

→ *Change?* → Opportunity!

The world has changed. The economic crisis was a wake-up call to a new reality. In addition, the need for a sustainable future is driving new ways of thinking, new ways of doing business and new ways of living. FIVE asks the new SAP CEOs Jim Hagemann Snabe and Bill McDermott what they believe is needed to drive business successfully in this new reality.

■ FIVE ■ Jim Hagemann Snabe and Bill McDermott

➤ *SAP is undergoing its own transformation. As the company's new co-CEOs, what are your views on change and agility?*

➤ Snabe: Change and agility are the agenda for any leader who aims to make a difference. Business conditions evolve constantly in large and small ways, and companies must continuously be ready to adapt. Successful leaders seem to have a capacity to understand both the dangers and opportunities in their environment and have an ability to act decisively. They also understand the importance of speed and typically are among the first to implement change. I believe change is constant and agility a business imperative.

➤ McDermott: Agility is core to a Best-Run Business, be it because of a change in market dynamics or new emerging growth opportunities. No matter what size the business, your ability to activate your employees, orchestrate your global business network of suppliers and partners around your customers' priorities in real time defines your success in the marketplace. And, by the way, I learned through the economic downturn that SAP is indeed a very agile company.

➤ *So, what, in your opinion, can businesses do to prepare the company for change?*

➤ McDermott: Leaders need to invest in talent and infrastructure and listen to their best employees and customers to continuously understand the pulse of the business. Only by hiring the right leaders, empowering employees to make decisions closest to the customer and having flexible processes in place can companies successfully adapt to change.

➤ Snabe: Exactly. For change to take hold in an organization, it must be linked explicitly and tightly to real performance goals, and it has to be in the hands of people who are passionate and understand the business first and change second. From my perspective, there are two approaches to change. One is to tell people they have to. The other is to make the change very appealing. I'm not in the mode of trying to force change ... I'm a believer in creating an environment where people understand the sense of urgency, but naturally gravitate in the direction you want them to go. To prepare for change, leaders have to be willing to listen. To succeed at

change, investments in the right people and infrastructure are key.

➤ *Can change be anticipated?*

➤ Snabe: The need for change – yes. Again, it's about listening ... to your employees, your customers, what is happening in your business. And, listening is only half of the equation. Understanding what you're hearing – and taking decisive action – is equally as important. The job of a leader is to be close enough to the business – to customers – to anticipate where and what kind of change is needed, and to be prepared to take action at just the right time.

➤ McDermott: I agree with Jim. If you focus on your customer, you will be successful and can lead through change. It is your job as a leader to ensure that your company is nimble enough to adjust and influence the market dynamics, and to take the opportunity of change to build and protect your company's brand.

1 2

03 Starter

SAP's Co-CEOs Jim Hagemann Snabe and Bill McDermott discuss the opportunity that is part of change within a company.

06 Contributors

The men and women who did the FIVE stories

82 Moosmann contemplates

Arnold Moosmann is a farmer in the Austrian Kleinwalsertal area. He has always lived in the mountains, never been part of the world of global business. In this essay, he sounds off his opinion on trust. "It has to be earned," he says.

83 Masthead

**07 CRISIS/
OPPORTUNITY**

08 New world order

In the wake of the financial crisis, power is shifting and the rules of the game are changing. How is the new global order shaping up?

12 We need the referee

Two ideas died with Lehman Brothers: the market is self-regulating and there is an alternative to capitalism. Robert Shiller explains why we need rules and a referee for a real good game.

16 Greed is back

No sooner have financial institutions begun making money again than they have started passing it on in bonuses. Controversial, but is anyone surprised?

18 Clearing the way

How to improve efficiency and profitability and fight fraud by improving strategic clarity within your organization.

20 State of civilization

In the search for meaning, artists around the world are using new resources to pursue age-old questions and in the process show us who we are.

**27 ENDGAME/
INFINITY**

28 Agility

Can your company respond to sudden change? Leading executives and experts talk about how to transform your organization into an agile enterprise.

33 The collapse we have been expecting

In the 1970s, the landmark book "Limits to Growth" raised a dire warning about the future of the planet. Its author sees his predictions coming true today.

35 China – India

The two behemoths are growing fast, with seemingly opposite views on how to run their economies. Yet a closer look shows how much India and China have in common.

3 4 5

37 **HARD/ SOFT**

38 **Human factor**

Bricks and mortar. Or is there a softer, more human element that is equally important in production? After the crash, people are searching for meaning at work.

42 **Happy Land**

Far away in the Himalayan mountains, the tiny country of Bhutan may be onto something big. Does our economic future depend on gross national happiness?

52 **Islamic banking**

If you don't know your sukuk from your halal, it's time to get wise. As companies search for alternative financing, Islamic banking is on the rise.

55 **Green alliances**

Saving the planet used to be the mission of eco-warriors. But now, odd alliances are forming between religious groups, environmentalists and business.

57 **EDUCATION/ EXPERIENCE**

58 **Wanted: new managers**

Business schools are still churning out graduates every year, but in emerging economies like South Africa this is not enough to meet the demand.

63 **Brazilian high flyers**

When aerospace group Embraer realized the country's school system was turning out engineers with knowledge but no skills, it took matters into its own hands.

66 **The lucky one**

At Indian technology company HCL, focusing on "employees first, customers second" is a wise investment in the company's future. Just ask rising star Kunal Purohit.

67 **PROBLEM/ SOLUTION**

68 **(Re)Building Beijing**

On rare clear days you can see the Fragrant Hills. Recycling water is required by law. Infrastructure is meticulously planned. Beijing could be a model for megacity development.

76 **Megagrowth**

Mapping out the megachallenge posed by today's megacities. Harald Sterly, a leading urban researcher, looks at the challenges of today's global demographics.

78 **Adapting to a new game**

Nicholas Moore, the CEO of Macquarie Group, retooled the infrastructure industry with a powerful financing model. Now, hit by the crash, he is revamping the Macquarie Model.

80 **Looming disaster and endless opportunity: our world's megacities**

The world's biggest cities are the source of its greatest problems. Saskia Sassen of Columbia University explains how they could become our source of greatest hope.

CORPORATE DIRECTION

CLEARING THE WAY

Creating strategic and operational clarity can dramatically improve profitability, encourage stakeholder ownership of corporate goals and help the CEO combat fraud.

By C.J. Prince / Painting by Bernd Schifferdecker

The worst economic crisis since the Great Depression may finally have bottomed. Real recovery still remains elusive, though, and even after the economic pendulum swings back towards growth and the global economy begins its slow ascent, industry architectures will have forever shifted. CEOs will be competing in a whole new world. As consolidation shakes out the losers, a smaller group of winners will be left to face a host of challenges: intensifying global competition, political instability, energy constraints, sustainability, and an expanding group of stakeholders with divergent values and priorities, to name just a few. Corporate stewards will have to define new organizational models to succeed in an era of greater skepticism. “What happened in the financial industry is just a symptom of what is happening everywhere else,” says International Institute of Management CEO Med Yones, who coaches Fortune 500 CEOs. “The core of the recent crisis is a lack of confidence. Transparency is critical in order to re-establish that trust.”

By creating a culture around transparency and communicating with strategic clarity, CEOs can, at the same time, provide a framework of core values and rules for engagement, while giving employees and partners the operational visibility and autonomy to innovate and respond to opportunities and risks. “Wrong decisions are made on lack of information or misinformation,” notes Yones. But companies that achieve a culture of openness, in which the right information

is shared all the way down the line, stand to benefit in a host of ways.

IMPROVE FINANCIAL VISIBILITY

With credit markets still tight, maintaining a healthy and robust balance sheet will continue to be a top priority. Having real-time visibility into the company’s financials gives CFOs and their organizations a clear picture of their cash and liquidity needs, enabling them to stay in the black and maximize saving opportunities. And it shouldn’t end there, says Joe Knight, partner and senior consultant with the Business Literacy Institute, which works with Fortune 500 companies to improve financial visibility and comprehension. “Financial transparency means making the numbers available to people outside the finance organization, as well.”

Indeed, creating a culture of openness around the company’s financials can dramatically improve profitability. When employees in sales, marketing and other units inside the company genuinely understand the numbers, they do a far better job cutting costs when necessary and helping to keep the company on track vis-à-vis long- and short-term goals, says Knight. “The problem is that the people who can affect the numbers most aren’t aware of them,” he notes. “If you have a goal on EBITDA to drive a certain number and 75% of your direct reports don’t know how that number is calculated and what it really means, what are the chances you’ll hit your target?”



And, of course, keeping figures visible cuts down on fraud. “When you’re sharing the numbers every week, it’s pretty hard to play games,” says Knight, pointing out that many cases of financial wrongdoing at companies over the last decade involved an employee within the company who recognized questionable practices and blew the whistle.

INCREASE EFFICIENCY

The connection between transparency and efficiency is simple and straightforward, says Herbert Baum, former CEO of Dial Corp. and author of “The Transparent Leader: How to Build a Great Company Through Straight Talk, Openness, and Accountability.” “Transparency leads to better teamwork, and better teamwork leads to greater efficiency. People are sharing information,” he says, adding that “sometimes it’s sharing information about people who are not pulling their weight – and you need to know about that.”

In the classic organizational model, hierarchies and silos build up over time, leading to the kind of information hoarding and infighting that stymie productivity and efficiency, says Keith Ferrazzi, CEO of Ferrazzi Greenlight, which helps companies like Thomson Reuters, Deutsche Bank, Avon and IBM break down silos and learn to share information and act as a team. Ferrazzi cites a recent Gallup study that showed that the strength of relationships inside an organization yields higher levels of employee engagement. “That has a direct correlation to employee productivity and decreased turnover rates,” says Ferrazzi.

Siloed organizations tend to be more competitive internally, notes Donna Goss, co-director of the Leadership Development Institute, in Bethlehem, PA. “They’re also very slow in communications because information has to go up the silo, across and down the silo,” she notes. But organizations that have established open, frank communication between business units, and within them, can collaborate more easily and achieve goals more quickly. If, for example, the CEO’s strategy is to increase profits by 5% and to achieve

that via cost-cutting, teams across the organization will have to work collaboratively to determine where fat should be trimmed. “How will they manage that efficiency if they don’t know where the waste is in the manufacturing process or how to measure the productivity of the employees? These metrics need to be measured and shared so they know which areas to change or improve,” says Yones. The same holds true for sustainability goals, he adds. If managers have access to how the company’s operations are impacting the environment, they can make conscious decisions to minimize waste in key areas, carefully balancing social, environmental and economic opportunities and risks. While strategy is planned by the CEO, Yones adds, it is executed by middle management. “So in order for them to all be aligned, they have to have access to this information, to bridge that communication gap. That can be done by collaborative workflow,” he says, drawing an analogy to a rowing competition. If one oarsman is rowing out of sync, the team will fail. “It’s the same with strategy. For strategy to be executed and the organization to be aligned, information needs to be kept not only at the senior VP level, but at all levels. If you ask a middle manager, ‘What is the mission?’ they should all be articulating the exact same thing.”

SPOT YOUR BEST CUSTOMER

Nearly every company in a competitive market today is battling fiercely for customers who have grown more demanding than ever. A clearer picture of the business will make it easier to see both which customers are most critical to the company and how to become more customer-centric to delight those customers. With the right system in place, C-suite managers can track customer satisfaction and feedback to deliver the intimacy customers are seeking, says Yones. “As CMO, you can, for example, track the customer loyalty index to see how many of your customers are repeat and how many are new. You can measure the satisfaction of those current customers.” Measuring their profitability based on closely tracked data

can also help the company decide where to focus its investment. Jeff Prouty, a consultant who helps companies develop more transparent cultures, suggests keeping customer feedback public to heighten accountability. “You see the good, the bad and the ugly,” he says.

“If every employee knew how every client or customer felt – if you could get them to look at the company and the way they’re treated from the customer’s perspective – then they’re more apt to change.”

MANAGE RISK AND COMPLIANCE

“Risk management is about information,” says Yones. If corporate leaders do not have the right information or lack the proper process for audit and are not tracking the proper metrics, it will be too late to take corrective action when trouble rears its head. “CEOs need to have a 360-degree view of the entire organization, a total view of the potential area of trouble,” he notes. “The success of strategy is about execution, and execution is about information. That’s what differentiates one organization from another in terms of performance.” He points to Nokia’s rivalry with cell phone manufacturer Ericsson. Both companies relied on a Philips semiconductor chip, but Nokia’s supply-chain management and risk-management systems were superior, and its culture far more open. “When lightning hit the Philips plant in 2000, it took [Nokia] one day to realize something was wrong in the supply chain, while it took Ericsson a week. Nokia was able to push the vendor to secure remaining capacity and they got a significant advantage in time-to-market in introducing their new cell phone.”

Information disseminated down to the front lines also can have a huge impact on employee dedication and contribution to the overall mission of the organization – rather than viewing their own individual tasks in a vacuum. “Think about what you would have loved to have known when you joined the organization,” says Prouty. “And think about how effective you could have been as an up-and-coming employee if you had known on day one what you know today.” ■

MASTHEAD

Publisher Herbert Heitmann, Global Communications, SAP AG | **Project Lead** Stephan Magura (stephan.magura@sap.com) | **Publishing Company** BurdaYukom Publishing GmbH, Konrad-Zuse-Platz 11, 81829 Munich, Germany | **Publishing Director** Alexander Gutzmer | **Editor in Chief** Tobias Knauer (V.i.S.d.P.) | **Creative Director** Blasius Thätter | **Art Direction** Frank von Grafenstein, Karin Höfling / rose pistola GmbH > www.rosepistola.de | **Managing Editor** Daniel Fink | **Senior Editors** William Boston, Angela Dunn, Susan Sills | **Authors** Corinna Arndt, Clifford Coonan, Andrew Downie, Ioannis Gatsiounis, Leon Gettler, Andreas Hilmer, Suzanne McGee, Dennis Meadows, C.J. Prince, George Russell, Binny Sabharwal, Saskia Sassen, Harald Sterly, Daniel Völzke, Charles Wallace, Fara Warner, Roland Wiedemann | **Copyediting** Gabe Gregoire, Charles Norman, Asa Tomash | **Production** Wolfram Götz (Director), Rüdiger Hergerdt, Franz Kantner, Silvana Mayrthaler, Cornelia Sauer | **Photo Editors** Beate Blank (Director), Michaela Beck | **Credits** Cover: Frank von Grafenstein; p. 6, 33, 77 PR; p. 37 Steffen Honzera; p. 80, 81 interTopics/ Sarah Lee/eyevine, Sean Gallagher | **Copyright** The contents of this magazine are protected by copyright law. All rights reserved. | **Printing** ColorDruckLeimen, 69181 Leimen, Germany | **Notice** The opinions expressed in the articles in this magazine do not necessarily reflect the views of the publisher. | **Circulation** 9,800