

**SPEECH BY
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI
AT THE MANAGING IN THE INTERNET AGE
AT DARBY PARK, KUALA LUMPUR
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1. Allow me to begin by thanking The Harvard Club of Malaysia and the PNB Investment Institute for inviting me to address you this morning at the start of this exciting executive program, "Managing In The Internet Age." It is a pleasure and privilege for me to be among some of the best minds in Malaysia. Indeed, it is a rare opportunity for so many corporate leaders to be present under one roof to learn from an outstanding course leader -Harvard Business School's Professor Warren Mcfarlan - who will lead the program using the university's famous case studies method; and more importantly, for senior executives to learn from each other through the sharing of experience and knowledge.

2. I am aware that the Harvard Club of Malaysia is actively involved in a broad spectrum of activities, stretching from professional executive training to P. Ramlee's music and classical concerts, as well as a wide range of social activities. However, today's program is the club's first collaboration with the PNB Investment Institute, the training arm of PNB, in senior executive training. I must commend both these institutions for bringing the Harvard Business School to Kuala Lumpur.

3. This executive program is both timely and appropriate. Its' primary objective is to sensitise corporate leaders to the enormous impact of the internet on the ability of their organisations to compete at all levels, whether domestically, regionally or globally. This program, I am told, will focus on how to harness the enormous potential of e-commerce; review the profitability in providing e-commerce services; identify the very boundaries of organisations; and study how corporate infrastructure have been deeply altered, both in terms of performance and costs, with the phenomenal growth of the internet. It will also look at the barriers to success, and the steps that must be taken by corporate leaders to stay on top. I understand that a number of new case studies, including a few from the Asian region, will be used.

4. I am pleased that the organisers have been able to obtain the services of a distinguished academic as course leader. Professor Mcfarlan is no stranger to Malaysia. A number of our corporate leaders here today are either his students at the Harvard Business School or at the Senior Management Development Program in Malaysia. Apart from being an authority on I.C.T., internet and e-commerce, professor Mcfarlan is also an outstanding educator. Given the skills, experience and stature of professor Mcfarlan, coupled with the cases written under his supervision, I am sure that you will find this program a worthwhile learning experience.

5. It is not an overstatement to say that we are in the midst of momentous change. Management gurus believe that we are transitioning from the old, nation-based economy to an emerging global new economy with very different market and industry structures. Mckinsey and Co. submit that key to the real new economy is a dramatic reduction in interaction costs - which are the cost of coordinating work of different parties and searching for information - and the resultant decrease in geographic and industry barriers to doing business. Four global forces are driving the new economy: Firstly, digitisation, driven by rapid advances in information and

communications technology (I.C.T.), makes the collection, manipulation and diffusion of information increasingly simple and effortless [for instance, consider that microprocessors with one million instructions per second (MIPS) cost almost US\$600 in 1980, but only cost US\$1.30 in 1995]; Secondly, the tremendous increase in capital mobility changes the way businesses are financed and how markets work, as bonds and equities linked internationally displace traditional bank lending; Thirdly, the emergence of common standards world-wide [such as common language (English), common currencies (Dollar, Euro), common educational standards (MBA, PHD) and common technical standards (Windows)] creates markets that span the globe; Fourthly, the increase in liberalisation and deregulation significantly open national economies to international trade [for example, consider that the average tariff level before the Geneva round in 1947 was 40 percent, but after the Uruguay round in 1996, it had dropped to only 3 percent];

6. The global new economy is changing what commentators call "The Rules Of The Game". There is an explosion of consumer choice, and intangibles like brand and intellectual capital are crucial to differentiate yourself from others. There is intense competition in the marketplace, with a "winner takes all" environment. Geography and industry barriers mean increasingly little, as many markets become global. Although I am sure you are aware of these developments, it is important for your companies to be prepared to face the onslaught of the new world. A paradigm shift to the new economy "rules" is the start of the journey, which I hope you will earnestly begin to make.

7. Although the global new economy goes beyond cyberspace, the internet is a critical element of the new horizon. Certainly, the meltdown of the dot com euphoria does not detract from the importance of the internet and e-commerce. Indeed, the current dot com "depression" reflects a correction of the excesses, the unfounded exuberance and the uncontrolled greed of investors. Many had simply jumped onto the band wagon in familiar "follow the leader" fashion, as the madness and manias so often associated with speculation took hold. History has a way of repeating itself, as we see from the centuries- old tulip mania and south sea bubble, as well as the junk bond craze of the 80s recently. The truth is, for any type of company, there can be no substitute for good business practices and value-creation. Likewise, any attempt to embrace the internet without a viable business model and a workable mechanism to create value is doomed from the start. Let us remind ourselves that success on the internet and e-commerce rests with the singer, not the song.

8. However, notwithstanding the dot com episode, growth of the internet continues unabated. In fact, the internet is the fastest developing consumer medium ever. While radio took 38 years to reach 50 million users in the U.S., and TV. took 13 years and cable, ten years, the internet took a mere five years to reach 50 million users. There are now more than 300 million internet users in the world. Meanwhile, although the Asia-Pacific region only had 53 million users in 1999, that population is expected to touch 245 million in 2004. In Malaysia, we now have about 2.3 million subscribers registered with internet service providers (ISP), up from 1.7 million just at the end of last year.

9. In tandem with the growth of the internet, e-commerce continues to develop rapidly. The Boston Consulting Group (B.C.G.) estimates that Asia-Pacific on-line revenues from business-to-consumer (B2C) transactions in 2000 were worth US\$6.8 billion, up by 138 percent from 1999. B.C.G. expects the region's online B2C revenues to double in 2001, bringing the total to US\$14 billion. It may come as a

surprise, but it was not the dot coms that dominated the consumer online market, but rather large established consumer companies with significant online and offline activities. Financial brokerage, sale of computer hardware and software, and travel were the top three online categories. Meanwhile, business-to-business (B2B) e-commerce adoption is also significant in the region, with estimates of the current US\$100 billion value jumping to as high as US\$430 billion in 2003. There is little doubt, therefore, that the internet and e-commerce are, and will continue to be, fast-growing and crucial aspects of business.

10. There are many points to make regarding the new economy and the internet. I daresay all are equally valid and important for us to recognise. However, in the interest of time, I will touch upon three issues that I want to raise with you today: firstly, the question of competition; secondly, the question of talent; and thirdly, the question of the "digital divide".

11. Firstly, on competition. Make no mistake, there will be no prisoners taken in the global new economy. Already, large corporations are growing larger as they scoop up businesses globally. In December 1994, the market capitalisation of all listed companies in the world was US\$15 trillion, of which the top 150 firms accounted for 27 percent. By May 2000, that capitalisation had grown to US\$31 trillion, but the top 150 companies now controlled a staggering 45 percent of the value. No company, domestic or multinational, will be spared the intensity of rivalry among firms. Similarly, by their very nature, the internet and e-commerce are fiercely competitive. There is room for only the very best. The rest are mere copycats. Malaysian companies and technopreneurs must recognise this. Product life cycle is short, niches can disappear quickly and rivals, near and far, do appear overnight. First mover advantage and the ability to build up critical mass are important. Furthermore, we must be prepared to accept that any product or service launched can become obsolete soon after. The need to innovate, re-innovate and further creatively innovate will be key to success.

12. I raise this issue of competition for several reasons. To begin with, it is an inevitability that we must be prepared for. Furthermore, the drive for merit cannot be confined to certain parts of the country only, such as education, where the government recently imposed meritocracy in universities. There must be follow-through of excellence in all sections of the nation. Malaysian companies and technopreneurs must strive for success, whether in domestic, regional or global markets. The pursuit of excellence cannot be mere lip service or even artificial. You must compete or perish. Government assistance and support cannot be relied upon for long; indeed, such help is of little consequence on the world stage. We must therefore strengthen our companies by reducing official support, and by injecting greater competition in most sectors. Domestic competition must be pursued as a precursor to the global new economy. For instance, existing restrictions that impede competition without adding to social objectives must be reviewed and removed.

13. The second issue I wish to raise relates to talent. Without a doubt, talent is the starting point and sometimes even the key strategy to win in the new economy. Research results show that the shortage of executive talent, not just in technology-related industries but also everywhere, is part of an unavoidable global phenomenon. It is expected to get worse before it gets better, given the overall shrinking supply and increasing demand for talent. War for the best talent is particularly brutal as economic value derived from the best talent is worth so much more than the merely average - for example, top quartile software developers are worth five times as

much as the average of the other three quartiles, while the figure is 14 times as much for software sales.

14. The war for the best and brightest is hitting all countries, but particularly the developing ones. Take the United States as an example of the "brain gain". In the 1990s, about 650,000 people from emerging markets migrated to the U.S. on professional employment visas. Foreign-born workers now make up 20 percent of all employees in the U.S. information technology sector. And, as I mentioned, this is not confined to the U.S. alone. Indeed, roughly a third of the R&D professionals of developing countries have left to work in the United States, in the European Union, or in Japan.

15. It may be argued that the problem in Malaysia is not yet acute. However, any "brain drain" has tremendous effect on the productivity of the country and must be stemmed from the start. Do not wait to lose your best employees before you do something, for you will find that it is not so easy to replace them after all. So where do we go from here? I put forward two challenges for you today: one, just as you have benefited from outstanding education from top universities, so must you motivate, inspire and assist young Malaysians to seek the best education possible. Nurture and groom these people to be among the best talent in the country and the world. Two, alter your mindset regarding human resources (HR). Put in place the best HR systems and processes in your companies. People can no longer be viewed as just another factor of production; they are in fact your key strategic assets. Many companies in Malaysia do not manage their people well. This must change. Attract, train, challenge and retain the best and brightest, and you will reap the rewards of business success.

16. The third issue that I want to raise is the growing gap between the information-rich and the information-poor; between those who are connected and those who do not have access to I.C.T. - or what has been termed as the "digital divide". I know that this is a challenge for all countries in the world, even the most developed ones. In Malaysia, internet subscription is concentrated in the urban communities, particularly in the Klang Valley and Penang, with the rural areas falling behind. In addition, the current internet demographics do not reflect the national make-up, with subscribers being predominantly young (about four-fifths are below 25), educated (about 60 percent of subscribers have tertiary education), and affluent (more than half have income above RM3,000 per month). Surely, we must aspire to bring the internet to the masses, not just to the elite.

17. Thus, as you venture forth to wonder at the marvels of the internet and e-commerce, spare a thought for this difficult problem. Addressing the digital divide is not only a social responsibility, it also makes clear commercial sense: the more people online, the better. Therefore, I urge the private sector, working in concert with civil society and the government, to play a meaningful part in finding workable solutions to tackle this digital gap. Not enough companies are doing this. For instance, the P.C. ownership campaign is a step in the right direction, but we must find other creative ways to increase access to I.C.T., especially in the rural communities. We must do this fast, lest we get caught in "playing catch-up" all of the time. So play your role in widening internet access, and play it well.

18. I recognise that the road to success in the new economy, particularly in I.T. and e-commerce, is long and winding, but I have seen enough to believe that the problems are not insurmountable. Malaysia can once again rise to the occasion to

face the new world. However, we must be prepared to work hard, and to learn and re-learn how to compete. I look forward to the day when some of the companies here are able to achieve the level of success actually befitting the subjects of case studies at Harvard and others. Let us aim for such success and steadfastly work at it, and produce the regional and global champions that we surely deserve.

Thank you.