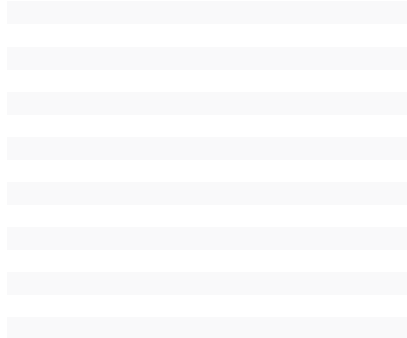


THE ENTERPRISE OF THE FUTURE



GLOBAL CEO STUDY

THIS STUDY IS BASED ON CONVERSATIONS WITH MORE THAN 1,000 CEOs AND PUBLIC SECTOR LEADERS WORLDWIDE.



Samuel J. Palmisano
Chairman, President and Chief Executive Officer
IBM Corporation

A NOTE TO FELLOW CEOs


This year marks the third biennial IBM Global CEO Study. In this year's study, more than 1,000 of you—CEOs and leaders of institutions across the public and private sectors—once again shared your experiences and plans, and looked even farther out onto the horizon, building a remarkably detailed picture of the future of the enterprise.

You told us that you anticipate even more change ahead. And despite an acute awareness of the difficulty of keeping pace, you are, on balance, strikingly optimistic and action oriented. This is clear from the kinds of changes you are planning. They are not small-bore. For example, you recognize that your customers are far more informed, and far more demanding today. But instead of viewing this as a problem, you see it as an opportunity—to draw on their energy and ideas to collaborate and to differentiate your companies.

I find this deeply encouraging—and it strongly reinforces IBM's own experience. We have been observing these same changes in business, technology and global markets for several years, and they have led us to reinvent our portfolio of products and services, to globally integrate our company, and to change the way we work with our clients, our approach to R&D, our workforce management practices, and the way we run our company.

In the end, the proof of any leader's decisions is in their outcomes. And our clients' experience is consistent: A focus on innovation works. That is also evident in this year's study results. Those of you who are making the boldest plays—pursuing the most global, collaborative and disruptive business model innovation—are outperforming your peers.

I hope you find our Global CEO Study helpful, and I'd like to thank all of you who participated, renewing a conversation that we expect to continue for many years.

A handwritten signature in black ink that reads "Samuel J. Palmisano". The signature is fluid and cursive, with a long horizontal stroke at the end.

Samuel J. Palmisano
Chairman, President and Chief Executive Officer
IBM Corporation



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40 NATIONS
FROM AROUND
THE WORLD

32 DIFFERENT
INDUSTRIES

19% ARE COMPANIES
EMPLOYING MORE THAN
50,000 EMPLOYEES

22% HAVE LESS THAN 1,000
EMPLOYEES

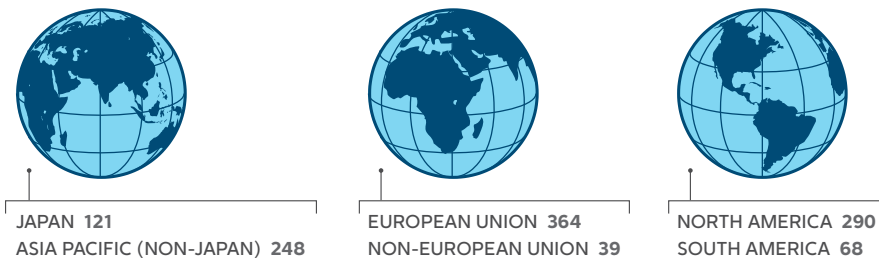
HOW OUR RESEARCH WAS CONDUCTED

This study is the third edition of our biennial Global CEO Study series. This year's research is based on surveys of 1,130 CEOs, general managers and senior public sector and business leaders from around the world.¹ IBM leaders conducted more than 95 percent of these interviews face to face. The Economist Intelligence Unit administered the remainder by telephone.

As part of our research, we sought to understand differences between the responses of financial outperformers and those of underperformers. For companies with publicly available financial information, we compared revenue and profit track records with the averages for those in the same industry across our sample.² Companies that performed above average on a particular financial benchmark were tagged as outperformers, and those below the average were labeled as underperformers. Throughout our analyses, we looked for insights based on these top- and bottom-half groupings.

FIGURE 1 MORE THAN 1,000 CEOS WORLDWIDE PARTICIPATED IN THIS STUDY

Our sample was geographically diverse and spanned both emerging and established economies.



EXECUTIVE SUMMARY

What will the Enterprise of the Future look like? To answer that question, we spoke with more than 1,000 CEOs from around the world. These conversations, together with our statistical and financial analyses, provide a unique perspective on the future of the enterprise.

CEOs are rapidly positioning their businesses to capture the growth opportunities they see. Our discussions about their plans and challenges revealed several striking findings:

Organizations are bombarded by change, and many are struggling to keep up. Eight out of ten CEOs see significant change ahead, and yet the gap between expected change and the ability to manage it has almost tripled since our last Global CEO Study in 2006.

CEOs view more demanding customers not as a threat, but as an opportunity to differentiate. CEOs are spending more to attract and retain increasingly prosperous, informed and socially aware customers.

Nearly all CEOs are adapting their business models—two-thirds are implementing extensive innovations. More than 40 percent are changing their enterprise models to be more collaborative.

.....
 “The rate of change has increased dramatically. Customers are demanding radical change in product innovation. Our company will need to greatly increase its capabilities to deal with these demands.”

Dennis Jönsson, CEO, Tetra Pak

.....

“Developing countries grow gradually at first, then suddenly emerge as large markets. We must be prepared to respond quickly. This will require us to make fundamental changes to our business now, rather than implement event-driven reactions.”

Yasuo Inubushi, President, Kobe Steel

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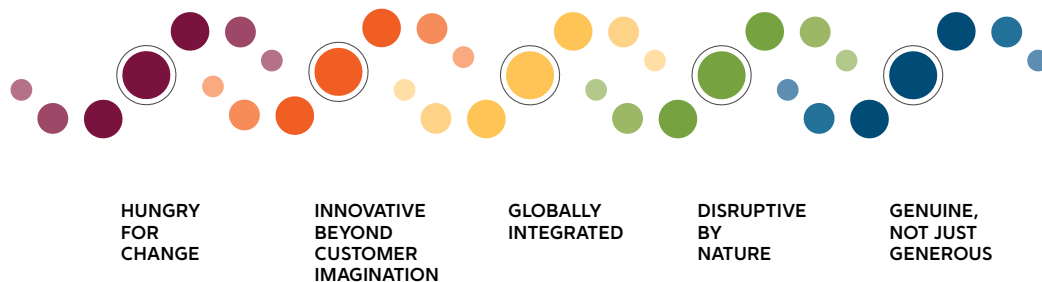
CEOs are moving aggressively toward global business designs, deeply changing capabilities and partnering more extensively.

CEOs have moved beyond the cliché of globalization, and organizations of all sizes are reconfiguring to take advantage of global integration opportunities.

Financial outperformers are making bolder plays. These companies anticipate more change, and manage it better. They are also more global in their business designs, partner more extensively and choose more disruptive forms of business model innovation.

INTRODUCING THE ENTERPRISE OF THE FUTURE

These findings—across industries, geographies and organizations of different sizes—paint a surprisingly similar view of the traits that we believe will be needed for future success. At its core, **the Enterprise of the Future is ...**



HUNGRY FOR CHANGE

The Enterprise of the Future is capable of changing quickly and successfully. Instead of merely responding to trends, it shapes and leads them. Market and industry shifts are a chance to move ahead of the competition.

INNOVATIVE BEYOND CUSTOMER IMAGINATION

The Enterprise of the Future surpasses the expectations of increasingly demanding customers. Deep collaborative relationships allow it to surprise customers with innovations that make both its customers and its own business more successful.

GLOBALLY INTEGRATED

The Enterprise of the Future is integrating to take advantage of today's global economy. Its business is strategically designed to access the best capabilities, knowledge and assets from wherever they reside in the world and apply them wherever required in the world.

DISRUPTIVE BY NATURE

The Enterprise of the Future radically challenges its business model, disrupting the basis of competition. It shifts the value proposition, overturns traditional delivery approaches and, as soon as opportunities arise, reinvents itself and its entire industry.

GENUINE, NOT JUST GENEROUS

The Enterprise of the Future goes beyond philanthropy and compliance and reflects genuine concern for society in all actions and decisions.

.....
"The consumer's concept of quality will no longer be measured by only the physical attributes of a product—it will extend to the process of how the product is made, including product safety, environmental compliance and social responsibility compliance."
.....

Victor Fung, Chairman, Li & Fung
.....

SEIZING THE OPPORTUNITIES

.....

“Simply put, we want significant share in markets growing faster than others, which for us is more than 25 percent.”

*Ron Logue, Chairman and CEO,
State Street*

.....

Grounded in the collective insights and wisdom of more than 1,000 CEOs, we offer the Enterprise of the Future as a benchmark and blueprint for CEOs, corporate officers and boards of directors around the world. It is an aspirational goal: some companies already exhibit particular traits, but few, if any, embody them all. Based on our conversations and analyses, we believe that significant financial opportunity awaits those that become Enterprises of the Future.

USING THIS REPORT

This Global CEO Study report presents findings related to each of the attributes of the Enterprise of the Future. It draws on the rich insights from our CEOs through statistical and financial analyses as well as the voices of the CEOs themselves. Each chapter concludes with some implications and thoughts about how organizations can move forward toward becoming an Enterprise of the Future and a case study to illustrate a leading company.

**THE
ENTERPRISE
OF THE
FUTURE IS...**



CHAPTER
ONE

HUNGRY FOR CHANGE

CEOs foresee significant change ahead. But their confidence in their ability to manage that change is not nearly as high. So how will CEOs fare in an increasingly frenetic environment? Will they be able to respond effectively?

“CHANGE GAP” TRIPLES

.....
 “We have seen more change in the last ten years than in the previous 90.”

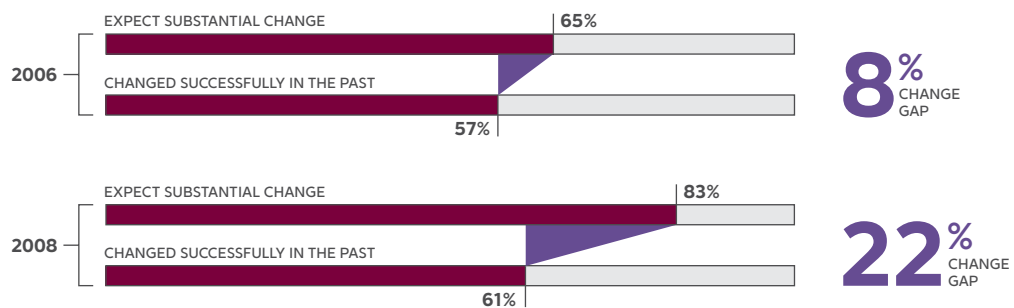
*Ad J. Scheepbouwer, CEO,
 KPN Telecom*

In our 2006 Global CEO Study, we were surprised when two-thirds of the CEOs said their organizations were facing substantial or very substantial change over the next three years. But in 2008, even more CEOs—eight out of ten—are expecting such change.

This rising change challenge may be difficult for companies to meet. CEOs rate their ability to manage change 22 percent lower than their expected need for it—a “change gap” that has nearly tripled since 2006. While the number of companies successfully managing change has increased slightly, the number reporting limited or no success has risen by 60 percent.

FIGURE 2 THE CHANGE GAP

As the level of expected change continues to rise, many CEOs are struggling to keep up.



FASTER, BROADER, MORE UNCERTAIN CHANGE

So what's causing this growing gap? Constant change is certainly not new. But companies are struggling with its accelerating pace. Everything around them seems to be changing faster than they can. As one U.S. CEO told us, "We are successful, but slow."

CEOs are also wrestling with a broader set of challenges, which introduces even greater risk and uncertainty. In 2004, market factors, such as customer trends, market shifts and competitors' actions, dominated the CEO agenda. Other external factors—socioeconomic, geopolitical and environmental issues—were seen as less critical, and rarely made it to the CEO's desk.

But in 2008, CEOs are no longer focused on a narrow priority list. People skills are now just as much in focus as market factors, and environmental issues demand twice as much attention as they did in the past. Suddenly everything is important. And change can come from anywhere. CEOs find themselves—as one CEO from Canada put it—in a "white-water world."

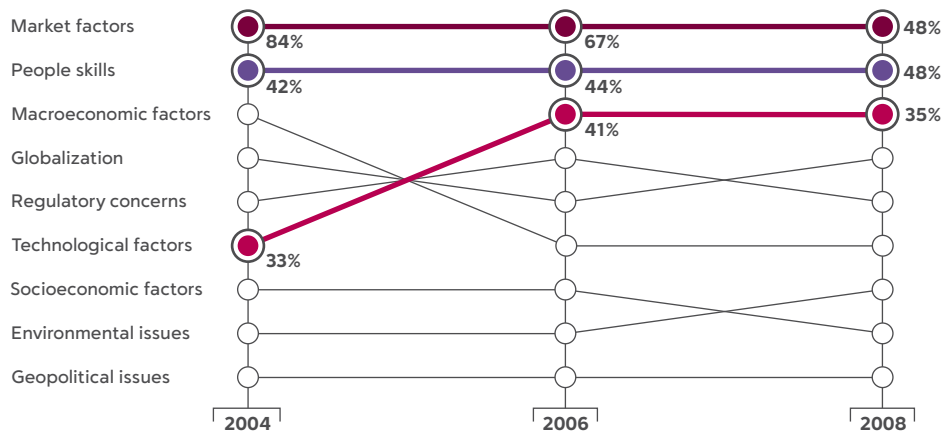
CEOs are most concerned about the impact of three external forces: market factors, people skills and technology (see Figure 3). Customer expectation shifts, competitive threats and industry consolidation continue to weigh on their minds. CEOs are also searching for

industry, technical and particularly management skills to support geographic expansion and replace aging baby boomers who are exiting the workforce. They rated insufficient talent as the top barrier to global integration—even higher than regulatory and budgetary hurdles. CEOs also described how technological advances are reshaping value chains, influencing products and services and changing how their companies interact with customers.

FIGURE 3 TOP THREE CHANGE DRIVERS

In 2008, CEOs rated market factors, people skills and technological factors as the three external forces with the greatest impact on their organizations.³

48% SAY MARKET FACTORS
48% SAY PEOPLE SKILLS
35% SAY TECHNOLOGICAL FACTORS



- “The market is so dynamic. Visibility is very low.”
Electronics CEO
- “We’re making acquisitions for the people, not the assets.”
Financial markets CEO
- “Technology is driving huge changes in our industry landscape.”
Government health agency leader

OUTPERFORMERS MANAGE CHANGE BETTER

When we looked at the financial outperformers in our sample, it was apparent that their change gap was much smaller than that of underperformers.⁴ The smaller change gap is not because they face fewer challenges or expect less change: outperformers actually anticipate more change. Outperformers are simply more successful at managing change.

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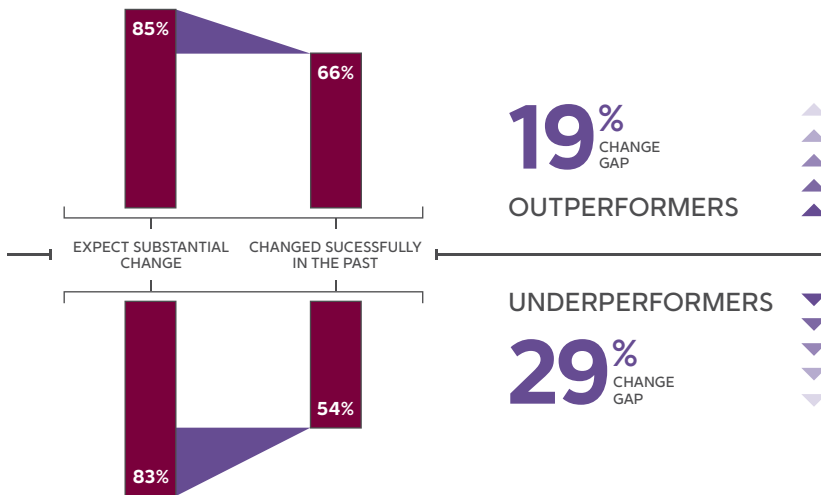
“The key to successful transformation is changing our mind-set. For large companies, it is easy to be complacent—we have to change this. Our company culture must have a built-in change mechanism.”

Masao Yamazaki, President and CEO, West Japan Railway Company

.....

FIGURE 4 GAP IS SMALLER FOR OUTPERFORMERS

Because outperformers manage change well, they can get ahead of—and even be the drivers of—change.



Implications

Clearly, the ability to change quickly and successfully is becoming more critical than ever. Here are a few thoughts about how the Enterprise of the Future approaches change.

ACCEPTS CHANGE AS A STATE OF BEING

The Enterprise of the Future sees change within the organization as a permanent state. Because of the company's culture, employees are comfortable with unpredictability. In an environment in which products, markets, operations and business models are always in flux, values and goals provide alignment and cohesion.

HIRES, POSITIONS AND REWARDS INNOVATORS AND CHANGE LEADERS

The Enterprise of the Future is home to visionary challengers—people who question assumptions and suggest radical, and what some might initially consider impractical, alternatives. It also strategically places charismatic leaders who set direction, inspire and move the organization forward. High performers earn differentiated rewards, such as a stake in the business they helped create.

FOCUSES ON DELIVERING BUSINESS OUTCOMES

In a 2008 study of change management practices, 75 percent of the companies surveyed said their approach to change management was usually informal, ad hoc or improvised.⁵ In contrast, the Enterprise of the Future defines and manages change as robust programs, structured around and driven to deliver defined business outcomes. It tracks the business benefits of change and change management effectiveness. Strong change management is a core competence at all levels and nurtured as a professional discipline, not an “art.”

OPERATES LIKE A VENTURE CAPITALIST

The Enterprise of the Future establishes processes and structures that promote innovation and transformation. It actively manages a portfolio of investments, protecting and supporting the fledgling ideas, while systematically weeding out the weak ones.



Case study

ABB: ENGINEERING ENTERPRISE-WIDE CHANGE

Switzerland-based ABB launched its Step Change Program in 2003 to improve productivity and cut costs. Hundreds of measures were identified and executed on schedule, resulting in annual savings of more than US\$900 million. Launched in 2005 and still underway, the One Simple ABB Program is reducing organizational complexity and establishing common, global processes for Finance, Human Resources and Information Services.

The impetus for these programs was a decision in late 2002 to focus on the company's core expertise in power and automation. This meant selling noncore businesses—such as upstream oil, gas and petrochemicals units—and outsourcing nondifferentiating functions.

ABB's change programs today consist of a broad portfolio of initiatives with specific business and financial objectives. With members representing five global divisions, group functions and geographic markets, the ABB Executive Committee tracks progress and provides regional accountability. With its proven change-management capabilities, ABB is well-positioned for the future—an organization engineered for change.

The results? ABB's successful focus on its strengths as a global leader in power and automation technology, and its improved productivity and cost structure, were driven largely by these enterprise-wide change programs. In 2007, ABB's net income increased to a record US\$3.8 billion.⁶

Are you ready?

Does your organization have a healthy appetite for change?

Have you seeded your organization with visionary challengers and provided them with the freedom to effect meaningful change?

Do you manage change as a structured program and measure change management effectiveness?

Do you have robust processes in place to incubate new product, service and business model concepts—and redirect investment when required?



CHAPTER
TWO

INNOVATIVE BEYOND CUSTOMER IMAGINATION

CEOs are investing heavily to capture rising prosperity opportunities worldwide. They are also investing more to serve increasingly sophisticated and demanding customers. But what will it take to convert these investments into greater market share?

.....
 “In a growing market, strong product functionality is most important to customers. However, in a mature market, we must also appeal to customers’ feelings and emotions. It’s critical to find the ideal balance of both.”

*Motoki Ozaki, President and CEO,
 Kao Corporation*

HEAVY INVESTMENT IN NEW MARKETS

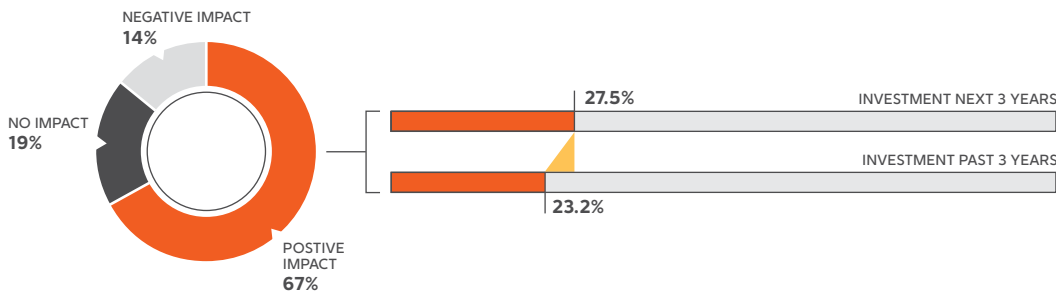
In rapidly developing economies worldwide, the middle class is growing and becoming progressively more prosperous. Greater disposable income brings new demand for more sophisticated, higher-value products and services. As one real estate CEO from India highlights, “In India, 400 million consumers will demand new housing in the next 20 years—that’s more real estate than the United States has built since the Second World War.”

Meanwhile, in established economies, significant wealth accumulation among aging baby boomers and a corresponding increase in young, affluent inheritors are boosting prosperity in what some might otherwise consider flat-growth markets.

In both developed and rapidly developing economies, rising prosperity is creating growth opportunities for many companies—and CEOs are upbeat about this trend. However, CEOs cautioned that using the same go-to-market strategies, products and services seldom works: tapping into these new geographic and demographic segments will require a deeper understanding of these customers and a more tailored approach.

FIGURE 5 TWO-THIRDS OF CEOs SEE OPPORTUNITY AND ARE INVESTING

CEOs will devote more than one-quarter of their total annual investments to capture rising prosperity opportunities.⁷



19%
INVESTMENT
INCREASE

INFORMED AND COLLABORATIVE CUSTOMERS: A CHANCE TO DIFFERENTIATE

In addition to the diverse needs of new markets, CEOs face rising expectations from increasingly informed and collaborative customers.

Customers now have far more sources of information, and the enterprise is no longer the definitive authority. In a recent survey of 1,000 retail consumers, 53 percent said they used the Internet to compare product features and prices—25 percent did so from a mobile device while in a store. And one in ten sent text messages to friends and family during shopping trips to get input or share information on products.⁸

.....

“In the future, we will be talking more and more about the ‘prosumer’—a consumer/producer who is even more extensively integrated into the value chain. As a consequence, production processes will be customized more precisely and individually.”

*Hartmut Jenner, CEO,
Alfred Kärcher GmbH*

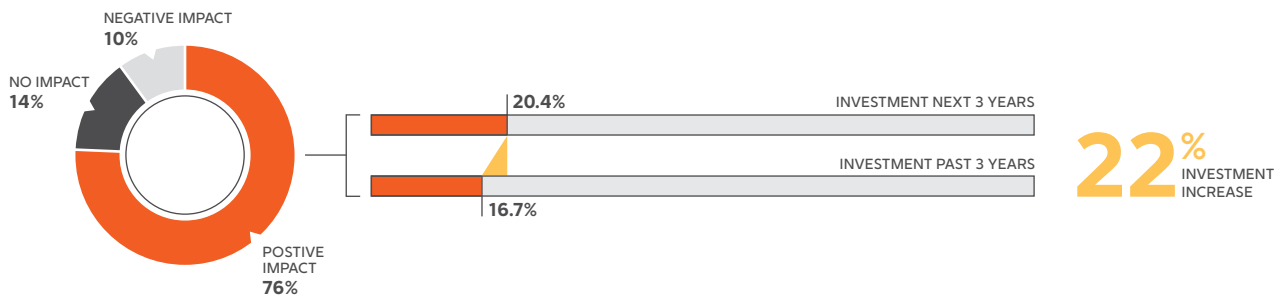
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With the billion-user Internet, customers can broadcast expectations and share views worldwide—and publicly grade a company’s performance against them. Like-minded customers can network socially and pool their influence. And in increasing numbers of industries, customers are swapping passive roles for much deeper involvement. “Consumers” are becoming “producers,” creating entertainment and advertising content for their peers and even generating their own electricity.

This informed and collaborative customer “can be both a threat and an opportunity,” as one media CEO from Belgium pointed out. Despite the potential downside, CEOs on the whole are optimistic.

Many CEOs consider serving the informed and collaborative customer as an opportunity to distinguish their organizations—a chance to justify premium positioning and price. “The more informed our customers are and the higher their expectation levels, the better we will be positioned to demonstrate our differentiation,” one U.S. CEO told us.

FIGURE 6 CEOs ARE UPBEAT ABOUT INFORMED AND COLLABORATIVE CUSTOMERS
CEOs are focused on the opportunity, not the threat—and are investing accordingly.⁹



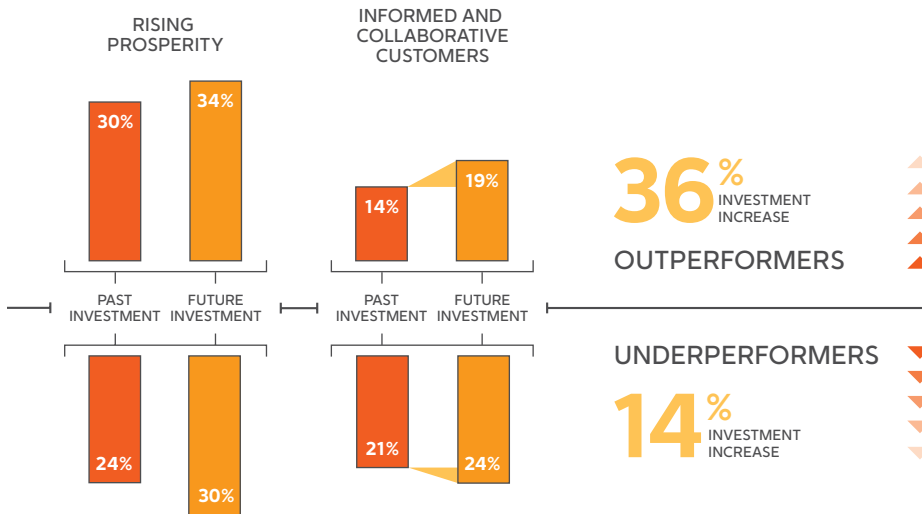
OUTPERFORMERS INVESTING MORE

Financial outperformers are currently devoting more than 30 percent of their total annual investments to capture opportunities from rising prosperity worldwide.¹⁰ Over the next three years, these new market investments will increase—but not as quickly as those targeting informed and collaborative customers. Outperformers plan to spend 36 percent more to serve these increasingly sophisticated customers.¹¹

.....
 “We must redefine our value proposition to customers. Information and advisory content are becoming even more valuable than traditional drivers.”
H. Edward Hanway, Chairman and CEO, CIGNA Corporation

FIGURE 7 OUTPERFORMERS ARE INCREASING THEIR CUSTOMER-RELATED INVESTMENTS

Outperformers are already investing heavily in rising prosperity worldwide, and are rapidly increasing their investment in informed and collaborative customers.





Implications

The Enterprise of the Future aims beyond articulated needs and wants, creating first-of-a-kind products, services and experiences that were never asked for—but are precisely what customers desire. Here are some thoughts about how it accomplishes this.

FINDS WAYS TO MAKE OFFERINGS RELEVANT TO NEW MARKETS AND INCREASINGLY PROSPEROUS CONSUMERS

Global brands, products and services deliver economies of scale, yet each market has its own culture, needs and aspirations. The Enterprise of the Future constantly experiments and learns how to optimize the balance. It analyzes potential markets to find niches, white space and complacent competitors where it can capitalize on its core strengths.

UNDERSTANDS TIMING AND NETWORK EFFECTS

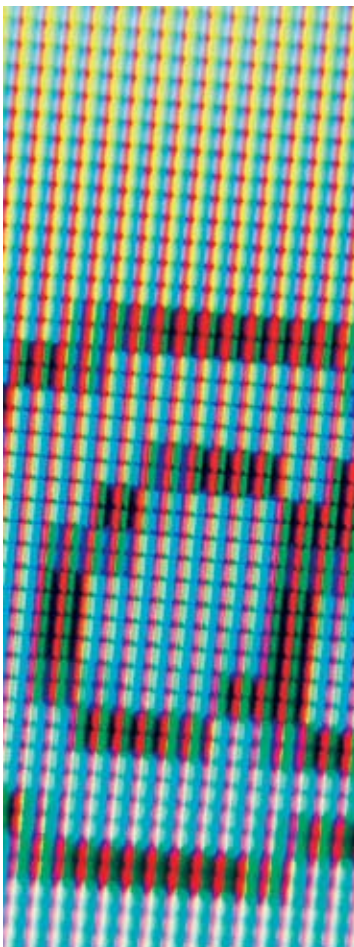
There is a fine line between “beyond” and “too far.” The Enterprise of the Future understands the need to introduce innovation that the market is ready to accept and works to perfect its market-entry timing. It exploits the network effects of early adoption to take a commanding early lead.

CONNECTS EVERYONE TO THE CUSTOMER

Employees at all levels—from designers to warehouse employees—connect with customers through realtime information, online interaction or, where possible, in person. The Enterprise of the Future also develops deep relationships with leading-edge customers and employees—those early adopters who determine market success or failure. It test markets in these communities and collaborates with them to develop products. In the business-to-business space, the Enterprise of the Future invests to integrate its systems with those of its key customers. This allows it to be a more proactive partner and an integral part of its customers' businesses.

USES TECHNOLOGY TO ANTICIPATE SHIFTS FASTER THAN THE COMPETITION

Market insights are critical to the Enterprise of the Future. It recognizes the value of the information it collects through its many channels and actively mines it for insights. It uses emerging technologies, such as virtual worlds, to gain insights in new ways. It also puts systems in place that allow very fast feedback cycles. When customer preferences and demand start to shift, it knows before the competition.



Case study

NINTENDO: BUILDING MARKET SHARE THROUGH CUSTOMER COLLABORATION

In the early 1990s, Nintendo's share of the game console market was 61 percent, but by the mid-2000s, it had fallen to 22 percent.¹² To regain its leadership position, Nintendo needed to find new ways to delight gamers—and to bring gaming to new audiences.

To do that, Nintendo went straight to the source—gamers themselves. The company established an online community by offering incentives in return for customer information. The company also selected a group of experienced gamers based on the value and frequency of their community contributions. These "Sages" were given exclusive rewards, like previews of new games, in exchange for helping new users and providing community support.¹³

Through this community, Nintendo has gained valuable insights into market needs and preferences. This has influenced everything from game offerings—like an online library of "nostalgic" games that appeal to older gamers—to new product design—for example, the intuitive controls of the popular Nintendo Wii system, which have helped attract new, casual gamers.¹⁴

By leveraging the loyalty and expertise of its core customer segment, Nintendo has successfully connected with two new ones—women and older men. This collaboration seems to have paid off: Nintendo is once again ahead of its competitors, with 44 percent market share.¹⁵

Are you ready?

Which of your offerings are breaking new ground, opening entirely new segments or markets? What can you learn from them?

Are you systematically evaluating potential geographic markets? How do you achieve the efficiencies of global brands, products and services while remaining locally relevant?

When customer preferences shift, are you the first to understand and act on this or do your competitors react more quickly?

Are you effectively integrating disparate data and systems to gain new customer insights?



CHAPTER
THREE

GLOBALLY INTEGRATED

CEOs face many choices when responding to global integration. How should they design their businesses to take advantage of capabilities located in other parts of the world? When should they partner, merge or acquire? Which markets should they enter? In all this complexity, which strategies work best?

RADICAL CHANGES IN BUSINESS DESIGN TO CAPITALIZE ON GLOBAL INTEGRATION

.....
 “We must move to global coordination, but with local sensitivity. Even the back office requires balance.”

Martin Sorrell, CEO, WPP

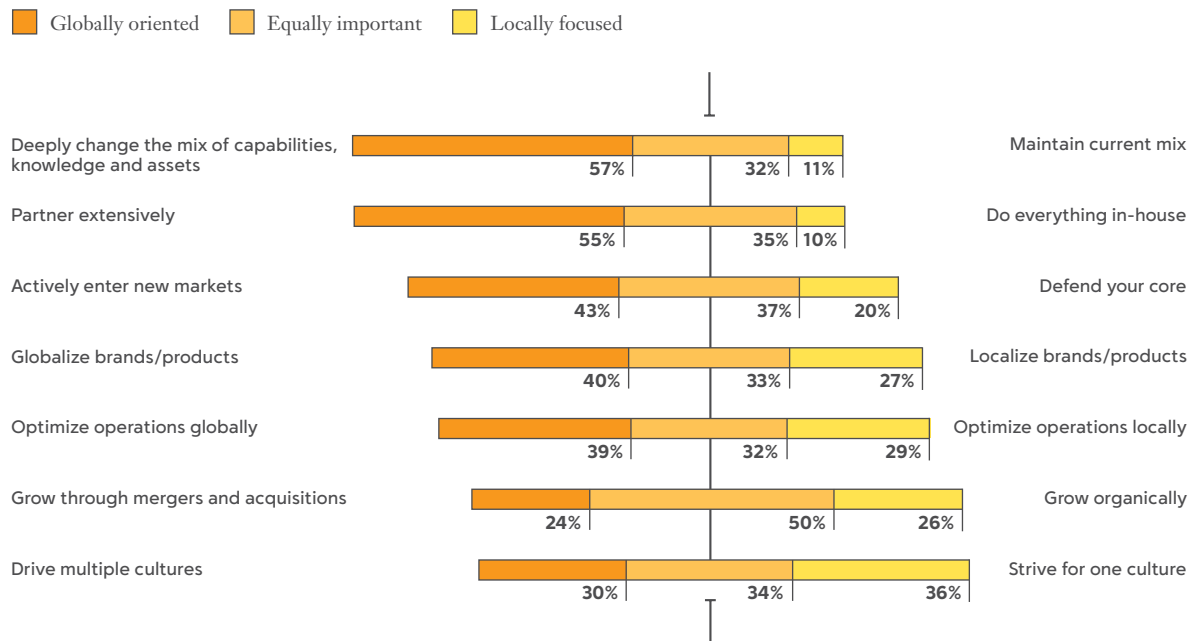
As the world becomes more connected and more accessible, CEOs see tremendous opportunities to expand their global reach, tapping into new sources of expertise and new markets. Traditional views of globalization—labor arbitrage and riding the wave of economic growth in China and India—are being replaced by a new focus: global integration. By this, they mean new business designs that facilitate faster and more extensive collaboration on a worldwide scale and rapid reconfiguration when new opportunities appear.

In our interviews, we explored how CEOs are recalibrating their business designs to take advantage of increasing global integration. Their responses are outlined in Figure 8.

CEOs often had ready answers for this series of potentially complex questions and options. Clearly, they had been thinking through these issues for some time because they are critical levers to exploit the opportunities of global integration. It was striking that CEOs of companies of all different sizes and geographic coverage were engaged and enthusiastic about these topics, which suggests optimization is crucial whatever the current geographic scale.

FIGURE 8 CEOs ARE EMBARKING ON MAJOR CHANGES TO THEIR BUSINESS DESIGNS

We asked CEOs to score their global integration plans along seven continuums. Most of their answers lean toward more global optimization.



DEEP CHANGES IN CAPABILITY AND ASSET MIX

Across the entire CEO sample, more than half plan to deeply change their organizations' capabilities, knowledge and assets. New customer expectations are driving some of these shifts. "We need to move away from an operational focus to a client interface focus," one U.S. CEO said. "This requires new skills and a new skill mix for the corporation."

Operating in new geographies was another reason for updating the mix. "We made the same mistake as everyone else—simply using our existing domestic team to drive our international business," explained the CEO of an Asian utility company. "Then we realized this does not work. We have now built a team with the right mix of business and capital development skills."

Though CEOs had various reasons for changing the mix, they agreed on one point: it is difficult to do. One CEO from France saw this as his "most important shift," but also "the space with the most change and difficulties."

PARTNERING IS PERVASIVE — ESPECIALLY AMONG OUTPERFORMERS

Eighty-five percent of CEOs plan to partner to capitalize on global integration opportunities—more than half plan to do so extensively. We also found that outperformers are 20 percent more likely to partner extensively than underperformers.¹⁶ This reinforces what we discovered in our last CEO Study: extensive collaborators outperform their competitive peers.¹⁷

CEOs see partners as a source of valuable talent—an ingredient in short supply. “Partnering has shifted from tactical ‘Enter a new market’ to strategic ‘Access to capabilities,’” explained one CEO from Hong Kong.

MAJORITY ENTERING NEW MARKETS

With economic development and consumer purchasing power rising in many countries, new markets are an important source of growth. Three out of four CEOs told us they intend to actively enter new markets. This intent holds true for CEOs in emerging (72 percent) and established (76 percent) economies and for companies of all sizes.

.....
“A few years ago, we were a national company; now we’re a global company. Our integrated supply chain must adapt to meet demand in 50 countries. We’re going to have to bring people in from the outside.”

*Jim Guyette, President and CEO,
Rolls-Royce North America*
.....

GLOBAL INTEGRATION THROUGH M&A, PARTICULARLY AMONG OUTPERFORMERS

Sixty-six percent of CEOs plan to use mergers and acquisitions (M&A) as part of their global integration strategies. They described M&A as a key way to rapidly expand global reach—integrating new capabilities, knowledge and assets and gaining access to new customers.

Interestingly, outperformers are 55 percent more likely to use M&A than underperformers, challenging the preconception that M&A is a risky and often unsuccessful strategy.¹⁸ Prior research suggests that frequent acquirers often become extremely effective at M&A and can use it more successfully.¹⁹

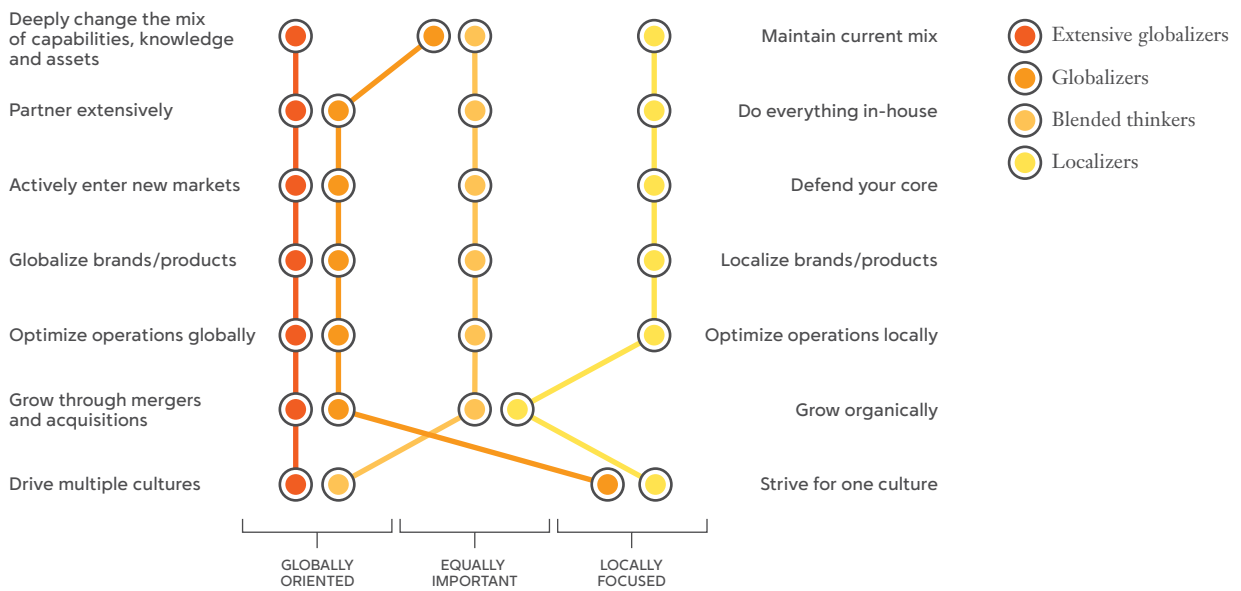
BUSINESS DESIGNS WITH MORE GLOBAL FOCUS

As we discussed individual optimization choices with CEOs, we found that decisions and plans in one area were often related to those in other areas. Their responses formed an interlinked pattern or design, not a series of independent judgments.

Using data clustering techniques, we found four common approaches to global integration, as described in Figure 9. More than 60 percent of CEOs are implementing a globally oriented strategy; the remainder are using either a local or blended approach.

FIGURE 9 CEOs' RESPONSES FALL INTO FOUR DISTINCT CLUSTERS

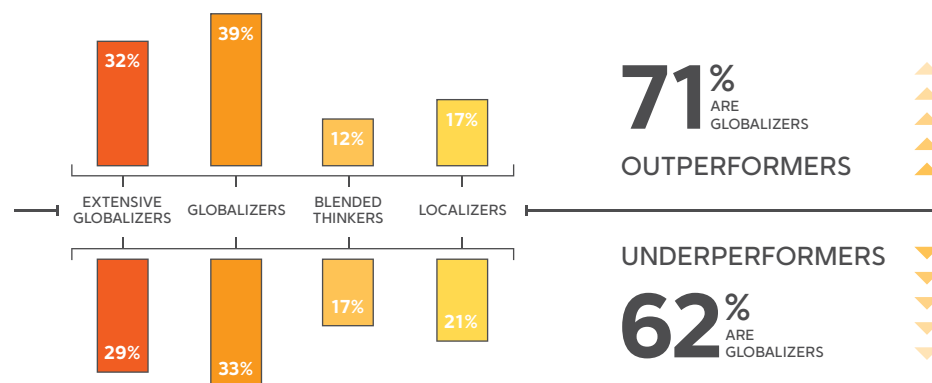
The two most common approaches are more global. One focuses locally. And the fourth falls in the middle between both extremes.



GLOBAL CLUSTERS INCLUDE MORE OUTPERFORMERS

Examining the clusters more closely, we found a higher percentage of outperformers in the two globally oriented ones.³⁰ The similarity of the two outperforming clusters implies that CEOs of more financially successful companies have a particular business design target in mind. They are partnering extensively to leverage global expertise, actively entering new markets, globally optimizing their brands, products and operations, and using mergers and acquisitions to grow their businesses and expand their capabilities globally.

FIGURE 10 OUTPERFORMERS GRAVITATE TOWARD GLOBAL BUSINESS DESIGNS
More outperformers are found in the two globally oriented clusters.



NEED FOR CAREFULLY CALIBRATED BUSINESS DESIGN

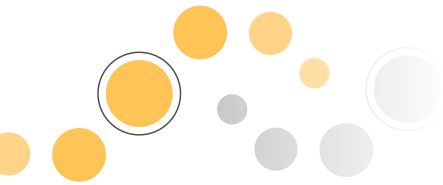
From our discussions, it is also clear that CEOs' approaches to global integration and optimization are carefully tailored to their businesses. For example, global brands and products must have local relevance. As one telecommunications CEO put it, "We need to build and maintain global product platforms to preserve economies of scale—but we need to localize features to suit local tastes."

CEOs told us the case for global optimization of back-office functions like Finance and HR is clear cut. But optimization of core production processes varies. For example, manufacturing of products that are heavy, bulky or impossible to ship may need to be optimized locally. Sales and go-to-market processes may require local knowledge and expertise. One CEO from Italy explained, "Our business model is based upon consolidation and globalization of back-office operations to reach critical mass and localization on business-specific components closely related to local markets."

CEOs also stressed the importance of having a common corporate culture, while sustaining the diversity of local geographic cultures. "The key for doing business abroad is not to seek homogeneity," one CEO from Japan observed. "Instead, we must be able to work effectively with people of different cultures and from different countries. We can learn this by working collaboratively with them."

.....
"Products have to be local with a global brand. I see us as a globally integrated organization with a local presence and localized products."

Georg Bauer, CEO, BMW Financial Services
.....



Implications

Even if an Enterprise of the Future never “goes global,” it still understands the capabilities available—and the competitors emerging—worldwide. Here are some ways it capitalizes on global integration opportunities.

INTEGRATES CAPABILITIES GLOBALLY TO DIFFERENTIATE

The Enterprise of the Future searches worldwide for sources of expertise, resources and assets that can help it differentiate. Finding the right capabilities is much more important than finding the cheapest. These centers of excellence are integrated globally so that the best capabilities, knowledge and assets can be used wherever required.

BUILDS A CAREFULLY CALIBRATED GLOBAL BUSINESS DESIGN

The Enterprise of the Future crafts its globally integrated and optimized business design based on its particular mix of capabilities, industries and geographies. It has a strategic plan for which capabilities to keep in-house and where it will partner or acquire. And when it does acquire, it knows how to manage the acquisition so that anticipated benefits are fully realized.

FINDS AND ELIMINATES INTEGRATION BARRIERS

Flexible assets allow the Enterprise of the Future to be more agile in the marketplace. Location decisions are made based on market and operational needs, not dictated by property deeds or restrictive leasing arrangements. Modular information technology, such as service-oriented architectures, enables rapid responses to new products and services opportunities and faster integration of new partners.

GROOMS GLOBAL LEADERS

In the Enterprise of the Future, global management development programs identify high-potential candidates throughout the company, not just from headquarters. These programs step future leaders through multiple global experiences, exposing them to a variety of cultures and markets.

RECOGNIZES THE IMPORTANCE OF SOCIAL CONNECTIONS WITHIN AND ACROSS ORGANIZATIONS

Social networking and realtime collaboration tools improve communication and close the distance between people in different locations. Good ideas develop and spread quicker, and problems are solved faster.



Case study

LI & FUNG LIMITED: GROWTH THROUGH GLOBAL INTEGRATION

With a network of 10,000 suppliers and staff in 40 different countries, Hong Kong-based Li & Fung Limited can source from virtually anywhere in the world and build customized solutions for its retail customers.²¹ Cotton can be purchased from America, knit and dyed in Pakistan and sewn into garments in Cambodia—whatever configuration yields the best end result. Interestingly, the company orchestrates the supply chain for each of its customers without owning any piece of it.

Li & Fung has steadily moved up the value chain, changing its capability and asset mix to provide more sophisticated—and more profitable—services. To provide product design and brand development services in its largest market, the United States, the company has established a significant onshore presence. This move is just one more example of Li & Fung’s ability to be both locally relevant and globally optimized.

Acquisitions—more than 20 in less than ten years—are a key way Li & Fung grows market share in target geographic markets.²² Typically, it preserves the front-end customer interface, which is often the reason for the acquisition, but merges the back end with its own operation within 100 days of deal close.²³

Li & Fung Limited’s global integration formula certainly seems to work: between 1992 and 2006, revenues grew at a compound annual growth rate of more than 22 percent.²⁴

Are you ready?

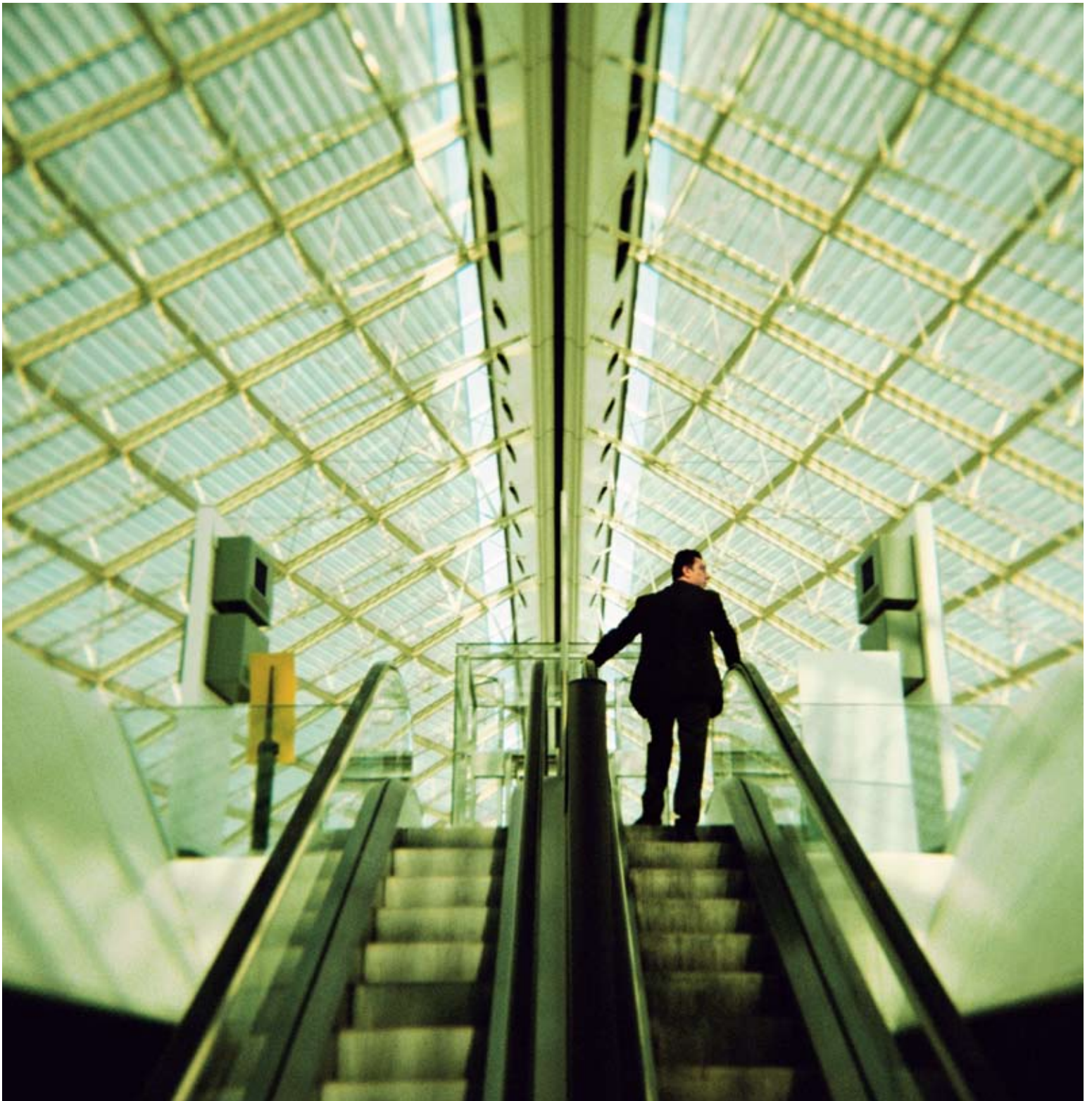
Are you effectively integrating differentiating capabilities, knowledge and assets from around the world into networked centers of excellence?

Does your organization have a globally integrated business design (even if it does not have a global footprint)?

Do you have a detailed plan for global partnering and M&A?

Are you developing leaders that think and act globally?

Do you nurture and support social connections to improve integration and innovation?



CHAPTER
FOUR

DISRUPTIVE BY NATURE

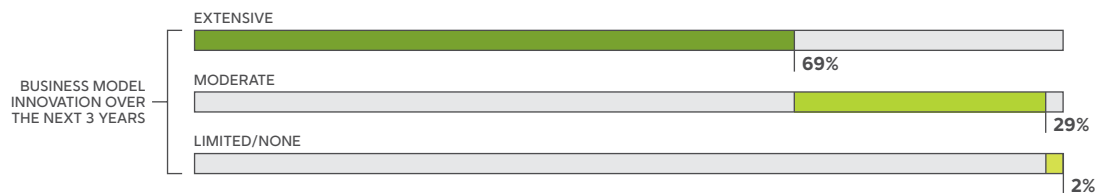
Most CEOs are embarking on extensive business model innovation. And outperformers are pursuing even more disruptive business model innovations than their underperforming peers. But will these bold moves pay off? What will it take to truly differentiate?

TECHNOLOGY ENABLES BROADER BUSINESS MODEL POSSIBILITIES

CEOs told us they are changing their business models because it is increasingly difficult to differentiate based on products and services alone. But they also stressed another reason: they simply have more options now.

FIGURE 11 CEOs ARE MAKING MAJOR BUSINESS MODEL CHANGES

Virtually all CEOs are adapting their business models—two-thirds are implementing extensive innovations.



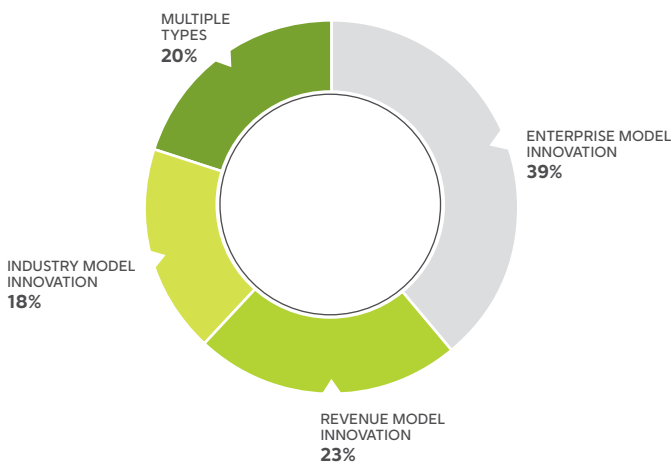
As one U.S. CEO explained, “We’re starting to think about things we couldn’t do before.” With the Internet, businesses can now find niche markets for rare, surplus or highly specialized goods—a virtual “garage sale,” as it’s often called. Business processes, as well as some products and services, are becoming more virtual. New delivery channels and electronic methods of distribution are overturning traditional industry conventions. And these advances are not just changing the way individual companies work—they’re creating entirely new industries.

ENTERPRISE MODEL INNOVATION MOST COMMON

We also explored the different types of business model innovation CEOs are implementing. In particular, we asked about enterprise model, revenue model and industry model innovation.

Among those making extensive changes to their business models, enterprise model innovation is the dominant choice. Forty-four percent of CEOs are focused solely on enterprise model innovation or are implementing it in combination with other forms of business model innovation. This trend toward enterprise model innovation is even more pronounced in emerging economies (53 percent).

FIGURE 12 ENTERPRISE MODEL INNOVATION IS MOST PREVALENT
CEOs are largely focused on reconfiguring their businesses to specialize and collaborate.



TYPES OF BUSINESS MODEL INNOVATION CONSIDERED

Enterprise model

Specializing and reconfiguring the business to deliver greater value by rethinking what is done in-house and through collaboration (as Cisco has done by focusing on brand and design while relying on partners for manufacturing, distribution and more).

Revenue model

Changing how revenue is generated through new value propositions and new pricing models (as Gillette did by switching the primary revenue stream from razors to blades).

Industry model

Redefining an existing industry, moving into a new industry, or creating an entirely new one (think music industry and the Apple iPod and iTunes).²⁵

COLLABORATION IMPERATIVE DRIVES ENTERPRISE MODEL INNOVATION

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 “For us, enterprise model innovation is primarily about having the right business model to enter other markets and secure new capabilities.”

*Andrew Brandler, CEO,
 CLP Holdings Limited*

The main message we heard from proponents of enterprise model innovation is that going solo is increasingly difficult. “We’re very vertically challenged,” one electronics CEO said when describing the difficulty of owning the entire value chain.

CEOs can no longer afford to invest money and scarce management resources in activities that are not differentiating: they intend to specialize. One U.S. CEO explained, “We have to collaborate to survive; there are fewer things that will be cost effective to do on our own. We will continue to do less inside the organization and more with partners and even competitors.”

While 38 percent of CEOs plan to keep work within their organizations, 71 percent—nearly twice as many—plan to focus on collaboration and partnerships. CEOs told us they are pursuing more collaborative models to gain efficiencies, fend off competitive threats and avoid commoditization. Their end goal is to offer customers a differentiated value proposition. “The notion of what comprises an ‘enterprise’ is critical. It must be a loosely coupled system,” said one public sector leader from Australia. “It’s about deciding when to collaborate, whom to involve, how to lessen the destructive force of competition.”

REVENUE MODEL INNOVATORS SHIFT THE VALUE MIX

Among those pursuing revenue model innovations, nine out of ten are reconfiguring the product, service and value mix. Half are working on new pricing structures.

CEOs are incorporating more services into their offering portfolios and changing one-time payment models to ones centered on recurring charges. More are starting to price based on value to the customer, rather than on cost plus. Depending on the particular needs of their respective industries, some companies are bundling to create more valuable solutions, while others are unbundling to offer customers a menu of choices. At the same time, “customers are getting better educated on global pricing, driving a need for more transparency,” one CEO from Sweden explained. “Product pricing is moving from reactive to proactive as a result.”

Interestingly, CEOs are also using revenue model innovation as part of their geographic expansion strategies. Having the right pricing structure, they told us, is critical when entering markets like China and India where consumers have a wide range of incomes.

.....
“We have become much smarter in how we do our pricing. Our pricing model is now based on customer segmentation and value created for those customers.”

*Steffen Schiottz-Christensen,
Managing Director, Maersk Logistics
North Asia*
.....

INDUSTRY MODEL INNOVATION REMAINS RARE

CEOs mentioned several reasons for not pursuing industry model innovation. But most can be summed up with: it's tough to do. For similar reasons, industry model innovators are more focused on redefining their existing industries (73 percent) than on entering or creating entirely new ones (36 percent).

Extremely risk-averse industries present even more obstacles. As one pharmaceutical CEO explained, "Our industry has an 'innovation paradox.' We are constantly driving for innovation on the one hand, while being risk averse on the other. Pharma companies still hope for the 'blockbuster party,' and they're trapped in that model. The company that breaks through this will be the winner, and others will follow."

Some CEOs do not believe their companies have the appropriate position in their industries or within their own value chains to drive this kind of significant change. But a few do. They are the industry leaders who ask—if not us, then who?

OUTPERFORMERS TAKE ON THE INDUSTRY MODEL CHALLENGE

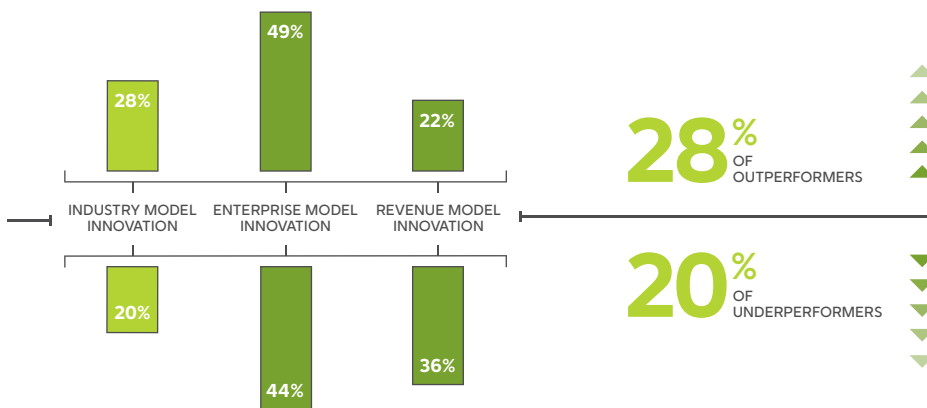
Consistent with the overall sample, outperformers are very interested in enterprise model innovation. But they are also planning 40 percent more industry model innovation than underperformers.²⁶ The question is: Are these outperformers pursuing more industry model innovation because they have the clout to do so? Or are they outperformers because of their insight and inclination to continuously question industry norms? From our CEO conversations, we’re convinced it’s actually both—a reinforcing cycle. Innovation successes can provide the financial means and industry position to attempt bolder moves, which, in turn, can improve business performance.

“When the business model is innovative, operations and the product will follow automatically.”

Ronald de Jong, CEO,
Philips Germany

FIGURE 13 OUTPERFORMERS ARE MORE LIKELY TO PURSUE INDUSTRY MODEL INNOVATION

In general, outperformers seem more willing to attempt the most difficult type of business model change—industry model innovation.



Implications

The Enterprise of the Future constantly searches for new ways to compete. Here are some ideas on how it develops a disruptive mind-set.

THINKS LIKE AN OUTSIDER

The Enterprise of the Future does blue-sky, green-field thinking. Its goal is to spark innovation by thinking about “starting over from scratch.” It finds ways to work with people and organizations that are not part of the industry status quo to develop new models. It challenges every assumption of its business model—just as an outsider would.

DRAWS BREAKTHROUGH IDEAS FROM OTHER INDUSTRIES

The Enterprise of the Future is a student of other industries because it realizes that game-changing plays spread like wildfire. It scours customer and technology trends that are transforming other sectors and segments of the market and considers how they could be applied to its own industry and business model.

EMPOWERS ENTREPRENEURS

The Enterprise of the Future understands the challenges of achieving business model innovation from within. It empowers its entrepreneurs with support, funding and freedom to drive disruptive change, which may threaten competitors’ current models—and even its own.

EXPERIMENTS CREATIVELY IN THE MARKET, NOT JUST THE LAB

The Enterprise of the Future often pilots models in the marketplace, obtaining realtime feedback and making iterative adjustments. It even uses virtual worlds—such as Second Life—to “test” models and apply what it learns to its “real life” business.

MANAGES TODAY’S BUSINESS WHILE EXPERIMENTING WITH TOMORROW’S MODEL

New business models are often at odds with established ones, creating inherent tension within the organization. Even if the models are not directed at the same customers, they are still competing for resources and attention. The Enterprise of the Future actively manages these potential conflicts so it can try out bold business model innovations, while ensuring business as usual delivers results.



Case study

ELI LILLY AND COMPANY: BUILDING PIPELINE THROUGH COLLABORATIVE BUSINESS MODELS

To bring new medicines to market faster, U.S. pharmaceutical maker Eli Lilly and Company integrates an extensive network of external partners through its constantly evolving collaborative business models. In 2001, for example, Lilly launched InnoCentive, an open marketplace for innovation. On this Web site, “seeker” organizations anonymously submit scientific challenges to a diverse crowd of more than 140,000 “solvers” from 175 countries.²⁷ The best solutions can earn financial awards of up to US\$1 million. Lilly has since spun off InnoCentive, and still retains partial ownership in the venture.

More recently, Lilly has embarked on another business model innovation—establishing itself as a Fully Integrated Pharmaceutical Network (FIPNet). The FIPNet model is based on pioneering risk-sharing relationships, such as its 2007 agreement with Nicholas Piramal India Limited (NPIL).²⁸ Under this contract, NPIL will develop one of Lilly’s molecules at its own expense, from preclinical work to early clinical trials. If NPIL is successful and the compound reaches the second stage of human testing, Lilly can reacquire it in exchange for certain milestone payments and royalties.

These collaborative business models offer several benefits: reducing costs, increasing development capacity, accelerating the drug development process and better leveraging not only Lilly’s assets, but also those of its external partners. Lilly’s results speak for themselves: from 2002 to 2007, sales have increased at a compound annual growth rate of 11 percent.²⁹

Are you ready?

Is a disruptive business model about to transform your industry? Is it more likely to come from you or your competitors?

Do you spend time thinking about where the next disruption will come from?

Are you watching other industries for concepts and business models that could transform your market?

Are you able to create space for entrepreneurs and innovative business models while continuing to drive performance today?



CHAPTER
FIVE

GENUINE, NOT JUST GENEROUS

An emerging generation of socially minded customers, workers, partners, activists and investors is watching virtually every move companies make. Recognizing this, CEOs are investing rapidly in corporate social responsibility. But how far will they go?

.....

“I see corporate responsibility going through three phases. People start to consider issues like the environment because they are compelled to do so. Then they realize that it actually makes business sense. Eventually they move beyond compulsion and selfish motives to become passionate because it is the right thing to do.”

*Vinod Mittal, Managing Director,
ISPAT Industries*

.....

CEOs STRUGGLE TO MEET RAPIDLY INCREASING CSR EXPECTATIONS

CEOs generally agree that customer expectations of corporate social responsibility (CSR) are increasing. The environment is one obvious touchstone: climate change has become an urgent call to action for citizens and companies around the world. And it has sensitized both citizens and corporations to the wide array of environmental and social issues—from child labor to recycling to product safety—that they can do something about.

While customers have always cared about societal issues, their concerns are now more frequently turning into action and influencing purchasing decisions. According to a recent CSR study, 75 percent of the companies surveyed say that the number of advocacy groups collecting and reporting CSR-related information on them has increased over the past three years.³⁰

Meanwhile, many CEOs are struggling to put CSR into practice. “We talk too much, and don’t do anything about increasing customer expectations of corporate social responsibility,” admitted one financial services CEO.

CSR-RELATED FACTORS RISING ON CEO AGENDA

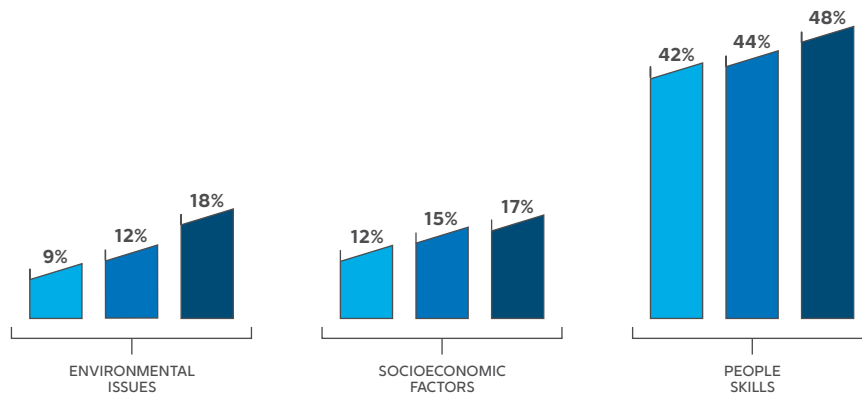
Across our previous CEO studies, only three external forces have consistently ranked higher in each consecutive survey: socioeconomic factors, environmental issues and people skills. Interestingly, all three are linked to CSR.

FIGURE 14 COINCIDENCE OR FORESHADOWING?

Of the nine change drivers we discuss with CEOs in each survey, only three continue to rise in importance.

Percentage of CEOs selecting as a top change driver

2004 2006 2008



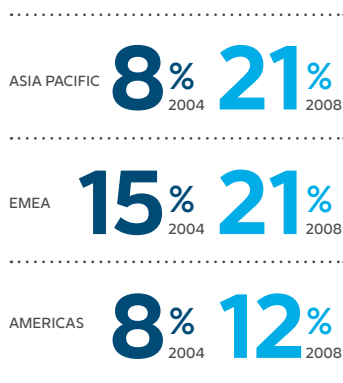
With talent in short supply, employers' CSR reputations are an important tool to attract and retain employees. Companies are also recognizing that they are being held mutually accountable, along with the public sector, for the socioeconomic well-being of the regions in which they operate.

CEO concern about environmental issues has doubled over the past four years globally. However, this concern is not evenly distributed worldwide. CEOs in the Americas are beginning to show more interest, but focus is increasing faster among European CEOs. Asia Pacific actually showed the most dramatic increase, with attention nearly tripling since 2004.

Regulatory compliance, however, is not CEOs' chief concern. As one public sector leader from France points out, "Environmental legislation is less of a problem. It is reasonably easy to be ISO 14000 certified. It is much harder to face media and political pressure from socially active environmental NGOs."

FIGURE 15 THE CEO AGENDA IS GOING GREEN

Concern about the environment has grown significantly over the past four years—especially in Asia Pacific.



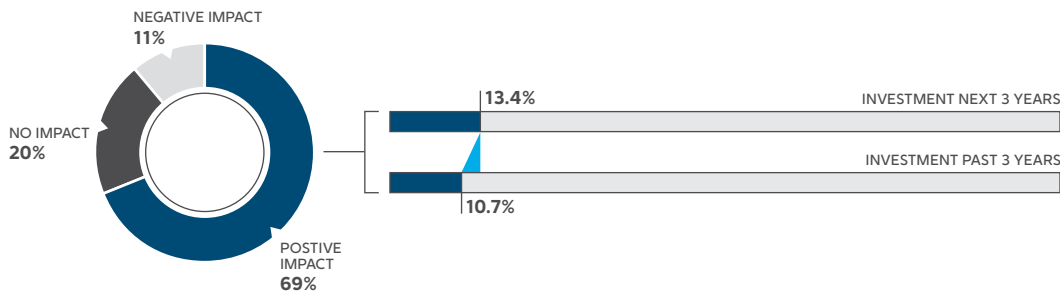
CEOs SEE OPPORTUNITIES NOT THREATS

CEOs are clearly conscious of their obligation to "do no harm" and are painfully aware of the regulators and nongovernmental organizations (NGOs) monitoring their every step. But they also see opportunity in CSR.

CEOs talked about how CSR affects their brands—both at home and in new markets. "Corporate identity and CSR will play an important role in differentiating a company in the future," one electronics CEO said. "This will make a big difference in new markets such as Russia and other Eastern European markets."

FIGURE 16 CSR: OBLIGATION OR OPPORTUNITY?

CEOs are generally positive about the impact of rising CSR expectations and are increasing their investment in this area rapidly.³¹



25%
INVESTMENT
INCREASE

They also described how CSR is impacting their top and bottom lines. “Our organization is responding aggressively to green issues in the marketplace, which have become the focus of several of our key customer segments,” one U.S. CEO told us. “We are introducing new green-based insurance products into the market.”

CEOs were also quick to point out that CSR is critical to maintaining current market share. “Consumers will increasingly make choices based on the sources of the products they buy, even the ingredients and processes used in making these products,” said one consumer products CEO.

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 “Our strong commitment to corporate sustainability will be a clear differentiator for us with all stakeholders.”

Tom Johnstone, CEO, SKF

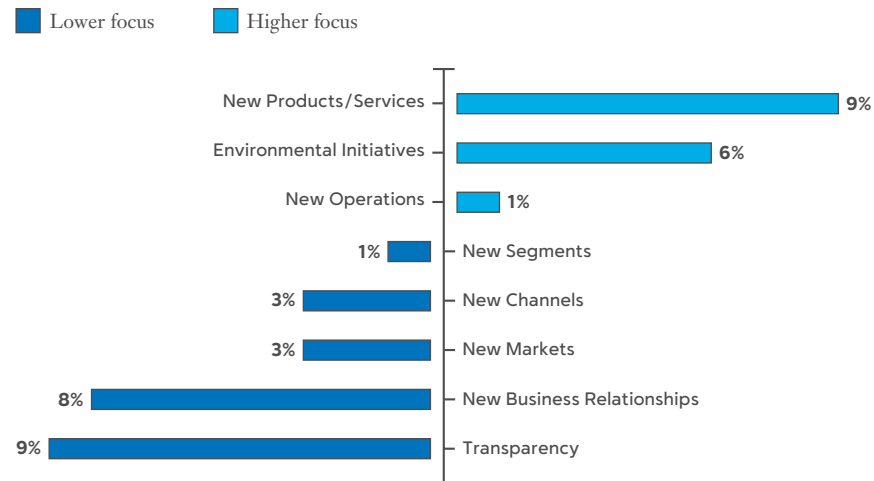
NEW PRODUCTS AND SERVICES TOP OF MIND FOR CSR-FOCUSED CEOs

For the moment, it seems that CEOs who focus on CSR issues invest more in new products and services than other CEOs do. This is perhaps a sign that the initial market and consumer focus is on “socially responsible” and “green” products and services. Over time, we believe companies’ CSR focus will expand beyond new products and services to a broader enterprise “footprint”—the impact they have on the societies in which they operate.

FIGURE 17 CSR-FOCUSED CEOs ARE ENTHUSIASTIC ABOUT NEW PRODUCT POSSIBILITIES

The focus areas of these CEOs hold a couple of surprises. They’re very interested in new product and service opportunities for socially aware customers, however, transparency is not currently a top priority.

Difference between the response of CSR-focused CEOs and the entire sample



LARGEST INVESTMENT INCREASE IN CSR

Although current CSR investment levels are modest compared to the other customer trends we asked about, CEOs plan to spend more over the next three years. Their CSR investments will grow by 25 percent, which is faster than the other trends we discussed—rising prosperity in rapidly developing and developed economies, and informed and collaborative customers. Interestingly, this pattern holds true even among emerging market CEOs (with a 22 percent increase). One CEO from China told us, “Over the last three years, we have invested twice as much in CSR and environment initiatives as we have in the previous 30 years combined.”

.....
“Our company is investing extensively in corporate social responsibility. We need to be a reference in this domain. As the leader of the luxury industry, we have to stay ahead.”

*Yves Carcelle, Chairman and CEO,
Louis Vuitton*
.....



Implications

Many CEOs are already moving beyond doing good and are growing their businesses by being more socially responsible. Here are some ways the Enterprise of the Future approaches CSR even more holistically.

UNDERSTANDS CSR EXPECTATIONS

Too many companies find themselves relying on assumptions about what CSR means to their customers. Only one-quarter of the companies surveyed in a recent CSR study said they understood customers' concerns well.³² But the Enterprise of the Future knows what its customers expect. It uses facts and direct customer input as the basis for its decisions.

INFORMS BUT DOES NOT OVERWHELM

The Enterprise of the Future is transparent, but unobtrusive. It finds creative ways to provide relevant information, such as codes on packaging that allow interested customers to look up details—sourcing information, potential environmental impact and recycling instructions—while in the store or later at home.

STARTS WITH GREEN

Given the price of oil and rising concern over carbon emissions, energy efficiency is critical for businesses as well as our planet. The Enterprise of the Future often begins its CSR changes with environmental initiatives. Through these efforts, it learns more about how to effectively collaborate on issues that affect us all.

INVOLVES NGOs AS PART OF THE SOLUTION

Instead of being wary of activist groups—or simply reporting data to them—the Enterprise of the Future collaborates with them. For instance, it might enlist NGOs to help monitor and inspect facilities or to assist in establishing industry standards.

MAKES WORK PART OF MAKING THE WORLD A BETTER PLACE

Prospective and existing employees want to work for ethical, socially responsible organizations. But the Enterprise of the Future understands that workers also want to be actively involved in solving CSR issues. Its initiatives rally employees together in a cause that literally makes the world a better place.

Case study

MARKS & SPENCER: SERIOUS ABOUT SOCIAL RESPONSIBILITY

To meet growing corporate social responsibility expectations, British retailer Marks & Spencer (M&S) has embarked on a £200-million, five-year plan that impacts almost every aspect of its operations.

When this effort launched in 2006, the retailer knew it needed to engage customers in solving issues, not simply provide them with information. As one example, it gave shoppers bags “for life.” If one wore out, its replacement was free. After four weeks, the retailer began charging for plastic bags, donating the proceeds to environmental charities. Very quickly, customers began reevaluating whether they really needed a plastic bag. Even though the few cents didn’t matter much financially, the fee made people stop and think.

Behind M&S’s 35,000 products sit 2,000 factories, more than 20,000 farms, fisheries and forests, and an estimated 500,000 workers in the developing world. Through its recently established online supplier exchange, the company strives to simultaneously improve efficiency and sustainability. For instance, farmers who create biogases from farm waste are now selling green electricity to M&S—along with their beef.

M&S has proven it’s possible to do well while doing good: the company’s operating profit has increased at a compound annual growth rate of more than 14 percent over the past five years.³³

Are you ready?

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Do you understand your customers' CSR expectations? How are you involving them in solutions?

Do you know which NGOs your customers listen to and are you collaborating with those groups?

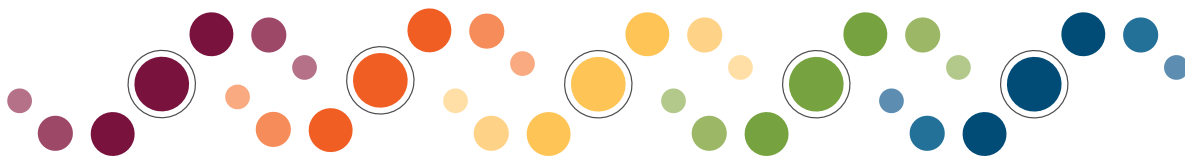
Have you gained insights from current green initiatives that can be applied to your broader corporate social responsibility strategy?

Are you offering employees the opportunity to personally make a difference?

How do you ensure that actions taken throughout the enterprise—and the extended value chain—are consistent with your CSR values and stated policies?

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BUILDING YOUR ENTERPRISE OF THE FUTURE



Thoughts and views on the future of business—or the Enterprise of the Future, as we call it—are evolving quickly. We feel privileged to bring together the emerging thinking of so many CEOs worldwide. Their collective wisdom points to an Enterprise of the Future that is: hungry for change, innovative beyond customer imagination, globally integrated, disruptive by nature and genuine, not just generous.

But there is one more attribute evident in CEOs' responses: despite the challenges and issues it faces, the Enterprise of the Future is fundamentally optimistic. The CEOs we spoke with are upbeat—not just about opportunities for their organizations (important as that is), but also about a bright future for business and society.

We would like to see this latest Global CEO Study not as the end, but rather as a catalyst for ongoing discussions about where business and enterprises are headed. We look forward to working with you as you build your Enterprise of the Future.

Continue the conversation at: ibm.com/enterpriseofthefuture

ACKNOWLEDGMENTS

We would like to thank the 1,130 CEOs, general managers and senior public sector and business leaders from around the world who generously shared hours of time and years of experience with us. Their compelling insights and enthusiasm about the Enterprise of the Future were truly invaluable and inspiring. In particular, we appreciate the CEOs who allowed us to include quotes from their interviews to highlight key thoughts and messages throughout this report.

We would also like to acknowledge the contributions of the IBM team that worked on this Global CEO Study:

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Project Team: Phaedra Kortekaas (Study Director), Denise Arnette, Steve Ballou, Ragna Bell, Amy Blitz, Angie Casey, Sally Drayton, Christine Kinser, Keith Landis, Kathleen Martin and Magesh Vaidheeswaran

And the hundreds of IBM Leaders worldwide who conducted the in-person CEO interviews.

ABOUT IBM GLOBAL BUSINESS SERVICES

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THE IBM INSTITUTE FOR BUSINESS VALUE

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues.

NOTES AND SOURCES

1. For readability, we refer to this collective group as “CEOs” throughout this report.
2. Based on availability of financial information, we were able to include 530 companies in our financial analysis. For analytical and statistical reasons, we compared performance on three financial benchmarks: 1) Revenue compound annual growth rate (CAGR) 2003 to 2006, 2) Net profit margin CAGR 2003 to 2006 and 3) Absolute profit margin average for 2003 and 2006.
3. Market factors typically include: market dynamics, competition and customer behavior.
4. Based on revenue CAGR 2003 to 2006.
5. This finding is from an IBM study called “Making Change Work,” which analyzes change management practices based on input from more than 1,400 change managers from around the world.
6. “Strong 2007 results on continued growth and operational improvement.” ABB press release. February 14, 2008. <http://www.abb.com/cawp/seitp202/402891eccf6a8cdcc12573e20038dd15.aspx>
7. In our survey, the term “total investments” was defined as: all asset investments plus investment in research and development, marketing and sales.
8. “2007 Was the Year of the ‘Omni Consumer’ According to IBM Analysis.” IBM press release. December 17, 2007.
9. In our survey, the term “total investments” was defined as: all asset investments plus investment in research and development, marketing and sales.
10. Based on net profit margin CAGR 2003 to 2006.
11. Based on revenue CAGR 2003 to 2006.
12. IBM analysis.
13. “Nintendo Rewards Its Customers with New Loyalty Program.” Xbox Solution. December 11, 2003. <http://talk.xboxsolution.com/showthread.php?t=1088>
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16. Based on net profit margin CAGR 2003 to 2006.
17. “Expanding the Innovation Horizon: The Global CEO Study 2006.” IBM Institute for Business Value. March 2006. <http://www.ibm.com/services/ceo2006>

18. Based on net profit margin CAGR 2003 to 2006.
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FOR FURTHER INFORMATION

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