The Economist

A book of bright people

A selection of Face Value articles from The Economist

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A book of bright people

Every week in The Economist, the Face Value column profiles a notable person in the world of business. That individual usually embodies a particular business trend or debate, and telling his or her story provides an informative and sometimes unusual perspective on the issue in question.

The articles in this selection were published in The Economist between October 2006 and November 2007.

Face value | Macro credit

Reprinted from The Economist Oct 21st 2006

Muhammad Yunus has won the Nobel peace prize for his role in promoting financial services for the poor

FOR many of the supporters of Muhammad Yunus and the institution he created, the Grameen Bank of Bangladesh, the announcement that the two will share a Nobel peace prize is long overdue—the only surprise is that it was so long in coming. Grameen's website lists 60 awards, 27 honorary degrees, and 15 other "special honours" previously received by Mr Yunus directly, and seven received by Grameen. The selection committee said the prize was for developing what "had appeared to be an impossible idea", namely loans to people who lack collateral.

Mr Yunus has unquestionably helped create an industry that provides financial services to the poor, combining his experience of growing up in a small village with his academic background as an economist to popularise what was once just a fringe area of banking and an obscure idea about alleviating poverty. Grameen has become a sizeable institution, with 6.7m customers, most of them women and all of them poor. Grameen has, by its own reckoning, distributed $6 billion in loans, each on average less than $200. Dressed in a traditional Bangladeshi outfit made by a Grameen affiliate, the charismatic Mr Yunus, with his soft voice and warm smile, can transform the dry, grinding mechanics of banking into a bewitching story about beggars, children and empowered women, all benefiting from credit that should be a human right and could even, he says, end poverty.

Even so, loans to the poor have existed for thousands of years. The formalised system of small borrowing that Mr Yunus pushed in Bangladesh beginning in the mid-1970s was being tried in bits and pieces around the world at the same time, and earlier as well. Even in Bangladesh, where his award was warmly received as an international endorsement, there are two other equally large and innovative microfinance institutions: BRAC, which dates back to the same era as Grameen, and ASA, which came later but improved on the basic model. Yet as remarkable as these three are, to single them out is, in a sense, unfair. There are thousands of financial institutions around the world providing financial services to the very poor. It is a world of extraordinary individuals, and one that has advanced as a result of collective insights. Physics and chemistry, to cite two other Nobel categories, may be built upon the shoulders of a few giants, but microfinance needs—and has—thousands of them.

Mr Yunus and Grameen succeeded by seizing an idea, expanding quickly, proselytising and resisting the temptation to move beyond the poor. His particular approach to microfinance has not, however, been without controversy. By legend, Grameen grew out of a $27 loan Mr Yunus made in 1974 to a woman manufacturing furniture who did have credit, but at an exorbitant price. Grameen emerged soon thereafter, based on several key operational techniques: loans were made to individuals but through small groups who in effect (if not explicitly) had joint liability; the loans were for business, not consumption; and collection was frequent, usually weekly. Interest charges were significant—the money was not aid, and a fundamental tenet of Grameen is that the poor are creditworthy—but the rates were relatively low (currently just above 20%).

This approach had virtues and limitations. Low rates and lower savings (except as a back-up for repayment) meant that in its early years, Grameen relied on capital from public and private donors—something that less charismatic or connected entrepreneurs than Mr Yunus found hard to replicate. Joint liability for loans became an increasing problem for groups when some members wanted to borrow more than others. And it was unclear whether the money received really did always go to business, rather than daily needs. A deeper question is just how helpful such tiny loans really are. Heart-warming case studies abound, but rigorous analyses are rare. The few studies that have been done suggest that small loans are beneficial, but not dramatically so. A further question is whether an approach emphasising credit really can eradicate poverty: a ridiculously ambitious goal, though one that Mr Yunus's evangelical view of the virtues of credit has perpetuated. Whether this form of lending has led to peace, the presumptive reasoning behind the award, is just as big an unanswered question.

Credit where credit's due

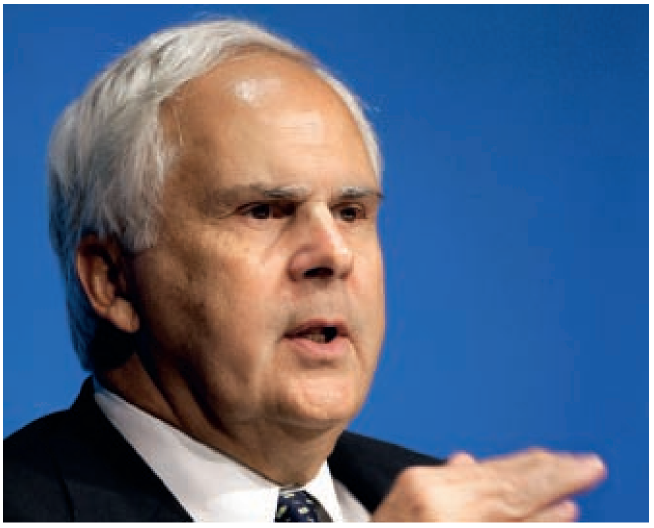
The classic Grameen model began to fray in the 1990s and hit a wall in 1998, when a devastating flood pushed up losses and people began missing weekly payment meetings. Mr Yunus was no doubt familiar with microfinance innovations in other countries: BRI in Indonesia had transformed itself from a wreck into a huge success by emphasising savings, not credit, and other institutions had started to abandon group lending. Grameen restructured in 2001, emphasising savings (deposits now exceed loans) and relying less on joint liability for groups.

With Grameen now thriving and the Nobel on the shelf, what will Mr Yunus do next? There are persistent rumours that he might enter politics, given his prestige within Bangladesh. And this could be a good time for him to step away from microfinance, which appears to be at an inflection point. Institutions continue to emerge and grow, many funded by private capital and seeking a real return, an approach Mr Yunus opposes. They often begin by charging higher rates than Mr Yunus considers legitimate, but cut prices when their returns draw competitors—a tough but theoretically more supple model. Microfinance would also benefit from a voluntary regulatory structure to improve its access to capital, and greater use of technology to reduce transaction costs. What it needs, in short, are the boring, quiet innovations that dynamic industries depend upon, but which, alas, do not win prizes. The Nobel, and its recognition of microfinance's most charismatic cheerleader, may mark the end of an era as a more mature industry starts to emerge. ■

Face value | The view from 36,000 feet

Reprinted from The Economist Nov 18th 2006

Fred Smith, the boss of FedEx, has a unique perspective on the outlook for world trade and economic growth



THE tabloids have christened Kevin Federline, the soon-to-be-former spouse of pop star Britney Spears, Fed-Ex. This has resulted in the sort of headlines—such as "Fed-Ex threatens Britney with sex tapes"—which might upset some chief executives, but not Fred Smith of FedEx, a global shipping and logistics firm. "I heard about that from my daughter," he laughs, apparently enjoying this latest illustration that the firm he started in 1971, based on a business plan that his professor notoriously graded as merely average, has achieved iconic status. For years, FedEx has been a member of that select group of companies whose names are used as verbs.

Today, people all over the world are FedExing like never before, giving Mr Smith a unique perspective on the outlook for world trade. The firm's share price is again nearing the record high from which it plunged in the summer as investors feared that the American economy, and perhaps the global economy with it, was in trouble. That would have meant many fewer packages for FedEx to fly around the world—it is the world's second-largest airline by size of fleet—and deliver with its thousands of trucks. From his lofty vantage point, Mr Smith concedes that there are pockets of weakness in America's economy, notably in the housing and car industries, which have caused some knock-on effects on exports from developing countries such as China. Yet he foresees less volatility in future, thanks in part to the positive impact that firms such as his have had on the efficiency of corporate supply chains. "Economic corrections are getting smaller," he says, because better supply-chain management means firms can more easily adjust to small changes in demand. This "gets rid of the whiplash effect" that slowdowns had on the economy in the days of looser supply chains.

The model that Mr Smith cooked up at Yale, based on a hub-and-spoke system of overnight air delivery, has since expanded to encompass a broad portfolio of businesses contributing to efficient supply chains. FedEx now has a leading position in the ground parcel-delivery business, especially in America. Mr Smith was not the only average student who would later amount to something: George Bush, his contemporary at Yale, remains a friend and recently visited the firm to sing its praises. This prompted protests from the unions, which are treated better by FedEx's main rival, UPS, and have struggled in vain to gain a foothold in Mr Smith's firm. "The unions would love to Wal-Martise us," he says, but they have failed to do so because (and Wal-Mart may not thank him for the implicit comparison) "our people make very good wages and receive very good benefits."

Mr Smith, who at 62 shows no interest in retiring, remains exceedingly bullish about China, where FedEx has been operating for 22 years. It is in the final stages of buying out the local Chinese joint-venture partner that was foisted on it by the government. This will give FedEx the "freedom to expand the business as the market demands." It is about to move into a massive new base at Guangzhou's Baiyun airport. The Chinese government has been extremely clever in its design of its logistical infrastructure, putting all its new airports "in the right place", says Mr Smith, who nonetheless seems queasy about the means to that end. "They moved whole villages," he says, noting the impossibility of doing likewise in India: "There are 250,000 squatters living around Mumbai airport—you couldn't expand it under any circumstances." The infrastructure challenges facing India are the main reason why Mr Smith, despite seeing growth opportunities there, thinks China has the greater promise.

The need to make the most of these opportunities lay behind his recent decision to cancel FedEx's order for ten air freighters based on the huge A380 super-jumbo after its maker, Airbus, put back the delivery date a second time. Originally, the aircraft were due in 2008, but this was delayed to 2009 and then 2010 and "we weren't 100% comfortable we would get them then," says Mr Smith. He admits to surprise that Airbus did not cancel the order first, so it could focus on meeting orders for pricier passenger versions of the aircraft. FedEx will instead buy more long-range 777 aircraft from Airbus's rival, Boeing.

Which way will the trade winds blow?

With America's Democrats regaining control of Congress and anti-free-trade rhetoric on the increase, you might expect Mr Smith, a lifelong committed free-trader, to be downcast. Yet he seems remarkably untroubled. True, he thinks America should unilaterally lift barriers to farm trade, though he sees little sign of that happening. He reckons that, despite all the protectionist talk from politicians and from Lou Dobbs, a cable-news pundit, there is little popular support in America for rolling back the trade liberalisation that has already taken place.

He dismisses fears that, with the Doha round of trade-liberalisation talks on hold, the progress of the past quarter-century might be reversed, much as the protectionist Smoot-Hawley act was introduced during tough times in 1930. Farm-trade reform may now be stalled indefinitely, says Mr Smith, but "nobody is charging around saying that iPods for America will have to be built here in future, or that semiconductors can no longer be built in Taiwan, or no Brazilian aircraft for JetBlue."

In large parts of the American and global economies, trade liberalisation has already taken place. If there was a real danger of the "political class passing an equivalent of Smoot-Hawley, the 25% of the population involved in the tradable sector would stop it," asserts Mr Smith. Is he right? *The Economist* would like to think so, and not just because Mr Smith is so uninhibited in his criticism of Mr Dobbs and other protectionists. But the sobering lesson of Smoot-Hawley is that free traders can never afford to relax about the threat from protectionists—even when looking down on them from 36,000 feet. ■

Face value | Bill Gates's other chief executive

Reprinted from The Economist Jan 20th 2007

Patty Stonesifer is steering the Bill and Melinda Gates Foundation as it enters uncharted waters

BEING called "incredibly disingenuous" by the *Huffington Post*, an influential blog, cannot have been how Patty Stonesifer expected to mark her tenth anniversary in charge of Bill Gates's efforts to make the world a better place. But these are strange times for the chief executive of the Bill and Melinda Gates Foundation, a charitable institution accustomed to being showered with praise. Two recent articles in the *Los Angeles Times* accused the foundation—the world's wealthiest, with assets of $32 billion—of profiting from investments in companies whose activities contribute to the very problems the foundation is trying to solve (poverty, debt, disease and so on). This prompted an avalanche of media comment along the lines of "giving with one hand, taking with the other".

Meeting the straight-talking Ms Stonesifer, it is hard to imagine anyone less disingenuous. This is easily the most hostile press coverage of the foundation in the decade since Mr Gates asked her to take over the day-to-day running of his foundation, shortly after her departure from a senior post at Microsoft, his giant software firm. But, she says, this is the price—a "small price"—that the foundation has to pay for having come so far during that time. "We have become the reference point for all the interesting questions in philanthropy," she says. And whether a charitable foundation should use its portfolio of assets to reinforce the thrust of its giving—or "mission-related investing"—is, she says, "certainly an interesting debate".

Many American foundations are jumping on this particular bandwagon, either by screening nasty firms out of their share portfolios, trying to improve bad firms through shareholder activism, or accepting lower financial returns in pursuit of a double or triple bottom line that takes non-financial results into account. But that approach is far too woolly for the Gateses and their philanthropic partner since last summer, Warren Buffett.

In the opinion of the Gates Foundation, Ms Stonesifer explained in a letter to the *Los Angeles Times*, "changes in our investment practices would have little or no impact" on the suffering identified in the articles. The foundation does not own big enough stakes in companies to influence their behaviour through shareholder activism, even if it does nod to political correctness by declining to invest in cigarette firms. A far better way to help people, she concluded, "is by making grants and working with other donors to improve health, reduce poverty and strengthen education."

Well, maybe. But it will be no surprise if the foundation eventually adopts a softer line, if only to avoid nasty headlines like last week's. That said, pursuing an investment strategy that satisfies the journalists of the *Los Angeles Times* may be impractical, since so few companies would pass muster. The paper's implication that the Gates Foundation benefits from slavery in Africa because it invests in Nestlé and Cadbury Schweppes, for example, requires a particularly outrageous logical stretch.

Evolving to deal with greater than expected complexity has been a central theme of Ms Stonesifer's time as the foundation's chief executive—a role she likens to directing a play written by and starring Mr and Mrs Gates. The foundation has become far bigger and achieved far more than she expected when she took the position, at a time when she was looking to spend more time with her teenage children.

One surprise has been how much time she has to spend evangelising. At first, the foundation thought it could change the world simply by developing things that are desperately needed, such as internet access in libraries and new drugs for malaria and HIV/AIDS. "Bill, Melinda and I were a bunch of product-development people," says Ms Stonesifer, who was responsible for software including Encarta and Flight Simulator while at Microsoft. "We assumed others would focus on getting the products we developed to those who needed them." But now the foundation spends a fortune trying to shape public opinion, working with a wide range of partners from governments to companies to churches. Celebrities such as Bono and Oprah Winfrey have become an important part of the foundation's strategy. "Ten years ago, if Bono had asked to meet us, we would probably have said no," says Ms Stonesifer.

Foundation and empire

The foundation is about to go through another transformation. First, it will grow fast as it seeks to spend the huge gift announced last summer by Mr Buffett. This will double the amount that the foundation has to give away each year, to around $3 billion. Already, one new programme has been launched, on agriculture and financial services for poor people. The staff is expected to double, to the consternation of critics who fear that this will turn the foundation into a stifling bureaucracy. Ms Stonesifer is unfazed by this prospect, having overseen the rapid hiring of thousands of workers during her time at Microsoft—though people who regard Microsoft as bureaucratic may not be reassured.

She is also preparing for Mr Gates to become a full-time worker at his foundation from next year, and for his wife to increase her involvement as well—something Ms Stonesifer calls a "double leadership boost". She seems genuine in thinking of this as a good thing, and does not expect her own role to be reduced. "Bill does not want to make the trains run on time—that's my job," she says. "He just wants to do his thing more effectively. Melinda, too." Ms Stonesifer expects relations with Mr Gates to mimic Microsoft, where Mr Gates is chairman and Steve Ballmer is chief executive. The leadership boost may be coming at just the right time. Whatever the rights and wrongs of mission-related investment, the bad press of the past few weeks may mark a shift for the foundation, into an era when public opinion no longer takes for granted that giving alone is virtuous. ■

Face value | The careful climber

Reprinted from The Economist Jan 27th 2007

Jamie Dimon of JPMorgan Chase is working his way back to the pinnacle of the financial-services industry

HE HAS been called abrasive, foul-mouthed, brash and unpredictable; but also brilliant, charismatic, caring and deeply focused. Whatever one's view of Jamie Dimon, few would dispute that he is already, at the relatively tender age of 50, something of a financial legend. That would be reward enough for many bankers, but not for the man described by *Fortune* last year as "the toughest guy on Wall Street" and included by *Time* in its list of the world's 100 most influential people.

Having reached the summit of financial services a decade ago at Citigroup, as Tenzing to Sandy Weill's Hillary, Mr Dimon fell out with his mentor and was cast down the mountain. After 18 months pondering his next move—during which he let off steam by taking boxing lessons—he took the top job at Bank One, a troubled bank based in Chicago, which he turned around and sold to JPMorgan Chase for $58 billion in 2004. Mr Dimon took the reins of the resulting banking giant—with 174,000 staff and $1.4 trillion in assets—a little over a year ago. His mission is to tidy up the group after multiple mergers, lift its mediocre financial performance and, eventually, propel it past Bank of America and Citi to the number-one slot in American banking. This time he wants not only to make it to the top, but to stay there.

Analysts have applauded his steady progress so far. JPMorgan Chase's return on equity, at 13%, lags that of most of its peers. But the figure is moving smartly in the right direction, up from 8% in 2005. The latest quarterly results beat expectations, and the integration of Bank One has gone smoothly. Investors have noticed: the share price is up by 25% since Mr Dimon took over.

To get to where he is now, Mr Dimon has had to evolve from a dealmaker and post-merger mechanic into a dab hand at organic growth. On the retail side he is doing this by opening new branches—460 last year—and putting more salespeople in each branch, trained to sell cards and other products to account-holders. At the investment bank he has improved risk management, brought more consistency to its notoriously volatile earnings and plugged gaps in alluring areas such as commodities.

Despite its complexity, the one-stop-shop model in financial services makes sense, he maintains, even if it is no longer as trendy as it was after Citigroup's creation. Having a mix of businesses brings more stable earnings and can boost income through cross-selling. Each of the bank's six divisions is, Mr Dimon insists, better off because of the other five. Though "we must constantly ask if we lose something by adding more," the bank should, like Wal-Mart, be able to keep piling on new offerings, if customers want them. "More, better, faster, quicker, cheaper" is his oft-repeated mantra.

"Cheaper" comes last but not least. Mr Dimon's cost-cutting zeal is as well known as his propensity to shout down dozy managers. On his arrival he set about closing corporate gyms, ejecting executive coaches, ripping out 50,000 unused (but paid-for) phone lines and selling excess office space inherited through mergers. But these moves are not only about saving dollars, he says. The executive coaches had to go chiefly because "we have to be clear that managing is the job of managers, not outsiders." This view extends to other areas, such as technology. Mr Dimon, who by common consent has a keener understanding of his firm's systems than almost any other banking chief executive, believes in taking responsibility for key functions, not farming them out to costly specialist firms. "Technology is to us what manufacturing is to General Motors," he says. Well-designed systems are a "moat", protecting banks from rivals' incursions.

The division heads charged with executing his strategy do not have the easiest of times. Mr Dimon is a hands-on manager with an unnerving eye for detail: he has been known to fire off hundreds of e-mails and short phone calls in a single day, asking why this or how that. He also keeps his lieutenants on their toes by nurturing a dozen or so "culture carriers" at any one time. These young middle-managers, seen as possible future leaders, are invited for lunch or on trips, and are encouraged to call him regularly with news from the trenches, good or bad—which must be nerve-racking for their immediate bosses.

But managers say Mr Dimon also wants them to give as good as they get, just as Mr Weill did with him in the early days. Fittingly for someone who studied psychology at university, he sees verbal sparring as a way to get to the truth. The atmosphere has become more open since he arrived—and, in some ways, more easy-going. He expects dedication but urges colleagues to put family and hobbies ahead of the job. Leading by example, he has taken up the guitar, and wrapped up his interview with *The Economist* in time to pick his daughter up from school.

One slip and you're gone

Though he has won plaudits for his steady start at JPMorgan Chase—and favourable comparisons with Citigroup's Chuck Prince, who this week moved his chief financial officer (see page 81)—Mr Dimon knows that the bank is still in a delicate rebuilding phase and that dangers lurk. Can he justify the complexities of his financial supermarket? Can he defend his relatively cautious attitude towards expansion into new markets abroad? He does have plans for a push into international consumer banking, but admits they will take a decade to bear fruit. Another big acquisition might solve this, but it would also bring a new set of integration headaches just as the last lot are receding. "We'd rather do nothing than something dumb," he says.

Painstaking organic growth and a cautious approach to dealmaking are not exactly what made Mr Dimon famous, but they offer him a route to the next, more difficult phase of JPMorgan Chase's rehabilitation: proving it can thrive where the first colossus he helped to build has struggled. A testing climb lies ahead on the way back up Wall Street's perilous peaks. ■

Face value | Digging deep

Reprinted from The Economist Feb 10th 2007

Zanele Mavuso Mbatha wants to turn an investment company into a diversified mining giant

SINCE she took the reins at Incwala, a South African mining-investment firm, last September, Zanele Mavuso Mbatha has been avoiding the media. She is not keen on personal publicity. "It's not a Zanele show," she says firmly. "It is an Incwala show." Yet in South Africa's mining business, still dominated by white males, Ms Mavuso Mbatha cuts an unusual figure. The 36-year-old is at the helm of $1.7 billion of platinum assets, which make Incwala one of the largest black-owned and -operated companies in South Africa's mining industry.

Incwala, which means "first fruits of the season" in Zulu, started life in the limelight. Born in 2004 out of Lonmin Platinum (Lonplats), the world's third-largest platinum producer, it is a product of the country's "black economic empowerment" (BEE) policy, which is meant to redress the economic injustices inherited from apartheid. South African mining companies are expected to do their bit, which among other things means transferring 26% of their capital into black hands by 2014. When Impala Platinum decided to divest from its joint venture with Lonmin, 18% of Lonplats went to the newly created Incwala, thus helping Lonplats's parents meet their empowerment obligations. Incwala was touted as the future flagship of black mining in South Africa, and expectations ran high.

More than two years and three chief executives later, however, little has happened. A share in another platinum mine has been added to its holdings, also via Lonplats. But a planned tie-up with the mining division of Mvelaphanda, another BEE heavyweight, fell through last year. A few months later, Incwala's boss, Arne Frandsen, packed his bags. Ms Mavuso Mbatha, a shareholder of Incwala and deputy chair of the board, took the job.

The daughter of exiled political activists, she left her Soweto home as a child and was schooled in Swaziland, Zimbabwe and the Netherlands, before studying international economics in California. All this was light years away from the second-rate Bantu education provided to black South Africans under the apartheid regime. After a few years as an investment banker in New York, Ms Mavuso Mbatha moved back to South Africa in 1997, versed in mergers and acquisitions in mining. This, she says, had always been the plan: "When you're an exile baby, your final destination is South Africa."

But after years of absence, returning home took some getting used to. "In business, a black woman was nothing," she recalls. It was a long way from the politically correct sentiments of Wall Street. Speaking Sotho and Zulu softened the culture shock, but only slightly. In the late 1990s BEE was in full swing, but early deals involved a handful of well-connected heavy hitters. Confident that this would change, Ms Mavuso Mbatha created her own investment company, Dema, with a partner. By the time Lonplats engineered its own empowerment transaction, the mood had changed, and companies were looking for different types of partners. Dema became one of the three lead black investors, which, together with Lonplats employees, local people and a women's group, own 53% of Incwala.

Although the deal-flow may have been disappointing, Incwala has been doing well. Thanks to strong platinum prices and the quality of its investment—Lonplats is amongst the lowest-cost platinum producers in the world—Incwala's market value has climbed from $650m at its birth to $1.7 billion today. Yet it remains a start-up, albeit one with a fat balance sheet.

Ms Mavuso Mbatha has big ambitions, and her proposal for a new way forward has just got the nod from the board. The idea is to turn Incwala from an investment company into a diversified mining operator. The company is shopping for other mines, in platinum and other metals too, and will seek management control whenever possible. Ms Mavuso Mbatha expects to see some consolidation within the black mining world in the next few years, and Incwala needs more assets under its belt if it wants to acquire, rather than be acquired. "In this situation, size will matter," she laughs. Her ambition is to turn Incwala into the BHP Billiton or Xstrata of tomorrow. Incwala is now busy raising debt to refinance existing liabilities and pay for future acquisitions. The target is for Incwala to manage at least one mine within the next two or three years. Then a listing may be on the cards.

Panning for gold

Finding new assets should be relatively easy and several deals are in the pipeline. Mining companies are required to fulfil their empowerment responsibilities in order to keep their mining rights. Incwala helped Lonplats convert its mineral rights, the first platinum company to do so. It is also helping craft the social and community programmes required by the government. This could make Incwala an attractive partner for other mining companies with similar needs. "Everybody returns my phone calls," smiles Incwala's boss.

But turning an investment company into a mining one will be tricky. Ms Mavuso Mbatha can do deals, but she is no miner. So far, Incwala is a one-woman show, with a total staff of five. In a country short on skills, finding the right people will not be easy. Talented black professionals are either climbing corporate ladders or chasing empowerment deals of their own. And the commodity boom means skilled workers of any colour are being pursued by foreign companies as well as local ones.

BEE has been criticised for creating dealmakers, rather than genuine entrepreneurs and much-needed jobs. This is a fair point, Ms Mavuso Mbatha admits, but things are changing, and she wants to be part of that change. Her parents' generation fought for political rights. "My generation", she says, "will be judged over whether it helps create a sustainable economic miracle to maintain political freedom." ■

Face value | Bold fusion

Reprinted from The Economist Feb 17th 2007

William Amelio believes that cross-cultural thinking will turn Lenovo into China's first successful global brand

"ONE thing about being an English speaker is we are a little lazy when it comes to learning other languages," confesses William Amelio, who, unlike his six-year-old son, can barely manage a word of Mandarin. Fortunately for the chief executive of Lenovo, a Chinese computer firm on a mission to conquer the world, the language barrier has not been too troublesome. His Chinese colleagues, he says, understand that to thrive in a multinational company they have to "speak the global language of business, which is English". That includes Lenovo's chairman, Yang Yuanqing, who in less than two years has progressed from hesitant to fluent English, giving presentations and cracking jokes in his adopted tongue.

Mr Amelio views the communication between himself and Mr Yang—a Bill Gates with Chinese characteristics—as a measure of how well Lenovo is putting together two very different business cultures. In 2004 Lenovo bought the personal-computer business of IBM, to pursue Mr Yang's dream of building China's first successful global brand. To win his board's backing for this deal, after some ill-fated attempts at growing organically abroad, Mr Yang agreed to hire an experienced American as chief executive. But the first choice, Steve Ward, formerly of IBM, was forced out in December 2005 following a difficult start to the merger.

When the Texas Pacific Group, a private-equity firm with a large stake in Lenovo, contacted Mr Amelio, he might have spurned the job as a poisoned chalice. Instead, he saw it as a "pioneering opportunity" and a "great fit". It helped that he had spent 18 years at IBM, before spells at AlliedSignal, Honeywell, NCR and, finally, five years in charge of the Asian operations of Lenovo's arch-rival, Dell.

Mr Amelio's relations with Mr Yang, with whom he had been competing head-to-head, and who is hardly the sort to take the backseat, might easily have been difficult—especially with that initial language barrier. Instead, he says, he has a "great alignment with the chairman", whom he meets every couple of weeks for a couple of hours. The division of labour was immediately decided: Mr Yang runs the board of directors and sets the strategic direction and Mr Amelio has operational control.

Mr Amelio prizes focus and self-discipline—and has a black belt in karate to prove it. He tries to apply to business the philosophy he learned from his Japanese coach: "I have been competitive all my life," he says. "He taught me to compete against myself, not others." The coach also inspired Mr Amelio to visit Japan, in the late 1980s, and then China, sparking a continuing interest in Asia. Mr Amelio now lives in Singapore, partly because it is an easy base from which to travel in the region.

Mr Amelio talks a lot about "effective execution", something he says he came to understand while working with Larry Bossidy at Honeywell. Execution is especially pressing at Lenovo because the company's strategy is already settled. Nothing could be as novel as its attempt to meld what he calls "two uniquely different cultures".

The Chinese part of the firm, beset by deeply hierarchical and deferential behaviour, needs to get people to talk more openly to each other—even if that means confronting a superior. An "Executive Expressions" course helps Chinese managers learn how to put their message across and oppose their colleagues. The importance of straight talk in meetings, not afterwards, is constantly emphasised to all workers.

These cross-cultural lessons are needed if Lenovo is to accomplish the four main parts of its strategy. First, it wants to cultivate its Chinese sales model in the rest of the world. In most countries Lenovo sells chiefly to big businesses and governments, with which good long-term relations are crucial. In China, by contrast, it makes lots of one-off sales to small businesses and individuals, and as a result has by far the largest market share, of around 36%. In an effort to repeat this success in America, Lenovo has just reached a deal to sell more computers through Best Buy, a retail chain.

Beyond the Middle Kingdom

Second, Lenovo wants to make its businesses outside China more competitive—not least by adopting the same efficient, low-cost manufacturing techniques. Third, and closely related, it wants to improve its supply chain—the firm's greatest weakness outside China, according to Mr Amelio. In China Lenovo can deliver "pretty much anywhere" within eight working days 95% of the time, he says; in the rest of the world it had until recently been doing so only 40% of the time, though it has now improved that figure to 60%. A better supply chain should also help the company attain its fourth goal of a credible global brand. Lenovo only has until 2010 to make free use of the trusted IBM name, before having to switch to its own, less esteemed label.

Lenovo's shares tumbled recently on news that IBM had sold some of its Lenovo holding—a disposal that was long expected. Yet Mr Amelio views decoupling from IBM as a boost to the PC business, which Big Blue had seen as a low-margin, commoditised industry, and so had neglected. Now, however, there are plenty of dollars to be invested. The American operation's IT system is being updated for the first time in 15 years. "There is a feeling of a team being unleashed," says Mr Amelio.

Mr Amelio says that Lenovo is rather like Hewlett-Packard shortly after his former colleague, Mark Hurd, took over and just before it surged. "As things come together, we are approaching a tipping point in growth," he says. Not everyone is convinced. Some critics think that increased competition in China will hurt Lenovo's margins. And there is the possibility of a revival at Dell, now that its founder, Michael Dell, has taken the reins again. That said, as Mr Dell surely knows better than most, his former colleague, the master of karate, is ready for a fight. ■

Face value | Queen of Madison Avenue

Reprinted from The Economist Feb 24th 2007

Shelly Lazarus of Ogilvy & Mather explains how advertising has changed during her long career—and how it hasn't

FOR the advertising industry, the Academy Awards ceremony on February 25th is "the Super Bowl for women". It is the second-most-watched television show of the year in America after the annual American-football championship game, and television-advertising slots are priced accordingly. One of the advertisements that will be shown this year will be a 30-second spot for Dove Cream Oil body wash, a new product being launched by Unilever, an Anglo-Dutch consumer-goods giant. The company is screening the winning entry in an online contest in which consumers were invited to create their own advertisements. This follows on from Dove's quirky and award-winning campaign that featured ordinary-looking women and departed from conventional notions of beauty.

The spot captures something of the spirit of advertising today, with its combination of old and new media, "user-generated" content and an effort to engage the consumer rather than simply push a product. The driving force behind the campaign is not some young hotshot, but Shelly Lazarus, the 60-year-old chief executive and chairman of Ogilvy & Mather, one of the world's biggest advertising agencies. It is an illustration of how a 35-year career demands an ability to move with the times, without losing sight of a consistent underlying discipline.

The change is what is immediately apparent. "When I started in the business, television ads and three print ads were enough to advertise a brand," says Mrs Lazarus. Advertising was a straightforward business: agencies had to devise a good idea for an ad and then choose the right publication or broadcast slot in order to catch consumers' attention. Today advertising is far more complex, thanks to technological advances, social shifts and the far greater sophistication of both advertisers and audiences. Modern consumers demand to be wooed, not berated. "We have gone from intrusion into consumers' lives to extending an invitation to them," says Mrs Lazarus.

Ogilvy's past campaigns for Dove are good examples of this latest approach, starting with the "Campaign for Real Beauty", launched in 2004, which set out to banish stereotypes and spark discussions about beauty. It became one of the most popular campaigns of recent years and won numerous awards. Last year Ogilvy persuaded Unilever to launch the Dove "self-esteem fund", a worldwide campaign to persuade girls and young women to embrace more positive images of themselves. "Only 2% of women in the world think they are beautiful," says Mrs Lazarus. User-generated content is just the latest trend in advertisers' efforts to establish closer contact with consumers, and with women in particular. About 70% of all decisions to buy something are made by women, according to industry lore. "The consumer isn't a moron—she is your wife," as David Ogilvy, who founded the firm in 1948, liked to say.

Mrs Lazarus started working at Ogilvy & Mather in 1971 and has been there ever since. In that time the industry has consolidated and new forms of media have proliferated. Ogilvy & Mather was swallowed in 1989 by WPP, a British advertising giant, in a hostile takeover. (Today adland is dominated by four giants—America's Omnicom and Interpublic, Britain's WPP and France's Publicis.) The takeover caused an exodus of executives and blue-chip clients including American Express, which withdrew nearly all its business. Mrs Lazarus stayed on board and helped to win back clients. "Staying with the brand" is one of her guiding principles. It also led to one of her biggest successes: when Lou Gerstner, then boss of Amex, and Abby Kohnstamm, his marketing director, moved to IBM in 1994 they transferred IBM's $500m business to Ogilvy.

In response to the rise of the internet and other new media, Mrs Lazarus decided to bring together previously separate creative departments in many Ogilvy offices across the world. The idea was to offer clients what she grandly calls "360 Degree Brand Stewardship". Internet types sit together with television, print, outdoor-advertising, direct-marketing and public-relations specialists. This helps them dream up ideas that work across all types of media, rather than devising separate campaigns for each one. Coming up with an "integrated idea" is also handy when Ogilvy presents a new campaign to a company boss. Chief executives are now more involved with their companies' brands than they were when she began her career, says Mrs Lazarus. They realise the importance of reputation and image, and want their companies to be seen as good corporate citizens—all of which requires a new approach to advertising, she says.

Plus ça change…

In spite of all these many shifts Mrs Lazarus thinks her job is in some ways not so different from when she started. Interactive, direct and other forms of non-traditional advertising accounted for more than half of Ogilvy's revenue last year compared with about 15% ten years ago. But what you still need is a great idea, she says. Another constant throughout her career has been her reluctance to pitch for business. It costs five or six times as much to acquire a new customer as it does to retain an existing one, so she aims to attract new clients through the quality of her work for others. (Ogilvy made an exception when it pitched, unsuccessfully, for Wal-Mart's advertising business last year. Mrs Lazarus says she does not regret the decision to break her usual rule.)

Mrs Lazarus has given some thought to her succession. She says she believes in running her company in a collegial way and has groomed several people who could take over as chief executive. Some are betting on Brian Fetherstonhaugh, head of the company's direct-marketing branch, a job also held by Mrs Lazarus in the course of her career. The ground rules of direct marketing have not really changed in all these years, says Mrs Lazarus. Nor have the principles of good advertising. ■

Face value | Fit for purpose

Reprinted from The Economist Mar 31st 2007

"Healthy" television for children sounds crazy. But Magnus Scheving, alias Sportacus, has done very well from it

TODDLERS know Magnus Scheving, the boss of LazyTown Entertainment, as Sportacus. The hero of "LazyTown", a children's television programme that promotes healthy lifestyles, Sportacus lives in an airship, performs somersaults at the drop of a hat and spends his time thwarting the plans of the town's lazy-minded villain, Robbie Rotten. The role fits Mr Scheving as snugly as Sportacus's blue lycra suit. He has built a colourful business driven by his own cartoonish levels of energy. "I wasn't made to sit at a desk," he says, wriggling in his chair and constantly jumping up to scribble on a whiteboard, grab another piece of fruit or emphasise a point. Restlessness should not be confused with a lack of focus. In his 20s, Mr Scheving and a friend challenged each other to succeed at a sport neither knew anything about. Mr Scheving wound up with competitive aerobics, became European champion twice and finished second in the world. (He says his friend had to console himself with the crown of Icelandic snooker champion.)

Mr Scheving applies the same intensity to LazyTown. Now on air in more than 100 countries, the programme has won chart-topping ratings among pre-school viewers and a clutch of industry awards since making its debut in America in 2004. Success has been the result of careful planning. Mr Scheving spent more than a decade building the brand in Iceland before moving overseas. The television programme may have established LazyTown internationally but is only one part, albeit a critical one, of the overall franchise. "LazyTown is not a TV property but a lifestyle brand for children," says Mr Scheving, who peppers his conversation with references to Walt Disney and Jim Henson, creator of the Muppets. A whiteboard in his office maps out a dizzying month-by-month plan of activities and product launches stretching to the end of 2011.

Mr Scheving first turned movement into money as a five-year-old, carrying messages in the Icelandic town where he grew up to people who did not own a phone. He began his working life as a carpenter, and he personally fitted out the studio on the outskirts of Reykjavik where "LazyTown" is filmed. In his spare time he worked as a fitness instructor and also built up a thriving sideline as a motivational speaker on health and fitness. He quickly realised that there were plenty of healthy role models for adults—but none for children.

The LazyTown characters first appeared in a book in 1991. Further books and musicals followed, all penned by the hyperactive Mr Scheving himself. Spin-off activities have included the LazyTown Economy, a month-long campaign in which Icelandic children used their savings to buy vouchers that could be traded for a range of healthy products. (Vegetable consumption went up by 12.5% during the promotion.) Mr Scheving says he had his eye on international expansion from the start but bided his time for three reasons. First, close-knit Iceland provided the ideal test of brand integrity because "people know where you live". Second, he wanted to test the LazyTown concept on two generations of pre-schoolers, not just one. Third, he wanted to do some proper homework on the television industry.

His research indicated that successful children's shows have a number of attributes. Timelessness is one. Mr Scheving, who confesses to a "mania for detail", designed the costumes and sets for "LazyTown" so that they cannot be dated. For similar reasons, the show's theme song, which reached number four in the British singles chart last December, was given an untranslatable title ("Bing Bang") to smooth internationalisation. A distinctive style is also important. The vibrant mixture of computer-generated imagery, puppets and live action in "LazyTown" is instantly recognisable. It is expensive, too: each 24-minute episode costs $800,000 to make, an unprecedented amount for a children's television programme ($200,000 is closer to the norm). This makes it even more important to have a full range of licensing and merchandising opportunities to exploit. Toys, costumes and books already bear the LazyTown name in many countries. Live tours have been franchised in Britain and Latin America. Talks are under way with Nintendo to create a video game for its Wii console, which features a motion-sensitive controller. Internet projects are also being mulled.

Healthy scepticism

Licensing is one of two potentially sensitive areas for the LazyTown brand. There have already been some mutterings in Iceland about over-commercialisation. "We could have filled LazyTown products with advertising, but we haven't," retorts a somewhat defensive Mr Scheving, who adds that the company could easily make much more money by skimping on the quality of the TV programme. But he admits that choosing the right products can be difficult, especially in food. Some decisions are easier than others. The company quickly turned down the chance to endorse a range of healthy crisps, for instance. Exercise equipment is also out of bounds—Mr Scheving is keen for "LazyTown" not to be labelled explicitly as a health or fitness show.

The other sensitive point is the obvious irony of a TV programme encouraging children to be healthier and more active. Surely they should start by switching off the box? Mr Scheving tries to brave it out. It is a fact that children watch television, he says—and TV has its place, in moderation. Faced with the growing problem of child obesity, governments are grateful for any help they can get in persuading youngsters to spend less time on the sofa. Iceland's health ministry has lauded LazyTown's impact, and Mr Scheving won the Nordic Public Health prize in 2004. The British government is now in talks with the firm over a joint campaign. At 42, Mr Scheving cannot play Sportacus for ever, but he is optimistic about the future. "Health is never going to go out of fashion," he says, reaching for more fruit. ■

Face value | A safe landing

Reprinted from The Economist May 5th 2007

Gerald Grinstein has piloted Delta Air Lines out of bankruptcy

AMID the new beginnings, an end is in sight. Delta Air Lines exited bankruptcy on April 30th after 19 months in Chapter 11, which followed years of prior restructuring. On the same day a revamped aircraft livery was unveiled at Delta's hub in Atlanta, Georgia. The airline's reissued shares were due to begin trading on the New York Stock Exchange on May 3rd. But for Gerald Grinstein, Delta's boss since January 2004, the job, and with it his career, is drawing to a close. Once the new board of directors has selected a successor, he will retire.

It has been an unexpected swansong. Just before taking the job at Delta, Mr Grinstein had been discreetly sounded out about a chief-executive position at another company. Then aged 71, he recalls giving an unequivocal response: "I will never, ever run a company again." Yet when he was offered the top job at Delta soon afterwards, the challenge of reviving the firm prompted second thoughts. It has been an appropriate finale to his career. The manner of his appointment, the task he has faced and the approach he has taken all have echoes of previous roles.

Mr Grinstein moved from the boardroom, where he had been a director since 1987, to take control at Delta. It is an unusual path to the boss's chair, but a familiar one for Mr Grinstein, who made similar jumps at both Western Airlines and Burlington Northern Railroad. (He stayed off the corporate ladder altogether in earlier life, working on Capitol Hill and then as a partner in a law firm in Seattle, his hometown.) Each time, he may not have jostled his way to the top but he was ready when the chance came. At Western Airlines, for example, a strategy paper he had written on the airline's future helped to land him the chief executive's role. "Chance favours the prepared mind," he says.

Mr Grinstein's longstanding association with Delta—he joined the board when it merged with Western Airlines—certainly gave him the advantage of familiarity when he took over. He knew the company; just as important, people at the company, particularly those who came originally from Western, knew him and could vouch for him. His experience of turnarounds also counted in his favour. At both Western and Burlington he had taken over as chief executive during a period of restructuring. He admits a preference for transforming organisations, rather than keeping them ticking over. "I'm not sure I would play a meaningful role at a company that was operating well," he says.

Delta fitted the bill perfectly. Like other American airlines, it had been poleaxed by the attacks on September 11th 2001. Unlike others, a healthy balance sheet meant that it had been able to keep on borrowing money after other airlines had sucked in their spending. Debt surged and wages stayed stubbornly high. Although some cost savings were made, revelations that managers had awarded themselves generous pension packages and bonuses undermined pay negotiations with Delta's pilots and prompted a crisis that led to Mr Grinstein's appointment.

Winning over Delta's staff was critical. Mr Grinstein held meetings with employees around the country and was careful not to soft-soap the message. "We had a very tough hand to play—the company had suffered a heart attack," he says. His straight talking was backed up by action on executive pay, as the top brass took pay cuts. And as Delta exits Chapter 11 this week, the rewards are being carefully spread: non-unionised employees will share $480m in cash and shares, profit-sharing schemes are being introduced and management payouts are being linked to future performance. Mr Grinstein himself is foregoing any payout from Delta's emergence from bankruptcy, citing a "tacit understanding" that he would not benefit from sacrifices made by the staff. Delta's situation may be unique, and largesse may also come more easily at the twilight of a well-paid career, but Mr Grinstein says that there is a systemic problem with bosses' pay. "We are in positions of leadership and we have got to be good role models," he says.

Thank you for flying Delta

Improved relations with employees could not save the company from entering bankruptcy in September 2005, however, when surging fuel costs helped to tip Delta over the edge. But they did smooth further rounds of pay and benefit cuts. And they helped Delta to fight off an unsolicited bid from US Airways in late 2006, as employees launched a "Keep Delta My Delta" campaign and Mr Grinstein used his connections in Washington to persuade creditors and lawmakers to reject the deal.

There have been some grumbles about his leadership. For one thing, Mr Grinstein was on Delta's board when it got into difficulties and when it approved those controversial executive-pension plans. Some critics believe a more receptive response to the US Airways bid would have been in creditors' interests. (Mr Grinstein retorts that regulators would have rejected a merger in any case and that a lengthy bid would have been damaging.) But few deny that Delta's bankruptcy has been deftly handled. A settled management team is in place; Mr Grinstein will not be drawn on his favoured successor, but wants an inside appointment. Annual bills have been cut by $3 billion. And Delta emerges from Chapter 11 an improved airline, with a simplified fleet, rejigged capacity at its domestic hubs and an expanded international network.

None of this guarantees future success for Delta, which posted its first operating profit for six years in 2006. Competition is fierce. The temptation to loosen belts must be resisted if the airline is to be ready for what Mr Grinstein calls the next "inevitable downturn". By then he will be back in Seattle, spending time with his grandchildren and catching fish. Or might he have one more turnaround job in him? He thinks not. "I'm several years older, and a trifle wiser," he says. ■

Face value | Africa calling

Reprinted from The Economist May 26th 2007

Mo Ibrahim helped to bring mobile phones to Africa. Now he has bigger plans

IN 1998, as the telecoms boom was under way, Mo Ibrahim was amazed that big companies were rushing into the mobile-phone business around the world, yet not in Africa. There they saw only problems: poverty, unrest and corruption. Mr Ibrahim, a veteran of the telecoms industry in Britain and Sudan, was at the time running a consultancy he had founded in London. Amid the cigar smoke and snifters that followed its directors' dinners, an idea formed. Might it be possible to set up a pan-African mobile operator—and to do so without paying bribes?

This was the genesis of Celtel, which is now one of Africa's largest mobile operators, with some 20m subscribers in 15 countries.When Mr Ibrahim sold Celtel in 2005 to MTC, a Kuwaiti operator, for $3.4 billion, it demonstrated that the continent was open for business. Rather than charity, he insists, "the way forward for Africa is investment."

Building businesses in Africa is important to Mr Ibrahim, who had to leave the continent as a young man in order to pursue his career. Born in Sudan and raised and educated in Egypt, he started off as an engineer at Sudan's national phone company. After further study in Britain he went on to become technical director at Cellnet, the wireless arm of BT, Britain's biggest telecoms operator. (Cellnet was subsequently sold, renamed O2 and is now owned by Telefónica of Spain.) He left in 1989 to set up an engineering consultancy that designed mobile networks, and sold the firm for just over $900m to Marconi in 2000.

These experiences paved the way for Celtel's emergence. The consultancy enabled Mr Ibrahim to peer into the business models of dozens of mobile operators, from which he concluded that an African operator would work. His time at BT was also informative: big companies, he says, teach a fellow everything he ought not to do in order to be successful. "Later on in life I was not worried about taking on the big guys, because you know they are not efficient," he says. And Mr Ibrahim's previous success meant that the motivation behind Celtel's establishment was not solely commercial. He and his co-founders had already made their fortunes and regarded Celtel as a political and intellectual test. That is why they happily ventured into risky African markets and refused to pay bribes.

Now that mobile telephony is booming in Africa, Mr Ibrahim has other plans. Not for him the typical rush into private equity. Instead he set up a foundation last year with the novel (and, say critics, utopian) mission of promoting good governance in Africa. It plans to award an annual prize of $5m to retired African leaders who rule well and then stand down, rather than trying to cling to power. The foundation is working with Harvard University to establish a scoring system with which to assess potential candidates. The prize committee is chaired by Kofi Annan, former secretary-general of the United Nations. The first award will be presented in October, though the prize will be presented only in years when a worthy winner can be found. By that point Mr Ibrahim plans to have stepped down as the chairman of Celtel to avoid any possible conflict of interest.

Meanwhile Mr Ibrahim has also put up $150m to establish a fund to invest in African businesses. From its newly opened offices in London, the Africa Enterprise Fund will seek out promising companies in financial services, consumer goods, energy and agricultural processing. The aim is to focus on established businesses that need cash and experienced management to grow, and the average investment is expected to be around $20m. Only companies that can expand their operations regionally or throughout Africa will be considered. Mr Ibrahim has appointed Tsega Gebreyes, Celtel's former strategy chief, to help run the fund. This is because the fund's approach is to apply the Celtel formula in other fields: identify inefficiencies, consolidate fragmented operations, go pan-continental and develop a respected brand. The goal is scale. A large company that operates in several African markets can attract a higher calibre of managers than a gaggle of local ones, and can have more political clout when demands for bribes crop up.

Politics, philosophy and economics

Though there are no direct links between the foundation and the fund, the two are symbiotic. Business and investment in Africa can succeed only if there is good governance, which is what the foundation is intended to promote. And economic development is necessary in turn to give people a stake in improving the political process. The foundation's $5m prize is a pittance, it is true, when compared with the spoils that can be extracted by staying in power. But the initiative may not be totally futile: given the impotence of Africa's intergovernmental bodies it will do no harm at all to produce an annual public ranking of African governance. And the foundation will offer a carrot where other non-governmental organisations carry sticks.

The investment fund is also tiny when set against the magnitude of Africa's problems. But as Celtel shows, some businesses can have a powerful ripple effect, promoting economic activity and generating new investment. Celtel employs around 8,000 people directly, for example, but it and other mobile operators indirectly provide jobs to around 170,000 people in Africa who resell prepaid airtime. More broadly, mobile phones also promote entrepreneurship and economic activity by widening access to markets and making up for poor or non-existent transport infrastructure. Similar ripple effects ought to be possible in other fields such as financial services and energy.

Thirty years ago Mr Ibrahim had to leave Africa for Europe in search of education and professional success. He hopes that fostering indigenous African companies will help ensure that tomorrow's engineers and entrepreneurs can find their opportunities closer to home. ■

Face value | Health-care heretic

Reprinted from The Economist June 2nd 2007

Regina Herzlinger is trying to transform America's health-care system through her advocacy of consumer choice

ONE recent evening in Boston, Regina Herzlinger was teaching a class on the business of health care in America, taking her students through the travails of a medical-device manufacturer that had failed to get its invention onto the market. The group considered the company's financial position, the economics of the market niche and other factors that foiled its strategy. All this may seem unremarkable given that Mrs Herzlinger is a professor at Harvard Business School (HBS). What is surprising is that the classroom was filled with students from Harvard's medical school, not its MBA programme. Aspiring doctors are not normally taught microeconomics, cost accounting or risk management. But under a scheme dreamt up by Mrs Herzlinger and others, Harvard now offers joint degrees from the two schools. Arming doctors with the commonsense tools of economics is a tactic in a long-running campaign to fix America's health system.

Mrs Herzlinger is America's leading advocate of market-driven, consumer-orientated health reform. In the 1980s, says Ray Gilmartin, a former chairman of Merck, a drugs giant, "she argued for a greater role for competition and choice when market forces and productivity were foreign concepts in this sector." In the 1990s, when "managed care" was all the rage, she predicted correctly that such a dirigiste, cost-obsessed approach would alienate consumers even as it failed to rein in cost inflation ("I said, 'this fish stinks'," she recalls).

Now comes her latest salvo. "The US health-care system is in the midst of a ferocious war. Four armies are battling to gain control: the health insurers, hospitals, government and doctors," she writes at the start of her new book, "Who Killed Health Care?". Then she moves in for the kill: "Yet you and I, the people who use the health system and who pay for all of it, are not even combatants." She wants a national system which requires individuals to buy health insurance, with help in the form of tax breaks for all punters, and subsidies for the poorest. She wants insurance prices to be risk-adjusted and hospitals to be free to charge what they like so they can offer new services as the market demands. Most importantly, she wants the government to demand transparency of price and quality from this notoriously murky industry. "I'm not just an academic, I am an activist," she insists.

Mrs Herzlinger's suspicion of industry and government and her vigorously consumerist stance are the results of personal experience. When she did her doctoral research on medical-cost accounting at Massachusetts General, a giant Boston hospital, its boss was astonished that she could tell him how much a particular treatment at his hospital actually cost. After graduation she worked in the health department of the state of Massachusetts, and says she saw first-hand how clever, well-intentioned people could become trapped in an overbearing, inefficient system. And she faced many obstacles on the way to becoming the first tenured woman and holder of a faculty chair at HBS. "Because I was never part of the old boys' network, I had to look outside for allies—to my students, whom I see as my consumers, and to the wider world outside academia," she says.

Mrs Herzlinger's vision of consumer empowerment faces formidable obstacles, of course, both from defenders of managed care and from supporters of alternative paths to reform. Alain Enthoven, a professor at Stanford University who was the intellectual force behind managed care, dismisses her consumer-directed approach as "great for the healthy and wealthy" but warns that it may "draw more resources into the open-ended fee-for-service sector, whose appetite is insatiable." Marcia Angell, a former editor-in-chief of the *New England Journal of Medicine*, argues instead for a single-payer system, insisting that "private insurers compete not by offering better health care, but by avoiding high-risk individuals, limiting services for those they do cover, and, whenever possible, shifting costs."

Step by step

Even so, it seems that Mrs Herzlinger's once-heretical ideas are making progress. She has advised the Bush administration and members of Congress on recent consumer-minded reforms, such as personal "health savings accounts" and changes to the Medicare health scheme, though she rightly grumbles that these fixes have not yet gone nearly far enough. As health-care reform hots up, she is fielding calls from politicians from both parties. Paul Ryan, a Republican congressman, claims that "of all the thinkers on this topic, Regi has the most influence in Washington—and her ideas are gaining ground." She also has the ear of senior figures in the health-care industry. Ron Williams, the boss of Aetna, an insurance giant, says Mrs Herzlinger's consumer-driven approach is "the most important trend to hit health care—and Regi is a beacon for us practitioners."

But her most important asset may well prove to be her HBS students. Three decades' worth are now in the marketplace, and they are starting to make their presence felt. Larry Gelb, who took her course in 1986 and recalls her being a "breath of fresh air", now runs CareCounsel, a consumer-advocacy firm that represents individuals in legal tussles with health-insurance firms. Other protégés have founded companies to develop her ideas on data transparency, personal financial-management and "focused factories" dedicated to treating particular ailments.

Mrs Herzlinger notes that managed care went from an idea to nationwide practice in just four years, and predicts that consumer-driven health care with universal coverage (Switzerland's approach is her favoured model) will sweep America over the next four years. And it will happen, she is convinced, as consumers demand better from their health system. She is optimistic, she says, because the people making such demands will be America's baby-boomers—"the most manipulative, self-seeking and effective generation that this country has ever seen." ■

Face value | The veteran

Reprinted from The Economist Jun 16th 2007

Neville Isdell returned from retirement to fix Coca-Cola. His plan seems to be working

WHEN it came to finding someone to turn the company around in 2004, Neville Isdell was not the first or even the second choice of Coca-Cola's directors. With the world's biggest soft-drinks firm embroiled in one of the greatest crises of its 121-year history, its directors looked for an outsider to fix things. Only after rejections from James Kilts, then boss of Gillette, a consumer-goods giant, and Carlos Gutierrez, then boss of Kellogg, a food firm, did they turn to Mr Isdell, then aged 62, who was enjoying a sunny retirement in Barbados after having spent 40 years with the company.

He did not hesitate to swap his swimming trunks for a suit, having been passed over for Coca-Cola's top job in 1997 and again in 2000—which had prompted his early retirement. Born in Ireland, Mr Isdell was raised in Zambia, where he first began to work for Coca-Cola. Stints in South Africa, Australia, the Philippines and Germany followed; Mr Isdell then took the company into new markets in India, the Middle East and the former Soviet Union, and ended up in charge of its European operations. Always a hands-on manager, his first action on returning to the company was to investigate its troubles for himself. Like some modern-day Phileas Fogg, he criss-crossed the world in 100 days to listen to employees of all ranks in many of the more than 200 countries where Coca-Cola is present. What he found was sliding sales, demoralised staff, ineffective marketing and a lack of leadership. The most valuable brand in the world was experiencing a crisis of confidence. "We had lost our belief in our ability to win," says Mr Isdell.

Once back at Coca-Cola's base in Atlanta, Georgia, Mr Isdell shared his findings with the company's top executives. The result of what he calls a "cathartic process" was the Manifesto for Growth, a ten-year plan to revive the company. Its first objective was to improve the making and marketing of Coca-Cola, Sprite and Fanta, the fizzy drinks that account for about four-fifths of the firm's sales. Mr Isdell decided to pump an additional $400m into marketing as evidence grew that the power of the Coca-Cola brand was slipping. At the same time he moved to strengthen the company's portfolio of non-carbonated and "functional" drinks. Bottled water, sports and energy drinks and fruit juice are now the main sources of new business in the soft-drinks industry, with growth rates seven times higher than those for carbonated sugary drinks, sales of which have lost their vigour as a result of concerns over obesity. Mr Isdell's boldest move in this area came on May 25th when Coca-Cola said it would buy Glacéau, an American maker of vitamin-enhanced water, for $4.1 billion—its largest acquisition ever. (Last week, however, Coca-Cola lost to its rival, PepsiCo, in a battle to acquire Sandora, a Ukrainian juice company.)

A former bottling supremo—he once ran Coca-Cola Beverages, a European bottler—Mr Isdell has also paid close attention to the company's often-dysfunctional relations with bottling companies. Under agreements that sometimes date back more than a century, Coca-Cola supplies concentrate to local bottlers, which then make and distribute soft drinks. Mr Isdell gave the bottlers permission to team up with other firms in order to cater better to the boom in healthy drinks. Since Coca-Cola owns stakes in many bottlers, and owns some outright, this is another way for it to diversify. Coca-Cola Enterprises, for example, a big American bottler in which Coca-Cola owns a large stake, now distributes AriZona, a ready-to-drink tea made by Ferolito, Vultaggio & Sons, an American iced-tea company. As part of this strategy Mr Isdell also increased Coca-Cola's stake in some bottlers, or bought them outright, as he did this year with the bottling firm where he used to work in the Philippines.

Mr Isdell's efforts are now starting to yield results. The company's share price rose by 20% during 2006, and in the first quarter of this year sales jumped by 17%, to $6.1 billion, and profits increased by 14% compared with a year earlier. Analysts at Stifel Nicolaus, a financial-services firm, consider these results the best evidence that Mr Isdell's plan is working and that his long-term aims are sound. Bonnie Herzog, a beverage analyst at Citigroup, recently upgraded Coca-Cola to a "buy" rating for the first time in four years, mainly because of the Glacéau takeover. It shows that the firm is "getting its act together", she says.

Sparkling or still?

But others remain sceptical. Robert van Brugge of Sanford Bernstein, an investment-research company, thinks the acquisitions of Glacéau and Fuze, an American juice and tea firm, are good deals, but both are relatively small companies. Lacklustre sales in the developed world need a lift, he says. Europe, America and Japan accounted for roughly 70% of profits, but hardly any growth in 2006. And many of last year's new drinks, such as Coke Blak, a coffee-infused soft drink, and Gold Peak, an iced tea, were flops. According to Euromonitor, a market-research company, Coca-Cola has been losing global market share over the past six years. Pepsi has done a better job of moving into health drinks in America. And unlike Pepsi, which makes snacks as well as soft drinks, Coca-Cola does not have another line of business as a hedge. This is unlikely to change any time soon, as Mr Isdell wants to fix things first.

He points out that his firm has beaten analysts' expectations in each of the past ten quarters, though he admits that "we are not declaring victory yet." Some analysts would have preferred more radical measures, such as bolder acquisitions and job cuts. But they knew an insider was unlikely to make drastic changes and have been surprised by how much Mr Isdell has achieved. Never underestimate the difficulty of stopping the rot at a huge firm like Coca-Cola. But for Mr Isdell to be seen as the company's saviour, he now needs faster growth, too. ■

Face value | The outsourcerer

Reprinted from The Economist Jun 23rd 2007

If you want to see where Indian outsourcing is going, keep an eye on Krishnan Ganesh

"WE ARE addressing the bottom of the pyramid," says Krishnan Ganesh, an Indian entrepreneur, of his latest venture, TutorVista. It is a phrase that cheekily calls to mind the mass poor in his native country—but TutorVista, an online tuition service, is aimed squarely at customers in the developed world. Mr Ganesh founded the company in late 2005 after spotting that personal tutoring for American schoolchildren was unaffordable for most parents. His solution is to use tutors in India to teach Western students over the internet. The teachers all work from home, which means that the company is better able to avoid India's high-wage employment hotspots. TutorVista further hammers home its labour-cost advantage through its pricing model. It offers unlimited tuition in a range of subjects for a subscription fee of $100 per month in America (and £50 a month in Britain, where the service launched earlier this year) rather than charging by the hour. Tutors are available around the clock; appointments can be made with only 12 hours' notice.

It is too early to gauge the impact of the service on educational outcomes, says Mr Ganesh, but take-up is brisk. TutorVista has 2,200 paying subscribers at the moment (most of them in America) and hopes to boost that figure to 10,000 by the end of the year. The company is expected to become profitable in 2008. Even cheaper pricing packages are on the way. Launches of the service are planned for Australia and Canada. Mr Ganesh is also investigating the potential of offering tuition in English as a second language to students in South Korea, where high rates of broadband penetration make the market attractive. Get that right, and China looms as an even bigger prize.

Mr Ganesh is gambling that the benefits of offshored services can be sold directly to consumers. Building trust for an unknown Indian brand is the biggest difficulty he faces. Having reassuring local managers fronting his operations in America and Britain certainly helps; so too does the fact that TutorVista's teachers are experienced hands, with an average age of 45 (many of them are retired). Quality control is vital: sessions are recorded and parents, student and teacher share a monthly call to discuss progress. As for the thorny problem of accents, Mr Ganesh points out that much of the communication is non-verbal—teachers and students write on a shared virtual whiteboard.

Mr Ganesh has a habit of spotting the next stage in the evolution of India's outsourcing industry, and his own career encapsulates its rapid development. He started in 1990, just as the Indian economy was being liberalised, by founding IT&T, a computer-maintenance business serving local firms. It was a brave decision. Capital was scarce and Mr Ganesh tackled cashflow problems by getting companies to pay their maintenance premiums upfront. Red tape proliferated and it took 26 clearance permits and nine months of battling to get IT&T up and running. Entrepreneurs were regarded with suspicion, even in their own homes. Mr Ganesh says the strongest opposition he encountered was from his mother-in-law, who had blessed his marriage to her daughter because of his stable job in corporate planning.

By the time he stepped down from a hands-on role at the company in 1998, IT&T had 400 people, 16 offices and a turnover of 200m rupees ($4.8m). His next role, a two-year stint as the boss of a telecoms joint venture between Britain's BT and Bharti Enterprises, was more conventional. But before his in-laws could start to relax, the entrepreneurial itch flared up again. Realising that the internet would enable India to become a provider of outsourced services to overseas firms, Mr Ganesh and his wife founded a firm to offer technical support via e-mail for customers of dotcom start-ups. That market never materialised but the new firm, CustomerAsset, survived by becoming a call-centre business serving "old-economy" Western firms. It was acquired by ICICI, a business-process outsourcing firm, in 2002 for $22m.

And for my next trick…

After a year-long lock-in period with ICICI Mr Ganesh was free to scour the horizon for his next venture. The call-centre market had by this time become far more competitive, so Mr Ganesh identified more complex, knowledge-intensive services as the next frontier in offshore outsourcing. This time an opportunity came directly to him when the founders of Marketics, a data-analysis and modelling start-up, asked him to invest in their business and to become their non-executive chairman. "They wanted some grey hair," says Mr Ganesh. The company thrived and was sold in March for $65m.

By then, intrigued by the potential for applying the offshoring model to a consumer environment, Mr Ganesh had already turned his energies to TutorVista. Once again, he appears to be ahead of the curve. A new report from Evalueserve, a research firm, estimates that annual revenues from "person-to-person offshoring" by individuals and small businesses will top $2 billion by 2015, up from some $250m now. In addition to tuition, other services that are suited to this model include tax planning, interior design and administrative support. Mr Ganesh says that TutorVista will not be his last venture in this area.

Whatever he does next, starting a new firm will be a lot easier than it was back in 1990. Financing is more widely available: TutorVista's backers include the Indian arm of Sequoia Capital, a stalwart of Silicon Valley. Employees are more willing to consider joining start-up firms. Regulation is lighter, too. The paperwork required to set up TutorVista was completed in two weeks. But the improved business climate also has drawbacks—rivals are better funded and there is more competition for talented people. Presumably Mr Ganesh's success has, by now, overcome family opposition? "We have a saying in India," he responds. "Behind every successful man is a devoted wife—and a very surprised mother-in-law." ■

Face value | Book value

Reprinted from The Economist Jul 21st 2007

Mark Zuckerberg of Facebook is being touted as the new Steve Jobs, and his company as the next Google

OLDER people in particular are often taken aback by the speed with which the internet's "next big thing" can cease being that. It even happens to Rupert Murdoch, a septuagenarian media mogul. Two years ago he bought MySpace, a social-networking site that has become the world's largest. The other day, however, Mr Murdoch was heard lamenting that MySpace appears already to be last year's news, because everybody is now going to Facebook, the second-largest social network on the web, with 31m registered users at the last count.

Facebook was started in 2004 by Mark Zuckerberg, a student at Harvard and not even 20 at the time, along with two of his friends. The site requires users to provide their real names and e-mail addresses for registration, and it then links them up with current and former friends and colleagues with amazing ease. Each Facebook "profile" becomes both a repository of each user's information and photos, and a social warren where friends gossip, exchange messages and "poke" one another.

Facebook is generating so much excitement this summer that bloggers are likening Mr Zuckerberg to Steve Jobs, the charismatic boss of Apple, and calling his company "the next Google" on the assumption that a stockmarket listing must be imminent. It may be. Mr Zuckerberg has rejected big offers from new- and old-media giants such as Yahoo! and Viacom. One of his three sisters, who also works for Facebook, has posted a silly video online that makes fun of Yahoo!'s takeover bid and sings about "going for IPO". And Facebook has advertised for a "stock administration manager" with expertise in share regulations.

And yet Mr Zuckerberg insists that he is "a little bit surprised about how focused everybody is on the 'exit'." The truth is that he is sick of talking about it. The venture capitalists backing Facebook may want to cash out, but Mr Zuckerberg is only 23 and doesn't need the money. He also happens to believe—rather as Google's young founders do—that he can, and should, change the world. A flotation would be a big distraction.

Metaphorically, Mr Zuckerberg views himself as similar to the pioneering Renaissance mapmakers who amassed and combined snippets of information and then charted new lands and seas so that other people could use their maps to find, say, new trade routes. In Mr Zuckerberg's case, the map charts human relationships. Whereas many of the other social networks on the web primarily help people to make new contacts online—whether for hanky panky, marriage or business—Mr Zuckerberg is exclusively interested in "mapping out" the "real and pre-existing connections" among people, he says.

The fancy mathematical name he has for this map is a "social graph", a model of nodes and links in which nodes are people and connections are friendships. Once this social graph, or map, is in place, it becomes a potent mechanism for spreading information. For instance, he says, "we automatically know who should have a new photo album," because as soon as one person uploads it to the site, all her friends see it, and the friends of friends might notice too.

Other social networks can also do this, of course, but Facebook is distinctive in several ways. First, it is currently considered classier than, say, MySpace. One academic researcher argues that Facebook is for "good kids", whereas MySpace is for blue-collar kids, "art fags", "goths" and "gangstas". Facebook's roots are indeed preppie. Mr Zuckerberg took Latin, Greek and fencing at Phillips Exeter Academy and started Facebook at Harvard, after all. From there it spread to other elite universities, and it only opened up to the general population last September.

Mr Zuckerberg, however, thinks that the bigger difference is that Facebook is now becoming a "platform". By this he means that it is evolving into a technology on top of which others can build new software tools and businesses. In May Mr Zuckerberg opened Facebook up for outsiders to do just that, promising that any advertising revenues that third parties collect within Facebook are theirs to keep. Already, thousands of little tools have been created that allow Facebook users to share and discover music, play Sudoku, lend each other money, and so on. These toys can then spread through the social graph. If one user plays Sudoku, his friends see it and might try it too. These innovative uses of the social graph are, in Mr Zuckerberg's mind, the precise analogy to the trade routes that were found once the ancient mapmakers had done their part.

The cartographer of human connections

Clever though this is, the comparisons to Mr Jobs and Google are not merited yet. Mr Zuckerberg has evidently studied Mr Jobs's speaking style closely; and just as Mr Jobs is known for his uniform of jeans and a black mock-turtleneck, so Mr Zuckerberg has turned his combination of Adidas sandals, jeans and fleece sweaters into a trademark. But he has not had the chance to prove whether he has Mr Jobs's abilities to triumph over adversity and deliver not just one big idea, but a string of them.

Mr Zuckerberg is about to be tested in two ways. A three-year-old lawsuit is coming to court in which he is accused, in effect, of stealing the idea for Facebook from three other Harvard students. And if Facebook really is going to do a Google and go public, he will have to convince investors that mapmaking can be a business. One of its investors recently said revenues might come to $100m this year. But it is not clear how much of this comes from one big deal with Microsoft, which needs Facebook as a partner and might even like it as a division. Advertising, the obvious business model, does not seem to work well on Facebook, perhaps because people go there to socialise, not to shop. Trying to make money in other ways could be risky, since it might alienate users and damage the social graph. And it is, remember, awfully easy for one "next big thing" to be overtaken by the next. ■

Face value | Tested mettle

Reprinted from The Economist Jul 28th 2007

Anil Agarwal has built a mining and metals giant in less than a decade

As he looks out over Mumbai's main airport, where a queue of planes wait their turn to ascend into the leaden monsoon sky, Anil Agarwal describes the transformation he has watched through his office window. In three years, he says, "the number of planes has grown four times—can you imagine?" Many Indian-based companies have experienced galloping growth in recent years, airlines among them. But few have kept pace with Mr Agarwal's Vedanta Resources, a London-listed mining and metals group, of which he is the chairman, founder and, with his family, owner of a 54% stake.

When Mr Agarwal founded the company in 1979 he was a scrap-metal merchant with ambitions to own a cable-making company. By the early 1990s, when India embarked on the liberal reforms that were to enable him to make his fortune, he was battling to establish a modest copper smelter. But in the past two years the market capitalisation of Vedanta—named after Mr Agarwal's mother—has increased fivefold to $10 billion. Last month 20% of the group's flagship company, Sterlite Industries, one of India's biggest producers of zinc, copper and aluminium, was floated on the New York Stock Exchange for over $2 billion—the biggest overseas sale of shares by an Indian company. Last year Vedanta turned over $6.5 billion, an increase of 76% on the previous year, and nearly half of it profit.

High metal prices, driven in part by India's own rapid growth, help explain the surge. But so do Mr Agarwal's instincts for his market: Vedanta's float in London in 2003 proved to be brilliantly timed. He has been equally adept at turning around a series of unprofitable, formerly state-owned companies. The group encountered little competition when it bid for a controlling stake in Hindustan Zinc, a loss-making state-owned firm, in 2002. It proceeded to cut its costs in half and increase its capacity fivefold. Hindustan Zinc is now the group's most profitable unit and the lowest-cost zinc producer in the world. With such a record, Mr Agarwal laughs at the prospect of lower prices. "Everyone's going to die," he says. "But we must die last."

In an industry in which size matters, he is pushing ahead with Vedanta's expansion. The group plans to invest $8 billion in the next three years to consolidate existing ventures and launch new ones. In April he extended his reach into iron ore by acquiring 51% of Sesa Goa, India's largest iron-ore exporter. The group also has ambitions in power generation, arguably the biggest constraint on India's growth. It has proposed building a $1.9 billion power station in Orissa, where it is also awaiting approval for a vast greenfield bauxite mine. Despite big investments in Australia, Zambia and elsewhere, India is where Mr Agarwal sees the group's greatest potential for growth. The group is skilled at handling the country's sometimes slippery officialdom—unlike foreign-based rivals, such as BHP Billiton and Anglo American, which have no presence in India. "It helps that we understand India," says Mr Agarwal.

In a way, he is emblematic of India's emergence. Around half of India's dozen richest businessmen are self-made men. But none more so than Mr Agarwal, now 53, whose personal fortune is estimated at $5.4 billion. When he left school at 15, he knew no English, the language of India's seasoned elite. Even after a decade based in London, his English remains imperfect. "We are very humble," he says, his unwitting use of the royal "we" perhaps making him sound rather grander than he intended.

Start small, think big

In the 1990s Mr Agarwal's copper and cable businesses grew on the back of the telecoms boom. He then raised his game in 2001 with Sterlite's successful bid for 51% of the Bharat Aluminium Company (BALCO), India's first privatisation. The deal was consistent with his strategy of backward integration—but also with Mr Agarwal's record for controversy. In 1998 Sterlite was briefly banned from India's capital markets over allegations of insider trading, though the order was later repealed. The BALCO deal was marred by a two-month strike by the company's workers. As the symbol of a still-controversial (and now apparently mothballed) divestment programme, it remains politically sensitive. Sterlite has therefore been unable to exercise an option to buy the remaining 49% of BALCO.

Few Indian companies have grown so fast without stirring controversy. Just as remarkable was the ease with which Mr Agarwal graduated from managing a medium-sized company to running a large group. This has not sated his appetite for risk. As he puts it: "As an individual, we're very strong as an entrepreneur." Mr Agarwal says he remains interested in further acquisitions, but concedes that his hands are rather full. If approved, Vedanta's plans in Orissa, which holds the world's fourth-biggest bauxite deposit, will keep him particularly busy. He faces strong opposition from environmentalists and local tribes, however. The example of POSCO, a South Korean steelmaker, is not encouraging. Three years after announcing plans for a $12 billion steel project in Orissa, it is still waiting for the requisite permits and land. Then again, Mr Agarwal is not South Korean.

He is Indian, and proud to be—hence, he says, his philanthropic scheme to donate $1 billion to found a world-class university in India. Vedanta University will be constructed on a 3,200-hectare site in Orissa and will cater for 100,000 students when it is completed, around 2025. "When you go to the US, you see their large universities, Harvard and Berkeley, and we don't have them," says Mr Agarwal. "Yet the biggest thing you can give to people is education." Sceptics say he has chosen Orissa as the site for the university for political reasons. It is certainly an extraordinarily ambitious scheme. But there is no doubting Mr Agarwal's ability to overcome obstacles and establish giant enterprises with surprising speed. ■

Face value | The nimble sumo

Reprinted from The Economist Aug 4th 2007

Jean-Pierre Garnier of GlaxoSmithKline defends the pharmaceutical industry as he overhauls his own drugs firm

THIS would seem to be a terrible time to be the boss of a big pharmaceutical company. Customers and regulators are fretting about safety after the high-profile recall of Merck's Vioxx, a painkiller that turned out to be dangerous for some patients. The number of new drugs gaining approval has plunged in recent years, casting doubt on the industry's research model. Poor countries are making noisy demands for free drugs and are threatening to override patents through "compulsory licensing". All this has battered the shares of the drugs giants and forced out the chief executives of three of the biggest in the past two years. And yet here is Jean-Pierre Garnier, the boss of GlaxoSmithKline (GSK), beaming confidently as he defends his industry. "My generation of chief executives is the first that 'gets it'," he declares.

What explains the ebullience displayed by J.P., as he is universally known? One reason is his successful defence of Avandia, a blockbuster diabetes drug that had threatened to go the way of Vioxx. A safety scandal blew up in May when a leading cardiologist published a statistical study suggesting that Avandia might increase the risk of cardiovascular problems. Sales, which topped $3.3 billion last year, plunged by a fifth in the quarter ending in June. In the wake of the Vioxx scandal many drug companies have been eager to avoid messy confrontations over safety. But not Mr Garnier. He came out swinging, accusing critics of politicising the regulation of drugs and rebutting the study's claims with his firm's own data. This week an expert panel convened by America's Food and Drug Administration (FDA) voted overwhelmingly to keep Avandia on the market, albeit with stronger warnings about potential side-effects. As one analyst put it, GSK "dodged the FDA bullet".

Another reason Mr Garnier is smiling is that GSK has the strongest drugs pipeline of any big firm. It has 33 drugs in the late stage of clinical trials, with perhaps two dozen due to be launched between now and the end of 2009. That is much better than at rival firms, and far better than the pitiful prospects Mr Garnier inherited when he took over as boss of SmithKline Beecham in 2000, just before the merger with Glaxo Wellcome. The industry's poor research output has led some critics to argue that the huge mergers of the past decade have produced giant firms that are too big and bloated to innovate. Mr Garnier disagrees. "R&D productivity is not linked to size," he insists. He invokes the image of a successful sumo wrestler and says giants can be nimble if they are clever. Indeed, size can be an advantage in marketing, or when organising massive clinical trials, he observes.

But he accepts that size is a problem early in the drug-development process. "Drug finders" and innovators may well get tripped up by bureaucracy and tangled in red tape; good ideas are lost. Even worse, bad ideas may not be weeded out in time: Pfizer, for example, spent $1 billion to get Torcetrapib, a cholesterol drug, to late-stage testing only to discover dangerous side-effects that forced it to abandon the potential blockbuster.

So Mr Garnier has tried hard to decentralise. He did away with GSK's top-down approach to research, replacing it with a number of autonomous research clusters known as "centres of excellence in drug discovery". The idea is that these smaller groups will take many more "shots on goal" than bureaucratic research monoliths like Pfizer. Crucially, he wants them to fail more quickly too, thus sparing the firm the huge expense of a late-stage withdrawal. Surprisingly for an industry veteran, Mr Garnier has also taken on the tradition of secrecy by experimenting with "open innovation" models. Managers are now rewarded for successful inventions whether they were developed in-house or acquired from outside. He reckons this eliminates the "not invented here" syndrome common at big drugs firms.

Self-confidence or arrogance?

A driving force behind Mr Garnier's success is a brash self-confidence that even one of his lieutenants considers "arrogant". The American-educated Frenchman, who lives with his family in Philadelphia, has ended up in hot water a few times as a result. In 2003 he was branded a "fat cat" by the press for trying to push through a £22m ($36m) pay-and-benefits package. In a move rarely seen at a British firm, shareholders voted against the resolution. Mr Garnier now seems to have a healthy respect for shareholders, even initiating a recent share-buyback to appease their concerns about a weak share price. His instinctive cockiness also got him into trouble with developing countries. Soon after taking over as boss of GSK he found himself ensnared in a controversy over access to cheap HIV drugs, a row portrayed in the media as drugs giants cruelly ignoring the plight of dying Africans. Mr Garnier's first instinct was to fight. But although he was confident of his firm's legal position, he was losing the media war. So he chose to cut his losses and made a dramatic U-turn. "For the very poor countries of this world," he explains, "we decided to sell our drugs completely not-for-profit."

GSK's attitudes toward the poor are now regarded as a model for others. The firm encourages generics-makers to produce its formulations, so costs can fall further. It offers tiered pricing, linking the price of drugs to a country's ability to pay and offering subsidies for the poorest. Even the World Health Organisation, a United Nations agency not known for cosiness with the pharmaceutical industry, applauded GSK's decision in June to donate 50m doses of its new flu vaccine to be held in an emergency stockpile. This transformation, of both GSK and of its boss, suggests there is hope yet for the pharmaceutical industry. "Society puts up with Big Pharma only because we come up with innovative drugs," says Mr Garnier. The world desperately needs a self-confident drugs industry willing to take risks to discover new therapies, but will no longer tolerate its arrogance and neglect of the poor. ■

Face value | Chief fiction officer

Reprinted from The Economist Aug 25th 2007

Joseph Finder thinks that novels provide better insight into business than journalism

THE pages of the *Harvard Business Review* are not usually populated by novelists and—let's face it—rare is the author who would choose to promote his latest novel by writing a prequel for the HBR. But Joseph Finder is just such a rarity. This week the HBR posted a fictitious case study by Mr Finder on its website. Readers will now have a chance to comment; the most interesting contributions, as well as the remarks of several corporate grandees, will appear alongside the story in the printed version of the magazine in October.

In the case study Mr Finder describes a dilemma facing Cheryl Tobin, the newly installed chief executive of a big aerospace firm. She starts to suspect that her colleagues have engaged in massive corruption to win contracts. Does she dare initiate an internal investigation that could tear the firm apart? Ms Tobin is also a central character in Mr Finder's new book, "Power Play", which was released earlier this week. In the novel her main concern is not corruption but an executive retreat on a remote island that goes horribly wrong.

The attraction of using the HBR to plug the book is simple: Mr Finder's three most recent novels, all set inside big companies, have won him a sizeable following in corporate suites. Jeff Immelt, boss of General Electric, is a fan. Some of the world's top businessmen have helped him with his research, including several former bosses of Fortune 500 companies.

A graduate of both Yale and Harvard, Mr Finder took up novel-writing after flirting with a career at the CIA and taking a stab at journalism. He had written a non-fiction book about links between American businesses and the Soviet Union but had been unable to use some of the most fascinating material he had picked up, since his sources wanted it to remain off the record. So Mr Finder wove those titbits into a political thriller instead. After three more novels on political themes, he decided to set his next book in the world of business.

"A lot of intelligence officers now work as in-house security officers for major corporations," Mr Finder says, "and I'd ask them, 'What could a bad guy do inside a company?'" His recent novels draw in part on their responses. In his first corporate thriller, "Paranoia", which appeared in 2004, an executive at an IT firm resorts to corporate espionage. His next book, "Company Man", about the boss of a struggling manufacturing firm, was ahead of its time in that it cast a private-equity investor as the bad guy back in 2005. Last year Mr Finder published "Killer Instinct", set at a Japanese-owned plasma TV manufacturer, in which control of the company's security system is used to advance the protagonist's career and destroy his enemies.

There are many novels set in offices and boardrooms. The appeal of Mr Finder's lies not in the majesty of the prose—they are airport novels, not Pulitzer candidates—but in the plausibility of their plots and the accuracy of their depiction of corporate life. "I've not seen anything that I think is total BS, that couldn't happen," says Skip Brandon, co-founder of Smith Brandon International, a corporate-intelligence company. "The business community is pretty interesting, with all sorts of characters which he brings to life with a level of realism people can relate to," says Bill Teuber, of EMC, a data-storage company.

Business journalism may provide plenty of facts and figures, Mr Finder argues, but it seldom gives readers much of a feel for corporate life. Fiction, in his view, can provide a more accurate picture than anything found in newspapers or management literature. At any rate, Mr Finder is convinced that corporate insiders talk more candidly to him than they do to reporters.

He has found big companies remarkably willing to provide background material. For "Paranoia" he talked with high-ups at Apple, Cisco and Hewlett-Packard—a computer-maker whose subsequent involvement in a real-life case of corporate espionage may not have come as a surprise to Mr Finder's readers. For "Killer Instinct", NEC helped him to understand what it was like to be an American working for a big Japanese electronics firm.

Confessions of an axe-man

Mr Finder still suffers from some predictable literary prejudices: for instance, he confesses he finds it difficult to present bankers as sympathetic characters. But for the most part he is refreshingly keen to depict businessmen as motivated by more than greed and fear. In "Company Man", the hero is a boss who has to fire many of his workers. Mr Finder asked several company bosses what it felt like to lay people off. He says they would see nothing but "downside" in discussing such issues with a reporter. But they treated him like a confessor, describing "how agonising it was, how their kids had been ostracised, beaten up, how one CEO had a glass of wine thrown at him in a restaurant."

Not all firms are keen to confide. Mr Finder says that when he was preparing his tale of corruption in the aviation industry, Boeing "refused flatly, saying 'What's in it for us?'" Lockheed Martin, by contrast, co-operated; two of its top executives are among the expert commentators on the fictional case study. Mr Finder thinks that lingering embarrassment about a series of improprieties uncovered at Boeing earlier this decade accounts for the difference: "Lockheed's scandals are 20 years in the past. For Boeing, corruption is much more recent and painful."

Mr Finder believes that even businessmen might learn a thing or two from his books. The kidnap experts he consulted about "Power Play", for example, expressed concern that bosses do not think enough about security when they take their top lieutenants on bonding retreats. As he says of the novel's grisly plot, "If I can think of it, the bad guys have already thought of it, so the guys who run companies should think about it too." Instead of running around in the woods, executives might find it safer and more useful to curl up with a good book. ■

Face value | The transcendental crusader

Reprinted from The Economist Sep 1st 2007

Can Teddy Blecher's combination of cheap business education and meditation transform South Africa?

IN HIS early years there was little to suggest that Taddy Blecher would end up in Johannesburg's inner city, surrounded by youngsters from poor backgrounds. An actuary turned management consultant, Mr Blecher first stepped into a township by mistake. "I was terrified and thought I was going to die," he remembers. In 1995 he was on the point of emigrating to America, but at the last minute he decided to stay and make a difference. He spent the next four years teaching transcendental meditation in township schools. This was quite a stretch from his upbringing as a "white Jewish guy in Johannesburg", but he describes it as the best time of his life. He and three partners then started CIDA City Campus, an almost-free business university for students who cannot afford mainstream higher education. (Students are charged only $21 per month in tuition, and some also receive additional financial help.) In a country where poverty and poor skills remain endemic, he has become a local hero.

Mr Blecher, a Harry Potter lookalike with contagious enthusiasm, is passionate about education. The apartheid system deliberately provided sub-standard schooling to the country's black majority; today, good education is still beyond the reach of many poor South Africans. In addition, too few manage to finish high school, and many of those who make it to university drop out, often because they cannot afford it. "It drives me crazy," says Mr Blecher, becoming agitated. "We are throwing away our people." As a result, masses of unskilled South Africans cannot find jobs, while firms complain of a crippling lack of skilled people. Decades of apartheid also weakened any spirit of entrepreneurship. The government's "black economic empowerment" policy seeks to redress the economic injustices of apartheid by nudging companies to bring in black shareholders and appoint more black employees, managers, board members and suppliers. But critics point out that this has created a small elite of dealmakers and passive minority shareholders rather than much-needed black entrepreneurs.

Believing that a new way of thinking about education was needed, Mr Blecher decided to start a free university. "Education needs to be holistic," he says with conviction. "The school system is not producing a happy society, and people are not awake in the way they should be." Besides providing tertiary education to youngsters who could not afford to attend existing universities, he hoped to help people find direction in their lives (Mr Blecher is an advocate of transcendental meditation in this regard) and help to transform communities. "My deepest interest", he explains, "is to help people realise how great they are."

Mr Blecher turned to local companies for help. A bank made its old office building in downtown Johannesburg available free. Mr Blecher's former employer gave him a desk and a phone line at its offices. CIDA City Campus opened its doors in 2000. Today 80% of CIDA's income comes from donations, amounting to about 50m rand ($7m) a year. Sponsors include Dell, JPMorgan, Sir Richard Branson and Oprah Winfrey, plus an impressive list of local firms. Students help to run the school, providing them with experience and keeping costs down. Many teachers are professionals who offer their services free.

Today about 1,500 students are enrolled at CIDA. The business school offers a general Bachelor in Business Administration (BBA) course, as well as practical specialities such as information technology, construction and entrepreneurship for those who qualify. In July CIDA's School of Investments opened its doors, complete with a simulated trading room. But the central philosophy is to provide a lot more than education. Mr Blecher describes CIDA as "a whole ecosystem created to support kids." Many students come from very poor rural backgrounds, and moving to Johannesburg means a huge adjustment and often extreme financial hardship. Some start with a residential one-year foundation course to plug academic holes before enrolling in the BBA degree. Counsellors are provided and a wardrobe is also at hand for those who need to smarten up for job interviews.

The trouble with meditation

Students are also required to volunteer for community work when they go back home during the holidays. Some teach, while others mentor teenage orphans responsible for looking after younger siblings. But all of them have to give something back to their communities, furthering Mr Blecher's dream of healing South Africa. Often the first members of their families to go to university, graduates then step into a life that was previously out of reach. The former actuary points out that CIDA's graduates will collectively earn 150m rand in salaries this year, which by his calculations amounts to a net present value of 5 billion rand over their 40-year careers.

Mr Blecher's odd mixture of new-age earnestness and hard work has made CIDA a beacon of hope, both at home and abroad. As well as adding further specialist courses, CIDA hopes to open new schools elsewhere in South Africa. But behind its success linger some concerns. CIDA remains intimately associated with its founder and chief executive, and there are questions about whether it would survive without him. Though it is no longer mandatory, the exact role of transcendental meditation in the curriculum remains controversial. It still raises suspicions and tensions among some students, staff and donors. CIDA's fast growth has overwhelmed its administrative systems. And although the specialist degrees are by most accounts excellent, some employers are said to have been disappointed by the general BBA graduates they have hired. The quality of education will need to improve if CIDA's degree is to compare with that of mainstream universities. There is no shortage of goodwill or ability within the school to sort these things out. But sorted out they must be, if CIDA is to live up to its inspiring vision. ■

Face value | Taking flight

Reprinted from The Economist Sep 8th 2007

Naresh Goyal wants Jet Airways to be India's first global brand—and to escape its domestic market

IT IS not only a lust for power that inspires Naresh Goyal, the founder and chairman of Jet Airways, India's biggest private airline. Nor is it a need for vindication, important though this may be to a man whose application to fly to America was held up for two years by allegations of terrorist connections. Like many Indian entrepreneurs, Mr Goyal says he has a patriotic dream. "I want to produce a global Indian brand," he says. "That's the passion for me, that's what drives me. The people of this country, we have the capability to produce a global brand."

Jet, with its orange and blue logo, may well be the first. It is the only private Indian carrier flying long-haul routes—ferrying 23% of passengers between India and London, for example. On August 5th its first plane landed in America, launching a daily service from Mumbai to Newark via Jet's new hub in Brussels, and this week it began flights to Toronto. A new direct service between Mumbai and Johannesburg will be launched soon, and with 40 new planes on order, Jet will add more destinations next year, including San Francisco (via Shanghai) and Chicago. Mr Goyal, who owns 80% of the airline, predicts that by 2009 its international operations will contribute half its annual revenues, increasing them from $1.7 billion last year to $3 billion.

Mr Goyal started out as a travel agent acting for foreign airlines in India. At industry gatherings, he became known for having committed the world's flight schedules to memory. He has since lost none of his taste for detail. Last month Mr Goyal ordered Jet's top managers in Mumbai and Delhi to "adopt a plane", which they must periodically check to be sure it has been properly cleaned. (Mr Goyal says he would love to do the same himself, but does not have time.)

The international expansion is partly about healthy demand. Over the past five years air traffic to America from India has grown faster than from anywhere else, increasing by 23% in the year to May compared with the previous 12 months. Coming the other way, the number of inbound passengers to India grew by 19% in 2006. By Mr Goyal's estimate, up to 80% of these passengers are of Indian origin, though now resident in Canada, America and Britain. So that is where he is expanding. "I want to operate where there is a captive market, and there are 30m Indians overseas—or, whatever, people of Indian origin," he says, with a flick of his hand, suggesting he does not see the distinction. If these people do want to fly Indian, they may well want to fly Jet. Its service is outstanding. Air India, the state-owned carrier, is crummy by comparison, though it is improving.

But the expansion is also about escaping the dreadful conditions in India's domestic market. As well as having the fastest-growing aviation market in the world, India also has one of the most crowded. In 2003 the emergence of several low-cost carriers led to a price war. At the time, Jet controlled almost half the domestic market. Mr Goyal says Jet remained profitable during the struggle that has since ensued, but there is no hiding how much it suffered. Its market share has fallen to one-third—and that includes the custom of Air Sahara, a carrier acquired by Jet in April for $346m that it has since rebranded as a low-cost carrier, called JetLite. And in the past four years the main Indian stockmarket index has increased five-fold, yet Jet's share-price has fallen by 40% since its flotation in 2005.

Mr Goyal estimates that the Indian industry lost $500m last year. After some consolidation, prices are starting to rise. Nevertheless, despite his experiment with JetLite, Mr Goyal says low-cost carriers are not feasible in India. The country lacks the infrastructure and readily available skills to be had in Europe. "Here there are no alternative airports," he says. "India has nothing called low-cost, only low-fare and low-margin. This is irrational pricing which will make the whole industry sick."

So by expanding abroad, Mr Goyal hopes to escape his troubles—and his competitors—at home. Seats on domestic flights, such as between Mumbai and Bangalore, are sold abroad at premium prices. Inside India they are often sold at a loss. Moreover, India's other private airlines are not yet licensed to fly internationally. For that, airlines must have been in business for five years, which bars Jet's rivals. (That includes Kingfisher Airlines, launched in 2005 by Vijay Mallya, a flamboyant brewer. It too has global ambitions and excellent service—dished out by an all-female crew wearing distinctive tight-fitting red skirts.)

Although Mr Goyal does not think much of the low-cost business model, he admires his rivals in one way. In May 2005 Jet's application for a licence to fly to America was held up after a firm based in Maryland, also called Jet Airways, accused Mr Goyal's company of being a money-laundering outfit for al-Qaeda. Mr Goyal says some of his local competitors were behind the claim, which was later withdrawn. But he seems to have a sneaking admiration for the imaginative way in which they allegedly tried to impede him. "It's good, no? They dine and wine with me, we enjoy a cocktail together," he says, erupting into a high-pitched giggle that punctuates his rapid speech. "Indians are very creative."

A sprinkle of stardust

And so, for that matter, are a striking number of Jet's directors. They include several actors and musicians, including Bollywood's biggest star, Shah Rukh Khan. Mr Goyal denies, with a giggle, that these celebrities have been recruited to add glamour. "No, they add value," he insists. "Shah Rukh, he's very clever."

Yet their presence fits Mr Goyal's taste for networking. Striving to build India's first global brand apparently means mixing with India's other new billionaires, such as Lakshmi Mittal, a steel magnate, and Mukesh Ambani, of Reliance Industries, India's biggest private company. All of them, he says, have the same patriotic obsession: "making India great". So is that all they talk about? "No," Mr Goyal wheezes. "We talk about girls." ■

Face value | New colours at Benetton

Reprinted from The Economist Nov 3rd 2007

Alessandro Benetton must revive the ageing brand at the core of his family's industrial group

HOW do you succeed the founder of a world-famous family business and give it a new lease of life as it faces the rise of innovative rivals and emerging markets? That is the question facing Alessandro Benetton, who stepped into his father's shoes this year as executive deputy chairman of the clothing group that bears the family name. Answering it will not be easy. Benetton has lost its way in recent years: its attempt to expand into America was a flop and it has been overtaken by competitors such as Sweden's H&M and Spain's Zara, which have developed more sophisticated fast-fashion business models. (Sales at Inditex, Zara's parent company, are now four times that of Benetton.) Lately Benetton has invested heavily to bring its technology and logistics systems up to today's standards. Now Alessandro's task is to speed up the recovery and lead the clothing group, which has sales of €1.9 billion ($2.7 billion) a year, into new markets such as India and China.

Fortunately a capacity for corporate reinvention seems to run in the family. Italy's numerous successful family firms usually stay small in international terms. Not the Benettons. In the 1970s they built an international clothing brand on a novel business model: dyeing clothes at the last minute to respond quickly to changes in fashion. During the 1980s they started diversifying into new ventures using the profits from clothes. Their first step was into Formula 1 racing, to promote their clothing brand. Then they moved in when Italy's motorways and motorway-catering services were privatised; their interests in Atlantia (formerly Autostrade) and Autogrill now account for well over half the family's estimated net worth of €9 billion. Having failed to merge Atlantia with Spain's Abertis last year, the Benettons are in the process of raising some €4 billion from partners such as Goldman Sachs and Mediobanca to make other infrastructure investments farther afield. But the clothing business was neglected, even as it financed investments in new areas.

Of the 14 cousins in his generation, 43-year-old Alessandro was the obvious choice to take over from his father Luciano, one of the four family members who launched the firm in 1965. The young Mr Benetton had already made his own reputation as an entrepreneur, having founded one of Italy's early private-equity firms, 21 Investimenti, back in 1993. He ran it as a venture-capital firm, specialising in developing small and medium-sized businesses rather than backing start-ups. Private equity gave him experience in evaluating investments and being an active shareholder, as well as teaching him about the role of management and the discipline of corporate governance. "Other firms generally had a financial focus but at 21 Investimenti we were driven by a strong industrial perspective," he says. His preferred approach to making money was to pick the right business models for the firms in which 21 Investimenti bought stakes, as you might expect of a graduate of Harvard Business School.

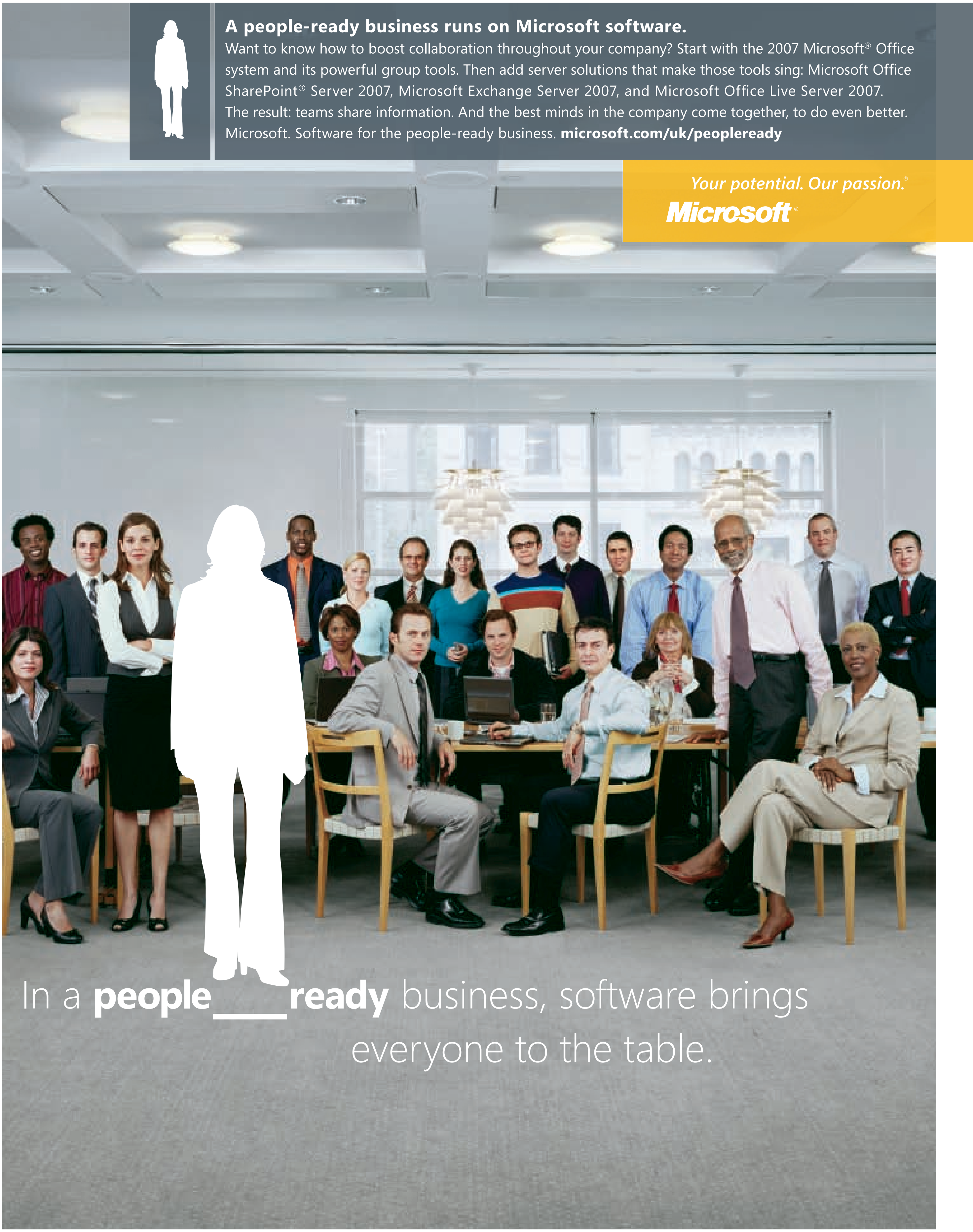
He certainly has a different style from his father, who dresses casually and tie-less, and whose long, curly white hair marks him out in any crowd of businessmen. With his neatly cropped head, white shirt, sober tie and dark blue pullover (Benetton, of course), the young Mr Benetton would not stand out even in the most conservative boardroom. If flair and individuality were the qualities that his father brought to the firm, then structure, business theory and attention to detail are now the order of the day in the Villa Minelli, an elegant 17th-century villa in Ponzano, near Venice, where the clothing group has its head offices.

Mr Benetton's open admiration for his father's achievements is understandable: he cites his father along with Michael Porter, a professor at Harvard Business School and an authority on competitive strategy, plus a handful of other big names, as important influences on his development as a businessman. Yet the clothing group needed to change. "I was clear about its assets—it had enjoyed 40 years of success—but we needed a different approach, one that builds on rather than erodes what has been created," he remarks. The change began in November last year with the departure of the incumbent chief executive and finance chief and the appointment of a new public-relations team.

The company has spent a busy summer deciding which parts of its past are important for its future, as Mr Benetton puts it. "The book is the same but we have begun a new chapter," he says. The clothing group is focusing on the time-to-market of its collections—more than 100 each year—which it has been able to cut in the past two years from about two months to about two weeks. As well as trimming this further, Mr Benetton is making heads of divisions more accountable for performance and introducing greater management discipline and financial rigour—all standard stuff in the world of private equity.

Measuring the risk

Having been promised average annual sales growth of least 7% over the next decade, investors will be watching closely to see how the clothing group performs under its new boss. They will probably also be wondering what parts he has in mind for all those cousins. Mr Benetton says family members who want to be involved in the clothing group are given managerial responsibilities in other businesses first. "We have many businesses, fortunately, as we are a large family," he observes. Before embarking on his private-equity career, he notes, he spent five years as chairman of the successful Formula 1 racing team, showing that the Benettons could "be serious, competent and competitive in a technical sector—and do other things than just make T-shirts". Married to a ski champion, Mr Benetton is no slouch on the slopes himself. Investors will be glad to hear that when it comes to high-risk pursuits, however, he is sensibly cautious. Mr Benetton does his skiing early in the morning, when the snow is best and the slopes are empty. ■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