

# **Exploring the New Frontiers of Corporate Governance in An Environment of Heightened Uncertainty**

## *Japan and the United States in Changing Asia*

~ Unedited text of the Keynote address ~  
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Partha S Ghosh

The emerging Global Environment characterized by increasing intensity of knowledge in our economic and business models, - from social media to new bio, opto, info and nano technologies do not present a singular set of challenges and/or uniform nature of opportunities to multinational business and national governments; rather, they offer a range of complex and dynamic possibilities that are unique to each nation, and even to local markets within each country.

The new environment, with ASEAN, BRICKS<sup>1</sup>, East Europe's continuing promise of rapid economic development, in absence of any new geo-political and geo-economic disruption, will indeed offer significant growth and large-scale value creation opportunities that any global enterprise must aspire to serve.

However as the world gets increasingly intertwined and dependent on finer and more powerful forces of nature such as *nuclear, nano, photonic and/or genetic*, - levels of technological uncertainty associated with economic advance will only increase. Coupled with this trend, the risks associated with increasing scale of natural and man made disasters are going to make the emerging environment in an evolving state of "heightened uncertainty".

Indeed, the unfortunate developments due to the reckless compromise of ethics in Wall street, the large scale accidents of the oil and gas platforms, nuclear disaster in Sendai and so on, in the past several decades at the macro and micro levels only underscore that we as a civilization have repeatedly failed to build on our collective wisdom.

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<sup>1</sup> BRICKS = Brazil, Russia, India, China, Korea, South Africa

In the process, we continually get mired into acts where the trust people place on leaders and the governance process within governments and businesses is systematically compromised; more importantly, perhaps unconsciously, leaders attach values to measures of success which are highly limited and constrained by lower level human instincts & limited perspective of the lenses they use, often exposing the larger community to sudden economic, financial and/or physical jolts which could have been avoided.

It seems to me, our internal difficulties as human beings to make the right judgment calls—are as serious, if not more, as the external challenges we are faced with in harmonizing our initiatives related to global imbalances in energy, ecology and equity and mitigating the deterministic and stochastic risks that are associated with the alternative pathways mankind may choose. Time has come when leadership of governments (parliaments and senates), academia and businesses –large and small, need to step back and invent a governance process that will facilitate an evolution of a global society that could enjoy the positive side of the possibilities ahead, while containing if not eliminating the risks that come with them.

It is my hope this symposium will point us toward envisioning a leadership development process that will enable more enlightened stewardship of geopolitical and geo economic equations of our planet. Particularly for Japanese business and government, the emerging environment could be strategically significant, so that it could break away from the past two decades of lack luster performance and the recent triple shocks of 3/11, by rediscovering its “*soft assets*” which after all shaped the post second World War economic miracle, and repurposing them in charting a more enlightened socio-economic advance in concert with its partners in Asia and G7.

### **The Emerging Landscape: “*Lots of sound and fury*”**

While the new technologies in energy, transportation, healthcare, social media – including education and entertainment, water management might trigger

development of new industries, continuing financial crises, increasing influence of short term traders creating turbulence - characterized by increasing sovereign debts in G7 and EU nations in the midst of imbalances in Energy, Ecology, and Equity imply that the uncertainties in the emerging environment will be equally significant. The sudden geo-economic and geopolitical disruptions, that we have witnessed only in the last 15 years, just to name a few, – beginning with sudden meltdown of Enron, Worldcom, 9/11 terrorist attack of the Financial center of the world, Hurricane Katrina in Southern US, sudden financial crises due to ethical melt down of Wall Street firms, Toyota's accelerator pedal issues<sup>2</sup>, British Petroleum's Oil Spill in Gulf of Mexico, the triple disasters of March 2011 in Japan, - Earthquake, tsunami, and the worst nuclear crisis (the leakages of the TEPCO Nuclear reactors) since Chernobyl, the recent Mississippi river floods, and Tornados in the 5 states in American south - definitely suggest that humanity has entered an new era when businesses and governments around the world will be increasingly exposed to a "new composite" of heightened risks, - that are indeed significant, complex and profound, - natural or man made, or because of just human negligence and/or short-sightedness.

We will need to understand what I will term the "*dynamics of composite uncertainty*" as defined below:

$$\textbf{Uncertainty} = f(\textit{technological, ecological/natural, financial, ethical, network/systems})$$

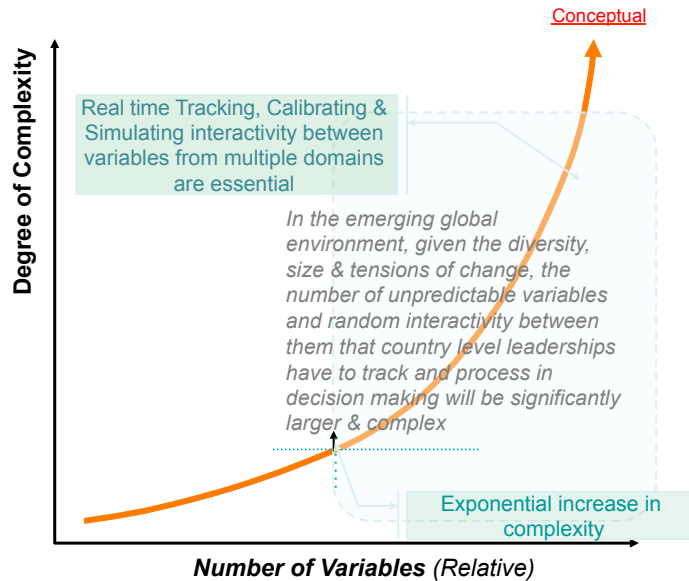
In order to embrace exponentially increasing complexity (Exhibit 1) of today's business and economic environment, which in turn drives uncertainty, businesses and governments must fundamentally change their mindset in terms of what we value, how we engage with each other, and more importantly how we revere the forces of nature, *however microscopic they may be, or how we scale such nano scale forces to build terra-scale systems.*

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<sup>2</sup> Toyota recalled 4.2 million vehicles linked to worn pedal mechanisms that increase friction in certain conditions and cause the accelerator to stick sometimes.

## Exhibit 1: Increasing Complexity

### Complexity of the Emerging Global Environment



Indeed with the increasing complexity of geopolitical and geo economic (including global supply and logistics processes) forces at work, and and with the increasing knowledge (technological) intensity, the new /emerging environment is going to be fundamentally different.

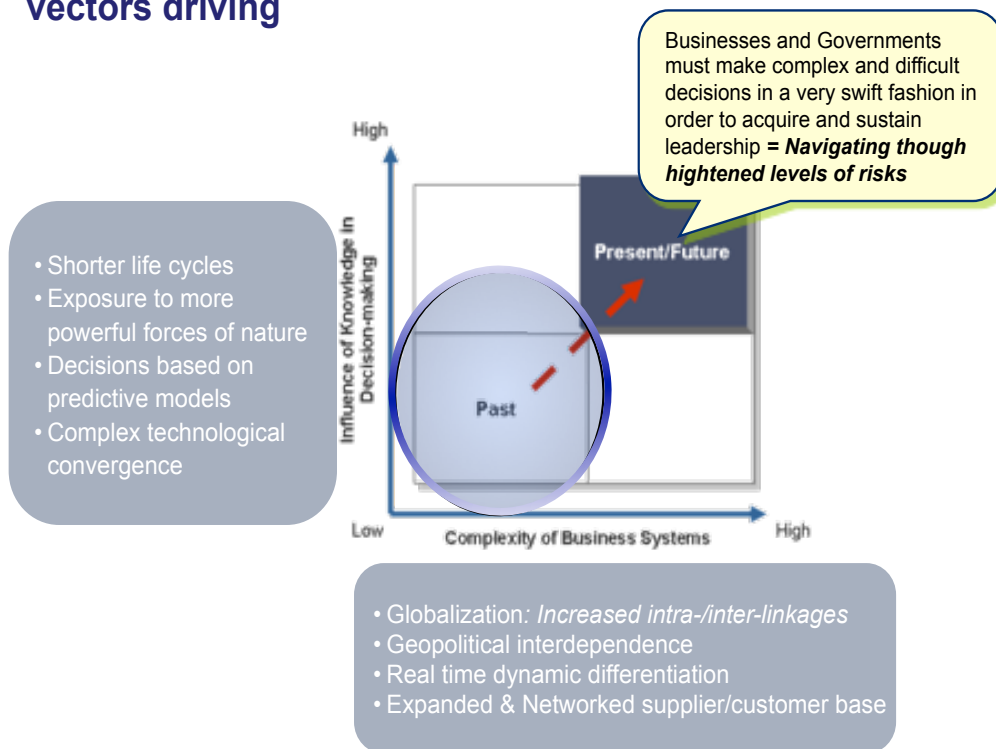
As the Exhibit 2 shows the emerging economic environment (across all industries) is undergoing fundamental shifts along two vectors (i) Complexity of the business system and (ii) Degree of influence of knowledge in business model and decision-making.

- Complexity of the business system is rapidly increasing because accelerating pace of globalization effecting the inter-linkages between different components of the supply chain, geo political interdependencies, real time differentiation requirements, and expanding networks of suppliers and customers ecosystems
- Degree of influence of Technology /Knowledge on decision making is continually increasing as (i) technology life cycles become shorter, (ii) we base

our products on more finer properties/forces of nature, (iii) decisions are based on predictive models of human behavior, and (iv) different technologies converge.

## **Exhibit 2: The New environment**

### **Challenges of decision-making along two fundamental vectors driving**



It is clear the emerging economic landscape will be fundamentally different; any constructive engagement with the new environment has to be developed with a fresh perspective.

### **Towards a New framework: *Being Transformational, yet Practical***

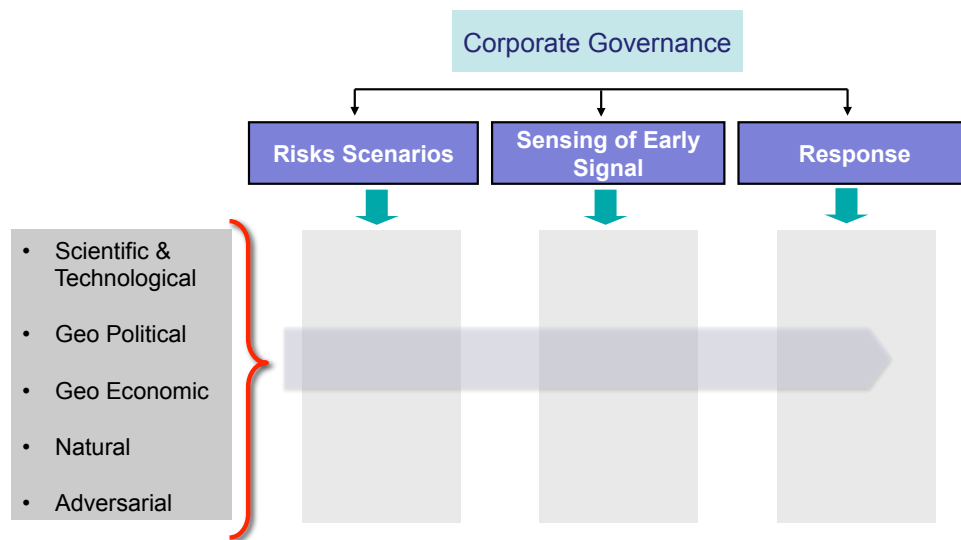
I strongly believe that the time has now come, when we have to agree, beyond the conventional constructs of capitalism, that the fundamental backbone of the global Economic model as we know it today will need to be reinvented. This reinvention of the future must lead to a new relationship between *human and nature*, which is not “*extractive*” but “*enriching*”, which is not *consumption centric* but *conservation centric*.

Without a fundamental shift in thinking and governance process such a reinvention that we are discussing will not be possible; in fact in absence of new thinking, new frameworks and tools, the progress civilization has witnessed in the last 500 years, the current turbulences could well rapidly draw us into a black hole.

It is not the deficit of means, but perhaps the deficit of leadership is constraining humanity from making the next big leap. In an era of heightened uncertainty, the governance process for different sources of risks, must include three strategic components: (i) “*Risk Scenarios*” to assess how different risks might unfold for different geopolitical, technological, geo-economic scenarios (ii) “*Sensing mechanisms*” to pick up and process early signals (*as weak as they may be*) which may drive the development of a specific risk and how it might effect alternative outcomes (iii) “*Response system*” which is swift so that the risks are mitigated swiftly, early in their life cycle. Exhibit 3 shows how such a framework for Governance might work in various organizations – corporate or government.

### Exhibit 3: Governance in an Era of Heightened Uncertainty

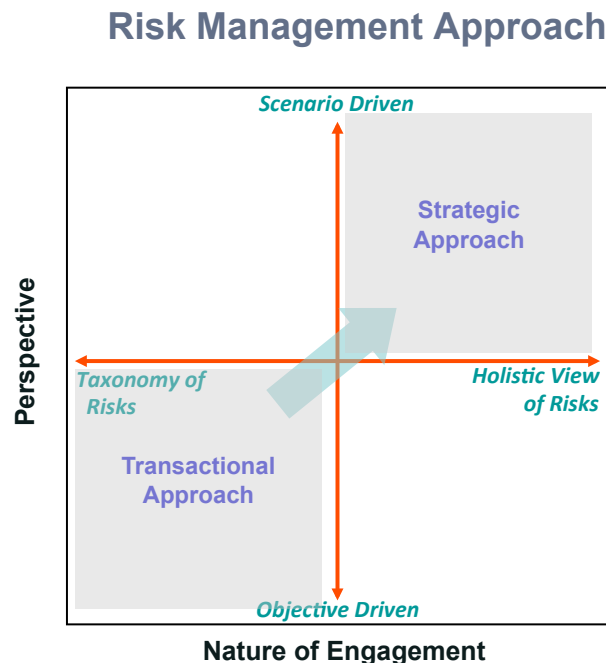
#### New Framework for Corporate Governance



$$\text{Quality of Governance} = f(\text{View, Sensing, Action})$$

We must realize in a fundamentally different environment, leadership of organizations cannot any longer afford to use old risk management tools/techniques and work with old decision making habits. Personal responsibility remains as an important issue when we sort through the carnage. But it is the cost and codes of ethics and reasoning, morality and integrity depend not only where we are standing—Wall Street or Main Street, but also how we as leaders connect with the bigger purpose of being, to rise above the confusion modern society is in—limited by the finite capacity of the earth, powered by the unlimited access to the imaginative spirit. Leadership in the conduct of a more enlightened Corporate Governance process must demonstrate the ability to view risks from perspective of how different scenarios of uncertainties might unfold and how to proactively engage with risks holistically as opposed to discrete isolated outcomes. As shown in the Exhibit 4, organizational leaders must consider managing risks by moving along two fundamental vectors – (i) the perspective you observe events and (ii) the ways you engage with the events, enabling an organizational mindset that is *strategic as opposed to operational*.

#### **Exhibit 4: Risk Management: Transactional to Strategic Mindset**



### **Rediscovery of Japan's "Soft Assets": Towards an enlightened society**

Indeed we need to readjust our lens as to how we view the possibilities and uncertainties at all levels of our thinking: Philosophical, Strategic and Operational. We will need to renew our rules of engagement with nature and with each other, across communities and nations so our future is more sustainable and equitable, and our ability to minimize and mitigate "composite risks" are fully developed.

In this context, underlying the continuing inertia of economic slow down and the recent disasters of March 2011, are certain ingredients of Japan's unique strength deeply rooted in it's heritage – which I will call Japan's "soft assets".

The "soft assets" (the treasures) characterize Japanese discipline as exhibited through continuous search for perfection in all the dimensions corporate life and society(kaizen), "natural conscience" for timely synchronization of tasks, most notably the sense of community ( *where self egos are submerged and community pride factors are strong*) . Personally having had the privilege to serve Japanese corporates from the board rooms to design to tool rooms, I do believe that these are the characteristics which (i) were behind Japanese post World War II economic miracle, (ii) enabled the rise of Japan as the most advanced manufacturing nation, and (iii) facilitated the order and dignity that are consistently visible amid the chaos during the crises that Japan has handled one after another, - from the second world war, oil shocks of the seventies, Yen shock, to Kobe Earth quake to the recent triple disasters in Sendai.

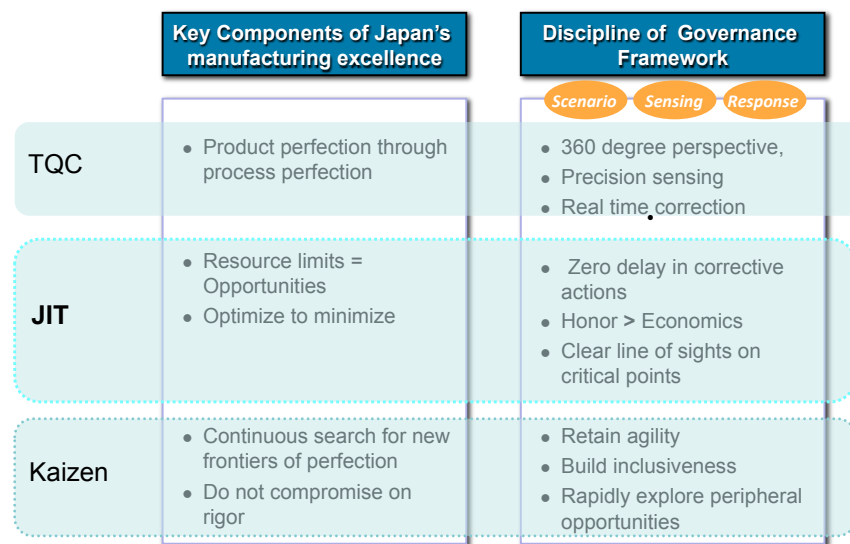
It is my hope that as Japan rebuilds, and faces the longer term challenges of shrinking workforce, aging population, shifting economic and political balance within Asia, as shown in Exhibit 4 it should consider building on its ancient heritage (modern



## Exhibit 4: Governance in an Era of Heightened Uncertainty Japan's "soft assets"

### Japan's Manufacturing Discipline and Future of Corporate Governance

#### Rediscovering the Dynamics of Japan's Manufacturing Discipline



version of Vedic Philosophy) in partnership with G7 and Asia in developing a Governance framework which are essential extension of the discipline Japanese Industry mastered through Total Quality Control(TQC), Just in Time(JIT) and Kaizen. Japan must reclaim the fundamental principles, which it celebrated and perfected in much of the last century, and apply them in today's context. Doing more with less, harmony with nature, and drawing power from inner self, if these were the mantras that fueled Japan's economic engine, in today's high frequency economic set-up, where stakes are high, uncertainties are tall, these principles could well be the bed rock of the future.

The often contradictory demands of driving growth and providing safety & security to maintain social and political stability will put governments under profound pressures which business and government leaders have to be increasingly sensitive to. This trend will indeed lead to invention of new models of collaboration between business and governments, which progressive companies must actively seek.

Particularly as the world shrinks, get exposed to higher level of economic & political turbulences, the resulting interactions between different human tendencies and

inclinations will have profound impact on interpersonal relationships and ways companies do business across the globe. Significantly more softer elements of leadership will be important - the values and beliefs of the corporation have to be strongly embedded in the decision making architecture of businesses so that managers closer to where competitive games are played, where risks have to be sensed and mitigated, are fully empowered to be able to make quick and informed decisions

It is my firm hope that the conference will conclude by offering the audience several new pathways on how the renewed thinking on relationship between man and nature could reinvent the 19<sup>th</sup> and 20<sup>th</sup> century industrial models, in which technological, operational and geo political risks are better contained for 21<sup>st</sup> century development, - which is energy efficient, eco friendly and most importantly will enable equitable wealth creation, and define the next ism beyond modern day capitalism and socialism what I call “X” ism, - an “ism” which enable innovative fusion of cross currents(x) of different strategic and economic reasoning , collision of multiple technologies, towards an unified and inspired purpose.

## About the Author



**Partha S. Ghosh**, a true global citizen, is a policy advisor and a strategist for Corporates and Governments. He is known worldwide as an innovator of Business and Economic models and currently enjoys advisory relationships with multiple organizations in more than half a dozen nations. He helps boards of companies to be strategically more effective and corporate governance more trustworthy. In the last thirty-five years as a professional consultant to leaderships of prestigious organizations worldwide, he has been involved in a broad spectrum of strategic and policy issues in technology based industries. He has done extensive work to assess strategic and technology issues in the Energy Industry both conventional and emerging renewable systems.

Partha Ghosh believes that in the next 25 years the world economy will undergo profound changes which civilization has never experienced before.. Industries and governments will need to reinvent the basic tenants of capitalism implying fundamental transformation of industry and economic models. He passionately advocates that through forward looking strategic and organization models, MNCs could uniquely lead the Global Renaissance. Working with leaders of MNCs the basic question that he wishes to address is: - could leaderships of MNCs rekindle the spirit of exploration and bottom up excitement to draw people towards a higher-level purpose in *creating new knowledge intensive business models and industries in the 21st century? He thinks if the will is there, a transformed eco friendly and energy efficient world, which is more equitable, is indeed within the realm of possibility.*

His clients view him as a “*creative problem solver*” and a “*visionary leader.*” More recently he has been teaching Globalization & Economics at Tufts Gordon Institute, Innovation & Strategic Technologies at the Fletcher School, and Leadership at MIT. Earlier Mr. Ghosh was a partner at McKinsey & Company and is the founder/Managing director of Strategy/Policy advisory firm Partha S Ghosh & Associates.

He has two advanced Engineering and Management degrees from Massachusetts Institute of Technology. He did his undergraduate work at Indian Institute of Technology. An avid public servant, he is one of the founding members of The Boston Pledge, and is involved with multiple philanthropic initiatives around the world. Given his wide range of interests from education reforms, philosophy, international relationships, science & engineering, business & economics, country management, public service, and his experience across cultures and industries, people who know him well, describe him as “*modern day renaissance man*”.