feedback.

of view, customers can give helpful feedback to consultants regarding their methods and results.

"Crucially, customers can provide intellectual and physical resources, which increase organisational productivity: they can be a source of new ideas for business strategies, help train other customers and share their purchasing experiences with management," says Groth.

"Even dissatisfied customers can be a valuable source of feedback," he says. For example, Lufthansa Airlines conducts regular focus groups and personal interviews with its most complaining customers. These sessions, internally known as 'horror day', provide valuable feedback for identifying problems and discussing required changes from the customer perspective.

CUSTOMER SOCIALISATION

Managers often face the challenge of encouraging their customers to purchase services in more cost-effective ways – such as moving to the Internet to make their purchases. For customers to feel comfortable about adopting new purchasing methods they need the ability to perform new tasks, but they also need to understand and feel confident about what is expected of them.

Customers vary greatly in the degree to which they have both the knowledge and ability required for successful service delivery, especially on the Internet. Less informed customers often use up valuable organisational resources (such as incomplete or incorrect orders, special or unreasonable requests and frequent calls to customer service hotlines).

"Poorly 'trained' customers are a main source of unsuccessful co-production, a problem that is often not correctly identified by organisations," says Groth.

Managers are quick to blame unmotivated customers, whereas the problem lies often in a lack of customer training, not a lack of motivation.

This training or socialisation of customers can be accomplished through incentives, company literature and purchasing environment cues, or simple devices such as informative signs or brochures, timely instructions and realistic service previews.

Many of the most successful Internet businesses have very clear instructions, making the purchasing tasks simple to complete. For example, furniture store IKEA, known for its self-service retailing concept, publishes a 'how to shop' section on its Web site to explain in great detail to customers 'the IKEA way'.

This kind of detailed service preview can be an effective way for organisations to prepare their customers. "By providing realistic expectations as to what to expect and what not to expect, companies invariably increase customers' knowledge about their role as co-producers," says Groth. For example, a realistic service preview may be useful for first-time customers of no-frills airlines who, through their past experiences, may have come to expect seat assignments, loyalty programs and meals and drinks, even on short flights.

Socialisation is an ongoing process in which customers learn the skills necessary to effectively purchase a service or product.

Similar to management research that shows that well-socialised employees are better performers, Groth's research indicates that customers who have been effectively socialised are better co-producers and hold more favourable perceptions of the organisation.

However, Groth points out that companies should not make the mistake of expecting customer satisfaction to be a predictor of effective co-production. Other factors come into play – such as environments where customers are constrained in the tasks they are able to perform when purchasing a service or product. For example, to successfully complete a bank transaction, a customer must fill out the necessary forms, regardless of his or her satisfaction with the service.

On the other hand, Groth warns companies not to assume that well socialised and effective co-producing customers are necessarily satisfied customers, because there is a difference. "My research shows that an ability and familiarity with required co-production tasks are unlikely to increase a customer's propensity for citizenship behaviours such as referrals," he says.

> 'Focus needs to move to training customers as if they are new service employees joining the organisation.'

In one research study, Groth used a random sample of people (obtained from juror lists in Arizona, US) to analyse purchasing habits and decision drivers. In another study he analysed the behaviour of online retail shoppers. Results show that customers differentiate between two distinct types of behaviour: required purchasing tasks (customer co-production), and discretionary voluntary behaviour (customer citizenship). The two categories of behaviour have different drivers and consequences, so it is important for companies to manage customers' purchasing experiences accordingly.

PRACTICAL IMPLICATIONS

Groth's research indicates that in the services sector, where customer co-production plays an important role, managers should socialise customers to perform the necessary co-production tasks. His results imply that merely pursuing a goal of 'complete customer satisfaction' can be misleading in that satisfied customers are not always effective co-producers, and vice versa.

Managers need to decide where and how to best channel their customer relations activities to achieve the results they need. Many organisations fail to offer adequate socialisation, forcing customers to acquire knowledge of service delivery processes by observing others. The clear disadvantages of this are customer imitation of undesired behaviour or even rejection of an organisation's services altogether.

"An investment in socialisation results in a pay-off," says Groth, "because correctly educated customers will exhaust fewer organisational resources in the long run (as a result of fewer queries, correctly filled orders and the like), and this will lead to an increase in profit margins.

"Customer socialisation plays an even more crucial role in Internet purchases, where customers have only electronic help. Confused or frustrated customers end up deserting their virtual shopping carts – not for want of choice but because, metaphorically, the cart's wheels get stuck. Customers then make no purchase because they are unclear about what tasks they need to perform to get to the checkout," explains Groth.

USING CUSTOMERS FOR STRATEGIC ADVANTAGE

"Organisations should not assume that the behaviours *they* think of as co-production are perceived as such by customers," says Groth.

For companies to gain the most out of their customers, they must match their expectations of customer behaviour to what customers believe are their required purchasing tasks. By assessing how customers perceive their service delivery role, managers are able to better manage their customers' perceptions about the service delivery process.

"Changing customers' expectations, so that behaviours they initially perceive as voluntary are subsequently perceived as expected, gives managers great opportunities to make their service delivery more efficient and cost-effective," says Groth. Some organisations even hire people to masquerade as customers to perform desired behaviours in front of other customers, hoping that regular customers will adopt these behaviours and think of them as an expected part of service delivery.

"My chief recommendation is that a company must understand the unique features of its service delivery process and the extent of customer involvement in that process so that it can strategically manage customer behaviour. Once that aspect is understood, focus then needs to move to training customers as if they are new service employees joining the organisation. This should encompass all desired customer behaviours, in particular task-related actions required to purchase a service, but also organisational values and beliefs.

"Communication of what customers are required to do in their role is crucial and must be made simple and clear. Only then can a company successfully boost customer engagement if, in fact, it determines that additional voluntary (or citizenship) actions would benefit overall profitability."

Groth concludes that the best way to manage customers as 'partial employees' to achieve profitable outcomes for both customers and providers is to pursue development of the customer as a corporate citizen … not simply a denizen. ✪

** Kirsty Harris (MBA '02) is the AGSM's acting manager, corporate relations.*

More than a phone call

The increasing complexity of call centre management is not well understood, writes **Catriona Wallace**.*

The call centre industry in Australia has suffered a poor reputation in the past, plagued by media and union criticisms of its management. What critics have failed to acknowledge are the considerable difficulties, complexities and challenges that call centre managers face, owing to the rapid evolution and growth of the sector.

The Australian call centre industry is currently worth $9.7 billion a year, and has been growing at an annual rate of 20 per cent, with an estimated 3850 call centres employing about 220,000 people.

The industry handles about 70 per cent of all organisations' customer contact, and 26 per cent of call centres in Australia now handle customer contact services in more than one country (ACA Research, 2002).

Despite this considerable growth and obvious importance to business, the management of call centres is not well understood by those outside the industry.

MANAGING MULTIPLE CHANNELS

The evolution of the call centre began with the development of airline reservations and directory assistance services – which sought a cheaper alternative to face-to-face customer service.

Along the way, call centres have been viewed rather simplistically and negatively as places where managers do little else but supervise phone operators taking customer calls. This notion of operational simplicity could not be further from the truth.

First, the idea that call centres deal only with telephone calls no longer holds. Many centres have the capacity to interact with customers via voice technology, e-commerce, Web sites, e-mail, fax, post and face-to-face contact. Others support multi-channel contact via text chat, page push (where agents 'push' Web pages by using the touch-tone buttons on their telephone keypads), Voice over Internet Protocol (VoIP) and speech recognition.

Apart from managing these multiple channels, managing a call centre for peak performance requires the understanding

ILLUSTRATION: GREGORY BALDWIN

and application of mathematical formulas, laws and phenomena.

The primary mathematical formulas that govern call centre operations are the Queuing theories developed in 1909 by Danish engineer A.K. Erlang. Call centres use the formula known as Erlang C to help calculate staffing requirements. The formula calculates the predicted waiting times of calls based on three factors: the number of agents, the number of callers and the average call handling time to serve the customer. It also determines, among other things, the number of staff required, the average speed of answering calls and the average number of delayed calls. Another formula, Erlang B, is used to gauge the trunks (phone lines) required to carry the calls.

Call centre managers rely on these mathematical formulas to plan resources, forecast, budget, schedule and allocate work, and conduct campaigns. Some centres, such as the NRMA's facility, are capable of using the science to make accurate and highly specific predictions about service demand and supply. For example, Erlang's theories make it possible to predict the number of calls a centre will receive, and the number of staff needed to handle calls, on a Monday at midday, at a particular hour in a month's time, or even on a rainy day. If the science is not correctly applied or understood by managers, call centre efficiencies will not accrue and centres will not be competitive.

KEEPING UP WITH TECHNOLOGY

The other key issue facing call centre management, perhaps more so than other business unit managers, is the rapid change in, and obsolescence of, technology. Managers in the call centre industry are fond of saying "a call centre year is about three months", inferring that where technology in a traditional business may become obsolete in a year, in a call centre this is likely to happen in just three months.

The range of technologies call centres use is considerable and may include computer telephony systems (CTI), automatic call distributors (ACD), host servers, interactive voice response units (IVR), workforce management and call quality monitoring systems, predictive diallers (that make outbound calls and only connect a call to a service representative when they detect an individual on the line) and fax and speech recognition technologies. An effective call centre manager needs to understand all available technologies, including their functionality and interdependence, how they interface with existing technologies and what their return on investment is likely to be.

With the continued growth and evolution of call centres and their increasing importance to business, the industry's imminent challenges include balancing the technological and scientific management of the centres with human resource management.

It is high time the dubious notion of call centres as customer contact sweatshops had its day – as businesses and customers increasingly rely on the ability of call centre managers to effectively administer complex technologies and people management systems to serve their needs. ✪

** Catriona Wallace is a PhD candidate at the AGSM and co-author of* The Complete Guide to Call and Contact Centre Management, *Pearsons, Sydney, 2003. To order the book, go to:* ***www.callcentres.net.***

POSING PRICING QUESTIONS Oyster Bay Wines' Jessica Macpherson and professor Robert Marks.

Fighting price wars with game theory

When the heat is on to cut prices, use game theory's strategic calculations to determine sustainable price actions. **Lachlan Colquhoun*** reports.

If someone asks you to choose a number between one and 100, you face a straightforward choice and there are no major implications in choosing one number over another.

But change the rules slightly and it becomes a strategic calculation, as participants in two seminars on pricing dynamics in the wine industry discovered in June when the AGSM's professor Robert Marks posed the 'two-thirds' game to illustrate the strategic interactions involved in setting prices in the marketplace.

Marks offered a prize of $20 to the person who chose a number closest to two-thirds of the average number chosen by the group. You would expect the average to be around 50 (and two-thirds of that is 33 or 34). But with everyone else making the same calculation, perhaps two-thirds of 33 or 34 would win the money.

For the record, the $20 went to someone who chose the number 23, a result which showed that almost everyone in the group had gone through at least two cycles of strategic thinking.

"The point is that the exercise introduces us to the idea of trying to anticipate what other people are doing as they are trying to anticipate what we are doing," explained Marks. "It's a good example of a strategic interaction and a good way to introduce a strategic way of thinking."

This process, he said, is an integral part of pricing dynamics as sellers try to second-guess which price points are sustainable.

Marks likened the two-thirds game to the 'beauty contest' proposition used by John Maynard Keynes in his 1936 publication, *The General Theory*. Referring to the stock market – with the 1929 crash still fresh in his mind – Keynes likened professional investment to "newspaper competitions in which the competitors had to pick out the six prettiest faces from a hundred photographs".

According to Keynes, this led to a process where competitors did not choose those faces they personally found the prettiest, "but those which they think likeliest to catch the eye of the other competitors, all of whom are looking at the problem from the same point of view".

Marks used the two-thirds game and the Keynes beauty contest analogy as an illustration of how to use game theory to better understand pricing dynamics.

The seminars were part of the PricewaterhouseCoopers (PwC) Lifelong Learning Series at the AGSM, and PwC's Jay Horton put Marks' introduction into context by outlining some of the forces that had driven the recent push for discounting in the wine industry.

He said consolidation through mergers and acquisitions had maximised available economies of scale and reduced production costs. At the same time, high inventories, excess capacity and the growing retail market share of the big grocers – Woolworths and Coles Myer – had created an "imbalance of market strategy and profitability for wine producers".

Despite strong industry growth, brand value had been under a major assault since 2001. Forecasts of grape oversupply made in 1999 had become reality. The result was that PwC's wine capital index, which tracks the market capitalisation of wine companies relative to the All Ordinaries index, began to take a steep dive after reaching its height in 2001.

The wine overhang, said Horton, also coincided with an explosion in the number of wine brands competing in the retail market, with about 700 different brands now fighting it out for shelf space, while retailers themselves were involved in a fight for market share.

The end result had been disastrous for

Tastes don't always correlate to price.

PHOTOGRAPHY: FRANK LINDNER

Australia's wine industry, with both large and small players taking a hammering on profit.

MAINTAINING BRAND EQUITY

Marks pointed out there was nothing like discounting to highlight the fragility of brand equity. "Brands create market power but they are costly to build and easy to damage," he said.

"If you have a good brand, you are in the box seat because supermarkets will want to stock you. It also means you may have consumer loyalty and that it would cost money for your competitors to launch their own brands to lure your customers away."

But the current situation of the wine industry – where most producers have faced the problem of excess inventory – has been producing a strong momentum to cut prices.

"This could be a good thing if three conditions hold," said Marks. "It's good if you can do this without sparking a price war as your rivals retaliate, if you can do it without damaging your brand equity, and if you are able to do it without changing the expectations of your customers.

"Maybe in the future you want to get prices back up, but if people expect this particular brand at a lower price you'll find resistance and people will stop buying your brand and start buying another which is cheaper than the price you wanted to charge at the end of the cycle.

"While some people will know that a discounted wine is good quality at a good price and will stock up, others may take the lower price as a signal that the wine is not such good quality – and if they are looking for a wine to impress, they may well go to another brand."

Not only can this damage brands, it can lead to a fall in revenue. "If enough people take the lower price as a sign that the quality is not what it was, there is a risk that you will lose brand equity, and when you reverse things by putting the price back up, you don't bring the customers with you," explained Marks.

"So if the market remembers discounting, it may be difficult to change perceptions, and you would then have to go through the expensive exercise of re-launching the brand.

"Which means that buying market share by cutting prices, and having a short-term focus on retail relationships while ignoring longer-term strategies, may not be good in the long term," said Marks.

While it was possible to win in a discount war in the short term, it was often a gamble if your competitors were able to adapt to the change in pricing strategy, resulting in the lower prices being sustainable over longer periods.

Marks said there were three factors in creating sustainable margins. "The first is product differentiation and that means brand, the second is economies of scale, and the third is barriers of entry – things which might stop new brands such as the scarcity of supply chain, in particular the scarcity of supermarket chains or shelf space."

Southcorp's average operating costs before the merger with Rosemount were about $60 for each case of wine but had come down to $45 since the merger.

With average operating costs of competitors also hovering around the low $40 a case, it looked as though winemakers had "pretty much exhausted" the potential for further economies of scale with the existing technology – which made brand equity even more important.

> 'A strategic way of thinking is an integral part of pricing dynamics.'

DETERMINING STRATEGIC PRICING

"Instead of across-the-board discounting, you might use selective price actions such as bundling your brands," said Marks.

"You might want to use quantity discounts, loyalty programs or even develop 'fighting brands' – some of which have been developed to sell for less than $10 a bottle.

"It may be that you cut prices in certain channels – so-called 'stealth marketing' – or maybe sell through wine clubs."

The seminars also featured a winemaker's perspective, inviting Jessica Macpherson from Oyster Bay Wines in New Zealand to talk about her experience breaking into the Australian market.

"In my job, I live in fear of people discounting my wine and it's the last thing I want a retailer to do after I've set a price point to defend," she said.

"The best way to damage a brand is to discount. A difference between a short-term promotional price deal and an across-the-board discount, like the Southcorp strategy, is immense, and if not managed properly can really damage a brand."

Macpherson said that a $20 sparkling wine brand would return four times the gross margin of a $9 wine.

"Premium wine is where wine companies need to be moving and to do that they need to build brand and sustain those price points over a long period," she said.

But while consumers make decisions based on brands and prices, how informed are their decisions?

The seminar concluded with a 'blind tasting' exercise, which proved that consumers' tastes in a wine don't always correlate to reputation or price. This emphasised the importance of the company communicating a brand's value to consumers, so that any purchasing decision will balance the perceived quality of the wine and its price.

Participants were asked to sample four different wines and rank them according to which price category they thought they should be in – up to $10, between $10 and $20, between $20 and $30, and $30 or more. Barely a third of participants in the two seminars correctly assessed the wines in their correct price brackets.

The tasting, said Marks, showed once again the complex dynamics of pricing and preferences, and that – when it comes to wine – it's not just a straight beauty contest. ✪

** Lachlan Colquhoun is a freelance writer.*

Brand strategies in emerging markets

Theodore Levitt's classic globalisation of markets theory predicted a worldwide consumer convergence of tastes. But AGSM marketing experts **Giana Eckhardt** and **Julien Cayla** are finding few signs of the global village in the brand perceptions of consumers in China and India.

WHAT IS DIFFERENT ABOUT BRAND INTERPRETATION IN EMERGING MARKETS LIKE CHINA AND INDIA?

In emerging markets consumers have not been exposed to brands for a long period of time and are not sure about how to interpret them or what these brands mean in their lives. This is especially true in China and India, where there has been limited exposure to global brands. This means there is a lot of variance in what brands mean to different people.

One study I have done on how McDonald's is interpreted in China shows that no matter how much you globalise your brand or product consumers will interpret it at a local level. For example, my research data shows that women who go into McDonald's in Shanghai or Beijing and order by themselves find it an empowering experience. This is because men usually order for the table when people eat out together in China. Their experience is something quite different from what McDonald's would say the brand means at a global level.

Another aspect of brand interpretation in emerging Asian markets, particularly in a country like China, is that you see an interdependent cultural orientation as opposed to a Western-style independent one. Those with some knowledge of Chinese culture might be familiar with this in terms of the differences between collectivism and individualism.

When you have an interdependent cultural context most consumption decisions and attitudes towards products and brands are made with other people and important relationships in mind. However, Western marketers traditionally think of the consumer decision-making process as an individual, independent one – where a consumer decides he or she has a need, goes out and investigates the alternatives, decides what attributes are important and makes a final choice. This does not include this interdependent context of how a consumer's peers might evaluate his or her brand choice or what a consumer's family might think.

HOW DOES AN INTERDEPENDENT CULTURAL CONTEXT INFLUENCE BRAND ADOPTION?

Some of my colleagues and I have found that social and interpersonal contexts influence how consumers attribute meaning to a brand. For example, who Chinese consumers are with when they go to McDonald's affects how they perceive the brand.

When we asked consumers about dining at McDonald's with their extended families, we received more negative brand interpretations to do with the foreignness of the food and the brand. Many respondents said they would go to McDonald's for a change from their regular food. On the other hand, they felt it was too foreign and not an appropriate place to go for a meaningful event like interacting with family members.

In contrast, when we asked consumers about dining at McDonald's on a date, we received very different responses. One gentleman described how he loved to take his girlfriends there because McDonald's offered an opportunity to experience Western things. The notion of foreignness became something positive in this situation where

Dr Giana Eckhardt teaches international marketing and her research interests include culture and consumption, and marketing and globalisation.

a consumer was trying to impress a peer. Generally, brands are understood at a group level in China, not at an individual level.

In China, the most important things to understand are: 'What social context do you experience my brand in?' and 'How does the brand relate to those interpersonal relationships that happen while you are experiencing the brand?'

Our findings suggest that when developing brand-building marketing activities in this interdependent context, it is more beneficial to focus on the social and interpersonal contexts of brand experience rather than specific product benefits.

Heineken is a beer brand that has been very successful in doing this. Part of its global positioning focuses on the quality of a premium, imported beer. But in the Asian context, the premium proposition is more about who drinks Heineken beer and the social context that surrounds its consumption, rather than the quality of the beer itself.

LOCAL VERSUS GLOBAL BRAND PERCEPTIONS

A case study I worked on in India looked at an Indian pizza company called Pizza Point, which was set up to capture the market share that the global brands were not meeting.

Consumers in India have formed their impressions about pizza primarily through global brands like Pizza Hut and Domino's in the market. A lot of consumers we talked to knew about pizza through television shows like *Friends* on Star TV, and from hearing about these global brands in urban areas or trying them if they lived near an outlet.

Pizza Point estimated that two-thirds of the market could not afford the global brands, so it developed a local brand to capitalise on this desire and awareness of pizza. It would use the flexibility that comes with being a local brand to offer a cheaper price and more localised product.

However, to a large extent, Pizza Point failed in its branding exercise. Its price points were lower and it localised the product. The problem was that consumers' interpretations of Pizza Point were much more in line with their ideas about Pizza Hut and Domino's, and they had a difficult time differentiating between the local and global products.

Consumers said: 'I won't go to eat at Pizza Point except for very special occasions because the price is way too expensive, I could never afford that'. In fact, getting a pizza that would serve two people was the same as getting a take-away curry and the price was not out of reach. Even though Pizza Point's products were virtually unrecognizable as pizza in the Western sense, consumers still said: 'The food is too foreign, it's not Indian food'.

The lesson here is that the perceptions, attitudes and behaviour of consumers in emerging markets towards product categories that are considered foreign or new are based on the product category, not the specific brand. It is, in fact, very difficult, if not impossible, to establish a brand image that goes against the way the category itself is perceived.

Dr Julien Cayla's research has examined the contribution of advertising agencies to the adaption and learning of multinational companies in India.

I spent about a year-and-a-half in India, most of my time in an advertising agency looking at how foreign companies adapt to the Indian market. I think the ability of companies to learn is probably the key to performance, nationally or globally, especially their ability to transfer and interpret knowledge from one country to another. But while knowledge about consumers is a key asset, many companies don't know how to use it very well.

WHAT ARE SOME OF THE MARKET-ENTRY LESSONS OF CONSUMER GOODS MULTINATIONALS IN INDIA?

My first example looks at the market-entry experience of the Italian car maker Fiat. It entered the Indian market in 1997 in a joint venture with Premier Automobiles. Before that Premier had a licence to sell Fiat cars, which were mainly used as taxis. So there were already brand perception problems for Fiat because of the image of the Fiat taxi as a cheap car.

Fiat tried to sell the Uno in 1997 on the platform of 'a secure and reliable workhorse'. It applied some learning from its experience in South America, assuming that India was probably the same and it could market the Uno in the same way.

One of the things Fiat did not understand early on was that only a minority of Indians can afford cars. The size of the car market today is around 600,000 a year and the total number of cars in the country is only 11 million for a billion people. Cars, therefore, are status symbols, which means you can't market a car as a reliable workhorse.

My second example involves US cereals giant Kellogg. It entered the Indian market at the beginning of the 1990s. It did so on the assumption that middle-class Indians would switch to convenience products, eventually becoming more like their Western counterparts in their willingness to pay a price for convenience. They expected to sell packaged cereals like cornflakes to India's middle class. But they made the mistake of expecting that Indians, or consumers from developing countries, would rapidly upgrade to foreign premium products.

Three years after entering the Indian market, their revenues were just $A20 million. One of the things they didn't understand was that time was not viewed as a commodity. In addition, they didn't take sufficient notice of how differently Indians consume breakfast cereals – for example, unlike most Western consumers, about 61 per cent of Indians preferred to eat their breakfast cereals with warm milk. Since then, however, Kellogg has made a radical departure and launched a line of biscuits, one of the largest convenience food categories in India.

Procter & Gamble's experience in India is another example of mistakes relating to expectations that consumers in an emerging market like India will upgrade to premium Western products, and that you can easily transfer learning from one market to another.

P&G entered the market in 1984 through its subsidiary Richardson Vicks, and today the Vicks brand still accounts for 40 per cent of the company's turnover. P&G has faced many problems trying to sell products that were successful in other countries, such as the soap Camay, Tampax or even detergents like Ariel which, despite great image ratings, still fail to generate large revenues.

P&G constantly uses its 'search and re-apply' technique, grouping similar countries and trying to apply insights from one country to another. A major problem is that we still do not know how to apply learning from one market to another in an effective way. P&G now focuses on upper-middle class urban consumers, who are more likely to buy their premium-priced products like Whisper or Ariel.

> ‘Fiat tried to sell the Uno in 1997 ... but there were already brand perception problems because of the image of the Fiat taxi as a cheap car.’

The Fiat taxi in Mumbai, India.

WHAT HAVE THESE COMPANIES LEARNED?

First, they have learned that India is a radically different market and that it is difficult to apply what you know from another market. For example, in a Western context you have a low income variability, whereas in a developing country you have a large income variability and a larger number of segments and product offerings.

Think of Colgate in India: it is probably one of the only markets where you have the whole range of solutions for oral care – from the tooth powders such as Cibaca Top, specifically launched to attract the rural market, to brands of toothpaste that we have in the Australian market. Colgate and Unilever are two foreign companies that have been successful at matching products to the variety of segments in the market. Thinking about what segment you can target, given your core competencies and what revenues you can expect from that segment, is critical in emerging markets.

Second, labour is cheap in emerging markets, so it is going to be difficult to base your offering on the fact that your product is convenient. In India, upper-middle class households, which are the primary target for time-saving products, are also very likely to have a maid at home.

UNDERSTANDING OTHER MARKET DIFFERENCES

The majority of the population lives in rural areas so it is no surprise that the biggest brands in India belong to companies with a strong rural presence such as Asian Paints, Colgate, Unilever and ITC. But these rural consumers are very difficult to reach. Most of the rural households don’t have televisions, and companies like Unilever and Colgate have tried to tackle that problem by putting video vans on the road to show local movies with advertisements for their products.

Another thing about the rural market is that if you want to achieve significant market share like Unilever and Colgate you need to occupy the lower price points because that’s where the volumes are.

A BETTER PROCESS FOR LEARNING

So how do international companies usually learn about emerging markets? They read market research reports and draw upon local managers and joint-venture partners – people who they think will help them adapt to a new context.

There are problems with this approach. Reading market research reports will only provide a limited cultural understanding of a market. Drawing upon local personnel and joint-venture partners can also be problematic. Your local personnel will quickly be socialised into your company’s assumptions and you definitely need someone who will challenge your assumptions in a new cultural context.

Finally, joint ventures, while a classic form of entry into India and China, are quite risky. One of the problems I witnessed is that a lot of joint-venture partners in India are still used to the old economy, pre-liberalisation. Their ethos and corporate culture does not necessarily fit with the rapidly changing environment. There are exceptions, of course, but overall, foreign companies should make that decision very carefully.

HOW CAN WE IMPROVE THE MARKET-ENTRY EXPERIENCE?

It is very important for foreign companies to adopt a fresh perspective. Before you choose to apply learning from one market to another, try to understand the market without looking at what you know from past experience. That’s hard, because as individuals and companies, we are almost wired to draw upon past experience to think about a new problem.

Managers need to test their assumptions about the local market and select partners who will challenge their perspective on the market and consumers. In the case of Fiat, the advertising agency played a key role in challenging the company’s assumptions about consumers. There is a lot to say for the value of disagreement and constructive argument, especially in a new cultural context. ✪

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alumni at large

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DREAM JOBS

JAMES KIRBY (MBA '80), CHAIRMAN, HUNGERFORD HILL WINES

Q: Is owning a renowned vineyard as enviable as it sounds?

A: It certainly has its benefits. There are rewards and they're not just the wines. The people in this industry are very open and welcoming and cooperative, so there are a lot of positives.

Q: What are the best and worst parts of your day?

A: The best part of the day is when I have a lunch or a wine tasting out on the estates with others in the industry, whether it's a winemaker or a customer. I have a New Zealand distributor coming over this weekend and I'm looking forward to that.

The worst part? It would have to be board meetings. It's the mundane stuff that everyone has to do to be accountable. This is a business like any other and you have to go through the figures and justify all your costs. It brings you back to earth.

Q: What are the key challenges of the business?

A: Distribution. Looking for distributors in all the main markets is tough when you're a new winemaker. They can be very choosy and just getting their attention is very hard. There are also a lot of challenges with planning because you're dealing with a product that has a two- to three-year cycle.

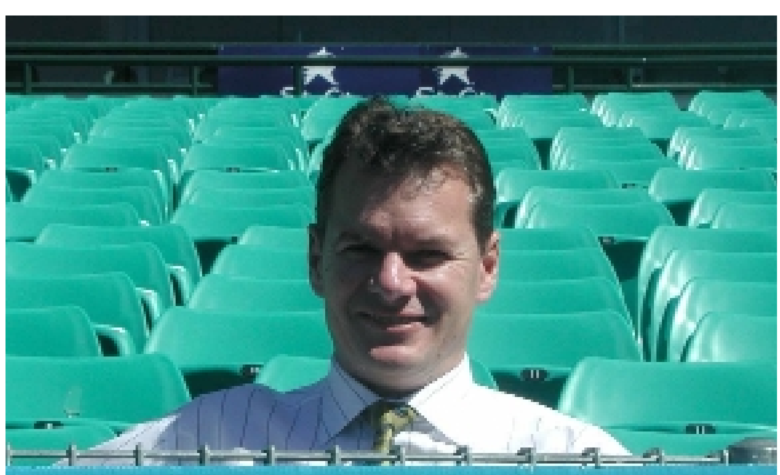
This is a much more difficult industry than many others. There's an oversupply of wine and prices are softening. But we have an extensive venture capital portfolio investing in wineries that have the potential to turn around and make a profit, so this was a venture capital investment, not a lifestyle investment.

Q: What are the surprises?

A: It's a lovely surprise to win a gold medal. We've won two and we've won a few awards and trophies over the past 12 months.

Q: And the best perks?

A: That's simple – tasting the wines. And the travel. This year I went to Verona in Italy with Austrade to a wine fair. I enjoy the travel – although my family doesn't!



MYLES BARON-HAY (MBA '88), CEO, SYDNEY SWANS FOOTBALL CLUB

Q: Is it a 'football fan dies and goes to heaven' kind of job?

A: Yes, I pinch myself most days because for someone who's passionate about Aussie Rules this is probably as good as it gets.

Q: Day-to-day, what do you enjoy most and least?

A: The thing I enjoy most is the interaction with the people and the buzz I get working with them. I'm looking to create an environment where people have a sense of purpose and fulfilment. There's not much I don't like. If anything, from time to time there are politics to navigate.

Q: What don't we know about the Swans?

A: A lot of people know very little. When we got 70,000 people in the stadium recently, about 40 per cent were going to their first AFL game. The Sydney Swans is the best-kept secret but it won't be for long – the Swans play in a very exciting way.

Q: What are your key challenges?

A: I came from a corporate world – I headed up ING New Zealand and BT Funds Management in New Zealand – and in some ways the roles and the challenges are the same, although this has the extra dimension of passion for the product. My key challenge is to improve the club's off-field performance by growing the revenue base and the number of sponsors, by doubling the members and improving opportunities to merchandise.

Q: How much fun do you have?

A: A lot – and we do more than just have fun as a corporate value. We follow through.

But it's not all fun and games. It's a very demanding job and the time commitment is significant, including working on weekends. In the off-season, you don't have your feet up; you have to sign up sponsors for next year. And I don't go to the footy as a spectator any more. But I got lucky, I've been blessed, so I'm determined to make it work for the club and myself. ✪

by Helene Zampetakis

bush telegraph

THE AGSM ALUMNI BULLETIN BOARD

MBA

2002

Joseph Lai and **Leila Yang (MBA '99)** got married on 6 July 2003 in The Tearoom, Queen Victoria Building, Sydney. "Thanks everyone who attended the wedding for making our special day so wonderful and unforgettable! Contact: **Joseph.Lai@morganstanley.com; Leila.Yang@BTFinancialgroup.com**.

Edmond Lau has joined Hong Kong-based ZONE Ltd (a member of the e-KONG group) as associate director. Contact: **edmondl@zone1511.net**, Tel: (+852) 2969 7180.

2001

Daniel Tracton reports that he is working as the Lens and Contact Lens manager (based in Sydney) for the OPSM group, which operates 619 stores. In May, his wife Michelle had their first baby, Ariella Miriam.

Colin Ng has moved from the role of project accountant with Standard Chartered Bank to management information and market analyst with Prudential Corporation Asia. Contact: **colin.ng@prudential.com.hk**, Tel: (+852) 9470 2805.

2000

Yong Zeng has left Korn/Ferry International to join ESRassociates as managing consultant. Contact: **yongzeng@esrasia.com**, Tel: (+86 10) 6503 2173.

1999

Karen Beck is getting married to Philip in Venice on 18 December, and is having an extended holiday and honeymoon in Europe for six weeks.

Carlos Jimenez has moved from the role of director with Caleb Ventures to corporate adviser with Leadenhall Australia. Contact: **cjimenez@leadenhall.com.au**, Tel: (02) 9262 9022.

Christopher Cheung and **Dan Ma** (also **MBA '99**) were married on 1 November. The wedding and reception was in Sydney and a second reception was held in China. Chris works for CyberU and Dan works for Deloitte Consulting in Los Angeles in the US.

1998

Yoshie Miyake has moved from the role of Oceanean equity sales trader with Nikko Securities (Australia) to financial applications support specialist with Reuters Australia. Contact: **Yoshie.Miyake@reuters.com**, Tel: (02) 9373 1551.

Richelle Geelan writes: "I am now a manager with PricewaterhouseCoopers New York, working in the media and entertainment section of the assurance/business advisory services division. I am based predominantly in New York, but still return to Sydney at least once a year to stay in touch with family, friends and the Australian business environment and culture".

Jono Herrman writes: "My wife Caroline and I had our second child, Emmanuella, on 30 July. The day before, I exchanged on a new business – manufacturing and repairing hydraulic cylinders for materials handling machinery. And to ensure there's enough stress, the family's moving home to Sydney's north at the end of the year, driving there in the new family station wagon!"

Linda Chuk reports that she returned from Germany in April and has started a new job as service enablement project manager (Asia-Pacific) for AT&T. Contact: **linda.chuk@ap.att.com**, Tel: (02) 9855 6011.

1996

Alan Sapsford is now living in the south of France with his wife and two children where he is studying French full-time at the University Paul Valery III.

Ian Hounslow reports: "I recently became a partner in a small (three partner) chartered accounting firm in Sydney's CBD. The firm specialises in providing accounting and taxation services to small- to medium-size businesses. My wife and I still live at Ingleburn and we now have three children: Megan, seven years old; Cherie, five; and Michael, 15 months. Contact: **ian@arw.com.au**.

Katie Harris (nee **Lechner**) and Simon are pleased to report that Emily Lexington Harris was born on 10 August.

Wolfgang Muller and his wife Daniela have had a baby boy, Sebastian.

Bruce Josephs writes: "DVD Infinity (of which I am a part owner) has opened its first retail store at 79 Alexander Street, Crows Nest, Sydney. We are having great success in generating business from around the world for our unique DVD movie film packages as well as our corporate DVD packages". Tel: 0412 016 568.

1994

Sonny Navaratnam has commenced a new consulting venture in partnership with Andrew Hyland, named Blunt Solutions. The enterprise focuses on assisting companies to improve their bottom lines, in a sustainable manner, on a reward-for-performance basis. Its clients vary from one-person businesses to large corporations. Contact: **navaratnams@blunt.net.au**, Tel: (02) 9238 6883.

James and Leonie **Duck** are "very pleased to announce the birth of their second child, Hannah, in late July. Hannah has been managing both her parents and her brother, Alex, very well".

William Chong has left Mayne Nickless to join Logistics Information Network Enterprise (a member of Hutchison Port Holdings) as head of operations. Contact: **william.chong@line.net**, Tel: (+852) 3161 2176.

1993

A decade on from completing his MBA, **Rick Tarvin** reflects on his serendipitous 10-year journey – from gardener to asset management business owner. "Following completion of my MBA, I moved to London to seek business opportunities. After much application I managed to secure a full-time position as a gardener at the illustrious Hyde Park Gardens. This was a revelation as I was finally able to assess the practicality of many sit-on lawn mowers, for which I have always been fond. Following the chance meeting of a woman in a bar and the subsequent meeting of one of her friends, I established a partnership developing financial trading software for the next two years. We then raised some capital, traded the software and shortly after sold the business. With another woman (made through the same contact) I started my next business in 1996 called Fortune Asset Management. In the following year we launched a second company called Global Fund Analysis and combined these into an FSA-regulated group structure. The core competence of these companies is the evaluation, management and seeding of hedge funds. The company's head office is based in Mayfair (Fortune House) with additional offices in New York, Tokyo and Geneva. I have 35 employees and $US600 million under management, and owing to first-mover advantage our company is one of the leading hedge fund groups in Europe. Other shareholders in Global Fund Analysis include a private Swiss bank, a Japanese brokerage company and another UK asset management firm. My partner Abby and I remain the majority shareholders, and we are now married with two children, Oscar and Louis. I am still in regular contact with **Steve Walter (MBA '93)** and **Tim Deyzel (MBA '93)**."

1988

Michael O'Rourke has moved from the Department of the Prime Minister and Cabinet to the Department of Health and Ageing (Canberra-based) as director, portfolio business unit. His work involves advising the minister and secretary of the department, as well as the chief executives of the various statutory agencies in the portfolio, on governance arrangements and performance reporting. Contact: **michael.o'rourke@health.gov.au**.

1986

Margot Cairnes has a new book out: *Staying Sane in a Changing World*. Contact: **jane@changedynamic.com**, Tel: (02) 9908 2831.

Tony Ritchie and Tara Hannon had triplets this year! Tracey, Angelina and Grace, known as the TAG team, are all in good health and growing rapidly. Tony is vice-president, strategy and product development J/APA, at American Express.
Tel: (02) 9271 1969.

1984

Lynn Wood writes: "I was fortunate to be awarded a Centenary Medal last month for service to Australian society through business and finance (a good follow-on from the MBA!)". See: **www.itsanhonour.gov.au**.

Michael Cheah has left Guangzhou-based Baxter Healthcare to join GlaxoSmithKline in Tianjin (Tianjin Smith Kline & French Laboratories) as vice-president and general manager. Contact: **michael.p.cheah@gsk.com**, Tel: (+86 22) 2470 0271.

Grace Leung has taken up the role of HR projects manager with Rohm and Haas China Inc. Contact: **graceleung@rohmhaas.com**, Tel: (+86 21) 6230 6366 (ext. 185).

1980

James Kirby has acquired Hungerford Hill Wines in the Hunter Valley and is now spending most of his time researching the wine industry! "It's a tough life but someone has to do it!" he says, adding, "if any alumni are visiting the Hunter Valley, please call in at the new cellar door at 1 Broke Road, Pokolbin and taste some of the award-winning wines".

1979

Ingrid Jackson reports that change communication is a major focus of her consulting firm Executive Management Solutions. Having spent a year implementing communications for a major redesign program at Commonwealth Bank's corporate banking, she is now advising on internal and external communications for the bank's Transformation Program. Contact: **grasmere@bigpond.net.au**.

1978

Jackie Liew has relocated from Singapore to the US. "I am attending a two-year full-time baking and pastry arts program at the Culinary Institute of America in Hyde Park, New York. Hyde Park is approximately one-and-a-half hours by train from New York City. Some of you may be familiar with the Institute – it has very good programs and is considered the premier culinary school. I still have my home in Singapore, but for now until the end of 2004, I can be reached as follows: **johnkoeneman@alum.MIT.edu**, Tel: (+1 845) 4546 053."

MBA (EXECUTIVE)

2002

Simon Andrews wishes to advise that he has recently joined Telstra Small Business Awards finalist Apis Consulting Group (**www.apisgroup.com.au**), which provides specialist project management and related professional services to private and public sector clients throughout Australia and overseas. Simon would be happy to hear from any alumni whose organisation is in need of innovative project management or change implementation services or support. Contact: **simon.andrews@apisgroup.com.au**, Tel: (02) 6295 7230.

Mark Haskett is working as treasury dealer for BankSA, part of the St.George group, in Adelaide. Contact: **haskettm@stgeorge.com.au**.

2001

Stuart Jacquet has joined Lafarge Gypsum as vice-president, sales and business development.
Tel: (+33 4) 3244 4430.

Paul Fisher has been promoted to Asia-Pacific general manager, Hewlett-Packard Australia. Contact: **paul.fisher@hp.com**, Tel: (03) 9275 3489.

Michael Graf has moved from the role of principal with IBM Global Services Australia to A/NZ business unit executive with IBM Australia. Contact: **mgraf@au1.ibm.com**, Tel: (02) 9478 8272.

Lee Baxter has moved from the role of business manager with Marblized Products to PPP contracts support executive with London Underground. Contact: **Lee.Baxter@thetube.com**, Tel: (+44 20) 7027 8412.

After travelling through South and Central America for six months, **Dan Walsh** "and the beautiful Simone" have landed in London. Dan reports that he is still with Brambles and is now a participant on CHEP's global leadership development program. His first 12-month rotation is in Europe, where he is leading negotiations with major retailers on the introduction of a new service offer. Contact: **daniel.walsh@chep.com**.

2000

Dr **Peter Devine** was awarded a Centenary Medal for distinguished service to the business of biotechnology.

Phillip Robinson has left DDC Pacific to join Bishop Austrans as marketing and commercialisation manager. Tel: (02) 9844 6700.

1999

Paul Steinwede has moved from the role of New South Wales operations manager, contaminated site solutions, at Environmental Resources Management Australia, to New South Wales manager, site investigation and remediation with Environmental Resources Management Australia. Contact: **paul_steinwede@urscorp.com**, Tel: (02) 8584 8863.

1997

Lenny Fallon writes: "I am taking a deep breath, by myself, on a bush property on the New South Wales southern coast. I intend to spend about two years growing organic vegetables. Any classmates who want to have a bit of a chinwag, watch a bush TV (open log fire), catch some falling stars, maybe do a spot of fishing, maybe share a hard day's yakka in the dirt or share a quiet Bundy or a cup of tea are welcome to catch up with me via my e-mail address at the AGSM: **len.fallon.97@alumni.agsm.edu.au**."

Bill Richards travels a lot "in my current role as HR director Asia-Pacific for Bio-Rad Laboratories – to India, China, Taiwan, South Korea, Thailand, Singapore, Malaysia, Vietnam and the Philippines. I also travel to New Zealand. I would welcome the opportunity to meet for a drink or chat with any MBA (Executive) or MBA alumni in these countries". Contact: **bill_richards@bio-rad.com**.

1996

Kevin Peesker has left his adopted country of Australia to pursue career opportunities with Dell Corporation in Toronto, Canada. Kevin moved his family to the land of ice hockey in January to join the executive team of Dell Canada. In his new role of director, software and peripherals, Kevin is leading a key strategic growth initiative of Dell Canada and is establishing the Canadian IBU. Although he has purchased a home in Canada, Kevin says he has retained his property in Mosman and golf membership at Avondale to ensure escape from Canada's cold winters. "Australia will not be forgotten," he says. (Kevin also reported that he and Karen were expecting their first-born in late June.)

Anthony McMahon has moved to a new role as vice-president, Asia-Pacific and Japan (direct and teleweb) with Hewlett Packard Singapore. Contact: **anthony.mcmahon@hp.com**, Tel: (+65) 6361 7311.

1995

Grant Rosewarne is now managing director, Douwe Egberts, in the United Kingdom. **Adam Grimley** has left PricewaterhouseCoopers to join Accenture as associate partner. Contact: **adam.e.grimley@accenture.com**, Tel: (+65) 6410 8000. **Paul Nelson** has moved from the role of CFSP commercial portfolio manager at Jones Lang LaSalle to national director. Contact: **paul.nelson@ap.joneslanglasalle.com**, Tel: (02) 9220 8438.

1994

Brian Walkington has been appointed managing director of Grimwood Heating, which is a management buyout of the element and tube operation of Electrolux Home Products.

GDM

1999

Mark Chaston has left Aldwick (WA) to join Commonwealth Financial Planning as financial consultant. Contact: **marka.chaston@cba.com.au**, Tel: (08) 9482 6396.

1996

Steve Bowler-Donington reflects that completion of his GDM helped him to launch a private-sector career after 30 years in the federal public sector. He initially worked for Morgan & Banks, where he gained the experience and confidence to start a business partnership – ITS People Solutions in 1999 in Western Australia; see **www.pvspeoplesolutions.com.au**. "At the outset, the vision of ITS People Solutions was to form a national company. Our dream came true in July last year when we formed The Donington Group – a company providing clients with a fully-integrated career transition and outplacement service throughout Australia and New Zealand. I am chairman and executive director of Donington (a group of 50 highly-experienced specialists and their support teams), and we have affiliates in Europe, Asia and the US (**www.donington.com.au**)."

GCM/GMQ

1999

Arif Haque reports that he has formed Australian Medical Treatments (AMT) to assist overseas residents access first-class medical services as full fee-paying patients in the Australian private hospital system. "Just as Australian education is being exported (with overseas students coming to study in Australia), AMT is exporting medical services by using the excess capacity in the Australian private healthcare system. AMT liaises with the relevant specialists and hospitals, guides patients through the Australian immigration requirements, makes all the necessary medical and personal arrangements, assists with on-arrival and departure arrangements and attends to any other personal requirements. From the target markets' perspective, Australia provides a unique destination, high standards of medical services, competitive medical costs and exchange-rate advantages, a comfortable climate, easy lifestyle and friendly people. The provision of medical treatments is an industry sector that AMT believes will gain prominence with the ageing demography and an increase in lifestyle diseases. It provides a potential similar to the education export sector, which is expected to grow to a $40 billion industry by 2025." For further details visit: **www.medtreat.com.au**. Contact: **arif.haque@medtreat.com.au**, Tel: 0419 499 707.

1997

David Roberson has left Jonathen Wren (Australia) to take up the position of general manager for Melleuish (trading as The Bottle People). Contact: **david@bottlepeople.com.au**.

1995

Chris Firth reports that he has left his role as CEO of Julia Farr Services in Adelaide to take up the position of director, Urban Regeneration-Westwood, in the Department of Human Services, also located in Adelaide.

1994

Glenn Carter has moved from the role of head of knowledge management with Nokia Networks to learning and development manager with Newcastle Permanent Building Society. Contact: **glenn.carter@newcastlepermanent.com.au**.

1992

Barry Allen has moved from the role of customer services manager to business manager with Concurrent Software. Contact: **barry.allen@seqos.com**, Tel: (02) 9790 8328.

GCCM

2003

Angela Diamond has left ANZ to join Diamond Communication Services as director. Contact: **angela@diamondcomms.com.au**, Tel: (02) 9332 4100.

DPM/SMDP

2000

Peter Gow has moved from the role of chief manager with St.George Bank to director with Creative Capital. Contact: **petergow@creativecapital.com.au**, Tel: (02) 9223 2144.

1995

Bob Redston has moved from the role of general manager (cartonboards New South Wales) at Amcor Cartons, to general manager (Veolia services, Australasia) with Veolia Environment. Tel: (02) 8572 0488.

1989

Phil Simmons has moved from the role of director with Simmons Advisory to managing director with RGA Reinsurance Company of Australia. Contact: **psimmons@aus.rgare.com**, Tel: (02) 9290 7900. **Susan Peatfield** reports that after working for almost five years as the HR director for one of the major law firms in Sydney, in 1998 she set up her own consulting company, Susan Peatfield Consulting HRD, with clients in both legal and financial services. She also works as a trainer for the Australian Institute of Management in New South Wales. In September 2002, Susan married professor Jim Taylor (deputy vice-chancellor, Global Learning at USQ in Toowoomba). "While now based in sunny Queensland, I still make regular trips to Sydney for work and to catch up with friends and family." ✪

faculty news

World's most influential theories

The published research of three AGSM academics has been rated by an *Academy of Management Learning and Education* study as among the world's most influential organisational behaviour theories.[†]

The AGSM's professors **Philip Yetton**, **Lex Donaldson** and **Robert Wood** are the only academics presently working in Australia to be included in the list of significant researchers. They are ranked alongside distinguished academics like Harvard Business School's Chris Argyris (known for his theories on personality and the organisation), as well as pioneers like Frederick Taylor (author of the theory of Scientific Management Formulations known as Taylorism) and Elton Mayo (conductor of the groundbreaking Hawthorne studies in the 1930s).

INFLUENTIAL THEORISTS (From left): Lex Donaldson, Philip Yetton and Robert Wood.

A worldwide panel of 95 academics selected a top tier of 73 theories and ranked them on extent of recognition, usefulness to management practice and scientific validity.

Professor Philip Yetton – a founding academic at the AGSM – was cited for his research with Victor Vroom on a model of leadership decision-making (Normative Decision Process), which is widely regarded as pioneering work in the area.

Professor Lex Donaldson made the ranking for his work on organisational structure. His Structural Contingency theory looks at the ways the structure of an organisation needs to fit factors such as strategy, size and innovation for an organisation to be effective.

Professor Robert Wood was cited for his research with Terence Mitchell and Steve Green on an Attributional Model of Leadership. Their work explains how leaders diagnose and respond to followers' work behaviour, and how leaders' judgments and behaviours impact followers and their performance.

Of all the business schools represented in the study, the AGSM came second only to the US's Stanford Graduate School of Business for the number of working academics cited. Stanford has four active researchers, followed by the AGSM with three, Harvard with two, and Yale and the University of Michigan with one each.

[†] 'The rated importance, scientific validity, and practical usefulness of organizational behavior theories: a quantitative review', John B. Miner, *Academy of Management Learning and Education*, vol. 2, no. 3, pp. 250–268, September 2003.

Teamwork wins grant

The AGSM's professors **Eddie Anderson** and **Bob Marks** have joined forces with University of New South Wales electrical engineering academics, Hugh Outhred and Iain MacGill, to win a three-year Australian Research Council (ARC) discovery grant worth $252,000.

The aim of the research project is to achieve a better understanding of the operation of wholesale electricity spot markets by analysing how the physical system, industry structure, market mechanism and participant behaviour determine system outcomes.

"In particular, we want to understand the ways in which the market structure influences participant behaviour, and the circumstances that lead to non-competitive results," says Anderson.

Anderson has been working with AGSM PhD candidate, **Doan Hoang Cau Thai**, on the use of artificial intelligence methods to model emergent, implicit collusion. This is behaviour that can occur when generators decide to be less aggressively competitive than would be expected.

"Aggressive bidding today may win more market share in the spot market and be good for short-term profits, but it is likely to lead to lower returns for all the generators in the long run," explains Anderson.

New faculty

Kevin Clarke has been appointed senior lecturer in finance and accounting. Clarke spent the first six months of this year at the AGSM as a fellow (while on leave from the University of Western Sydney). For several years he has been a successful adjunct teacher for the AGSM in the full-time MBA and the MBA (Executive) programs.

He brings to the school outstanding teaching experience and extensive connections with the professional accounting and financial management business communities. Clarke has a Bachelor of Business from Nepean CAE and masters degrees in accounting, finance and taxation from Macquarie University and the University of Western Sydney. He is presently working to complete his PhD with professor Jack Flanagan.

Dr **Benoit Julien** will join the AGSM as senior lecturer in economics in late-2003. He has a masters degree in economics and a PhD from the University of Western Ontario, and has held university positions in Canada, New Zealand and the US, most recently at the University of Miami. His special area of research is applied microeconomics, with a particular focus in recent times on the role of asymmetric information in labour markets. Benoit has been published in a number of international journals, and has won research grants in New Zealand and the US to support his work.

Award winner

The American Marketing Association's Technology and Innovation Special Interest Group (TechSIG) has given AGSM marketing lecturer Dr **Kristen Rotte** its annual award for best dissertation. She was also the runner-up this year in the Academy of Marketing Science's best dissertation award.

These awards follow on the heels of recognition from the US's Marketing Science Institute for best dissertation proposal last year. Rotte's research looks at how companies detect and manage customer uncertainty when moving existing customers from a current product, service or channel to a new one – what she calls "forced migration initiatives".

books REVIEWS AND NEWS OF BUSINESS BOOKS

CONQUERING CONSUMERSPACE
by Michael R. Solomon (AMACOM, 2003)

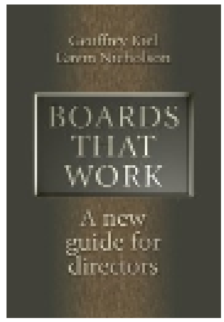
Reviewed by professor John Roberts

This book is something of a tour de force. It contains something for everyone and includes a wide variety of exciting marketing flavours.

One can detect Aaker's writing on branding, Faith Popcorn's work on environmental trends, von Hippel's study of sources of innovation, Blattberg and Deighton's ideas on the age of addressability and Sawhney's strategic insights in e-business. These themes are bundled together in a way that is humorous, accessible, stimulating and well-written.

The book is replete with practical examples of the points that Solomon is making. I can thoroughly recommend the book as a terrific update of contemporary theory, a refresher for marketing philosophy in the digital world or a means of breaking out of tired ways of thinking. It is short and would also make a good bedside read.

Such praise begs the question as to whether there are any downsides to the book. While *Conquering Consumerspace* is full of ideas, they do tend to emerge as a stream of consciousness. The structure of the contents is weak, leading to a bit of a hotchpotch of stories and principles. The thread that draws this patchwork of modern marketing challenges together could have been pulled more tightly. Ideas about brand communities, new product development approaches, customisation and addressability, and brand meaning keep bubbling up all over the place. However, this is a small price to pay for a book that dares to break conventional formats and approaches.



BOARDS THAT WORK: A NEW GUIDE FOR DIRECTORS
by Geoffrey Kiel and Gavin Nicholson (McGraw Hill Australian Business Books, 2003)

Reviewed by Meredith Rogers, PhD candidate (corporate governance)

Sir Adrian Cadbury stated that underperforming boards are a greater threat to company performance than dishonest boards (at the launch of the University of Technology, Sydney's Centre for Corporate Governance in March 2003).

Kiel and Nicholson's book is a timely primer to assist Australian practitioners improve board performance.

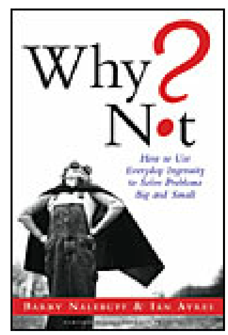
The book is structured around the authors' Corporate Governance Charter™, which has four stages: defining governance roles, improving board processes, key board functions and continuing performance.

After introductory chapters on the charter, the history of corporations and the relevant Australian legal framework, each stage of the charter is developed in a separate chapter. The final chapters provide guidance on the preparation of a charter for your organisation, and future directions in corporate governance.

The book's format aids access by busy practitioners. The charter provides an effective framework, and the many diagrams and comprehensive index facilitate quick reference. The charter for the fictional ABC Limited, included as Appendix 3, provides a good summary of the authors' recommendations.

Other strengths of the book include its Australian focus, the explanation of the multiple roles boards can play and the recognition of the differing needs of listed, unlisted and not-for-profit organisations. The book's main weakness is that it occasionally reads like a sales pitch.

The authors' extensive academic and consulting experience have combined to provide an extremely useful reference for practising directors.



WHY NOT? HOW TO USE EVERYDAY INGENUITY TO SOLVE PROBLEMS BIG AND SMALL
by Barry Nalebuff and Ian Ayres (Harvard Business School Press, 2003)

Reviewed by Pierre Richard, PhD candidate

Why Not? is a practical guide to creativity and innovation. Very much in the spirit of Edward de Bono's *Lateral Thinking*, it opens up and investigates the black box of creativity (though the authors are at pains to point out that creative thinking itself should be outside that other box of accepted practice). *Why Not?* is easy reading and filled with practical examples. It is not a step-by-step guide or reference on how to innovate and establish new ventures; instead, it is a thought-provoking discussion of how to open our eyes to new ideas.

Why Not? highlights creativity on an individual level. Instead of focusing on organisational tasks like building the right cross-functional teams, Nalebuff and Ayres endorse the creativity resident in everyone, outlining four simple heuristics that can unleash that potential. The authors advise us to consider economically unconstrained ideas; think of how to internalise imperfections caused by market externalities; apply solutions to other problems; and reverse accepted ways of doing things.

Their argument is that innovative ideas are not solely the domain of scientists and experts, but something we can all work towards.

Importantly, the authors successfully link creativity to economic reality. Yale professors in management and law respectively, Nalebuff and Ayres draw extensively on their own experiences – in their academic work as well as their participation in entrepreneurial ventures. The tools they present are founded on strong economic reasoning and a sophisticated appreciation of the nature of commerce.

Overall, *Why Not?* provides a very effective sketch of how we can access our own creative capacity. The authors clarify the nature of existing problems, provide a guide to what elements solutions might contain, and advise how best to channel creative energy, which makes the book informative and, more importantly, inspirational.

THE LEADER AS COMMUNICATOR
by Robert Mai and Alan Akerson (AMACOM, 2003)

Reviewed by Alan Valvasori

Quick quiz: think of any three successful business leaders and choose the one attribute that

publications & papers

PUBLISHED WORK AND RESEARCH PRESENTATIONS

makes them stand out from their peers. Brilliant strategist? Astute visionary? Wily politician?

Chances are that 'great communicator' is not top of the list. On the face of it, communication is the easiest of leadership attributes but, as we all know, it is often the hardest to execute consistently well.

Mai and Akerson make a strong case for why failure to communicate is the persistent flaw among leaders, accounting for aimless direction, faulty execution and poor morale.

Leadership communication goes far beyond simply delivering information or slick presentation skills. The authors argue that, at its core, leadership communication is about building and nurturing relationships. While this might not be news, what is of note is the authors' interpretation of the many manifestations 'relationship building' demand. The authors describe 10 communication roles that leaders, as chief communications officers, must assume to build effective relationships.

Perhaps the most challenging of the 10 communication roles is the CEO as storyteller. Much has been written recently about the role of storytelling in organisations and how it can be used to create meaning, coherence and trust.

The purpose of storytelling is for a CEO to "build a sense of belonging and a reason to affiliate" in his or her organisation. While the theory sounds fine, one can't help but feel that your average Australian CEO might scoff at the idea.

Nevertheless, the book presents case studies and plenty of strategies showing how leaders can shape the communications climate of their organisations. The authors invite leaders to step back from the daily grind and reflect on how communication is both an instrument of strategy and a strategy in itself. ✪

BOOK CHAPTERS

Professor **Eddie Anderson** and H. Xu, 'Nash equilibria in electricity markets with fixed price points', in P.M. Pardalos and V. Korotkikh (eds.), *Optimization and Industry: New Frontiers*, Kluwer, Dordrecht, 2003.

Associate professor **Sharon Parker**, N. Turner and M.A. Griffin, 'Designing healthy work', in D.A. Hofmann and L.E. Tetrick (eds.), *Health and Safety in Organizations: A Multi-level Perspective*, pp. 91–130, Jossey-Bass, California, 2003.

JOURNAL PUBLICATIONS

Dr **Elizabeth George**, 'External solutions and internal problems: the effects of employment externalisation on internal workers' attitudes', *Organization Science*, vol. 14, pp. 386–402, 2003.

Alison Davis-Blake, Joseph P. Broschak and Dr **Elizabeth George**, 'Happy together? How using nonstandard workers affects exit, voice, and loyalty among standard employees', in *The Academy of Management Journal*, vol. 46, no. 4, August 2003.

Dr **Marc Orlitzky** and J.D. Benjamin, 'The effects of sex composition on small-group performance in a business school case competition', *Academy of Management Learning and Education*, vol. 2, no. 2, pp. 128–138, 2003.

Associate professor **Sharon Parker**, 'Longitudinal effects of lean production on employee outcomes and the mediating role of work characteristics', in *Journal of Applied Psychology*, vol. 88, no. 4, pp. 620–634, 2003.

PhD candidate **Geoff Warren**, 'Interval and sampling variation in Beta estimation: an educational note', *Accounting Research Journal*, 2003.

PhD candidate **Paul Yau**, professor Robert Kohn (UNSW) and Dr **Sally Wood**, 'Bayesian variable selection and model averaging in high-dimensional nonparametric regression', *Journal of Computational and Graphical Statistics*, vol. 12, no. 1, pp. 23–54, 2003.

CONFERENCE PRESENTATIONS

PhD candidate **Catherine Collins** and associate professor **Sharon Parker**, 'Big five personality factors, collective outcome and process efficacy: a longitudinal study', in S. Gully, 'Exploring the nomological network of collective efficacy: recent findings, new directions', at the Annual Meeting of the Academy of Management, Seattle, US, August 2003.

Dr **Markus Groth**, D.P. Mertens and R. Murphy, 'Customers as good soldiers: examining citizenship behaviours in service deliveries', presented at the Annual Meeting of the Academy of Management, Seattle, US, August 2003.

Professor **Murray Kemp**, 'Non-lump sum redistribution' at the International Trade and Factor Mobility Symposium, Kansai University, 1–2 July 2003; and keynote address, 'Lump sum versus non-lump sum compensation: a second glance' at Recent Advances in International Economics Conference, City University of Hong Kong, 28–29 August 2003.

Dr **Dan Lovallo** and professor Daniel Kahneman, 'Delusions of success: how optimism undermines executives' decisions', *Harvard Business Review*, July 2003.

Associate professor **Sharon Parker**, keynote speech, 'Making work design work: challenges and opportunities'; (with H.M. Williams and N. Turner), 'The interactive effect of surface- and deep-level dissimilarity in predicting within-team perspective taking' in PhD candidate **Catherine Collins** and associate professor Sharon Parker (chairs), 'Creating effective teams through closer attention to cognitive and motivational outcomes'; and (with J. MacCormick), poster presentation, 'Exploring paradox: the joint effect of internal and externally-focused practices on perceived organisational effectiveness' at the 5th International Industrial and Organisational Psychology Conference, Melbourne, June 2003.

N. Turner and associate professor **Sharon Parker**, 'The effect of teamwork on safety processes and outcomes', in N. Turner and E.K. Kelloway (chairs), 'Psychosocial factors and safety: making sense of the latest research', at the 5th Work, Stress and Health Conference, Toronto, Canada, March 2003.

CONFERENCE PROCEEDINGS

Associate professor **Sharon Parker**, 'Proactivity and adaptability at work' in W. Noble (ed.), *Combined Abstracts of 2001 Australian Psychology Conferences*, The Australian Psychology Society, Queensland, Australia. ✪

Recommended reading

The business of being US management guru Tom Peters involves an "insane amount of reading", he says. Some of the books he recommended to a Sydney business audience in August (during a presentation on the theme of reinventing management practices for the 21st century) included:

- *Creative Destruction: Why Companies That Are Built to Last Underperform the Market* by Richard Foster and Sarah Kaplan
- *Out of Control* and *New Rules for the New Economy* by Kevin Kelly
- *Funky Business: Talent Makes Capital Dance* by Kjell Nordström and Jonas Ridderstrale
- *The Rise of the Virtual State* by Richard Rosecrance
- *Why We Buy: The Science of Shopping* by Paco Underhill
- *Marketing to Women* by Martha Barletta
- *EVEolution: The Eight Truths of Marketing to Women* by Faith Popcorn and Lys Marigold
- *Smart Mobs: The Next Social Revolution* by Howard Rheingold
- *Beyond Disruption: Changing the Rules in the Marketplace* by Jean-Marie Dru
- *Age Power: How the 21st Century Will Be Ruled by the New Old* by Ken Dychtwald

IDEAS AND PRODUCTIVE DIVERSITY

Failure to capture new ideas by harnessing the advantages of our social diversity could cost us money, writes **Sandra Yates**.*

There is now widespread discussion of the notion of ideas as the currency of the future, an idea articulated with some passion by the legendary Jack Welch, who emphasises that ideas-driven organisations will be the new-economy winners.

Now, knowledge, in and of itself, is not the answer to anything. It is the transformative nature of ideas applied to knowledge that creates change.

Our ability to discriminate between untested ephemera and useful knowledge, and then to kick-start ideas based on the analysis of that knowledge, is what will distinguish tomorrow's business leaders.

What has this to do with productive diversity? Everything, I would argue.

One of the most intriguing aspects of the dotcom revolution was that its foot soldiers were very young, both male and female and, in Silicon Valley at least, a disproportionate number of them were Indian or Asian. None of these groups had been widely represented at the top levels of business in the past.

This group of people – who seemed not to own a suit between them – managed to create the most amazing stock market bubble the world has ever seen, and a whole bunch of middle-aged men in blue suits could not wait to pelt them with money.

The men in suits weren't wrong to do this – they recognised that what this rag-tag band had in abundance was ideas – something the suits did not have a lot of, but could still recognise when they saw it.

It was Jack Welch who pointed out that the job of management in the new millennium is to recruit, train, promote and keep ideas leaders. Ideas leaders will rarely be CEOs because management is not what they are good at. Ideas leaders are wealth creators; they are catalysts for change.

And here's the thing about ideas – good ideas can come from anyone, anywhere, but they are least likely to come from those who have been socialised into conventional business behaviour.

If ideas are the currency of the future, as Jack Welch asserts, then you can bet that the smartest of the old-economy CEOs are trying to figure out how to have more of them than anyone else, and what they are rapidly discovering is that they are having to go outside to find them.

SANDRA YATES

> ‘Ideas leaders are wealth creators; they are catalysts for change.’

The old army-style command and control model, which has provided business with its management framework for so long, is virtually useless in an ideas culture – people with shared experiences and values will always tend to come up with similar ideas.

So to be a successful ideas company diversity is not just important, it is essential.

Drawing on my experience in women's issues, let me respectfully make the point that having one of everything does not constitute diversity.

At Saatchi & Saatchi, we have given a lot of thought to how to recruit ideas people, and we believe the greatest indicator of an ideas person is intuition. We value intuition more highly than intelligence, and we test for it.

We look for people who can talk in an abstract way about big ideas. We invite them to speculate about what the future might hold. We look for people who can make leaps in logic – who can spot the gap, and imagine what might go there.

And we accept, absolutely, that for us to be successful recruiters and, more importantly, retainers of ideas people, we have to be prepared to abandon every ingrained prejudice and embrace the notion, as a matter of pure logic, that good ideas can come from anyone – not just people like us. For us the task is urgent because ideas are all we have to sell, but that is true for any service organisation.

In an age of parity products, where almost any service or product can be replicated in a matter of months, the speed with which we can get ideas to market will define all successful companies – whatever the business they are in.

Obviously not everyone from a different culture or background is an ideas genius, just as every middle-class middle manager is not necessarily totally bereft of ideas. But if we want to give ourselves the greatest number of opportunities to capture new ideas then we need to be sure that we're drawing on the knowledge and skills of our diverse workforce to capture new markets both in our immigrant communities and overseas.

If Australia is to become a truly globalised, new-economy country then we need the skills to operate in other languages and cultures. Our multicultural heritage is a strategic tool that gives us a significant edge over monocultural countries such as Japan or China. Our failure to exploit this strategic advantage is costing us money.

Productive diversity is a great place to begin because it provides a useful framework for business, but I hope it can be more than that. I hope it can be a springboard for a broader debate about the sort of future we want for this country we love so much. I hope also that the ideas generated by our exposure to all the benefits of diversity lead us to the development of a new economy and a new consciousness of the value of the contribution of all its participants. ✪

** Sandra Yates is the chairperson of Saatchi & Saatchi Australia and a member of the AGSM's advisory council.*