

Chapter 13

The World of Business and Economics

Background

SRI's involvement in the business community was ordained from the beginning. The Institute was to be, according to its architects, of service to industry in the Western United States. Some Western clients were clearly important to the early Institute: the Bank of America's large and innovative automatic check processing project of the early 1950s comes to mind. But probably because the Institute wanted to grow and could do so much faster than such a limited region could enable, it soon sought and accepted project work far beyond the West. Revealingly, SRI's first project was not even from industry but from the U.S. Office of Naval Research to seek better sources of the natural rubber that had become so scarce during World War II.

If helping Western U.S. industry was an objective at SRI's creation, then economics was one of its charter disciplines. Over time SRI would use that discipline in two important ways: to help invent new and fundamental ways that businesses could plan and operate and to help grow the economies of what are now called developing countries.

But overlaid on this range of economic applications came a stipulation from Stanford that would limit SRI's role, at least in support of business clients. SRI was to be a place of research. In other words, in solving a client's problem, it was all right to gather and analyze facts and from that analysis to draw conclusions.^{1, A} But recommendations were another matter, and providing what is now called management consulting was not encouraged. What now seem like fine and arbitrary distinctions influenced the kind of work that SRI did in the early days, principally in work for the business sector. While the stipulation may not of always been obeyed, it

took SRI's separation from the University in 1970 to formally lay it to rest.

To understand what that restriction meant, let's look at a brief example involving a small project SRI undertook for Hewlett-Packard (HP).² At the very beginning of the era of handheld calculators, in 1968, Bill Hewlett had tasked his engineers to build a desktop-size computer and then, in about 1970, to make one small enough to fit in his shirt pocket. That first HP unit, which was to become the renowned HP-35, was designed to meet the needs of engineers and scientists. While HP itself chose to gauge that particular market, Bill Hewlett was curious about the reception of a similar calculator for the general business community.

Accordingly, Hewlett initiated a small project, in which SRI presented nonfunctional handheld calculator mockups to sets of focus groups in San Francisco. From these groups, SRI was to determine a price point for the business community. The result of interviewing the focus groups was that it should not exceed \$100; that is, portability for the portrayed business calculator was not worth more. The outcome, reported orally to Hewlett in 1971, turned out to be about one-fourth what HP was targeting for the scientific HP-35. This finding frustrated Hewlett, but SRI was simply reporting its data and didn't, in this case, forecast the overall calculator market or make any recommendations. Hewlett ignored the business calculator price point, proceeded with the HP-35, and, as is well known, created a huge success. Perhaps expectedly, the myth grew in the halls of HP that SRI had misjudged

¹ The third stipulation in the SRI statement of policies: "[SRI would]...emphasize use of the 'scientific method' in all research investigations, pointing out that the Institute must be a 'fact-finding' organization, and not give advice and opinions supported only by experience and judgment."

² While the motivation for looking into this story came from former SRI employee Joe Fredrick, who now works for Agilent and had heard of the negative reputation SRI had concerning the HP-35, most of what follows came from project leader Joe Hornor and analyst Bill Waters. (The project must have been small (under \$10,000) for it does not show up on SRI's list of individual projects.) The picture inside HP also claimed that the SRI people who worked on the project left after the study to work for HP competitor, Texas Instruments. As would be my distinct inclination, that clearly proved untrue.

the market. It was, of course, not SRI's judgment that was faulty, but simply a reflection of the limitations of narrowly focused market data unrelated to the scientific HP-35. The framework would change the following year when HP asked for a market study on a forthcoming business calculator.

That next year, 1972, HP asked SRI to take a more formal and complete look at the market

for handheld *programmable* business calculators. Under a freer atmosphere and perhaps with greater public awareness of such calculators, SRI's market estimate indicated several hundred thousand units per year by 1980. Clearly, if there were residual bad feelings about SRI's market assessment abilities, this second request would never have come.

SRI Goes International

The pressure to undertake foreign work came during SRI's third year: in late 1949, the SRI Board began encouraging the Institute to grow its competence in the international field. One director emphasized, "a vast need exists throughout the Free World for greater economic and industrial development." Further, he suggested that the Institute look into economic development projects in India, Pakistan, Brazil, and other developing nations. The Board also foresaw the continued internationalization of business and encouraged SRI to accept a role in that process. By 1962, the Institute and many of its directors had created a policy that would govern SRI's expansion of work overseas. The targets were inclusive: the industrialization of Western Europe and Japan, the rapid economic development of other industrialized nations such as Canada and Australia, the expansion of U.S. and foreign countries into international activities, economic development in emerging nations, and the growing economic and political interdependence of a shrinking world.³

In July 1950, SRI negotiated its first international business with two contracts: a large (\$159,000) economic review of the war-ravaged Italian mechanical industries for the Italian government and the U.S. Economic Cooperation Administration, followed within a couple of weeks with a smaller (\$15,000) economic study of Cuba for the International Bank for Reconstruction and Development. Interestingly, one member of that first international project team was the Italian Lorenzo Franceschini, who became the first

international fellow in the economics area of SRI. In 1955, after a short time in Menlo Park, he returned to Italy to open SRI's first overseas office. That office, in Milan, operated for over 40 years.

SRI's foreign work continued to increase from 1950 until it accounted for 10% to 20% of revenue. The exact fraction of the total revenue stream it represented was, unfortunately, not reliably broken out for the first 20 years. Indications around 1966 indicate that international work had grown to \$10 million or about 18% of revenue. It should be noted, however, that about half of that 1966 revenue came from U.S. military agencies that had requested assistance overseas.^B The incomplete accounting ended, perhaps not coincidentally, with the separation of SRI from Stanford University in 1970. During the 25 years following 1970, the business sector's portion of SRI's revenues is as shown in Figure 13-1.⁴

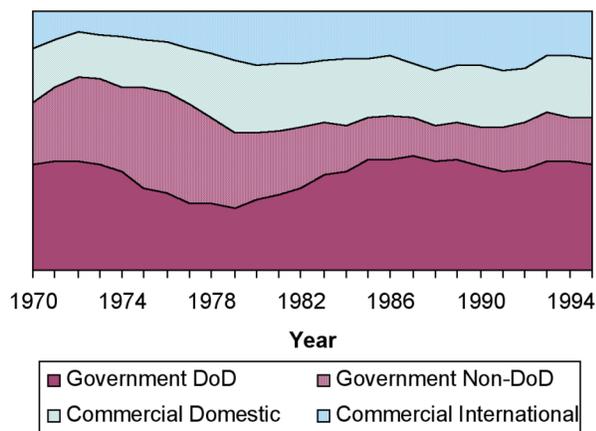


Figure 13-1. SRI revenue mix by funding sector.

³Weldon B. Gibson, *SRI Journal*, Feature Issue 4, 32-34 December 1966. The article goes on to say that the interest of the Board continued and that in 1963 it enthusiastically adopted a plan to increase international work and to create an entity known as SRI-International with responsibility for all international operations. This was 14 years before SRI *itself* would likewise change its name to SRI International.

⁴ The four sectors of SRI's revenue, covered in Appendix D, are well enough defined to see their respective strengths over much of SRI's existence.

FOREIGN COUNTRIES IN WHICH SRI HAS PERFORMED CONTRACT WORK*

North America	Europe	Ghana	Asia
Canada	Austria	Ivory Coast	Kazakhstan
Mexico	Belgium	Kenya	Asian Subcontinent
Central America	Denmark	Liberia	Bangladesh
Costa Rica	Finland	Libya	India
Curaçao	France	Malagasy Republic	Pakistan
Haiti	Germany	Morocco	East Asia
Honduras	Greece	Nigeria	China
Jamaica	Ireland	Malawi	Hong Kong
Nicaragua	Italy	Tanzania	Japan
Panama	Netherlands	South Africa	Philippines
South America	Norway	Sudan	Republic of Korea
Argentina	Portugal	Zambia	Taiwan
Bolivia	Slovenia	Middle East	Southeast Asia
Brazil	Spain	Cyprus	Burma
Chile	Sweden	Iran	Indonesia
Colombia	Switzerland	Israel	Malaysia
Ecuador	United Kingdom	Jordan	Singapore
Guyana	Yugoslavia	Kuwait	South Vietnam
Paraguay	Africa	Lebanon	Thailand
Peru	Cameroon	Oman	Australia
Venezuela	Dahomey	Qatar	New Zealand
	Egypt	Saudi Arabia	
	Ethiopia		

* Gordon Parker, International Project History, an internal SRI document, 1986.

So, beginning in the early 1950s and continuing over the next 30 years, fueled early on by the prodigious energies of Weldon B. (Hoot) Gibson and others leaders in the Business Group, SRI would come to serve in most of the world's countries. In many cases, local, in-country project offices were temporarily created but a significant number of more permanent offices were established as well. By the early 1980s, SRI had done contract work in over 80 countries and had "permanent"⁵ offices in London, Paris, Bonn, Milan, Stockholm, Lisbon, Zürich, Tokyo, and Taiwan. Because this international work was extremely varied, recounting it linearly would be impossible. In aggregate, and often with fewer "permanent" overseas offices than just listed, the number of countries in or for which SRI has done work numbers more than 110 (see the above table for a list as of March 1987).^C

As a concluding point in this discussion of SRI's sectors of revenue, it might be useful to look at how SRI's different operating Groups

⁵ Since few things are truly permanent, the use of the term here means there were either multiple, unrelated projects and/or a sales group.

faired in the commercial field. Over most of its history the Engineering, Sciences, and Education Groups of SRI gravitated toward government research contracts whereas the Business Group concentrated on the commercial and international sectors. Though true in general, here are a few exceptions:

- The Engineering and Sciences Groups also conducted some commercial work, but it usually accounted for less than 20–25% of their revenue. That work sometimes included international projects as well.
- The Business Group did some government work but mostly for overseas governments or for U.S. foundations and the World Bank, both seeking to improve the economic situation in selected countries.
- Many multi-group projects took place, which, for the most part, were led by the Business Group and supported by the more technical side of SRI.

While the Business Group rose to international stature during the 1960s through the late 1980s, that Group, as such, no longer exists at SRI. The reasons for its demise are outlined in a brief history of SRI in Appendix B.

Though that Group is gone in SRI Menlo Park, a very vital and ongoing counterpart to its work in economic development continues out of

SRI's Washington DC Office. Some of its work will be covered in Chapter 15.

Economic Development vs. Business Development and Consulting—Definitions

As mentioned earlier, the Business Group had two major divisions of labor. The first consisted of conventional business development and consulting projects, where SRI tried in countless ways to improve the product, market, or operational positions of individual corporations. We will call this work area business development and consulting. This work was both domestic and international. As one small example of the latter, starting in 1984, SRI conducted a series of projects for the electronics and telecommunications divisions of Nokia in Finland. To cap this work off, in early 1986, Paul Beneteau, Pat Henry, and Bill Miller conducted a 4-day seminar in that country dealing with how Nokia might better address opportunities emerging in electronics and telecommunications, including cellular telephone. Though the SRI role there may have been small, Nokia has risen clearly to worldwide prominence. Chapter 14 contains other important examples of how SRI contributed to business development both in fundamental business practices with wide application such as planning, and very directed instances that benefited only individual companies.

The second economic area can be termed economic development, and it applied to the many overseas and domestic projects that SRI conducted that tried to elevate the standard of living of a target population. The work may have been sponsored by a specific in-country governmental entity or by an outside agent, but all of it was done on behalf of the general population in that country. Certainly, the results in this category were not intended to benefit a specific company or corporation directly. Most of the efforts we will cover are international because that has been SRI's major focus. But to illustrate a smaller but important segment of work in domestic economic development, a case or two of that type will also be mentioned.

As the list in the previous table shows, SRI undertook work in both industrialized and developing countries. This distinction, clearly related to the definitions just made, has other

ramifications. First of all, the approach, the work to be done, and the type of SRI people to undertake it were much different in those two worlds. The work in industrialized countries was similar to the business development work done in the United States. The stability of governments, laws, and economies enabled more predictable outcomes.

Developing countries, on the other hand, almost universally posed different issues. There were the sometimes-arbitrary actions of leaders, dysfunctional governments, an absence of infrastructure, and most importantly, a lack of trained and knowledgeable people in technical, managerial, and even administrative areas. These factors made it difficult to transition ideas or practices without first training those involved. But, in a few cases, these trained people would go on to assume important roles, even becoming ministers, in the developing country's governments. In other cases, the entrenched and inflexible practices of an incapable government would swallow both SRI changes and its agents of change without a trace.

The culture of the host nation was always important. Many practices were alien to Western minds used to task schedules and assumptions about the work ethic. Since not everyone could be comfortable in this kind of altered environment, staff for the various overseas assignments was generally carefully selected. We will see some of these acculturation problems in Chapter 15.

Necessarily, then, one of the larger impacts SRI had in such countries was the education and training of the local project participants. In essence, SRI's work in most developing countries was intended to impose fundamental changes on the social and economic structure of the nation, whereas work in developed countries was much more incremental, often for the benefit of individual companies. In many cases, only a few of which are discussed, SRI made an important difference when the country was in a position to change. Also, as might be expected, that difference could be

attributed to the quality of staff sent to do the work. In some cases we will cover, SRI tried to invoke changes that would enhance the economy through an increase in the economic strength of the middle class. According to SRI's Peter Duncan, by 1965 SRI had helped in the development of small industry in more than 15 countries.

But before continuing, it is critical to mention the second SRI individual singled out for brief recognition in this book. The person most responsible for the rise of SRI's reputation on the international scene is Weldon B. Gibson, known in his day throughout the world as "Hoot."

Weldon B. "Hoot" Gibson (1917–2001)

Any story about SRI's impact in the field of economic and business development must include the person who, more than any other, brought its work to international prominence. When SRI was a fledgling concern in every sense of the word, Hoot joined its small group of research entrepreneurs to help form what we have loosely called the "Business Group." Hoot's SRI ID number was 6 and, alone among the Institute pioneers, he remained longer and did more to put SRI on the global map than any other person.

Those who joined SRI in that field during the 1970s and 1980s often said that SRI's reputation was so good around the world that you could get same-day access to the vast majority of potential clients in any of the 80 or so countries in which SRI had worked. SRI's current president, Curt Carlson, was recently at an international meeting in Barcelona and while riding the bus to the conference happened to sit next to a delegate from India. Following introductions, the Indian gentlemen asked if he knew Hoot Gibson. Of course, came the reply. Well, he went on to say, my father believed that Hoot Gibson had done more for the modernization of India than any other single person!^D This is simply one piece of evidence among many about Hoot's full and productive life. He was totally dedicated to the institution he loved and served.

You will find Hoot's name mentioned in many of the series of important projects that follow, although it probably

deserves to be in many more. The Texas farm boy with the permanent drawl brought himself and SRI into the company of U.S. presidents and foreign dignitaries over about 40 very active years. He was Mr. SRI to the great industrialists of Scandinavia, to the king and ministers of Saudi Arabia, to the presidents of the Philippines and Indonesia. Seeing the growth and common interests of companies around the world, he, with Henry Luce of *Time Magazine*, in 1957 started the quadrennial conference of the "best of the best" in industry. That series, known as the International Industrial Conference (IIC) lasted 40 years and,

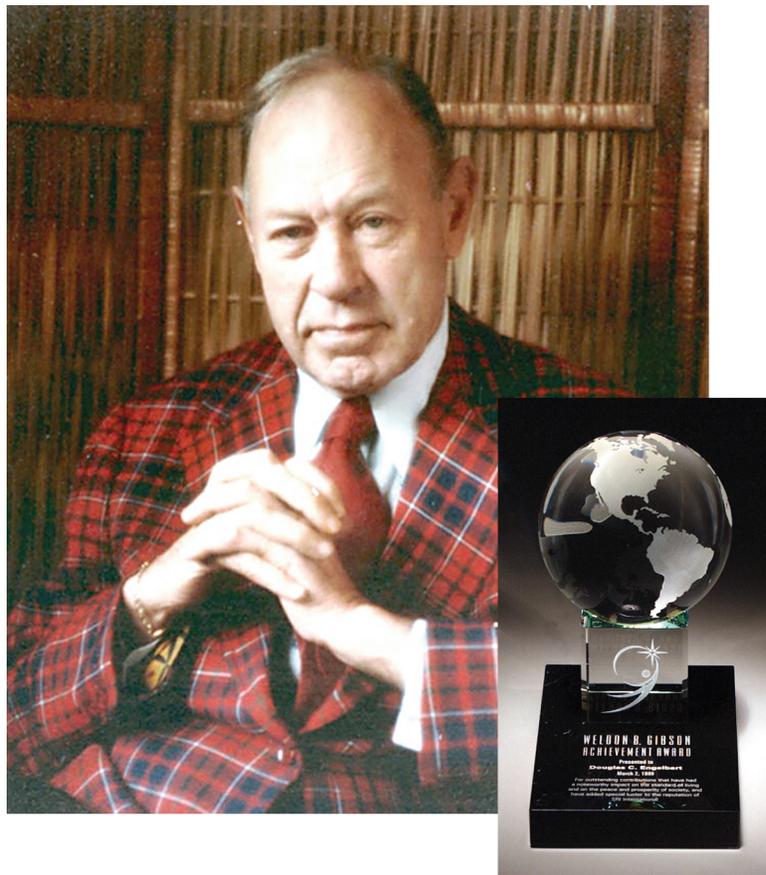


Figure 13-2. Dr. Weldon B. "Hoot" Gibson and the SRI achievement award that bears his name.

certainly not incidentally, helped introduce the world to SRI and vice versa. More on that later.

In addition to the IIC and with the help of SRI staff, he arranged for more than 50 regional economic development conferences in 25 countries, starting in Sydney in 1966. These gatherings became a bridge between worldwide commercial interests and the developing countries whose investment needs were critical. His regional interests also sparked the beginning in 1967 of the Pacific Basin Economic Council that continues today as a forum for 1100 companies. These activities, in which many SRI staff played important roles, not only became opportunities for SRI project work but, more importantly, enabled the industrialists of the world to come and find

their own opportunities in many of the world's industrialized and developing countries. Of more direct benefit to SRI, Hoot formed its International Associates Program that at one point included dozens of the world's industrial leaders. Outside the United States, he truly became the embodiment of SRI.

To honor Hoot's contribution to SRI, an award in his name was created in 1999 that recognizes SRI staff who have made major contributions "to society, to the peace and prosperity of mankind, and to SRI's reputation around the world." These words, the intention of which can be found in the SRI charter, were indelibly written in the heart and mind of Weldon B. Gibson. A few of his specific and notable legacies will now be mentioned.

SRI's International Conferences, Confabulations, and Pacific Basin Alliances

Over the course of 30 years SRI helped form a number of organizations with common economic goals and convened some of the world's most influential conferences on economic development. Both of these initiatives lie at the nexus between business consulting and economic development (as described above). The marriage of the two was a natural act for SRI and its chief proponent in this area, Hoot Gibson. Essentially, the goal was to bring investment capital into a region with a declared need of economic assistance or development. In some instances, as in Indonesia and the case of its President Suharto, the meetings involved the highest-ranking people in the country. SRI's brokerage of investors and investment need was never formal, but it provided opportunities for the economic growth and stability that the participants found important.

Like so many of SRI's international initiatives, the building of networks of both governmental and industrial executives can be credited to Hoot Gibson. He foresaw the benefits to SRI of becoming the focal point where presidents and chief executive officers of large companies, both national and multinational, could promote their companies' growth and development. Those officials in turn saw the value in exploring new markets, developing corporate relationships and networks, collectively lobbying governments, and honing their executive skills from others'

experiences. The developing countries, for their part, needed investment capital, business acumen, manufacturing techniques, technology insertion, and other capabilities of the industrialized world to elevate their standards of living.

Over time, three important initiatives were undertaken to serve the interests of the international industrial community:

- The International Industrial Conference (IIC)
- The Pacific Basin Economic Council (PBEC)
- The Japan-California Association (JCA).

These groups, particularly the IIC, would give rise to a large number of *ad hoc* regional meetings convened by SRI to serve the economic development of a geographical region. These regional conferences would fall under the auspices of what was called the SRI International Associates Program.⁶ The three

⁶ This should not be confused with another program called the SRI Associates Plan whose main purpose was to raise money for the growth of the Institute. In that Plan corporate members would grant SRI some cash each year to help it buy needed equipment that individual projects couldn't afford and to fund public service research. It began in 1949 and added materially to SRI's early ability to grow. Carl Titus was hired to develop the membership, and he did an excellent job. By the early 1960s, the Plan had yielded over \$3.6 million for SRI and by 1965 had almost 170 members. Both Stanford and SRI had been monitoring the Plan's possible encroachment on the University's own fund raising, however, and by the mid-1960s a new policy discouraging such donations spelled the end of the Plan for

business-centered convocations are discussed first.

The International Industrial Conference

Of all the SRI initiatives to bring the world's business leaders together, the IIC was clearly the most prestigious. It was the brainchild of Hoot Gibson and of Henry Luce, publisher of Time-Life. Gibson recalled that he approached Luce in 1957 with a proposal for a senior executive event, worldwide in scope. He said that SRI would organize and operate it if Time would put up the money, to the tune of about a third of a million dollars. Luce agreed and sent SRI a check for \$333,333.33.^E

The IIC became the first worldwide summit of chief executives and gave SRI an enormously favorable reputation overseas. It was held quadrennially, and attendance was restricted to CEOs and was by invitation only. Because San Francisco was an attractive place to visit, the conference was always held there. At the outset, the IIC's purpose was a general one, "stimulating economic and industrial development in the free world."^F It was to take a forward look at the world's economy. Each Conference centered on two critical topical themes chosen to interest a large set of international executives. Attendees could also suggest themes, and a few non-industrial experts who had keen insights about the future of the industrial-based economies also attended. Often, SRI specialists in a given subject would moderate the smaller panels.

The first IIC met in San Francisco in October 1957 and it began with a flurry. Henry Luce, who chaired this first conference, said such a forum was needed so world business leaders could share ideas and learn from each other. Because of the enormous needs of developing and recovering countries, the two themes of the first Conference were investing in developing countries and trade liberalization. The meeting ran for 5 days and was attended by more than 600 business leaders from 63 countries—the largest such forum of its time.

The IIC succeeded in achieving not only consistent attendance from the world's industrial elite, but also proved to be a place where new and sometimes provocative ideas were aired. A series of examples:

1957 – David Sarnoff, CEO of the Radio Corporation of America, predicted the wide use of "self-operating machines" in the manufacturing process.

1961 – J.E. Wallace Sterling, president of Stanford University, warned that the business communities of the developed countries had a responsibility toward the developing world to counter communist inroads there.

1965 – H.I. Romnes, chairman of AT&T, spoke of the day when "virtually any one of the world's households might be connected—instantly on demand—with virtually any other."

1969 – Giovanni Agnelli, chairman of Fiat, stressed that the corporation "must maintain a permanent exchange of ideas and experiences with society."

1973 – Sheikh Ahmad Zaki Yamani, minister of Petroleum, Saudi Arabia, spoke of the serious world energy problems and foreshadowed OPEC's plans for an oil embargo.

1977 – William D. Ruckelshaus, Deputy U.S. Attorney General, warned of the need to share the world's dwindling mineral and energy reserves more equitably and noted that "above all else, we need a new set of values."

1981 – Gordon Richardson, Governor of the Bank of England, outlined the necessity of "restoring balance in our domestic economies and balance between our domestic aims and their external consequences in an economically interdependent world."

1985 – Karl Otto Pohl, President of Deutsche Bundesbank, mentioned two time bombs ticking on the world economy—the debt problem and the trade imbalance. He admonished Japan and the United States to help in achieving better trade equilibrium.

1989 – Akio Morita, Chairman of Sony, cited the U.S. emphasis on short-term profit instead of long-term investment in developing quality products as the reason for the U.S.-Japan trade gap. Peter Drucker then responded that, despite Japan's success, it was past its peak and on a decline (see Figure 13-3).

SRI. (Weldon B. Gibson, *SRI – The Take-Off Days*, Publishing Services Center, Los Altos CA, 1986.)

1993 – Paul Allaire, Chairman and CEO of Xerox, pointed toward the need for corporations of the future to gather “the advantages of a large global enterprise and still have the speed of a small local company.”

1997 – Renato Ruggiero, former Director General of the World Trade Organization on the future world economy prophesied, “What is clear is that this new information-based economy, free of many of the limitations of distance, time and resources, has the potential to add a new dimension to economic integration—a “borderless” dimension that could dramatically accelerate the growth and development dynamic in much of the world.”

Because the IIC was a confluence of so many important industrialists and other dignitaries, SRI kept the profile of the conference purposefully low. Doing so was particularly critical during the turbulent 1960s and 1970s. Executives saw that they could attend with few worries about attracting unwanted attention. Overall, the Conference was applauded by country leaders for its insight into future global economic, social, and political trends. Some endorsements of the impact of the IIC follow:

- “In this world of borderless economies, we must strive to preserve the openness of each economic area in order to ensure global economic well-being and also create a world community. In my view, the IIC, which draws together top business executives from every part of the globe, goes a long way toward achieving this goal.”—Tadahiro Sekimoto, Chairman NEC, Japan.
- “I have attended nine straight IICs, beginning in 1961... Over the years I have made valuable contacts and forged lasting friendships by participating in this extraordinary event. A businessman could travel all his life to meet the high-caliber people he can see at the IIC in just a few days. And its challenging discussions have alerted our Group to key international trends.”—Suliman S. Olayan, Chairman, The Olayan Group, Saudi Arabia.
- “The IIC strengthens ties among the world’s business leaders. This is important as the world becomes ever more interdependent and more competitive at the same time. In a

global economy where business entities are partners as well as competitors, personal connections are invaluable.”—Brian T. Loton, Chairman, Broken Hill Properties, Australia.

- “In an increasingly high-tech, high-speed business world, new ideas and personal contact are essential for building understanding and trust. There’s no substitute for getting to know people face to face – that’s what the IIC is all about.”—James C. Morgan, Chairman, Applied Materials, United States.
- “The conference was a fantastic assemblage of the Free World’s business leaders, and I was pleased with the informality and free discussion which prevailed. I still marvel at the organizational expertise which goes into arranging such a conference; I doubt that anyone else has the capability of so smoothly administering such a gathering.”—Allan J. Newmark, President of the Kensington Organization Ltd.

The IIC was held 11 times over a 40-year period. It provided rare opportunities for CEOs to participate with one another in both open and private sessions, on announced and unannounced topics. Because the meetings took place only every 4 years, each conference had an abundance of pent-up issues to discuss. For example, the 1985 gathering argued the impacts of free vs. restricted trade practices from opening gavel to the last forum. But the meeting venues also provided nooks and balconies, as well as off-site interludes, for attendees to develop individual relationships. Those attending seemed to find the meetings a unique and interesting setting.

However, in spite of IIC’s success in assembling hundreds of the world’s business elite, in the end it did not turn out to be profitable for SRI, either in terms of projects that resulted from contacts with members or in regard to the balance sheet of the conference itself.⁷ In some cases, more than a 100 people from SRI were involved one way or another in the ICC, but with the cost of that participation born by their own laboratories.⁶ To help improve access to the world’s CEO population

⁷ It was not entirely by accident that just before the first conference, called the International Industrial Development Conference, SRI formed a new operating unit called the International Industrial Development Center. But SRI did not acquire sufficient revenues to offset the underwriting costs of the conferences.



Figure 13-3. The 1989 IIC (like all others, it was held in San Francisco).

and to help staff the conference, in 1961 the New York-based Conference Board was invited to be a co-sponsor. Over time, individual corporations were also asked to fund parts of each conference and they did. But after a long period of underwriting the cost of organizing each meeting, in spite of the heady atmosphere it had created, and perhaps because of the failing health of its originator, Hoot Gibson, SRI discontinued its ICC sponsorship in 1998. No conference took place in 2001.

The Pacific Basin Economic Council

Like the IIC, the PBEC became a prestigious assemblage of business leaders, and over the past 35 years has evolved into a stable organization that has resulted in many contributions to the region. SRI had an important hand in its birth and growth.

During the 1960s and 1970s, many countries of the Pacific region were blossoming economically. Japan, Taiwan, Singapore, along with Australia, Canada, and the United States, were becoming important exporting countries. About the same time, relationships were being entered into among corporate officials in the region to explore common interests in trade and economies. One alliance, between leading industrialists of Japan and Australia, saw the virtues of broadening their bilateral arrangement. They also thought that the Pacific region ought to explore forming a counterpart

to the European Economic Community (EEC and now the European Union).⁸

Canada and New Zealand were asked to join in such a group, but Canada and the United States had traditionally looked eastward in trade matters. Therefore, to get commercial leaders in the U.S. and Canada to cooperate, the Japanese multilateral advocate, Shigeo Nagano, ask for assistance from SRI's Hoot Gibson, who was known around the Pacific region for promoting the

multilateral concept. Together, the two toured North America looking to drum up interest. In April 1967, a group of business leaders met in Tokyo to set up PBEC. Only Japan, Australia, and New Zealand were officially represented. The United States had four observers, and Gibson was there as a working advocate. Because of his early creative energies and his continuing help in defining the organization as it met in Hawaii in February 1968 to plan its first conference, Gibson became a founding member. When he became PBEC's fourth Director General in 1974, SRI assumed the Council's administrative duties.¹¹



The Council, with bylaws and mission in hand, then, had its first general meeting in May 1968 in Sydney with delegates from the five founding nations, Japan, Australia, New Zealand, Canada, and the U.S. By 1983, PBEC had grown to include members from 17 countries.⁹ It still functions today, more than 35 years later, with senior representatives

⁸ The chief advocates were R.W.C. Anderson of Australia and Shigeo Nagano of Fuji Iron & Steel.

⁹ PBEC's web page is www.pbec.org. That same year, 1983, the PBEC Council conferred its Founder-Lifetime Member Award on Gibson.

from more than 1100 businesses in 20 countries around the Pacific Basin with combined sales totaling over \$4 trillion.

The Council was founded as a forum “for the exchange of views on economic and business issues affecting the region, and making these views available to Pacific governments and international agencies.”¹ As evidence of its stature, PBEC’s 1996 meeting in Washington, D.C. was addressed by President Clinton, three U.S. senators, and the Secretary of Defense.

As mentioned, Gibson became its Director General from 1974-1983, followed by SRI’s Mark Earle until 1987. SRI extended its administrative duties to providing research into the economic and social development of the region. Though SRI’s President William Miller ended SRI’s role in PBEC in 1987,¹ Gibson was repeatedly honored as one of its founding members and as a prime mover in its continuation. PBEC is the oldest and most preeminent organization pursuing the interests of the Pacific economic community.

The Japan-California Association

As Japan developed into a powerful exporting nation, issues, perhaps inevitable, arose surrounding trade with the United States. Balance, or rather imbalance of payments, trade barriers, both policy-driven and informal, U.S. investments in Japan, and other issues became important factors in the relationship between these two trade giants. In early 1964, a Japanese trade mission, led by the Chairman of Fuji Bank, Yoshizane Iwasa, visited the United States. As part of the trip, the group met with Rudolph Peterson, President of the Bank of America. There, Iwasa proposed that a group of business leaders from Japan and California meet periodically to discuss these economic and trade problems. Iwasa’s invitation was accepted and thus began JCA. The group met first in 1965. SRI was asked to handle JCA’s affairs, and by 1969 there had been five meetings at which views were freely and fruitfully exchanged.^K At that time, nearly 40 companies from Japan and 40 from California participated, and the Association became, in effect, a forum for business diplomacy.

By 1967, The JCA had settled on five major objectives:^L

- Develop business and trade relationships between Japan and the United States, particularly the Western United States

- Create a greater understanding and appreciation of bilateral political, economic, and security relationships
- Exchange views on these issues and their effect on the Pacific Basin countries
- Examine ways in which companies and other economic institutions of the two countries can aid in the economic development of the Pacific Basin, particularly Southeast Asia
- Facilitate the development of close personal relationships among the collective senior executives.

Surrounding these objectives were a host of additional issues. U.S. executives who wanted to make long-term investments in Japan were frustrated by protracted delays of the Japanese Government. The imbalance of trade, which had strongly and permanently reversed itself in Japan’s favor in the mid-1960s, was on everyone’s mind, as was on-going Japanese reluctance to permit open U.S. imports and investments. In that regard, the President of Mitsubishi seemed to understand and sympathize with the U.S. trade difficulties. At a JCA meeting, he predicted an order-of-magnitude reduction in the number of restricted imports (then at 120) within 3 years, but admitted it would take strong determination. As it turned out, Japan hasn’t yielded much in this area over the years.¹⁰

Nonetheless, Japan’s trade with the United States was still enormous. The sum of their direct import-export business with the United States, plus purchases of oil and other raw materials outside the United States, but from U.S.-owned foreign corporations, comprised fully half of all their international trade.^M

In regard to another, less confrontational side, some Japanese business leaders in JCA wanted to mutually pursue regional economic development. For example, Fuji Bank’s Iwasa said, “As Japan’s economic strength expands, Japan should utilize more of its resources for economic assistance and stabilization of the Asian region. It should thus relieve the United States of some of the burden it has been carrying.”^N

¹⁰ In a talk before the American Chamber of Commerce in Japan in Tokyo in February 2000, Alan Wolff of Dewey Ballantine LLP noted that of the 424 pages describing trade barriers published by the U.S. Trade Representative, 58 concerned Japan, the highest of any nation.



Because the issues have been so monumental, improvements have been hard to identify and the Association's impact difficult to assess. Over time, attention given to trade difficulties between the two countries may grow or wane, but progress in reducing the trade imbalance, at least on behalf of the United States, seems minimal.

Nevertheless JCA continues. Today it is known as the Japan-Western Americas Association (JWA). Forty-six Japanese companies from Sony to Honda to Japan Airlines, representing a broad spectrum of exports, are members of JWA. SRI no longer serves as the secretariat for U.S. participants, but SRI Board Chairman Sam Armacost welcomed the most recent annual meeting in 2001 as the Association's co-chairman. That meeting demonstrated the fruits of such gatherings. For example, the heads of both Boeing and Mitsubishi related how the two organizations had become much closer working partners on the Boeing 777 because of the access offered by information technology. The conference also illustrated how modern technology empowers greater employee participation and initiative within the typical Japanese company. These brief indications indicate that, after 37 years and 86 joint meetings, the third SRI-aided consortium is alive and contributing to international relations.

Regional Economic Development Meetings

As a result of discussions in the IIC, PBEC, and other associations in which SRI had a hand, numerous individual regional gatherings were held for which SRI was the major catalyst. (These were carefully orchestrated sessions and, though sizable, were by personal invitation only.) These sessions loosely came under the aegis of what SRI called its International Associates Program. For the most part, that community was a subset of the participants in the IIC who saw value, either altruistic or of self-interest, in joining with SRI to address situations around the globe where some economic need was evident.

Between 1966 and into the mid-1980s, SRI hosted more than 50 economic development meetings around the world—across the Pacific Basin, including Southeast Asia, in South America, China, Europe, India, Mexico, and even in the Soviet Union in 1974 when the Iron Curtain was still tightly shut. SRI's economists, along with other SRI experts, led by Gibson, were instrumental in organizing these conferences and given them their agendas. Sometimes, as in Indonesia, they even drew participation from the highest levels of the government, in this case President Suharto. For each conference, SRI staff prepared background material that pinpointed the region's difficulties so that the attendees could concentrate on specific solutions. Such gatherings were aimed at benefiting the host country or region and often did.

The First "SRI International"

Given all the above relationships, SRI was clearly involved in the international industrial scene. Because sponsoring and administering these associations rarely paid their whole cost, SRI sought two other avenues to make participation profitable. One was to seek project work from the participants as new opportunities and relationships developed. The other was the SRI International Associates Program from which SRI collected a small annual fee. In return, SRI periodically give Program members advanced information from its broad, collective set of non-proprietary investigations.¹¹ The practice was patterned

after an earlier Associates Plan, which started in SRI's first years and which consisted of industrial concerns and some individuals that saw enough merit in such an institute that they were willing to contribute to its growth. That group lasted for over two decades and by 1965 had 168 associate companies from across the United States.

September 1981, it started The Menlo Group, consisting of approximately 250 top executives whose attendance was again by personal invitation. The Group was to focus on a better future for the world business system and to develop closer relationships with governments to make that happen. Quite naturally, the members of the Menlo Group were also members of the IIC and its meetings were held just before the IIC took place.

¹¹ Under the auspices of the SRI International Associates Program, SRI formed yet another collection of CEOs. In

Finally, in an ironic twist, that part of SRI that operated so successfully, and made the very name of SRI a door-opener across the world, called itself "SRI International." That was, of course, the same name Stanford Research Institute adopted after its separation from Stanford in 1970. In spite of the name, however, the present SRI International no longer has the ear of the international industrial world. To understand its present international role, it is necessary to return to the two distinctions in SRI economic endeavors noted earlier. The business consulting side is gone (see Appendix B), but a small number of dedicated and talented staff in the Washington, D.C. Office continues to assist in improving economic performance and standards of living in many countries. That side of SRI's economic work carries on the tradition.

Endnotes

- ^A Weldon B. Gibson, "The Story of SRI at 20 Years", the *SRI Journal*, Feature Issue 4, page 17, December 1966.
- ^B Karl Folkers, an excerpt from SRI's Annual Report to its Associates, *SRI Journal*, 13, p. 12, January 1967.
- ^C The description of international work draws on material from a rather comprehensive but informal "International Project History," compiled and written by SRI's Gordon H. Parker in 1987.
- ^D Curt Carlson at the Gibson memorial ceremony, July 18, 2001.
- ^E *SRI Journal*, 5(4), 1-4, November 1985.
- ^F SRI's *Research for Industry*, 9(7), 4-5, October 1957.
- ^G *SRI Journal*, 5(4), 3, November 1985.
- ^H Esme Marris and Malcolm Overland, *The History of the Pacific Basin Economic Council*, PBEC, Wellington and Honolulu, May 1997.
- ^I *The SRI Journal*, 3(5), 2-3, August 1983.
- ^J Esme Marris and Overland, op. cit.
- ^K SRI, *The Japan-California Association (JCA) Report*, SRI-International Report No. 13, August 1969.
- ^L JCA Report, 1969, op. cit.
- ^M JCA Report, 1969, op. cit.
- ^N JCA Report, 1969, op. cit.