Doing Business in the Global Economy

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Livio D. DeSimone

The University of Chicago
Graduate School of Business
Livio D. DeSimone, chairman and chief executive officer of the 3M Company, St. Paul, Minnesota, is the head of a corporation generally recognized for its innovative products. The firm was recently named by Fortune magazine as one of America's most admired corporations, rated very highly for its ability to attract, develop, and keep talented people, its community and environmental responsibility, and, of course, its innovativeness.

DeSimone, known to nearly everyone as "Desi," has spent his entire career with the 3M Company, having joined the firm upon graduation from McGill University, Montreal, Quebec, in 1957, with a bachelor's degree in chemical engineering. DeSimone began his career as an engineer for 3M Canada, and spent his early years with the company in various factory jobs, including serving as manufacturing director of 3M Brazil.

DeSimone was named area vice president of 3M's Latin American operations in 1975. In his rise to the top spot, he has worked in virtually every major area of 3M's business. He was elected to 3M's board of directors in 1986 and in 1991 was named chairman of the board and chief executive officer, succeeding Allan F. Jacobson, who retired.

Active in many professional and civic organizations, DeSimone is a director of General Mills, Inc., Cray Research, Inc., Dayton Hudson, Inc., and Vulcan Materials Company. He is also a national board member of Junior Achievement; a member of the board of directors of the National Legal Center for the Public Interest; a member of the Business Council and the policy committee of the Business Roundtable; and a trustee of the University of Minnesota Foundation.

Doing Business in the Global Economy

Today's headlines tell of tremendous business, social, and political upheaval. Unfortunately, both media and political attention tend to focus on what's wrong with American industry, what's wrong with big companies, why we're all drowning in debt and succumbing to global competition.

There's some truth to it. Once-admired companies today struggle to survive...while restructurings and layoffs put tens of thousands of people out of work. To be sure, these are serious situations, and they are not occurring exclusively in the United States.

But change represents opportunity. And to address these challenges in a comprehensive manner, we need to start with customer satisfaction and discuss how we can create it, nurture it, and maintain it. Indeed, the ability to anticipate what customers want and need is a substantial differentiator among competitors. But since this isn't a comprehensive dissertation, I'd like to talk today about how 3M people like to think about change, and how we try to prepare to take optimal advantage of tomorrow's opportunities.

We don't claim to have all the answers, and there are days when it seems like we don't have any. But over the years some principles have emerged that we must respect if we are to sustain success in the future. These are principles that tend to endure regardless of the turns of technology, society, and geopolitics.
Specifically, there are two issues that, if properly managed, can help innovation create opportunities for growth while simultaneously diminishing the chance that a failure will be fatal—fatality representing the ultimate in no change. That’s an important point because, although I’m not a futurist, I can predict with a high degree of certainty that there will be failures along any journey. In effect, to survive journeys we must be failure resistant.

The first of the two issues is the importance at 3M of flexibility and diversification in our thinking. The second is our company’s fundamental faith in and reliance on people to foster, create, and influence innovation and accommodate the future.

Flexibility can mean many things, like accommodating many scenarios in many geographies simultaneously, such as inflation, scientific and technological breakthroughs, recession, political evolution and revolution, and the vagaries of the regulatory process all around the world. These are all opportunities to succeed and opportunities to fail. In the arena of environmental regulation, for example, we at 3M have tens of thousands of opportunities to fail—which could make headlines somewhere—at any instant.

But we’re not powerless: We can help prevent failure, and more importantly, ensure the future vitality of an enterprise by creating, maintaining, and nurturing a climate that is change-oriented, one in which people naturally anticipate and embrace business change, as an integral element of societal and technological dynamics.

If we adopt a mindset that everything will change, then we learn to anticipate when possible and to always stay attuned to it. We make a conscious effort to redefine situations and issues, to explore them from different perspectives, and to take advantage of change whatever it may be. But even in organizations that are comfortable with change, increasing size makes it increasingly difficult to retain such culture. In fact, growth and success can become most formidable enemies, as they tend to immunize against change and make organizations change-resistant.

One way to overcome that resistance is to consciously adopt an attitude of realistic self-assessment. A change-oriented mindset means one must be comfortable with self-criticism. By becoming our own worst critics we in effect facilitate change. Don’t always agree with the boss—or anyone else for that matter.

Conventional wisdom tells us that only disasters or crises cause significant behavioral adjustment. An important part of my job—or any leader’s job—is to make sure such wisdom is dead wrong, that we can indeed change quickly even if disaster is not imminent. And though we can’t realistically expect to avoid crises, we can at least learn to identify them before they become terminal or grow large enough to effectively cripple management.

At 3M we view success as a potential enemy. We have $14 billion in revenue, and rank 11th in earnings and 27th in sales on the Fortune 500 list. Our company’s market value is $25 billion, and we are one of only a dozen triple-A rated companies. We appear on the most-admired companies list—even in Japan—and all the lists of innovative corporations. We’d rather appear on these lists than not.
benefits of geographic diversity are obvious; from a financial-opportunity perspective two-thirds of the world’s economy is outside the United States. And there are tremendous opportunities to grow and to leverage existing assets, such as intellectual property and brands.

In addition, geographic diversification contributes to an organization’s collective consciousness. 3M has benefited greatly from diverse thought, so we try to make sure our management (and our company) is comfortable with the global mindset. For example, half of our business is outside the United States. We have companies in 58 countries. One way to achieve this global perspective is to expose as many employees as possible to experiences outside their native countries.

Three-fourths of our top management have worked for extended periods outside the United States. An important factor not often considered is that strong global presence validates a company’s competitive position.

From a pragmatic viewpoint, if you can’t compete everywhere successfully—especially in your competition’s home turf—you might not be as competitive as you think, and that may be a sign of future problems. Diversification means more than doing business successfully in different countries; it also depends on interwoven or synergistic competencies, on advancing core knowledge and expertise, the combination or hybridization of technologies, and the leveraging of assets. For example, 3M’s diversification allowed the linkage of our core expertise in precision coating, chemistry, films, and imaging to develop digital diagnostic laser imagers and digital color pre-press proofing systems.

A similar but less obvious example of innovation stems from the emerging importance of the information/knowledge component of products and services.

Everyone understands that adding an information component to products adds value. But we need not stick to conventional concepts like embedded software.

An example I often use involves a simple glue stick: adding value to a product by adding information—not in the traditional sense of software or data, but through a material. Because the glue was transparent, users of this product often had trouble seeing where they were applying the adhesive. By adding a color that later disappears to the adhesive, we add information to the product and value to the customer.

That innovation was a product of creativity—creativity that flows from our people.

But diversification and flexibility won’t help us much unless we make the most of the human aspect—our fundamental faith in and reliance on people. It’s a principle that’s often discussed, but not always practiced. It stems from a recognition that people are the source of all ideas, of both original, creative thought, and incremental, evolutionary advances.

The ideas people generate expand our perspective and help us navigate into the future. So it’s critically important to pay attention to issues involving people. In an environment of change, lots of things change, but certain human characteristics remain the same.

People laugh, cry, get frustrated, feel a sense of satisfaction from accomplishments, and respond to challenges and recognition. But needs change,
and the workplace is changing, so we need to make sure we're listening to and hearing the concerns of people and adjust appropriately.

That may mean providing more flexible work schedules, flexible benefits, and new approaches to the structure of work. Flexibility in human relations can be just as important as flexibility in strategic planning. As employees endeavor to carry out their responsibilities, we know they want to be recognized for their efforts. At 3M, that means providing an environment that encourages, recognizes, and rewards their individual initiative and contributions.

We go to inordinate lengths in this regard and have many recognition programs: Golden Step awards, Carlton Society, Chairman's Environmental Award, Circle of Technical Excellence, and Pyramid of Excellence for Administrative Employees. Many programs are based on peer nomination.

Whatever success 3M has attained can certainly be traced to technology, new products, effective marketing, and so on. But more precisely, and primarily, the credit goes to the people who built and continue to build those elements of our business. We will be successful into the future, to the extent we remember this and act accordingly—even though this task gets more difficult as the organization grows in size. As size increases, it becomes easier for some employees to lose contact with the purpose of the company. It becomes easier for cynicism to creep in and eventually dominate the workplace.

So we try to take every opportunity to talk about the importance of people, and remind our employees of their paramount value as the essence of the enterprise. We tend to prefer smaller units where possible so as to get the best of large company resources, and the feel of a smaller, more personal company. We try to be comfortable with the realization that failure is learning and not in itself fatal.

We believe it's important to have appropriate explicit human resource principles as a core corporate value, talk about them, update them, and most importantly, follow them scrupulously. In our case they have to do with respect for individuals, encouraging innovation, challenging capabilities, and equal opportunity.

Management must do more than merely possess the faith. It must also preach it and communicate it so that all individuals shape and share a common vision, a vision of opportunity and growth not only for the enterprise, but for everyone in the enterprise.
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