Leadership for the 21st Century

Moderator: Charles P. Rose Jr., Journalist and Host, The Charlie Rose Show
Participants: John Doerr, Partner, Kleiner Perkins Caufield & Byers
Jeffrey R. Immelt, Chairman, GE
Anand G. Mahindra, Vice Chairman & Managing Director, Mahindra & Mahindra Ltd.
Meg Whitman, Former President & CEO, eBay
James D. Wolfensohn, Chairman, Wolfensohn & Company LLC

Overview

Amid the unexpected and unprecedented financial crisis, this panel was generally confident about the long-term economic prospects for the country and the world. While a recession appears certain, there continue to be pockets of economic strength, innovation and entrepreneurialism abound, and at its core, America is a resilient and optimistic country.

What is desperately needed is leadership. This includes leadership in the near term to restore confidence in the economic system, and longer-term leadership in areas such as the environment. The key traits that leaders require include vision, integrity, decisiveness, accountability, great communication skills, and an ability to inspire others.

Context

In responding to questions from Charlie Rose, this panel of recipients of the 2008 HBS Alumni Achievement Award covered a broad range of issues including the current financial crisis, the changing relationship between business and government, and the key elements of effective leadership.

Key Takeaways

The current financial crisis is the overriding issue of the moment. Perspectives on the way forward differ.

Each panelist was asked to share his or her perspective on the financial crisis and discuss what this crisis might mean for the future. These perspectives were:

The key is the consumer (Whitman). Ms. Whitman described the situation as an unprecedented challenge for the world’s financial system. For the United States, the most important question is how consumers will react. Consumer spending represents 72% of U.S. GDP. In previous recessions, consumer spending tempered the recession. But in this crisis, consumers are scared and there is the risk that they will significantly pull back their spending, creating a deep and prolonged recession. The country needs leaders who restore confidence by telling the truth, explaining what happened, and inspiring everyone to move forward. Further economic stimulus may also be necessary.

"The price of inaction is far greater than the cost of making a mistake.”
— Meg Whitman

Don’t overreact (Mahindra). Mr. Mahindra expects that people will call the current crisis “unprecedented” and will call for “a new world order.” He cautioned not to overreact and throw the baby out with the bathwater. He sees the U.S. economy, as well as that of India, as resilient. He is extremely optimistic about the long term. Instead of a new world order, he suggests “a reset” of the current system.

"I am totally optimistic about America. What you’ve got here is an environment that encourages entrepreneurialism. I fear an overreaction to this crisis.”
— Anand G. Mahindra

The government always wins (Immelt). Mr. Immelt sees the current crisis as a violent ending to the credit crisis that began 15 months ago. He is confident in the government officials who are leading the response efforts and confident that the government’s efforts will ultimately lead to a solution. In Mr. Immelt’s view, there are two problems: housing prices and tight credit. Through the government’s actions to provide liquidity, the tightness of credit will ease. The sooner this happens, the faster the broader economy will be able to get back to business as usual.

In some ways, the economy is bifurcated; the financial system is in disarray, which will inevitably affect the economy as a whole, but there are segments of the economy—and of GE’s business—that continue to perform well. Specifically, GE has several years of orders for airplane engines and wind turbines.

An environmental crisis would be bigger than this financial crisis (Doerr). Mr. Doerr shared several thoughts on the current crisis. First, the bailout/response plan fails to get at the root cause of the problem, which is that the system put people in homes they can’t afford, with mortgage terms they can’t afford. Second, the country needs leadership, but President Bush lacks the credibility to calm and inspire people. Third, despite the financial crisis, innovation continues to race ahead. And fourth, and most importantly, if action is not taken soon, there will be an environmental crisis that will be far more significant than the current financial crisis. “You can bail out the economy; you can’t bail out the environment.”

“The U.S. is borrowing money from China to buy oil from the Middle East, and we are then burning it and throwing it into the atmosphere. Borrow. Buy. Burn. Every part of this has got to stop in the next decade or we will have a carbon crisis that will make the financial crisis look like a walk in the park.”
— John Doerr
— What are the assets? (Wolfensohn). Mr. Wolfensohn sees the financial crisis response of providing liquidity as dealing with the liability side of the balance sheet. But the great unknown is the quality of the underlying assets.

He is also concerned about the ripple effect of the crisis on other countries, which in recent years have been an engine for economic growth. In addition, Mr. Wolfensohn is concerned about the amount of household debt in the United States due to society’s consumption culture. People in the United States continue to spend far more than they earn, which has grave consequences.

“There is no future for our country unless we stop spending more than we earn.”
— James D. Wolfensohn

• Even in the midst of this crisis, opportunities exist and investment is taking place.

Innovation continues to flourish. Mr. Doerr described the venture capital landscape as focused on three main areas:

— Internet. Internet engineers, who focus on bits and bytes, continue to drive the digital economy. However, there are too many inconsequential projects in this space and many will disappear.

— Biotech. Biotech engineers are focused on drugs and bugs. This sector continues to attract capital and create jobs.

— Greentech. Engineers in this space are focused on biofuels and batteries. This area represents the greatest influx of venture capital funds.

In general, VC-backed businesses are financed by equity, and not debt. Therefore, in the near term, the tightness of credit is unlikely to have a major impact on the innovation that is taking place. However, in the greentech sector, the new technologies that are being developed require scale, which will take capital.

Mr. Mahindra also continues to see opportunity in the United States and around the world. His company is currently investing in the United States in order to grow market share, and even though credit today is tight, his firm has been able to access capital from sources in the Middle East that are flush with cash.

Opportunity also exists for General Electric. The company will not follow a formula, such as “invest in a recession to beat competition,” but will look at the situation for each of its businesses. In some sectors, because market capitalizations have come down so far, there may be attractive acquisition opportunities. In other sectors, the best opportunities may be to grow organically by leveraging investments in R&D.

• Government needs to be a catalyst for innovation.

The perception of Mr. Immelt is that over the past 5 to 10 years, the amount of interaction between business and government has increased. Some of this increase stems from the regulations enacted related to corporate govern-

ance. The panelists expect the amount of business-government interaction to further increase as greater regulation of the financial system takes place.

But the nature of business-government interaction need not be limited to the realm of regulation. The panel concurred that business and government must work together in situations where the market system is not able to bring about necessary changes.

“The notion that the free market solves everything just isn’t true. The government does have a role as a catalyst for change.”
— Jeffrey R. Immelt

Mr. Doerr commented, “The government needs to lead in dealing with climate change.” This leadership includes both government policies and investment. Mr. Doerr suggested that the next president restore DARPA (the government agency responsible for creating the Internet) to its former innovation-focused charter.

There was agreement between Ms. Whitman and Mr. Immelt that the government should make energy independence a national priority. The country could be unified in working to solve this problem (analogous to the country’s attitude in the 1960s about going to the moon). By making energy a clear national priority and by partnering with the private sector, the government can act as a catalyst in unleashing a wave of innovation.

In the view of Mr. Wolfensohn, the country’s future is predicated on innovation. Half a century ago, the United States was the wealthiest country in the world. This is no longer the case. The foreign reserves of China and Russia are much greater than those of the United States. The wealth of the United States is no longer a competitive advantage; the country’s advantage must be innovation.

“There is no future for our country unless we stop spending more than we earn.”
— James D. Wolfensohn

• The United States needs to develop a more global perspective.

Compared to students in other countries, students in the United States receive little education on other countries, especially those in Asia. Yet as stated by Mr. Wolfensohn, “The center of the world is moving east.” To prepare young people for the future, they must be educated about Asia.

The government will be well served by thinking and acting more globally. The foreign minister of Russia recently told Mr. Rose that Russia wants the United States to lead, but also to consult and listen to the views of Russia and other countries.

For companies, becoming more global means segmenting the world differently, not just by size of population or income. At GE, where 60% of its 2008 revenues will come from outside the United States, the company segments countries as resource rich, people-driven rich, and
technology and education rich. Mr. Immelt believes that for societies to compete effectively in a global market, they require education, health care, energy policy, and a financial system that promotes innovation. U.S.-based companies cannot simply assume competitiveness; they must work hard to remain competitive.

- Leadership is desperately needed. How it is defined differs slightly from panelist to panelist.

The panelists agreed on the tremendous need for leadership in dealing with both the short-term financial crisis and the many longer-term issues facing the business community, the United States, and the world. Each panelist offered a different perspective on leadership.

- Whitman. Leadership entails painting a vision of where you want to go, establishing priorities for getting there, building the right team, aligning the organization, and holding people accountable for results. It also requires an ability to communicate effectively so that everyone is on the same page. In addition, effective leaders create cultures where mistakes are acceptable. (Key differences in the public sector are that acknowledging mistakes is not acceptable and greater consensus is required.)

- Mahindra. Leaders benefit from having a broad perspective. For this reason, a liberal arts education is extremely valuable.

- Immelt. Because the job of a leader is unpredictable, leaders must be able to learn quickly. Leaders must be decisive, accountable, transparent, and able to create unity. Leadership is a journey into one's self. It involves learning, giving, changing, and constant renewal.

- Doerr. A mantra for entrepreneurial leaders is “more than anyone thinks possible with less than anyone thinks possible.” Entrepreneurial leaders recognize that ideas are relatively easy, but execution is everything. And execution is based on a team; teams win. Leaders must be able to think on their feet, communicate effectively, and inspire others. And, leaders have character and integrity.

- Wolfensohn. In addition to the thoughts expressed by the other panelists, Mr. Wolfensohn believes that leaders should be attuned to the global environment in which we live and in which companies operate.

- Because of these historic times, the U.S. presidential election is extremely important.

The focus of the candidates on short-term, local/domestic matters is understandable, but the failure of either candidate to articulate a long-term, global vision is disappointing for Mr. Wolfensohn.

An adviser of Senator McCain, Ms. Whitman admires Senator Obama but believes that Senator McCain’s economic policies will be better for the United States.

Mr. Mahindra provided an Indian business leader’s perspective on the election. He said that Indian business people are conflicted. Their head is with McCain but their heart is with Obama. The reason that the head supports McCain is based on the belief that free trade is more likely under McCain, which is in India’s self-interest. But the heart supporting Obama is based on the belief that Obama brings a new spirit and would enable the world to move past Iraq and what is perceived as American expansionism under President Bush.

“If I forget about my vested interest in India, I think a choice of Obama would somehow signal the finest that America has to offer.”

— Anand G. Mahindra