

Winning Globally: Organizing for Global Impact

The Stanford / McKinsey GLOBE Initiative and The Stanford Graduate School of Business Global Management Program.

Good Afternoon.

I want to thank Stanford, Dean Roberts, and our friends from McKinsey for bringing us together today. All of us are globalists and all of us are committed to better understanding—and managing—the forces of globalization that define our age, our countries, our companies, and our opportunities.

This is an important enterprise and I am deeply honored to have the opportunity to share my thoughts with such a distinguished group of leaders, present and future.

I was asked to talk about globalization from the perspective of someone who is running a global company.

CEMEX operates twenty-four hours per day, seven days a week, across four continents, in an industry that is undergoing an intense and rapid process of global consolidation.

Our production platform incorporates 33 countries and our trading network encompasses more than 60 countries. Every day, CEMEX produces, markets, and distributes products to thousands of customers around the world.

If anyone in the manufacturing business is global, we are global.

For me, globalization has two dimensions:

- First, the impact on my company of increasingly globalized markets, for capital, for technology, for people, for information, and for products;
- Second, the impact on the countries in which we operate—and, *hence*, on my company—of increasingly globalized political, economic, regulatory, and social forces.

In a sense, one is micro and one is macro.

We have to cope with markets that are every day deeper, broader, and more connected. Strategies that were highly successful in local, isolated markets can, almost overnight, be bankrupted by unexpected new linkages to other markets. Projects or acquisitions

that seemed impossibly large may suddenly become financeable as bankers discover new ways to manage risk. And information that we thought was privileged, suddenly becomes available to all our competitors with the click of a mouse.

Taken together, these changes tend to favor companies that are bigger, that are more innovative, that are more flexible, that have cultures which encourage constant change.

So, that is what CEMEX has become.

But we also have to cope with the consequences of a growing conflict among global, regional, national, local, and ethnic centered identities. While I suspect that everyone here believes that increasing globalization is both inevitable and desirable, on any given day, CNN—or whatever your favorite news source might be—offers many stories of deep-seated, sometimes violent opposition to the forces of globalization.

- September 11, of course, was a spectacular example.

- But so, too, was the European Commission's rejection of the GE/Honeywell merger, which surprised at least the GE management.
- The fracturing of countries like the former Yugoslavia, and the new populism in Argentina.
- Growing protectionism in the United States in favor of failing industries like steel and sugar.

None of these developments are consistent with the supposed inevitable integration of economies, countries, societies, and cultures.

Managing a global business in such a world means having to understand that *most* people and *most* politicians in *most* countries have *not* embraced globalization. Quite the contrary.

They seem to fear the frantic pace of change that most of us in this room take for granted.

They reject the challenges to long familiar ways of doing things that emerge almost daily from the innovations being generated by information technology, biotechnology, and elsewhere.

They don't like the constant flow and seamless availability of information.

And, they react—sometimes violently—to the loss of local control, local identity, and local autonomy that seem to accompany globalization.

This is one of the ironies of the age in which we live. On the one hand, I believe that increasing globalization is desirable. It is more likely to create more wealth and better lives for more people, and to do so faster than any alternative. On the other hand, I also believe it is exactly the sense that increasing globalization *is* inevitable that generates much of the reaction *against* globalization.

Many people, communities, companies, and nations resent the sense that globalization is a process that they can neither resist, nor affect—rather than turning the forces of globalization to their advantage.

Let me translate that into a specific example. We at CEMEX work in a consolidating, globalizing industry. Every year, our industry—the cement industry—becomes more global and more consolidated.

Today, the largest 5 companies account for 54% of the industry's assets in Europe, 69% in North America, and 40% in South America. Everyone who works in the industry, including me, is positive that all these numbers will be higher in a few years, and that the consolidating trend will rapidly spread through Asia.

This is globalization at work in a very specific industrial context. I believe that it is in the long-term interest of all our industry's stakeholders that this process should continue. The already measurable result is that the industry is becoming more efficient, more productive, more profitable, providing better service, better quality products, and better value for customers. This benefits our investors, our customers, and the rest of our stakeholders.

But there is a risk that this process could, sooner or later, turn on itself. The dynamic of fewer and fewer global players pursuing an ever-decreasing number of acquisition opportunities could eventually destroy, rather than create value. This could happen if the industry consolidators get caught up in a bidding war for acquisitions or invest mindlessly in excess capacity.

But that is not globalization; it is bad management. We have all seen too many companies and too many industries undermined by irrational behavior. The telecoms and airline industries are only the most recent examples. Companies that pay too much for acquisitions do not survive in the long run. And industries that are defined by this behavior also suffer when the inevitable shake-out occurs.

However, I believe that such irrational decisions can be avoided. They are not the inevitable consequence of globalization.

One way to do this is to think less in terms of acquiring assets, and more in terms of improving our ability to access and serve customers – and, of course, profitability – when we define our growth strategies.

In the cement industry this means we may need to develop new ways for global companies to cooperate in large, unconsolidated markets like India or China. For example, instead of simply competing to buy assets, we might develop joint ventures, marketing and distribution agreements, trading alliances, and other ventures that benefit our investors, our customers—and the industry as a whole.

The point is that the dynamics of a growing, globalizing, competitive industry requires creative thinking about industrial organization and about how business is conducted.

In other words, we need to *drive* the globalization process, not be driven by it.

Let me now turn to CEMEX. What has globalization meant for us? To summarize a long, complex process, we have harnessed the forces of globalization to transform a Mexican based company with a few international operations, into one of the largest global companies in our industry.

In practical terms, globalization means that we have been able to raise the capital we need to grow in the United States, Europe and Japan, instead of just in Mexico. It means we have driven down our cost of capital, which is a choke point for most companies that originate in emerging markets.

And it means that we have access to the best technology, regardless of where it is developed, and to the best people, regardless of their passport. With these resources we have been able to create a company that today stretches literally around the globe.

I am proud that CEMEX is one of the few global companies that have emerged from the developing world, but I firmly believe there will be others. Globalization makes it possible for a company from Mexico—or from Korea or Taiwan or South Africa—to overcome the barriers that, only a few years ago, seemed to define the difference between the developed and developing worlds.

Let me give you a practical example. No company is better than its people; a successful global company requires world-class managers and employees. Yet, the cement industry is not considered the most glamorous business. A U.S. company in our industry would have difficulty recruiting the best and the brightest MBAs; many of you dream too much of consulting or investment banking.

But at CEMEX we regularly succeed in attracting to our management team outstanding young businessmen and engineers from Mexico, from Colombia, from Spain, from Asia and elsewhere—who bring with them degrees from Stanford and other leading business schools. They join CEMEX because they find a company with global reach, with a culture that is compatible with their heritage, and which offers unlimited opportunities for growth.

This makes our successful globalization possible.

RECRUITING GREAT TALENT, HOWEVER, IS ONLY THE FIRST STEP OF THE PROCESS. THREE YEARS AGO WE CONVENED THE FIRST CLASS OF OUR GLOBAL LEADERSHIP PROGRAM. EACH YEAR WE TAKE 35 HIGH POTENTIAL YOUNG LEADERS FROM THROUGHOUT THE COMPANY AND DESIGN A TAILOR MADE DEVELOPMENT PROGRAM. THIS INCLUDES JOB ROTATION, FORMAL EDUCATION, INTERNATIONAL ASSIGNMENTS—DEPENDING ON THE INDIVIDUAL.

BUT, MOST IMPORTANTLY, EACH PARTICIPANT IS MENTORED BY A MEMBER OF OUR EXECUTIVE COMMITTEE AND ME. THIS NOT ONLY HELPS US TO IDENTIFY AND PROMOTE SUPERIOR TALENT, BUT CREATES AN INTERNAL DIALOGUE BETWEEN TOP MANAGEMENT AND THE COMPANY'S FUTURE LEADERS.

The challenges of accelerating globalization have required us to reinvent our organization continually.

We have had to become more flexible, more responsive to new opportunities and new challenges.

We have had to create a culture that embraces constant change and is enthusiastic about incorporating the latest information technology in all aspects of our business.

In what is considered a mature industry, we have had to build an organization designed to produce rapid, sustainable, and profitable growth.

Three years ago, our management team concluded that the opportunities of globalization required us to

manage our global knowledge base more efficiently,

identify and disseminate best practices,

standardize our business processes,

implement key information and Internet based technologies, and *foster* innovation.

We now call this process the “CEMEX Way.”

What is the challenge that the CEMEX Way addresses?

A successful global organization like CEMEX needs to standardize as many processes as possible not only to manage its costs, but also to realize the synergies of operating around the world. Running a company that is operating in countries as diverse as Egypt, the Philippines, Costa Rica and the United States clearly requires a common language. Not just English, which is our operating language. But common reports, common systems, common practices, and common technology platforms.

This may seem obvious to you, but remember that CEMEX, like most global companies, has grown—and continues to grow—in large part through acquisitions. In fact, we have acquired control of 12 companies over the past decade in countries throughout the world, including the United States.

On the one hand, we have become very good at quickly integrating our acquisitions, generating substantial economies, and creating value in the process. On the other hand, however, we found ourselves ending up with too many different systems, practices, and technologies. Our company risked becoming *regionalized*, instead of *globalized*—efficient, but not as efficient as we could be.

We launched the CEMEX Way in North and South America as well as in Spain last year, and in the rest of our network this year. When we complete the implementation of the CEMEX Way during 2002, I expect six key benefits:

- First, we will significantly reduce our cost base.
- Second, we will improve and accelerate our integration of new acquisitions.
- Third, we will reinforce a common culture throughout the organization.
- Fourth, we will facilitate innovation.
- Fifth, we will enhance our ability to implement new technologies.

- Sixth, we will improve the knowledge level and the flexibility of our management team, making it easier to move managers throughout our global network.

The CEMEX Way will produce significant recurring cost savings. I expect that the CEMEX Way will reduce our cost base by more than \$200 million on an annual basis once it is fully implemented. For a company that consistently produces the best operating ratios among its global peers in the cement industry, this will reinforce an important competitive advantage.

As important as these savings are, I would have launched the CEMEX Way even if it were cost neutral, because I believe the changes we are implementing in *how* we do business will create substantial future value.

Let me give you two examples, one in the production area and one in information systems, to give you a flavor for what we are doing.

Our 52 cement plants around the world were designed and built by many different engineers working in many different companies under many different circumstances. Partly as a result, procurement and maintenance tended to be local functions.

Common approaches to maintenance and procurement sound mundane, but they have enormous consequences for how we train our people, how we procure equipment, and how we run our plants. Obviously, there are important cost savings. But—even more critically—the result is to make our people more valuable and our organization more flexible. Although it might sound like a contradiction, developing globally common systems, common processes and common training platforms is allowing CEMEX to become more flexible.

On the information side, we are combining national data centers into regional centers, and we have developed common reporting systems throughout the company.

For example, we have consolidated 7 data centers in South America—where today we do one-seventh of our business—into a single one in Venezuela. This has helped us to reduce our back office costs in the region by \$70 million over the last three years (aprox. 7% of the region's 2001 sales), and has dramatically increased the timeliness of the data we need to manage the company.

Perhaps more importantly, the changes mean that a country manager can move from Costa Rica to Colombia and every piece of data, every number he encounters means the same thing to him. The result is that he can concentrate on strategy, on customers, and on developing human resources, rather than on trying to decipher unique data systems.

Indeed, the biggest impact of the CEMEX Way is the contribution it will make to our effort to transform more of our people into global managers, rather than local ones. We want the engineer who is running our plant in Assiut, Egypt to be able to move seamlessly to our plant in Charlevoix, Michigan, or the head of maintenance in our Tepeaca plant in Mexico to function at the same level of effectiveness and efficiency in the Philippines.

Frankly, today only a small number of our managers are that mobile. But that is *our* fault, not theirs. CEMEX does not *yet* operate globally with a common set of best practices, nor do we—yet—have learning platforms in place that allow us to integrate newly learned best practices quickly across our network.

But we are well on our way to doing so, which is the goal of the CEMEX Way—a goal I expect to realize this year.

I would like to raise a final issue for your consideration—and for your discussion.

CEMEX has transformed itself from an important Mexican company to a significant global enterprise. That transformation carries with it important obligations and responsibilities.

On the one hand, we do not want to lose our Mexican heritage, upon which the company's foundation rests. On the other hand, we need to build a new culture that incorporates the local values of the companies in which we operate, and is as committed to good local citizenship as we are in Mexico.

If we are to succeed globally, we need to be a successful American company in the United States, a successful Thai company in Thailand, a successful Venezuelan company in Venezuela.

This is one of the potential contradictions inherent in globalization. If a company is too Mexican, or too American, or too Korean it may fail to take full advantage of the opportunities of globalization. But if a company loses its roots, then it risks losing the values and ethics on which its culture and its success are built.

I expect CEMEX to become increasingly global in the years ahead.

We will have more operations and more customers in more countries.

Our operations will work off a single platform, and our business processes will be standardized around the world.

We will aggressively share best practices throughout a well-integrated, global network.

We will develop an even stronger global brand, supplemented by a portfolio of product brands that are based in local markets.

And our management team will become increasingly flexible, increasingly capable, and increasingly diverse.

I believe this vision of CEMEX's future is achievable. But I also believe that we will succeed only if we sustain and develop our culture in ways that preserve our values—even as we become larger, more global, and more successful. That is the greatest challenge I face as a CEO of a globalizing company.

Let me conclude.

We live at a time of deep, profound, and incredibly rapid change.

Because of globalization, we are at a turning point in how our companies work, how they interact, and the benefits they can produce for all of our countries.

Because of globalization, we have the opportunity to produce better returns for our shareholders, better value for our customers, and better lives for our employees.

And, because of globalization, we have the chance to produce a world that is richer and more inclusive.

At least in my business career, I have never seen a better opportunity to build successful, profitable global businesses than today. *Of course*, there are great challenges. But for every challenge there is a solution that can create enormous value. This is what we are doing at CEMEX, and what you are discussing today.

Thank you.

Now, I will be happy to take your questions.