USING NETWORKING FOR COMPETITIVE ADVANTAGE

THE LIPPO GROUP OF INDONESIA AND HONG KONG

BY ROSABETH MOSS KANTER

Mochtar Riady, the son of immigrant shopkeepers, got his start in banking in 1960. Now he heads a global financial powerhouse with $11 billion in assets. The secret? Putting everything into allegiances and alliances to gain a foothold on the world stage.

TO UNDERSTAND THE power of networking in the global economy, let us travel around the world with a company that excels at collaborative advantage — building and using connections to open doors, join forces and absorb the knowledge of more-experienced partners.

The company is a financial network called the Lippo Group. Its base is Southeast Asia, one of the world's most important growth opportunities, an area sometimes called "the Asia America is ignoring." In the past, American companies have served as teachers and talent scouts for companies like Lippo. Now, in a fascinating reversal of roles, Lippo and others like it will be the allies, or rivals, of the Americans in future competition. And they will teach the rest of the world how to build effective networks for the coming alliance-based competition of group against group.

Discovering the power and importance of Lippo Group's founder, Dr. Mochtar Riady, was a journey of a thousand steps. Most Americans do not expect role models to come out of Indonesia, even from a large financial group headed by ethnic Chinese. But Dr. Riady, it turns out, is extremely well-connected throughout Asia, Europe and America.

Just consider his connections to the Americans. When I visited Lippo's Hong Kong headquarters in January 1992, the late Ron Brown, appointed President Clinton's Secretary of Commerce the next year, had just been Lippo's guest there. A few months later, I ran into Lippo's main representative in the United States, John Huang, at a meeting of chief executives in Chicago; Mr. Huang left Lippo and joined the Commerce Department as principal deputy assistant secretary for international economic policy in mid-1994. (He is now vice chairman of the Democratic National Committee.) At the Presidential Transition Economic Summit in Little Rock in December 1992, I saw James Riady, Lippo's deputy chairman and the president of Lippobank California, the only foreigner among 325 C.E.O.'s and business leaders. Lippo Group had helped Bill Clinton, "a good

Rosabeth Moss Kanter is Class of 1960 Professor of Business Administration at the Harvard Business School. She is the author of 12 books, including "World Class: Thriving Locally in the Global Economy," "When Giants Learn to Dance: Mastering the Challenges of Strategy, Management and Careers in the 1990's" and "Men and Women of the Corporation," and has also written more than 150 articles. Professor Kanter was a co-founder of Goodmeasure Inc., a consulting firm, and was editor of The Harvard Business Review. She serves on the board of overseers for the Malcolm Baldrige National Quality Award and is the recipient of 16 honorary degrees.

friend of the Riadys," I was told, in the Chinese-American community in the pivotal state of California.

Clearly the Riady family and the Lippo Group are masters of the principles of global networking.

Lippo's remarkable growth shows how ethnic ties can serve as an entrepreneurial springboard while more universal business alliances are formed. It shows how locals transform themselves into cosmopolitans — the burgeoning business class that has learned to function on a global stage — as they build connections, relationship by relationship, with international companies. It shows how allegiances that transcend national affiliations grow, making cosmopolitans "dual citizens" of both nation and network. And it shows how the formation and growth of business networks create a universal world culture of management — especially in the financial industries that move capital around the globe.

Indeed, for the Lippo Group, networking is not just supportive of the business strategy, networking is the business strategy. Over a 36-year period, Dr. Riady, the son of immigrant shopkeepers, has created an international financial network out of nothing more than his personal drive, ethnic ties and skills as an innovator and collaborator. Dr. Riady's goal is "to be the bridge to help firms go to the United States, China or elsewhere. Without a network we can do nothing. The target is to make a foothold where the giants are."

NETWORKING IS NOT JUST SUPPORTIVE OF THE BUSINESS STRATEGY — IT IS THE BUSINESS STRATEGY.

By now, that foothold extends from the highest government circles in Beijing, Washington and other world capitals to partnerships with corporate titans in Japan, the United States and Europe.

Along the way, the Lippo Group grew into a federation of companies with $11 billion in assets and headquarters in both Jakarta and Hong Kong. And the Riady family has been likened to the Rothschilds, Europe's financiers at a time of expansion much like the Southeast Asian development the Riadys are helping to finance.

Lippo's name and logo represent Mochtar Riady's vision as well as his success. The Chinese words Li (energy) and Pao (treasure) capture the essence of his business philosophy: to find the synergy between human endeavor and financial resources. The logo is a stylized graphic rendering of the letters L and P in a continuous loop whose core simulates the mathematical symbol for infinity and unending growth.

The Lippo Group's growth — which shows no sign of ending — illustrates 11 key principles of networking.

BECOMING THE "ROTHSCHILDS OF THE PACIFIC": BUYING AND SELLING TRUST

Cosmopolitans can come from anywhere, as long as they have the desire to seek connections, concepts and competence from outside their home

Illustrations by Evangelia Philippidis

territory and possess the resources to be effective network partners.

Hence, the Lippo success story begins with networking principle No. 1: To be desirable partners, network members must bring distinctive resources to the relationship. This means achieving individual excellence before seeking to broaden connections. Mochtar Riady had to create the resources from scratch by using opportunities close to home. He also proved a corollary to principle No. 1: Small local networks can create resources for entry into wider global networks.

Confucianism is Dr. Riady's guiding philosophy, Christianity the source of his spirituality. He was born Lie Wen Chen in East Java, Indonesia, in 1929, to a couple from Fujian Province, China, just across the straits from Taiwan. Along with Guangdong, adjacent to Hong Kong, Fujian accounted for half or more of all those leaving China.

His parents were proprietors of a batik shop in the small town of Malang, near the ancient spice port of Surabaya. From childhood, he dreamed of being a banker. His dreams were interrupted in 1947

THE LIPPO GROUP'S BIG BREAK CAME … WHEN THE INDONESIAN GOVERNMENT DEREGULATED BANKING … AND SOUGHT FOREIGN INVESTMENT.

when he was deported by the Dutch to China for his part in anti-Dutch agitation while studying at an Indonesian Chinese high school. Two years later, he ended his formal education when the Communists overran Nanking. After six months in Hong Kong, he petitioned to return to Indonesia. He

CULTIVATING RELATIONSHIPS INVOLVES "MAKING FRIENDS," NOT JUST MAKING DEALS.

settled in Surabaya, got married and began working in a department store owned by his mother-in-law.

A few years later, he moved to Jakarta, a city still impoverished and unsettled from the Japanese occupation in World War II. He sought work among the bicycle traders from his native province in China, eventually finding a relative who gave him a start in a bicycle shop. He soon prospered in the trade. His first three children were born between 1953 and 1955, followed by the three who would join him in banking: sons James in 1957 and Stephen in 1960, and daughter Minny in 1962. In 1967, Dr. Riady adopted his Indonesian name and became known as Pak Mochtar (a term of respect); the overseas Chinese community outside of Indonesia continued to know him as Mr. Lie.

Dr. Riady's start in banking came in 1960 through his Chinese connections. He was asked by friends who knew of his banking dreams to raise $200,000 in equity and even more in working capital for the ailing Bank Kemakmuran. He found an ethnic market ignored by other bankers — Fujianese immigrants dominating bicycle manufacture and repair — and a source of capital from Chinese moneylenders to those Fujianese businesses. A banking novice, he spoke persuasively to the moneylenders over dinner; three joined the board. Dr. Riady took options on 20 percent of the bank's shares if he could turn it around.

He was so inexperienced, he later told Asian Finance magazine, that he "couldn't tell the left from the right of a balance sheet." He learned how to do that over time, but never thought that was the key to the bottom line. "To me, banking isn't a business of buying and selling money," he said. "It buys and sells trust."

Dr. Riady's view of banking as relationship-based and his willingness to innovate produced remarkable results. "In nearly every case, whatever bank Mochtar touched turned to gold," a leading Indonesian banker commented. Between 1960 and 1963 he helped turn around Bank Kemakmuran using a sectoral niche strategy that would be replicated in later successes. He followed the trade flows looking for niches. From 1963 to 1971, he rebuilt Bank Buana, concentrating on the textile and agricultural produce market. From 1971 until 1975, he led Panin Bank as executive president to a position as Indonesia's largest private commercial bank, increasing its assets more than twelvefold. Panin specialized in the import market.

In 1975, Dr. Riady left Panin to buy 20 percent of the equity in Bank Central Asia and take a management contract. B.C.A. was a 20-year-old troubled bank that had just one branch, 27 employees and $3 million in assets. But it was the financial center of the prominent Liem Sioe Liong industrial group and had good connections — President Suharto's sons held a sizable share. In Southeast Asia, Chinese businesses often bargained with those in power, partnering with government enterprises, ruling parties, military interests and presidents' families. By 1992, The Economist estimated that companies owned by the Liem family accounted for 5 percent of Indonesia's G.N.P.

While working on the B.C.A. turnaround, Dr. Riady also invested in other ventures. In 1976, the name Lippo was used for the first time when the Riady family established a trading company. Pairing with Liem helped Lippo grow. Lippo Holding was 100 percent owned by Dr. Riady; most other companies were owned by Liem and Dr. Riady on a 50/50 basis. These extensive cross-holdings and investments in each other, a hallmark of Asian business groups but also of effective alliances everywhere, illustrate networking principle No. 2: Networks are strengthened when members place "side bets" — tangible investments in each other beyond their initial joint venture that signify their commitment to the long-term future of the relationship.

THE CALIFORNIA OPERATIONS ARE USED AS A TRAINING GROUND FOR OTHER LIPPO COMPANIES, TO EXPOSE THEM TO AMERICAN BANKING PRACTICES.

By 1983, through continuous expansions and sales innovations, B.C.A.'s assets had multiplied 332 times and deposits 1,253 times. As the largest private bank in Indonesia, B.C.A. provided a basis for international relationships. Dr. Riady felt that Indonesia would be a major player in trade flows as an essential source of logs and plywood — an industry in which B.C.A. specialized. As other industries developed, B.C.A. was there, moving into apparel, food processing, pharmaceuticals, shoes and building materials.

PIONEERING CONCEPTS: EXPLOSIVE GROWTH THROUGH INNOVATION

The Lippo Group's big break came when the Indonesian Government deregulated banking in October 1988 and sought foreign investment. Lippo was ready to capitalize on the unprecedented demand for financial services. In 1989, Lippo changed the name of Bank Perniagaan Indonesia, in which Dr. Riady had bought a 49 percent stake seven years before, to Lippobank and merged it with Bank Umum Asia. By the end of the year, Lippobank ranked as the second-largest private retail bank in Indonesia; only B.C.A., still 20 percent owned by the Lippo Group, was bigger.

With deregulation, banking became much more competitive. Private Indonesian banks had an easier time adding branches, but foreign banks had easier entree. The program also limited intracorporate lending; Lippobank could not count on the major deposits B.C.A. got from Liem-owned companies.

But Lippobank found a fertile growth area in retail banking, a field in which it could pioneer, attracting Indonesia's growing pool of middle-class professionals and meshing with the Government's desire to mobilize domestic savings to reduce foreign debt. Its success attests to networking principle No. 3: Broadening the network as quickly as possible to reach as many places as possible is critical in competitive markets. Overdependence on a single connection is dangerous. Developing extensive ties through a visible presence in many markets provides an advantage with respect to customers.

Lippobank started opening branches at a breakneck pace, spending large sums on marketing. It was run along American lines, with sophisticated technology and professional management. It brought banking to small depositors by developing "bank-mindedness," offering simplified procedures, efficient service and a convenient branch network, all of which allowed premium pricing.

And its rise was meteoric. In less than a year, deposits soared by 432 percent, to more than $1 billion (U.S.) in December 1989, while other private banks grew an average of 70 percent. The branch network expanded to 100, from 30, and then to 160 by October 1991. In December 1989, Lippobank became the first Indonesian private bank to issue a floating-rate certificate of deposit in international markets. It was widely distributed among financial institutions in the United States, Japan and Europe, all of which constituted potential new partners for the Lippo Group.

While it was aggressive in marketing, Lippobank was conservative in its financial stance. It avoided currency risks by staying out of foreign exchange dealings except for covering commercial trade transactions. It concentrated on customers below the manufacturing sector, e.g., distributors and traders, who would not be as adversely affected by economic conditions. And it focused on consumer banking for deposits — about four-fifths of its 1.1 million clients were in this category.

LIPPO'S OPPORTUNITIES AND CHOICES REFLECT THE IMPORTANCE OF WHAT THE CHINESE CALL GUANXI — CONNECTIONS.

Dr. Riady sought state-of-the-art concepts wherever he could find them. Lippo's financial strategy — providing beginning-to-end financing following the trade flows and finding niches where ethnic ties built relationships of trust — was similar to one Dr. Riady observed in the success of Japanese banks in the United States.

This constitutes networking principle No. 4: Cultural assets, such as natural ties of kinship or shared background, rival economic assets in their value for business networks. Cultural capital provides a basis for trust and compatibility of business philosophies.

Banking was not Lippo's only game. Through the 1980's, the Lippo Group acquired interests in a variety of businesses and developed others, inside and outside financial services: investment banking, insurance, brokerage, infrastructure and urban development, information technology and manufacturing (textiles, automotive parts, consumer products). But banking remains the cornerstone of Dr. Riady's Asian Pacific strategy, because banks bring image, reputation, human resources and an earnings base that allow exploration of other opportunities. Above all, they bring networks.

STOCKPILING CONNECTIONS: INTERNATIONAL GROWTH THROUGH RELATIONSHIPS

Overseas Chinese like Mochtar Riady constitute one of the world's great economic engines, the second-largest economic force in Asia outside Japan. Indonesian Chinese constitute 4 percent of the population but control 17 of the 25 largest business groups. Most of these are adept at making connections with other overseas Chinese businesses across borders, but they are often more tribal than cosmopolitan, confining their deals to members of the ethnic group.

The Riady family, however, is more cosmopolitan than tribal. Dr. Riady and the Lippo Group augment natural ethnic ties with a series of important international connections in Japan, the United States and Europe that have nothing to do with ethnicity. In each of these connections, Dr. Riady demonstrated networking principle No. 5: Every relationship contains the potential for further connections. Cultivating relationships involves "making friends," not just making deals — because unknown future possibilities might turn out to be even more significant than today's venture.

Dr. Riady had long anticipated the opportunities that would come from globalization. Multipoint trade was taking the place of traditional point-to-point trade. The relocation of manufacturing facilities from the developed to the industrializing world — such as the growth of apparel production in Southeast Asia — was bringing into play a new stream of capital flows. Such trends augured well for Dr. Riady's strategy of providing end-to-end financing for trade flows throughout the Pacific Rim. He would eventually develop significant activities in Hong Kong, a foothold in California and offices to facilitate trade financing in Australia, the Philippines, Singapore, Taiwan and Thailand.

Hong Kong was the first target. In 1969, less than a decade after his start in banking, Dr. Riady undertook his first Hong Kong venture: the acquisition of the Central Asia Capital Corporation from B.C.A.

EACH DEAL LED TO STILL FURTHER CONNECTIONS ... ONE BANK, PURCHASED IN MACAO, BECAME THE BASE FOR A MOVE INTO HONG KONG. AND THE HONG KONG VENTURE BECAME A CHANCE TO ESTABLISH A CONNECTION WITH CANTONESE BUSINESS LEADERS.

The United States was the second target. In 1977, Dr. Riady made a bold bid. It was the early days of the Carter Administration, and Bert Lance, President Carter's director of the Office of Management and Budget, was under financial scrutiny. Mr. Lance decided to quietly sell his 30 percent share in the National Bank of Georgia with the help of Jackson Stephens, an Arkansas investment banker. Dr. Riady, then almost unknown internationally, was the first and fastest Asian bidder. The bank's board was impressed by Dr. Riady's proposed operational plans as well as his vision for increasing the international presence of a regional American bank.

Though pressure from Indonesia caused Dr. Riady to withdraw his bid, he and Mr. Stephens became friends. Dr. Riady's stockpile of connections was once again enlarged. Later in 1977, the two men developed a 50/50 joint venture in Hong Kong, Stephens Finance Ltd. In 1982, they established Lippo Pacific Finance in Indonesia as a leasing company joint venture. The Stephens connection also led to Dr. Riady's ownership stake in the Worthen Bank in Arkansas, where he sent his son James for training; both father and son became active in Little Rock and developed a warm relationship with the state's young Governor, Bill Clinton.

Each deal led to still further connections. Dr. Riady and Mr. Stephens agreed to buy the Seng Heng Bank in Macao as the base for a move into Hong Kong. The Hong Kong venture was a chance to establish a connection with Cantonese business leaders. The bank grew steadily in both assets and profitability for the six years it remained under Dr. Riady's guidance. In 1989, Seng Heng was sold to Stanley Ho, a prominent Macao entrepreneur with whom the Riady family maintained a variety of relationships.

Dr. Riady had already bet on another bank as his Hong Kong base. In 1984, through the Worthen Bank, Lippo acquired the Hong

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Kong Chinese Bank, a sleepy retail institution. In 1985, younger son Stephen came to Hong Kong to represent Lippo's interests.

WALKING THROUGH OPEN DOORS: INTERNATIONAL TIES AT HOME

Continuing to use networking principle No. 3 — the ongoing broadening of network ties — the Lippo Group increased its strength at home through international partners at the same time that it was finding partners for international markets.

Following financial deregulation in Indonesia, Lippo established local joint venture banks with Tokai Bank of Japan and Banque Nationale de Paris, thus insuring ties with France and Japan, which Dr. Riady identified as Indonesia's fastest-growing investment sources.

The Tokai relationship soon proved important in Hong Kong as well as in Indonesia. In June 1990, Tokai announced it would participate with Chemical Bank, Banque Nationale de Paris and five others in lending $150 million (Hong Kong) to Lippo Strategic Holdings Ltd. in Hong Kong for operating funds.

By being a good partner at home, Lippo thus gained new opportunities away from home, illustrating networking principle No. 6: Relationships for one purpose and in one place, if successful, can open new opportunities or bring prestige in other places with other partners. Networks are options on the future, and therefore they have to be assessed in terms of their potential future benefits rather than only their immediate returns.

USING CULTURAL CAPITAL TO CONNECT TO CALIFORNIA

A presence and base in the United States was essential to Dr. Riady's international aspirations, more important perhaps than even the direct financial returns it might bring.

Networking principle No. 7 is illustrated in Lippo's foray into American banking: The value of any part of a network cannot be calculated solely on the basis of the direct economic value located there; it needs to be viewed in terms of increased benefits to other parts of the network or the network as a whole.

Whatever their financial returns, Lippo's California operations serve many functions for the network: They anchor one end of end-to-end trade financing, solidify overseas Chinese ties, provide a base for reinforcing political connections in the United States and serve as a training ground in American banking for Asians.

Through Mr. Stephens, the Riady family was already involved with Worthen in Arkansas. But an Arkansas base does not take advantage of Lippo's cultural capital — its Chinese ethnic ties, linked to Pacific Rim trade. For that, Lippo would have to travel to California, a center of the so-called bamboo network. Lippo made the trip in 1981 when James Riady, then 24 years old, bought a passive 5 percent stake in the Bank of Trade of San Francisco.

Bank of Trade was founded in 1961 to serve the 24 square blocks of San Francisco's Chinatown. It was a troubled bank, poorly managed, with an ineffective board of directors; banking regulators were demanding change. In 1984, James Riady took control of the bank to save it.

James Riady wanted the bank to expand outside of San Francisco. The bank's biggest advantage in penetrating the relationship-oriented Chinese community in other parts of California was Mochtar Riady's fame and reputation. Negotiations to lease a building in Los Angeles' Chinatown almost bogged down, for example, because the owner had never heard of Bank of Trade. But she signed the deal after being shown a photo of Dr. Riady, whom she recognized immediately.

Lippo Group became a greater part of the picture after the Los Angeles office opened. Lippo pulled out of the Worthen Bank, which was experiencing its own difficulties, and James Riady moved to Los Angeles to run things in 1986.

The Bank of Trade soon mushroomed. Wide contacts with influential people in the Asian community, coupled with extensive marketing, drew business. The customer base

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consisted of ethnic Chinese entrepreneurs with an international trade capability. The goal was to reach out to those who were not being served by traditional banks because their businesses were not yet established. The strategy was highly risky and it coincided with a downturn in California banking, so profits proved elusive.

Nonetheless, the bank kept growing. In 1988, it opened its third branch, in Westminster (Orange County), in the midst of the largest Vietnamese community outside of Vietnam; a majority of the population were ethnic Chinese. This was followed seven months later by a San Jose office, also located in an area populated by Vietnamese ethnic Chinese. In early 1990, the Bank of Trade changed its name to Lippobank, giving it the same name as the Riady family's flagship bank in Indonesia.

A substantial portion of Lippobank's California business involves trade financing for goods moving to and from Pacific Rim countries. The San Francisco branch, on a corner six blocks from the ornate carved gateway to Chinatown on Grant Avenue, is surrounded by potential customers. The sign hanging above the building features the logo and name in giant Chinese characters at the top, with English in smaller letters at the bottom — a marked contrast in linguistic emphasis to the nearby Citibank and Bank of America branches. For the Riadys, the Chinese connection is a visible advantage, while the Indonesian connection is not. As cosmopolitans, however, the Riady family can stress its Chinese roots and Hong Kong activities when in California.

THE GOAL IN CALIFORNIA WAS TO REACH OUT TO THOSE WHO WERE NOT BEING SERVED BY TRADITIONAL BANKS ...

The California operations are used as a training ground for other Lippo companies, to expose them to American banking practices. Young staff members, some with American M.B.A.'s, come to California for two-year assignments. This foreshadows principle No. 8: Networks are learning vehicles that can spread concepts and competence to all parts of the business.

CONNECTIONS AS COMPETITIVE ADVANTAGE: GOOD GUANXI IN CHINA

Dr. Riady is keenly aware of his cultural assets. "America, Japan, Europe are strong and big," he commented. "We're small. But we can target a market of overseas Chinese where we have many family ties."

He wants to enhance those ties because of the major role the overseas Chinese community is playing in financial and trade flows of the region as well as in the development of China.

In 1990, when Indonesia normalized relations with Beijing, Mochtar Riady went on an eight-month car tour of China, speaking to everyone from academics and economists to waiters and villagers. Chinese officials honored him: his ancestral home in Fujian Province, due to be razed for redevelopment, was preserved until his visit. By 1992, a Lippo executive in Hong Kong could confidently claim, "All the major C.E.O.'s in China are friends of Dr. Riady."

... WHEN INDONESIA NORMALIZED RELATIONS WITH BEIJING, MOCHTAR RIADY WENT ON AN EIGHT-MONTH CAR TOUR OF CHINA, SPEAKING TO EVERYONE FROM ACADEMICS TO VILLAGERS.

Thus began a period of explosive entrepreneurial growth as Lippo strengthened its Hong Kong assets and springboard to China.

Hong Kong is the base for investment banking, insurance and tourism activities that Mochtar Riady sees as significant growth areas for Southeast Asia in the last part of the 1990's. Each area grows through alliances. Lippo's merchant banking unit, for example, joins syndicates with Japanese banks. And its Hong

Kong-based international insurance business had joint ventures with Tokyo Mutual Life, Fuji Fire and Marine, and Alexander & Alexander, an American insurance broker and risk-management specialist.

As in Indonesia, bank ownership provides an important centerpiece for the other ventures with which Lippo might want to be involved. Indeed, through its ownership of the Hong Kong Chinese Bank, the sleepy institution it acquired in 1984, Lippo developed a relationship with China Resources (Holdings), Beijing's premier international trading group.

Established in 1948, China Resources is one of the largest mainland enterprises in Hong Kong, with 30 principal subsidiaries. It provides about 40 percent of Hong Kong's food staples, trades in oil and gas and owns supermarkets as well as port and hotel developments — a spread of businesses similar to the giant Jardine Matheson group. Key managers include American-educated Chinese nationals such as Frank Ning, head of China Resources Enterprises, the main stock market-listed unit. C.R.E.'s influential shareholders, in turn, include well-known entrepreneur Li Ka-shing's Cheung Kong group. And that group is also an investor in Lippo.

Such cross-shareholdings among influential members of the Chinese business community cement ties for future business development — echoing networking principle No. 2, mutual investment. In addition, the tendency for members of one group to generate additional opportunities that let newcomers into the action illustrates principle No. 9: Networks with open boundaries willing to spawn additional networks gain more clout than those that remain closed circles. When alliances create additional ventures that add new partners, they expand power.

... CROSS-SHAREHOLDINGS AMONG INFLUENTIAL MEMBERS OF THE CHINESE BUSINESS COMMUNITY CEMENT TIES FOR FUTURE DEVELOPMENT — ECHOING THE PRINCIPLE FOR MUTUAL INVESTMENT.

The deals among Lippo and its allies quickly moved Lippo into a strategic position in China. In 1992, Lippo announced plans for a joint venture bank in Shenzhen in China, adjacent to Hong Kong. Branches in 10 major cities in China were planned. In November 1992, the Lippo Group opened its own Beijing office.

Then, in July 1993, China Resources (Holdings), which had been investing in Lippo's Hong Kong Chinese Bank, increased its stake to 50.46 percent, deepening the alliance. This move was not intended to change the bank's direction — it would continue its focus on trade finance and be controlled by Lippo with equal representation on the board: Dr. Riady as chairman and Zhu Youlan, president of China Resources Enterprises, deputy chairman.

But the partnership brought important business advantages. China Resources would place a substantial amount of its Hong Kong business with the bank and provide a "bridgehead to expand into China," as Dr. Riady put it. Certainly the Government connection would not hurt the plans to create branches in China. For China Resources, the move marked a significant penetration of the Hong Kong financial sector by a Chinese state-controlled company.

The mutual benefits involved in this deepening relationship illustrate principle No. 10: For networks to continue to create opportunities, all members must derive benefits. Networks are stronger when the benefits are complementary and the partners interdependent — that is, each gains something it could get only through the partner.

Lippo's opportunities and choices reflect the importance of what the Chinese call guanxi — connections. Knowing how to create guanxi is a key part of making a sale in China, as experienced managers advise: "If a customer doesn't feel that you are his friend, he will not sign with you because he does not trust you."

LEARNING: ABSORBING AND SPREADING EXTERNAL COMPETENCE

The Economist has reflected on the challenge facing overseas Chinese business groups: "A business system based on a multitude of autocratically owner-managed firms with intimate links to others like them has two big advantages: fast decision-making and acute sensitivity to markets. The disadvantages are institutional. As the firm gets bigger, it will eventually outgrow the overseas Chinese network for the partners and capital it needs. This means that both the size of the Chinese firms and the lines of business they go into could be limited."

Lippo wants to transcend those limits, and its network partners are a principal way it would absorb the competence to do so. Lippo's actions in using connections to build competence demonstrate networking principle No. 8, briefly mentioned earlier: In addition to providing connections with opportunities, networks are important sources of new concepts and competence. Those that get the most out of networks will use them for learning as well as connections.

Dr. Riady sees that foreign investment in Indonesia and opportunities in China bring a different kind of company — big American, Japanese and European conglomerates or multinationals with a separation of

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ownership from management. He greatly admires Japanese companies and their management style, especially Sumitomo, because it is highly diversified, yet focused on certain strategic businesses, and its principal companies are made public to increase its capital base. He wants Lippo to follow this structure and thinking. He wants to professionalize it, to allow management freedom from the founder-owner and his children.

THE LIPPO GROUP USES WELL-CONNECTED AND EXPERIENCED EXECUTIVES AS ADVISERS AND TEACHERS AS WELL AS SOURCES OF GUANXI.

Indeed, Dr. Riady is a pioneer in departing from the family control typical among Southeast Asian conglomerates. In addition to using strategic partners as a potential talent pool, Lippo Group built its professional management team by bringing in seasoned executives with experience in American multinational companies.

A reorganization in 1990 gave more power and control to these professionals. In 1992, Lippo created public holding companies for Hong Kong and Indonesia, giving Hong Kong corporate prominence as a second headquarters and a springboard to China. The public company status of the two holding companies means senior executives can have stock options.

High-caliber professionals from American and British companies, some of whom come directly from Lippo's network of partners, are attracted by Mochtar Riady's reputation, Lippo's expansion aspirations and growth opportunities, and the company's unusually high pay. As Lippo attracts cosmopolitan executives, its stock of competence expands to world standards.

Joint venture partners are also management models; Multipolar, Lippo's information technology company, absorbs ideas from partner I.B.M. Lippo includes a training clause in joint venture agreements whereby the foreign partner is required to train personnel or provide technical assistance to Lippo.

Lippo also finds experienced expatriates to train executives. For instance, Keith Prothero, who is British and has a background in insurance, was hired on a five-year contract to teach Billy Sindoro, the head of Lippo's Indonesian life insurance company, how to be a C.E.O. Mr. Sindoro has an American M.B.A., but little practical management experience. He attends all meetings with Mr. Prothero, who passes on business knowledge and helps him develop a longer-range view. Mr. Prothero's job is to be a mentor. As such, he is teaching Mr. Sindoro techniques for action planning, problem solving and program implementation.

In Hong Kong, too, the Lippo Group uses well-connected and experienced executives as advisers and teachers as well as sources of guanxi.

MAXIMIZING NETWORK VALUE: CREATING A COMMON CULTURE FOR SYNERGIES

Dr. Riady's strategy for the Lippo Group is clear: create a network that could provide end-to-end trade financing. Lippo seeks information about all the companies within an export/import loop and then actively goes after their business. A Hong Kong company can use the Hong Kong Chinese Bank at home and for export finance; Lippobank Indonesia for its factory in Indonesia, and Lippobank California for imports into the United States and wholesale operations. Payments would be made back and forth but never leave the Lippo network. Lippo's units can also introduce customers across the triangle to each other for joint ventures — often a requirement for doing business in countries such as Indonesia, which insists that foreign investors have local partners.

To make all this work, the Lippo Group needs the power of its entire network, both within the group and with its external partners. Furthermore, as the global financial services industry enters a period of massive consolidation, only the strongest companies — those that can draw on all of their resources — will succeed at serving global customers.

Therefore, to become a truly significant financial presence in the Pacific Rim, Lippo needs not only to expand its international operations but also to increase their coordination and integration.

Though the Lippo Group was establishing a strong presence in Hong Kong, for example, there was little interaction between its Hong Kong and Indonesian executives. Each country's companies appeared to be pursuing their own missions. Taking advantage of Lippo's opportunities, however, required strength within each group company and strong links among them across industries and geographies. A Lippo senior executive commented, "Globalization stretches our existing skill set. We need to develop a new attitude and a new set of operating practices."

Networking principle No. 11 thus comes into play: Organizational networks begin by being joined through direct personal relationships among leaders. But unless they become joined at multiple levels throughout all the organizations, their value will be limited. This means that organizations in every place the network operates must become more similar, to gain the compatibility required for full exchange.

Synergy is therefore an important part of Mochtar Riady's strategy. Building a network of companies and allies that can provide multiple financial services along each link of the major trade flow routes in and out of the region requires cross-border and cross-business integration. By managing within its own network and through its partners the entire chain of financial transactions involved in international trade, the group can develop deeper and longer-lasting customer relationships.

As a first step in building a common culture throughout the Lippo Group, assuring connections across units at all levels, 100 top managers gathered in Jakarta in February 1991 for a conference on the importance of synergy.

In April 1992, the search for synergy was accelerated at a second conference, "Team 2000." This time, 150 senior executives gathered to ponder numerous proposals for collaboration: A Lippo trading group linking all Pacific Rim locations to exploit trade opportunities? A privatization capability involving Lippobank as a think tank? Lippo Securities as a financing arm? Lippo retail centers to sell insurance, banking, travel and other financial products with its partners?

In May 1993, the top 150 executives convened again. The key synergy target was Lippo Karawaci, the town Lippo planned to build on Jakarta's western rim, using its internal network — combining property development with innovative financing from Lippobank — and new partners. Less than three years later, the town's modern office towers and California-style houses made the synergy real.

By 1996, Lippo Karawaci features Wal-Mart as the anchor for Indonesia's largest shopping mall. Wal-Mart uses Lippo's Multipolar for its information systems and teaches Lippo service-management skills. The town's new hospital, developed with a Singapore company, is the flagship of a proposed Lippo chain, backed up by computer links to American medical centers. And the remarkable growth of Lippo's insurance unit, headquartered in Lippo Karawaci, is a tribute to cross-selling opportunities offered by Lippobank, whose most state-of-the-art branch occupies the first floor of Lippo Group's new offices. A May 1996 report on Lippo's publicly traded companies by Crédit Lyonnais Securities calls synergy Lippo's sustainable competitive advantage.

NETWORKS LIKE THE LIPPO GROUP ARE MORE DIFFICULT TO MANAGE THAN SINGLE ORGANIZATIONS ... NETWORK TIES ARE FRAGILE AND PARTNERS ARE EASILY REPLACED.

THE IMPORTANCE OF NETWORKS

Networks like the Lippo Group are more difficult to manage than single organizations. What's more, network ties are fragile and partners are easily replaced.

But the important thing about networks is not their complexity and lack of permanence. Instead, it is that their existence changes the rules of competition. The rise of formal business networks, of group-to-group competition, puts unconnected companies at a huge and growing disadvantage.

Networks like the Lippo Group are populating the new world class of business with a specific set of people who know each other, putting a human face on what would otherwise be just an abstract construct. At the head of the class is a global elite that makes deals with each other, combines forces to find new opportunities and encourages governments to tear down barriers to cross-border collaboration. And networks extend a global managerial culture that transfers competence from the best of the developed world and creates new centers of competence throughout the world.

Thus, the three resources for success in the global economy build on one another, combining to give advantages to those affiliated with wide networks. The creation of successful concepts through innovation and entrepreneurship makes a company desirable as a partner, providing the basis for relationships. Those relationships enlarge the stock of connections, which permit active collaboration to gain benefits for partners. Association with world-class partners enlarges competence, as partners learn from one another.

In these ways, cosmopolitans like Lippo become more advantaged while local competitors become increasingly isolated and fall further and further behind. SI

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THE 11 KEY PRINCIPLES OF NETWORKING

No. 1: To be desirable partners, network members must bring distinctive resources to the relationship. This means achieving individual excellence before seeking to broaden connections. One corollary: Small local networks can create resources for entry into wider global networks.

No. 2: Networks are strengthened when members place “side bets” — tangible investments in each other beyond their initial joint venture that signify their commitment to the long-term future of the relationship.

No. 3: Broadening the network as quickly as possible to reach as many places as possible is critical in competitive markets. Overdependence on a single connection is dangerous. Developing extensive ties through a visible presence in many markets provides an advantage with respect to customers.

No. 4: Cultural assets, such as natural ties of kinship or shared background, rival economic assets in their value for business networks. Cultural capital provides a basis for trust and compatibility of business philosophies.

No. 5: Every relationship contains the potential for further connections. Cultivating relationships involves “making friends,” not just making deals — because unknown future possibilities might turn out to be even more significant than today’s venture.

No. 6: Relationships for one purpose and in one place, if successful, can open new opportunities or bring prestige in other places with other partners. Networks are options on the future, and therefore they have to be assessed in terms of their potential future benefits rather than just their immediate returns.

No. 7: The value of any part of a network cannot be calculated solely on the basis of the direct economic value located there; it needs to be viewed in terms of increased benefits to other parts of the network or the network as a whole.

No. 8: In addition to providing connections with opportunities, networks are important sources of new concepts and competence. Those that get the most out of networks will use them for learning as well as connections.

No. 9: Networks with open boundaries willing to spawn additional networks gain more clout than those that remain closed circles.

No. 10: For networks to continue to create opportunities, all members must derive benefits. Networks are stronger when the benefits are complementary and the partners interdependent — that is, each gains something it could get only through the partner.

No. 11: Organizational networks begin by being joined through direct personal relationships among leaders. But unless they become joined at multiple levels throughout all the organizations, their value will be limited. This means that organizations in every place the network operates must become more similar, to gain the compatibility required for full exchange. SI