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Global CEO Study: The Enterprise of the Future

Hungry for change. Wildly imaginative. Disruptive by nature. Totally wired to the people who matter most. To some people, this might sound like your average teenager. In fact, these are the qualities companies will need to thrive in the near future, according to our newest CEO study.

Every two years, IBM talks to some 1,000+ CEOs and public sector leaders worldwide. We ask these executives: what are they thinking about? Where are they investing? What do they believe the Enterprise of the Future will look like? We also reviewed the differences between outperforming and underperforming businesses.

This is our third global CEO survey. Here's what we found.

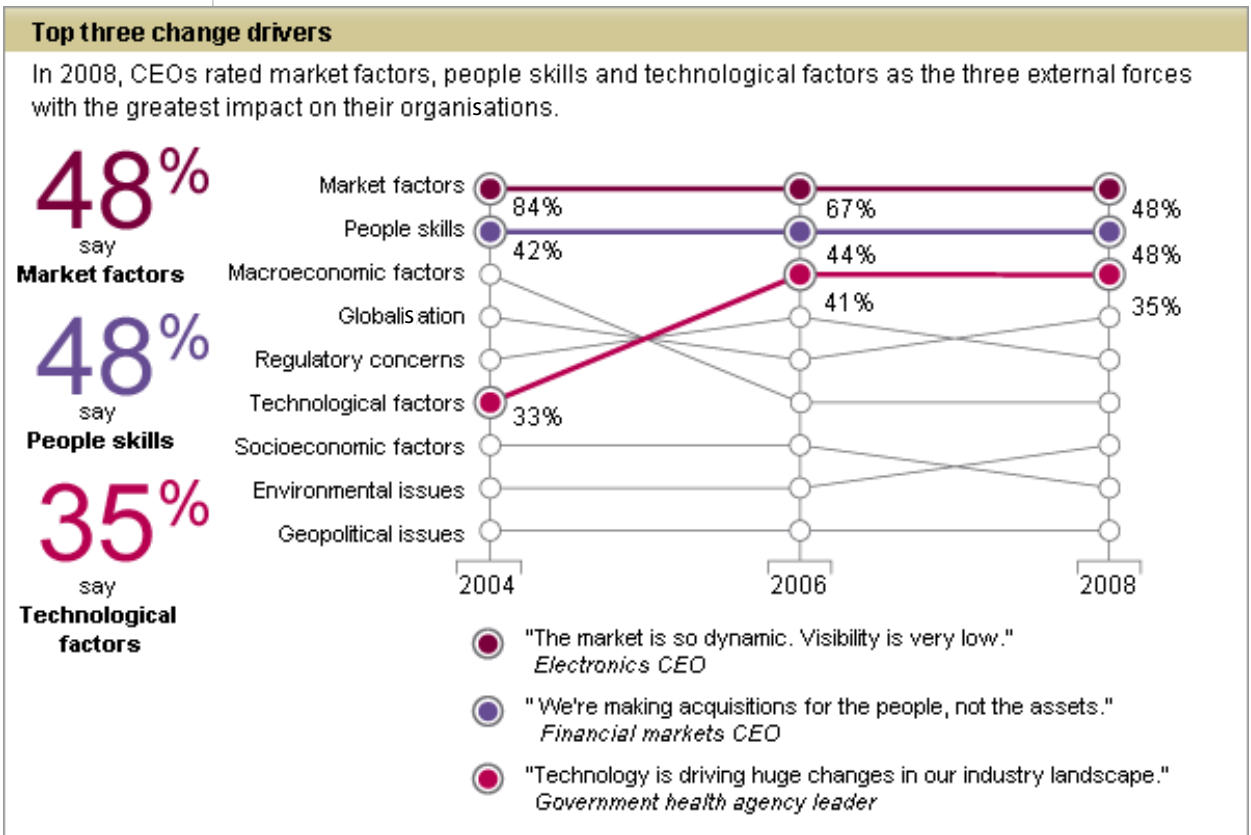


Hungry for change

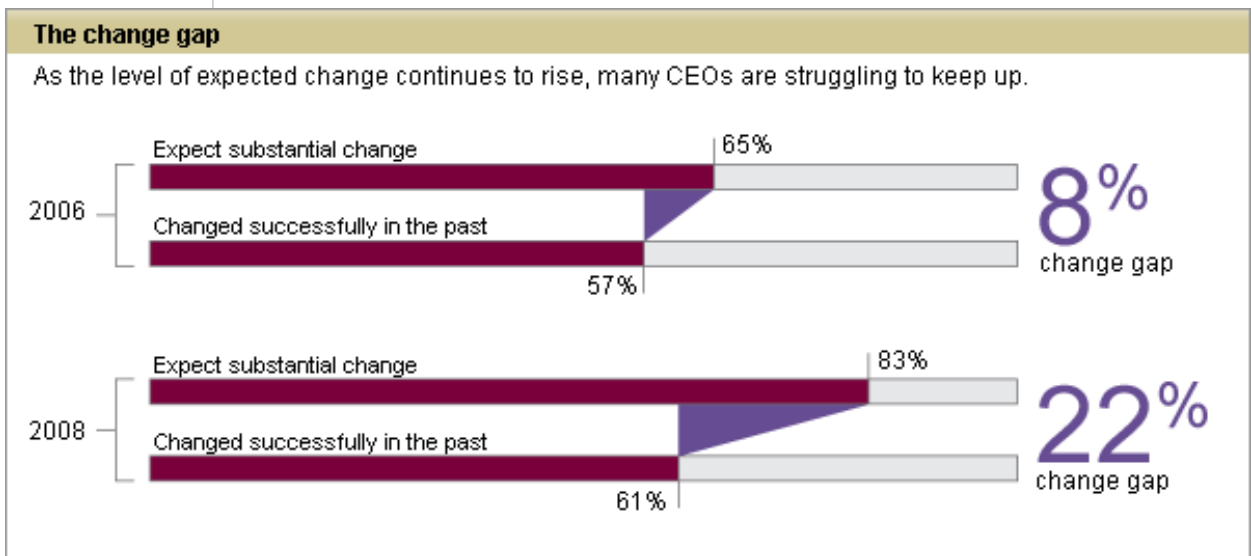
"We have seen more change in the last 10 years than in the previous 90." —Ad J. Scheepbouwer, CEO, KPN Telecom

Coping with change is nothing new. What's different is the head-spinning rate of change today and the fact that it's coming from so many different quarters. In 2004, CEOs worried about market factors. In 2008, while the market

still dominates the agenda, executives now face additional socioeconomic, geopolitical and environmental challenges including people skills, technology advances and environmental concerns.



And companies are struggling to keep up: There is a gap of 22% between how CEOs rate their ability to manage change successfully versus their expected need for it—a gap that has nearly tripled since 2006, when it was only 8%.



The Enterprise of the Future embraces unpredictability as the new routine and:

- Establishes strong company values to guide employees in a volatile environment
- Hires, positions and rewards innovators who challenge the expected
- Operates like a venture capitalist: cultivating a portfolio of fledgling ideas, nurturing the promising ones, quickly weeding out the ineffective ones

The Enterprise of the Future aims beyond customer expectations to create products, services and experiences that were never asked for, but are precisely what customers desire.

- Makes offerings relevant to new markets, constantly experimenting and looking for market niches and white space
- Introduces products when it knows it can capture an early market lead
- Taps into its customer base: connecting employees to customers at all levels; using emerging technologies such as virtual worlds for faster feedback cycles

So how does the Enterprise of the Future manage constant change? The Swiss engineering firm ABB can offer some insights. ABB launched its Step Change Program in 2003. Hundreds of measures were identified and executed on schedule resulting in savings of more than US \$900 million. Their change program today has a broad portfolio of initiatives, representation from all parts of the company and an Executive Committee that tracks progress and provides regional accountability. The result? ABB's successful focus on its strengths in power and automation technology and its improved productivity and cost structure were driven largely by its enterprise-wide change program. In 2007, ABB's net income increased to a record US \$3.8 billion.



Innovative beyond customer imagination

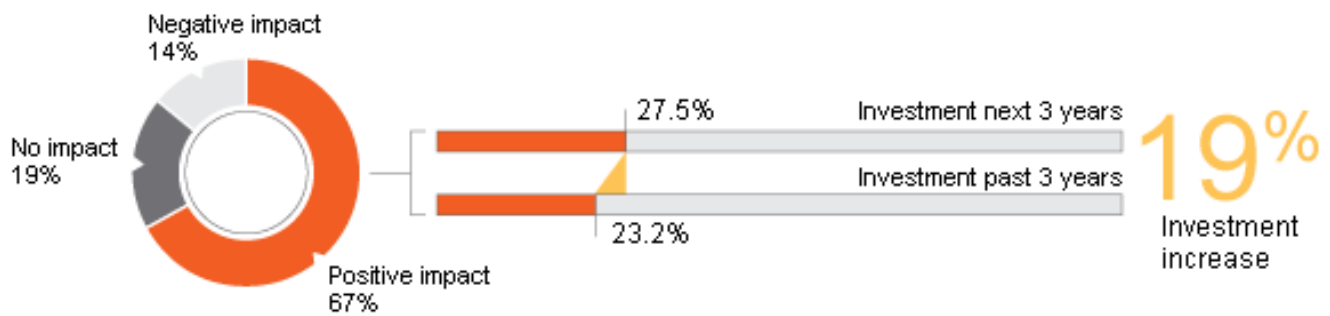
"Developing countries grow gradually at first, then suddenly emerge as large markets. We must be prepared to respond quickly.

"—Yasuo Inubushi, President, Kobe Steel

In India, 400 million consumers will demand new housing in the next 20 years. That's more real estate than the United States has built since the Second World War, pointed out one real estate CEO. Globalisation is producing a new prosperity around the world and two thirds of CEOs are investing to capture this opportunity.

Two thirds of CEOs see opportunity and are investing

CEOs will devote more than one-quarter of their total annual investments to capture rising prosperity opportunities.



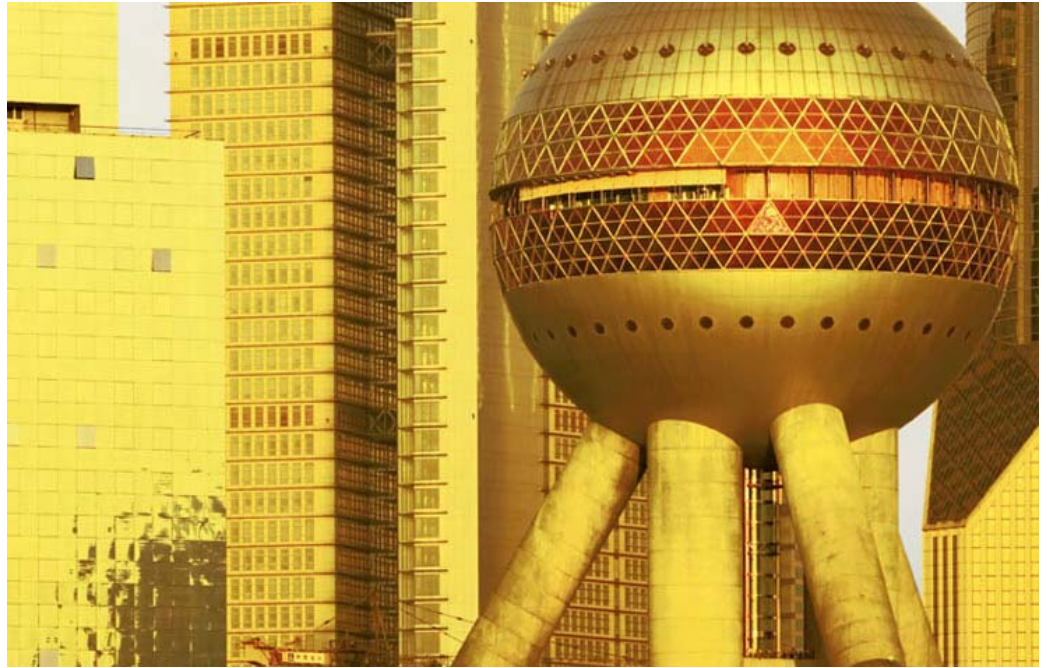
These new—and existing consumers—are more demanding and knowledgeable than ever. With the billion-user Internet, customers can broadcast their opinions about a product. They can link up with like-minded consumer groups and sway public opinion, not to mention company behaviour.

Three quarters of CEOs view these newly empowered consumers with enthusiasm. Here is a chance to get customer input and develop products that differentiate their company and justify premium pricing. This can be much quicker and more effective than developing products in a vacuum, only to find they missed the mark and the market.

Several years ago, Nintendo, the maker of console games, needed to regain its leadership position, find new ways to delight gamers and reach new audiences. To do that, it went straight to the source—gamers themselves. Through a community of experienced gamers, Nintendo gained valuable insights into marketing needs and preferences. This has influenced everything from actual game offerings—like an online library of "nostalgic" games that appeal to older gamers—to new product design such as the intuitive controls of the new Wii system. The collaboration seems to have paid off: Nintendo is once again ahead of the competition with 44% market share.

To thrive on a global level, the Enterprise of the Future needs to:

- Be agile, with flexible operations, such as short-term leases and local workforces
- Have modular technology for rapid reconfiguration and seamless integration with multiple partners
- Develop leaders with multiple global experiences for the skills to manage diverse markets
- Provide employees with strong collaboration tools so they can function cohesively, regardless of location



Globally integrated

"A few years ago, we were a national company; now we're a global company. Our integrated supply chain must adapt to meet demand in 50 countries. We're going to have to bring people in from the outside." —Jim Guyette, President and CEO, Rolls-Royce North America

Two years ago globalisation meant paring off a function and moving it abroad: a factory in China, a call center in India. The key driver was cost. Today, CEOs see globalisation as intrinsic to their business, the means of accessing the best resources wherever they are. It is the gateway to new markets.

To fully realize their globalisation strategies, 57% of CEOs will make fundamental changes to their organisation's capability and skill mix. What will they do? Of those interviewed, 85% plan on partnering; 66% will use mergers and acquisitions. One such company is Hong Kong-based Li & Fung. They used acquisitions—more than 20 in less than 10 years—to grow market share in their target geographic markets.

With a network of 10,000 suppliers and staff in 40 different countries, Li & Fung can source from virtually anywhere in the world. Cotton can be purchased from America, knit and dyed in Pakistan and sewn into garments in Cambodia. When Li & Fung acquires a company, it typically preserves the front-end customer interface, which is often the reason for the acquisition, but merges the back end with its own operation within 100 days of deal close.

In its quest for constant reinvention, the Enterprise of the Future:

- Thinks like an outsider
- Borrows breakthrough ideas from other industries
- Experiments in the market, not just in the lab
- Manages bold, new business models alongside old ones for faster adoption



Disruptive by nature

"For us, enterprise model innovation is primarily about having the right business model to enter other markets and secure new capabilities." —Andrew Brandler, CEO, CLP Holdings Limited

A common theme emerged from our interviews: virtually all CEOs are changing their business models. Two thirds are implementing extensive innovations. Why now?

Because it's possible. The Internet is allowing them to enter niche markets and reshape their processes, delivery channels and ways of partnering.

Companies are innovating in three ways:

- Rethinking their enterprise business model: which processes are kept in house or spun out to partners?
- Changing their pricing models, such as Gillette which switched its primary revenue from razors to blades
- Reshaping the way their industry conducts business, such as the way Apple ipod turned the music business upside down

U.S. pharmaceutical maker Eli Lilly turned to business model innovation to meet an ongoing industry challenge: bring new medicines to market faster. Its newest model is based on pioneering risk-sharing relationships, such as its 2007 agreement with Nicholas Piramal India Limited (NPIL). NPIL will develop one of Lilly's molecules at its own expense, from preclinical work to early clinical trials. If NPIL is successful and the compound reaches the second stage of human testing, Lilly can reacquire it in exchange for milestone payments and royalties.

**What does this mean
for the Enterprise
of the Future?**

It will need to:

- Understand what its stakeholders want in terms of CSR
- Find ways to provide the right amount of relevant information about its products
- Engage its employees' enthusiasm since they are often the front line with customers
- Develop a "green" strategy that makes sense



Genuine, not just generous

"Our company is investing extensively in corporate social responsibility. We need to be a reference in this domain. As the leader of the luxury industry, we have to stay ahead." — Yves Carcelle, chairman and CEO, Louis Vuitton

The next generation of socially minded customers, workers and investors is watching every move a company makes. CEOs recognise this and corporate social responsibility (CSR) is climbing higher on the agenda. It's critical to attracting talent, breaking into new markets and protecting the brand.

As a result, 25% of companies will increase their investment in this key area, generally focused on developing new "green" products. One challenge will be how to make CSR a more holistic aspect of company processes.



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New Orchard Road, Armonk, New York 10504, USA