

Trade Secrets

by Tricia Bisoux

When the U.S. Congress included a “buy American” provision in its \$787 billion stimulus package in February, it sparked a heated debate. The provision, which requires stimulus-funded projects to source steel and iron only from U.S. manufacturers, inspired many critics to cry foul—none so fervently as Caterpillar’s chief executive officer, Jim Owens.

It’s true that Caterpillar has a great deal to lose if protectionist legislation takes hold. After all, more than 60 percent of the equipment Caterpillar manufactures in its Illinois plants is exported overseas. If other countries were to retaliate with their own protectionist legislation, Owens argues, it could cost the U.S. more jobs than it saves.

“The U.S. makes up only 5 percent of the world’s population,” says Owens. “If we don’t force our companies to compete with the best companies in the world, we’ll be a third-rate country 50 years from now.” Free trade, he adds, is the surest means to national and global prosperity.

His message is being heard, even if it may not yet be heeded. In February, Owens was one of 16 business leaders invited to serve on President Barack Obama’s Economic Recovery Advisory Board. In May, he testified before the U.S. Senate Finance Committee to support a trade agreement between the United States and Panama.

Free trade will be fundamental to every country’s economic growth, says Caterpillar CEO Jim Owens. As products and services increasingly cross international borders, he stresses, business students must prepare for careers that span the globe.



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Owens’ passion for free trade has only been building during his 37-year career at Caterpillar. Three years after joining the company as an economist in 1972, he moved to Geneva, Switzerland, to become the chief economist for Caterpillar Overseas S.A. He returned to Peoria in 1980, but then went to Indonesia in 1987 to work for P.T. Natra Raya, a Caterpillar joint venture. Between 1990 and 2003, he served first as president of Solar Turbines Incorporated, a San Diego-based subsidiary, and next as chief financial officer and group president in Peoria, before being named Caterpillar’s CEO in 2004.

Owens also directs the Council on Competitiveness and serves as co-chair of its Energy Security, Innovation & Sustainability Initiative. The Council, says Owens, is developing a comprehensive energy security roadmap to identify how business and government can drive demand for sustainable energy solutions.

Owens, who has a BS in textile engineering and a PhD in economics from North Carolina State University in Raleigh, also is a passionate supporter of business education. In 2008, Owens and the Caterpillar Foundation pledged \$2.2 million to NCSU, supporting the “Owens Distinguished Professorship of Supply Chain Management” and the “James W. Owens Graduate Economics Fund” for doctoral economics students. In April, NCSU’s College of Management named Owens its “2009 Person of the Year” for his contributions to business.

As leader of one of the largest exporters in the U.S., Owens knows that he’s a natural choice to speak out against protectionist economic policies. But he hopes that academics will help him send a clear message to the world’s politicians: Free trade, not protectionism, is the way to keep business booming.

When you hire new talent at Caterpillar, what skill sets do you value most?

Engineering—mechanical, electrical, industrial, and manufacturing—is a big portal of entry. So are finance and accounting. In our research center, we hire people with master’s and doctorate degrees, primarily in math, science, and engineering. We hire a sprinkling of MBAs, but we normally hire more people with undergraduate degrees.

Why so few MBAs?

We don’t recruit at the top MBA programs in the country, partly because we haven’t been very successful with that. Those students primarily are moving toward consulting, investment banking, venture capital, and other similar sectors, so they’ve been less inclined to come to a large tradi-



LOUIE PSHOYOS/SCIENCE FACTION/CORBIS

tional manufacturer. We can’t compete to hire that talent straight out of school.

Many of our employees pursue MBAs on nights and weekends after they come to work for us. In addition, many of our MBAs are mid-career hires who come in at senior and mid-management levels, with a lot of relevant experience in our industry.

You have degrees in both engineering and economics. How did your study of economics influence your perspective?

I used a lot of applied economics in my early jobs at Caterpillar. First, I was an econometrician, doing statistical modeling and forecasting of product sales. I did macroeconomic analyses, relating them to our sales forecasts. I did pricing studies and sourcing studies, which used basic economics. I wrote papers on exchange rates and global competitiveness and productivity trends. This work gave me a lot of global experience, and I was able to help our senior leaders think about megatrends that were important to our business.



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As I’ve gone into more senior jobs, I’ve thought more about business strategies and the vision of what we as a company want to be—about what gives us a competitive advantage and how we understand business cycles. All of that comes out of basic economics. Of course, I’ve gotten increasingly modest about my ability to forecast business over the years.

I think everyone has these days!

If you haven’t gotten humble, there’s something wrong with you.

You’ve been an outspoken member of President Obama’s Economic Recovery Advisory Board. What has been its impact so far? What kind of input have you had?

I think the jury is still out. We’ve met with the president twice, and we have a telephone meeting on specific subgroups once a week. Our group interacts with the Council of Economic Advisors, which reports directly to the president, with Larry Summers and his economic advisors, and with Tim Geithner in the Treasury. We’re also dealing with the Department of Transportation, the Department of Energy, and the Environmental Protection Agency. I think we’ve had some good dialogue, particularly with members of the administration.

The area where I think I’ve been a little influential is in my continued emphasis on how important it is for the U.S. to stay engaged in the global economy.

What approaches would you like to see the government adopt?

The U.S. has to keep its doors open to competition. We need our government to help open other markets to our best companies. I’ve emphasized strongly the merits of continuing to pursue trade agreements like the World Trade Organization’s Doha Development Round, particularly at a time when we are flirting with a global recession that could get much worse if the world turns protectionist. There also are global issues like climate change and energy policy, which cannot be dealt with through only a domestic lens.

Are you making progress in convincing those who embrace protectionist views?

I think the anti-trade populist sentiment is alive and well. Many Congressmen I talk to say, “I’m for free trade, but my constituents are adamantly against it.” And politicians regularly blame every plant that closes on the North American Free Trade Agreement. No wonder the public is skeptical.

Thoughtful people agree that it’s important to stay engaged with the world. Yet, we still can’t get the Colombia and Panama Free Trade Agreements passed in Congress, and those would directly strengthen and create jobs right here in the U.S.

Caterpillar has an interest in the establishment of global trade agreements. Your company had to reduce its workforce by about 25,000 people since late in 2008—without its global business, would that number have been higher?

We manufacture in 50 countries around the world, and we’re one of the top ten U.S. exporters. If it weren’t for our global exports, we would be in far worse shape. Our U.S. orders this year are off by more than 50 percent compared to last year, so our exports have kept us as strong as we are.

What could business schools bring to this debate?

I enjoy speaking at universities. I know that most academic economists are for free trade, because all economists are trained that way. But the academic community seems to be selective about its political engagement. I was embarrassed that economists from academia didn’t speak up during the 2008 Democratic campaign, which was hugely anti-trade. It was dominated by labor interests that believe that if we build a big enough wall around the U.S., we can be a great country. And not a peep out of academic America! There aren’t too many from the left speaking up about pro-trade—about the fact that companies should be forced to compete.

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You've expressed that you don't feel the U.S. government has been quick enough in distributing its \$787 billion stimulus package. Do you think the stimulus bill will help your U.S. sales?

Of that bill, about \$70 billion was for hard infrastructure—repairing and building roads, bridges, rail corridors, and fast-rail service. That's only 6.5 percent of last year's spending on construction in the United States. Only in the last few weeks has that stimulus money actually begun to hit the bricks, if you will. Workers are just now beginning to dig the holes. Even so, construction has been falling faster than that 6.5 percent will offset in the United States.

What do you think is the best solution?

We need to invest in our future through a focus on rebuilding our nation's crumbling infrastructure and creating tangible and sustainable jobs. To that end, we recently asked our dealers to identify the five major infrastructure projects in their states or areas that could be started within the next year—and that would improve the economic efficiency of our country. Because the U.S. housing market is so depressed, we have 18 or 19 percent unemployment in the construction sector. We could invest in infrastructure, without creating inflation, and in the process create a lot of jobs.



FRITZ HOFFMANN/CORBIS

The beauty of infrastructure investment is that it's capital investment. You end up with a capital asset that lasts for ten or 15 years. Plus, this investment creates jobs, but it's not a permanent expense. I'm afraid a lot of government programs that the stimulus is now supporting will be with us for a long time, creating a deficit problem.

Earlier you mentioned the issues of climate change and energy. Caterpillar is working to reduce its greenhouse gas emissions by 25 percent and increase its use of alternative or renewable resources by 20 percent. Business scholars are debating the business case for sustainability. How do you believe the costs of Caterpillar's sustainable goals weigh against the benefits?

We realize that sustainability begins within our own operations, so we've established high performance goals for our facilities. We've had to evaluate our own operations, as well as those of our customers, so we could set sustainability targets for our products and services. Establishing these goals is important not just for our growth, but for our desire to contribute to a society in which people's basic needs are met in ways that also sustain the environment.

You also mentioned Caterpillar's global operations, which must require many of your employees to navigate different cultures, business styles, and governmental requirements. How do you help them face those challenges?

When we go to a new country, we take steps to develop a cultural sensitivity to that business climate and on-the-ground presence. We work with the U.S. embassy and the American Chambers of Commerce. We also work with independent dealers, owned by local nationals, who do the direct marketing and selling. We also hire local nationals to work on governmental affairs in every major country where we have an investment presence—these people become an integral part of our global team.

About half of our employees are outside the U.S. We probably have 3,000 to 4,000 employees who transfer from their home countries to other countries. We have 700 or 800 Americans in Europe, and we have 700 or 800 Europeans in the United States. In Asia, we're more in a startup mode, so we have about 1,500 Americans working there and 500 Asians working in America. If you're going to run a great global company, you must have this cross-pollination of people whom you embed in your culture. It helps them

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become culturally sensitive to different social practices and to the ways of global business.

How important is it for employees to speak the local language?

When our employees go to different countries, we give them basic language training onsite. But the working language of our company is English. In fact, the working language of many multinational companies is English, because it is the one language that the majority of college-educated people in the world speak. If you're working with a German company, for example, it's actually difficult to get everybody to speak German on a functional basis. I've lived and worked Europe and in Asia, but I'm embarrassed to say I'm very monolingual.

As you look ahead to Caterpillar's future, what are your biggest concerns?

My very immediate concern is the shape of this cyclical recovery. As we come out of this recession, we don't know whether we'll end up with several years of sluggish growth or a very sharp recovery as a result of the stimulus money that's awash in the world. Each scenario would be a challenge to manage, just in a different way.

But it's important that we be prepared to go in either direction. So I will have to work with our leadership team to make sure that we're prepared from a cost basis to have

reasonably attractive profitability if we stay in this cycle for two or three years. We also must be ready for a fairly explosive increase of sales and revenue in a given year. Even in 2004, after the last recession, our sales were up 30 percent worldwide. Almost every machine line was up over 40 percent. We know it can happen and probably will happen. The question is only, when?

In the longer term, we must be ready to capitalize on the world's emerging markets, which will be the most dynamic, high-growth parts of the world for the next 15 or 20 years. They are likely to grow at two to three times the rate of the U.S., Europe, and Japan. With that kind of growth, there will be an emergent middle class and a higher standard of living, particularly in Asian countries like China, India, and Indonesia. This will drive demand for commodities and big infrastructure. These are things you can't get without products like ours. We want to be sure that we position ourselves with the right products for those customers and that we place the right leaders in those economies who can help us succeed and win.

What do you most need from business schools?

We need people with truly global perspectives, who understand the implications of currency market movements, political upheaval, varying growth rates, and the competitive pressures that come from that. The graduates we want to hire will have these critical dimensions. 