

PhilipKotlerCenter  
for ASEAN Marketing

Second Edition

# Rethinking Marketing

Sustainable Market-ing Enterprise in Asia



Philip Kotler • Hermawan Kartajaya • Hooi Den Huan • Sandra Liu

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**Sustainable  
Market-ing  
Enterprise  
in Asia**

**Second Edition**

Philip Kotler  
Hermawan Kartajaya  
Hooi Den Huan  
Sandra Liu



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Kellogg School of Management  
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U.S.

Philip Kotler is the S. C. Johnson & Son Distinguished Professor at the Kellogg School of Management, Northwestern University. He received his Master's Degree at the University of Chicago and his PhD Degree at MIT, both in economics. He did post-doctoral work in mathematics at Harvard University and in behavioural science at the University of Chicago.

Philip has authored over 45 marketing books and has published over 130 articles in leading journals, several of which have received best-article awards. He is also the recipient of numerous outstanding awards including AMA's "Distinguished Marketing Educator Award", the European Association of Marketing Consultants and Sales Trainers prize for "Marketing Excellence", the "Leader in Marketing Thought" by the Academic Members of AMA, AMA's "Paul Converse Award", the Annual Charles Coolidge Parlin Marketing Research Award and the "Marketer of the Year" award from Sales and Marketing Executives International.

Apart from being very active in consulting for many renowned companies, Philip plays a key role in various academic and professional organizations. He has been a member of the Board of Governors of the School of the Art Institute of Chicago and the Advisory Board of the Drucker Foundation. He has received honorary doctoral degrees from Stockholm University, University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the University of Economics and Business Administration in Vienna, Budapest University of Economic Science and Public Administration, BI Norwegian School of Management, Academy of Economic Studies in Bucharest, National University of Kyiv Mohyla Academy, and the Catholic University of Santo Domingo.



**Hermawan Kartajaya**  
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Hermawan Kartajaya is the Founder and President of MarkPlus, Inc., a strategy consulting firm that was rated the number one Indonesian consulting firm by *SWA Magazine*. Among his clients are major global companies such as Indofood, Goodyear Tire Company and Yamaha. He is an advisor to the Sultan of Yogyakarta and an Honorary Consul for the Czech Republic in Surabaya, Indonesia.

Hermawan is a very active author. His book which he co-authored with Philip Kotler entitled *Repositioning Asia: From Bubble to Sustainable Economy* was an Asian bestseller and was also given a five-star rating by Amazon.com. Apart from numerous other books and publications, Hermawan also co-authored with Philip Kotler and David Young, the book, *Attracting Investors*, and with Philip Kotler and Hooi Den Huan, the book, *Think ASEAN!*

In addition to his consulting business, Hermawan has delivered numerous keynote addresses to various local and international forums. He is the Founder of the Asian GLOBE-The Jakarta CEO Club and plays a significant role in many professional organizations. Apart from being a past President of the Indonesian Marketing Association and the Asia Pacific Marketing Federation, he is the Deputy Chairman of the Asia Pacific Marketing Federation Foundation and the current President of the World Marketing Association.

Hermawan is an advisory Board member of the School of Business Management, Bandung Institute of Technology and an elected Board of Trustee member of the University of Indonesia. He is also a tri-founder of the Philip Kotler Center for ASEAN Marketing.



**Hooi Den Huan**

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Nanyang Technological University  
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Den Huan is Associate Dean (Corporate Services) and an Associate Professor and past Head of Marketing at the Nanyang Business School. He holds a PhD from the University of Manchester, England, and is a member of the Chartered Institute of Marketing, the Institute of Chartered Accountants in England and Wales, and the Chartered Institute of Management Accountants.

Apart from being the Secretary-General of the Asia Pacific Marketing Federation Foundation, Den Huan is an elected Fellow and Programme Committee Member of the Pan Pacific Business Association. He was voted the Teacher of the Year for Business and Marketing Teacher of the year and was a past council member of the Marketing Institute of Singapore and the Singapore Institute of Management.

Den Huan was a Visiting Scholar at the Sloan School of Management, MIT and has published widely. He is a co-editor of the *Nanyang Business Review* and an editorial board member of the *Journal of Creativity and Innovation Management*, the *Journal of Leadership and Organisation Studies*, *International Retail and Marketing Review* and the *Journal of Sports Marketing and Sponsorship*. Together with Philip Kotler and Hermawan Kartajaya, he co-authored the book, *Think ASEAN!*

Apart from being an International Advisory Board member for the School of Business Management, Bandung Institute of Technology, Den Huan is a teacher advisor for AIESEC NTU. He is also an Advisory Board Member for Marketing Management and IS, Cornell University-Nanyang Institute of Hospitality Management and a tri-founder of the Philip Kotler Center for ASEAN Marketing.

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Sandra Liu received her PhD from the University of London and postdoctoral visiting scholarship from the Kellogg Graduate School of Management at Northwestern University. She is currently with Purdue University and actively building collaborations between China and Purdue University.

Prior to becoming an academic in 1990, Sandra had extensive experiences in the pharmaceutical industry with a geographical spread of the United States, Korea, Taiwan, Hong Kong, the Philippines, Singapore, Malaysia, Thailand and Indonesia. She has been active in conducting consultancy and executive training programmes for both academic institutions and industries in the US and Asia, such as Ascension Health, Wishard Health Services, Bayer HealthCare Ltd., China Telecom, 3M, Artal, Shui Hing, Rosemand International and China Resources Company. Sandra has taught courses like Marketing Management, Consumer Behaviour, Industrial Marketing, International Marketing, Sales Management, Small Business Management, Retail Strategy and Strategic Marketing at either the undergraduate or Master's level. She has authored a number of books and journal articles around her research interests that encompass knowledge management and customer relationship management; customer contact channels and sales management; and entrepreneurship. Her current research focuses on the strategic marketing issues in customer contact activities in the healthcare context.

Sandra is an elected Fellow of the Hong Kong Institute of Marketing (HKIM). She was the Director for the Institutional Affairs Committee and served as the liaison person between HKIM and the Asia Pacific Marketing Federation, which together with the American Marketing Association (AMA), the European Marketing Confederation and the Fedaracion Latin Americana de Marketing, forms the World Marketing Association.

## About the Philip Kotler Center for ASEAN Marketing

Collectively, with a population of more than half a billion and comprising some of the leading developing countries and fastest growing economies, in the world, ASEAN is fast becoming a region to reckon with. With the ambition of becoming a single economic community, the ASEAN Community 2015, ASEAN is increasingly asserting its position as a significant regional entity. Increasingly, indigenous businesses are thriving within and across the individual ASEAN countries and more multinational businesses are making their presence felt in ASEAN.

The opening paragraph of the foreword by His Excellency, Ong Keng Yong in the book, *Think ASEAN!* that is co-authored by Philip Kotler, Hermawan Kartajaya and Hooi Den Huan showed how important a role marketing can play in tandem with the economic significance of ASEAN.

*“As businesses expand in the ASEAN region, companies must focus on getting their marketing strategies right. They must ensure that their sales pitches are heard above the din of competition. They must learn how to engage increasingly savvy, empowered and well-informed customers. They must know their customers and connect with them. Marketers must thoroughly understand local, cultural, demographic and psychological characteristics and use them to create opportunities to be truly relevant. They must think ASEAN!”*

Recognising both the importance of ASEAN and marketing, the Philip Kotler Center for ASEAN Marketing (PKCAM) was established to help further promote regional marketing in the ASEAN region and create ASEAN marketers to support the ASEAN Community 2015 and the enhancement of the ASEAN brand. The objectives of the Center are to:

- Uplift the standard of marketing professionals in the region
- Help develop a body of knowledge of the art and science of marketing theory and practice

- Increase the regional network of marketing contacts
- Provide a forum for regional marketing professionals
- Promote ethical marketing practices in local countries.

Further information about the Center can be found at <http://www.philipkotlercenter.com>.

Philip Kotler

Hermawan Kartajaya

Hooi Den Huan

*Founders of the Philip Kotler Center for ASEAN Marketing*

## Preface

*Re-Thinking Marketing: Sustainable Market-ing Enterprise in Asia* offers a fresh perspective to entrepreneurs and academics on understanding how successful business enterprises are managed in Asia. Steering away from the conventional approach of most textbooks on Asian business, this book adopts a holistic perspective, which combines a host of marketing, management and strategy theories with Asian business philosophy. This brings about a broad-based approach to viewing the myriad problems that assail Asian-based enterprises from time to time.

For greater clarity of thought and practicality, the theories are operationalized through a number of models and frameworks. Reflecting the rapidly changing business environment, the models provide new insights into understanding how marketing has changed as a function and become increasingly integrated into a total strategic business approach. Such insights will help an enterprise to stay ahead of its competitors in the new economy. Mini-cases detailing the experiences of Asian companies and captains of industry are included to provide illustrations of how the concepts may be usefully applied.

The chapters follow a systematic flow of thought that will guide the readers through a strategic voyage on managing an enterprise in Asia. Chapter One begins by introducing a series of models for understanding the complex environment in which the company is operating. The Rocket, Sustainable and Marketing Models consider the many variables affecting the viability of the company.

Chapter Two describes the factors that form the future business landscape of the company. In a system framework, it introduces the 4C-Diamond Model to explain how these factors are related to and influence each other in a dynamic fashion. The anatomy of the interaction among the forces of change provides a clearer picture to business leaders of the factors that are critical to an in-depth understanding of the Asian business landscape.

Chapter Three takes a proactive stand. It illustrates the architecture for transforming the strategic plans into reality. It draws a parallel between strategy, tactic and value with the need to explore, engage and execute. This reinforces the notion that strategy formulation alone does not change the destiny of the company. Indeed, companies require the appropriate tactics and people to set them in motion.

Chapter Four takes a post-operational perspective. It assesses the effectiveness of the strategy in how it caters to the stakeholders of the company: the shareholders, employees and customers.

Chapter Five sets the stage to further develop the enterprise. A redefinition of the strategy—merging inspiration, culture and the company—is important. Again, many real-life cases are added to explain how these are achieved by leading Asian firms.

Overall, this book aims to contribute to our current knowledge of how to run a successful enterprise in Asia. It can be used on a stand-alone basis or in tandem with *Rethinking Marketing: Sustainable Market-ing Enterprise in Asia: Text and Cases*, *Principles of Marketing* by Philip Kotler and Gary Armstrong and *Marketing Management* by Philip Kotler. Practitioners and industry executives will find this book useful. In addition, this book can also be used for undergraduate and postgraduate academic courses as well as for executive education programmes.

This publication would not have come about without the contribution of a number of individuals and organizations. We would like to thank all the contributors and reviewers for making this publication possible including Dr Benjamin Tan and Dr Seet Lip Chai, whose comments were included in this preface. We also wish to express our deep appreciation to all who have assisted the case contributors or us in one way or another, including Ms Grace Sai, Ms Esther Chung and Mr Nagar Lai. Special thanks go to Chua Hong Koon, Tan Chor Meng and Raffaie Nahar of Prentice Hall, and Yuswohady of MarkPlus&Co. Without all their assistance, this book could not have materialized.



The axis on which the world economy is turning now is centered in Asia. Asian economies are expanding at a rate faster than that of the developed countries.

Though there are pockets of disturbances, Asia in general has benefited from macro-economic stability, high investment in human capital, relatively stable and secure financial systems, public investment infrastructure, openness to the foreign investment and technology, and thriving export industries.

Hence *Fortune 500* firms are now turning towards Asia to achieve efficiencies in cost capacity and time, and to market or to obtain specific expertise not available in-house.

Asian businesses within Asia have to face a three-pronged competition – from within, from neighboring countries, and from invading multinationals. In such a scenario, traditional marketing has to be realigned to meet the specific problems of Asia.

*Re-thinking Marketing* has done just that. It is no surprise that it has been a bestseller in the region. Whether your objective is to reshape the company, increase efficiency, expand market share, develop a brand image or start a new business, reading this book is a must. Complex ideas and concepts are presented in a very clear and simple manner.

New thinking, success stories and practical examples form the backbone of this book, bringing about a synergy between marketing theory and practice. It is crafted skillfully and other writers may find that the bar just got higher.

As President of Asia Marketing Federation (AMF), it gives me great pride that the co-authors of this innovative book are no less than the Hon. Patron of the AMF, Prof. Philip Kotler, the world-renowned

marketing guru; the Patron of AMF and President of the World Marketing Association Hermawan Kartajaya, who is the Asian marketing guru; Prof. Hooi Den Huan, Secretary General of AMF Foundation; and Prof. Sandra Liu of Purdue University, who is a Fellow of the Hong Kong Institute of Marketing, a member body of the AMF.

Prof. K. U. Kamalgoda  
President  
Asia Marketing Federation (AMF)

# **Introduction**

*About the Sustainable Market-ing Enterprise Model*

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The Sustainable Market-ing Enterprise (SME) model which is used in this book is a *redefined, comprehensive and simple, yet very powerful* model. Firstly, we *redefine* the marketing concept which was previously known only as a *functional* concept. Marketing as a function is dying and is losing its ground. Through the model we strongly argue that market-ing has to be a *strategic business concept* that aims to achieve sustainable satisfaction for three main stakeholders: the customers, people in the organization and shareholders. Market-ing is the soul, not just one part of the body in any organization. Therefore, everyone in an organization should be a marketer.

Many people with little or no marketing experience think of marketing as the study of selling. Those who already have extensive professional experience, or have undergone intensive academic training, see it as a marketing mix of product, price, place and promotion. We redefine marketing to embrace not only this rather narrow sense of the word, but also a much wider and more comprehensive sense. Marketing can be seen in terms of three strategic dimensions: Outlook, Architecture and Scorecard. It involves three strategic activities: conducting an assessment of your future business landscape; designing and executing your business architecture—segmentation, targeting, positioning, differentiation, marketing mix, selling, brand, service, process; and finally, balancing your value proposition to your key stakeholders.

Through the model we also argue that in today's turbulent business environment every business must win in the changing market. That is why market-ing should also be interpreted as "dealing with the market". It means that you must dynamically and intensively interact with your market, not only the *commercial market*, but also the *competency market* and the *capital market*—for simplicity, we call it C<sup>3</sup>. Through intensive interactions with the market, a company will not only be able to orientate the markets but also "dissolve" into them. It also means that the market is

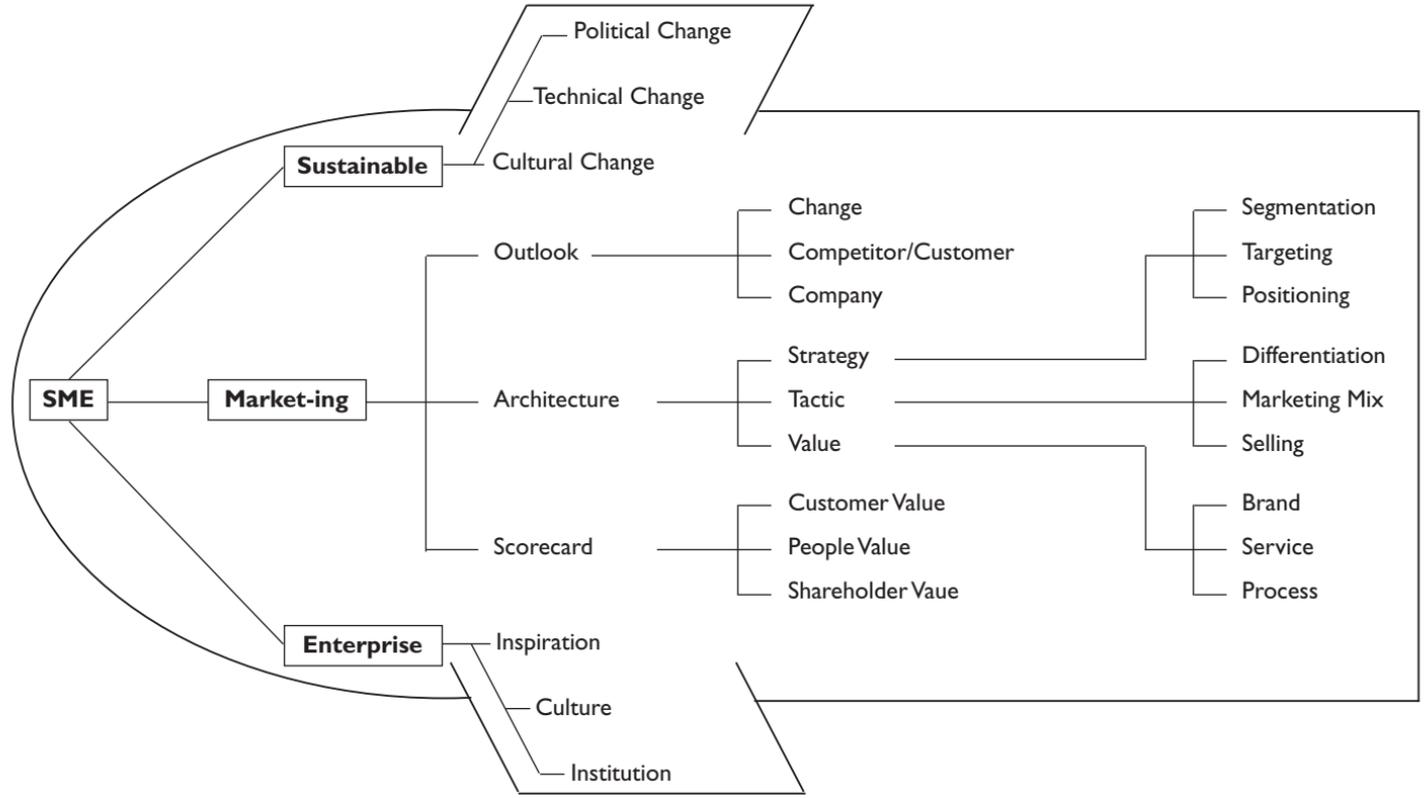
more important than marketing itself. That is why in our model we write “marketing” as “market-ing”.

Secondly, it is a *comprehensive* model that covers all dimensions of a company’s strategy. We like Mintzberg, Ahlstrand and Lampel’s book, *Strategy Safari*,<sup>1</sup> which compiles and categorizes all business strategies created by various scholars, consultants and practitioners into ten schools of thought. We are amazed by this book, in which the authors commented and explained the contributions and weaknesses of each school of thought. In the book’s conclusion, they argued that there is no single “perfect” school of thought. This shows that if you want to develop a business strategy, you must consider all models, tools and methods from each school without getting confused.

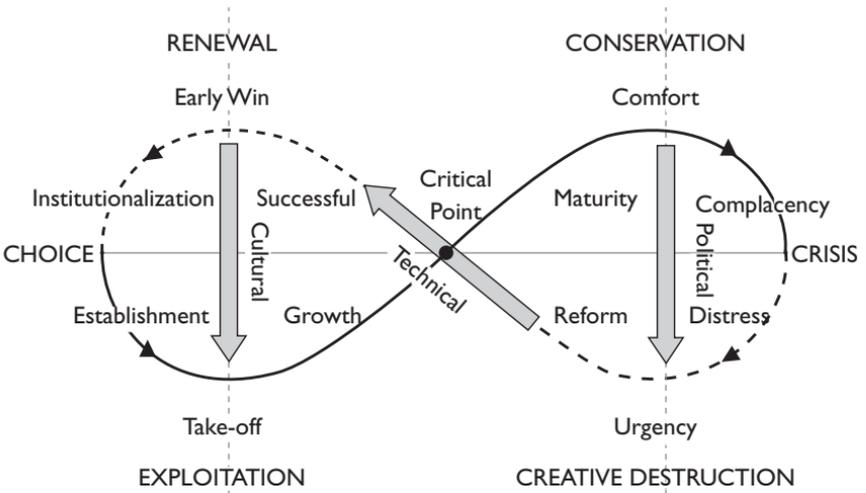
We prefer *Strategy Safari* to *The Dilbert Principle*, which underestimates the contributions of various business concepts. Therefore, even though the SME model is not the combination of all schools of thought, it is really a comprehensive strategy concept, which considers all important aspects of each school. It is a comprehensive model that could be used to transform your business into a dynamic sustainable enterprise that proactively senses and responds to the ever-changing market.

Thirdly, the SME model is a very *simple* model that can help you navigate as you are doing your transformation journey. To convince you that it is a very simple model, it will be better if we explain, with our helicopter view, the structure and main ideas of the model. To make you easily understand the model, we illustrate it using a tree diagram—we call it the “rocket diagram”—as shown in Figure I.1. It contains three further models: *Sustainable*, *Market-ing* and *Enterprise*. The Market-ing model is the core part of the SME model; that is why we depict it as the fuselage of the rocket. We depict the Sustainable and Enterprise models as the wings of the rocket, to show that they function like the wings that navigate your transformation journey.

The first part, the Sustainable model, is about how you build sustainability to survive in the ever-changing landscape (see Figure I.2). We argue here that sustainability is the prime element of any business in an ever-changing market. We also argue that during the transformation journey you have to initiate *political*, *technical* and *cultural changes* inside



**Figure I.1** SME "Rocket" Diagram

**Figure 1.2** Sustainable Model


the organization in order to win in the changing business environment. The political change is about how you manage the allocation of power and political issues inside the organization, where as a tough decision maker and a courageous risk taker, the CEO plays critical roles in initiating and driving all the transformation efforts. The technical change is about how you formulate and implement a new business architecture, while the cultural change is about how you build and implant your new shared values and behaviours that support your new business architecture. We discuss the Sustainable model in detail in Chapter One.

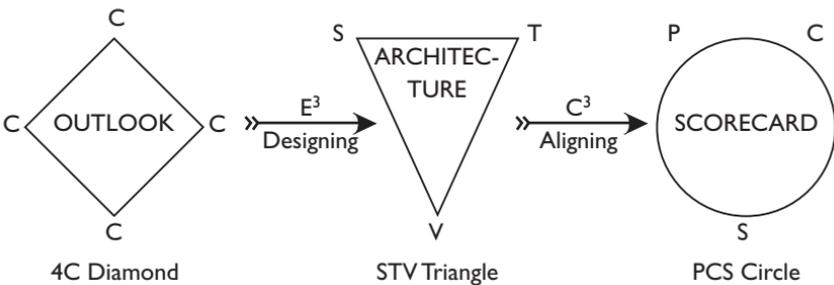
The second part, the Market-ing model, which is the core of our SME model, has three sub-models: *Outlook*, *Architecture* and *Scorecard*. It is about how you analyse the outlook for your future business landscape, design your business architecture and finally, balance your customer, people and shareholder value scorecard. In the Outlook sub-model (discussed in Chapter Two) you should analyse your future business landscape based on four mutually exclusive collective-exhaustive factors: changes (technological changes, economic condition, political-legal forces, socio-cultural forces and market shifting), competitive situation, customer condition and company's internal condition. That is why we also call

this analytical tool the 4C Diamond: *Change, Competitor, Customer and Company* (see Figure I.3).

This analysis not only tells you the existing condition and current development of your company, but more importantly, it gives you a picture of the company's future business environment profile and internal condition: who your competitors will be, how customer priorities will shift, or what business opportunities will arise and how to build competence in order to exploit them. You must remember that any business is established not only to win in the *existing* market, but also to win in the *future* market.

In the Architecture sub-model (discussed in Chapter Three) you begin to design what we call the company's business architecture. In doing this you will develop the landscape for *exploration, engagement and execution* (E<sup>3</sup>). The Architecture sub-model comprises three components: *Strategy* (S), *Tactic* (T) and *Value* (V), collectively called the *STV Triangle*<sup>2</sup> (see Figure I.3). Strategy is about how to win the *mind share*. Tactic is about how to win the *market share*. Value is about how to win the *heart share*. Each of the three components is further divided into three elements, making a total of nine elements in all. Strategy comprises *segmentation, targeting and positioning*. Tactic comprises *differentiation, marketing mix and selling*. Value comprises *brand, service and process*. We call all these elements the *nine core elements of Architecture*. They are essential to any company. You

**Figure I.3** Market-ing Model



Source: Philip Kotler and Hermawan Kartajaya, *Repositioning Asia: From Bubble to Sustainable Economy*, © 2000 by John Wiley & Sons (Asia) Pte Ltd. Reprinted by permission of John Wiley & Sons (Asia) Pte Ltd.

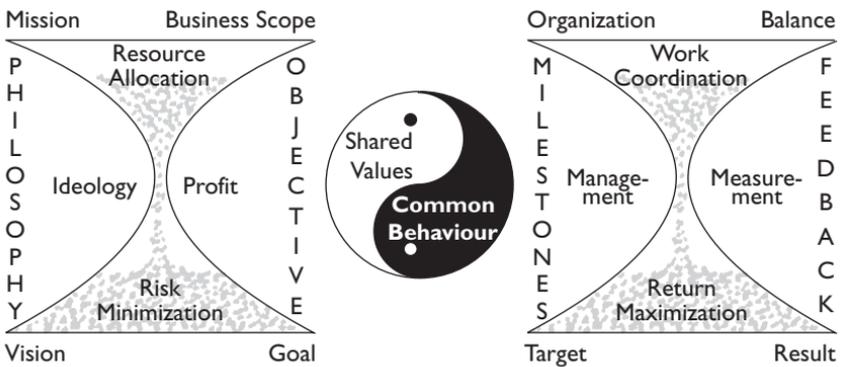
cannot afford to ignore any of them. Together they constitute the “grand design” of your company.

Lastly, in the Scorecard sub-model (discussed in Chapter Four) you should continuously balance your value propositions to your three main stakeholders: people, customers and shareholders. That is why we also call it the PCS Circle (see Figure I.3). Once you design your architecture, you should market it to the right targets. You should identify, acquire and keep the right people in the competency market, the right customer in the commercial market and the right shareholder in the capital market. To acquire and keep them, you must create excellent value for them. The Scorecard is needed to ensure that you have delivered a superior value to your main stakeholders. It is a controlling and monitoring tool to guarantee your excellent value. We strongly argue that by controlling and monitoring the scorecard continuously, the sustainability of your stakeholders’ value will be optimally managed.

In Chapter Five we will discuss the third part of our comprehensive model, the Enterprise model. It has three components: *Inspiration*, *Culture* and *Institution*. Inspiration is about *dreams*: a company should have a dream that will inspire, guide and stimulate all people inside it. Culture is about *personality*: a company must have a strong personality that provides the “glue” that holds the organization together as it grows, diversifies or expands its market. Lastly, Institution is about *activity*: a company must be able to manage its activities efficiently and effectively to realize its vision and goals.

We use an hourglass to illustrate the Inspiration component, as shown in Figure I.4. We divide the hourglass into two aspects, the *Philosophy* dimension on the left and the *Objective* dimension on the right. On the Philosophy side, the company must formulate its *mission* and *vision* to provide guidance and “reason for being” for the organization. On the Objective side, it must formulate its *business scope* and *goals*. Business scope is the translation of its mission (see the upper part of the hourglass) while goals refer to the “translation” of vision into a company’s operational activity (see the lower part of the hourglass). The hourglass illustration is used to show that the correct formulation and execution of mission, vision, business scope and goals will lead to effective allocation of resources

**Figure 1.4** Enterprise Model



Source: Philip Kotler and Hermawan Kartajaya, *Repositioning Asia: From Bubble to Sustainable Economy*, © 2000 by John Wiley & Sons (Asia) Pte Ltd. Reprinted by permission of John Wiley & Sons (Asia) Pte Ltd.

within the company. And if this can be done well, the results will “trickle down”—like the sand in the hourglass—creating an organization that is able to minimize its risks effectively.

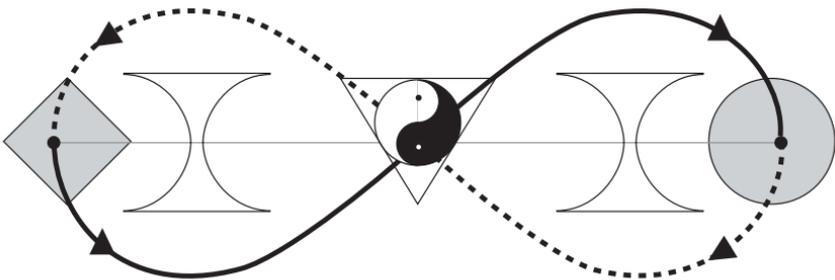
The second component of the Enterprise model, Culture, is shown in the central part of the illustration as a *yin-yang* symbol. As represented in the symbol, it contains two elements: *shared values* and *common behaviour*. Values are the organization’s essential and enduring tenets adopted by all employees inside the organization, and serve as the guiding principles for their activities. These values tend to be deeper and less visible, but persist over time even when the organization changes. Behaviour refers to the common ways of acting that are found in an organization. Behaviour is more visible and is relatively easy to change.

The last component of the Enterprise model is Institution, which, as seen on the right hand of the figure, is also illustrated using the hourglass. As you see in the illustration, on the *Management* side, your predetermined mission that is translated into clear business scope must be supported by a solid *organization’s* system and structure. Meanwhile, vision and goals must clearly be determined so that they can act as a spur for the company’s operational activities. On the *Measurement* side, the implementation of the mission and the business scope, and the realization of the vision

and goals, must be measured for performance. There are two areas that should be addressed. First, the measurement must refer to results. Second, it must always focus on the balance of creation of value for your three main stakeholders: customers, people and shareholders. This is important, because you cannot sustain the creation of value if the fulfilment of your shareholders', customers' and people's needs are not aligned.

In Figure I.5, we combine all the models into one comprehensive model. With this we want to say that if you drive your business through the sustainability loop, you must always redo the Outlook, Architecture and Scorecard, while at the same time you must review the Inspiration, Culture and Institution. Are they still relevant with the ever-changing market as the dynamic business environment? What modifications, adjustments or even transformations will you need in driving through the loop?

**Figure I.5** Total Comprehensive Model



Source: Philip Kotler and Hermawan Kartajaya, *Repositioning Asia: From Bubble to Sustainable Economy*, © 2000 by John Wiley & Sons (Asia) Pte Ltd. Reprinted by permission of John Wiley & Sons (Asia) Pte Ltd.

## NOTES

- <sup>1</sup> Henry Mintzberg, Bruce Ahlstrand and Joseph Lampel, *Strategy Safari: A Guided Tour through the Wilds of Strategic Management*, New York: The Free Press, 1998.
- <sup>2</sup> Here we write Strategy, Tactic and Value with capital letters to differentiate them from the terminology of strategy, tactic and value commonly known. Strategy here refers to the three strategic elements of Architecture which are segmentation, targeting and positioning (STP). Tactic refers to differentiation, marketing mix and selling. Value refers to brand, service and process.

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## 1 Drive Your Sustainability Loop

South Korea's Samsung Electronics was once a typical Asian bubble company.<sup>1</sup> Like many *chaebols*—which dominate South Korea's economy—Samsung was so obsessed with growth that it had over-capacity in major industries that it was involved in and piled up a huge debt. In 1997, the company's long-term debt of US\$18 billion was three times its total equity.

Over-reliance on memory chips—accounting for 90% of corporate profits and half of all sales in 1995—turned Samsung into a very volatile and risky business. The crash in memory chip prices, followed by the nationwide economic collapse of 1997, has made Samsung executives sit up and think. Recently there has been a growing realization that the company needs to change. Wasteful manufacturing practices continue to exacerbate the problem. In managing television inventories Samsung was carrying up to three months of excess inventory by 1997. Workers were evaluated by unit manufacturing cost alone, that made them produce more and more without caring whether or not the products were sold.

Samsung's chairman picked Yun Jong Yong, an electrical engineer who had been with the company since its founding in 1969, as the man to spearhead the change. Yun's first move was to retrench half of the senior managers, and reduce the payroll by about one third. This reduced employee numbers from 84,000 to 54,000. He then sold off US\$1.9 billion in assets, from an executive jet to an entire semiconductor division. Thus, in one fell swoop he caused a dramatic financial restructuring of the company. He also cut many unnecessary expense items, such as golf-club memberships, executive meals and chauffeured cars. Yun also announced that henceforth, Samsung factories would only produce goods after orders had been received in hand and profitability was assured.

Such moves, radical in the extreme for a South Korean company, have enabled Samsung Electronics to slash long-term debt by US\$10.8 billion, reducing debt to less than 100% equity. This has reassured bankers,

who moved to keep Samsung's credit lines open just when the company needed them most.

Acknowledging that restructuring is only the first step, since cost reductions alone will not produce big profits, Yun further elaborates that earnings will now be derived from intangible assets such as marketing capabilities, brand image and new product lines. Without letting up on the effort to cut costs, Samsung Electronics is now going out for the competition by focusing on innovation and improving research and development initiatives.

The old obsession with market share and setting production and export records is giving way to a focus on making money with high-end products based on innovative designs, such as Internet music players, flat-panel displays and 5.5-oz. cell phones with voice-activated dialling and Internet access. Once dependent on commodity memory chips for half of all sales and 90% of all profits, Samsung Electronics has greatly broadened its base. Today, the company is a global leader in telecom devices, liquid crystal displays and digital appliances.

Samsung Electronics has achieved very satisfactory results. In 1999, the company performed outstandingly with sales up 30%, gross profit up 38% and operating profit up 45%. Net income skyrocketed 1,000% to 3.170 billion won, surpassing the previous 1995 high of 2.505 billion won by a solid 26%. In the same year, the company's stock, listed in Korea and widely held internationally, rose 233% to \$227 a share.

Samsung maintained—and even improved upon—growth figures in 2000 by notching up a 31% increase in sales and a jump in gross profit of over 45%. Operating profit soared by 66%, while net income rose by 90%. Samsung has therefore provided unequivocal proof that the ongoing effort to deliver greater value to customers, partners and shareholders has given the company a solid, efficient and profitable financial structure that is second to none.

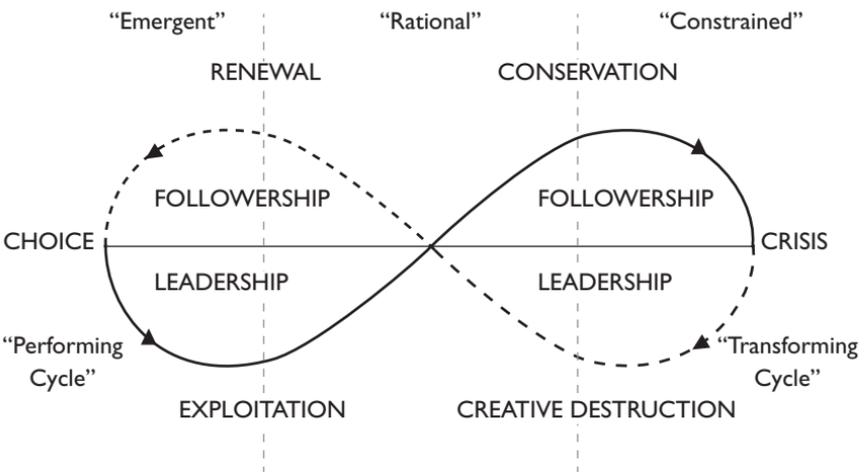
Samsung Electronics was one of the few Asian companies that survived, even thrived, in the middle of the crisis. Since the crisis in 1997, the Asian business environment has been changing rapidly as a result of globalization, digitization and democratization. One consequence of this turbulent situation was that the market was also in a constant state

of change. To be successful, like Samsung, every business must win in the changing market. This is why marketing should be interpreted as “dealing with the market”. It should be the “soul” of any business strategy model. By basing the business model on marketing as a strategic business discipline, the business is supposed to become a sustainable enterprise. The Sustainable model—the first part of the SME model—is the prime element of business in the ever-changing market. A company’s ability to adapt to these changes is an important prerequisite for success.

### SUSTAINABILITY LOOP

If sustainability is the key, our next question is: How can a company be sustainable? A model we adapt from David Hurst answers this question well<sup>2</sup> (see Figure 1.1). When you start your business, you usually have a choice as to what business you will be in. Then you exploit your energy, resources and people to make it real. It is never very easy to start a business, even though you may have a guaranteed market; you must still go through the start-up stage. During this stage, you are still in the *emergent* phase, where everything is usually fast-action-oriented. Everyone has a high fighting spirit. Often there is a good entrepreneurial leader who can

**Figure 1.1** Sustainability Loop



Adapted from David Hurst, *Crisis and Renewal*, 1996.

mobilize the energy and show the bright future of the business to other people. There is no good system in this phase, but everyone's effort is focused in one direction.

Not all businesses will succeed; some will fail for any number of reasons. However, if your business takes off and grows continuously, then it enters the *rational* phase. During this phase, you start to see the result of your efforts. You grow and grow every day. You become more confident about your choices; you feel good about your strategy. Very often you become so confident and arrogant that you will conserve whatever you have been doing so far.

During this phase, your business will usually develop a good system. You start to develop good strategic and operational management. Why? Because you start to worry about controlling your growing business. This is called the *era of rationality*, which is very different from the *era of emergency*. Everybody works in a system. This is not the same as in the emergent phase, when job descriptions were not very clear, but the direction was.

Now, everybody has a clear job description, even though it does not guarantee that the direction is focused. Why? Because everyone is only concerned with his or her own cause, rather than with the company's focus. This is a dangerous and crucial stage of a business, since you increasingly become a prisoner of your own system. You want to conserve everything that has been proven right. Nothing, however, is right forever—as the ever-changing market shows.

During this stage, a business needs a good “followership”, as the leader who started the business begins to lose his touch. Or perhaps, even if he is still a good leader, he fails to practise what he practised before. Now it is the *followers* who must take the lead. There are many books on how to become a good leader, but it is very difficult to find a book on followership. A good follower must not be passive, but actively provide feedback, because he or she is the one in the field, on the battleground.

The Japanese calls this *gemba*, the place where the real work is done. Those in the field have a good sense of what kinds of changes are happening in the market. The leader, who used to work in the market, is now confined to the boardroom. He or she sees, learns and observes the survey results.

However, he or she is less sensitive because he or she is no longer attached to the market. A good follower must want to “sense” the changing market, analyse it, and dare to report his assessment to the leaders. Noel Tichy in *The Leadership Engine*<sup>3</sup> argues that a good leader must create leadership at all levels in the business organization. Everybody must be a leader. Otherwise, nobody will take care of the changing market.

There are so many examples of big companies that, even with a very good system, eventually fail because they do not have the ability to adapt to the new market. These new market conditions may be created not only by the changing consumer behaviour, but also by new competitors, new technologies, new regulations or new lifestyles.

The cycle from “choice” to “crisis” is called the “performing cycle”. It is a cycle that brings a company down, up, and then down again. It is possible, however, to create a “sense of crisis” before the real crisis occurs. Jack Welch of General Electric (GE) is one such example. Welch created a sense of crisis within GE, while GE was still financially strong. As the newly elected CEO, Jack Welch saw that GE must only be in the top global industries. He carried out “creative destructions” by selling several subsidiaries and laying off a large number of employees.

Unpopular decisions are often needed at the creative destruction stage, because the leader wants to initiate the cycle of transformation. This is much harder if the business has experienced the real crisis. Very often, the people will not allow the internal leader to lead the transformation. In this case, the company must bring in an outsider, perhaps someone who is not from the industry, to be the transformation’s catalyst.

The responsibility of a transformational leader is to renew the company. He must challenge the difficult times, the difficult situation and the difficult people. The previous strategy, culture and people, though they may have been entirely appropriate in previous times, may not fit the new market. The “change movement” is included in the transforming cycle in recognition of the fact that it is always difficult to change. In the creative destruction stage, “existing-unfit” values are destroyed. During the renewal stage, “future-hopeful-fit” values are created.

If the transformational leader—be he the existing leader or the new leader, an insider or outsider—succeeds in renewing the business

by making the right choices, he completes the transforming cycle. To be successful, an organization also needs a good followership. It is very hard for a leader to renew the company without this support, since he is now responsible for restarting the performing cycle. He must prove to everybody that his new choice is right. The cycle then begins again. A sustainable company is a company that can drive a continuous loop in the face of the ever-changing market. Sony is an example of a company that does not stand still. In response to the changing competitive and technological landscape in this new broadband age, it has diversified into new business areas such as electronics, games, entertainment, financial services, and the Internet and communications, and has initiated a new global hub management structure.

The SM Prime Holdings, Inc. case is very interesting. SM Prime Holdings, Inc. was an established company in the Philippines that successfully built its sustainability by changing the business landscape and influencing its consumers' "mall" behaviour. Instead of being driven by its changing landscape, SM was driving it.

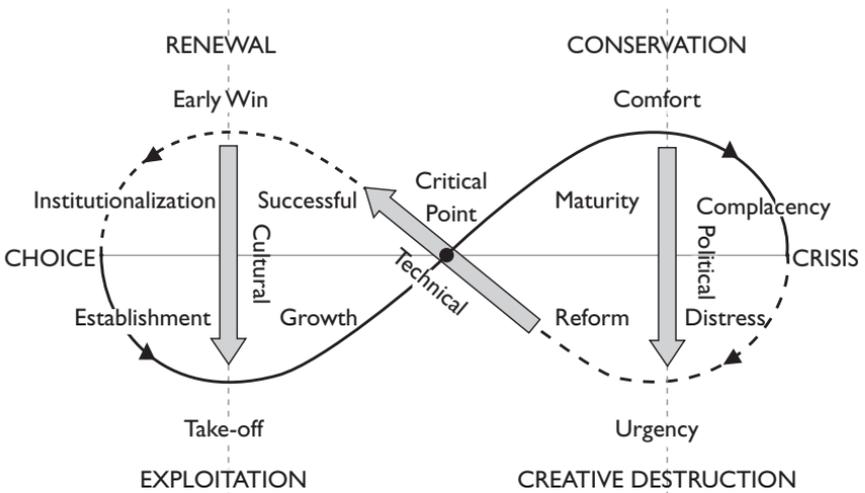
## **POLITICAL, TECHNICAL AND CULTURAL CHANGE**

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We have discussed that a sustainable company should successfully drive its continuous loop—make a journey from exploitation to conservation, crisis, creative destruction, and then renewal. The next question is, how should you do this? The key is how you create change in every phase of your transformation journey. To drive your loop you should introduce three strategic changes: political, technical and cultural change.<sup>5</sup> Political change is change related to the allocation of power and political issues inside the organization. Technical change is about how to create and implement new business architecture and strategy. And cultural change is about how you build and implant your new shared values and behaviours that support your new business architecture and strategy.

We argue that during the conservation, crisis and creative destruction phase, a company should initiate tough political change (see Figure 1.2). During this critical phase company leaders must directly be in charge, make tough decisions and take risks in solving all the company's problems. When Yun Jong Yong became CEO in 1997, Samsung was the lowest

**Figure 1.2** Political, Technical and Cultural Change during Transformation



### Case Study 1.1

#### SM Prime Holdings, Inc.: Malling as a Way of Life<sup>4</sup>

Malling has become a way of life in the Philippines with the advent of malls mushrooming in the nation. Filipinos have shifted from strolling in open parks and leisure areas to spending their weekends and even their weekdays inside malls. In this regard, SM Prime Holdings, Inc. played a significant role in this change in lifestyle habits of Filipinos because of its strategic move to establish big malls in Metro Manila and in key areas in the country. The company's vision to establish the biggest mall in Asia—the Mall of Asia—will further assert its status as Asia's "Best-Run Company in the Philippines".

In the Philippines, the initials "SM" sound so very familiar to almost every man, woman and child. Almost everyone knows what the letters stand for: Shoemart, the small shoe retail store started on Carriedo St. in the district of Quiapo, Manila, capital of the country, by Henry Sy, Sr. more than 50 years ago.

After one has followed the growth of SM from a tiny shoe retail store in Manila to a dozen malls all over the Philippines, he or she cannot help but express wonderment over its development in a span of half a century. "SM" might well stand for Smart Man, that is, referring to its founder, Henry Sy, Sr. himself. For the story of the evolution of "SM" to "SM Prime Holdings, Inc."

is in itself the “entremorphosis” of Henry Sy, Sr. from a simple seller of shoes to a taipan of fortune and fame. Mr. Sy recently made it to the *Forbes* list of billionaires. He ranked number 387, with a net worth of US\$1.3 billion.

### ***The Company Now***

SM Prime Holdings, Inc. (SMPH) was registered with the Philippines Securities and Exchange Commission in 1994. It was established by the Sy family with Henry Sy, Sr. as Chairman of the Board and President and the members of his family as officers and directors. As stated in its corporate document, SMPH’s primary business purpose is “to develop, conduct, operate and maintain the business of modernized commercial shopping centers and all the business appurtenant” to it. This includes “the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie and cinema theaters within the compound and premises of the shopping centers”.

Today, SMPH is the leading and largest owner, developer and operator of shopping mall complexes in the Philippines and one of the largest mall operators in the world. SMPH consolidates its shopping mall operation and related business interests into the SM Group of Companies. The group is also into banking, real estate development, tourism and entertainment. To the Filipino consumer, regardless of economic status or income class, the most familiar of the conglomerate’s business operations are the Shoemart department store chain and the SM Supermarket chain—both acknowledged leaders in their fields. Its mall operation covers seven malls in Metro Manila, one each in Cavite and Pampanga in Luzon, and one each in Cebu, Iloilo and Davao in southern Philippines. The SM Group plans to build the “Mall of Asia” at the Manila Bay vicinity with an area of 500,000 square metres.

### ***Changing Landscape and Influencing Lifestyle***

There is no argument that SMPH has been one business enterprise that has continued to change the architectural landscape and influence lifestyle in the Philippines and in Asia as well. One of the observations is that whenever a new SM mall rises in a community, the landscape of the area changes by way of spawning new, rising business structures. From the late 80s to the 90s and into the third millennium, a phenomenon known as “mallings” has come about and its advent has been indisputably attributed to the rise of malls with the influence of SM malls generally accepted. Thus, mallings has come to mean the practice of people excitedly finding their way to shopping, leisure and entertainment whether doing it solo, with friends or with families. Malls, like SM’s, have indeed brought new excitement, new concepts and new experiences inspired by global trends and technological innovations.

The role of malls in general and the role of SMPH in particular in the growth of the retail trade in the Philippines cannot be underestimated. According to available data, the retail trade has become a major engine of growth. It has been reported that private consumption has accounted for 70% of the economy, growing by an average of 3.9% a year, outpacing the government's. It was reported in 1998, when the country's gross domestic product contracted by 0.5%, private consumption rose 3.4%.

Michael Kercheval, executive vice president of the International Council of Shopping Centers, said, "Shopping centers are often the fiscal engine that makes many communities run. Shopping centers also contribute to the quality of life in the communities they serve."

### ***Responding to Changes***

SMPH has been quick in responding to creative innovations and technological developments now sweeping over markets in the Philippines, Asia and the world.

To revitalize its mix of tenants, it now includes a number of establishments that fill the growing digital needs of Filipinos. SM malls have complete computer superstores and specialty shops, telecommunication centres, Internet cafes, service providers and even computer schools. It has wide open spaces for setting fairs and exhibits where technology and telecommunication players can now showcase their hardware, software and services together with an array of other merchandise.

The world-class shopping, leisure and entertainment offerings of SM malls appeal to both the younger and older generations. Local and foreign-based establishments operating side by side make the malls a virtual global village. This fact is usually made inevitable when promotional tie-ups are made with foreign outfits to bring to Manila U.S. block-buster movies and the products of the Cartoon Network. For live entertainment, SM malls hold mini-concerts featuring local and foreign entertainers; thus SM malls are now also acknowledged destinations for world-class entertainment.

This response to change has so altered life in the urban areas that SM malls have had to open beyond regular hours, that is, early morning to after midnight. Thus, an SM mall in southern Philippines has not only a music superstore but also a jazz and music bar and cafe. An amusement sports centre is set to open soon.

Focusing on the importance of family fun, SMPH has opened an indoor theme park in one of its malls. The park features rides, game zones and themed attractions. It has also become a popular venue for shows, kiddie birthday parties and workshops.

performer as a result of the crippling Asian economic crisis. Samsung saw a decrease in company revenue due to falling silicon chip prices, a massive US\$18 billion in long-term debt, bad manufacturing practices causing a huge excess inventory, and excessive non-core assets.<sup>6</sup> Realizing that a drastic situation called for drastic measures, Yun made a tough decision and slashed the payroll by a third, replacing half of the senior managers. He then sold off \$1.9 billion in assets, from an executive jet to an entire semiconductor division. All Yun's tough, yet risky decisions had evidently smoothed Samsung's way in continuing its transformation efforts.

The CEO should also indiscriminately eliminate all cliques and political silos growing inside the organization, neutralize confrontations among interest groups, manage the distribution of power across organizational groupings, build coalitions with other change enthusiasts and quickly solve all political issues growing inside the organization. All these have to be done to smoothen the way for the next process of change. Without a tough and harsh attitude from the company leader to complete this political change, it is impossible for the next transformation process to even start.

After you have been able to complete the political change, you should launch a technical change to move from the creative destruction phase to the renewal phase. Here you should conduct a corporate overhaul through implementation of a new business architecture and strategy. Stan Shih, one of Asia's best change leaders, has done this excellently in Acer, through its major strategies: "fast-food business model", "client-server" organization structure, and "global brand, local touch" strategy.<sup>7</sup> When the Internet economy emerged, he then renewed them with the launch of a "creating human-touch bits" vision, "Internet organization", and "from peripheral to core" strategy.<sup>8</sup> In another example, Victor and William Fung successfully transformed Li & Fung from a traditional Chinese conglomerate into a world-class supply-chain company. This is based on their simple strategy of customizing the value-chain to best meet the customer's needs through what they call "dispersed manufacturing".<sup>9</sup> And as explained earlier, Samsung Electronics, under Yun Jong Yong's leadership, introduced dramatic changes during the crisis in 1998, firstly, through restructuring its operations, and then, focusing on making money

with high-end products that are based on innovation and solid research and development activities.

Accomplishing political and technical change is not enough. To completely drive your continuous loop you should also complete the cultural change. The main concern of this change is to ensure that your organizational culture—shared values and common behaviour—fits and supports your predetermined vision and strategy.<sup>10</sup> A company that transforms itself to be an innovative company would, for example, need a new innovative and entrepreneurial culture. This culture must be shared among all the people inside the organization in order to produce common beliefs and values in the organization.

Canon's transformation into one of the world's leading multinational companies could not be separated from its serious efforts to build its cultural foundation. It built *kyosei*—which can be defined as “a spirit of cooperation”, in which individuals and organizations live and work together for the common good—as its business philosophy and basis for building its corporate culture. This spirit is shared inside the organization, then with the outside community, and finally with organizations throughout the world. Canon people believe *kyosei* can become a powerful force for social, political and economic transformation.<sup>11</sup>

SingTel's Lee Hsien Yang did the same thing in 1999. To accomplish his ambition of making SingTel a leading regional player, Lee made “a radical cultural overhaul” to spur the company's 12,000 employees into action.<sup>12</sup> He began by asking employees to call him by his first name—a revolutionary concept in the highly regulated Singapore environment. For his next move, he teamed up with Virgin Mobile to capture the changing mindset and improve the company's image. Thus was born the Pan Asian Mobile Phone programme. With these two changes, SingTel began to eliminate its bureaucratic mindset from the inside out. The goal is to make its employees more customer-oriented, which in turn will lead to enhanced service quality. At the external level, meanwhile, SingTel's image as a bureaucratic, slow and politically sensitive company will still come under fire.

Sustainability is a dynamic, not a static, concept. It is built through intense interactions between the company and its dynamic business

environment. Sustainability does not happen overnight. It is a result of a series of incremental changes and step-by-step efforts compounding into a big cumulative result. We agree with Jim Collins' insight in his latest book *Good to Great*, that sustainable transformations follow a predictable pattern of buildup and breakthrough.<sup>13</sup> Like pushing on a giant flywheel, it takes a lot of effort to get the thing moving at all, but with persistent pushing in a consistent direction over a long period of time, the flywheel builds momentum, eventually hitting a point of breakthrough.

## NOTES

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- <sup>1</sup> This Samsung Electronics case has been featured in the article by Philip Kotler and Hermawan Kartajaya, "Only the Sustainable Succeed: Lesson from Asian Survivors", *Nanyang Business Review*, Vol. 1, No. 1, January–June 2002.
- <sup>2</sup> David Hurst, *Crisis and Renewal*, Boston: Harvard Business School Press, 1995.
- <sup>3</sup> Noel M. Tichy and Eli Cohen, *The Leadership Engine: How Winning Companies Build Leaders at Every Level*, New York: HarperBusiness, 1997.
- <sup>4</sup> This case was prepared and written by Dr. Leonardo R. Garcia, Jr., Certified Professional Marketer (CPM-Asia Pacific), Professor and Director of Graduate Studies, College of Business and Economics, De La Salle University and Renato S. Esguerra, Assistant Professor of Marketing, College of Business and Economics, De La Salle University. Copyright © by Garcia and Esguerra, 2001.
- <sup>5</sup> Noel M. Tichy, *The Transformational Leader*, New York: Wiley, 1986.
- <sup>6</sup> Moon Ihlwan, Pete Engardio, Irene Kunii and Roger Crockett, "Samsung: How a Korean Electronics Giant Came out of the Crisis Stronger Than Ever", *BusinessWeek*, December 20, 1999, pp. 44–48.
- <sup>7</sup> Stan Shih, *Me Too Is Not My Style*, Taiwan: Commonwealth, 1996.
- <sup>8</sup> Stan Shih, *Growing Global: A Corporate Vision Masterclass*, Singapore: John Wiley & Sons, 2002.
- <sup>9</sup> Victor Fung, "Fast, Global, and Entrepreneurial: Supply-Chain Management, Hong Kong-Style", in Dinna Louise C. Dayao (editor), *Asian Business Wisdom: Lessons from the Region's Best and Brightest Business Leaders*, Singapore: John Wiley & Sons, 2000.
- <sup>10</sup> In his powerful book, *Leading Change*, John Kotter referred to this effort as "anchoring the changes in corporation's culture".

- <sup>11</sup> Ryuzaburo Kaku, “Following the Path of Kyosei”, in Dinna Louise C. Dayao (editor), *Asian Business Wisdom: Lessons from the Region’s Best and Brightest Business Leaders*, Singapore: John Wiley & Sons, 2000.
- <sup>12</sup> Jeremy Hansen, “Singtel Blues”, *Asiaweek*, February 16, 2001, p. 44.
- <sup>13</sup> Jim Collins, *Good to Great: Why Some Companies Make a Leap ... and Others Don’t*, New York: HarperBusiness, 2001.

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