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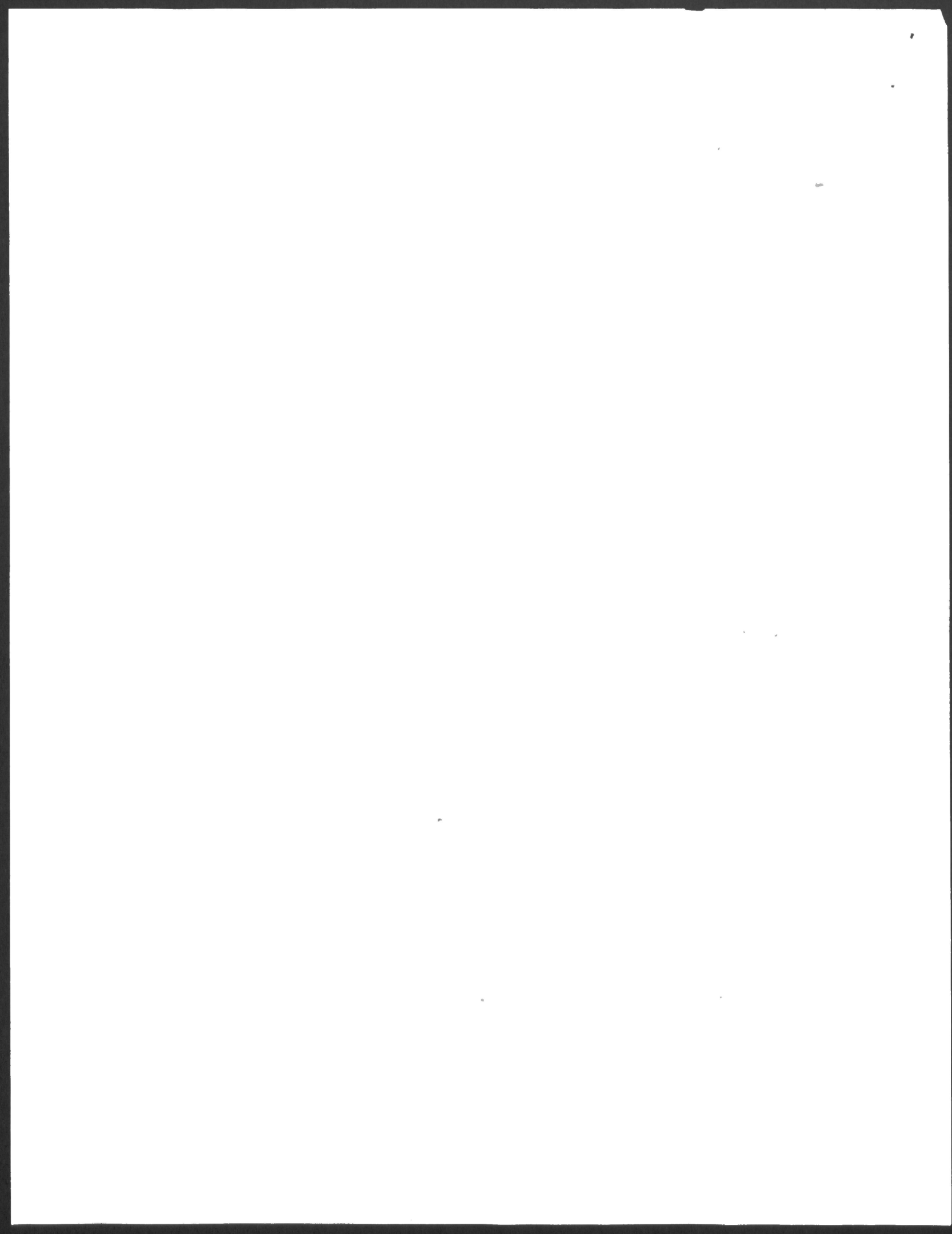
Knowledge Capital Roundtable
2nd Annual Route to the Top
Rodgers on Social Responsibility
Kissinger on Leadership

JOURNAL OF STRATEGY AND ANALYSIS BY AND FOR INTERNATIONAL CEOs

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DLJ's John Chalsty Scouts the Talent on a Kinder, Gentler Wall Street



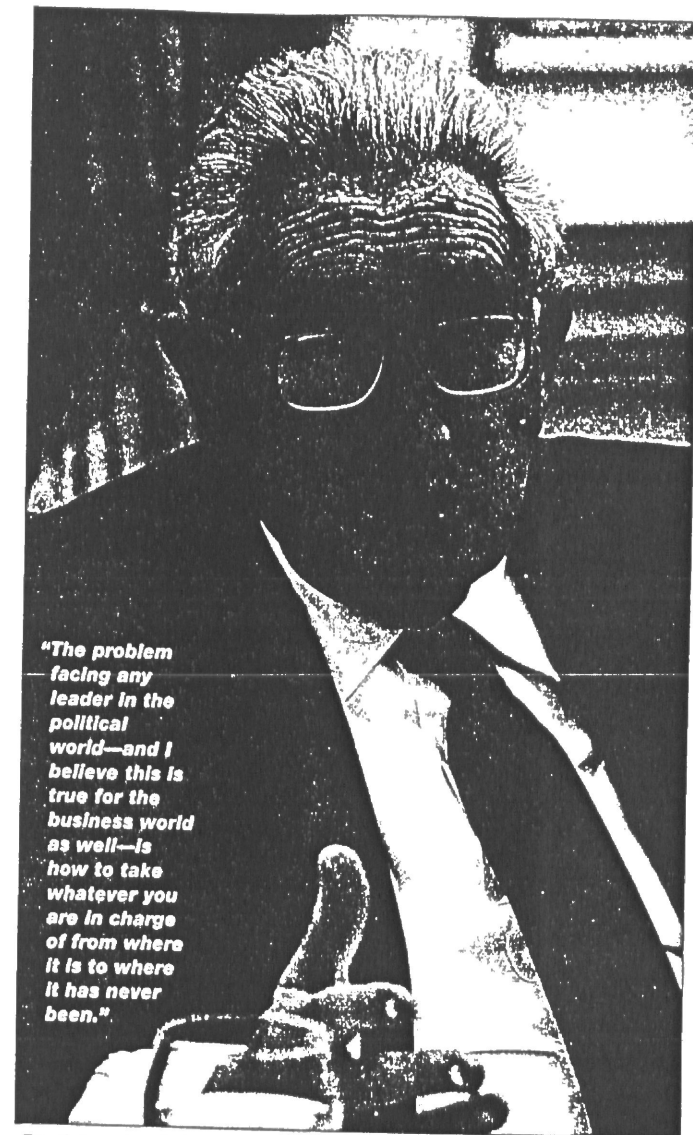
Our Dinner With Henry

Speaking at a recent forum held in New York, Dr. Henry Kissinger discussed political and economic changes looming on the horizon and reflected on how experiences weathered in years past can serve to guide the CEO of today.

Calling a time-out in the struggle to survive and thrive in these tumultuous times, *Chief Executive* recently teamed up with Andersen Consulting to present a forum on managing change. Kicking off the event, Dr. Henry Kissinger gave CEOs gathered in New York City a historical perspective on global upheavals and offered his insights on the challenges business leaders might face in the near future.

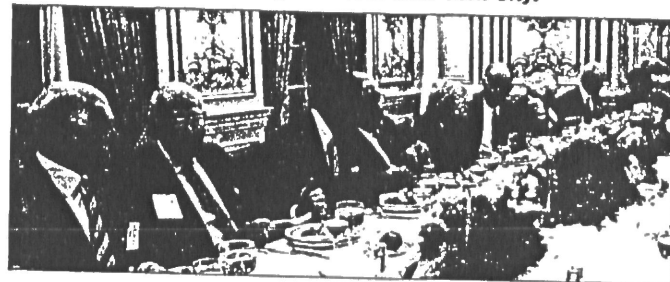
The 73-year-old former secretary of state called upon his lifelong involvement in national affairs to draw a parallel between the statesman's responsibility to define and implement policy and the crucial CEO role of creating a corporate vision and developing a competitive strategy.

Expressing concern over the lack of a cohesive U.S. foreign policy today, he stressed the core role a central vision plays in determining the future prospects of a nation—or an organization. In terms of competing in the global marketplace, Kissinger, who served as a foreign policy adviser to Presidents Dwight D. Eisenhower, John F. Kennedy, and Lyndon B. Johnson, advocated strengthening strategic alliances with markets in Latin America and Western Europe. Organizing a Western hemisphere trading bloc, he asserted, will leave the U.S. better equipped to compete in the



"The problem facing any leader in the political world—and I believe this is true for the business world as well—is how to take whatever you are in charge of from where it is to where it has never been."

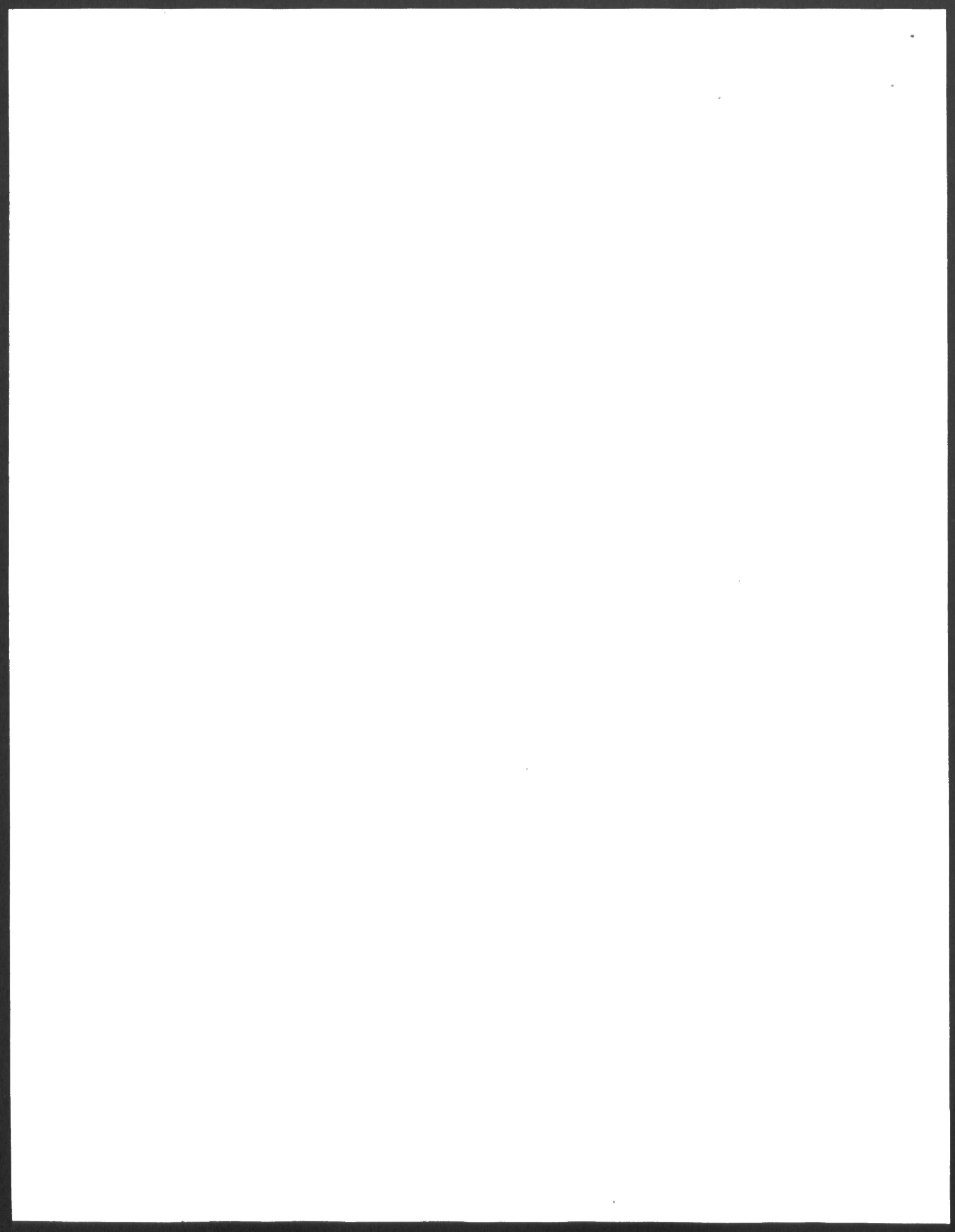
Participants at the Andersen Consulting World Forum On Change, held in partnership with *Chief Executive* magazine, at the St. Regis Hotel in New York City.



fast-developing post-Communism economy.

Commenting on the instinct for history shared by many eminent world leaders, Kissinger suggested that judgment, courage, and an eye for talented support people remain essential skills in charting a course through troubled waters.

—Jennifer Pellet



“Ideally, leaders must operate at the outer limits of what their groups can tolerate—and keep them there, which is tough.” *Dr. Henry Kissinger*

POLICING POLICY

Kissinger: When I look at statesmen—or at successful business executives—the ones that prevail are the ones that have some vision of where they want to go. To operate the status quo is, first, boring, and second, means that sooner or later you are going to be engulfed by circumstances. If you do too much systems analysis, you learn all the complexities and none of the direction. Of course, systems analysis is essential. And that is a huge problem for our country in the field of foreign policy.

Traditionally, the basic approach of American foreign policy was that we would stay aloof until a great danger came, and then overwhelm it with resources. At the end of World War II, we had 50 percent of the world's GNP. We had an atomic monopoly, and we were lucky in the sense that we had an enemy. So this basic approach could be applied. We didn't need to conduct foreign policy; we simply had to identify problems and then allocate resources to them—and we did that extremely well. That period is now over. We now live in a new world.

never known before. Europe has had to adapt a nation-state into a European Union. China is entering a global system again for the first time and will become the dominant nation of Asia. And Japan, seeing that happening, is driven into greater and greater nationalism. And here is the U.S., without a tradition of international politics.

The challenge we have in foreign policy is this: In the Cold War, our danger was defeat. In the post-Cold War period, our danger is irrelevance. More and more decisions are being taken in the world because we can't effect them, because we marginalize ourselves or become marginalized. Which means that, over a period of time, more decisions are being taken without reference to what we consider our interests. If we suffer, it will not be in a catastrophic way, but in a gradual decline of our relative position. A political leader will have to understand this—and to put together some kind of coherent framework. Because we have huge assets, it absolutely does not have to be that way if we can identify our assets and bring them to bear on the problems.

whole, he would get support. Instead he's putting on Band-Aids. For example, anybody who knows anything about Yugoslavia knows that it is not possible for Croats, Serbs, and Muslims to live in the same grouping. That's why Yugoslavia broke up. So to announce that we are for a united Bosnia, but we are keeping our army there to keep them from fighting is ridiculous! They have to be separated or we will be there forever.

The idea that the U.S. has a moral mission in the world that is defined by our intervention in every country in the world is still a dominant view in American foreign policy. But we do not have a duty to bring peace everywhere. With limited resources we should bring it where it affects American interests and values, or the interests of close allies.

George Shaheen (Andersen Consulting): In positioning the U.S. to move forward on a worldwide basis, how would you advise the administration to go about formulating a cohesive foreign policy?

Kissinger: My advice to the president would be, “Get together some of the brightest people you can find and put

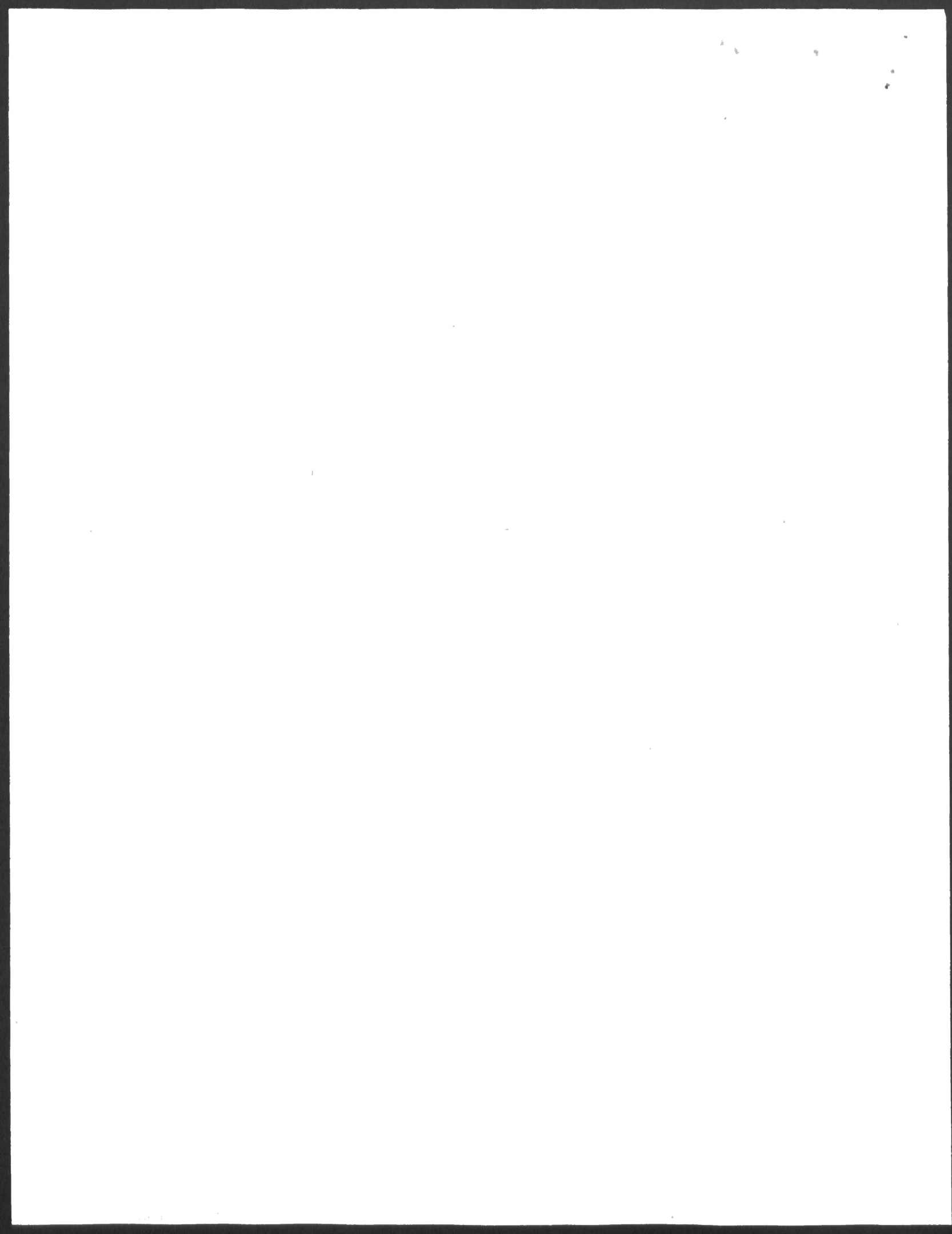


From left to right: CE's Arnold Pollard, Duke Power's William Grigg, USLIFE's Gordon Crosby, HIP Health Plan's Victoria Wicks, John Foster of NovaCare.

We lack concepts. We have no precise view of where we are going. And therefore, we have a very fitful foreign policy. And this occurs at a moment when all the parameters of foreign policy are changing. Russia is within borders it has

What I would like to see is a United States president who assumes the educational function of the presidency. The American public is one of the healthiest in the world, and if their president said, “Here are the problems,” I think, on the

them to work.” When I took over the State Department, I took eight or 10 of the best people I could find and set them to work on middle-term problems. I did not permit any discussion of incoming cables. I wanted to know, “Where are we



KISSINGERISMS

On post-communism chaos...

"The Chinese problem is not totalitarianism, but rather that the country is flying apart."

On foreign policy...

"We do not have a duty to bring peace everywhere."

On Mercosur myopia...

"We may well wind up with the countries of South America being part of an economic grouping that excludes us."

On the EU endeavor...

"If the Europeans had it to do over again, they probably would not have chosen monetary union as a vehicle to achieve this."

On NAFTA...

"I think that what we have to try to do with Mexico is similar to what the West Germans decided to do with the East Germans... bring them to our economic level before they swamp us."

On the home front...

"The generation that grew up in the Vietnam War... [was] brought up to learn that this is a rotten country that has to be improved and that America is not to be trusted with the exercise of power."

On the chief seat...

"I don't think any CEO who is threatened by his subordinates should be CEO."

On chairing change...

"You must surround yourself with strong people."

going in the Middle East? What are we trying to do there? What outcome are we trying to bring about? What about in other areas?" Then, when the Middle East war hit, we were like a football team that has been rehearsing plays. We knew where we were going; we weren't arguing, "What are we trying to do?"

Today, it seems to me that while we would like to see a free market, we have to recognize that the world may break down into potentially semi-protected or protected areas. Therefore, I would get myself in a position to analyze it. I would try to group the Western hemisphere into a free-trading system—and to pull in the North Atlantic region, the Polish border, and all the NATO countries. Then, if the whole world is free trade, fine. If the whole world is not free-trade, we will have that bloc with which we can bargain.

Arnold B. Pollard (CE): In the post-Communism world in which we live today, what is your assessment of our position in the global marketplace?

Kissinger: In Latin America right now, they are in the process of creating something called Mercosur under Brazilian leadership. It includes Brazil, Paraguay, Uruguay, and Argentina, with Chile just joining and Venezuela applying to join as well. So we may well wind up with the countries of South America being part of an economic grouping that excludes us. At first it will be very nice and very friendly, but the fact remains that we are not part of that decision making.

With China, we go after the country about issues like drugs, human rights, women's rights, and nuclear proliferation. Well, the Chinese have been self-governing for 5,000 years; we have not existed

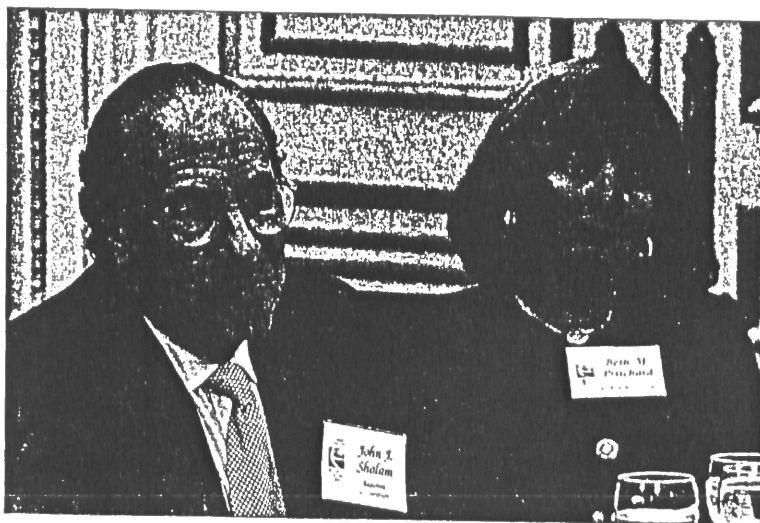
for the better part of their history. They consider it insulting that we apply sanctions because they don't meet our criteria of pluralistic democracy. Especially since we don't understand how Chinese society operates.

The Chinese problem is not totalitarianism, but rather that the country is flying

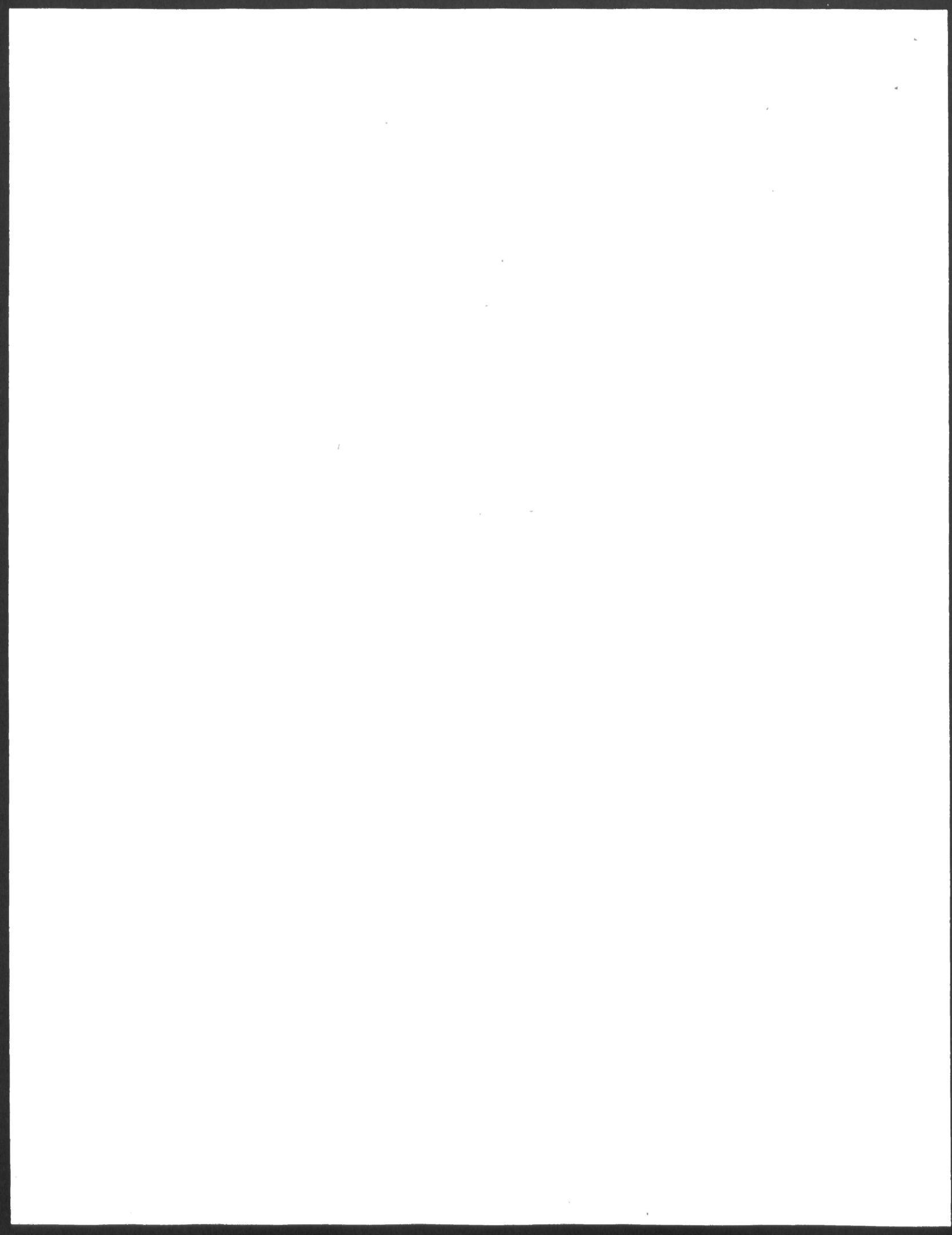
apart. You have a billion and a half wild individualists. The problem is not one of a return to communism, but wild, reckless capitalism! I met with a commander in southern China, and when he gave me his visiting card. On one side it said, "Major General Commanding;" on the other it said, "vice president of such-and-such electric power company" for that region. So that is China.

When Japan's Prime Minister Hashimoto spoke before the Council of Foreign Relations recently, the attendees began badgering him about domestic reform. What business is that of ours? They should ask about trade relations, policy relations—things that affect us—not what they are doing in their own political process.

In Asia, we have to understand that our role is very similar to that of Britain toward Europe in the 19th century. The relations of Japan, China, Russia, India, and Indonesia to each other are like the relations between European countries in the 19th century. They think of one another as strategic opponents and are going to jockey against one another. They do not think they are part of a cooperative system. With its immense population, China will become hugely dominant, because it will be the biggest market for all of its neighbors. As a result, China can make conditions by regulating what it buys from where. We must realize this and come to some understanding with the Chinese. They have to understand that we will not tolerate all of Asia dominated by one country, because that would be too powerful. On the other hand, we



From left to right: Audlovox's John Shalam and Beth Pritchard of Bath and Body Works and Victoria's Secret



have to understand that they will want to gain some additional influence in order to develop. So the problem is how do we define that margin in which they can gain influence without getting into confrontations with them? That requires constant dialogue.

Going forward, I expect a growth of considerable nationalism in Japan and a rearmament of Japan. I predict India is going to become a major player. And I think Russia is going to emerge with an authoritarian, very nationalistic government that will probably do well economically but be no joy to deal with politically.

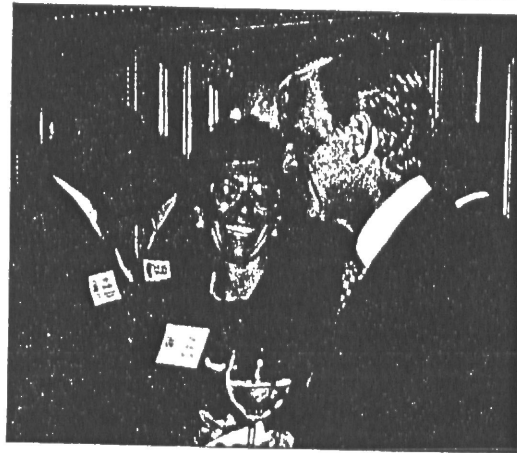
We like to think that we can apply certain principles uniformly around the world. But that doesn't happen to be true. We like to think we can push democracy, and that's also not uniformly true, because most of the world is not democratic. So the trick for us in developing our foreign policy will be to find a balance. We must conduct a very subtle and complex policy. This is the problem we face in the field of foreign policy.

Edwin Lupberger (Entergy Corporation, Inc.): As the current chairman of the U.S. Chamber, I am often quizzed about our stand on NAFTA and its impact on our national economy. Can you outline your position as a proponent of NAFTA—on the necessity for incorporating that level of lower-priced worker into our overall economy—and discuss how the global changes occurring will affect our overall trade policy?

Kissinger: We are condemned to co-exist with Mexico. We're in a position not unlike that of the Israelis with the Arabs, although not quite as bad. Mexico is going to tie up with somebody, and it's better that they tie up with us than that they tie up with Europe, Korea, or Japan and still seep into our country. With the 20-plus million Mexicans we have in the U.S. already, I think our politics would get too complicated. Therefore, I think that what we have to try to do with Mexico is similar to what the West Germans decided



Clockwise, from top left: William Grigg of Duke Power, John Foster of NovaCare, Beth Pritchard of Bath and Body Works and Victoria's Secret, George Shaheen of Andersen Consulting, HIP Health Plan's Victoria Wicks, and Robert Lauer of Andersen Consulting.



to do with the East Germans. We have to try to bring them to our level before they swamp us. In terms of the disparity in wages, we can pay the price for a brief period, because those wages will rise quickly. Otherwise they will hook up with Asia and the real low wages there. Eventually, I would want to link Western Europe to this trade bloc as well, because that would really defuse the problem.

J.P. Donlon (CE): A number of critics have suggested that NAFTA was a mistake. In a similar vein, there are anti-European Union factions within Europe. What future do you foresee for that market and how will it influence trade and political relations with other markets?

Kissinger: NAFTA is our problem. The EU is the Europeans' problem. Europe is struggling to adapt a nation-state into a European Union, and all their energy, or practically all their energy, is being spent on that problem. Within that problem is a highly technical financial issue of common currency. I would like to see Europe united for the same reason I would like to see North America united—because I think a united Europe could operate on a bigger scale. If the Europeans had it to do over again, they probably would not have chosen monetary union as a vehicle to achieve this. When you do a common currency, you have to give up something that for every person is almost the quintessence of the nation. You give up your own money for some new vague thing

with no political loyalties. I wonder whether this common currency is worth the political dislocations that it may cause.

As a second challenge, of the various countries, really none of them—except for Germany, and possibly Luxembourg and Ireland—can meet the criteria that have been set out. They are maneuvering to meet them. For example, France is selling state assets to reduce their deficit. In Italy, they have passed a tax, the European tax, in order to achieve these criteria. I asked Prime Minister Aznar recently when Spain was going to enter

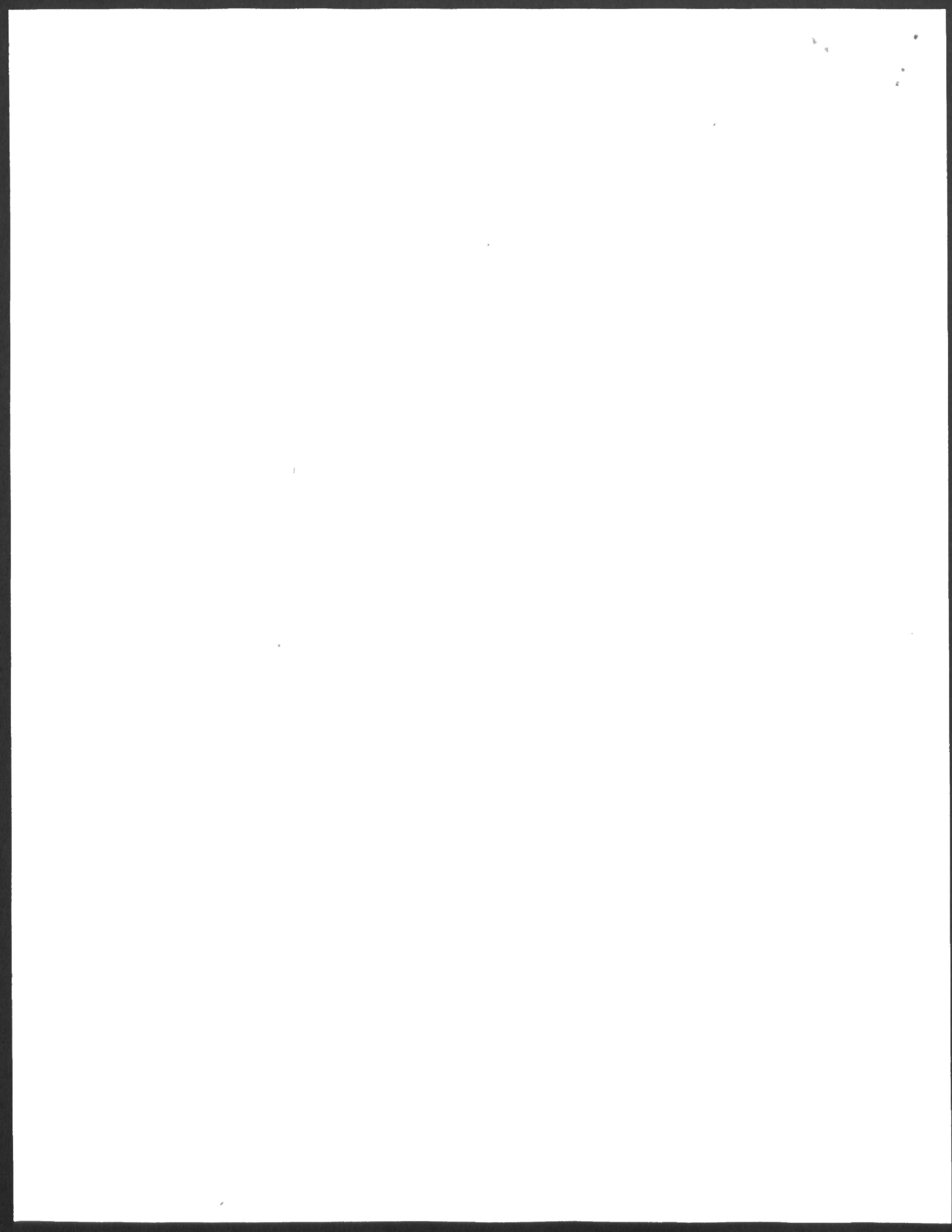
the EU. "We will do whatever is necessary and we will get in," he said. "We can meet the criteria for one year to get in, but I don't know how we are going to meet it after that."

Then what? Competitive devaluation, joint devaluation, inflation, and austerity imposed by a central bank? It's tough enough when a government does it, but I can't imagine the French or the Italians giving up social security by order of a central bank—one probably run by Germans. But I think America should keep quiet about the EU issues. It's not our problem.

Phillip Rooney (WMX Technologies): What thoughts or recommendations do you have on how we can formulate a well-thought out foreign policy and move forward globally?

Kissinger: Whatever established foreign policy we had as a nation was destroyed in the Vietnam War. Vietnam was a disaster from this point of view, because the old establishment, which was honorable and could have learned over a period of time, was absolutely destroyed. A whole generation—the leadership group of today—was affected.

My generation is the one that fought in WWII, that built the post-war structure, that created the structures that defeated communism, and that developed the Marshall Plan. I say this not to brag but to indicate that this was a generation that believed in America and that we had a



A WHO'S WHO OF FORUM PARTICIPANTS

Gordon E. Crosby, Jr. is chairman of the board at USLIFE Corporation, a New York City-based life insurance firm with \$7 billion in assets.

Ronald M. Gross is chairman and CEO of Stamford, CT-based Rayonier Inc., a \$1 billion forest products company.

Aleksander Erdeljan is chairman, president, and CEO of Troy, MI-based R.P. Scherer Corporation, a \$600 million pharmaceutical technology company.

John H. Foster is chairman and CEO of King of Prussia, PA-based NovaCare, Inc., an \$800 million supplier of rehabilitation and healthcare services.

William H. Grigg is chairman and CEO of Duke Power Company, Inc., a Charlotte, NC company with \$12 billion in assets.

Henry A. Kissinger is chairman of the New York City-based international consulting firm of Kissinger Associates.

Leo Liebowitz is president and CEO of Getty Petroleum Corp. in Jericho, NY.

Edwin Lupberger is chairman and president of New Orleans, LA-based Entergy Corporation, Inc., a \$22 billion electric power generation company.

Leslie G. McCraw is chairman and

CEO of Fluor Corporation, a \$9 billion construction and engineering company in Irvine, CA.

Ian Morrison is an author and a consultant and senior fellow of the Menlo Park, CA-based Institute for the Future.

Beth M. Pritchard is president and CEO of Columbus, OH-based Bath and Body Works and Victoria's Secret Bath retail companies.

Phillip B. Rooney is president and CEO of WMX Technologies, the Oak Brook, IL-based waste management and environmental services firm.

George T. Shaheen is managing partner of Andersen Consulting, a global management and technology consulting organization.

John J. Shalam is president and CEO of Audiovox Corporation, a Hauppauge, NY-based manufacturer of consumer electronics equipment and parts.

John C. Shaw is office of the chairman at Wellpoint, a Woodland Hills, CA-based health care company.

Victoria A. Wicks is president and CEO of HIP Health Plan of New Jersey, a North Brunswick, NJ-based managed care company.

Abraham Zaleznik is professor of leadership emeritus at the Harvard University Graduate School of Business.

constructive role to play. The generation that grew up in the Vietnam War has a different view. They were brought up to learn that this is a rotten county that has to be improved and that America is not to be trusted with the exercise of power.

I also do not know whether the attention span of our leadership group is adequate. Representatives from a Canadian consulting company told me a few years ago that when they briefed CEOs, if the CEO was older than 45, paper was most effective. If the CEO was under 45, visual presentation was essential.

Now, I personally cannot learn from visual presentation. I am beyond that age. When I started my career, politicians would ask my opinion and they thought they needed a program. Today they want to know what to present on the evening news—and they want it in two- or three-minute sound bites. When you begin thinking that way, can you think well about the future? Somehow we have to overcome this challenge.

LESSONS IN LEADERSHIP

Pollard: The bridge to the 21st century that we are all on passes over an awful lot of crushing cross currents. Factors like

information technology and global competition have imposed pressure on business leadership—rapid pressure like never before—for a new skill set that deals with change in an organization on a regular and recurring basis, not just as an occasional or once-in-a-lifetime kind of thing. Change is every day and it's rapid. How can today's industry leaders navigate these turbulent waters?

Kissinger: The problems of any leader

top responsibility of the chief executive towards his subordinates—or any executive toward his subordinates—is to make them do things that they did not know they could do. You do them a favor by insisting on standards that, otherwise, they would brush aside. I think this is the requirement of an executive.

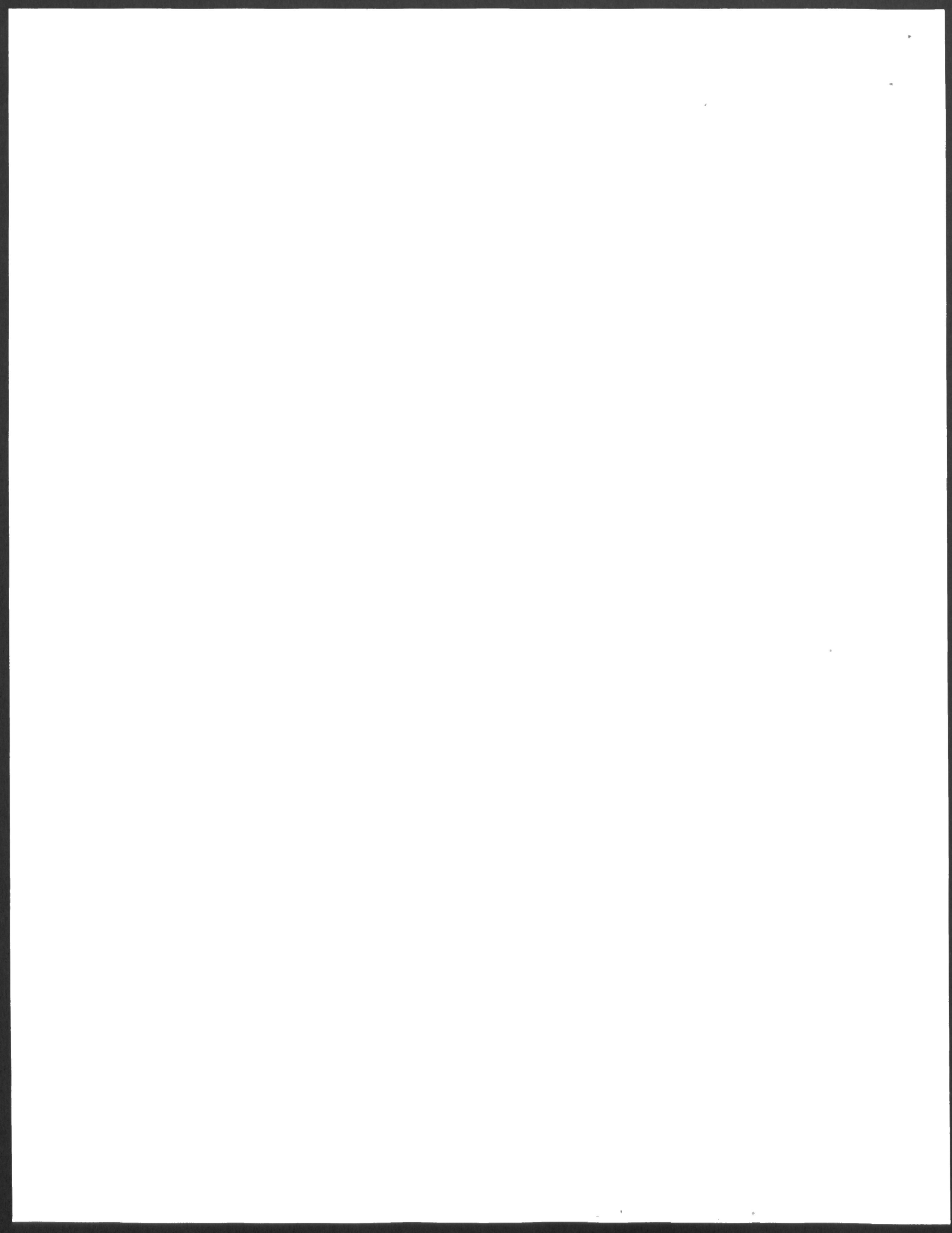
Also, I have seen executives in business, who don't like strong people around them, because they don't like

in the political world—and I believe this is true for the business world as well—is how to take whatever you are in charge of from where it is to where it has never been. And that is not simply a question of intelligence; it is a question of judgment and courage. You can always hire intelligent people to multiply your complexities. All the important decisions are the tight ones, 51 to 49 decisions. The 60 to 40 decisions anyone can make.

You have to be able to define where it is that you are trying to go and then find the means to get there—the people who can help you to implement this. In my view the



Top to bottom, from left: Ronald Gross of Rayonier Inc., Fluor Corp.'s Les McCraw, Andersen Consulting's Terry Neill, and Phillip Rooney of WMX Technologies.



potential successors around them. I have seen a number of CEOs of big corporations fail, who would not have failed had they kept some of the people they let go. I don't think any CEO who is threatened by his subordinates should be CEO.

Shaheen: The ability to master change is critical to continued success in leading an organization. What are the qualities essential to successfully negotiating an ever-changing environment and how do you view the skills of today's leaders?

Kissinger: One problem that concerns me about our political leaders today—and among business executives as well—has to do with knowledge. We are living through a shift from learning through print to learning through pictures that is as important as the invention of books. Before there were books you could only learn by liturgy—you had to do it all from memory. I was brought up on books. Books permitted the collection of much more knowledge, but because you could not store all the information in books, or read it all even if it was stored, anyone trained on books had to learn conceptual knowledge. He had to learn to recognize comparable phenomena, and how to project into the future. Today, the people who are being brought up on computers and television don't need this. They have an unparalleled range of knowledge available to them. They think it's a waste of time to learn a lot of the things that we had to learn.

In this age of television and computers, we are living in a paradoxical situation in that there is more knowledge available than anyone could dream of, yet there is no incentive to learn it. I have a friend who was dismayed when he asked his 14-year-old son what the capital of Spain was and his son didn't know. Now, this kid walks around, practically, with a computer. He says, "If I want to know the



Top to bottom, from left, Leo Liebowitz of Getty Petroleum, Scherer Corp.'s Aleksander Erdeljan, John Shaw of Wellpoint, Edwin Lupberger of Entergy Corp., Andersen Consulting's George Shaheen, Henry Kissinger of Kissinger Associates.

capital of Spain, I can know it," meaning in whatever time it takes him to get it on his computer. And when you don't really learn it, this can imprison and not train you to look into the future.

What was the strength of a Churchill or a Franklin Delano Roosevelt or a DeGaulle, or any of the great statesmen? They all had an instinct for history. Bismarck once said, "All a statesmen can do is listen to the footsteps of God as he walks through history and get a hold of the hem of his cloak and walk with him a few steps of the way." But contemporary politicians do not think this way, and I believe that is one of the problems with our contemporary foreign policy.

It was different with Nixon. Nixon's great ability was not that he knew a heck of a lot more, but that he could apply it to the future. And that he had tremendous guts. He had the courage to bet himself. And he always used to say to me, "You pay the same price for doing something halfway, as for doing it completely." That was an important lesson I learned from him. He had the paradoxical advantage of being convinced that,

no matter what he did, he would fail anyway, so he might as well do it right.

Donlon: Looking at the leaders of today, which stand out as transformational leaders?

Kissinger: Among politicians, I am impressed with Senator McCann of Arizona, who seems to have an understanding of the future. In terms of intellect, Newt Gingrich is probably the most creative man in American politics. I had enormous admiration for Yitzhak Rabin, who unfortunately was assassinated. And in Europe, I think Germany's Helmut Kohl is a great man.

Terry Neill (Andersen Consulting, LLP): You have been close to some of the great leaders of this century. Can you comment on what lessons we can learn from looking at world leaders?

Kissinger: Leaders must develop an understanding of their society, and of what can and cannot work. And they must learn to move step by step, because academics and journalists can talk in absolute terms, but the practitioner can only move in stages—each of which will be imperfect and therefore vulnerable to attack. The trick is this: If you go too far beyond the capacity of your society or of the group that you are leading, you will fail. If you don't attend enough, you will stagnate. Ideally, you must operate at the outer limits of what you think your group can tolerate—and keep them there, which is tough.

And then, of course, you must surround yourself with strong people. I once read that the number two in any organization has a big choice to make. He can either try to be very popular with his subordinates and reflect their consensus, or he can take the position that may be too tough for the CEO to take, and force his subordinates to do things that don't come easily to them. And it's only in the second case that he's really doing something. And this I believe to be absolutely true. □

