

Advancing Enterprise 2005

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Speech by Dr Jean-Pierre Garnier, Chief Executive Officer, GlaxoSmithKline at Advancing Enterprise 2005.

The opportunities and challenges of globalisation: the rise of India and China.

Thank you very much and good morning, ladies and gentlemen. I want to thank the Chancellor for inviting us to this important conference. I also want to thank members of my panel, Lord John Browne and Jeff Immelt from coming to share the panel with me. I tried to put a little spark in our panel in the spirit of Davos. I figured I invite a show-business personality so I did call Angelina Joli but unfortunately she had a previous engagement, but maybe next year.

I don't need to introduce my fellow-panellists because they're very well known in the business community. Both of them have spent actually the majority of their own career in their own enterprise, so they are truly experts in their respective industries. Lord Browne became Chief Executive Officer of the B.P. Group in 1995, and Jeff Immelt became Chief Executive Officer and Chairman of G.E. in 2001. Jeff graduated from the second best business school in America, Harvard, and John Browne graduated from the best business school in America, Stanford, and you probably have guessed already where I did acquire my business degree.

In terms of globalisation and what it means to large enterprises like G.E., B.P. and GlaxoSmithKline, we'll all make some very short remarks and then try to still have some question, some time for Q and A. Let me introduce the subject by saying that first of all, globalisation is controversial, but there is no doubt that it has created enormous economic wealth throughout the world, and if you look at the last 20 years, which is really the golden era of globalisation, economic growth has been a factor everywhere including the developing world, and in fact even though today there are still 1.1 billion living with less than \$2 a day, which is a horrendous challenge, that number is 80% lower than what it was in 1980, and some people say that with globalisation, democracy can flourish, and we certainly have seen examples today. That is actually the case. If you look at the UN report on democracy, there are 140 countries that can be defined as democracies today, the definition being a country that holds multi-party elections, and that's the highest number ever, and in fact 33 countries have moved from a military rule to a civilian one over the same period.

But globalisation hasn't been just engineered by governments and international agencies and tariff trades. It's been the result of entrepreneurial work accomplished by small, medium and large companies, and in fact if you look at the top 100 largest economies in the world, 47 are nations but 53 are multi-national companies. Now, globalisation still is difficult. There are all kinds of obstacles to free trade and globalisation. Some are political, some are job-preservation driven, and some are cultural. Some of you might remember a couple of years ago, in the middle of nowhere, in France, not in Paris but in really the centre of the country where many of you have a secondary residence, by the way, there is a McDonald outlet that was

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burnt to the ground. When I heard about it, I thought it must be some kind of a chef that just lost it and attacked this icon of American cuisine, but it wasn't. It was from very small villages, people who really oppose globalisation, the José Bové activists, and that is a lesson for all of us: we have to take into account everyone when we strategise around globalisation. And as I was reminded by the Minister of India, we have to enclose everybody, even the enemies of globalisation, otherwise this is not going to continue to be successful.

Now, for GlaxoSmithKline, the first step of globalisation of course is it opens up new markets and those are fast-moving markets in the developing world, and demographics show that in 2030, 90% of the world population will be living in countries defined today as the developing world, so you have to be there and you have to be successful. And it's not India versus China. It's both, and we're gladly number one in those countries, we are the largest pharmaceutical company. We've worked very hard to establish all the facets of our enterprise in China, India, with manufacturing and commercial services and also R&D. But the real challenge of a globalisation is of course that it allows you to consider the transformation of your enterprise, in other words, you can de-aggregate all the core processes of the company, whether it's financial services, manufacturing, R&D, and rebuild them to take full advantage of the massive *arbitrage* that is really the definition of globalisation, *arbitrage* in labour cost, in financial cost, but also in pools of skilled employees and in regulatory and administrative hurdles. You can indeed optimise the enterprise and you must do it, and in fact by relocating some of the parts, you are able to really provide an offering to your customers that is very competitive. Now, this is possible because communication costs are way down, and even air freight costs today cost about 10% in real terms of what they cost 40 years ago. In fact some of you who go to Wall Street every day, you see all those people selling flowers at the corner of the street. Those flowers are flown in from Mexico, India and other places, every morning, so it is possible. Knowledge through the internet is global, and you can de-aggregate your company and rebuild it, but clearly you need a culture and your enterprise that allows you to do this, and you also need to understand that in that new world, the fast will eat the slow, and responsiveness trumps size every day.

Now, that's what we have done and we are in the process of continuing this effort. Let me say that if you choose not to do it, this is at your own risks, because if you recall in the 1980's was manufacturing was being globalised, some companies took a different tack. They decided they were going to stay local, companies such as Zenith and RCA, and of course they paid the price. You just can't resist globalisation. It's a matter of taking full advantage of it. Now, in our case, we have remapped some of the most complex processes that are the core of our enterprise, like research and development, and the good news is that for the UK, we actually have a competitive advantage by putting some of the processes of R&D right here in this country because of the excellent industrial and scientific tissue that exist, and for capital intensive processes, it is much better to have them here than frankly in China or India or anywhere else where the infrastructure is not up to snuff yet. So by doing so, we have actually created a tool that produces a currency that is very important to us, and that currency is really new targets for drug discovery, and this is a currency that we have used to reach out and get access to pools of labour, of low-cost labour in India. India has some of the best chemists in the world, and now we

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have thousands of chemists in India working for GlaxoSmithKline through our alliances where we trade those targets versus access to chemists in India and geneticists in China, so if you have an open architecture for your company and you understand that science doesn't start and end within the four walls of your own enterprise, and you are prepared to open, as UK has opened to globalisation, you will derive all the benefits. That's what we are doing. Now, what do we need from our government? We don't want to be cocooned by our government. We don't want to be protected by our government. We're a global player, so what we want from our government is help to ensure that there's a level playing-field outside the UK, so that we can play fair and win fair, and on that count, as far as the pharmaceutical industry is concerned, one extremely important dimension is, of course, the respect for intellectual property, so we want the UK government to ensure that all the people who have signed international treaties for intellectual property, Brazil, India, China and many others, do abide by the rules and more importantly enforce the framework, the legislative framework that ensures that investing innovation will actually create a dividend and a return for the UK, and everybody will benefit, including domestic innovation-based industries that are starting to emerge in India and China.

Now, I have to salute both India and China for taking both steps in restoring a framework for respect of intellectual property, which really characterise the modern economy, and there is a very important piece of legislation coming to the forefront in India. I have no doubt it will pass, and in China we have also seen progress and a step in the right direction. I will plead, however, today that more attention is given to enforcement of this legislative process because counterfeits are still in existence and in our business, counterfeits do kill people. It's not all about Gucci bags and Rolexes. It's also about pharmaceuticals that don't work. So we want the government to follow the lead, continue their efforts to strengthen the local base, and this is very important, and we thank them for taking action against animal rights activists very recently. We thank them for investing in science and R&D and particularly Gordon Brown for his personal efforts to create an economy that is based on innovation and added value, because I think that is the answer to the future, and we know that the best enterprise as you in the UK are thinking global, and we just want the local politicians to do so. Thank you very much for your attention, and now I'd like to invite our next speaker, Jeff Immelt, Chief Executive Officer and Chairman of General Electric.