ASIAN MANAGEMENT INSIGHTS

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ACCIDENTAL CAPTAINS

How to sink strategy even before it is executed

Singapore's core values
An interview with Singapore's seventh President Dr Tony Tan

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Doing business in an emerging market

The reality of eLearning
Coming to grips with it

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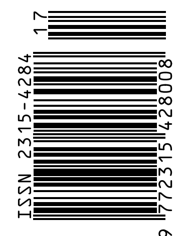

CONTENTS

01 **CONTENTS**

04 **FROM THE EDITOR**

Integrity, meritocracy and inclusiveness are Singapore's core values.

- Dr Tony Tan, seventh President of Singapore

AT THE HELM

06 **SINGAPORE'S CORE VALUES**
an interview with the seventh President of Singapore, Dr Tony Tan
Philip Zerrillo

VANTAGE POINT

12 **ACCIDENTAL CAPTAINS**
how to sink strategy even before it is executed
Zafar A. Momin

Now even globalisation is under a cloud from nascent nationalism.

- *Philip Zerrillo, Editor-in-Chief, Asian Management Insights*

INDUSTRY WATCH

18 **DO INCENTIVES WORK?** achieving business results with the right pay scheme
Fermin Diez

26 **LOOK BEFORE YOU JUMP** the reality of eLearning
Kapil Tuli

34 **MEN'S COSMETICS** challenging conventional marketing wisdom
Dae Ryun Chang

A WALK THROUGH ASIA

40 **DEMOGRAPHIC TRENDS** understanding the momentum
Philip Zerrillo

EXECUTIVE BRIEF

44 **PRIDE AND PROTECTIONISM** U.S. trade policy and its impact on Asia
Mark Zandi, Steve Cochrane, Ryan Sweet, Ruth Stroppiana and Katrina Ell

52 **GLOBE TELECOM** redefining telecommunications
Havovi Joshi, Christopher Dula and Philip Zerrillo

THE ENTREPRENEUR'S CORNER

60 **LIGHTING THE SPARK** in the Philippines
Rosemarie 'Bubu' Andres

CASE IN POINT

64 **PARIS BAGUETTE** a Korean brand's success in France
Jin K. Han, Sheetal Mittal, Havovi Joshi and Yong Seok Sohn

PARTING SHOT

70 **DOING BUSINESS IN MYANMAR** dressing up the bride
Ma Cherry Trivedi

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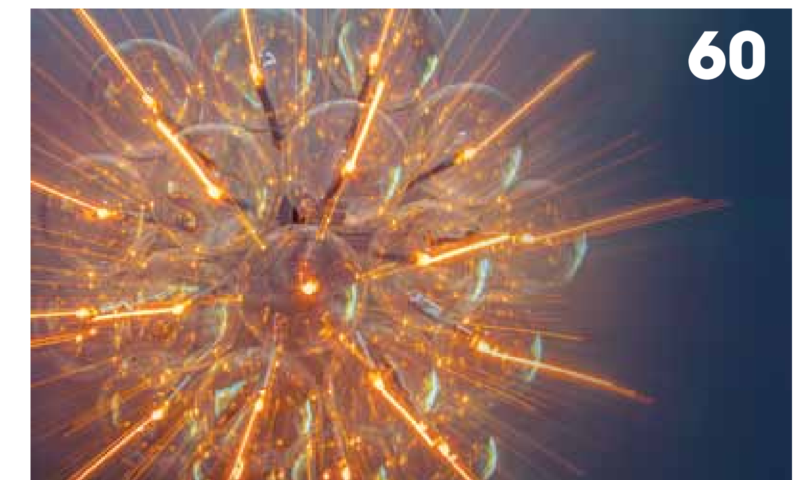


FROM THE EDITOR

Here's to an open economy

Should we be cheering or jeering? The U.S. trade policy and its impact on Asia are under the spotlight. In 'Pride and Protectionism', Mark Zandi, Steve Cochrane, Ryan Sweet, Ruth Stroppiana and Katrina Ell consider current trade policies, noting that if the U.S. implements more protectionist policies, or if its trading partners retaliate, it can have a contagion effect on Asia. The reworking of the global supply chain, when it occurs, will be highly disruptive, they observe.

Among other regional trends, changes in Asia's demographics were something I explored. Asia's demographics are diverse and defy any kind of homogeneous analysis. The movement from farms to cities has gained momentum and led to a massive hollowing out of talent and skills in the countryside. This migration will have a far-reaching and almost irreversible impact on growth and development patterns.

Myanmar, one of the untapped frontiers of Asia, is rich in natural resources, is underpopulated, and has growing purchasing power. Enticing yes, but it's not all smooth sailing. Ma Cherry Trivedi likens Myanmar's plight to that of a young lady in need of head-to-toe makeover before searching for an eligible suitor. There is the risk of always being the bridesmaid and never the bride, as well as the fact that there are now many such aspiring 'brides' in the region's developing economies.

In the Philippines, my team reviews the long, pioneering history of Globe Telecom. While it was the first international wireless communications company in the country, Globe experienced many ups and downs—including a steady erosion of its market share and low morale—before it finally achieved its market leader status in 2018. Meanwhile, things haven't been so easy for young start-ups in the Philippines, says Rosemarie 'Bubu' Andres. She elaborates on the legal and regulatory hurdles faced by local entrepreneurs in setting up, running, and expanding their business overseas.

In our interview this month, Singapore's seventh President, Dr Tony Tan, reflects on the country's core values of integrity, meritocracy and inclusiveness. Remaining relevant is a challenge, he says, as Singapore is not a large country. To progress, it needs to make itself useful to the rest of the world. And to do that, he continues, Singapore needs to have an open economy and well-educated people to find niches in the global economy.

South Korea is being emulated the world over in a rather unique market; Dae Ryun Chang explores the revolution in the approach to men's beauty in that country. Also from South Korea is our article on Paris Baguette by Jin K. Han, Sheetal Mittal, Havovi Joshi and Yong Seok Sohn, on the Korean franchise bakery chain that has taught the world how to make a classic French food like the baguette better than the French.

What would happen if captains of ships were selected at random rather than through a careful selection process is the question Zafar A. Momin poses in 'Accidental Captains'. Selecting leaders for critical roles requires an understanding of the competencies needed to succeed in the role. If not, strategies are sunk even before they are executed, he warns.

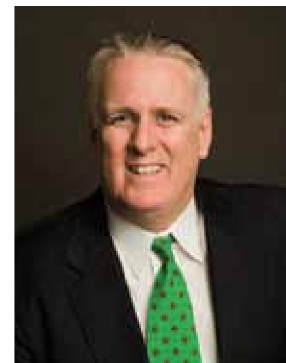
Kapil Tuli comes to grips with the reality of eLearning, a subject frequently pitched by chief learning officers, but viewed sceptically by CEOs. Meanwhile, Fermin Diez looks at the holy grail of pay-for-performance and asks what type of pay scheme is best for achieving business results and whether or not incentives work.

To conclude, on another note, this will be my final edition of *Asian Management Insights*. After five years as its first Editor-in-Chief, the time has come to liberate my keyboard and move on as I take up another appointment at the end of the year.

I have witnessed many changes in the business world, both academically and professionally, since this publication commenced. Over the years we have transitioned smoothly from initial topics like management education, branding and blockchain to innovation, disruption, start-ups and artificial intelligence. Now even globalisation, beloved of business schools and policy wonks, and frequently mentioned in these pages, is under a cloud from nascent nationalism. As Bob Dylan wrote back in 1963, "Come gather 'round people/Wherever you roam/And admit that the waters/Around you have grown." It must have resonated across the generations, as there was even a punk version available in the early 2000s.

The waters have grown at *Asian Management Insights* too. Allow me to extend a warm welcome to our new Editor-in-Chief, Havovi Joshi, as well as extend my heartfelt and profound thanks to the team for their support, the faculty at Singapore Management University for their insights, contributors, past and present, and our readers.

We have thrived by keeping abreast of some of the business world's most innovative developments. It has been an interesting journey.



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INTEGRITY, MERITOCRACY AND INCLUSIVENESS: SINGAPORE'S CORE VALUES

The seventh President of Singapore, Dr Tony Tan, talks about the challenges and opportunities for the island-state, in this interview with Philip Zerrillo.

What is the best position Singapore can take in this volatile world that we are living in?

Today we are living in an environment that is changing rapidly, both politically and economically. By and large, things are going well. The biggest question now is the relationship between the U.S. and China—that is the most important relationship in the world. For many years now, we have lived in a world where the U.S. is the dominant power, and overall it has been a benign superpower, providing stability. Now China's economy has grown significantly and China is a rising power. In many ways, China is occupying a greater role in the world. It is now the second largest economy in the world after the United States. There are, of course, some tensions between the two nations—the latest being trade tensions—which have created some uncertainties. But so far, there is no major impact on the world economy or on Singapore, although it can become more serious if it continues this way.

As for global exposure—be it in terms of migrant labour, foreign investment, or trade—this is a fact of life. Whether it is an asset or risk is beside the point. Singapore is a small country, we have to be open to the world, and we have to make the best of it. We depend on trade and we have to keep our borders open. We have to link up with as many countries in the world as we can. We must continue to be relevant to the world, as the reason we are prosperous is that we have made ourselves useful to other countries. We are too small to actually set the stage; the stage has been set for us.

However, Singapore has not stood still. Our economy has changed a lot since 1965, when we became independent. There was high unemployment then, and we developed labour-intensive industries to create employment. Since then, we have moved on to capital-intensive industries, and now we are in the knowledge economy. We have set up a Committee on the Future Economy to see the direction in which Singapore's economy will be growing in the coming years.

We are a financial centre and a global logistics hub for seaports, airports, and many other areas. Fortunately, Singapore is located in Asia, a region that is still growing. ASEAN is relevant and more integrated today, and we have just formed the ASEAN Economic Community, which is a market of over 600 million people. So all in all, there are some challenges in the world, but I would say that as long as there are no major disturbances and we

continue on this path forward, Singapore will continue to do well. There are no guarantees in this world, but, by and large, Singapore is in a strong position.

What role do you see Singapore playing in ASEAN? Does Singapore's development model offer insightful lessons for its neighbours, or is it unique to Singapore, making it hard to emulate?

Let me first talk a little bit about demographics because that is the biggest challenge for Singapore. We are an ageing society. Our birth rate is very low–even lower than that of Japan–which means that our population is not only stagnant but diminishing. We are going to face some big issues; social services costs will rise, and so will healthcare costs.

I believe that with the foundation we had laid and the plan that the government has put forward, we will be able to continue attracting foreign investments to Singapore. Therefore, we will be able to create jobs, more than enough for our own people. The only question is whether we will have enough people in Singapore to fill these jobs. Certainly not if we rely only on Singaporeans. We have to allow foreign labour to come in, but that creates some political problems. Already 40 percent of our workforce is non-Singaporean. That is about the limit that is politically sustainable. So this is a very big issue.

The other big issue for Singapore is that notwithstanding whether jobs are available, will our people have the skills to fill those jobs? That's a big challenge in the world today. I worry less for the young people–they are adaptable, they can learn new things, and they are comfortable with the digital age. They will look after themselves, provided you give them the right education. The bigger problem is with people in the workforce who are 40-50 years old and doing fairly routine jobs. With automation, robotics and artificial intelligence, many of these jobs will become redundant. The question is whether we can reskill the older workers. That's why we encourage people to continue their education even when they are already in the workforce. Education and retraining have to be on a continuous basis if you want to remain employable. And it is important for people to be employed–it is not only about the economic incentive, but it also gives them a sense of dignity and usefulness. If an individual is unemployed, it impacts not just the person but the whole family. So that's really a big challenge for Singapore.

Education and retraining have to be on a continuous basis if you want to remain employable.

Singapore's role in ASEAN has always been to encourage other ASEAN countries to improve together. This year Singapore is the Chair of ASEAN, and we are handing the role over to Thailand next year. We are trying very hard to integrate ASEAN economically, tackle common challenges, and learn how to deal with the digital age. Singapore is always willing to share its expertise with other countries around us. For instance, we are taking in a lot of people for training courses in our universities and technical institutes. Of course, one recognises that the most important country in ASEAN is Indonesia, simply because of its size and huge population. I think we have been fortunate that there are good leaders in Indonesia, who are friendly, helpful and open. Today we see that leaders of both countries, President Jokowi from Indonesia and Singapore's Prime Minister Lee Hsien Loong, get on well–and as long as that continues, Singapore would have opportunities to develop our mutual trade and business relationships.

But while Singapore is always willing to share its expertise in, say, maintaining transparency or running our ministries–we recognise that elsewhere the circumstances may be different. Every country is different and at a different stage of development. What works in Singapore may not work in other countries. Basically, Singapore is an urban society; we don't have a large rural area like Indonesia or Thailand, and that's a different dynamic. So they just can't copy what Singapore does, but each country will have to work out its own model. It is up to the countries concerned to see what in Singapore's experience would be useful to them. But Singapore will always be open to share its knowledge and views with them. In a way, because we are small, we are open to the world. If we can assist other countries, and if they want us to, we are always willing to do so. So, in that way, Singapore can play a key role in ASEAN.

With four decades of public service experience, what would be your recommendations to the leaders of Singapore?

The only advice I would give is to take the world as it is–not the world as you would like it to be. Whatever its imperfections, this is the world you live in. You can't change it, so you have to make your way through it and find how to make yourself useful, always recognising that nobody owes you a living. Singapore has done well in this aspect. On a per capita basis, we are among the highest income countries in the world, even more than many countries in Europe now. The reason we have succeeded in doing so, despite limited natural resources, is that we have concentrated on the fundamentals.

First of all, our only resource is our people. So right from independence, the government has always emphasised the need to develop our people's capabilities. That's why education has always been a priority for the Singapore government. We have invested a lot of money in upgrading our schools. Actually, we have a very good school system today. We are also developing a skills training programme that is very relevant to the changing circumstances. I believe that it is essential for a nation to have a good education system, otherwise you cannot have a strong economy. And without a strong economy, you would not have the means to do everything else.

We also need to defend ourselves, and we have spent a lot of money to upgrade and modernise the Singapore Armed Forces. I think the threats we face have changed over time. Today, terrorism and cybersecurity are the top defence and security issues. When I was Minister of Defence, it was conceptually relatively straightforward–you knew who your enemies were; you knew where the battleground was. But today, there is no battleground. Everything is integrated. Cybersecurity will be one of the big issues of this century for every country in the world because we are all so dependent on the Internet. And by its very nature, the Internet is a porous system designed to reach out to people and have people interact with one another. We have our defences, and we have strengthened our security level, but it is never ever going to be totally successful unless you close down and isolate the Internet systems, which would lower efficiency.

Singapore will always be open to share its knowledge and views with other countries. Because we are small, we are open to the world. If we can assist other countries, and if they want us to, we are always willing to do so.

The core values of Singapore are first its high degree of integrity. We ensure that the civil service is honest, there is no corruption.

Terrorism is another major issue for the whole world. It doesn't matter whether it is the U.S. or Europe, or a country in ASEAN. It is a major issue. The radicalisation of individuals through the Internet, for example, is a reality. Even in Singapore now, from time to time we have cases of people who are radicalised through the Internet–not only men, but also women–who want to go to Syria to fight. But what happens when they come back? They are a threat to society. The Ministry of Home Affairs has detained some of them. Fortunately, we have a high level of racial harmony in Singapore. We have also done a very good job in countering misleading teachings on Islam. But while we have tried to correct the views of these people, it is not easy. It is an ideological battle and the appeal of the message from some of the radicals is very strong. When I was the Minister of Defence, I spent a lot of time on this issue and it was always strange to me that teachings that were relevant in the sixth century still have an emotional pull on people today. You can't really explain it rationally, but it is there and it is dangerous. So it's a continuing battle that the ASEAN countries are working together to try and combat. Every country in this part of the world joins in, we conduct joint exercises and have free exchanges of intelligence, but unfortunately, we won't see the end of this battle for many years. So in that respect too, Singapore is playing its part in ASEAN, and will continue to contribute where we can.

What are your observations on how the core values of Singapore have contributed to its prosperity and progress?

The core values of Singapore are first its high degree of integrity. We ensure that the civil service is honest, there is no corruption–and that has been a great asset for Singapore and it is really the reason we have been able to run such an efficient system. We have an open and transparent system of remunerating our civil servants and ministers.

Next is the concept of meritocracy. We appoint the best people for the job, there is no nepotism where we appoint people because of their connections or because they are

related to somebody. The third key core value is inclusiveness. We try and ensure that everybody benefits from Singapore's progress. We have a major housing programme by the Housing & Development Board, so that everybody has a home and something worth defending.

Our schools too are open to all; no Singaporean is denied an education because he or she cannot afford it. We also try and make sure that our people have available the best healthcare possible. So I would say that integrity, meritocracy and inclusivity are the core values that have built Singapore, and I don't see us departing from these three values.

How do you think the education system has helped Singapore develop its key asset—its people—and meet the country's need for a well-skilled workforce?

Let me talk a little bit about university education because it's an area that I have been in for over 40 years. We started off for a long time with two universities, National University of Singapore (NUS) and Nanyang Technological University (NTU). NUS was a generalist university that taught everything from medicine to law, science, arts and engineering, while NTU was a more technically-oriented university, specialising in engineering. But the demand for university education was very strong. After a while, both NUS and NTU became very large.

So we decided that we needed a third university. We could have simply started another university, just like NUS and NTU. But I was the Education Minister at that time, and thought that if we had to start a new university, we might as well do something new, both in its location as well as scope, in an area that Singapore needed. Singapore was growing and had become a financial and business centre. So we thought this was an area that could sustain a university with that orientation, and decided to start a business university. Since we were going to do it in a different field, first of all we decided to locate it in the city, unlike NUS and NTU, which are located in the suburbs. Fortunately, we were able to find land, and build what you see is Singapore Management University (SMU) today.

We also thought of looking into having a different system. We found that the Wharton Business School, University of Pennsylvania, was very keen to work with us as they saw that Asia was growing and wanted to have a base in this part of the world. So the Singapore government entered into an agreement with them, and we started SMU. That turned out to be a very good partnership. For a number of years, Wharton provided advice and faculty. They also provided SMU's first president, Professor Janice Bellace, who was then the Deputy Dean at Wharton.

I also wanted to have a founding chairman of the board of trustees who was business-oriented and relatively young with new ideas. So I contacted Ho Kwon Ping, executive chairman of Banyan Tree Holdings, and asked him whether he was willing. I think he was a bit surprised, because he had no higher education experience. But I explained that what we needed was his ideas, and Janice would provide the technical expertise. I think he and Janice made a very good team. They recruited very good faculty, some from Wharton, and started an education system that was more interactive. And this has worked very well, because the graduates of SMU have had no difficulty finding employment. Many employers have told me they find SMU graduates more articulate and able to market themselves—which is very important in the business world.

Later we started Singapore University of Technology and Design in collaboration with the Massachusetts Institute of Technology and two others, Singapore Institute of Technology and Singapore University of Social Sciences. But that was after my time. So SMU has played a very important role. It is not a very large university, which I think is good and it should stay that way. But it has carved an important role for itself; it complements the other universities. It has no trouble attracting students not only from Singapore, but also from the region. And it has also created a very good network by setting up advisory councils in many countries in ASEAN.

To conclude, what do you see as the most pressing challenges and greatest opportunities for Singapore in the coming five to 10 years?

I think the major challenge and opportunity remain the same: How do we remain relevant in this world? Singapore is not a U.S. or an Indonesia, it is not a large country. To progress, we need to make ourselves useful. And to do that, we need to have an open economy and well-educated people to find niches in the global economy.

One of the big issues today is technological disruption. In the past, we used to have incremental improvements in businesses, but now technology has disrupted whole businesses. An example is the private car hire business. With Uber, and now Grab, the taxi business has been completely disrupted and will never be the same again. Similarly, e-commerce has changed the entire retail scene. Retailers have to adapt to survive. It is possible and new industries are being set up. And the same is happening in financial services with Fintech, something that is very relevant to us. We are a little bit behind. For example as a cashless society, we are very far behind China. Literally no one uses cash in China nowadays, they use mobile phones to scan QR codes, even in hawker centres. We are making a start there, and are trying to improve our payments systems. But this is something we have to catch up on. So technology is a different game now; it is no longer about the small improvements of how you run a business or how you sell things, but in fact technology changes the whole business.

To progress, we need to make ourselves useful. And to do that, we need to have an open economy and well-educated people to find niches in the global economy.

So it is a very exciting world that we are in today, but also a very challenging world. And as I said earlier, this may not be the world you would like it to be, but it is the world as it is. Don't try to avoid the challenges—but instead develop yourselves, and you will continue to not only progress but also prosper.

Dr. Tony Tan
was the seventh President of Singapore from 2011-2017

Philip Zerrillo
is the editor-in-chief of Asian Management Insights and the Executive Director of the Centre for Management Practice, Singapore Management University

How to sink strategy even before it is executed.

By Zafar A. Momin

Wouldn't it be scary if captains of ships were hired at random, instead of through a careful selection process? Selecting leaders for critical roles requires an understanding of the competencies needed to succeed in the role, as well as identifying and assessing candidates who are well matched for the role. If the required competencies are not understood at a holistic level and the assessment process is either faulty or non-existent, the selection of leaders becomes almost accidental–a recipe for failure.

Why are we discussing the topic of accidental leadership? Because it happens more frequently than we think–including in critical business situations such as strategy execution. A core aspect of successful execution is selecting the right leaders to lead the conversion of strategic intent into action. In fact, 80 percent of the time, the selection process for those leading implementation initiatives is not treated with the rigour required for such a critical role.[1]

Literature has affirmed the importance of middle managers' influence on the positive or negative outcome of strategy implementation, and the various roles that middle managers play in influencing outcomes has been well analysed and understood. In a nutshell, research concludes that while top management indeed has a key role to play, it is the middle managers who bear the brunt of the execution burden and most influence the outcome. Hence middle managers can be viewed as the 'captains' of strategy implementation.

Proper selection is derailed by a number of corporate mechanisms: personal biases of senior leaders, delegation of decision-making to people far removed from the context, letting hierarchy drive selection, relying on past performance, or allowing ad hoc factors such as availability and popularity determine who within the organisation 'captains' the implementation of strategy. In short, it is effectively left to chance, drastically reducing the possibility of a successful implementation before it even begins.

80 percent of the time, the selection process for those leading implementation initiatives is not treated with the rigour required for such a critical role.

Typically, corporate leaders over-index on devising strategies and under-index on managerial efforts to execute them. Traditional and dated management paradigms, many still practised by companies, treat strategy and execution as sequential, with top management believing their key role diminished after the strategy phase. Unfortunately, the irony is that these same leaders acknowledge that without effective execution, formulating a great strategy will create little value for their organisations. Research also suggests that many of these leaders are aware that disappointing outcomes result more often from 'hiccups' in execution rather than flawed strategies.

Strategy and execution, by their very nature, are intertwined. Top managers have an equally prominent role in leading execution, ensuring they create the right organisational design, and enabling a supportive environment to effectively realise outcomes.

Successful strategy implementation remains elusive

It is well accepted that implementing strategy is challenging due to the complexity of the process and context of its execution. Over several decades, academics and practitioners have clawed away at most macro organisational dimensions to reveal their relevance and relationship to effective strategy execution. As a result of their diligence, corporate leaders in charge of strategy implementation have been inundated with prescriptions of what to do and what to avoid. Despite considerable effort and progress made in understanding the challenges of implementing strategy, successful outcomes have remained elusive for most organisations. The failure rate of strategy implementation remains alarmingly high–about 70-90 percent of strategies never get fully implemented–and on an average, firms realise less than a third of the financial outcomes their strategies promise.[2,3]

My research analysed inputs from 180 corporate leaders and middle managers across a range of industries and geographies in Asia. The findings indicated similarly dismal success rates across the breadth of strategy execution projects, from classic post-merger integrations and greenfield investments, to digital transformations and business turnarounds. Respondents reported similar organisational issues that impede strategy implementation efforts, such as lack of effective leadership, non-conducive culture, frequent changes in direction and management, inconsistent rewards and incentives, poorly communicated strategy, and inadequate technical support.

Four key themes emerged in the research that characterise the identified symptoms of failed execution. The first captures issues that arise when the strategy itself lacks strength and clarity, or issues that arise from the timing, magnitude, or speed of change that the strategy mandates. The second theme centres on organisational design. Frequent issues arise from not addressing structural issues such as incompatible organisational structure, ineffective redesign of business processes and systems, or lack of understanding around softer issues linked to capabilities and behaviour.

A third theme focuses on inefficiencies in 'hard' tactical execution considerations while operationalising the execution plan, such as allocating resources, or inadequacies in handling tactical 'soft' considerations such as failing to gain buy-in from employees, or unsuccessfully managing upwards or laterally to secure collaboration and support. The fourth and final theme highlights people-related issues like not having the right people or the right skills, lack of coordination, resistance to change, lack of commitment, lack of adaptability, lack of understanding of strategy, etc. Beyond these themes, some execution issues could also be underpinned by external disruptions in technology and changes in the business operating environment.

Although researchers have examined micro-level practices of key managerial pools involved in strategy execution, top management has often been the subject of discussion, rather than middle managers. While top managers may provide a facilitative environment for successful strategy implementation that guides ownership of strategy, effective communication, allocation of resources and preparation of realistic implementation plans, they often do not see themselves as key participants in implementation. Consequently, top managers may play inspirational but distant 'figurehead' roles and their impact on outcomes appears mixed.

Focusing on the key management pool

Within the organisational hierarchy, middle managers are typically located below top management and above first-line managers. They are the link between top managers and bottom operational workers and play a vital role in transforming strategic intent into organisational action. Their knowledge of frontline operations, customers and employees makes middle managers the key managerial resource for strategy execution. Over the years, the role of middle managers has become increasingly critical as decision-making in organisations has evolved from traditional, hierarchical and centralised to decentralised with greater empowerment along horizontal dimensions. In roles that include simultaneously influencing the overall organisational strategy and implementing strategic changes at a local departmental level, middle managers participate even more broadly in the strategy implementation process and play a crucial role in facilitating change.

> Traditional selection criteria are hygiene factors that do not include the competencies that will set middle managers apart as successful leaders of strategy execution.

Addressing the various challenges during the long, arduous execution journey requires that 'captains' be well-equipped with multifaceted capabilities. Middle managers will find it difficult to deliver successful outcomes if they do not possess most of the key competencies required. Those chosen for such important roles face challenges on multiple fronts such as: understanding, synthesising and communicating the strategy to subordinates, persuading and motivating subordinates to make changes, managing upwards and sideways to gain support and manage changes at organisational boundaries, and learning new things and adapting existing practices. The burden of complex and diverse tasks can be overwhelming to middle managers and they can often feel that the task is on their shoulders alone. This can be daunting as they also have to recognise their own limitations and the project's time constraints while performing many critical tasks.

To bolster the effectiveness of middle managers, top management can play a key role by recognising the crucial role of middle managers and supporting them in their mission. This is critical, as without sufficient directional, organisational and motivational support from top management, middle managers are less likely to back the strategy and can even undermine it. Another factor influencing success for some middle managers is congruence between their personal goals and strategic goals of the company. This consistency in goals can create higher levels of motivation and performance. Finally, proper alignment of rewards in line with the desired outcomes is important to some middle managers, although not everyone will be purely motivated by incentives.

Beyond these influences, the most important factor for middle managers to be successful in their execution journey is having the right competencies for leading successful strategy implementation. Middle managers are basically organisational lynchpins in strategy implementation, and to be successful, they need to be carefully chosen and supported. Leaving their selection effectively to chance and creating 'accidental captains' is a crucial lapse in management practice and may well be a key contributor to many well-intentioned but failed strategy execution efforts.

Tactical considerations to avoid creating accidental captains

Organisations need to prioritise developing and institutionalising robust procedures for the selection of middle managers leading strategy execution. It is imperative for them to look beyond traditional selection criteria for middle managers (such as position in the organisational hierarchy, on-paper credentials, availability, past performance, and personal preferences of top managers) and begin using competency-based criteria. Such traditional criteria, together with communication capabilities, a show of commitment to the company and consensus with the strategy, are typically deemed important for selecting a manager to helm implementation. Sometimes, even though corporate leaders have second thoughts about their choices, they still resort to using such criteria because it has been used before and for the lack of any better alternative to guide their selection.

Traditional selection criteria are hygiene factors that are nice for middle managers to possess, but do not include the competencies that will set them apart as successful leaders of strategy execution. A good place for organisations to start is to assess which competencies would enable their middle managers to lead a particular successful strategy execution. Next, they can take stock of the competencies currently residing in their key managerial pool. To take it further, they would require procedures and tools that enable competency assessments for selecting the right middle managers.

Typically, every organisation has various profiles or personas of middle managers in its ranks. These personas may include managers who have evolved mainly due to their technical expertise and are good 'technical managers' who can only perform functional roles well. Other manager profiles include 'career managers' who are dependable and experienced in routine job functions but would be risk-averse and may prioritise executing strategy to the letter over deviating from the plan to ensure positive outcomes. There are also manager profiles that are strong communicators and collaborate well with external stakeholders but are driven mostly by incentives and perks. Such managers often exhibit 'free radical' behaviour and may succeed in certain roles, such as sales, but lack

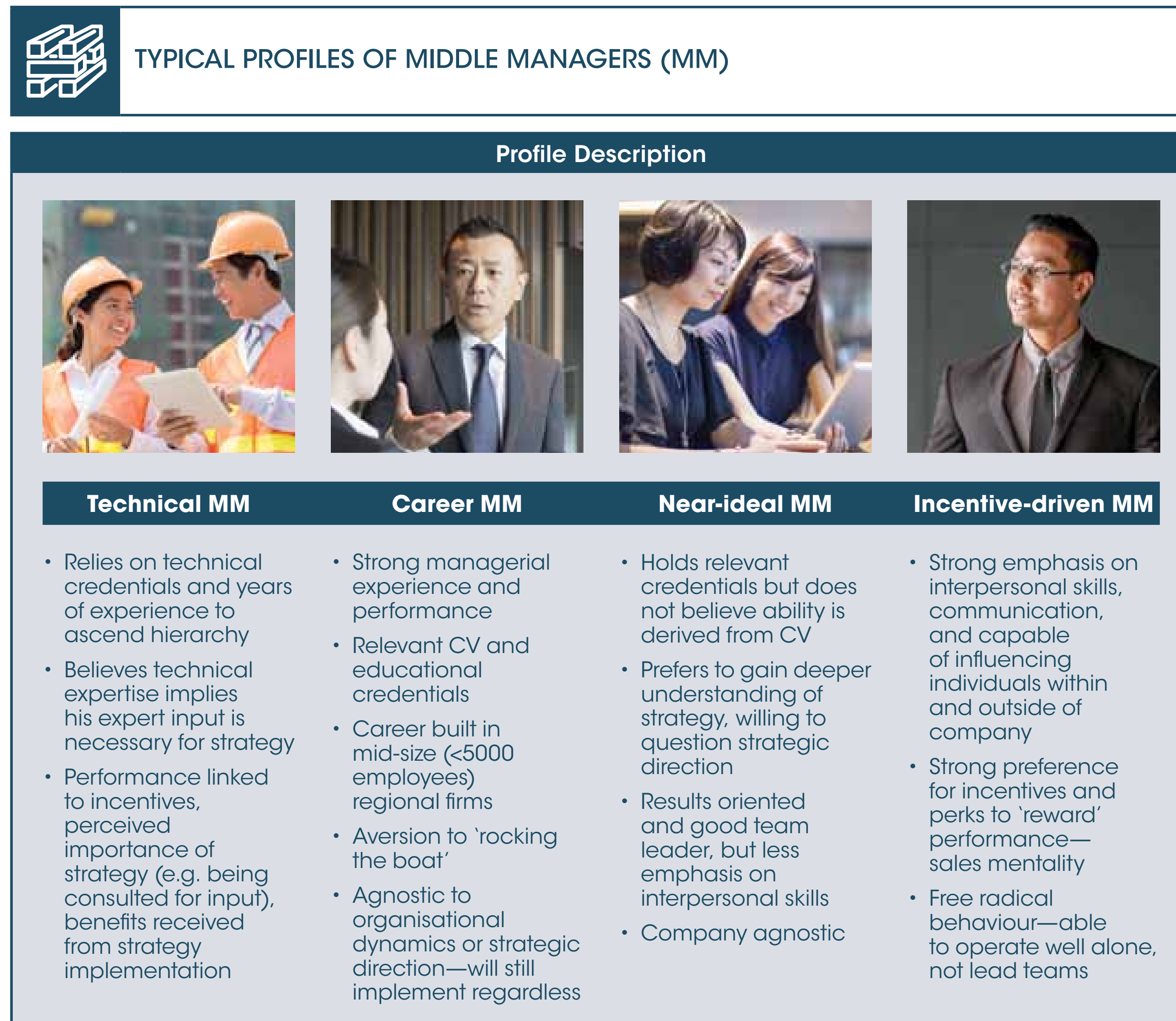


FIGURE 1

most competencies needed to implement strategy (refer to Figure 1). Of course, manager pools also consist of 'near-ideal' managers equipped with many of the required competencies. However, my research suggests that these managers may be in the significant minority. Thus without an understanding of the incumbent manager pool and required competencies, leaders are more likely to select the wrong candidates and set a course for failure from the start.

Within the broad and complicated context of strategy implementation, there are competencies that distinguish effective middle managers who are more likely to be successful from others who would be more likely to fail. These competencies enable middle managers to effectively deal with the multi-level contextual requirements, as well as the ambiguities and dynamics that are encountered during strategy implementation. Such distinguishing competencies are above and beyond the typical hygiene requirements sought for middle managers.

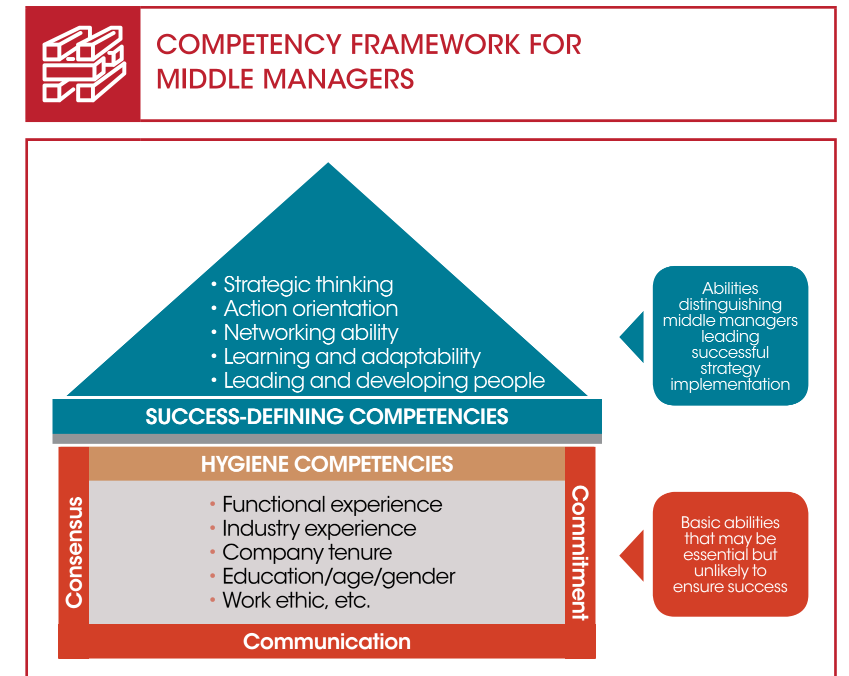
My research effort has identified five key competencies of middle managers that are more likely to lead to successful strategy implementation and relate to the abilities of middle managers. These include:

- Strategic and systems thinking
- Action orientation
- Networking ability
- Learning and adaptability
- Leading and developing people

Applying these competency guidelines could create a more holistic roadmap for middle manager development, as well as enable matching competencies within teams. Conversely, the absence of these competencies in the execution team could potentially result in dysfunctional responses from middle managers when they encounter the typical barriers, obstacles and challenges of strategy implementation.

Organisational leaders need to secure a critical mass of middle managers with capabilities to lead successful strategy execution and build bench strength in anticipation of the need for execution capacity. By creating organisational programmes for training, development and performance measurement of such competencies, they will mitigate the risks of leaving execution outcomes to chance. Given that strategic changes are inevitable and constant, leaders need to strive to create opportunities for middle managers to build competencies in action orientation, networking and leading people. Additionally, they need to ensure sufficient coaching and development of promising middle managers in strategic thinking and adaptability.

Also, leaders should be wary of middle managers who look and sound good, but lack the necessary skills. Many middle managers have piecemeal competencies, speak the jargon, but lack the fundamental capabilities. Furthermore, past track record on unrelated projects may be noteworthy but quite unimportant in the context of the imminent strategy implementation. Finally, leaders should learn to value the many intangible contributions of their 'near-ideal' middle managers that would typically go unnoticed. Promising middle managers are driven by achieving intended outcomes rather than simply placating or impressing the top manager who selected them for the task. By understanding and recognising the core competencies needed for execution, leaders can better identify and reward promising middle managers.



Finding the right roadmap

Today, organisational leaders face the challenge of increasing the likelihood of success in the execution of their organisation's strategic initiatives. The task is undoubtedly complex, with many variables and cascading interactions. To complicate things further, these leaders are inundated with prescriptions from decades of research on the topic. Additionally, these prescriptions are often procrustean applications of senior level research being adapted to this group that performs the bulk of strategic implementation. They have a plethora of apparently effective roadmaps and management models to create the right leadership, culture and tactical toolkits for successful execution. Paradoxically, few of these roadmaps are able to provide significant confidence in achieving the desired outcome of strategy execution.

Without deprioritising the importance of other remedial actions, this article highlights the fundamental importance of selecting the right managers that execute strategy. It also suggests that the competencies required for execution should underscore the selection process. Management lapses in selecting the right 'captains' may well be the determining factor in sinking strategy before it sails. On the other hand, competency-based assessments can provide a platform to ensure the selection of the right 'captains' to successfully navigate a perilous journey and bring the strategic ships to port.

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DO INCENTIVES WORK?

Achieving business results with the right pay scheme.

By Fermin Diez

Much has been said both for and against using incentives to drive business results–be it revenue and profit, or market share. Despite this, there is surprisingly little research, particularly in Asia, to guide practitioners on how different pay models affect decisions that lead to better company performance. CEOs, Remuneration Committees (RemCos), HR executives and executive compensation consultants have been searching for the 'Holy Grail' of pay-for-performance for a long time. And yet, many questions remain unanswered. For instance: Do various types of Long-Term Incentives (LTIs) affect the achievement of business results differently? By LTIs, we are referring to incentives for performance over periods longer than one year, which are usually linked to awards in shares. Which type of LTI provides the greatest incentive to performance? Does changing the pay mix (that is, the relative weight of fixed pay, performance bonus and LTIs as a percentage of total pay) yield different results regarding performance? Which pay mix provides the greatest incentive to performance?

Besides the traditional pay-for-performance model, there are three other pay-for-performance alternatives: Tournament, Membership and Bonding models. Are there differences in how these models affect performance? Which pay-for-performance model provides the greatest incentive to improve business results? Are there differences in performance if the incentives provided are team-based or individual-based, or if they are offered in combination? And which approach–team, individual or a combination–provides the greatest incentive to improve performance?

There are four different perspectives when addressing pay-for-performance in organisations:

- RemCos worry about governance and link to overall company results.
- CEOs are more concerned about fairness and recognition.
- HR heads look mostly into market competitiveness and retention.
- Executive pay consultants are concerned with design features and buy-in.

Executive compensation consultants are often tasked by RemCos of corporate boards to advise on developing an approach to pay their company executives to achieve better business performance. However, when it comes to honing in on a pay philosophy, these same board members fall back on the 'evidence' of market data, which shows how and how much other companies of similar size or from the same industry pay their executives, but does not provide information on whether their competitors' pay plans are effective in driving results.

There is surprisingly little research, particularly in Asia, to guide practitioners on how different pay models affect decisions that lead to better company performance.

For RemCos, pay should not vary so much from year to year. And yet, an executive pay consultant in Hong Kong summarised this state of affairs when he said, "Shareholders have their favourite plan types; some like specific metrics, or specific vehicles and formulae. They tend to follow similar designs to competitor proxies." He went on to add, "RemCos don't always have the knowledge to make these decisions."[1]

At best, paying the same as your competitors yields the same degree of motivation of the company's executives vis-a-vis the competition, rather than gaining any competitive advantage. Instead of searching for a different approach that might lead to better performance, efforts are only channelled into determining key performance indicators (KPIs), deciding the targets and the timeframe for their achievement, providing cash flow/tax effective vehicles for delivering pay, calculating competitive levels of pay at various levels of performance, ensuring compliance with regulations, and staying close to existing parameters to avoid conflicts at the Annual General Meeting of shareholders.

Meanwhile, there are often other considerations besides pay-for-performance that are frequently ignored. A Singapore RemCo chair explained it this way, "Pay [for performance] is not the only thing, retention is also an issue. The CEO might say, 'If you don't pay me at the 90th percentile I won't work so hard,' to which we would answer, 'What part of your job will you not do?'" To the CEOs, the view is starkly different. One of them put it this way: "[Pay] can act as a de-motivator so [best to] aim for satisfaction/motivation as much as you can." The HR executives focus on pay more to attract and retain executives. One of them indicated, "We want to retain first, then motivate to perform. This has to be balanced with not encouraging risky behaviour." HR executives typically rely on existing market benchmarks, some of which are of better quality than others, in order to tell their RemCos and bosses that they do not over/under pay.

In support of the idea that retention is a big part of executive pay plan design and implementation, researchers found that when a CEO leaves a firm, compensation for those left behind increases by an average of 46 percent.[2] From the perspective of executive pay advisors, it is unclear if incentive pay plans work as intended. One of them expressed doubts in terms of trying to create homogeneous plans to motivate what is, in effect, a heterogeneous population. "'Designing for the herd' is the safest route both as a consultant and as a RemCo chair."

Long-term versus short-term incentives

Asian companies constantly debate about the role that LTIs should play in the overall employee pay mix, alongside base salary and annual bonuses. This debate is spurred by the various viewpoints from the different stakeholders involved. For instance, boards have an interest in maximising return on pay and minimising risk to their investment. This can be achieved by limiting the amount of fixed pay (which is a cost regardless of performance) and tying as much pay as possible to financial KPIs (such as total shareholder return), particularly over longer periods of time. In this way, if the share-holder wins, he is willing to share with management, but if he is losing, management is losing as well. A Hong Kong RemCo chair stated it this way, "Without short-term there is no long-term, as decisions made today have an impact two or three years from now. We must balance the two, but it's very difficult. Share price is often beyond management control." Consultants agree that there is a need to see if the plan that was implemented moved the long-term financial needle beyond the 'rising tide' of the market and industry.

Often, management observes that share price movement (the main component behind total shareholder return) is not always linked to the performance of the company, as industry and market factors play a role as well. For CEOs, pay plans should be, "aligned with the creation of shareholder value, but in things [you] can control. If you provide consistent performance, the market should reward you in time. But it is 'over time'..."

This divergence in viewpoints sets up a classic confrontation in the boardroom, and consultants are often called in to provide a way to mediate this dispute (refer to Figure 1).

Individual versus team incentives

Companies also often struggle to find a balance between individual incentives and team incentives as a motivator of performance. Here, again, there is a divergence of viewpoints. Whereas for the CEO it is straightforward, as the company's performance is also his or her personal performance, as soon as you go down one level, distinctions start to emerge between an individual's performance and the overall team performance. In the words of a global CEO headquartered in Asia, "The more senior, the more team [based], but there needs to be a mix."

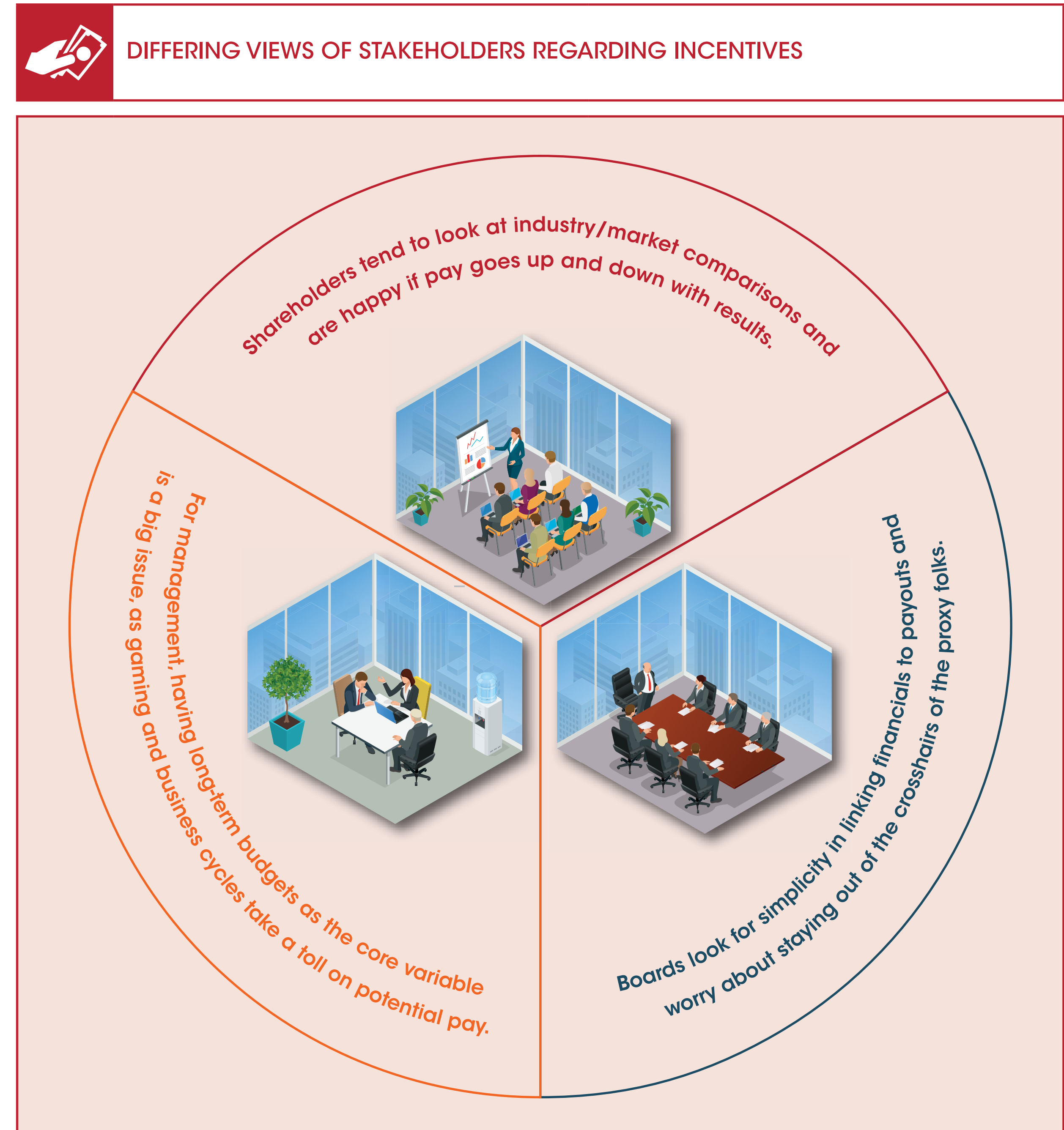

FIGURE 1

However, standard practice differs from this notion: At the executive level there are often no team incentives except for when the overall annual bonus pool is based on company results for short-term incentives, and increases in share price are considered an all-of-company result, for long-term incentives.

Both of these approaches have detractors as well that hold the view that there is "no real way to differentiate performance" and thus maintain that team results should be balanced with individual performance. The corollary to this line of reasoning is that balance is important as, in their view, having only individual incentives could mean too much 'kill all' behaviour, and too many team incentives may foster freeloaders.

For RemCos, the view is that only the company's performance counts, and the entire senior management is there to ensure overall results are achieved. And yet, while agreeing with the company-

based bonus pool, a Singapore RemCo Chair provided this caveat, "The pool is company-based and then [we] need to carve it out by individual. But, all individual Balanced Score Cards have a big 'fudge factor' and, in fact, all RemCos fudge a little bit."

For individual executives, the view is often that if they have performed their duties and achieved their individual results, this should be rewarded regardless of the company's outcomes. HR and compensation professionals wrestle with this problem constantly, as executives with great performance but low overall pay are at risk of leaving the company and joining its competitors.

Boards, and, more recently, regulators, worry about the effects of different long-term vehicles as drivers of performance. In the minds of many, linking pay to performance has led management teams to seek strategies involving high risks and high potential returns that have, at times, resulted in very negative effects. Asian RemCo Chairs fear that executives only see upside and entitlement with very little clawback. One RemCo Chair illustrated this point by recalling a recent instance involving GE/Volkswagen: "The guys that caused the problem all collected their bonuses and the current ones are now punished. This is a huge issue of pay-for-performance. But what is the alternative?" As a result, Boards worry a lot about shareholder activism, defensibility and governance, so they tend to take fewer risks on how to pay executives.

Finally, HR heads all over the world search for the compensation plan that will allow their companies to find a pay-for-performance model that leads to higher attraction, retention and motivation of executives, and to hopefully achieve better business results. In an ideal set of circumstances, HR would like to come up with pay programmes that meet the objectives of the shareholders and executives. However, quite often, HR is under pressure to find and keep executives, and not so much for delivering performance, which is deemed to be the responsibility of the executives and the CEO. Thus, HR executives have an inherent bias to side with arguments for 'market data-based' compensation to discharge their attract-retain-motivate duties. They argue that there is competition for talent, and firms need to pay to attract and retain the talent they seek. Nevertheless, an executive pay consultant warns: "No one [has ever] benchmarked themselves to a position of market leadership."

Need for a research-based approach

The discrepancies in positions and approaches to the near-dogma of pay-for-performance are troubling. There is a definite need in Asia to apply scientific rigour to the question of how best to design executive pay programmes to determine if they work at all, and which approach leads to better results. In short, there is a need to move from 'market-based' to 'research-based' advice.

Academic literature has an abundance of evidence on pay-for-performance. However, the evidence is inconclusive on two counts: The first is the debate on whether money is an extrinsic motivator at all, or if individuals are intrinsically motivated. The second unresolved element in literature is the impact that different pay mechanisms have on performance, if any.

Agency theory, expectancy theory and equity theory all would support the view that incentive pay can motivate improved performance. However, other researchers have found the data to be inconclusive, and even contradictory.[3] This can be interpreted as evidence that, at best, incentive pay only works to increase performance under specific circumstances, such as repetitive tasks where working consistently and faster can lead to better results. Proponents of this view would then argue that incentives are not effective in driving performance based on decision-making. In the words of an HR executive, "No amount of incentive pay can make people smarter!" Proponents of intrinsic motivation argue that incentives can even be counterproductive, which is in direct opposition to proponents of these theories.

To complicate matters further, prospect theory—which states that people make decisions based on the potential value of losses and gains rather than final outcomes, and these are evaluated with certain heuristics which bias the decisions—supports the idea that incentives impact performance in the shape of an 'S' curve.[4] That is to say, the further ahead on results, the less likely executives would be to exert additional effort in pursuing better results. Conversely, the further behind executives are on results, the more likely they will take big risks driven by incentive pay. Finally, while there is a general consistency in the literature regarding team incentives working to drive performance, there are very few data points comparing individual incentives to team incentives as drivers of performance.

> Linking pay to performance has led management teams to seek strategies involving high risks and high potential returns that have, at times, resulted in very negative effects.

Our study

Following research by Ederer & Manso, we created an experiment in which 510 subjects were tasked with running a business for 20 periods (iterations).[5] For each period, subjects had to decide on the Four "Ps" (Placement, Packaging, Product and Price) to maximise profits. In making each of their 20 choices, subjects could fine-tune the current operation (as inherited from the prior manager) by adjusting each of the four parameters, or they could devise a new strategy by making decisions on each of the four parameters. Subjects were paid under 15 different pay conditions to determine which, if any, made any difference to their performance. Additionally, the willingness of participants to modify their strategies was also observed.

The results of our study revealed that differences in pay conditions do not significantly impact performance. Equally, no single approach (e.g., different long-term incentive vehicles, varying pay mixes, any of the three alternative pay-for-performance approaches, one of the team incentive designs) has a significant performance advantage either. However, we do find that, jointly, the team approaches we designed do significantly outperform all the individual approaches.

An analysis of the patterns of responses showed that nearly half of all participants stopped seeking more profitable alternatives when they were ahead in the game. Perhaps more importantly, a higher percentage of participants changed their strategy or 'took a risk' when behind. More surprising is the fact that nearly 20 percent of all participants did both during the span of the 20 periods of the game in the experiment. That is to say, the same person took a risk and was also conservative, depending on where their results were at any point in the game. The data also suggests that the higher the level of profit attained, and the earlier the run in the game to achieve that profit, the higher the probability of a prospect theory effect on the risk aversion side. But, for those falling behind, they began ditching their current formula and developing new strategies.

Further analysis of the data reveals that, for all individual conditions, the level of profit at which individuals risk when behind or stop when ahead is equivalent. These results suggest that the perceived risk is not inherent in any of the pay conditions. The implication of this result is that being risk-prone or risk-averse can be construed to be circumstantial rather than strictly a personality trait. In the words of an executive pay consultant, "the good thing, and the bad thing, about incentives, is that they drive behaviour!" In this case, risking when behind but also being conservative when ahead differs from what is normally expected, that incentives always drive behavior in the same way.

Other interesting findings derived from the experiment were that LTI approaches were more efficient when looking at the period 20 results, whereas the three performance models' approaches were more efficient when considering average results during the 20 periods. This result has implications when designing executive incentive plans. Perhaps, if there is no added performance increase that can be expected from any plan design (except for team incentives), then simple plans should be more the norm. Moreover, LTI-based plans will be cheaper to run (providing 'more bang

for the buck') and, therefore, preferable to less efficient and, as demonstrated, equally effective alternatives.

Applying the research to address pay-for-performance

The current approaches to executive incentive plan design have left stakeholders on all sides concerned, confused and, at times, disillusioned with the results. On the one hand, practitioners worry that incentives may lead executives to be highly motivated but still reach poor outcomes. On the other hand, the perception is that results are not appropriately linked to the payout. Consequently, the ability of incentives to motivate performance is questioned. One of the CEOs we interviewed expressed it this way, "Incentives create too much angst. Having a competitive [pay] package is key, with only plus/minus 10 percent variation for individual performance. We pay for attraction and retention, and hope for business results. We adjust the pay levels to ensure that turnover [of staff] is within what we expect." A RemCo Chair added: "Pay will not make an inventor invent more, but if he does, will he get his fair share? Pay-for-performance is not what it is geared up to be; it should be more about a sense of fairness."

Our study provides empirically derived data on the effectiveness of often-used pay schemes, as a means to achieving higher company performance. One actionable outcome is that target setting has a greater impact on results than plan design. In line with prospect theory, as well as goal setting theory,[6] stretch targets yield better results than average targets. Another implication of our study is that executive incentive plan design should focus on team incentives, as this approach is clearly superior to incentivise the achievement of business outcomes. The results also suggest that team incentive plans should be based on shared goals for maximum impact on business performance. How the team incentives are weighed seems less important in this respect. Our study also indicated that LTI plan designs could have a slight edge over other models, due to their higher ROI. Yet, perhaps LTI plans can be best used in a team context, or for executive retention purposes. A final implication of the study is that no amount of tweaking on any of the other elements of pay plan design seems to have any impact on performance. Thus, practitioners can focus on the elements of design mentioned above and worry less about the rest.

The study is limited insofar as it deals with relatively small amounts of money as fees, when compared to larger amounts of rewards in corporate executive pay packages. Furthermore, our LTI 'share' plans do not convey stock ownership, or a sense of 'discounted expected future cash flows', which company shares may convey. At any rate, we believe that the way the fee mechanisms were set up in our experiment adequately emulate the way LTI programmes behave in practice, since, for small companies at least, they tend to be based on a revenue-multiplier (or sometimes EBIT or EBITDA) formula, akin to our design. A variation would be to study if the conditions hold under different revenue-multiple scenarios to emulate differences in business values by industry. Another limitation of the current work is that the experimental design was not best suited for testing prospect theory. In an ideal setting, the game should be designed so that, for some subjects, early results would always be negative, and for others it would always be positive. That way, we could study the behaviour of all subjects who were presented with the same positive, or negative, stimuli, so that we can better compare the results. Perhaps additional research could address this issue.

Our findings are of use to RemCos, executive pay consultants, CEOs and HR professionals, in designing incentive programmes. One international executive pay consultant, who saw the results of the experiment, had this to say, "Given these results, I will provide greater weight towards team incentives [in future plan designs]. What gets measured gets done, but [the results indicate] it is not related to the amount or the plan design, but to the team goals. I would still split pay mix 1/3, 1/3, 1/3 but what will change is the team metric component. And I would not do away with share plan designs, but ensure the awards are based on team metrics." Another consultant in the region suggested that, given these results, a more informed approach would be to use individual performance only for base pay increases and promotions, and make all incentives team-based. An HR executive in Hong Kong added: "[Individual incentives] are like adding sugar to the candy floss machine; it makes things go haywire! The best option is to simplify the plans."

These executives, among others, are seeing the benefits of a premeditated approach to addressing pay-for-performance. It starts with recognising the limitations of current pay plan design and then developing a pragmatic pay programme that includes market data, governance requirements, and pay package competitiveness. Finally, these incentive plans will need to be tweaked to achieve a blend of results—from better performance to higher retention and adequate pay governance.

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Look before you jump

Coming to grips with the reality of eLearning.

By Kapil Tuli

In boardrooms all over the world today a scenario is played out again and again: Chief Learning Officers (CLOs) enthusiastically pitch the strategy of eLearning while chief executives remain sceptical over the outcomes. For years, eLearning appeared to be the perfect answer for corporations that need to train their employees. And it certainly has its advantages. eLearning lets employees learn anytime, anywhere, by delivering training over the intranet or the internet. It allows employees to learn on their device of choice, including computers, laptops, tablets and smartphones, at a time convenient to them. It allows learning to take place outside the four walls of a classroom. In addition, eLearning can lower the travel costs associated with learning and the costs incurred due to the significant time off taken by managers to attend classes.

What's more exciting, eLearning makes it possible, theoretically, for each employee to get precisely the training he or she needs, on any topic. An eLearning course can be customised to be of the precise duration and configuration optimal for a particular employee and pitched suitably for his/her level of understanding, whether this is in the form of modular courses or short five-minute videos.

The LinkedIn 2018 Workplace Learning Report found that in 2018, 71 percent of talent development professionals relied on eLearning programmes developed in-house to train employees, up from 58 percent in 2017.[1] That same year, 67 percent of talent development professionals relied on eLearning programmes bought from a vendor, up again from 49 percent in 2017. Unsurprisingly, analysts suggest that the eLearning market is likely to grow fast and become huge. For example, Technavio's market research analysts predict that the corporate eLearning market will grow at a compound annual growth rate of almost 19 percent by 2021.[2]

In 2017, enthusiasm for eLearning remains high among CLOs: 53 percent of them see these technologies as an important asset in employee training and 57 percent of them foresee an increase in eLearning budgets.[3] This enthusiasm contrasts with analysts' predictions that eLearning budgets are likely to fall to US$33.4 billion in 2021 from US$46.6 billion in 2016.[4]

Why the disconnect between the two sets of figures?

Perception versus reality

This divide is due to corporations waking up to the current implementation challenges of eLearning. The perception of eLearning is that it is easy, effective and engaging. It is commonly portrayed as a low-cost and low-risk option that is fast to roll out and effective in engaging millennial employees. The reality, however, is a little different.

First, top quality training content is expensive to produce. It takes a long time to develop an effective eLearning programme customised to an organisation's needs. A team will have to devote a substantial chunk of time to determining the goals of the programme and creating an outline covering the important topics and modules. The team will then need to create a prototype and test it on a sample group of employees. Because of the time and manpower invested, an eLearning programme built from scratch is no longer quick or cheap and, hence, no longer low-risk. Another issue is employee engagement. While eLearning can yield sustained, deep learning among millennial learners, the programme could leave 'veteran' employees out in the cold.

Despite the initial high investment cost, developing an eLearning programme can significantly reduce an organisation's in-person training time. For example, Vodafone adopted an eLearning approach in 2015 that provided almost 90 percent of total training to its workforce of 130,000. This led to savings of almost £60,000 just on costs related to paper printing! Importantly, almost half of those accessing training programmes did so during non-working hours with 90 percent of the access occurring over the employees' personal devices. This cut down on the time set apart for training, did not take the employees away or out of work, and allowed them to take modules at their own pace.

Before deciding to embark on developing its own in-house eLearning programme, it is important that an organisation ponders three questions:

What: What should your employees be able to learn from an eLearning course?

Why: What is the most effective motivator for your learners?

How: How can you make eLearning a positive experience for your employees?

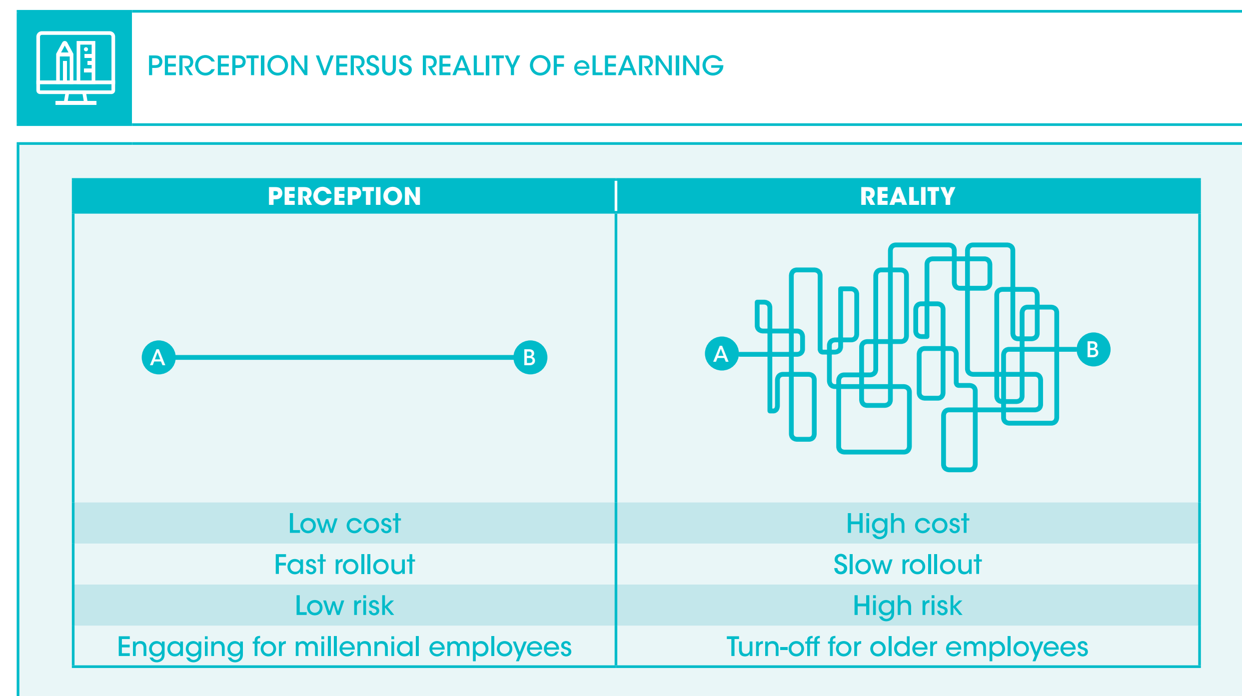


FIGURE 1

eLearning is commonly portrayed as a low-cost and low-risk option that is fast to roll out and effective in engaging millennial employees. The reality, however, is a little different.

The "what" spectrum

The "what" of eLearning is about goals. What is your biggest priority for your eLearning programme? Do you want to impart skills or knowledge? What do you want your learners to get out of the programme, i.e., what abilities and skills do you want employees to have as a result of the eLearning programme?

The goals can vary widely. They can range from getting employees to remember things they have to know (knowledge), to imparting complex tactical skills or attempting to change mindsets. eLearning is likely to be most successful in delivering basic learning objectives like transferring codified knowledge. The first step in developing eLearning-based training is to identify the codified knowledge-based elements, because those are the low hanging fruit.

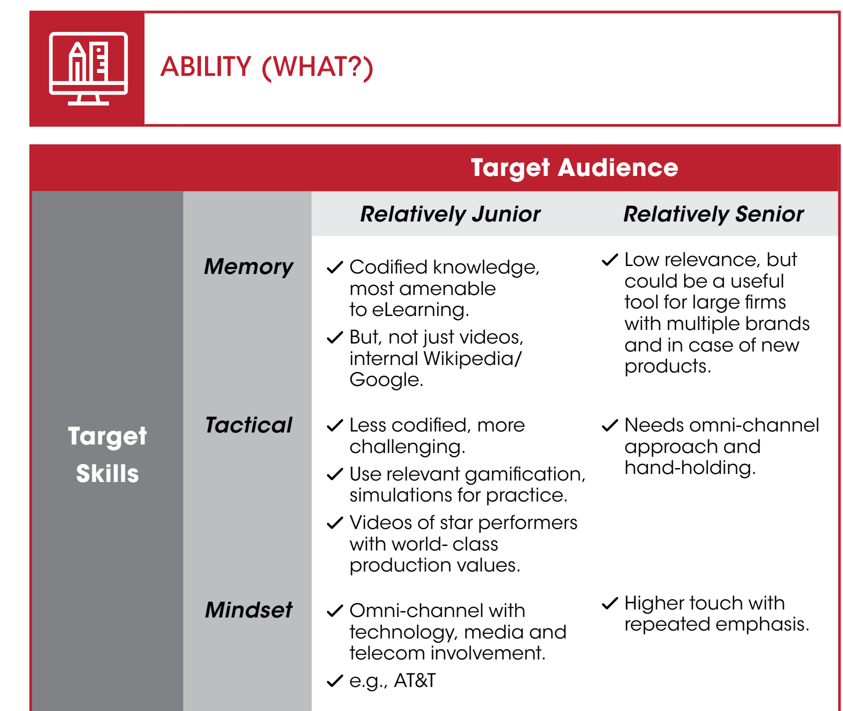
One can start by separating codified knowledge, or IQ-based learning material, from tactical learning, or EQ-based skills. An example of codified knowledge is Accounting 101, because there are very set rules as to what is debit and what is credit. The answers are linear and straightforward. Once codified, the pedagogy is scalable. Company rules, HR regulations, corporate history, product knowledge, Standard Operating Procedure training, as well as compliance with workplace safety and health policies and regulations are topics that can be easily translated into eLearning courses for sustained, deep learning. This is because codified knowledge requires little judgement-based activities and is based more on memorisation skills.

Corporations should develop programmes according to the seniority of their target audience. For more junior employees, the emphasis should be more on memory-based abilities. Still, in order for this knowledge to 'stick', the pedagogical content library must keep the employees' interest (or, at least, they must be incentivised to retain it).

The next level of learning—tactical learning—is more complex and harder to effect through eLearning. Examples of tactical learning include leadership courses, communication skills, collaboration skills, effective sales skills, management strategies, change management strategies, and risk assessment training. Indeed, the bulk of training topics pertaining to roles like customer service is very much EQ-based. And unlike IQ-based learning material, EQ learning does not translate well into traditional rote-based pedagogy, which depends on memorisation. Teaching EQ through codification results in significant translation loss.

Training for soft skills is the top priority for talent development teams, according to the LinkedIn 2018 Workplace Learning Report. Soft skills include communication skills, listening skills and empathy. In the LinkedIn study, the three skills rated most important for employees to learn—leadership, communication and collaboration—are all EQ-based skills. Regrettably, at this juncture, eLearning is not the most effective way to impart these skills.

The last category of training—the target of changing mindsets—is where eLearning is least effective. Changing mindsets requires concerted, orchestrated organisation-wide effort. It must involve collaboration from all departments of the organisation and cannot be achieved just by education.



ABILITY (WHAT?)

		Target Audience	
		Relatively Junior	*Relatively Senior*
Target Skills	*Memory*	✓ Codified knowledge, most amenable to eLearning. ✓ But, not just videos, internal Wikipedia/ Google.	✓ Low relevance, but could be a useful tool for large firms with multiple brands and in case of new products.
	Tactical	✓ Less codified, more challenging. ✓ Use relevant gamification, simulations for practice. ✓ Videos of star performers with world- class production values.	✓ Needs omni-channel approach and hand-holding.
	Mindset	✓ Omni-channel with technology, media and telecom involvement. ✓ e.g., AT&T	✓ Higher touch with repeated emphasis.

FIGURE 2

The 'why' often determines success

Another key question to ask is: How can employees be kept motivated and engaged? Try to answer the question your employees will have about why they should devote their time and energy to eLearning. When an employee asks: "Why am I doing this eLearning programme? Moreover, why am I doing this in my own personal time?" the answer will either motivate him/her to engage fully with the programme or only engage so far. The 'why' factor often determines the extent to which an eLearning programme succeeds.

Tactics used to drive an employee's engagement with eLearning range from: (1) simply commanding employees to enrol ("Because the boss said so") and (2) providing incentives (reward vouchers, promotions and certifications) to (3) embedding intrinsic levers ("It's fun!").

It is easy to order employees to be part of an eLearning programme. However, this tactic only works for a short period of time. Like the proverb says: You can lead a horse to the water but you can't make it drink. Incentives, on the other hand, work well both for the short- and long-term. Making eLearning a requirement for pay increments or promotions is easy to implement and effective. While the certification of promising employees beyond their current job is a tremendous motivator, it comes with a risk; employees may leave after obtaining the certification.

The most powerful motivating lever in getting employees to embrace eLearning is making it so much fun that they engage for the pure joy of it. Achieving this is tricky; it takes a combination of art and science to pull this off. You need the magic of movies and an understanding of pedagogy to make your learner's eyes light up while learning. But when it succeeds, it's a beautiful thing–your programme will both inspire and engage employees profoundly.

MOTIVATION (WHY?)

	Tactics	Considerations	Experience
1	Instruction		
	1a The boss said so	Easy to do	Works, but only short-term
2	Incentives		
	2a Lucky draw/vouchers/ discounts	Easy to do	Short-term only, if it works
	2b A requirement for increments	Approvals & $	Works well
	2c A requirement for promotion	Approvals & $	Works well
	2d Certification beyond my current job	Approvals & $	Brilliant, but, opportunism
3	Intrinsic		
	3a It's fun	Art, science, movies	We learn more if we enjoy it

FIGURE 3

Examples of this are simulation eLearning and game-based learning. Simulation learning is highly interactive and relies heavily upon graphics, video and audio. It often incorporates custom-built videos or games, which could very well include 3D components. Game-based learning can be a powerful medium of experiential learning. Many organisations today are motivating employees to learn with game-based courses to lift their productivity and knowledge.

The thought-provoking 'how' question

How should you shape your eLearning programme? This question is intriguing. It opens up all sorts of possibilities. Do you offer training that is relevant to the last minute? Do you offer training customised for each employee? Or do you focus on training that entertains and one that employees can relate to? Whatever path is chosen, it is key that eLearning not be seen as a chore.

TIMELY TRAINING

Timely training is a priority in the retail environment. Retail sales and performance can be greatly enhanced by enabling in-store experts with unique knowledge about high-value products. Delivering up-to-date training in a timely manner about the latest gadgets, fashions or even experiences can help staff improve their interactions with customers and assist the firm in selling through. An example is on-demand content modules that quickly bring an employee up to date on a product line while the product is actively selling on the sales floor. Both Samsonite and Ace Hardware leverage eLearning tools that enhance product knowledge among staff with the goal of providing consistent, knowledgeable customer experiences that increase sales conversation and sale ticket value.

Ace Hardware is not just one of the best customer service retailers but also one of the most helpful, which helps them to build customer confidence and trust. According to Retail Touchpoint, Ace Hardware employs a chainwide online interactive eLearning platform called *Helpful 101* to build their sales associates' knowledge base and inform them as to how best to present their knowledge to confused customers. This is a role-based course with video scenarios, simulations, games, expert coaching sessions and online assessments. The programme includes activities that staff take to the selling floor to reinforce what they have learned online. While the hardware store may have a slower rate of innovation than some other industries, employees must complete a digital learning course every two years.

Samsonite relies on an interactive, easy-to-modify video training app platform called *QuizScore*. This platform moves digital learning out onto the selling floor through iPads that deliver non-streaming, app-based video training. Samsonite employees learn without leaving the sales floor by clicking on two-minute training segments that play immediately, efficiently increasing the employees' product knowledge. Importantly, an added benefit of timely training is that it can enhance employees' job satisfaction as they are better equipped to handle complex sales tasks. In turn, this timely ability could possibly lower employee turnover, a critical issue for retailers.

PERSONALISED TRAINING

The younger generation is used to personalisation and choosing their content across a wide array of interactions, whether it is social media, customisation of degree courses, or interactions with retailers. In addition, they are likely to be more actively involved in the consumption of media that they consider as being relevant to their personal and professional needs. As such, a one-size-fits-all approach is unlikely to work in eLearning. In response, organisations need to consider how eLearning modules reflect and adapt to the current and developing needs of their employees.

In developing its eLearning safety programme for over 75,000 employees across 150 distribution centres, Walmart had to take into consideration the needs of four generations of employees: Traditionalists, Baby Boomers, Generation X and Millennials. Each generation has a different level of computer literacy and learning requirements. Walmart was careful in ensuring that the platform was flexible enough to offer a personalised training experience for each generation according to their respective learning speed and specific focus areas. This approach, combined with gamification, lead to a reduction of almost 54 percent in safety incidents.

RELATABLE TRAINING

Relatable training is about producing relevant and targeted content that inspires and resonates with the audience. In this respect, HR departments can learn from a number of third-party specialists. An example is Masterclass, an immersive online learning platform that offers classes with the world's best. Annie Leibovitz teaches photography; Martin Scorsese, filmmaking; Marc Jacobs, fashion design; Garry Kasparov, chess; Bob Woodward, investigative journalism; Gordon Ramsay, cooking; Samuel L Jackson, acting and Serena Williams, tennis.

Each class includes pre-recorded video content, a class workbook, interactive assignments and community activities. Students share their thoughts, upload their performances and provide feedback on each other's work. Each course consists of two to over five hours of video content. Individual lesson videos are from five to 25 minutes in length. Masterclass ups its interactivity factor by staging special opportunities for student participation. For instance, bestselling author James Patterson held a co-author competition and selected one student to write a book with him.

For HR leaders, the implication is clear. In a similar fashion, they can identify opinion leaders in their organisation such as leading sales personnel who can play the role of instructors in their eLearning programmes. That said, there is one caveat to this recommendation. Not all star performers are likely to be natural instructors or skilled at designing training modules. As such, it is important that HR leaders pay close attention to potential teaching skills and the willingness of star performers to share their insights and expertise with colleagues.

Putting it all together

Corporations have to realise that there are multiple benefits to eLearning beyond simple cost savings. For example, the employee turnover rate is very high in the retail sector. This means that management can't afford the wait-time needed to schedule training time and again. Timely training gains importance for this segment. eLearning allows retail staff to become knowledgeable

about products and services in a timely fashion, as opposed to training delivered via quarterly or annual training sessions.

Also, eLearning is important for retailers that sell high-priced items to a demanding clientele, because it is a very good platform to train employees on the attributes of a product. This is even more important in sectors where new products are introduced very often.

The ability to customise training is another huge edge that eLearning offers. Not every employee is at the same level of understanding, so it is important to create modules that can be customised for employees. IBM and Axonify, for example, use real-time analytics to understand employees based on how they are using the corporation's eLearning platforms in order to recommend modules for each employee.

Above all, corporations should keep in mind that the threesome of What-Why-How is a finely balanced system; if one element is off-kilter, the whole eLearning structure will come tumbling down.

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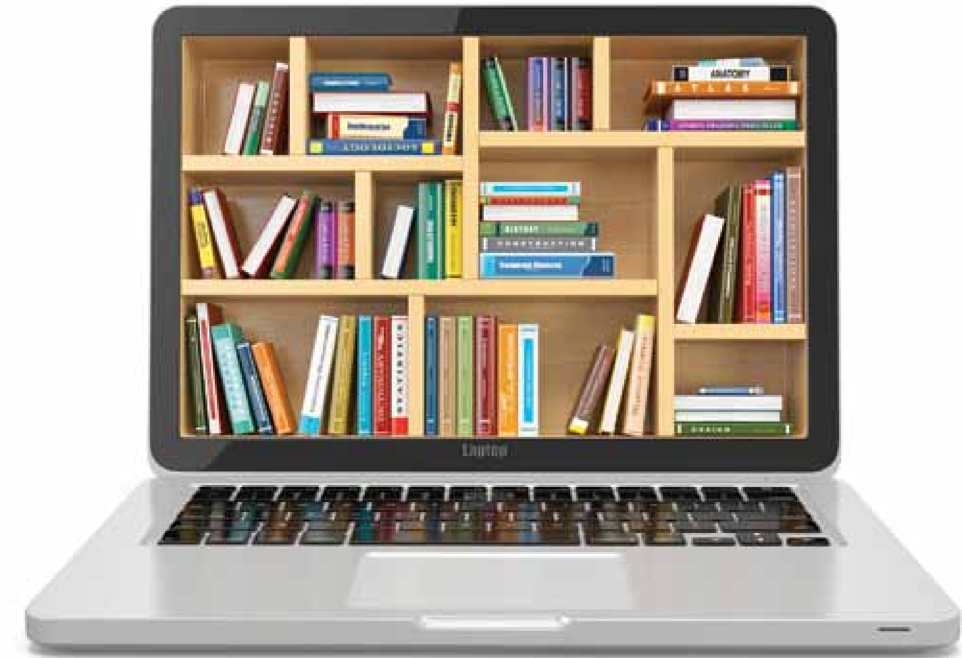

DFS' EXPERIENCE WITH eLEARNING

In 2017, global airport retailer, DFS Group, decided it could not continue to train its employees the same old way anymore. Over the last two decades, the Group had invested significant resources in training, pouring money into DFS University and developing a raft of programmes that focused on building deep knowledge of the various luxury products sold by the Group.

Vanessa Teo, the Vice President of Global Learning and Talent Development at the DFS Group, elaborated on the company's successes, "The business has transformed from being a commodity business to a luxury business—and with that transformation in your business model, there must also be a transformation of your people. Our sales associates are trained so that they want to build a relationship with every customer that comes through. So if a customer doesn't buy today, he is ultimately still thinking about DFS and comes back to us."

Although the approach worked, there was just one problem: It was expensive and trainer-dependent.

"Almost 100 percent of training was through in-person facilitation," said Teo. "We have a learning and development (L&D) manager covering most of our 14 countries. Each country has one, maybe two trainers at most. I can't be relying on just one person to ensure training is being delivered in a consistent manner every single time. In some cases, when an L&D manager decides to move on, or to move to a different part of our business, it leaves a hole in our business that is difficult to fill. We have gone for months at a time without delivering these programmes. That is just not sustainable."

DFS first dipped its toe into the e-learning waters by creating an eCampus. This online social learning forum saw DFS employees posting articles, sharing ideas and commenting on classroom topics. It was piloted at many locations, with the ambition that this social learning would reinforce existing training programmes. But Teo has more ambitious plans in mind, specifically virtual classrooms. "Turnover is high in the retail sector. New hire trainings are happening all the time. Is it possible to use one trainer to facilitate globally? A virtual classroom is totally within our reach. We want to do that too." Teo's proposal was met with resistance from headquarters. eLearning at DFS was relatively new and untested and senior managers needed more convincing before they could look past the development costs to embrace eLearning.

These costs for eLearning vary widely. At its simplest, written or audio/visual content could be translated into a digital format from existing materials and shared electronically through an existing enterprise portal system. This method could be very cheap. Development costs start to escalate when more sophisticated methods are employed. For example, some forms of eLearning require customised software to be developed and integrated into an organisation's IT structure.

Another challenge is selling eLearning to employees. Teo explained, "Developing the right kind of eLearning tools is in fact the most straightforward part of the challenge. Inspiring people to move into that digital mind space is where the real challenge is. It's essentially an internal marketing problem."

Teo understood that a complete transition to eLearning would undermine much of its current customer service training. However, not all aspects of the DFS University curriculum had to be taught with a hands-on pedagogy. Down the road, she envisioned digitising some of DFS' learning content into something more scalable. If executed correctly, a mix of classroom learning with eLearning, a blended learning approach, would be as effective and more cost efficient in the long run.

COSMETICS: MEN GET IT TOO!

The marketing of men's cosmetics is challenging conventional wisdom in Asia.

By Dae Ryun Chang

Men and beauty seem to be two contradictory domains because we often rely on an outdated assumption that men only want to appear manly and nothing more. The reality for modern men, however, is significantly different from that perception. This is especially so in many Asian countries where more and more men are daring to express how they want to look, and therefore use not only a vast array of skincare items but also, and increasingly, makeup. This subtle drift in approach to men's beauty and consumer habits in Asia are currently challenging strongly held conventional marketing wisdom and the ways in which marketing and branding approaches might need to change over time or across regions.

The cosmetics industry has taken note and an increasing number of products are being developed and marketed specifically to men. Whereas growth in global sales in the women's beauty sector has been steady, there has been a far greater expansion in revenues for its male counterpart. The global men's beauty/grooming industry was estimated to be about US$21.4 billion in 2016.[1] This market, including men's bath and shower, deodorant, skin and hair products, is expected to reach US$60 billion by 2020.[2]

According to Euromonitor, the region of greatest growth for the global grooming industry will be Asia Pacific.[3] If Asia's compound annual growth rate (CAGR) of 8.1 percent were to continue beyond 2020, it would most likely become the largest grooming market in the world, displacing Western Europe, which was predicted to have a much lower CAGR of 3 percent between 2015 and 2020. From the marketing calculus of global cosmetic companies–if they are interested in maintaining growth–this trend means that more attention has to be paid not only to men, but also especially to those in Asia. And South Korea, the country that gave us Gangnam, K-pop and some of the latest cell phones, leads this new revolution in male consumption–the men's grooming market.

Regional differences in men's beauty

Asia, perhaps with the exception of Japan, was a laggard in the mass adoption of consumer products. A good example would be the market for luxury products and brands. Whereas personal motivation drives demand for luxury in the West, in Asia these are more symbols of social status. Asian buyers thus typically sought brands that ostensibly signalled their position in society, mostly in order to be accepted by their peers.

> Because flamboyant grooming and fashion in Asia do not take on the connotation of one's sexual orientation as in the West, men can be bolder and quicker to adopt new and riskier styles.

A similar pattern can be seen in how Asian men have also been late adopters of men's beauty products. The irony, however, is that their late arrival has allowed them, such as with mobile technology and social media, to leapfrog the slower and more conservative adoption of cosmetics by men in Western countries. Part of this may be cultural, since open discussion of sexuality is taboo in Asia. But because flamboyant grooming and fashion in Asia do not take on the connotation of one's sexual orientation as in the West, men can be bolder and quicker to adopt new and riskier styles.

Through popular cultural products such as movies and TV shows, we can easily compare and contrast the visual aesthetics for what counts as masculine and well-groomed between Asia and the West. In the latter, there is a tendency to equate manliness to rugged-looking men with facial hair.[4] This differs in Asia where 'pretty boy' images are more familiar and acceptable. Hollywood has sometimes perpetuated distorted stereotypes of Asian men as being emasculated or the roles at times have been subjected to 'whitewashing'.[5] Against that backdrop, the success of the movie *Crazy Rich Asians* in 2018 is noteworthy not just for its all-Asian cast but also by the new representation of an Asian (played by Henry Golding) as a desirable leading man in a mainstream American movie.

A big caveat here is to ensure that even within Asia we do not commit to a pan-Asian generalisation about grooming aesthetics. Kantal Worldpanel, a Spanish market research firm, interviewed over 5,000 Asian men and found that men in the Philippines, Vietnam and Malaysia cared more about communicating status professionalism, whereas in China, appealing to the opposite sex was much more important.[6] In Indonesia, it was the Halal-certified men's grooming products that were spearheading the market and growing at 7 percent per annum.[7] In India, men have more facial hair and so may conform more closely to a Western style of grooming.[8] So while common patterns might exist in Asia, marketers ultimately need to tweak the grooming products for individual national markets.

South Korea is the 'lead market'

Even with local sensibilities being different, there are markets that other Asian countries look to as a general reference when adopting lifestyle trends. This is what is called a 'lead market' and is akin to opinion leaders among individuals.[9] The South Korean men's cosmetics market reached about US$1.5 billion in 2016, which was more than 10 times the size of the industry from just a decade ago. It represents over 20 percent of global sales for men's cosmetics even though the country has a total male population of just 25 million.[10] The average Korean man uses about 13 cosmetic products on a monthly basis.

South Korea has become a 'lead market' (like Japan before it) via a combination of its tangible economic success, globally renowned companies such as Samsung and Hyundai and, more recently, its 'soft power'. It has been riding a powerful cultural wave (called *Hallyu* in Korean) since the late 1990s, thanks to its movies (aka 'K-Movies' e.g. *My Sassy Girl*), soap operas (aka 'K-Drama' e.g. *Jewel in the Palace*), pop music (aka 'K-Pop' e.g. *Gangnam Style*) and women's beauty products (aka 'K-Beauty' e.g. AmorePacific).[11] The four areas often overlap through celebrity endorsements.

The explosive debut of the boy band BTS has also drawn new interest in the West and has a global legion of fans called the "ARMY". They already had a reputation throughout Asia for being a top group not only because of their music, dancing, and the social consciousness of their songs, but also for their fashion style.[12] They are just the latest in a long string of boy bands that have pushed the boundaries of the aesthetics of male masculinity. The fact that they used once-taboo items such as eye pencils and lip products allows non-celebrity men to follow suit.

New men's beauty segments

Besides the classic metrosexual and ubersexual customer segments, men's grooming businesses have also tapped into other market opportunities: 'NOMU', 'JOOBAEK' and 'YUMMY'. NOMU was an acronym for 'No More Uncle' and represented men who wanted to rid themselves of the derisive 'uncle' tag that was a euphemism for old or unfashionable.[13] In the past, NOMUs attempted to be trendy just with clothing, but by the turn of the century they were turning more and more to grooming.

> The average Korean man uses about 13 cosmetic products on a monthly basis.

ARE YOU A NOMU?

MK magazine, a major Korean daily, offered the following checklist to gauge whether one was a NOMU (to be classified as a 'No More Uncle', one needs a 'yes' response to five or more items):[14]

1. I care about my looks.
2. Having an interest in many different topics helps in my self-development.
3. I try actively to communicate with younger generations.
4. I am above average in taking risks in fashion and grooming.
5. I can easily reveal my tastes and that affirms my individuality.
6. I don't deliberately try to stand out like young people, but try to be different.
7. I become nervous if I do not use social media at least once a day.
8. I access news more through mobile phones or iPad rather than via conventional media.
9. Work is important but not as much as time spent with my family.

JOOBAEK was a moniker for Weekend (*Joomal*) Department Store (*Baekhwajum*) Warrior and connoted middle-aged men who no longer stayed at home or just accompanied their wives and family for shopping, but instead went shopping alone to reward themselves. Unlike their parents who preached individual sacrifice for spouse or family, both NOMU and JOOBAEK represent Asian males with new attitudes that it was now okay to be self-indulgent. Unlike the past when they passively wore what their girlfriends or wives bought for them, more and more men shop alone to discover what pleases them and helps become more individualistic. JOOBAEK and NOMU may not be mutually exclusive since there could be some overlapping characteristics, such as their age group. Instead of being completely different, JOOBAEK could be considered a sub-segment of NOMU that has higher incomes and a greater need for physical self-expression.

Another new segment uncovered by HSBC researchers was YUMMY–Young Urban Male–perhaps derived from the old YUPPIE (Young Urban Professional) concept popular in the 1990s.[15] They have very exclusive tastes for restaurants, cars, fashion, watches and grooming. The rise of YUMMY, in Korea at least, appears to be in part a reaction to the rise of the Gold Misses–a term used to describe unmarried women with a high socioeconomic status and level of education. Many of the descriptors of YUMMY are

consistent with the Gold Misses, who have been iconic to Korean marketers and their legions of followers.[16] YUMMY are also young, single and often living alone, but unlike the previous generation of men, they take good care of their faces and bodies. Spurred on by television shows showcasing sexy male chefs, they relish learning about and cooking haute cuisine for themselves and friends.[17,18] They also drive the demand for expensive grooming products such as anti-ageing serums, as well as pore management products and fragrances. As part of their need to be pampered as men, their havens of choice are high-end barbershops.

A new-old service of barbershops

Marketing success is often achieved by making something old into something new. In the case of men's grooming, it is the reinvention of the traditional barbershop. In the past, barbershops were where men went to get a shave and haircut–plain and simple. In recent times, metrosexuals also started to frequent hair salons, but for much more than a simple shave or trim–they were looking to get a perm, highlights, or a more demanding hairstyle. All of this spelled the demise of old-style barbershops.

At first in the U.K., and then in the U.S., barbershops have made a comeback by revamping themselves.[19] Men still get a shave and a haircut, but also so much more. Barbershops have transformed themselves into full-service beauty salons offering customised grooming to match one's face type, hair and even profession. These shops typically cater only to men even though women who want their boyfriends or husbands to transform themselves into more confident and better-looking partners may take customers there.

The community and 'chatty' aspect of a barbershop for men may be something from the past, but it has found new life in an updated and localised form to appeal to modern Asian men. The 'Asianisation' of the barbershop by barber chains such as HERR (with multiple outlets in Seoul and Hong Kong) aims to position it at the high-end and to offer grooming services like shampooing that men have come to expect in Asia but not elsewhere. A typical sitting begins with a consultation about skin and hair and, to put the customer in a relaxed mood, at some places comes with a glass of single-malt Scotch whiskey. It can even include tips on fashion and eating, making it a total lifestyle shopping experience.

The men's beauty market is a further illustration that the *Noon Nopi* (literally meaning the eye level in Korean and referring to consumer needs) of a dynamic region such as Asia is constantly evolving and marketers need to match that.[20]

Marketing success is often achieved by making something old into something new. In the case of men's grooming, it is the reinvention of the traditional barbershop.

Where does this trend take us?

Men's grooming trends in Korea could be used to forecast future demand patterns for follower countries.[21] Besides cosmetics, Korean men also use products and services such as mask packs, facial peels, dermatologists, and cosmetic surgery. For purchasing channels, the primary ones are drugstores, online open markets, and one-brand shops. As for sources of influence, the major ones are online product information, advice from wives or girlfriends, friends, and online user reviews. The online channels provide a convenient channel for millennials who are often too busy to shop offline. Moreover, it allows them to buy potentially embarrassing products without the glare of onlookers.

Marketers can also analyse from a sociological standpoint what drives the demand for men's beauty products in Korea. If similar fundamentals exist in the follower countries, then predictions about those markets would become more assured. While many reasons can be cited, ultimately they revolve around one key factor, 'hyper-competition' not just in education but also in meeting the opposite sex, getting and keeping a job, and looking good. Another reason is the need to look young both in social circles and at work. In contrast to the Confucian cultural principle that revered the aged, modern times have revealed a decided preference for youth since it is equated with ability.[22] It looks like the men's grooming industry is here to stay, and grow.

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Does demography determine talent?

By Philip Zerrillo

Among the map of forces that shape a business environment, one of the permanent, pertinent and powerful factors is a nation's demographics. Policymakers can outrun a lot of things to support businesses–they can change laws, correct for mistakes made in regulatory systems and business codes of conduct, as well as offer incentives for attracting investments–but one of the most difficult things to change, once it is put into place, is demographics.

Asia is a very complex place to describe in one word. In so many aspects, its demographics are diverse and defy any kind of homogeneous analysis. While birth rates can say a lot about an economy at a macro level, there are also the micro-level demographic issues that can begin to crop up, creating opportunities as well as challenges. My observation is that, over the last 15-20 years, we are seeing a movement from farms to cities that has gained momentum. While this trend is not new to developing societies, the pace and scale at which it is taking place in Asia, its impact on urban and rural regions, combined with the complacency of policymakers, call for grave attention.

Throughout Asia, younger populations are moving to regions of economic buoyancy. In Vietnam, there is a movement of young population from the North to the South in search of better work opportunities. In Myanmar, while a lot of the IT training is being offered in Mandalay, most IT firms have set up shop in Yangon, resulting in a similar internal migration. And Bangkok and Manila are also facing an influx of labour. And where today's young population settles to begin their careers says a lot about this generation and the next.

This clustering of people and businesses puts pressure on housing, transportation, natural resources, and public services. Simultaneously, this migration leads to a massive hollowing out of talent and skill in the countryside, the rice bowl of these economies. Furthermore, foreign investors are attracted to countries either because they can tap into an expanding consumer base or a growing pool of skilled talent. But the two go hand-in-hand: a well-skilled labour force has access to lucrative employment opportunities and eventually constitutes the middle-class consumers that all businesses target. In contrast, if the urban migrants are unable to find jobs due to lack of appropriate training and upskilling, then it creates a burgeoning segment of urban poor who lack affordability and purchasing power. Inequalities then emerge and social tensions become more pronounced, impacting the overall wellness of life.

Taking a leaf from the United States?

Western development models may not always be relevant for contemporary Asia, but perhaps the U.S. education model offers some guidance for developing countries today. The Land Grant universities of the U.S. established in the late 19th century paved the way for a much more geographically balanced growth. Many of these universities were set up in the South, Southeast, Midwest and far West–far from major cities, which had by the mid-20th century already started attracting the nation's young population.

By the 1970s and 1980s, these universities spun into new towns and cities, and businesses began to set up shop near these repositories of educated labour. This set off a virtuous circle of development–businesses came in, student graduates got jobs, settled down, had babies, and contributed to the local microeconomy–and a vibrant ecosystem began to form around these academic institutions, preventing the exodus to big cities. Moreover, many satellite tech hubs–Austin, Madison, Columbus–emerged in what were formerly labelled college towns.

Austin, Texas is perhaps an aspirational example of a sustainable growth story. What was the 73rd largest U.S. city in 1970 is knocking on the door of the top 10 today. While it was unimaginable to get a job in Austin in the years prior to the 1970s, today it is a buoyant, independent economy with factories, and even headquarters of major semiconductor companies, equipment makers, software companies, test equipment suppliers, and the like. Austin's story showcases a model for how economic centres can begin to be created around a first-class university.

What happened in the U.S was perhaps not by planning but by happenstance, but it ended up working well for the nation. Asia, however, needs to show greater preparedness as the future is churning faster and the stakes are higher. Its university centres tend to be concentrated in the major cities, and all talent is already migrating there. And these cities are fast turning into time bombs, ready to explode.

> The movement from farms to cities is a trend that is not new to developing societies—but the pace and scale at which it is taking place in Asia, its impact on urban and rural regions, combined with the complacency of policymakers, call for grave attention.

What Asia will look like in the future will depend on the decisions of today. Factory towns have sprouted up in Asia, but their pulling power is usually quite tied to the industrial lifecycle. Knowledge and universities tend to outlast these cycles. Perhaps India is sowing the seeds of what the future might hold in Asia. The mandate to contribute 2.5 percent of pretax profits to charity has led to the establishment of many business-family based universities. Perhaps these are the starting places for the intellectual breakthroughs that will help the country succeed in the new knowledge economy. Similarly, in the Philippines and Indonesia we see large private businesses establishing universities in an effort to develop skilled workers for their growing operations.

Skills development in Asia

New technologies and artificial intelligence (AI) are also radically altering talent needs, and will eventually result in a transfer of wealth within nations. I feel countries like Singapore, Taiwan, Japan, Korea, and Germany have rightly jumped on the bandwagon to adopt AI-enabled technologies that will automate or augment much of their ageing/declining workforce. Much of Southeast Asia is also moving in this direction–as the demographic bulge is very fast wearing thin. I have observed the challenges the Philippines' business process outsourcing (BPO) industry is currently facing–while the population is still growing, skills are not. For the BPO industry to evolve and grow with changing demand, the Philippines now needs an upskilling of its workforce. And countries with healthy population growth will use AI to better connect with customers. So different countries will approach this new era of data science in different ways. But either which way, the workforce will need reskilling and upskilling.

The continuous migration of young people will set the pace for how countries develop for the next 20-30 years. And once set in place, the momentum of these demographic trends will be difficult to change. So policymakers need to understand that, 'Where the young people go, so goes the future.' Demography alone does not determine talent; proactive investment into hard and soft infrastructure does. If the right environment is not created, the demographic bonus can very quickly become a curse. Governments and industries in Asia can either take a field position under their desks and wait for it to occur, or they can step up and make the appropriate changes and preparations.

It is our hope that this note will stimulate thought and encourage our readers to share their ideas and experiences on this topic. What are your thoughts? We would love to hear from you.

Please submit your comments to: **editorami@smu.edu.sg**

Dr Philip Zerrillo
is the Editor-in-Chief of Asian Management Insights and the Executive Director of the Centre for Management Practice, Singapore Management University

Dear Editor,

The article 'Negotiating the legal systems in ASEAN' in the May 2018 issue of *Asian Management Insights* touches upon an important aspect of conducting business in one of the most exciting markets of the world. While the ASEAN markets represent a lucrative opportunity for global, regional and homegrown entrepreneurs, the lack of a consistent and transparent regulatory system in individual countries presents a significant hurdle to business expansion and foreign investment.

In game theory terminology, this may be categorised as a lose-lose situation for all the players concerned—multinational firms lose the opportunity to expand business and access local talent and technology; the host country is unable to attract foreign investment and sees an adverse impact on its economic growth; and people lose out on potential employment opportunities, access to global products and services, and economic welfare. It might still be an acceptable scenario if this was hurting only the global players. But the worst hit are entrepreneurs who do not have the financial muscle or extended set-up time to negotiate complex regulations and ambiguous laws.

While the article begets the reader to question the concerned governments and political leadership, that would, in my view, be too simplistic an outlook. There are several challenges a government faces in establishing an effective legal and regulatory structure to protect several stakeholders. Efforts in enhancing the knowledge of bureaucrats and keeping them abreast of latest global policy and regulatory frameworks will go a long way in addressing important national agendas while still creating an investment-friendly climate.

Leading universities, industry leading corporates and consulting organisations have an opportunity to influence this discourse through the adoption of a collaborative business-to-government approach towards the creation of national knowhow on legal and regulatory issues.

Ashish Bhardwaj
Vice President Asia Pacific, Middle East and Africa, Graduate Management Admission Council

Dear Editor,

You have raised an important issue in the last edition of *Asian Management Insights* in your column, 'A Walk Through Asia.' The legal and regulatory systems of any country are intrinsically linked to its business environment and are, in fact, a key determinant of it. While technical advancement and human entrepreneurial spirit have enabled the blurring of boundaries among nations and facilitated the emergence of global workers, consumers and markets, archaic rules of law, misaligned policies and ambiguous regulations continue to create challenges to seamless flows of ideas and capital.

It is a fact that the costs of risk management, legal and compliance are growing steadily, and this is exacerbated by local policy and regulation that do not align with internationally laid down law. Such market discontinuities open up arbitrage opportunities, giving rise to crony capitalism and a tilted playing field.

While not all solutions may be in sight, it is important to bring attention to such issues. Asia is indeed a complex region and discussions such as these are very helpful in understanding some of the nuances, which would otherwise leave foreign investors perplexed and unsure.

Steven Burton
Former Managing Director, Executive Degrees at INSEAD

Centre for Management Practice

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U.S. trade policy and its impact on Asia.

By Mark Zandi, Steve Cochrane, Ryan Sweet, Ruth Stroppiana and Katrina Ell

Many of the trade policies of the United States President Donald Trump's administration are aimed at addressing the perceived adverse impact of trade on the country's manufacturing employment, and improving trade deals the President sees as not being in U.S. interests. These appear to be worthwhile goals, but crafting trade policy to address them is difficult. If not done correctly, the policy could do more harm than good for manufacturing and the broader economy, particularly if the U.S. implements more protectionist policies, or if its trading partners retaliate.

The following article discusses the global economic impact of three different trade scenarios that illustrate how selected tariffs would have only a minor economic impact, but an all-out trade war with tariffs placed on all goods traded between the U.S. and China would have palpable consequences.

Expected tariff scenario (50 percent probability)

The most recent salvo in the trade war is the U.S. decision to up the ante on the amount of Chinese imports to the U.S. subject to higher tariffs. The U.S. has imposed tariffs on US$311 billion in imported goods from China. Under this scenario, the assumption is that this is the fullest extent of the tariffs the U.S. imposes and that there is no further retaliation and only US$134 billion in U.S. exports are slapped with tariffs.

If this is the extent of the tariff increases, then while not good for the U.S. and global economies, they will be able to largely shrug it off. We predict that U.S. real GDP will be reduced by just about 0.13 percentage point at the peak of the impact a year from now. More than 200,000 jobs will be lost over the period. The economic impacts outside of the U.S. will be comparable.

Cushioning the impact of the higher tariffs on the U.S. economy is the massive fiscal stimulus–deficit-financed tax cuts and government spending increases–that will pump up growth through to at least the middle of next year. For context, this stimulus is expected to add 0.4 percentage point to real GDP growth this year, and a like amount in 2019.

Mapping the economic consequences

Higher tariffs hurt the U.S. economy most directly and quickly through higher prices for imported goods. The tariffs act much like a tax increase, weakening the purchasing power of households–if households need to spend more on imported goods, they have less income to spend on other things.

Of course, exports also suffer as the tit-for-tat tariffs imposed on trading partners cause their consumers and businesses to purchase what they need domestically or from competing nations that can now provide the goods more cheaply. Chinese authorities have significant control over the economy and, in previous trade tiffs with Korea and Japan, have strongly recommended to their citizens not to buy the products of those countries. China has not gone down this path with the U.S. yet, but it is a credible possibility.

The higher tariffs also weigh on the profitability of multinationals and their stock prices. This occurs via a somewhat stronger U.S. dollar, as the trade tensions create a risk-off environment in global financial markets, and for U.S. companies, weaker overseas sales. The resulting flight-to-quality lifts the dollar's value, which weighs on U.S. exports.

In the longer run, the reduction in trade weighs on productivity growth, as the benefits of comparative advantage–when nations specialise in what they are especially good at producing–and global competition are diminished. More broadly across Asia, the impact would be modest. In this scenario, China's GDP growth is reduced by 0.03 percentage point in 2018 to 6.7 percent, and the brunt of the tariff impact will be felt in 2019 with GDP falling 0.09 percentage point below the no-tariff baseline to 6.3 percent.

The tariff increases translate to lower demand for Chinese exports from the North American market. Exports remain a critical growth driver, comprising 20 percent of GDP. Reduced export revenues translate to lower manufacturing output, flowing through to weaker employment growth. The unemployment rate holds at baseline levels through 2023, but the relative stability masks weakness that sees consumption soften and drives down house price growth by 0.14 percentage point in 2019 to 2.8 percent.

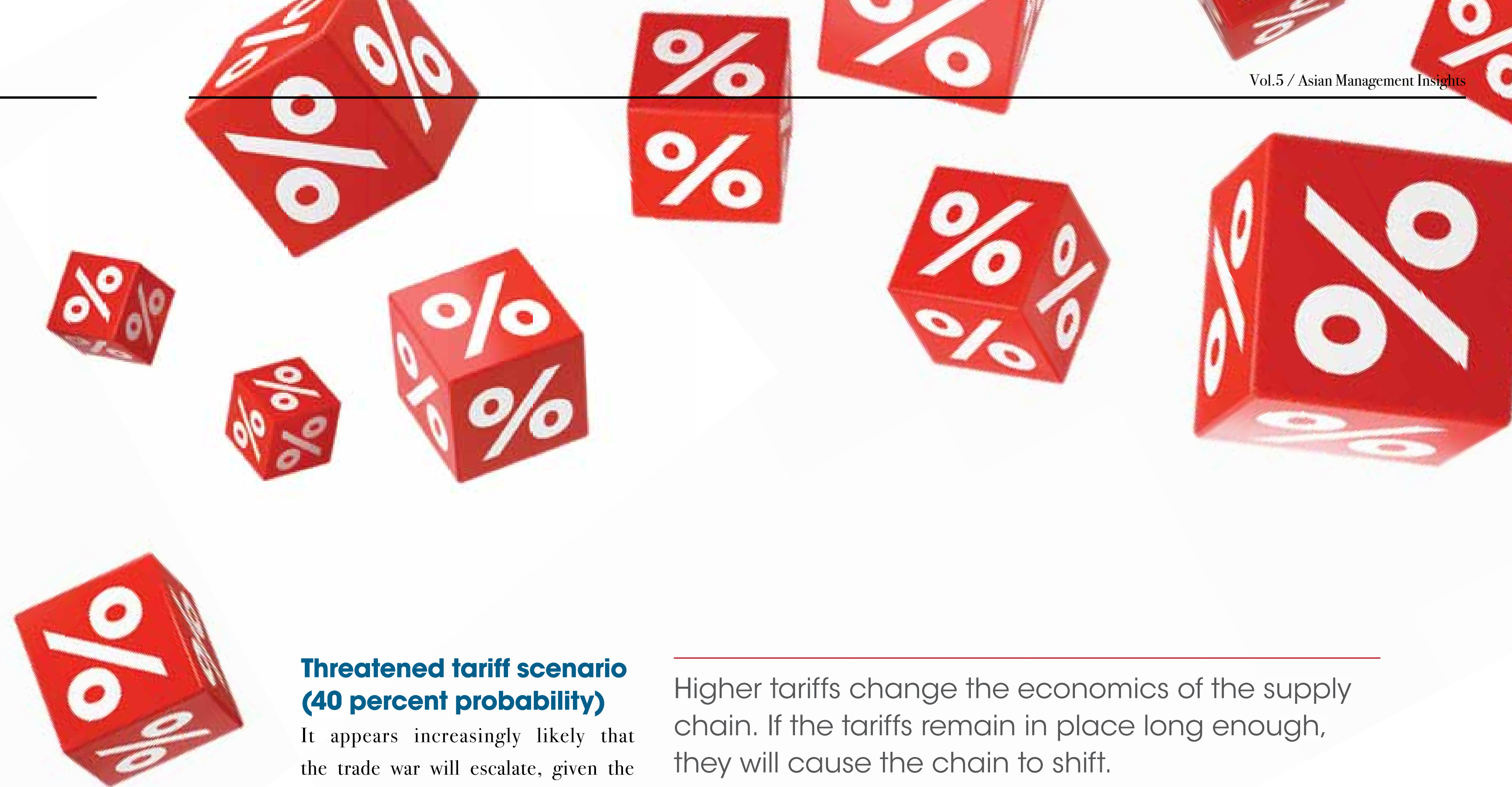
China's stock market is the most sensitive metric examined under this scenario and reflects investors' rising concerns about the implications of a trade war on China's economy. While the stock market is not highly correlated with GDP, it is viewed as a decent barometer of sentiment. The rise in the FTSE Xinhua is estimated to be 1.16 percentage points lower at 4.6 percent in 2019. There is some recovery in 2020 with the annual rise picking up to 6.3 percent, stronger than the 5.4 percent rise under the no-tariff baseline.

If this is the extent of the tariff increases between the U.S. and China, economies in Asia will not be immune to the trade skirmish, but the hit to GDP growth is negligible and forecast variables stay close to baseline levels. The hit to GDP growth largely comes from the export channel as Asia is an important provider of inputs for Chinese manufactured goods, particularly technology producers Malaysia, Singapore, Taiwan and Hong Kong, where technology products comprise a sizeable, if not the largest, share of exports. Based on a simulation of the Moody's Analytics global model, which covers 68 countries linked via trade flows, foreign direct investment, and financial markets, real GDP growth in Asia is reduced by only 0.08 percentage point by 2019, with an even more negligible impact of around 0.02 percentage point in 2018.

Reduced global trade flows drag on commodity prices and have a pronounced impact on commodity export-oriented countries such as Australia and Indonesia. China's softer GDP path hurts iron ore prices, which remains Australia's largest export, with China the largest export destination. Indonesia's important commodity exports to China include coal, petroleum gas, and crude petroleum.

A slowdown in regional demand will also hurt India's petroleum-related exports. While India is a net oil importer, exports of refined petroleum products still account for a large part of export values. As regional demand slows, demand for refined products such as diesel, oils or other fuels is likely to drop. Moreover, chemical product and engineering goods exports will decelerate as demand in major export destinations such as the EU is likely to be lower.

The reworking of the global supply chain, when it occurs, will be highly disruptive, and is only partially picked up in our model. The manufacture of many goods involves multiple cross-border movements. Indeed, the U.S. trade deficit with China is significantly inflated, because China is simply where the final assembly of many components produced in Japan and elsewhere in Asia occurs. Higher tariffs change the economics of the supply chain. If the tariffs remain in place long enough, they will cause the chain to shift.



Threatened tariff scenario (40 percent probability)

It appears increasingly likely that the trade war will escalate, given the rhetoric and the apparent lack of a clear path to resolution. This scenario assumes that all tariffs that the U.S. has threatened are implemented, including a 15 percent average tariff on US$800 billion in U.S. imports, and US$275 billion in vehicle imports subject to a 25 percent tariff. This scenario also assumes a 15 percent tariff on an additional US$475 billion of U.S. exports. If implemented, close to one-third of all imported goods into the U.S. will be subject to higher tariffs.

Assuming that impacted U.S. trading partners respond with in-kind tariffs on U.S. goods, the macroeconomic consequences would be more serious. Using our global model, such an escalation would reduce U.S. real GDP by 0.5 percentage point and employment by 700,000 jobs at its peak. This is still not enough to derail the fiscal-stimulus-fuelled economic expansion, but it would be enough to be felt, particularly in the U.S. agricultural and manufacturing industries.

In this trade war scenario, real GDP growth in Asia is reduced by around about 0.06 percentage point in

Higher tariffs change the economics of the supply chain. If the tariffs remain in place long enough, they will cause the chain to shift.

2018 and 0.38 percentage point in 2019 before recovering in 2020 (refer to Figure 1). China's GDP growth falls by 0.07 percentage point in 2018 to 6.6 percent and is 0.42 percentage point below the no-tariff baseline in 2019 to 5.95 percent. Annual GDP growth improves by 2020 with growth coming in 0.24 percentage point above the projected no-tariff baseline growth rate at 6.1 percent.

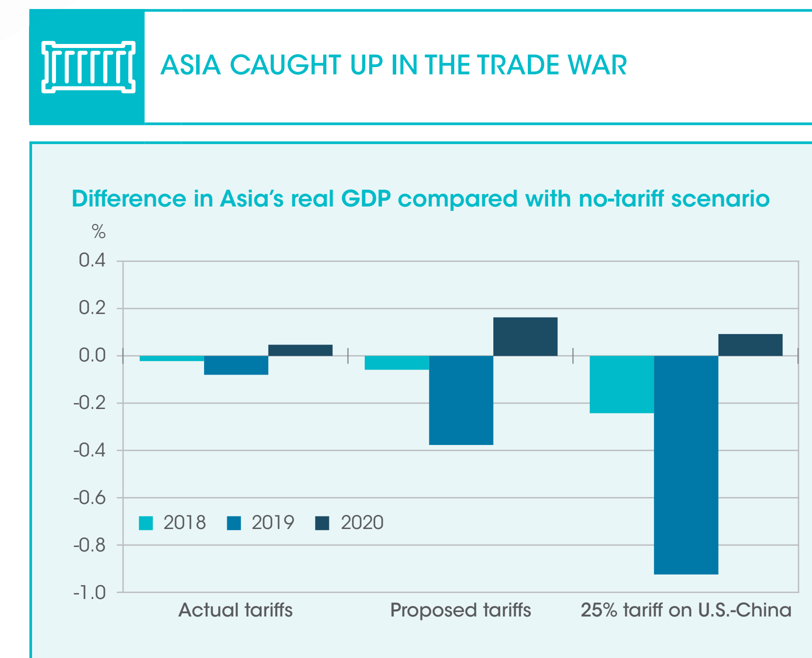


FIGURE 1 Source: National statistical agencies, Moody's Analytics

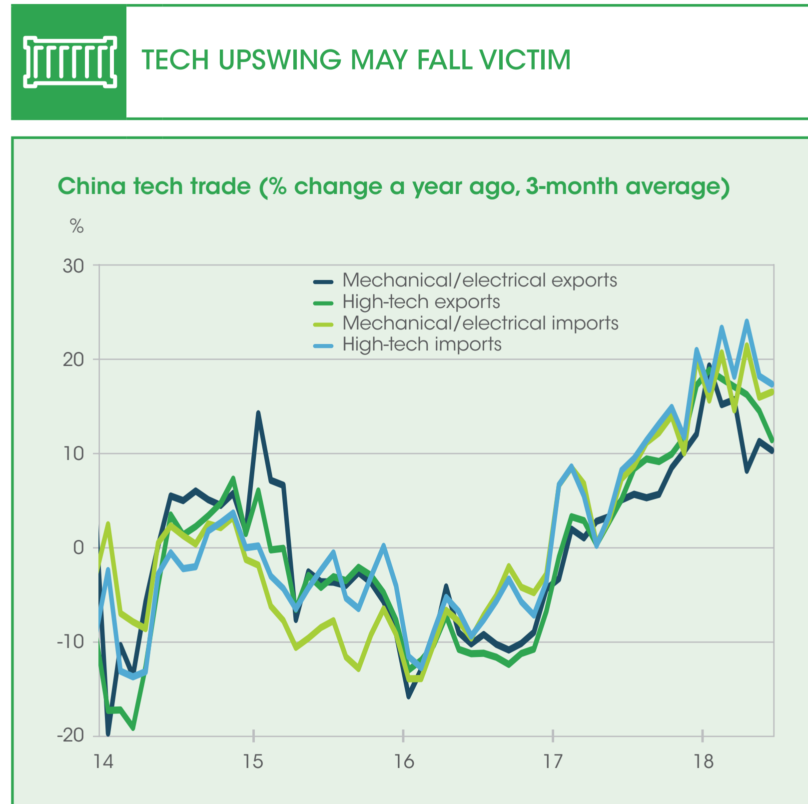


FIGURE 2 *Source: China National Bureau of Statistics, Moody's Analytics*

FIGURE 3 *Source: OECD, Moody's Analytics*

The tariffs are like a hefty import tax, reducing demand for Chinese goods in the U.S. Other important markets, including Europe and Asia, are unable to sufficiently pick up the slack from weaker U.S. export demand. Tech products are an important focus of the U.S. tariffs on Chinese goods imports, and this takes the wind out of the global tech upswing that China has benefited from for over a year (refer to Figure 2).

The Chinese government has increased its fiscal and monetary stimulus (that it has already stepped up since the trade war escalated earlier this year), but these additional measures are insufficient to absorb the direct hit to GDP growth. Investors run for cover under this scenario, as reflected in the equity market being 5.29 percentage points below the no-tariff baseline in 2019 at just 0.49 percent, before partially recovering and rising to 8.6 percent in 2020, 3.2 percentage points stronger than the baseline. Capital outflows are expected to accelerate under this scenario, but concentrated efforts should keep the Yuan broadly steady through the brunt of the scenario in 2019.

Under this scenario, Asia's important integrated supply chains are strained, and this is where the hit to GDP growth largely comes for remaining countries, since they are not directly subject to the U.S. tariffs.

Examining the import content of exports illuminates the extent to which a country is a user of foreign inputs, and for most economies in Asia, this is relatively high (refer to Figure 3). Value-added trade data from the Brookings Institution confirm that in the case of the 'computers, electronic equipment' category, there is more foreign value-added than domestic value-added in Chinese exports to the U.S. (Figure 4). In other words, technology intermediaries play a greater role in producing goods in this category that are shipped to the U.S. than China does. This is important because those economies that are important tech hubs throughout Asia, including Taiwan, Malaysia, Hong Kong and Singapore, inevitably suffer from tariffs on Chinese technology imports to the U.S. simply because of their role in the supply chain.

Under this scenario, the worst of the hit to GDP growth occurs in 2019. Hong Kong's GDP growth is reduced by 0.62 percentage point below baseline levels to 0.9 percent in 2019. Singapore's GDP growth hits 1.7 percent in 2019, 0.23 percentage point below the baseline. Malaysia endures a similar magnitude slump with annual GDP growth hitting 3.95 percent under the scenario.

Some Chinese parts that are currently shipped directly to the U.S. could be redirected via Southeast Asia to avoid tariffs, but whether this would be a boon for Southeast Asia in the near-term is unlikely, given that manufacturing is still taking place in China. In the medium to longer term, China could accelerate offshoring to some parts of Southeast Asia, where labour and operating costs are lower, but this would not be enough to offset the direct hit from lower trade flows. GDP growth in export-dependent Taiwan is expected to cool to 2.1 percent in 2019, 0.35 percentage point below the no-tariff baseline as its heavy exposure to electronics makes it particularly vulnerable to this protectionist stance.

The marked reduction in global trade flows sees commodity prices take a hit, with Brent oil falling to around US$60 per barrel by the end of 2019. Weaker commodity prices flow through to weaker export receipts for Australia and Indonesia. Australia's GDP growth is reduced by 0.23 percentage point in 2019 to 2.5 percent, before returning to near the no-tariff baseline growth rate in 2020. Meanwhile, Indonesia's GDP growth is 0.15 percentage point lower in 2019 at 4.62 percent, but by 2020 comes in at 5.0 percent, 0.41 percentage point above baseline.

Exchange rates in all countries except Hong Kong and Singapore act as a partial shock absorber, but are unable to completely absorb the hit to exports. Modest monetary easing comes into view for these Asian countries from 2018 with policy rates not returning to no-tariff baseline levels until after 2023.

Trade conflagration scenario (10 percent probability)

It would take a lot to derail the expansion, yet an across-the-board hike in tariffs on U.S.-China trade could do it. The U.S.-China trade relationship is the largest in the world, with Chinese exports to the U.S. running at more than US$520 billion per year–more than one-fifth of total U.S. imports. U.S. exports to China total more than US$130 billion–close to one-tenth of total U.S. exports.

A scenario that includes a 25 percent tariff on all this trade, coupled with Chinese 'qualitative' measures that complicate doing business in China for American companies, would overwhelm global economic expansion. China could take a range of qualitative steps, from more aggressive inspections of U.S. imports to stiffer visa requirements for visiting American workers,

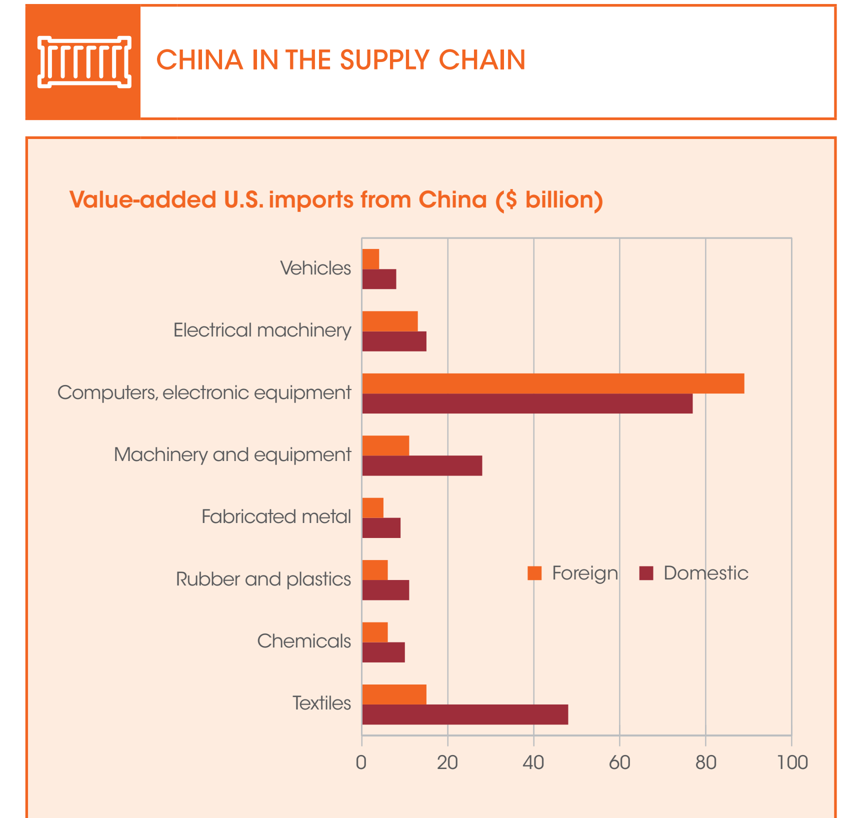


FIGURE 4 *Source: Brookings Institution, Moody's Analytics*

to ensure that they match the economic pain created by the U.S. tariffs on their products.

In this scenario, the U.S. economy descends into recession by the second half of 2019. The increase in import prices and accelerating inflation and decline in exports would overwhelm U.S. expansion, particularly since the entire global economy and financial markets would also be reeling. Real GDP is cut by 1.8 percentage points at the economy's nadir at the start of 2020, costing the economy almost 2.6 million jobs. Unemployment rises to well over five percent.

The rest of the global economy suffers, although a stronger U.S. dollar moderates the blow somewhat. The economic and political turmoil created by the trade war causes a sell-off in global financial markets and a risk-off environment. Global investors flock to the safety of U.S. treasury bonds, resulting in an appreciation of the U.S. dollar against most other currencies, most notably vis-a-vis the Euro and the Yuan. Therefore, the Chinese economy ironically weathers the trade war storms more gracefully than the U.S.

In this trade war scenario, real GDP growth in Asia is reduced by around 0.24 percentage point in 2018 and 0.92 percentage point in 2019 before recovering modestly in 2020. In this scenario, China's GDP growth drops by 1.19 percentage points to 5.28 percent in 2019 and 0.19 percentage point to 5.6 percent in 2020. The marked deterioration through 2020 causes significant reduction in manufacturing output, spilling over to weaker employment and income growth. Government stimulus steps up on both a fiscal and monetary front but is unable to materially help the economy get back on track and GDP growth stays below the no-tariff baseline level until 2021.

China's stock market falls sharply in this scenario, declining by 9.4 percent in 2019, and the Yuan remains below baseline levels through 2023, hitting a low of 6.5 per U.S. dollar in 2021. The weaker Yuan forces the current account surplus to narrow, acting as a secondary channel by which investors turn more bearish on China as they question the health of key economic metrics.

Asia is swept up in the dire situation and important supply chains come under severe strain. Reduced global demand, coupled with the heightened inability to source key components, means that Asia's technology producers have their otherwise upbeat growth trajectories knocked off course. Similar to the proposed tariff scenario, the worst of the hit to GDP growth occurs in 2019. Hong Kong's GDP growth is reduced by 1.26 percentage points to 0.3 percent in 2019. Singapore's GDP growth slows to 1.7 percent in 2019, 0.36 percentage point below baseline. Malaysia endures a similar magnitude slump with annual GDP growth slowing by 0.33 percentage point to 3.9 percent in 2019. Annual growth in Hong Kong and Singapore remains below the no-tariff baseline rate until 2021, while Malaysia returns to near baseline growth rates in 2020.

In all these Asian countries, China is their largest export partner, ensuring a high vulnerability to this scenario. An added hit comes from higher policy uncertainty, raising the cost of capital and causing businesses to delay hiring and investment. The resulting slump in wages weighs heavily on consumption.

Commodity producers are also not immune. Markedly reduced global demand drives down commodity prices, weakening an important source of income for Australia and Indonesia. In this trade conflagration scenario, Brent oil falls to around US$51 per barrel by the end of 2019. Firms abandon investment plans and cut employment to try and stay afloat through the turmoil. The unemployment rate in Australia peaks at 5.3 percent in 2019. Indonesia's unemployment rate rises to 5.2 percent in 2019, modestly higher than the baseline.

Australia's annual house price growth slumps to 2.4 percent in 2019, weaker than the no-tariff baseline projection of 3.48 percent with the resulting weaker wealth effects providing a further hit to consumption.

A broad-based slowdown in trade will cause India's foreign direct investment (FDI) to fall. FDI remains a key source of funding for various Indian companies, and a slowdown in foreign flows means investment is likely to decelerate. Overall investment in India is already low, and a further slowdown will adversely impact the capital expenditure cycle. Less capital inflows will likely see the rupee depreciate, as the currency remains vulnerable to capital flight due to India's high reliance on external funding. Although large unilateral trade sanctions are unlikely against India, there is a risk that the country could turn more protectionist. For example, India recently retaliated with its own tariffs against U.S. products in response to import duties on steel and aluminium imposed by the U.S. This will likely lower Indian imports, which could further hinder the capital expenditure cycle.

Equity markets are a decent barometer of the risk aversion that has swept through global financial markets, and large falls are recorded across all markets. Stock markets across the Asia-Pacific region will endure steep double-digit declines in 2019. Currencies fare similarly but are unable to fully absorb the hit to exports.

An added hit of economic vulnerability comes from higher policy uncertainty, raising the cost of capital and causing businesses to delay hiring and investment.

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Katrina Ell
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Reference

[1] The scenarios are based on Moody's Analytics Global Macroeconomic Model, which covers more than 70 countries linked via trade flows, foreign direct investment, and financial markets.

THE TRANSFORMATION OF GLOBE TELECOM

Redefining telecommunications in the Philippines.

By Havovi Joshi, Christopher Dula and Philip Zerrillo

Globe Telecom—a major telecommunications service provider in the Philippines—had a long, pioneering history in the communications business. Incorporated in 1935, it was the first international wireless communications company connecting the Philippines to the rest of the world. Years later, in 1994, Globe would become the first company in the country offering mobile subscription-based services.

By 2018, more than half of the Philippines' 100 million residents were Globe customers, with the company as the market leader in both postpaid and prepaid segments. Service revenues were up nine percent from over a year ago. For an industry that was only growing by two to three percent, it meant that Globe was chipping revenue out of the competition. The results were so impressive that Citi, in its 2nd Quarter 2018 Results Report, noted, "Globe hands down delivered the best performance amongst the ASEAN telcos in 2Q..."

But the company was not always so well-positioned. Despite its first-mover advantage, Globe had found its market share steadily eroding, and by 2010, its market share had shrunk from 42 percent to 33 percent in just under six years. Morale within the company was at an all-time low, and the workplace had become toxic. Globe was clearly failing in the execution of its strategies, and also did not appear to have the right capabilities to conceive effective ones.

From these depths, how did the Globe leadership team succeed in dramatically turning the company around? What did they do to grow beyond the traditional telco business model and transform every aspect of the company to become a provider of digital lifestyle, the prized market leader and an iconic brand in the Philippines today?

Diagnosing the problem

The deregulation of the telecommunications industry in 1995 saw the creation of several wireless service operators. Prior to this, the sole provider of telecommunications services in the country was PLDT. In March 2000, PLDT acquired one of the operators, Smart Communications. And while Smart and Globe would prevail as the leading mobile operators, the former had the advantage of network footprint and distribution pervasiveness. In no time, Smart aggressively penetrated the mass market via prepaid. Globe, on the other hand, was strong in postpaid. Prepaid, however, had a larger market, as the majority of Filipino consumers preferred 'sachet, a-la carte' plans, as opposed to committing to the higher upfront price of the postpaid subscriber plans. Smart, therefore, remained the mobile market leader for a long time, with Globe coming in second.

In 2003, another operator, Digitel Mobile, launched wireless mobile services under the Sun Cellular brand. In October 2004, Sun started offering unlimited calls and texts. The first of its kind, the campaign proved effective and Smart and Globe followed suit. In this scenario, the size of one's subscriber base played a critical role, as unlimited promotions only applied to same-network calls and texts. Leveraging the scale of its subscriber base, Smart continued to grow. And as Sun started gaining traction, it was Globe who started losing market share.

The years 2004 to 2010 saw a steady decline of Globe's market share. To make matters worse, in 2011, PLDT acquired Sun Cellular, resulting in the former controlling almost 70 percent of the subscriber base. In the era of calls and texts, it was simply too hard to break the 'calling circle'.

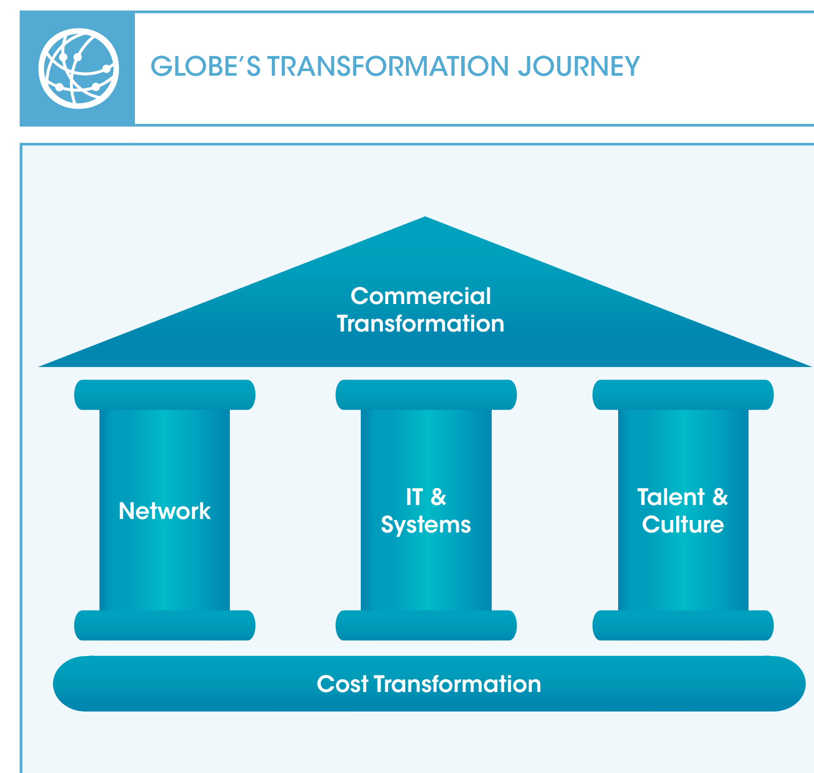
Having determined that the company was desperately in need of a transformation, and that the country was on the cusp of a new wave–the coming of smartphones and data–redefining the company had everything to do with the next phase.

The Transformation House

The Globe leadership team recognised that it would need to transform its commercial offerings if it was to survive–not only that, it also needed to position itself anew to stay abreast of, or at least keep pace with, other players.

Globe's network was a generation or so behind the competition's technology. The company was saddled by legacy IT systems, prohibiting it from offering new in-demand products and services without significant investment; a hard sell to investors already wary of past performance.

Spearheaded by Ernest Cu, who had joined Globe in 2008 as the Deputy CEO and subsequently became President and CEO in 2009, 'The Transformation House' was Globe's answer to meeting the competition head-on–a framework to systematically address these challenges by focusing on three pillars: Network; IT and Systems; Talent and Culture. Investment into these pillars proved essential to transforming Globe's commercial offerings into an ever-growing array of sophisticated products and services supported by high-tech capabilities and entrepreneurial competencies.



NETWORK

The senior leadership at Globe mulled over how to address its ageing infrastructure. On the one hand, they could focus on simply expanding coverage with the existing network and incrementally upgrading or augmenting the equipment. On the other, they could take it all down and replace it. The leadership team decided on the latter, at a cost of a billion US dollars. This was underwritten by the Ayala Corporation, the oldest and largest conglomerate in the Philippines (which had a 30 percent stake in Globe); and the Singtel group of companies, one of the largest telecom groups in Southeast Asia (with a 40 percent stake in Globe).

At such a high price tag, the investment needed to be more than a one-time fix. Cu described this move, "It is almost like changing the engines, the wings and navigation system of a commercial airplane at the same time–while in flight and carrying passengers."

In 2010, Cu decided to adopt a single vendor policy, an unprecedented move in the industry at that time. Previously, Globe relied on four different equipment and infrastructure suppliers, Cisco, Nokia, Ericsson, and One Way. Under the new policy, Globe and its new vendor-partner were better able to manage the modernisation effort, which began in 2011. This relationship would also make continued maintenance and improvement of the network more efficient and cost-effective.

It was a prudent move. Halfway through the modernisation programme, Globe recalibrated from a 3G to a 4G LTE network in response to growing consumer appetite for data-hungry apps, and cheaper, next-generation smartphones.

Globe also continued to expand its coverage area, a feat in-and-of itself given the 7,000-plus islands that constituted the Philippines; a major differentiation point from its competitors, which tended to be more concentrated in major population centres.

> 'The Transformation House' was Globe's answer to meeting the competition head-on —a framework to systematically address these challenges by focusing on three pillars: Network; IT and Systems; Talent and Culture.

IT AND SYSTEMS

IT business and operating systems are complicated. Take for example, the prepaid model. In order for this to work, a telco needs to be able to track, in real time, millions of different account-linked devices. The mobile phone was in effect a wallet; when a customer responded to an SMS promotion offering five hours of talk or data, Globe needed to be able to deduct that from the account and track usage 24/7.

Ultimately, Globe invested more than US$400 million into its IT systems–with capabilities beyond just billing and business support. Customer analytics and usage tracking allowed Globe to gain valuable insights into where, when, and how customers were using their phones. This capability was a key competitive advantage in understanding, anticipating, and delivering on customer needs.

Cu explained, "We compete on product, marketing and quality of network as opposed to price. Globe has never been a price leader. We believe that the combination of the things we do draws the customer to our service more than other brands."

TALENT AND CULTURE

With the transformation of its IT business and operating systems, Globe was able to innovate and create products faster, be first to market and change the whole customer experience from a utility to a customer-centric brand of service. However, all of this required putting the customer first and transitioning out of a 'utility' mindset. It had to be ingrained in the company's DNA, its mission, vision, and values–the 'Globe Way'.

The 'I Love Globe' campaign redefined Globe around 10 service commitments that were shared across the entire organisation. To put customers first meant to continuously engage with them, and to see them as more than subscribers. This mindset had to be pervasive. For leadership

and management, it also meant continuous engagement with employees. By better knowing and understanding the needs and aspirations of both customers and employees, Globe would be more able to satisfy those desires. This meant becoming more than a telco, and in 2013, the company redefined its Service Commitments to enhance clarity on how the company would engage with its customers (refer to Figure 1).

Globe's reimagined, redesigned stores were a case in point. Initially, they resembled something more akin to a business or service centre where customers would visit to pay bills and report problems, rather than a place to browse and experience the new technologies being offered. Long lines and a ticket queue system that kept customers waiting was a poor brew as unhappy customers had been running into employees with low morale—which was certainly not reflective of the aspirations of the Filipinos.

As management began to reimagine the retail points of contact, there was an immediate desire to reduce waiting time as a first step to improve service and empower employees. But at its core, this goal in some ways missed the great opportunity. To elaborate, while most retailers were trying to get people into their stores, here was Globe trying to get them to leave! The management quickly realised that while in the store, customers wanted to try new technology, talk with consultants about the products, and get a quick update on the latest and greatest. Hence, while the first generation stores had plastic dummy phones that frustrated would-be shoppers waiting for their turn in line—today, the third generation stores are built around experience zones designed to showcase technology, merchandise and integrated service offerings. The slick, redesigned retail outlets are now state-of-the-art and very attractive showrooms where potential customers can experience the digital lifestyle Globe had to offer.

The Globe leadership team thus did not stick to the current practices, but became highly innovative. They would break the 'rules' because they thought that it was the right thing to do for their customers and employees. Globe received the Gold Stevie Award in 2018 as 'The World's Employer of the Year in the Telecommunications Industry.' In the same year,

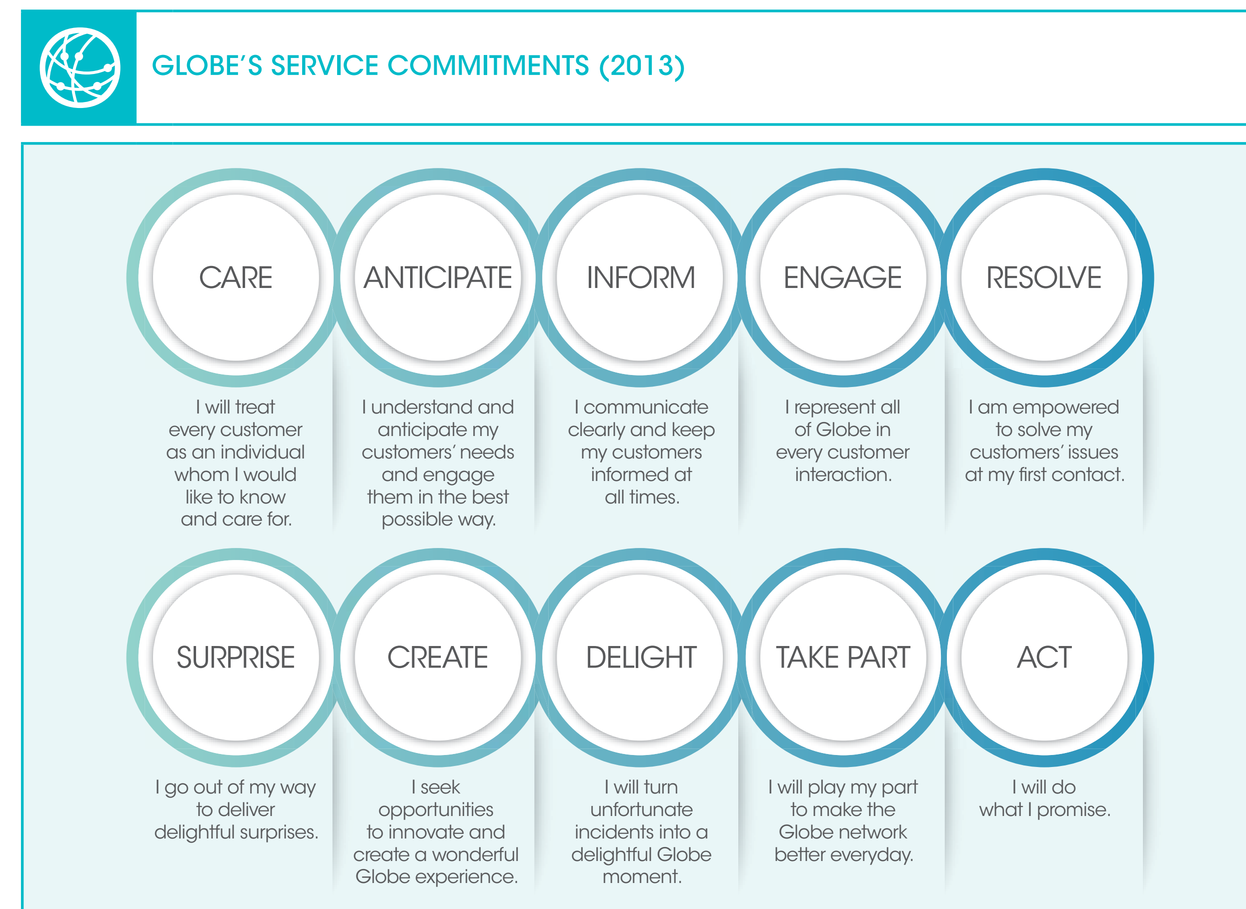


FIGURE 1 Source: Globe Telecom

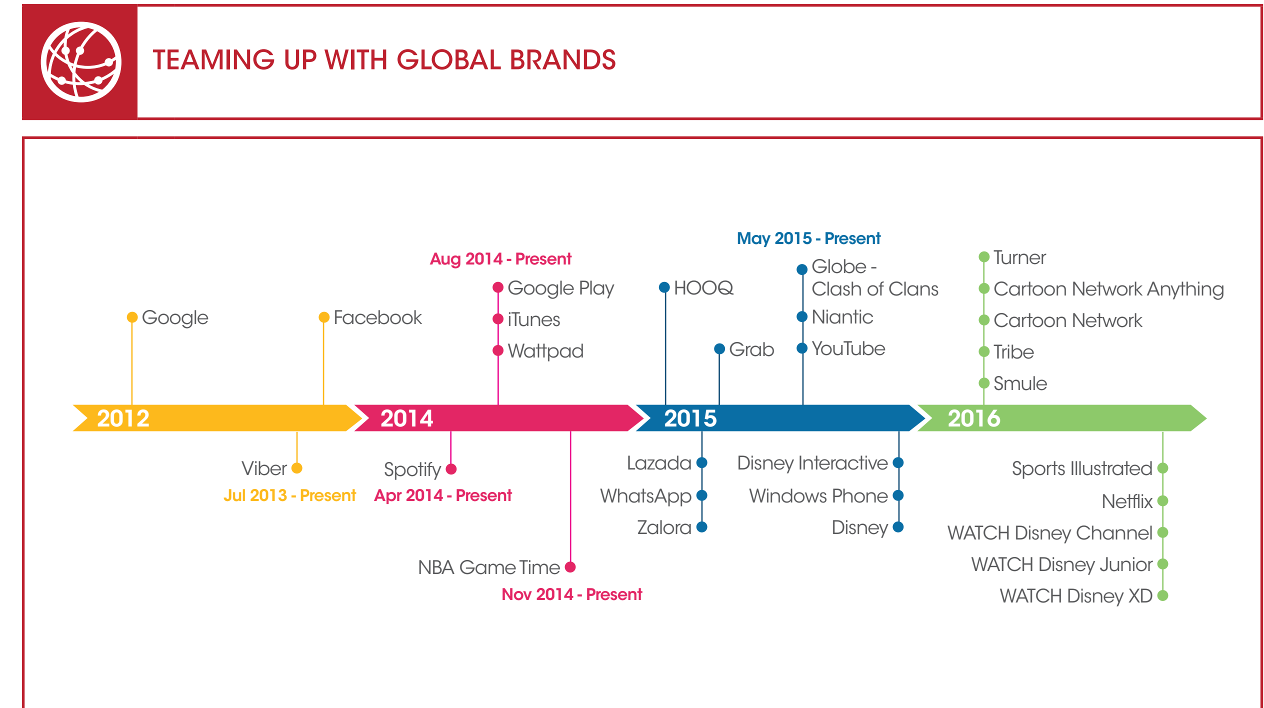


FIGURE 2 Source: Globe Telecom

Globe also bagged the 'Best Workplace in Asia' award at the Asia Corporate Excellence & Sustainability Awards. Cu commented, "I am happy that our efforts to create a great workplace have been recognised. We built a new way of working, a work environment that promotes a culture of empowerment, so good ideas don't get trapped by hierarchy."

To become a purveyor of the 'digital lifestyle,' Globe began leveraging its position within the digital ecosystem by partnering with potential disruptors.

Transforming commercial offerings

It was clear early on that data was going to be the key to the future—which itself presented a fundamental challenge because many disruptive services would end up flowing through a telco's network. For example, internet-based messaging services like WhatsApp could easily disrupt the SMS messaging services offered by Globe. The risk was that by becoming a provider of data, Globe could become commoditised, competing purely on price. The key strategy was to keep a focus on changing consumer demands.

The alternative was to become a purveyor of the 'digital lifestyle,' and not just a purveyor of data. To do this, Globe began leveraging its position within the digital ecosystem by partnering with potential disruptors in order to avoid getting stuck as a 'utility' and to be able to offer a wider portfolio based on its customers' varying interests.

Globe presented itself as a valuable partner when it teamed up with Spotify and later Netflix, among other leading online media companies, by explaining how they could help grow each other's businesses by changing customer habits. For example, rampant online piracy had led Filipinos to become accustomed to not paying for content. To overcome this, Globe needed to demonstrate greater value in paid-for content. So a Spotify premium service anywhere else in the world would probably cost about US$10 a month, but through Globe, it was about US$3 a month.

In addition to the 'discount priced' model, Globe also came out with a 'freemium' construct, whereby consumers could try services for free for the first few months. Designed for maximum habituation, the consumers' journey went through the phases of awareness, trial, and adoption. They began to value on-demand streaming as a superior product to pirated material, which tended to be more inconvenient to access and of lower quality.

That initial transition was also a significant leap for consumers; by introducing them to the expansive libraries of

Spotify and Netflix at a discount, they became better engaged with both the streaming service and the mobile device—which resulted in higher rates of data usage than they would have otherwise consumed.

Bolstered by the success of these and other media content partnerships, and recognising a significant gap in local content, Globe Studios was created. In the Philippines, local content was controlled by the incumbent networks and not easily shared with other OTT[1] services and apps. So Globe has attempted to stimulate local content production by collaborating with other film producers to create and promote Filipino content for national and worldwide distribution. One of their productions, Bird Shot (2016) was selected as the Filipino entrant to the 'Best Foreign Film' category at the Academy Awards and was the first Filipino movie to be shown on Netflix.

Globe's endeavour to bring Filipino talent to the world stage does not stop at film. The company also aims to support the fashion, music, and theatre industries—areas of the creative arts where Filipinos have the potential to excel.

Future-oriented

Globe's commercial challenges in the late 2000's afforded the company an important insight beyond just the dangers of complacency. What it came to learn was that the value of its enterprise was not in providing bandwidth alone—that could be commoditised—but in facilitating the digital lifestyle; as an exclusive branded channel that was fundamental to its customers' lives.

Never to be out of touch with the zeitgeist, Globe has entered into the next stage of the consumer digital lifestyle. Through its fintech arm Mynt, and by partnering with Ant Financial, Globe is leveraging its trusted brand, customer accounts and network to deliver financial services such as mobile money transfers, payments, credit scoring and online lending.

However, such commercial transformation is challenging. As a result of surging data use—driven by people's ever-digitising lifestyles facilitated by Globe, and the pervasive Internet of Things lurking on the horizon—the company has had to invest upwards of a billion dollars a year into its network and IT systems in order to keep up with demand. This has only been made possible through Globe's service commitments and focused attention to 'The Transformation House', where investment into the three pillars is continuous. It now has a workforce that is highly engaged and continues to outperform its counterparts in the industry on sustainable engagement scores. The customers are empowered and are able to access a digital lifestyle enabled by Globe's services and connectivity.

Today Globe is a market leader, a far cry from its position in 2010. A mere challenger has overtaken the incumbent—something that has never been seen in the telecom industry in the region.

Globe has attempted to stimulate local content production by collaborating with other film producers to create and promote Filipino content for national and worldwide distribution.

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Reference

[1] OTT stands for 'over-the-top,' the term used for the delivery of film and TV content via the internet, without requiring users to subscribe to a traditional cable or satellite pay-TV service.

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[1] 2018 FT Executive MBA Ranking
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[3] 2018 FT Masters in Finance Pre-Experience Ranking
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LIGHTING THE SPARK IN THE PHILIPPINES

An interview with Rosemarie 'Bubu' Andres

In this edition, we are introducing a new section called 'The Entrepreneur's Corner', in which we will present Asia's entrepreneurs and their journeys, complete with the ups and downs, and twists and turns.

Our segment begins with Rosemarie 'Bubu' Andres, the Global Chair of the Entrepreneurs' Organization (EO), a worldwide peer-to-peer organisation founded by entrepreneurs, for entrepreneurs. Andres is also a serial entrepreneur, having co-founded The Candy Corner in the Philippines that now boasts 110 stores and growing.

Tell us about the Entrepreneurs' Organization (EO).

Our mission is to help leading entrepreneurs learn and grow their business, and make them better, useful members of society. We support all four aspects of an entrepreneur's life–personal, business, family and community–through a type of 'entrepreneurial therapy.' It gets lonely at the top for entrepreneurs, so we provide peer-to-peer support and a network for them.

Entrepreneurs come to us with a problem or issue in their business. We don't just give advice on what they should do, but rather discuss what we have done. The forum, viewed as one's personal Board of Directors, shares its experiences to make it useful for other entrepreneurs. Full confidentiality allows for very open discussions, and the wealth of experience in the forum covers all four aspects of the entrepreneur's life.

The global headquarters of the EO is in Alexandria, Virginia, in the United States. The Philippines chapter of the EO has 17 forums. Learning events are for members on issues, that cover the totality of the entrepreneur. We invite speakers, experts and guests. We also run forums for spouses and are soon starting forums for the children–our next generation.

How do you see the entrepreneurship segment in the Philippines, compared to other countries in the region?

That is a tough question to answer. If we are talking strictly about organising one's business, Asia is a good place for entrepreneurship today as long as you base your business out of Hong Kong and Singapore. But it is difficult to set up shop in the Philippines and then build your business across ASEAN. The import and export taxes and rules around transfer prices and revenue recognition stifle the Filipino entrepreneurs who try to do business abroad with a base at home. Many of the entrepreneurs from the developing countries in ASEAN share similar experiences.

We have a lot of entrepreneurs in the informal sector in the Philippines who keep a lid on pricing back home. But the challenges lie in formalising the sector. The biggest obstacle is heavy taxes in the country, which makes it difficult for us to compete with markets like Singapore that operate almost tax-free.

Entrepreneurs also find it difficult to get funding in the Philippines. Either you have your own capital or you find a relative or friend to fund you. Unfortunately most of our population do not even have a bank account. Thus we have limited credit scoring and credit histories, so we need collateral for the banks to want to get involved. For most of the entrepreneurs, it is the lack of capital and networking opportunities that cripple them. There is no well-developed venture capital market, and IPOs are not lucrative and attractive enough.

Many laws are outdated and archaic and are not ready for the global marketplace. They were designed at one point in time for a specific purpose, but are not relevant today. For medium-sized businesses like mine, we are required to withhold a certain percentage of tax from all types of vendors. And if you don't, they will disallow your expenses. We lack efficient digital payment systems like Paypal. But, how can we withhold taxes from a vendor outside the country? Our laws don't facilitate cross-border business.

Bureaucratic hurdles are another challenge. Setting up a business requires registering with multiple government organisations, making it a time- and cost-intensive process. And finally, the government keeps raising the minimum wage. While I'm not against this, because it is helping the economy, I feel that the government needs to compensate the SMEs for this increase in some way.

Entrepreneurial businesses in Singapore are growing and it is an attractive market for start-ups. Malaysian businesses are larger than that of the Philippines, and they are stable (but not growing). The Malaysian government has sorted out many regulatory and legal issues. Indonesia is similar to the Philippines in its challenges. Cambodia also seems to be growing fast and the government is very supportive. In the Philippines, the micro sector is growing.

What have you learned from your entrepreneurship journey?

Our retail group, Candy Corner, is 22 years old. We started in the distribution business 27 years ago, mostly dealing with toys and stationery, and confectionery on the side. We bought toys and stationery in the United States, consolidated the goods and shipped them to the Philippines. We had exclusive distribution rights for the Lisa Frank brand of stationery and school supplies. We serviced specialty stores. Then, five years later, we moved into the retailing of confectionery and candies.

My biggest learning all these years has been–keep going; don't give up. Things will eventually work out. This is the Philippines, you can't give up. We have about 26 typhoons a year and have not gone three years without a recession since 1985. I have learned to be resilient.

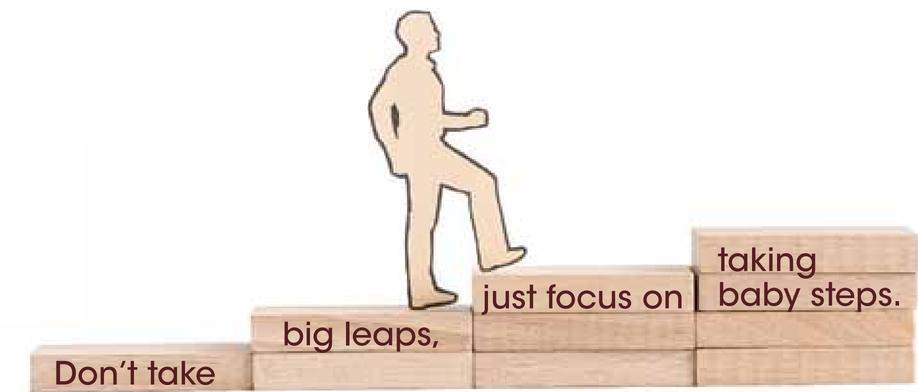
We were hit by the 1998 financial crisis shortly after we moved into the retail business. In July 1998, we were at a show in San Francisco, and from the beginning to the end of the show, the currency went from 26 to 39 Philippine Pesos to the US dollar! And if that was not enough, in 1999 we had a fire that burned down our entire head office and warehouse.

I guess what I have learned is that you have to keep moving forward and also that anything is possible–good or bad. Hence, my advice to the younger generation would be: Don't give up. Keep working at it. Everything is possible. Keep up the passion.

What should young people be cautious of?

My first advice to them would be, don't take big leaps, just focus on taking baby steps. It's easy to dream big,

> It is difficult to set up shop in the Philippines and then build your business across ASEAN.



but your business won't become big right away. It will take time, it will require long hours, and it calls for lots of hard work. If you start a business, you need to be in it for the long term. Too often people start businesses to make a quick buck but that rarely happens. So you need to be prepared to be in it longer and work harder than you ever imagined. That becomes difficult to do if you are not passionate about the business.

Second, adaptability is also important, and you have to be ready for that. There are some non-negotiables, but for the most part, change is a given. You can have a scenario in your head and you can imagine it playing out. But it rarely does so in the way you envisioned.

Third, listen to the market. It's not what matters to you, it's what matters to the customers. You need to understand and feel the pulse of the market. We brought Ghirardelli to the Philippines, but had to cut down many flavours after testing the market. We even had to remove the milk chocolate flavour from our product range. Another learning was that people buy chocolates as gifts, and buy for themselves after that. One would normally think it is the other way around. Once we learned that, it completely changed the way we communicate with the market. So, don't assume that you understand the market. Talk to your customers, observe them, and ask questions. Nothing works better than having insights from the market.

What are the big trends in entrepreneurship today?

Obviously, the big trend is 'going digital.' Whether it is marketing and selling your goods online or settling invoices, scheduling operations, or just about anything–the genie is certainly out of the bottle. You may have grown up in a tactile world where you like to touch and feel, but today you need to recognise that the omnichannel is upon us and that all of your stakeholders expect you to have a digital presence, be digitally competent, and be digitally responsive.

I think the second trend is that entrepreneurs today don't build their business as a legacy to be passed on to the next generation. They have more of a 'build-it-to-sell-it' approach. This is due to the fact that children are moving to other countries and continents and not returning home. Also, the next generation is very often uninterested in running the family business. This leads to increasing M&A activity too.

I am also seeing that for some of the most successful entrepreneurs, after they choose to sell their business, they don't become serial entrepreneurs. Most of them seem to gravitate towards being a venture capitalist or an active investor rather than getting back into the fire.

What headwinds do you see in Asia?

As a country, change is slow in the Philippines, so we really need to catch up by looking outside for lessons. Some of the other ASEAN countries are much better off compared to the Philippines. Even Thailand, despite its military government, is attractive to entrepreneurs and foreign investors. A lot of this stems from investments and regulatory changes they made years ago. For instance, Thailand is often referred to as the 'kitchen of the world', but that would not have happened without government commitment and the commitment of institutions of higher learning to programmes on food science and agriculture, and investments in farm-to-market roads, enabling industries to enter and compete in the global supply chain. You can see a number of countries in Asia trying to model these steps.

As the Asian Economic Community and ASEAN wrestle with integrating their markets, there is going to be a need for an upskilling of government administrators. Sure, the market looks attractive. But entrepreneurs from some of these countries will have a harder time running the race as their feet and hands are somewhat tied.

Rosemarie 'Bubu' Andres
is the Global Chair of the Entrepreneurs' Organization (EO)

South Korea's Paris Baguette

It's official–the bakery chain makes a classic French food item better than the French.

By Jin K. Han, Sheetal Mittal, Havovi Joshi and Yong Seok Sohn

Winning the annual Coupe du Monde de Boulangerie, the most prestigious baking competition in the world, was no mean feat for South Korea's Paris Baguette, a relatively new kid on the global baking block. It certainly did not get bigger than this–the French-inspired Korean franchise bakery chain had taken on its toughest challenge by entering the French market in early 2014, and now, just two years later, its baguettes had been officially declared as the best in the world.

While the award and the ceremony–which was attended by French President Hollande himself–recognised the company's baking expertise, it also showed how its strategic internationalisation and marketing acumen had helped the Asian baker to compete successfully against a host of truly French boulangeries to win favour with the locals, often considered the world's most discerning consumers of baguettes.

The quintessential French baguette

Bread has long held a significance beyond mere nutrition. It reflects the culture and history of its country or region, especially in Europe. Poetic and even Biblical references paint a romantic and important picture of bread as the sustenance of life. In Spain, for example, the bocadillo, a smaller version of the baguette, was an iconic piece of Hispanic cuisine with guilds of bakers presiding over every detail of the traditional baked good for over 750 years. In Italy, it is the ciabatta that enjoys such a prestigious stature, while the distinctive baguette holds sway in France.

In France, bread, particularly the baguette, has been the symbol of French tradition, culture and cuisine and there are strict rules and specifications governing the baking of baguettes. They must be 65 cm long, 5 to 6 cm wide and 3 to 4 cm high with an average weight of 250 grams. An authentic baguette can only be made using ingredients such as wheat flour, water, yeast, raising agent or salt, and must not contain any egg, milk products, oil or any preservatives. Only minute deviations, such as the type of flour, are allowed and, as it is a key staple food, baguettes are subject to government price control regulations and must retail for under one Euro (US$1.16).

There are other more intangible constraints. In 2014, Dominique Anract, president of the Chambre Professionnelle des Artisans Boulangers-Patissiers, an association that requires all members to strictly adhere to the traditional baking standards, famously remarked, "Anyone can make a traditional baguette, and companies are opening bakeries here, there and everywhere in the world. The question that concerns us is not whether it can be done, but whether what is produced is a good baguette."[1]

Such were the challenges faced by Paris Baguette in its efforts to bring the locally made baguette to international audiences. Paris Baguette was born in 1988 as a bakery franchise business and subsidiary of the SPC Group, a leading South Korean food and confectionery conglomerate initially established in 1945 as a small bakery called Sangmidang in North Korea. From modest beginnings, the chain had grown steadily, and by 2014, it boasted more than 3,200 outlets in South Korea and another 200 plus outlets across China, Southeast Asia and the U.S. to become a truly global premium bakery brand.

From Korea, with love

The Paris Baguette brand has projected a premium high-end brand image that emphasises the baguette's 'Frenchness':

from its name and the Eiffel tower logo, to its staff dressed in Breton-style striped tops. Other points of differentiation include superior food quality, healthy and fresh ingredients, being freshly baked at the stores just like in traditional European bakeries, a modern and diversified menu, and a continuous introduction of new innovative products. This focus on operational innovation, quality control, new product development and brand differentiation was responsible for its exponential growth.

The company's success was primarily driven by its emphasis to provide an innovative fare with a modern and wide selection of fresh, clean and healthy products. To that end, it procured more than a thousand different ingredients on a regular basis to offer a menu consisting of over 600 different types of breads. It sourced the best raw materials, equipment, technology and service, produced proprietary dough, and frequently delivered (2-3 times a day) an assortment of frozen dough, par-baked and ready-made items to its bakeries nationwide to ensure freshness.

To deliver on all these parameters consistently demanded a distribution system that could manage a high degree of operational complexity while being cost efficient. A vertically integrated supply chain gave the SPC group control over key operations such as the supply of raw materials, processing of dough and semi-baked products, and delivery to the stores.

To ensure that the quality of the baguettes and other breads was consistent, the dough was made centrally and delivered frozen to all the franchise outlets. The stores then thawed the dough and baked the bread themselves, providing it fresh to consumers. This 'freshness' that was delivered in a cost-efficient manner helped Paris Baguette grow rapidly into a top bakery café franchise brand in Korea, offering authentic French bread, fresh sandwiches, cakes and coffee (refer to Figure 1).

Introducing the borderless baguette

As local competition began to heat up, Paris Baguette proactively adopted a global strategy, positioning itself as a premium, high-end, health conscious brand targeting upper-class consumers across Asia and the United States. It was the first Korean bakery to go international, starting in 2004 when it opened its first overseas company-owned store in Shanghai, China, introducing more than 300 types of breads (compared to only 40 to 50 available at local bakeries). By 2012, it crossed the 100th store milestone in the country.

When it entered the U.S. market in 2005, Paris Baguette first targeted the Korean ethnic population in Los Angeles' Koreatown, where Korean and other Asian consumers were familiar with the brand, before reaching out to a wider market located in prime commercial districts of San Francisco, New York, New Jersey and Philadelphia.

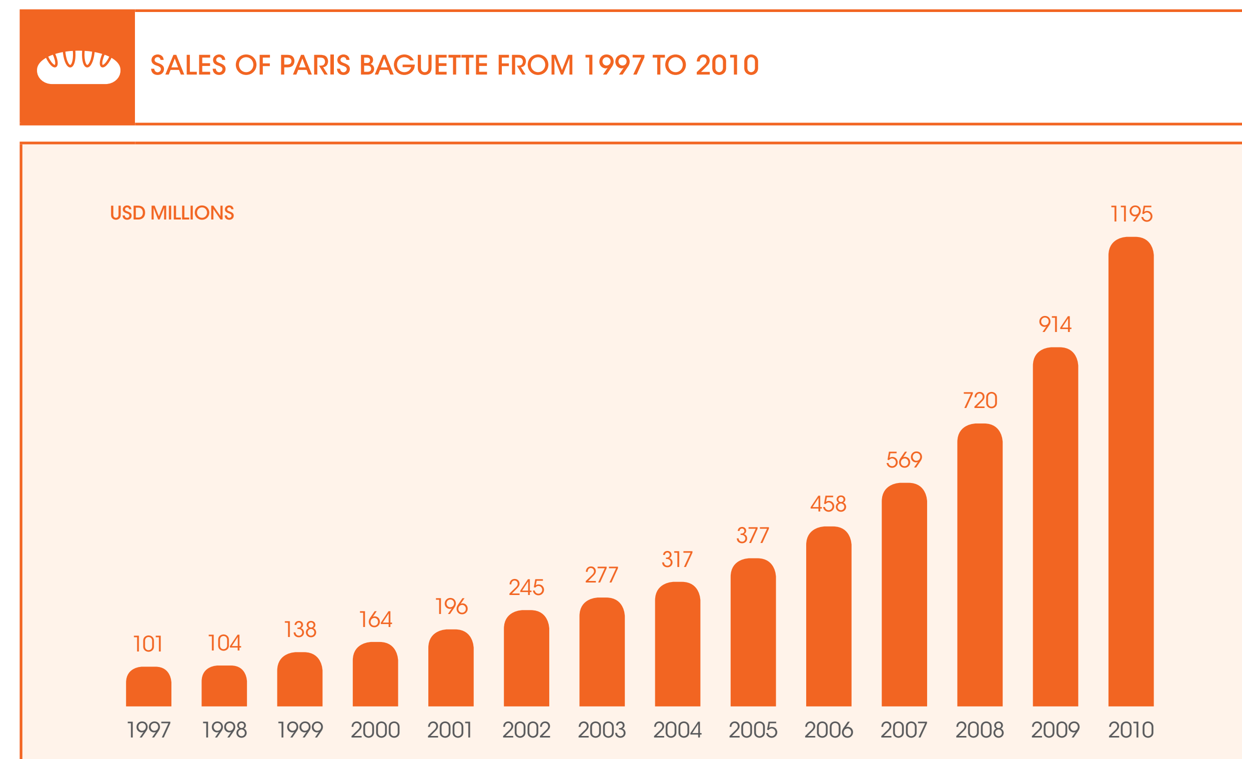


FIGURE 1

Source: Paris Baguette Website

In 2012, Paris Baguette expanded into Southeast Asia, with its first outlet located in Ho Chi Minh City. In September 2012, it opened its first outlet in Singapore, which expanded to six by 2016, with vegetarian items planned as part of its localised menu. The high standard of living and the existing advanced bakery culture of Singapore were a natural fit with the brand's core values. By end 2015, it had opened its 200th outlet abroad.

The marketing mix that enabled global expansion

The focal point of Paris Baguette's international strategy across all markets was to upscale, differentiate and localise.

UPSCALE

To reinforce its brand image and reach out to the more affluent sections of society, Paris Baguette outlets are largely located in central commercial areas, exclusive shopping districts and upmarket residential areas. For example, its store in Shanghai is in the shopping district that offers many foreign retail apparel brands, while its store in Beijing is located in a famous shopping mall. These locations attract young consumers and tourists who are interested in luxury brands and higher quality food. Similarly, in Singapore, one of its stores is at Orchard Road, an upmarket shopping area, while another is at Changi airport.

However, the company followed quite a different entry approach in the U.S., attributable largely to the entry barriers that it faced, such as the high rental costs in the central shopping districts and a complete lack of awareness of the Asian brand 'Paris Baguette' in the country. To overcome these issues, Paris Baguette opened its first few stores in the U.S. at locations that were cheaper and had a significant ethnic Korean population, and then went on to establish stores in prime commercial districts of New York such as Times Square, Midtown Manhattan and the Upper West Side, favoured by upper-middle class Americans.

Paris Baguette pursues a premium bakery concept and its products are priced higher than the local competition in most markets, although it practises a price adjustment strategy where prices are based on the affordability of the local consumers and what they would be willing to pay for the value the company offers. In China, prices for most of the regular items are 10-20 percent higher than the competition, but they are kept deliberately low for new products to encourage people to try them. In other markets like Singapore and Vietnam, prices are about 40 percent higher than those in Korea, while maintaining a 10-20 percent premium over local breads.

DIFFERENTIATE

Differentiation was achieved by providing high quality ingredients, a wide variety of innovative fare, and a sophisticated service experience through upscale store interiors and atmosphere. Paris Baguette also only used its own proprietary dough, which was lighter, airier and less sweet than traditional dough to create its unique offerings.

To increase brand awareness in the new markets, Paris Baguette promotes its brand through a mix of high profile and socially relevant programmes. For example, in China, it sponsors large events such as the HSBC Golf Tournament and the F-1 Racing competition; and also launches initiatives such as a baking course for disadvantaged youth and sponsoring a local orphanage.

The focal point of Paris Baguette's international strategy across all markets was to upscale, differentiate and localise.

LOCALISE

Paris Baguette's diversified and localised menu emphasised presentation of a globally informed menu, ensuring that at least 20 percent of every menu in each market is tailored to the specific tastes of the country/region. For example, in China, its menu included items such as Rousong bread (oilier with more filling), while in Vietnam, it offers the Bahn Mi Baguette Sandwich. And in the U.S., it caters to the growing health-consciousness in the country by offering low-calorie products that contain less sugar. Once Paris Baguette had won the confidence of the local customers, it then introduced Korean variants such as pastries with red bean fillings and Bingsu, a shaved ice dessert.

Over time, Paris Baguette developed robust competencies with committed and continuous investments in product development, operational innovation, technology, logistics, and brand-building. At the same time, these helped it overcome the specific challenges faced by the baking industry, such as technological constraints that limited the ability to expand operations and resulted in higher product costs. Paris Baguette developed a cost-efficient business model that enabled economies of scale and high capacity utilisation, as well as a degree of integration in which it owned the company that supplied its key ingredients.

ADVANTAGE CREATING RESOURCES

Paris Baguette employed its key resources to achieve both cost efficiencies and market differentiation, which helped to maintain its competitive advantage. The company has taken many steps that contributed to the development of a cost-efficient model:

- Economies of scale and high capacity utilisation: Centralised production of the dough and the par-baked items in its plant in Korea to serve all its outlets domestically and internationally.

- Experience and learning effect: With an 80 percent market share in the domestic market and operations spanning 30 years, Paris Baguette had scored significantly on the experience and learning curve, thus accruing lower costs not only in manufacturing but also across other functions such as logistics, distribution and marketing.
- Technical linkages: Its innovation of the cool pack did away with the need for dry ice, significantly lowering the cost of delivering the dough and par-baked items to the outlets.
- Degree of integration: Paris Baguette owned the company that supplied its key ingredients, the manufacturing plants that processed it, and the distribution network. This enabled the company to centralise the production of its proprietary dough and par-baked items, frequent deliveries, and have a standardised baking process. Consequently, the company could have high control over procedures ensuring lower costs of servicing, distribution and maintenance.

Paris Baguette's ability to reduce its costs enabled it to invest more in R&D, new product development, and marketing efforts, thereby gaining significant market advantage over its competition. The many ways in which the company differentiated itself included:

- **Product differentiation**
  - Superior food quality: Healthy and fresh ingredients, freshly baked at the stores like European bakeries.
  - Modern and diversified menu: Wide product assortment (local and international) including authentic French bread, sandwiches and cakes; and constant introduction of new innovative products.
- **Brand differentiation**
  - Unique brand elements: Replete with a French theme from its name, an Eiffel Tower logo, and the staff dressed in Breton-style striped tops.
  - Premium high-end brand image: Premium pricing, and sophisticated service experience through upscale store interiors and atmosphere.

Paris Baguette enters the home of the baguette

Paris Baguette had been preparing for its entry into the French market for over 20 years. Its parent company SPC had opened an office in Paris in 1998 to enable it to import wheat and bread-making equipment with the idea that the bread baked by the company was as close to the French taste as possible. Later, in 2006, it set up a company in France in order to develop its menu in line with local market preferences and to prepare for the eventual launch of its store.

In April 2014, it opened its first store 'Paris Baguette Chatelet' as a boulangerie, in the heart of the French capital, close to famous structures such as the Louvre, Paris City Hall, the Pont Neuf Bridge and Notre Dame cathedral. The 200 square metre, 46-seat store was to be the company's global flagship store. It employed local chefs, and made the bread fresh, adhering rigorously to all the traditional baking standards and guidelines. To show its commitment to French values, Paris Baguette joined the Chambre Professionnelle des Artisans Boulangers-Patissiers.

Being 'glocal' in its approach, Paris Baguette started by offering a menu that included baguettes, other French breads, pastries and sandwiches that catered to the local palate, fast gaining approval from even the most discerning of French customers. However, competing with other traditional boulangeries with centuries of heritage was no small task, and hence it was important for Paris Baguette to differentiate itself from the very start.

With obesity on the rise, French consumers were increasingly concerned about what they ate, and demanded quality products that tasted good and were healthy. Thus, right from the outset, Paris Baguette did not compromise on the quality of the ingredients, using only the best. The company also decided to not sell any snacks such as chocolates and jelly (made by other companies) unlike other boulangeries. The company made a conscious decision not to sell processed products for which it could not control the sugar level or other ingredients that may not be healthy.

Soon Paris Baguette was supplying 60,000 breads each month to 41 local restaurants, including La Fontaine Gaillon owned by French actor Gérard Depardieu. It was also the first boulangerie to provide an outdoor café-styled space and indoor seating area that added to its appeal.

Once the company had won the confidence of the local customers, it introduced Korean variants such as pastries with red bean and chestnuts and cinnamon cake, which soon became sell-out items. Bingsu, the shaved ice dessert from Korea (in mango, strawberry and coffee flavours), too, captured the interest of the French, who found it exotic and refreshingly different. It even got the attention of the French Presidential Palace pastry chef, who noted Bingsu to be a "very unique dessert not found in France", and inquired about the recipe and the ice-shaving equipment.

> Being 'glocal' in its approach, Paris Baguette started by offering a menu that included baguettes and other French breads, pastries and sandwiches that catered to the local palate, which were fast gaining approval from even the most discerning of French customers.

In less than a year of its opening, the store's customer base had expanded to 850 customers visiting it each day, and sales grew by 25 percent. The success of its first store encouraged Paris Baguette to open its second store in the Opera district near Palais Garnier in Paris, in 2015. In less than two years, the two shops had served over 700,000 customers in the city. The stores in Paris were doing exceedingly well, and winning the Coupe du Monde de Boulangerie competition was clearly a boost to Paris Baguette's endeavours, paving the way for further expansion into France as well as other European markets.

Having proved itself beyond a doubt, the company began to look at options for opening its third store. It also wanted to consider cities outside of Paris and other French cultural communities in the world.

The Paris Baguette story illustrates that it is clearly possible for Asian brands to succeed in their overseas expansion, not only to other Asian markets, but also to developed Western markets. The company now needs to consider whether or not it will pursue the baguette as its flagship bread of choice, or try a move to indigenous and staple breads, specific to the countries or regions it subsequently enters, and replicating the strategy followed in France.

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Reference

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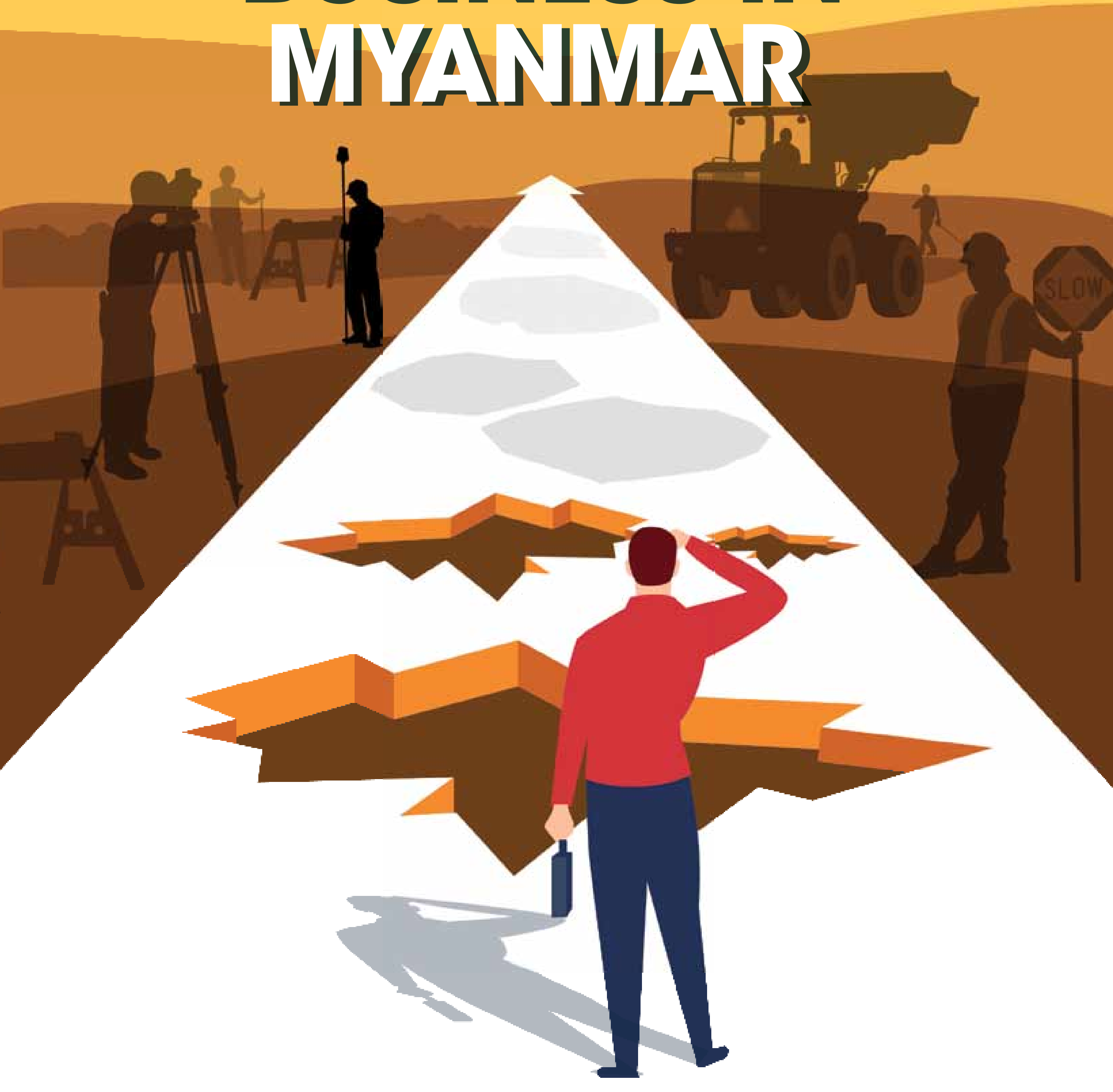
DOING BUSINESS IN MYANMAR



Dressing up the bride.

By Ma Cherry Trivedi

As one of the untapped frontiers of newly emerging markets, Myanmar is rich in natural resources, underpopulated but with growing purchasing power, and an easy place to do business. From the outside, the country is very inviting, and there is considerable interest in doing business in Myanmar today. But internally, we have several pockets of obstacles. I see Myanmar as a bride who we have yet to dress up and make pretty in order to find the right suitor.

So what are the ground realities of 'going to Myanmar'?

Law, laws everywhere, but...

In recent years, the government has taken proactive measures to introduce new legislation, the Myanmar Investment Law (MIL 2016) and a Companies Act, which was rolled out in August 2018, with the aim of opening up the economy to foreign investors. For instance, the new legislative decree allows foreigners to invest up to a 35 percent stake in local companies, paving the way for more foreign investor participation in industries like banking and sectors that were previously closed to foreigners.

However, the problem with the new business laws is the frequency of their creation and the speed of change needed to adapt to them. There are huge variations in the actual enforcement of these laws that, in turn, lead to vague interpretations of the laws in question. This is a big deterrent for an investor who is looking to invest in Myanmar versus other neighbouring ASEAN countries where the investment regime is reflective of clear laws, the regulatory engines are in full throttle, and they have very welcoming tax structures. Myanmar needs to provide such a clear and welcoming environment if it wants to attract investors.

Of these, the country's regulatory engine adds complexity. The policy of putting the burden on the investor to suggest exactly what needs to be done to fulfil the legal requirements, and the government taking a role to accept or reject the company's actions, do not always attract investments. A good example is the new Companies Act, which places a heavy responsibility on corporate governance and the company directors, in a nation where governance is mostly rudimentary. Most businesses in Myanmar are family run, with both the board and management run by the same set of people. Nowadays, while we have a rulebook on corporate governance and the role of a director, the question is: Who will regulate all the violations and ensure that penalties are enforced? Likewise, a related issue is the formation of a body to resolve investor concerns and issues, a matter that is yet to be addressed.

> The problem with the new business laws in Myanmar is the frequency of their creation and the speed of change needed to adapt to them.

As can be expected, enacting a law in itself doesn't necessarily make it easier for foreign businesses to negotiate through the opaque legal and regulatory frameworks and economic policies. Business ethics don't come automatically just because there is a law. What Myanmar needs today is a change in mindset and behaviour, and the people of Myanmar haven't been given enough incentive for them to change their behaviour. So locals are eager and willing when it comes to do business, and incoming foreign companies are impressed with the written laws—until they realise that the locals are not necessarily playing by the rules (of law) due to the lack of regulatory body or framework.

Crabs in a basket

Sometimes crossing a regulatory milestone does not mean that it would be smooth sailing from there. Let's take an example. If I get a Myanmar Investment Commission (MIC) permit to register my business, it should also allow for possible exemptions on imports of materials and equipment required to run the business. But we find that once a business is registered, there is still the customs hurdle relating to the import of equipment, and that taxes may be levied despite the MIC exemptions. This ambiguity creates further challenges for both local and foreign investors.

Taxes are another issue altogether. While all governments need to levy taxes for the running of the state, tax breaks bring foreign direct investment into the country. This is the dilemma the government needs to address. In addition, there needs to be a systematic overhaul of the tax system in Myanmar on how the government collects taxes from its citizens. New tax laws are aimed at levying taxes on businesses, but little is done to actually collect them from the citizens. There is also a need for a transparent and effective way to collect these taxes electronically. This will eliminate the old ways of negotiating on the amount of taxes and paying as little as possible. A further issue relates to service and commercial tax. We may be all for paying service tax—but there is a clear disconnect on what these taxes should be levied on.

Today, inflation is rampant in Myanmar. Basic commodities like rice are expensive because cartels are exporting their produce rather than selling locally to feed the population. And the government compensates labour for this induced inflation by offering higher wages. In an emerging market that is desperately trying to attract foreign investment, labour must be cheap. But policies are very often contradictory—the left hand may not coordinate well with what the right hand is trying to do.

Shortfall in human and technological infrastructure

When we talk about the lack of infrastructure in emerging markets, we normally refer to physical facilities like transportation, energy and communications. In my opinion, Myanmar faces more of a critical shortfall in human infrastructure, which inhibits the country's ability to execute and implement its multitude of master plans and blueprints. No matter who is at the helm of a nation, leadership needs to bring in people who can actually execute. When there is a lack of relevant skills, regulations and legal enactments tend to be vague and often conflicting. Execution, therefore, becomes an impossible task.

The focus to date has been more on establishing internal political peace. While the agenda is noble, peace doesn't always lead to economic growth. But I believe that the converse, more pragmatic and less idealistic, can be true—if I have food in my stomach, I won't look for a fight.

The country also faces a technology gap. While future-oriented discussions in the world are taking place about the Fourth Industrial Revolution, blockchain, and robotics replacing human functions, Myanmar is still behind when it comes to having any sort of industrial revolution. The country produces raw materials, exports them to its neighbours, and imports finished goods. What the country really needs to do is to create secondary and value-added industries, so that the earnings on the same goods are elevated significantly.

There has been a steady growth in the number of small and medium-sized enterprises. However, access to capital remains a huge hurdle for them. Businesses and individuals in Myanmar do not have credit histories. Historically, all loans from banks have been personal, with a person's home typically serving as collateral. There needs to be change implemented by both the lending system and businesses on accepting output-based collateral or alternatively, creating a system where transparency on business operations, facilitated by technology platforms, will create a credit system to enable further lending.

Paralysis of analysis

The result of the human infrastructure shortfall is that many foreign consultants and consultant organisations are currently working with the Myanmar government and local businesses to facilitate the nation's development. These range from international agencies and private investors to industry experts and academics. Everyone is giving advice and the government seems not to know what to do with the information. There is probably an overload of advice right now but with no takers. We need to ask ourselves: Does Myanmar really need all this? While advice has its place at the macroeconomic level, we need to focus at the micro level—how to get businesses to work!

> Myanmar faces more of a critical shortfall in human infrastructure, which inhibits the country's ability to execute and implement its multitude of master plans and blueprints.

Local and foreign investors are looking at growth and opportunity. Their thoughts run along the lines of: If there is lucrative business opportunity, how quickly can I enter? Are there laws and frameworks for me to secure the opportunity and run with it? Will I be able attain my return on investment and, in a foreign entity's case, repatriate that money efficiently? Therein lie Myanmar's challenges as an attractive place to do business.

We don't have to look too far for examples—our ASEAN neighbours have attracted huge amounts of foreign investment. Thailand has regime changes and political upheavals all the time, but the business environment, apart from a twitch here and there, remains untouched. The nation has clear, tight laws—it is solid. In contrast, the Myanmar Foreign Investment Law and Companies Act are heavy on rules but lack regulations and execution support; this brevity in fact makes it rather *ad hoc* and opaque, reducing business confidence, especially for foreign investors.

From territorialism to nationalism

Historically, there has been considerable territorialism across regions. The leaders of these territories have been running their kingdoms and benefit from it. They are kings in their domain, in total control of what is taken out of the ground, what is grown on the ground, and what is traded. So how do we entice these domain leaders with the spirit of democracy and nationalism, to work for the benefit of the nation as a whole? What incentive is the government offering these domain leaders for them to give up what they already have? Currently, they don't see economic gain in giving up their control. But once the economy gets going, the various ethnic groups will come to the table for a piece of the bigger economic pie. Hence there has to be a larger economic incentive.

Land reforms are a big part of the solution. Myanmar is sitting on the second largest landmass in Southeast Asia, and it is underpopulated compared to the landmass. Land is abundant, so it would make sense to let locals own the title to the land—giving autonomy to those who have been working and living on the land for generations—and making them feel proud of it. It's not just the land itself, but also what you do to the land, on the land and what you dig out from it that creates economic value. Instead, the government has kept all land ownership in its own hands. This has further accentuated the problem of ethnic discord and is also responsible for the chronic issue of land grabbing. Land is such a hard to quantify commodity that the speculative market on land ownership has at times driven prices higher than in Singapore or New York. Combine this with the traditional banking practice of using land and housing as collateral, and we can see why this makes access to capital a monumental task for businesses.

Dumping in the name of industrial growth

The cement industry is a good example of how the existing policies do not help realise the full potential of local industry. Myanmar is rich in limestone, gypsum and coal—key raw materials for cement production, and has good cement production facilities. But the government has allowed China, Thailand and India to dump cement into the country, claiming that the national facilities cannot produce enough for Myanmar's predicted growth. A better solution would have been to place tariffs on cement as a finished product, and then allow for lower tariffs on intermediate products like clinker (an intermediate product ground with gypsum to produce cement), facilitating the development of a clinker-grinding industry in the country; or better yet, produce domestic cement. In a country where there is a huge supply need to fuel infrastructure growth, it behoves us to support domestic production of essential inputs like cement.

Import tariffs should be determined in such a way that the local businesses are not wiped out, as it is in the national interest to have a healthy cement industry. Instead, these

businesses are perishing, unable to withstand the onslaught of international competition, and incurring massive bank debts that they cannot repay because they cannot compete with imports. There is also an inherent lack of electric power in the country to support industries; another shortfall of infrastructure for economic growth.

Selling to buy, a colonialist model

Myanmar's food processing industry is almost non-existent, despite it being a produce-rich nation. It is cheaper to sell mangoes to Thailand and then import mango juice in return. Physical infrastructure presents huge obstacles as we see an alarming spike in cost structure combined with a declining demand base as soon as you move out of Yangon or Mandalay. So Myanmar ends up exporting its produce in bulk and importing finished products. And it doesn't end there–Myanmar sells gas to its neighbours like China and Thailand; and Thailand produces electricity and sells it back to Myanmar.

When multinationals like Nestlé, Johnson & Johnson and Procter & Gamble enter a country to sell their products, they typically don't set up their own facilities–they buy factories, distribution channels–and even local brands. But in Myanmar, there is no factory line available, no electricity, it is hard to find labour, and raw materials imports are expensive–not to mention laws that provide unsure footing. Thus, global fast-moving consumer goods (FMCG) companies prefer to import finished goods because the supply chain infrastructure is missing. They are not looking to produce in or even move a part of the production chain to Myanmar.

Although registration of new companies has been streamlined, it is still an uphill battle to start a facility because of the difficulty in acquiring land (although due to the cash crunch some landowners are now willing to put their land on a long lease) and setting up a factory. Procuring labour and importing equipment is expensive, and even bringing raw materials like fresh produce from one region to where the factory is set up is expensive. The factory is usually set up where the demand is, such as Yangon, but the supply of raw materials may be a distance away. Investment in infrastructure has become imperative to Myanmar's economic growth.

Putting the house in order and dressing up the bride

Because of the past history of land grabbing and concessions grabbing, most companies undertook massive debts from local banks to finance their acquisitions to build their supply chains. When those acquisitions did not result in actual production, the banks were left with massive non-performing loans. Things were going well during the times of the jade trade, which was primarily with China. The revenue streams from the jade trade were utilised to get loans to buy hotels, mines, or land for factories. But then China curtailed the jade trade. Businesses that had gotten themselves into this speculative mass of debt that hinged on the jade trade ultimately defaulted with the banks, including some very large companies that the central bank is hesitant to foreclose and liquidate.

Foreign investors wanting to enter Myanmar don't have a full inventory of the businesses that are available for investment. Also, the businesses are often in shambles, because they did not practise anything close to the global standards of governance or regulation. These are largely family-run businesses with personal and business accounting records intertwined, being managed like one big joint family household. So Myanmar today is an opportunistic merger and acquisition, and joint venture market. It needs locals to dissect these mega-conglomerates, relook at the portfolio and ring-fence each one, recognising assets they can revive and thereafter finding a strategic partner for each. If we can pick and choose parts of a company and find a strategic partner in a way that its bank debt is paid off, or alternatively dissolve the entity, it may free up the market. This is currently a huge opportunity in Myanmar, and a necessary first step to bringing in foreign investment.

Myanmar today offers tremendous opportunities, if one knows what to do and where to look. Investors are searching for low labour cost options in Asia, and the options are few and far between. Myanmar has the potential to draw in these investors. But before that can happen, the government needs to address the issues related to long-term planning and execution. We see a lot of Myanmar companies in debt, so we need to resolve this, dress up our brides, and find mutually beneficial partners.

Most of all, Myanmar needs support and engagement from the outside world if change is to take place in this very complex nation that is struggling to establish a democratic system of its own.

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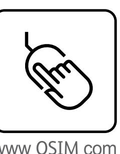
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