think:act

Magazine for decision makers
Nº 19

Jack Welch
The world's toughest manager on treating his employees with respect.

Herbert Hainer
The CEO of Adidas about internationalization and his rival Nike.

COURAGE

Leadership in times of change

Jagdish Bhagwati: Why growth is the best strategy against poverty

Megacities: Why some are bigger than countries, and how businesses can benefit

Lighthouses: Why Apple and Google have totally opposing strategies

Roland Berger
Strategy Consultants

Dear reader,

Ten years ago, who could have predicted that the internet would revolutionize retailing, or that green technology would become a high-growth sector? That China would become the world's leading exporter, and America enter its Pacific Age? That the financial markets would throw a fit and cause the worst recession in eighty years, or that shale gas and fracking would turn the international energy market on its head almost overnight?

These days, when you're a manager, uncertainty is almost everywhere you look. Risks grow bigger, technology changes faster, global networks are more complex, and all of these factors have important implications for our view of planning and management. If trends can no longer be relied upon, numbers have limited value as a basis for forecasting and decision making.

How do you manage a company in an uncertain world? What tools, methods, and strategies still work? In our special feature on leadership, we talked to a series of leading personalities – with often surprising results. In an exclusive interview, Jack Welch, former CEO of General Electric aka Mr. Shareholder Value, says respect is the most important tool of management. Adidas's CEO Herbert Hainer explains how to motivate young talents to join his company, and Hapag-Lloyd's CEO Michael Behrendt talks about the need for managers to show humility.

All of these examples have one thing in common: they show that values and personalities lie at the heart of successful management. Most importantly, it takes courage, decisiveness, and analytical skills to identify and seize new opportunities.

I am writing this editorial because my friend Martin Wittig has stepped down as CEO of our firm for health reasons. I wish him God's blessing and a rapid recovery.

Professor Burkhard Schwenker

CEO, Roland Berger Strategy Consultants

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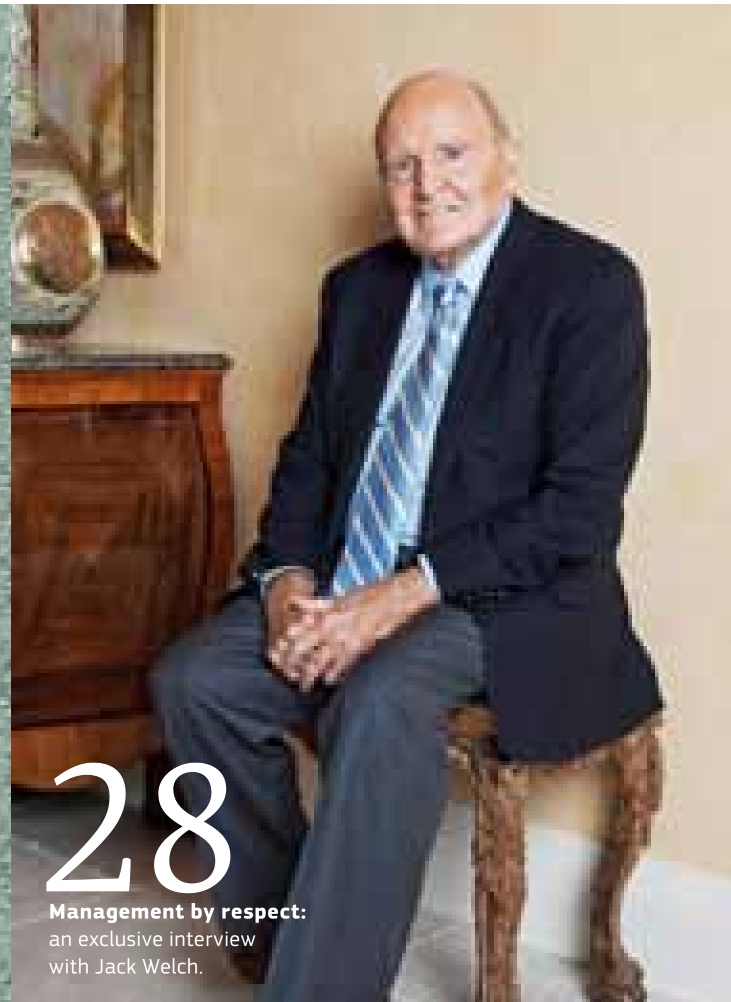

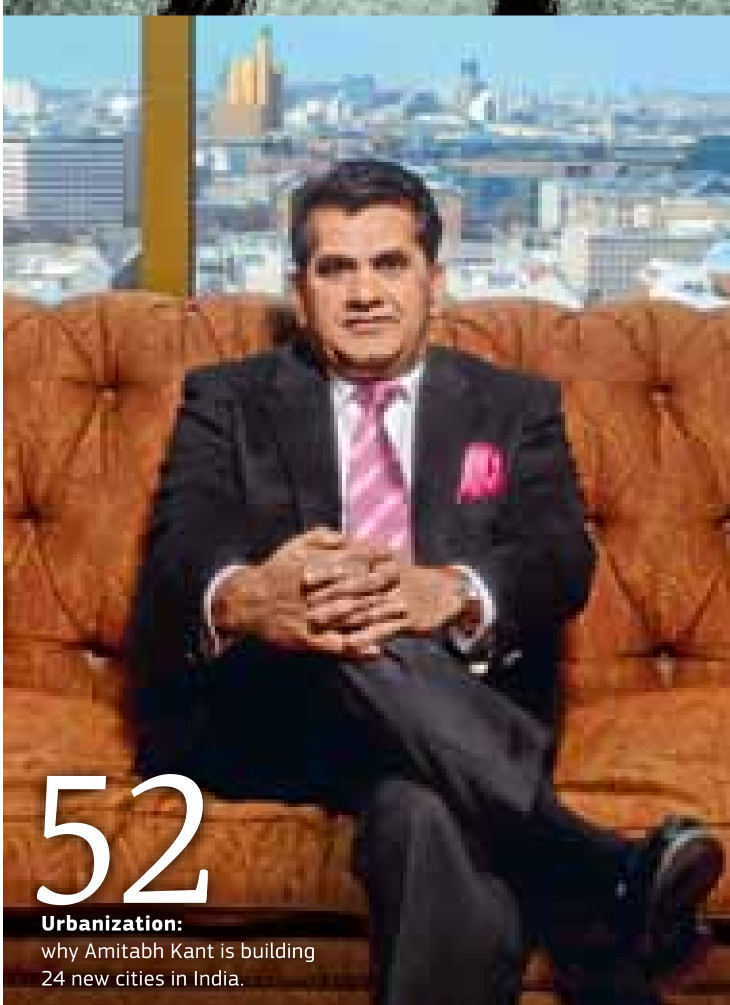

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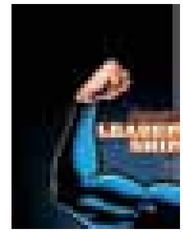

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Leadership
How management can succeed in times of change.

Think

Act

Report

As CEO at Hapag-Lloyd, **Michael Behrendt** has adopted a clearly defined strategy.

Herbert Hainer meets some interesting people in the showers at Adidas.

Barcelona's Lionel Messi tussles with Blaise Matuidi of Paris Saint-Germain.

Dangerous dominance

European football is turning into one big yawn, with top clubs too powerful for true competition.

Striker Lionel Messi was on a roll this season, scoring his 300th goal for FC Barcelona and putting the Catalonian side well ahead at the top of Spain's Primera División. Financially, though, it could end up being a victim of its own success: Spanish football is less exciting than its international neighbors, making it less attractive to fans and sponsors. The same phenomenon is occurring in England's Premier League and Italy's Serie A, though teams in the French and German premier leagues are still relatively well matched. These are the findings of a study by Roland Berger and Tübingen University, *How exciting are the major European football leagues?*

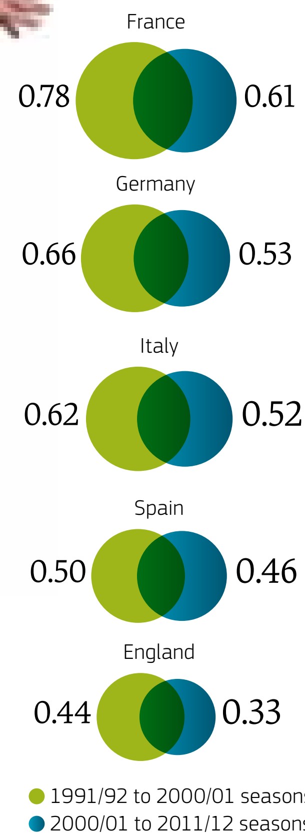
The researchers used key statistics from the 1991/92 to 2011/12 seasons to assess the short-, medium-, and long-term excitingness of leagues in Spain, Italy, England, France, and Germany. They found that all of the top leagues had become less interesting over the past ten years, mainly because of financial disparities between clubs. "Some of the top teams are way ahead of the smaller ones," says the study's author, Roland Berger partner Björn Bloching. "This is mainly because of the generous prize money they earn from the UEFA Champions League." The dominance of star teams like Real Madrid and FC Barcelona, which are funded by prize money and debt, makes true competition impossible.

UEFA's Financial Fair Play program seeks to make football less boring by forcing clubs to stop living beyond their means, or face sanctions such as exclusion from international competitions. "If UEFA implemented these rules strictly, it would make football more equal and more exciting," Bloching explains.

German managers can take heart from the study, which found that their league is exciting, clubs are financially sound, and the sport has deep social roots. "The Bundesliga could become Europe's most successful league in the near future," concludes Bloching.

LOSING THEIR SHINE

Excitingness* of top European leagues



*The figures define each league's long-term excitingness, which is affected by two factors: the points difference between teams in any given season, and the change since previous seasons. The higher the figure, the greater the excitement.

Sources: Roland Berger; Tübingen University

→ FIND OUT MORE:
How exciting are the major European football leagues? by Roland Berger Strategy Consultants, 2013, bit.ly/1103LUX

THE OUTLOOK

China flexes its muscles in South America

Latin America has discovered China as a new trading partner. At the beginning of the millennium the two did hardly any business at all, but today China accounts for more than a quarter of all imports and exports by countries including Brazil, Chile, Peru, Colombia, and Ecuador. It mainly needs raw materials such as copper, iron ore, and of course oil, and will replace the European Union as South America's most important trading partner by 2015.

TOURISM

Travel fever

Last year, more than a billion people traveled abroad. One reason for the continued growth in numbers, says the World Travel and Tourism Council, is increasing affluence in the world's most populated regions, including Asia, Brazil, and Russia. Long-haul travel is also becoming increasingly cheap as airlines face stiff competition. A ticket from New York to London costs only a quarter of what it did in 1960. The industry employs 255 million people, and earns USD 6.3 trillion a year, accounting for nine percent of global GDP. According to a study by the World Economic Forum, a relaxation of visa requirements could boost passenger numbers to two billion by 2020.

FUNDSTERS

The rise of crowdfunding

Until 2010, Markus Brütsch was a partner at Roland Berger. Today he is an entrepreneur in his own right, the CEO of the crowdfunding platform Fundsters, which provides alternative sources of finance for start-up projects. Following an audit by the banking regulator BaFin, it is the first German company of its kind authorized to raise more than EUR 100,000 for a single business. "Crowdfunding should no longer be restricted to individual niche sectors," says Brütsch. "This method of raising capital is the modern alternative to traditional bank finance if you have an idea that you believe in." Last year, according to one recent study, crowdfunding raised USD 1.6 billion in the US, and USD 945 million in Europe.

REFORMS

Europe's way out of the crisis

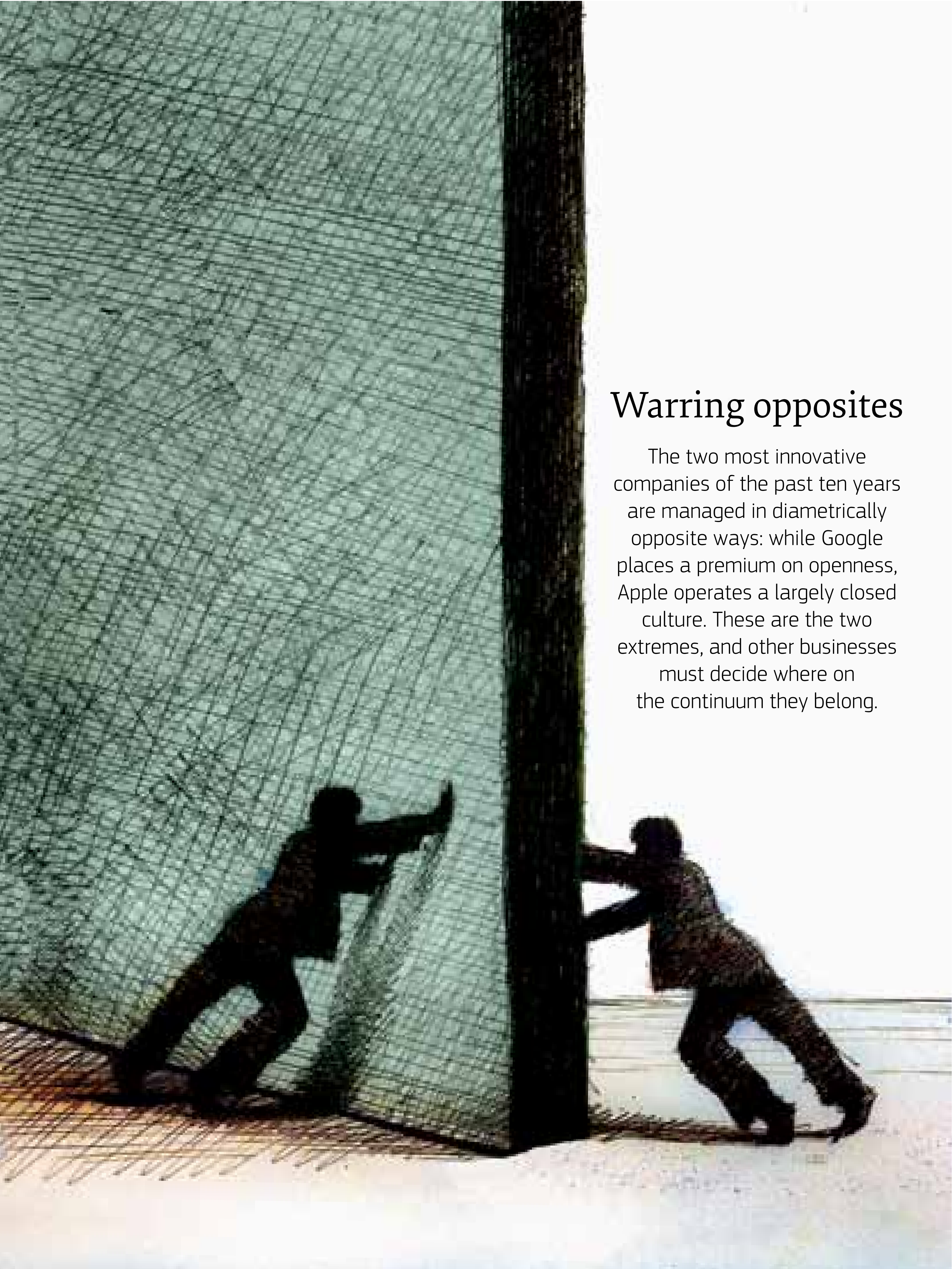
Europe is on the right track, and can regain its competitiveness despite the euro and debt crises if it implements consistent reforms. That's the conclusion of a study by Roland Berger Strategy Consultants and the World Economic Forum, *Rebuilding Europe's Competitiveness*, which finds that the main reason for the continent's faltering growth is the economic divergence between its north and south. → **FIND OUT MORE:** rbsc.eu/190212Q

"We hope that this report will provide policymakers, business, and civil society leaders with an important tool in adopting measures needed to rebuild Europe's competitiveness, and inspire a strategic dialog between stakeholders."

KLAUS SCHWAB, FOUNDER AND EXECUTIVE CHAIRMAN, WORLD ECONOMIC FORUM

What would Apple do?

What would Google do?



Warring opposites

The two most innovative companies of the past ten years are managed in diametrically opposite ways: while Google places a premium on openness, Apple operates a largely closed culture. These are the two extremes, and other businesses must decide where on the continuum they belong.

We respect extremely successful companies, and perhaps even try to emulate them. They are like lighthouses in the distance, guiding us toward our destinations – but supposing there are two lighthouses, and they are in opposite directions? Today's managers face a difficult dilemma.

In the second decade of the twenty-first century, there are two lighthouses of global management: Apple and Google. Perhaps the most successful and innovative companies of the last ten years, they represent two completely different business and product strategies. In a world where the interfaces between companies and the outside world are permeable, information increasingly difficult to protect, and formal hierarchies almost impossible to maintain, Apple and Google have responded in wholly opposing ways. They represent the two extremes, and managers of other businesses must decide which they want to emulate.

> Apple's strategy is introverted, perfectionist, almost egocentric. Product decisions are ultimately made by one person, with hardware, software, and content all carefully cross-matched and kept strictly under wraps. Secrecy is the watchword, and even employees are often banned from talking to one another about their work. So extreme is the division of labor that people know very little beyond their own jobs. Products are launched only when perfect, and customers seduced by user-friendly, beautifully designed technology whose rules are dictated by Apple alone.

> Google is open, fast-moving, almost anarchic, constantly launching products at various stages of testing and development. It changes them all the time, abandoning some and reviving others, and product decisions are taken by everyone in the company. Employees are even encouraged to work on their own ideas during office hours. Everyone in the business has access to the same pool of information, from which ideas for new products and services emerge constantly like a lava lamp. Google's mobile operating system, Android, is open source, freely available to programmers all over the world, and given away to hardware manufacturers like HTC, Samsung, and Nokia.

So while Apple radically restricts access to information, using an almost military hierarchy to protect its ideas, Google scatters information like confetti, drawing on others' creativity to generate new ideas for its business. But while these two strategies are polar opposites, they have one thing in common: they are very successful. Google and Apple are among the most valuable brands in the world, roughly on a par with Coca-Cola, McDonald's, and IBM. They are also two of the most valuable businesses: Apple has the biggest market capitalization of any company, while Google, which is much smaller, ranks around twentieth.

In 2008, US media pundit Jeff Jarvis published a book entitled *What Would Google Do?* He offered dozens of answers to help companies be as successful as the search-engine giant. For example:

Put the customer in the driving seat.

This is not about being polite and respectful: it is about getting them to share in decision making and product development, and in devising new business models.

Trust the wisdom of the crowd.

Google's search results are accurate because they are effectively crowdsourced. Other companies can draw on users' knowledge to bring about continuous improvements.

German author Dirk Beckmann counters this with another question: *What Would Apple Do?* His book, published in English this month, points out that the wisdom of the masses is the last thing on the company's mind. On the contrary, he says, "It creates its own innovative products, so new and unusual that they far exceed customers' expectations." Apple knows better than its customers, and actually tells them what they want. Provided management gets this right, the product is a success.

Deliberate strategies

The fact that Apple and Google are managed in such completely different ways is quite deliberate, and history is littered with examples of extremely open and closed companies. These strategies are often most successful during periods of very rapid change. One of the best examples of the approach adopted by Steve Jobs in building Apple was a company founded over a hundred years ago.

Henry Ford was the pivot of his entire business. His word was law, he made no attempt to tailor his products to the times, or to customer tastes, and his legendary offer to sell you a Model T in any color as long as it was black was an early example of the closed business strategy.

A statistic cited by Ford himself in 1923 shows just how closed and highly organized the company was. Precisely 7,882 different tasks were carried out in his factory – and of these, 2,637 could be done by people with one leg, 715 by one-armed employees, and ten by workers who were blind. In this system, initiative and improvisation were left by the wayside in the quest for perfection.

Another great early twentieth-century American businessman operated a far more open and decentralized approach. Thomas Alva Edison, widely portrayed as a brilliant but eccentric inventor, was actually a master of motivation with a flair for communicating his excitement to his fifty employees.

The rule at his factory was "one small invention every ten days, one big thing every six months," and that was pretty much what happened. Perfection was a secondary consideration: all that mattered was that each new product should work, by hook or by crook. "Edison was a master of improvisation," emphasizes his great grandniece, Sarah >

Warm welcome or locked door: Google and Apple have achieved success by very different routes.

Each has its lessons for managers: extremes provide guidance, like poles in a ski slalom.

Miller Caldicott. His employees had to be open to constant surprises. "Everyone was expected to be able to improvise. Yes, there were rules in the laboratory, and there was also a structure – but unexpected results were more the rule than the exception."

IBM meets its match

Half a century later, the computer industry was turned on its head by two companies as different as Ford and Edison or Apple and Google. In the late 1970s, IBM was a secretive, unapproachable, and brilliant giant. It dominated the market – and then along came a snotty-nosed upstart that began making computers the size of cupboards rather than houses. DEC employed the finest engineers of its time. It began life as an underdog, but had an abundance of something that was in extremely short supply at IBM: flexibility.

Founder Ken Olsen's motto was "Do what's right," and the company's IT specialists were delighted to be left to their own devices rather than being told what to do by sales and marketing departments. This was a big asset when technological excellence was such a key competitive factor in this fast-changing industry.

IBM responded not by changing itself, but by buying in change. It bought a product called QDOS, Quick and Dirty Operating System, from a small, completely unknown company by the name of Microsoft, and changed its name to DOS, Disk Operating System. Together, the two companies went on to conquer the PC market. IBM remained a hermetic monolith, and DEC was left trailing in their wake.

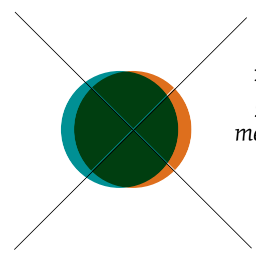
IBM has not only survived, but has significantly opened up in the last ten years: it could no longer afford to ignore the increasing strategic focus on flexibility and customer service. Its CEO in Germany, Martina Koederitz, says the company needs to make itself more permeable to the outside world in order to respond more quickly to changing customer and market demand. Sociologist Ronald S. Burt of the University of Chicago Booth School of Business has done a great deal of work on Google's and Apple's contrasting organizational and management styles over the past twenty years. He makes a distinction between brokerage companies, with open structures and many loose ties with the outside world, and closure companies, dominated by a small number of strong relationships.

Of course, these two opposing poles are first and foremost a theoretical construct rather than a principle of day-to-day management. Even Apple has to share information with its employees and suppliers to a degree, and Google, too, has its own secret laboratory.

Both approaches have their specific strengths:

> The brokerage strategy is more suited to rapid top-line growth and to developing new processes, products, and business models. It has a steeper learning curve, and is more innovative.

> The closure approach is more suited to efficiency, profitability, and bottom-line growth. Strong internal relationships breed trust and guarantee reliability.



But they also have weaknesses:

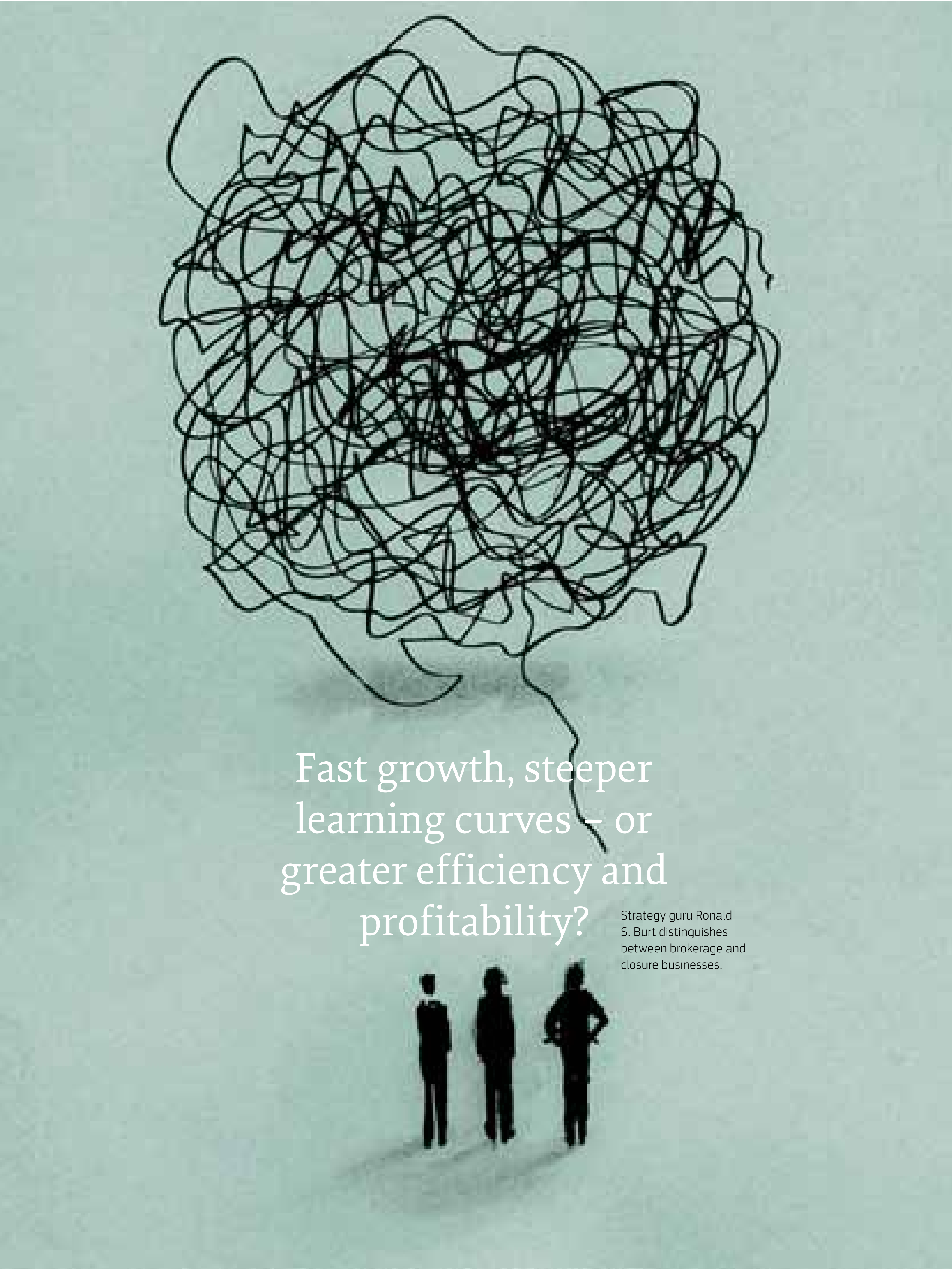
> Closure models promote groupthink and a fortress mentality. They're less flexible, and encourage people to take themselves far too seriously.

> Brokerage models are more lax, chaotic, and vulnerable in a crisis. Weak relationships, says Ronald S. Burt, never win battles.

But at their core, the two companies show fundamental differences in their response to the challenges that face most businesses. If your boundaries become more blurred, does that make you stronger, or does it ultimately bring about your collapse? Do you share your information with everyone on the grounds that it is too difficult to protect, or do you make huge efforts to achieve a competitive advantage by keeping it secret?

Burt says companies should not seek to ape Apple or Google. Rather, they serve as points of reference, an aid to navigation between the two extremes. Generally speaking, he says, the more things you produce, and the fewer and bigger your customers, the more likely you are to be a closure company. The more services you provide, and the more innovative your technology, the greater the probability of being a brokerage. All companies need to find the right mix of the two opposites.

Amazon's Jeff Bezos shows how successful a hybrid of the two can be. He uses Android, Google's open operating system, to sell Kindle Fire tablets at bargain-basement prices: buy one (or an Apple product, for that matter), and you are locked into a largely closed ecosystem. Like Google, Bezos gives his staff plenty of scope for creativity and experimentation, but also fiercely defends his intellectual property. Even Apple has to pay license fees for the one-click technology invented by Amazon. <



Fast growth, steeper learning curves – or greater efficiency and profitability?

Strategy guru Ronald S. Burt distinguishes between brokerage and closure businesses.

Give growth a chance

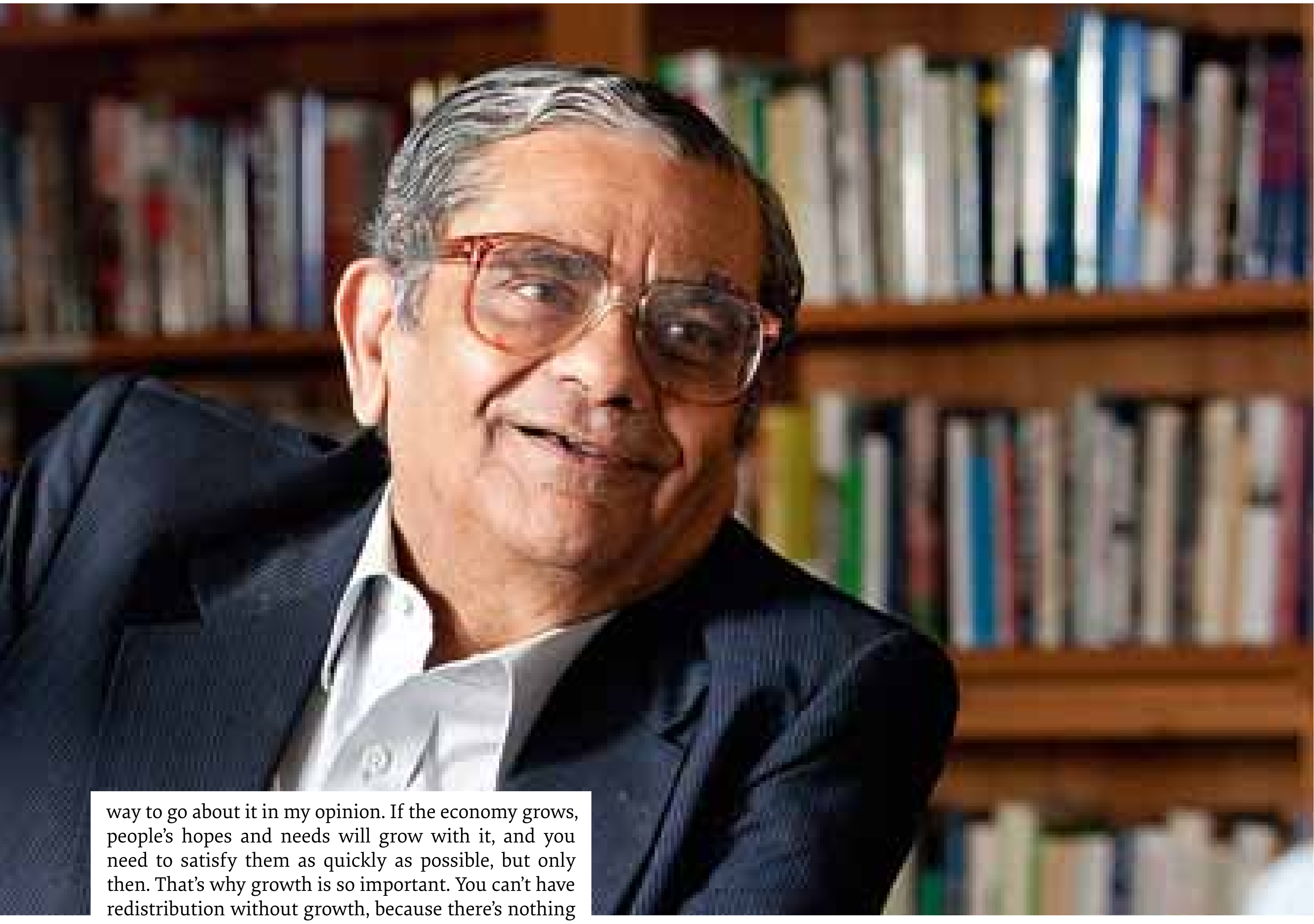
India's **JAGDISH BHAGWATI,** a long-time contender for the Nobel Prize in economics, believes growth is the best strategy for liberating developing countries from poverty. He wants his home country's government to step up the pace of reform.

THINK:ACT: Professor Bhagwati, India is one of the world's fastest expanding economies, and yet it faces major social challenges. What do you think of the situation in your home country?

JB: India has grown by an average of 8.2 percent over the last nine years, and 7.2 percent in the last twenty years. The reforms since 1991 have deregulated the economy and opened it up to competition, but they've also pushed back poverty and improved the lot of many Indians, particularly in rural areas. This is because of growth: if the cake gets bigger, everyone gets a more generous slice. To me, that's the key issue: growth comes first, and has a direct influence on quality of life. It also means the state gets more money as a result, and can fund welfare programs as the second stage of the process.

Couldn't they keep boosting growth for the time being, and leave the welfare programs for later?

JB: That's what other growing economies such as South Korea and Taiwan have done, and they've been relatively late in developing a social conscience. That's the wrong



way to go about it in my opinion. If the economy grows, people's hopes and needs will grow with it, and you need to satisfy them as quickly as possible, but only then. That's why growth is so important. You can't have redistribution without growth, because there's nothing to redistribute.

From Bombay to New York: economist Jagdish Bhagwati has come a long way – from India to the US, and from socialism to the free market.

In your book *Why Growth Matters*, you mainly write about India. Does your message also apply to other developing countries?

JB: Yes. Look at Brazil, for example. Fernando Cardoso was opposed to globalization until he was elected president, and then growth took off and government revenues increased. And when Lula da Silva succeeded him, he had the money to start a welfare program for things like education and health. First the growth, then the programs – just like in India. My message is give growth a chance, not as an end in itself, but as a way of helping people out of poverty.

But we do need to talk about the challenges in India too. Localized corruption is still a problem for Western companies.

JB: It's getting better, honest. There's no longer corruption at every level, though it's still widespread in some places, and investors can always relocate to states like Gujarat that set a better example. They're cutting back the Kafkaesque web of regulation, and investors are responding to this, which in turn is promoting competition between the individual states.

But all the states have employment laws that make it almost impossible for companies to dismiss employees.

JB: These laws mainly prevent small companies from becoming larger and more efficient, but they don't affect foreign companies so much. That said, employers obviously think twice about hiring people they can't fire in case business doesn't go as well as they had hoped.

Employment laws aren't the only problem for potential investors. There's a lot of catching up to do in infrastructure, things like roads, ports, and most importantly the electricity supply.

JB: It's getting better because the economy is growing, though it would be stupid to build roads and hotels on the off chance that people will use them. But Indians know exactly how important this issue is.

>

They might know about it, but what are they doing about it?

JB: Every five-year plan since 1951 has included specific targets for health, education, and social progress. Prime Minister Manmohan Singh, who's been a friend of mine since we were at Cambridge, once said to me: "We'd like to do more, but we don't have the money." This lack of money was the biggest obstacle; there's never been any shortage of good ideas.

So the government needed money.

JB: Precisely. Before 1991, the political framework was so ridiculous, so full of restrictions, that development was almost impossible. The Indian model was an international laughing stock. When the first reforms kicked in and the country began to grow, it became abundantly clear that the rules, laws, and regulations that were such a hindrance to growth and escaping from poverty needed to change. That takes time, particularly in a democracy.

The government still has an interventionist approach to the economy. Are we going to see a move toward greater liberalism?

JB: Yes. In the old days, companies had monopolies in specific areas and were protected against competition by the government. Their numbers are declining. For example, Indian Airlines used to be an inefficient monopoly, but today there are quite a few successful private operators. Most of the import restrictions have gone too, which has attracted companies like IKEA to India, and the liberalization of retailing has brought in companies like Wal-Mart and Carrefour.

But the pace of reform could be faster, couldn't it?

JB: The government is moving, but it's moving very slowly. That's a cultural thing. If the Americans or the Germans have a problem, they sort it out straight away, but in India it's different, the pace of life is slower. Of course there are dynamic people in India, some of them in responsible positions, but there are also many who are still working at the old pace.

Isn't this slowness a problem? A lot has happened, we mustn't forget that, but there's also a lot more to be done.

JB: The government has let things slide a bit. If India wants to return to a growth rate of maybe 9.5 percent rather than the current 7.5 percent, the reforms need to be speeded up.

How could they do that?

JB: Now that the growth curve is flattening out, people are starting to complain and accusing the government of doing nothing. They're worried that the upturn may be coming to an end, and they don't want that to happen, so they take action, and they make the government take action too. Politicians are realizing that they can't go on as they used to, otherwise they'll lose the next elections.

But Prime Minister Singh unleashed a storm of protest when he announced further economic reforms in the fall of 2012.

JB: The last street protests I heard of were actually about extending the reforms, particularly in two sectors, telecommunications and mining, which are still beset by old-fashioned, diehard protectionism. People want more reforms, not fewer, and that's how it should be. Look at this whole thing of needing a license to do everything. It just promotes corruption. The fewer the licenses, the freer the markets and the greater the growth. Most people have understood that, and the government is responding.

Is the opposition to reform coming from people who are afraid they'll be worse off in a free market?

JB: Who would that be? There's a growing middle class in India that's managed to escape poverty. They're setting the example, and we're talking about more than 300 million people. They're living proof of how effective these reforms have been. <

JAGDISH BHAGWATI

Jagdish Bhagwati used to believe that socialism was the future, and wanted to help build a more progressive India. A few years in government service persuaded him otherwise, and in the 1960s he left his homeland to do a doctorate at MIT, where he subsequently taught economics from 1968 to 1980. He later acted as an adviser to the World Trade Organization and the United Nations. Today, aged 78, Bhagwati teaches politics and economics at Columbia University.

GROWTH IS THE KEY TO COMBATING POVERTY:

According to Jagdish Bhagwati's and Arvind Panagariya's book *Why Growth Matters. How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, **PublicAffairs, 2013, USD 28.99**

Heroes and villains

The heroes save the world; the villains would reduce it to a smoking pile of rubble given half a chance. They're comic-book embodiments of the endless struggle between good and evil – and it just so happens that many of them run multinational companies. Batman, for example, has Wayne Enterprises, and Lex Luthor is the owner of LexCorp. Take a closer look at their financial backgrounds, and something surprising emerges: superheroes nearly always come from wealthy families and inherit their businesses, whereas supervillains often claw their way up from the bottom rung of the ladder and build corporate empires on their own.

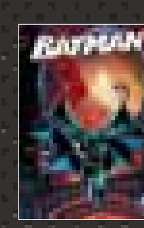
Comic-book fiction conveys a pre-capitalist aristocratic ethos, maintains journalist and academic Julian Sanchez on his eponymous blog. The subtext is that you need money to perform good deeds, and if you don't have money, you earn it, usually from shady dealings. The nouveau riche is almost always the bad guy.

On the following pages, we look behind this explosive mixture of power, morality, and high finance, and discover that in the real world of business, things aren't nearly so simple. Our report, "Leadership in Times of Change," shows that the comic clichés of good and evil are no longer an adequate benchmark of corporate culture. But the one thing that does hold true for management superheroes – Spider-Man even made it his election slogan – is that with great power comes great responsibility.

The good guy: Bruce Wayne, alias Batman

CHIEF EXECUTIVE, WAYNE ENTERPRISES, BILLIONAIRE

Gotham City is a cesspool ravaged by violence, corruption, and perfidy. Tireless amateur crimefighter Bruce Wayne dons his bat costume at every available opportunity in his efforts to clean up the mess – but where does he get the money for the Batmobile and all those other high-tech gizmos? In real life, Batman is not just a gallant do-gooder: he's also the head of Wayne Enterprises, which has an income of USD 30 billion and which he inherited from his parents. It's the perfect setup for a part-time law enforcer.



The bad guy: Norman Osborn, alias the Green Goblin

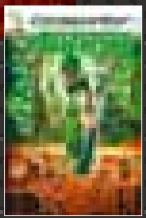
PRESIDENT, OSCORP INDUSTRIES

An insane genius who carves himself a niche as *capo dei capi* of New York's criminal underworld, Spider-Man's arch enemy terrorizes the city with a combination of superhuman strength and pumpkin bombs. His company, Oscorp Industries, specializes in biochemical weapons and makes the deadly toys he uses in his crazed escapades. The Green Goblin's real name is Norman Osborn, and he comes from a family of industrial tycoons. He has inherited his violent leanings from his father, an alcoholic who single-handedly destroyed the family business, and since then Norman's sole aim in life has been to regain his lost wealth by any means possible.

The good guy: Oliver Queen, alias Green Arrow

OWNER AND CEO OF QUEEN INDUSTRIES

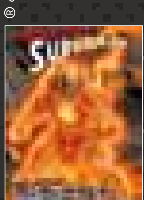
As a child, Oliver Queen worshipped Robin Hood. Today, whenever he gets a spare moment, he reaches for his bow and arrow and goes off to help the poor and disadvantaged, though his efforts on their behalf aren't universally welcomed. The Justice League, a cartel of superheroes including Wonder Woman and Green Lantern, is bent on market leadership and waging a very public war on the big-name supervillains, so he parts company with them and goes off to fight smaller-scale battles. Green Arrow is also a proponent of corporate social responsibility: he inherited a defense company, Queen Industries, but wants nothing to do with arms and turns it into a charity.



The bad guy: Lex Luthor

BOSS OF THE LEXCORP BUSINESS EMPIRE

Lex Luthor is an unscrupulous social climber who makes it all the way to the Oval Office. He grows up in the poorest neighborhood of Metropolis, and his alcoholic parents die when he's just 13. The trauma never wears off, and he becomes first an unhinged scientist and then a power-crazed industrialist whose company, LexCorp, controls the city using a combination of bribery, murder, and terror. Enter the incorruptible Superman, who Lex decides to kill in order to regain his role as the city's most powerful man. Thanks to his penurious childhood, he's consumed by ambition and totally ruthless in clawing his way to the top. Eventually, Lex becomes president of the United States, and even Superman has to congratulate him.



The good guy: Tony Stark, alias Iron Man

HEAD OF THE TECHNOLOGY GROUP

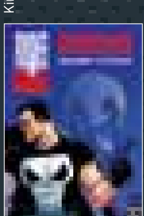
STARK INDUSTRIES

Multibillionaire playboy Tony Stark is a cold war creation. In his early years, he waged war on communism after being seriously injured in Vietnam, and now uses defense technology built by his company mainly to kill Reds like the Mandarin. He also sells weapons systems to the U.S. Army. But as time goes on, even Iron Man grows tired of war and ends up establishing various charities: once again, an inheritance from his parents enables him to diversify into philanthropy.

The bad guy: Wilson Fisk, alias the Kingpin

SUPPOSEDLY A RESPECTABLE BUSINESSMAN. ACTUALLY A CRIME OVERLORD

As he progresses from bullying victim to king of the criminal underworld, Wilson Fisk, better known as the Kingpin, locks horns with superheroes such as Spider-Man and Daredevil. He grew up in poverty in New York, was mocked at school, and eventually finds his true home with the Mafia. He works as a bodyguard to crime boss Don Rigoletto, but then kills his mentor and takes over his empire. The Kingpin is a virtuoso at concealing his connections with organized crime: most people think he's a respectable businessman, but underneath he's a dyed-in-the-wool villain, even though he doesn't need to be.



Too unpredictable for traditional management styles: a complex, fast-changing world requires a new approach, and companies can learn a thing or two from the military.

Light footprint management

The military and China's private sector are "early adapters" to a volatile, uncertain, complex, and ambiguous world. Companies should follow in their footsteps.

Guns or drones? The U.S. Army began adapting to an uncertain future in the mid-1990s, and Obama's light footprint strategy is a part of this.

A consensus is emerging that at some time in the relatively recent past, the business environment underwent what amounted to a phase transition and became too volatile, complex, and unpredictable for conventional management approaches to handle.

In my forthcoming Light Footprint Management: Leadership in Times of Change (Bloomsbury, July 2013), I argue that companies can learn how to adapt to this challenging new world from recent developments in modern military doctrine and a new approach to business management emerging in China.

The military precedent is illuminating because mainstream military thinking acknowledged, and began adapting to, the new world in the mid-1990s, when students at the U.S. Army War College in Carlisle, Pennsylvania were told they were preparing for leadership roles in a "Volatile, Uncertain, Complex, and Ambiguous" (VUCA) world.

Recent developments in China's private sector are illuminating for a different reason: because China's private sector embarked on its evolutionary journey in 1978, at the dawn of the VUCA age. Since China's rapidly growing private sector is a child of VUCA, it is also VUCA-adapted. The distinctive characteristics of its style of management described in my book '*China's Management Revolution: Spirit, Land, Energy*' (Palgrave Macmillan, 2010), also hold lessons for Western companies, particularly the subordinate role assigned by some of China's entrepreneurs to "strategy," relative to vision and tactics, the importance they attach to philosophy and matters of the spirit, and the subtle differences in the role of leaders in Chinese and Western cultures.

My book suggests that companies should follow the trails blazed by these two "early adapters" to the VUCA world.

If, as I contend, Barack Obama's light footprint (LFP) model of warfare is an early adaptation to the VUCA world, and if, as I also contend, the business world is also characterized by the VUCA qualities, companies should consider adopting business equivalents of the military's three main VUCA stratagems: drones, cyberweapons, and special forces.

What qualities and approaches might distinguish a VUCA-adapted LFP company from a conventional company?

"A light footprint company is more integrated with and so more sensitive to all its constantly changing environments."

CHARLES-EDOUARD BOUÉE

Hunger for new technology

The business analog of the military's use of drones and unmanned sea and land vehicles might be an insatiable hunger for automation and new technology; for "early adopters" read "early adapters." An obvious analog of cyber warfare would be a vigorous search for a competitive edge in cyberspace. A corollary of the use of special forces might be a switch from a hierarchical, to a modular form of organization, and an associated shift of agency from the executive committee, to self-managed, multi-disciplinary modules. A business equivalent of the military's use of allies and proxies might be an eagerness to form partnerships verging on the promiscuous.

Let me give you some business examples to illustrate what I mean. Pixar and Apple under Steve Jobs grew opportunistically, guided by a man who combined technical knowhow with an artistic sensibility. The moves Pixar and Apple made under the Jobs stewardship may look like inspired strategies in retrospect, but at the time, they were tactical responses to problems and opportunities.

Xavier Niel's French telecoms firm, Free, is another early adapter to the VUCA environment. It is nimble, unpredictable, tech-savvy, and pays no heed to the sector's conventional wisdoms and business models.

UK chip designer ARM Holdings has the LFP company's characteristic "lightness" and propensity to form partnerships. Its chip designs dominate the world cellphone market, but ARM itself makes nothing. Its only substance is its intellectual property and contracts with chip makers and device manufacturers, such as Apple.

Examples of business analogs of special forces missions will, by their nature, be hard to find. They are secret, after all. But one heavily disguised real example will illustrate the general idea.

Sheila Regan, the new Vice President of yogurt business lines for Latin America, was disinclined to take the conventional wisdom for granted. She gathered as much information as she could, and armed with this in-depth knowledge of the problem, organized a precisely targeted intervention in one city where growth had petered out. It came to be known as Operation Hit Back.

"We didn't push all the levers," she recalls. "Just those relating to the 48 target stores we had identified. We focused on channels, the 48 stores, and key brands. We stopped buying media and invested in in-store promotions. Target stores got special treatment. To avoid stock-outs, for example, they were always served first."

The 48 stores were never told about the special treatment, because Regan was anxious not to alert competitors. A key objective of the mission was to persuade new entrants that the incumbents were too strong to make the investments they would need to gain a foothold worthwhile.

A dedicated, cross-functional team was assembled, including supply specialists and someone from finance, to ensure the operation was profitable. A "war room" was opened, with a "war wall" showing the 48 stores, their objectives, and the impact of interventions. When a store went from red to green, indicating its objectives had been met, cheers broke out in the war room. "It had a snowball effect," says Regan. "By sharing results, we encouraged the others and could apply best practices quickly."

Before Operation Hit Back began, gross revenues in the target city were falling at a rate of 1.5 percent a year. By the time Regan returned to Europe, gross revenues in the target city were growing at 17.8 percent a year, and global head office was planning similar special forces missions in other markets.

I suggest in my book that the new VUCA world requires new kinds of management interventions that are faster and more "bottom-up" than conventional interventions. As an example, I describe a technique we devised a decade ago; "Accelerated Zero-Based Budgeting" (AZBB). It has been used extensively and successfully with clients, takes only 12 weeks, is "bottom-up," and has some other features that are particularly well-suited to the VUCA environment. For example, it differs from conventional "Zero-based Budgeting" in focusing on what we call "decision units." This has the merit of revealing the "modular" structure that lies hidden in all organizations and that I suggest is better suited to the VUCA world than the conventional hierarchical structure.

Changing environments

The book describes and explains the adaptive advantages of the key features of the VUCA-adapted light footprint company. It is modular; extremely centralized and extremely de-centralized at the same time; hungry for collaborations and partnerships, because they add less weight than acquisitions; it is secretive, because its competitive actions often rely on the element of surprise; and it's very conscious of the consequences of its actions for others.

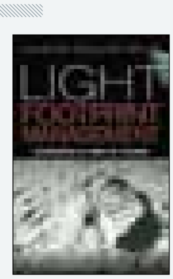
The book argues that an LFP company is more integrated with and so more sensitive to all its constantly changing environments, and is therefore far less likely to be wrong-footed by unexpected developments that are so common in the VUCA world.

The book concludes with some prescriptions for managers wishing to turn their companies into light footprint organizations. It suggests that, since VUCA characterizes the modern environment as a whole, not merely the military and business environments, moving toward LFP will be of benefit to all kinds of organization. <

Charles-Edouard Bouée is President of Roland Berger Strategy Consultants, Asia, and has been a member of the firm's Global Executive Committee since July 2010. He is an economic advisor to the French government in China, and a member of the Shanghai board of the European Chamber of Commerce in China, where he has promoted cooperation among member companies, governments, and business communities in both China and Europe. He lives in Paris and Shanghai.

→ **FIND OUT MORE:** www.think-act.com/blog

→ **LISTEN TO** our interview with Charles-Edouard Bouée at www.think-act.com/audio



LIGHT FOOTPRINT MANAGEMENT

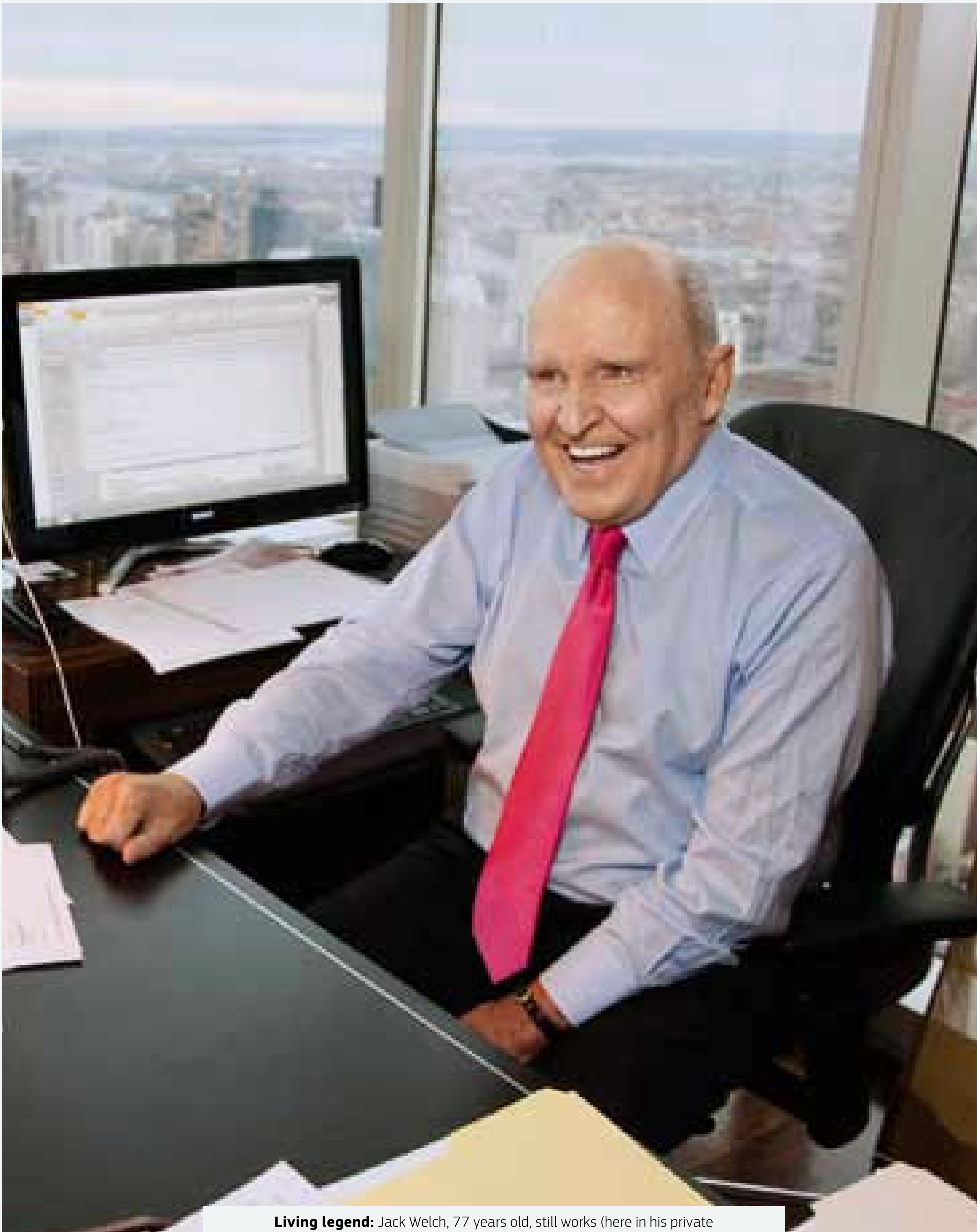
How can companies adapt to the challenging new VUCA world? By following the trails blazed by the military and China's private sector, says Charles-Edouard Bouée in his forthcoming book.

Bloomsbury, 2013, USD 32.99

"Treat your teams with dignity"

During his tenure at General Electric, the company's value rose 4,000 percent. Former GE CEO **JACK WELCH**, one of the most admired and controversial managers of his generation, talks about leadership and the American and European economies.

THINK:ACT: Mr. Welch, you retired in 2001 as CEO of GE. Are younger CEOs different from those of your generation?
JACK WELCH: The universals are that a CEO has to be able to define a vision, get that vision transmitted to the organization in real, vibrant, live tones. A CEO has to have a set of values and behaviors. The vision tells you where you are going. The values and behaviors tell you how you are going to get there. He has to be able to get the organization to buy into these behaviors and understand them. Candor is ever more important. It was important then. Some didn't have it. Candor has to be part of an organization's soul. People management. That's universal. You have to hire great people. You have to have appraisal systems for people to reach their full potential. These themes transcend decades and generations.
When it comes to "people management," do you still believe in and teach your students the 20-70-10 rule of ranking workers in good, average, and poor categories and getting rid of the bottom 10 percent every year? Does this method work for all organizations? >



Living legend: Jack Welch, 77 years old, still works (here in his private office in New York), tweets and criticizes the government.

JW: It doesn't have to be 20-70-10. Your best players, average players, and worst players are what they are. You have to deal with it. It's the same on baseball, soccer, and football teams.

Is this notion the same as the idea of "rank and yank?" That's what many people started calling it.

JW: No! Rank and yank implies firing. That's not what I was about. Rather, you communicate with your people (who are the bottom 10 percent). You tell them what is expected. You tell them what to fix. You give them a chance to improve. You give them plenty of runway... You must treat employees with dignity at every level of the organization and you must work to give them voice. Getting every mind in the game is a critical skill level. Always be there. You've got to encourage it. Feed it. You are always raising the intellectual bar. That's never going to change.

Certainly, some of these tasks must have changed in the past decade. As you evaluate companies for private equity firms, what do you see is primarily different today for business leaders?

JW: Speed. Everything is faster. World changes are faster. Currency changes are faster. All these things are quicker. That's accentuated by the slower growth environment. Everyone is focused on innovation. What does innovation do? It shortens the life cycle between products. Products are coming on faster and faster. So speed in decision making is also much faster. You have to operate at a quicker pace. Information is accelerating that. Information makes the world transparent. Let's take social media. That changes the relationship between you and your employees, you and your customers. You cannot have a bad service issue and sit there. It will be on social media rapidly and your reputation can be stained for months, or years. You have to be able to respond to errors quickly. Your employees do have voice... Everybody sees everything about you. That means you have to be trigger fast. You have to have excellent service and ability to respond to customer complaints.

And with that use of social media on the rise, what should hiring managers be thinking about in an age of LinkedIn, Twitter, Facebook, online resumes, and other digital mechanisms?

JW: Your reputation's out there. You can find people much easier. You still need a lot of the screening mechanisms you always had before you started getting avalanched with people. You still can get all the bodies you wanted but you're able to screen more people faster, quicker, and more easily.

It seems a trend in management today has to do with executives understanding the millennial generation, acting more collegial, and being less "boss-like" than CEOs in years past. What do you think of the idea that managers today are supposed to be nice? Are leaders today too concerned with being likable, particularly in a more diverse workplace?

JW: Everybody has to gain the respect of their organizations. Everyone has to demonstrate human decency. That hasn't changed. The idea that you've got more minorities, broader gender? That just means you have to treat people well no matter who they are. You can't be a jerk with men, women, or anybody.

But some leaders at companies like Whole Foods and Zappos are writing books, suggesting a new focus on the happiness of employees is now more important. Do you agree?

JW: The idea that business is softer today than it was 25 years ago is silly and foolish. The idea that business is more inclusive is real. If rigor leaves a company, you don't have a company. Understand the difference between rigor and rude. An open culture where debating issues is part of a winning culture. Being soft doesn't get you to the right answer. Rigor is not rude.

One aspect of rigor often means looking for more efficiency and better organizational structure. What kinds of new structures are we seeing take shape in companies today? Should we have more or less hierarchy?

JW: Organizations always should be flatter, more open. You can do that much better with more information flow. The idea that knowledge is power is over. The idea that I know something you don't know and therefore I am the boss? Gone. You have to gain the respect. You always had to gain the respect.

You've spoken out a lot lately about the US unemployment rate and have said you don't think President Obama has gained the respect of the American people on that front. Is this the most important metric President Obama should be working on?

JW: My view is the administration should be working on the economy. It's just one big regulatory morass. The morass they are creating is entangling business to a degree it never has before.

OK. What aspect do you see as most entangling?

JW: You have a healthcare bill that is confusing business. You have a national labor relations board coming up with new rulings all the time. You have aan Environmental Protection Agency that is just unstoppable. They are trying to regulate around congress with agencies. It's not helping business. It's not helping job creation. You can talk job creation all the time, but if you keep strangling business, you've got problems.

> "The idea that business is softer today than it was 25 years ago is silly and foolish."

> Mario Draghi has done an amazing job. But Europe needs a fundamental change to be competitive.

Are US companies holding off hiring and squeezing out too much production from too few people? Is that one factor hurting GDP and heightening unemployment figures?

JW: It's uncertainty. You also have the hangover of this recession. You don't want to get caught. What happens if Europe blows up again? There is a lot of uncertainty. This healthcare bill – you have no idea of the confusion out there about who to cover and how it works. So many things are up in the air. We are in a regulatory uncertainty mode that is clearly dampening the enthusiasm for investing.

There is a notion that US companies no longer have a "compact" with workers to provide benefits, a good salary, and long-term employment. One recent statistic showed that half of Americans are unhappy with their jobs. Do you know why that is the case?

JW: I know this, the tough slog of the recession and the slower growth coming out of it has certainly not created growth across a broad swath of businesses. Growth is the elixir of business. When you have a company slogging it out, not innovating and on the leading edge, it is a tougher game. Re-sharpening the pencils rather than getting a new pen. That slugfest without growth is somewhat demoralizing.

When you led GE, you helped create the idea of outsourcing jobs from America to India. Has that trend run its course and gone far enough?

JW: Without question, if America gets the right policies, and if we do get energy cheaper and more abundantly, there will be a moderation in outsourcing. There will be more jobs coming back here. That has to have policy supporting it. You can't have an administration thinking punitively all the time. You have to be thinking actively and supporting it.

Some American lawmakers and CEOs talk about restoring manufacturing jobs in America and creating a better industrial policy. Is this feasible for western, developed countries?

JW: Sure it is. With the potential for self-sufficiency in energy, the US opportunities are unlimited. But you have to have a government that buys into it, not with their rhetoric but with their actions. This could be the American century, with the right kind of government policies.

It sounds like you think energy is the sparkplug for American economic growth. What sort of energy policy do you recommend?

JW: We've got to encourage fracking. We've got to encourage oil and gas exploration on public lands. There is just unlimited technology improving the ability to extract natural resources from our own lands and saving this enormous bill and practice of sending money to people we shouldn't be sending it to.

We're curious about your vantage point on issues in Europe. How worried are you about the European financial crisis?

JW: I think Mario Draghi has done an amazing job with a few sentences to calm the nerves. But Europe needs a fundamental change to be competitive. We haven't solved the unemployment problems in Spain or in Italy. It's still to be determined whether these countries can become competitive in the context of a common currency without the possibility to devalue when their productivities are so vastly different.

So, ultimately, how hard will it be to keep the euro currency together?

JW: I think it will be very difficult. So far Draghi has done a fabulous job. You have to give him all the credit in the world. I don't see how you get the fundamentals right when you go across the continent with a cost structure and innovation structure that differs all over the place.

By the way, how did you manage to become a brand of your own right, with bestselling books and 1.4 million Twitter followers, in the decade after you retired as head of GE?

JW: I like to be in the mix. You know I have opinions on things. I don't mind sharing them. I enjoy the learning process. I love learning. As I speak around the world, whether in China or Europe or wherever, I love the audiences and the feedback and the dynamic learning. <

During his 41-year career at General Electric, John F. "Jack" Welch rose up the ranks from Junior Chemical Engineer to CEO, leading GE to become one of the best performing companies in the world. Since retiring in 2001, Welch has written business bestsellers such as Jack: *Straight from the Gut*. He still actively advises companies in private equity firm Clayton, Dubilier & Rice's portfolio, gives speeches, and appears regularly on TV as a commentator. He has also started an online executive MBA program called the Jack Welch Management Institute with his wife, Suzy, and has 1.4 million followers on Twitter.

Nothing motivates more than success

With a team that has an average age of just 31, **HERBERT HAINER** is doing everything he can to advance the internationalization of Adidas. In this interview he discusses his role as CEO, the passion his young team brings to the brand, and explains why he does not necessarily wish to overtake his rival, Nike.

Herbert Hainer
As a boy, he played football day and night and wanted to become a professional footballer. His brother Walter did so, while he himself became one of Germany's most successful executives. He started out in 1979 as a sales manager with the consumer goods group Procter & Gamble, moving to Adidas in 1987. Since 2001 he has headed the group with its 46,000-plus employees, which is, after Nike, the second largest sporting goods manufacturer in the world. Whether in turnover, profits, or market capitalization, Adidas under Hainer has been on a steep upward curve.

Sponsor of the Stars: Herbert Hainer with David Beckham, who has been been wearing adidas boots since 1996.

THINK:ACT: CEOs have to get closely involved in details on the one hand, while keeping a global overview on the other. How do you deal with this apparent contradiction?

HERBERT HAINER: It is not a contradiction to me. CEOs cannot spend all their time sitting in their ivory towers, controlling their companies from afar. They have to know what the day-to-day business looks like. When I travel, for example, I always look at the shops in the city I am visiting: our own outlets, general sports stores, our rivals. This gives me an immediate feel for how our brands are positioned. When I go running or jogging through the streets, I naturally look at people's feet, to see what they are wearing.

What are the three most important qualities for the boss of almost 50,000 employees?

HH: He should know his job, be a good communicator, and be happy to make decisions.

Your management style is viewed widely as "disciplined," "fast-paced," and "fanatical about performance." Do you recognize yourself in such descriptions?

HH: Yes and no. "Fanatical about performance" strikes me as too negative. I am certainly somebody who strives for success and would like to achieve it. But I am not fanatical about it.

Can executives learn anything from sporting greats?

HH: It is my good fortune that my job brings me into contact with a lot of athletes. What I certainly learn from them is to be focused on a goal and to have the discipline to train hard and persistently to achieve it.

Your employees have an average age of 31, and people are given management responsibility at an early age. Why is this?

HH: We are operating in a sporting, dynamic, youthful sector, and our target market is very young. Essentially, our advertising is aimed mainly at young people aged from 14 to 19. It naturally helps if you are not too far removed in age from that group. That is why people join us while they are young – and yes, with us, if they do a good job they can get more responsibility relatively quickly.

Are there not also risks attached to this youthfulness? How do you compensate for a possible lack of experience?

HH: Don't worry, people do not have to leave the Adidas group as soon as they hit 40! Otherwise, I myself would be out of a job by now. We do pay attention to having a balanced mix of young and experienced workers. That way, we can benefit from both the fresh ideas of our young workers and the experience of those who are slightly older.

Do young people tick differently from older workers?

HH: Every generation ticks differently. For example, my generation was born in the middle of the German economic miracle, and I saw how hard my parents worked in their butcher's shop to get a share of that rising prosperity. The present generation is growing up in a slightly more sheltered environment, and they no longer set their career above everything else. Also, young people today are constantly online and always networked. This gives them a completely different attitude to communication. They are used to always having all the information they need available immediately. This naturally also makes new demands on communication within the company.

How do you manage to stimulate your decidedly young teams to seek new top performances again and again?

HH: That is not at all hard in our industry. We all work here because we have a huge passion for sport and for our brands, and we bring this passion into our work every day. Moreover, sport also leads to uncomplicated hierarchies at our company. When I go to our fitness studio I bump into both executives and trainees in the showers.

You lay emphasis on your employees having an international career history, and observers rave about the "university campus atmosphere" in Herzogenaurach. How do you get young professionals to make a long-term commitment to you?

HH: By offering them an attractive working environment and opportunities for international postings, but above all by enabling them to be successful. In the end, nothing motivates more than success.

Your employees are seen as identifying with your company to an unusually high degree – it is said that none of your people goes around without something bearing the three stripes. How do you explain this?

HH: To be honest, that is a question that is only ever put to us by outsiders. Our products are top class, and our brands are eagerly sought after. This means everybody in the company regards it as natural that we should wear our own products.

You have set out your corporate goals in the "Route 2015" plan. Your aim is to boost turnover to EUR 17 billion by 2015. What progress have you made on that so far, especially from the global perspective?

HH: It is going extremely well. We set new records in 2012 for turnover and results. We increased our turnover last year by EUR 1.6 billion to EUR 14.9 billion.

Where do you expect further growth to come from? Which markets do you have your eye on?

HH: Look at China, Russia, and Brazil – there are more and more economies that are growing dynamically and where new consumers who can afford our products are coming through every day. This is why our strategic plan identifies China and Russia as two of the three main markets where we expect above-average growth. The third growth market is North America, because there, especially for the Adidas brand, we are not yet represented to an extent commensurate with the reputation and success that the brand enjoys globally. However, I also see huge growth opportunities for the sporting goods industry in all other markets worldwide.

Why?

HH: Two global megatrends are in our favor. First, people are growing older and older and want to stay fit for longer and longer at the same time. This means they go out, they play golf, and they go walking or jogging. Second, obesity is becoming a bigger and bigger problem in many developed countries, especially among children. At some point, policymakers and society itself will do something to combat this and make sure that kids start playing more sport again.

"When I go to our fitness studio I bump into both executives and trainees in the showers."

"It is not at all my primary goal to replace Nike as number one in the sporting goods market."

When will China overtake the USA and become the biggest sporting goods market in the world?

HH: This will come sometime, but certainly not in my professional lifetime. North America still accounts for 40 to 45 percent of the global sporting goods market, whereas China today is perhaps at 10 percent. But make no mistake: China is booming, and we are booming with it.

Sporting goods used to be made in southern Europe. Does the euro crisis mean that a significant sporting goods industry will soon re-emerge there?

HH: That certainly cannot be ruled out. We are now bringing more and more production work back to southeastern Europe, especially to Turkey. In 2012, Turkey rose to third place among our procurement countries for textiles. We have more than 30 million textile items produced there every year. The advantage is that from Turkey we can deliver products to customers within 48 hours, and this speed is becoming more and more important in our business.

Electronic components are playing a growing part in the development of new shoes and textiles. What can be expected from Adidas in this area in coming years?

HH: A lot. You can already train interactively using the Adidas miCoach system – for example, when preparing for a marathon. The system is now also being used by professional football clubs to direct their training better. The technology will continue to develop rapidly, and sport and technology will merge even further, without a doubt.

Sport, technology, fashion – your archrival Nike is also into all these areas. How do you plan to replace the Americans as number one in sporting goods?

HH: Can I tell you something? It is not at all my primary goal to replace Nike as number one in the sporting goods market. After all, we are already ahead of Nike in many markets – especially in Europe but also in many Asian and Latin American markets. The gap between Nike and us is only because of North America. My goal is to ensure that the Adidas group continues to grow sustainably and profitably. Size alone is not everything. If it were, ants would be extinct and dinosaurs would still be stamping around the earth. <

Reading the cards

It's hard to imagine a CEO without a business card. This flimsy little gift is a status symbol and, as these examples from some of the world's top decision-makers show, often an expression of the giver's personality.

THE MINIMALIST

The apple with the bite out of it is conspicuous by its absence, and he was still signing himself as Steven. Even in 1979, **STEVE JOBS** preferred the simple touch. The card is every bit as pared-down as products like the iPod, iPhone, and iPad, which he launched more than twenty years later.

THE SWASHBUCKLER

A genius in flipflops, spurned by his female Harvard peers – that's how **MARK ZUCKERBERG** is portrayed in "The Social Network." When Facebook proved a runaway success, netting him USD 30 billion at the age of 28, he probably felt justified in thumbing his nose at his detractors.

THE SELFMADE MAN

In the days when **WALT DISNEY** created Mickey Mouse, no one bothered too much with things like corporate identity. He was a talented artist, and his card was correspondingly endearing – perhaps not the best strategy for today's thrusting executives.

The insignia of power
Whether subtle or brash, even those who need no introduction still hand out business cards.

THE TYCOON

Wherever two or three of Manhattan's glitterati are gathered together, **DONALD TRUMP** and his flamboyant locks are never far away. As you'd expect from a man who turns concrete into gold, his card is the essence of confidence, his bold, angular signature slapped plumb in the middle.

THE SHOWOFF

Back in the mid-1990s, Yahoo! was a big hitter in the world of online media, which may be why founder **JERRY YANG** allowed himself not one but two extravagances on his card: the unusual portrait format, and the logo encapsulating the gold-rush spirit of Silicon Valley.

THE GEEK

In the late 1970s, when Microsoft was headquartered in Albuquerque, **BILL GATES**' business card was a design disaster. To be fair, when you're an up-and-coming computer nerd, other people's esthetic sensitivities are probably not high up on your list of priorities. <

A full ship is the ultimate goal for many operators. Hapag-Lloyd CEO Michael Behrendt, shown in the foyer of the company headquarters in Hamburg, sees this as “a model of irrationality.”

Hard decisions in an irrational industry

Hapag-Lloyd CEO **MICHAEL BEHRENDT** discusses leadership, overcapacity, and how to stay one step ahead in the crazy world of shipping.

THINK:ACT: The average tenure of a German CEO is about six years, compared with eight in the USA. You, however, have now been in charge for eleven years, even though this has been a rather turbulent period both in shipping in general and at Hapag-Lloyd in particular. Why are you still there?

MICHAEL BEHRENDT: That is really a question for the Supervisory Board. They are the people who have put up with me for so long! (laughs) My first boss once said, "Every chief has a chief." In my case, this means the shareholders and the Supervisory Board. Ultimately, it is the Supervisory Board that decides whether I stay or go.

That almost makes it sound as though the CEO were an ordinary member of staff.

MB: As CEO, you do perform a key job. But you also live in an environment where people want to please you. You also get many little privileges that do, to a certain degree, spoil you. It is important not to set yourself apart as a result, but to understand clearly that you are always there only for a limited period of a few years. You must never lose your humility.

Most CEOs would probably subscribe to that sentiment. But how do you manage to avoid losing your humility in your everyday job?

MB: You need correctives, and you have to be prepared to use them. Shipping is a very hierarchical industry. On board ship, the captain is always right. This attitude must not continue in a company. Unthinking obedience to authority is dangerous. For me, as a CEO, the idea that people may have a different opinion but prefer not to express it is not a positive thing. You need people who you can enter into dialog with as equals and who will also tell you if they think something is wrong. This does not necessarily have to be at executive board level. In my case, for example, these people are at completely different places in the hierarchy. Their honest opinion is very important to me. At the same time, of course, it is clear that I am the person who has to make the decision at the end of the day.

There is a fine line here between encouraging people to tell you openly what they think and then possibly putting them off with hard decisions. Have you always found that easy?

MB: No. If you assume leadership responsibility you need to learn that you will also have to make unpopular decisions. Especially where staffing decisions are involved and you have to tell somebody that they are losing their job, it is very hard the first time. This is not to say that it becomes easy later. However, it is part of my job description to be able to display a certain hardness.

Hard decisions are particularly necessary in difficult times – which brings us back to shipping. Although hardly any other sector has benefited so much from globalization, many shipping companies are currently not doing well.

MB: This too is a matter of leadership. Shipping is a crazy industry – a model of irrationality. Sometimes you have the impression that the normal purpose of a business enterprise, to make a profit, has not yet become fully established here. I think this is because many decisions in this very traditional ownership structure are taken too emotionally and not always rationally – although this is what is required. In every other transport sector, they calculate how much equipment they need on the basis of a "utilization rate" of 80 percent. In shipping, however, many evidently believe that this should always be 100 percent, or even 103 percent. For many players, a full ship means that the last sack of coffee has to be squeezed into the captain's quarters. If shipping were to behave in the same way as other transport sectors, we would have solved the problem of overcapacity long ago and we would have a rational tariff level. Hapag-Lloyd is in the top five in the industry for profitability, even though we have only just recorded a positive operating result. This is completely unsatisfactory. But the industry has simply not managed to find an intelligent way of dealing with the existing overcapacity.

>

Michael Behrendt has been Chairman of the Executive Board of Hapag-Lloyd since 2002. A lawyer and son of a freight forwarder, he is seen as a networker with good contacts in business and politics. In order to bring the economic crisis under control, Behrendt felt obliged to cut jobs in 2009. The fact that this passed off without major protests from workers is also put down to Behrendt's open, collegial leadership style.

Economists would call this the "prisoner's dilemma." It would be better for the industry if they all made their ships less full and demanded higher tariffs. From the point of view of the individual company, however, it makes sense to reduce tariffs in order to undercut their rivals...

MB: No, it no longer makes any sense to operate with tariffs that give you a completely inadequate result. The absurd thing is that shipping actually has a very strong position. Everything that is transported has to be transported, regardless of whether that transport costs USD 1,000 or 2,500. No containers are now transported purely because it is cheap to do so. It is all the more important to achieve rational tariffs. Even some of our customers say so privately. Nevertheless, it is currently very difficult to achieve higher tariffs.

What do you charge for your ships?

MB: We are always at the upper end of the tariff scale, and if we do not earn anything from a transport operation, then we do not take it on. But, of course, even we cannot detach ourselves from the market. Our customers are prepared to pay a little more for our special service, but only up to a point. If we constantly demanded 20 percent more than the rest of the industry, we may as well just curl up and die.

> "We were one step ahead of the industry. If you are reduced to reacting, you are finished."

Is the overcapacity itself a result of irrational behavior?

MB: I would be less inclined to say that. In retrospect, of course, too many ships were ordered and are now still entering the market. However, nobody could have foreseen that the market would collapse as sharply as it did because of the financial and economic crisis. Up to 2008, we had 10-12 percent growth every year. Even then, there was talk about whether too much tonnage was being ordered. However, it then always became clear relatively quickly that there was no overcapacity. It was only the collapse of Lehman Brothers that suddenly created a completely different, unforeseeable situation. Therefore I would say that it was perhaps brave, in business terms, for the companies to order so many ships, but it was not negligent.

Liner shipping companies use both their own ships and chartered vessels. At the end of 2012, Hapag-Lloyd had a total of 144 ships, of which 59 were their own. Is there an optimum ratio?

MB: We say it is around 50 percent. Of course, what is decisive here is the capacity, not the number of ships. The fundamental question is: how much capacity can I always use up by myself, and to what extent am I staying flexible for bad times by chartering tonnage that I can give back if demand falls?

In the past five years, have you still had the feeling that you, as CEO, have been initiating changes of your own accord? Or have you mainly had to react to changes?

MB: We recognized at an early stage that the good old days – by which I mean the first seven to eight years of this millennium – are over. Thanks to truly excellent cooperation with Roland Berger Strategy Consultants, we managed to implement a savings program of USD 1.2 billion a year in 2009, in the midst of the crisis. We were one step ahead of the rest of the industry there. It helped us to stay in control. If you are reduced to merely reacting, you are finished.

You have had to deal not only with major upheavals in shipping but also with a change of ownership. TUI reduced its holding dramatically, and today the biggest shareholder is a consortium composed mainly of the City of Hamburg and the entrepreneur Klaus Michael Kühne. Has this changed your work? Have you had to adjust?

MB: I obviously have to deal with a variety of situations. However, I do not like the word "adjust." I have not altered my basic course as CEO. The fact that the biggest shareholder is the City of Hamburg makes no difference to me. Our dealings are professional – as they are with other shareholders. What I do have to get accustomed to is the side effects, such as the great interest that politicians and the media are now taking in us, as a company, because of the city's involvement.

How much longer do you think the industry will have to confront overcapacity?

MB: I am hopeful for the future. Some more ships will be coming onto the market this year, but next year and the year after that there will be very few, because ship orders have more or less dried up. At the same time, some ships are being scrapped, which has the effect of taking tonnage out of the market and reducing overall supply. Supply and demand should be in balance again by 2014, or by 2015 at the latest.

It is precisely in 2014, when better times are likely to begin, that you will be resigning as CEO and then, a year later, switching to the Supervisory Board. What sentence might sum up your time as CEO?

MB: I think that is up to others to decide. <

HAPAG-LLOYD

is one of the world's leading liner shipping companies. It is 78 percent owned by a consortium of the City of Hamburg, the entrepreneur Klaus Michael Kühne, and various private companies. Until 2008, Hapag-Lloyd belonged to the travel group TUI, which still holds a 22 percent stake.

→ **FIND OUT MORE:** See our video interview with Michael Behrendt at rbsc.eu/242adnk

Too many ships push prices down – and more and more are still entering the market. One is the 366-meter-long Hamburg Express (top), Hapag-Lloyd's flagship, put into service in 2012. Bottom: the bridge of the Kuala Lumpur Express, built in 2008.

Can you run a company and still have a life?

Work-life balance is touted as a goal by executive coaches and efficiency experts alike. But for busy entrepreneurs, many argue it's an unrealistic expectation. Can you nurture a business and a love life at the same time?

The great figures of Greek myth were kept pretty busy. Athena never had time for a relationship, but Atlas managed to have several wives.

About a decade into Brad Feld's relationship with his wife Amy Batchelor, she'd had enough. She was fed up with his 18-hour work days and often when he was with her, he was distracted by his phone – and even more work. "You're not even a good roommate anymore," Batchelor told Feld, who invests in software and internet companies, while on a vacation weekend in Rhode Island in 2000. "We were ten years into our relationship and still had deep love for each other," Feld recently explained in an interview. "It wasn't this final explosion of anger between us, it was much more exhaustion with an arch that had been so unsatisfying." Feld was determined to fix the relationship. He suggested creating some relationship "rules" (some are listed in the box at the end of this article) that would help him better meet the expectations Batchelor had of a husband. At first, Batchelor resisted the idea of creating relationship rules. How romantic is it to set reminders to write your wife love notes? And the idea of using an egg timer to make sure they spent four minutes together every morning to connect wasn't going to make it into the plotline of any Hollywood romantic comedies.

But the fact he was willing to commit to a set of rules to save his marriage and prioritize his wife?

"It turned out to be an incredibly romantic thing," Feld admits. Feld and Batchelor recently wrote a book, Startup Life: Surviving and Thriving in a Relationship with an Entrepreneur, which documents their relationship and the steps they've taken to make it stronger while Feld continues working often crazy hours as an entrepreneur turned venture capitalist.

CEOs, and entrepreneurs in particular, can lack balance in their lives. Business magazines are full of stories of the insane dedication it can take to build a successful business. Aaron Levie, CEO of Box, a company that provides online storage for businesses, recently told Inc. that he has two work days: one that starts at 11 a.m. with two cups of coffee, and another that sees him staying in the office until about 2 a.m. following a 25-minute nap at 8 p.m. He hasn't taken a vacation day in seven years.

Carter Reum, who founded a spirits company, VeeV, with his brother Courtney, recently left a family vacation in Botswana, catching 45 hours' worth of flights in order to make a last-minute meeting with Target, hoping to get the store to carry his alcohol brand. He even managed to find out about the meeting at a place where he was supposed to disconnect and relax – a lodge in the bush with a no-internet policy.

"I kept explaining to them [the lodge operators] that I'm more at peace and comfortable when I'm plugged in because I hate the unknown when it comes to work," he said in an interview. "My brother and I would basically cross a river during our lunch break so our BlackBerry smartphones could get cell service from Namibia."

Feld thinks that it is unrealistic for entrepreneurs like Reum to strive for a traditional work-life balance. Building and running a business means life is in flux – and doesn't fit neatly into a 9 a.m. to 5 p.m. work day.

"There is never going to be an equilibrium stage, because for the entrepreneur, life and work are so intertwined," Feld acknowledges. "But in a relationship you have to communicate through the ebbs and flows. The title of our book was very deliberate. It's the idea that you can survive and thrive in a relationship with an entrepreneur, but that does not mean you are going to achieve this natural balance."

Meg Cadoux Hirshberg goes even further: she thinks that entrepreneurs set themselves up for failure by aiming to achieve a work-life balance. Hirshberg is married to Stonyfield Yogurt Chairman Gary Hirshberg. The company now makes USD 370 million in annual sales and is the largest producer of organic yogurt in the world. But in the early years, Hirshberg said their financial situation was "bleak." It took nine years for Stonyfield just to break even..

Best of a bad set of options

"We started to have a family, and I just couldn't bear the bad news anymore," Hirshberg says. "He had to shoulder those burdens by himself. He couldn't share them with the person he was closest to. I just couldn't hear about the finances anymore. That was the best of a bad set of options, and it worked for a couple of years."

Hirshberg recently wrote For Better or for Work: A Survival Guide for Entrepreneurs and their Families. The book gives advice to help spouses and children understand what the CEO of a growing company is going through – but also reminds the businessman of the challenges the family is facing.

"Spouses feel neglected. Kids feel neglected. This is the kind of thing that breaks up families or engenders a lot of resentment," Hirshberg comments. "Entrepreneurs launch a business fully aware of the financial risks they are taking, but they underestimate the personal risk in terms of their family, friends, and community."

AUTHOR GINA PACE is a columnist and multimedia editor for New York Daily News, America's fourth largest newspaper, and has found her own way of balancing work and life. When she is not hunting down the latest trends in lifestyle, real estate, and food, she is enjoying the Big Apple's newest cocktails. Only to write about them, of course.

During certain periods, there will be times when the business requires a CEO's all – and Hirshberg states that they shouldn't feel guilty about it. The problem is when it's always crunch time, year after year.

So how do you build a relationship – or a family – with a CEO who will likely never become the kind of worker who is home by 6 p.m. for dinner?

Awareness of the issue is the first step, Hirshberg emphasizes. It's also important to take advantage of small moments. Much like Feld's "four minutes in the morning," Hirshberg takes a 15-minute walk with her husband every day. And when they do spend time with each other they have to be totally present for that time. For many couples rules like Feld and Batchelor suggest, like taking "off-the-grid" vacations without business calls and emails, help create a framework for the relationship.

Hirshberg highlights that spouses don't have to be the center of attention all the time, as long as they know how important they are thanks to little gifts, hugs, and moments together on a regular basis.

"Uninterrupted time with a loved one sends the unspoken message that 'you are important to me,'" she adds. "And that unspoken message is so critical."

It might be a challenge to get that message across to many high-profile businessmen. Elon Musk, an entrepreneur who is best-known for founding SpaceX and co-founding Tesla and PayPal, recently told Bloomberg BusinessWeek that he felt he was carving out enough time for his companies and his five children, but after two divorces, he wasn't sure how much time to spend dating. "I need to find a girlfriend," said Musk. "How much time does a woman want a week? Maybe ten hours?" <

RULES FOR ROMANCE:

Brad Feld and Amy Batchelor offer strategies for busy couples who still want to make sure their partner feels important. Here are some of the strategies they suggest:

Always take your partner's calls. Feld takes Batchelor's phone calls no matter who he is with – even if he's in front of 500 people giving a talk. In return, Batchelor is sensitive when Feld is with other people and makes the calls brief.

Stay connected when traveling. Feld makes a point of sending Batchelor something every day that he's on the road – either a quick postcard or flowers.

Four minutes in the morning. Make sure you spend a bit of time each morning totally focused on your partner – without distractions. Until you get in the habit, set an egg timer as a guide.

Schedule "life dinners." Feld and Batchelor schedule monthly dinners where they discuss challenging or important topics – like a two-way performance review for their marriage. Knowing that there is a time and place for deep conversation can make it easier to defer difficult conversations when work schedules are crazy.

Set rules around the computer. Make sure you agree on what constitutes together time – without being on electronic devices. For Feld and Batchelor, it's OK if he's on the computer while they are watching TV, but it's not acceptable for him to be on the computer while she's making dinner and wants to talk.

High-flying CEOs

In critical situations, pilots must immediately make and execute the correct decisions. Can the routines they use to do this also be effective for a CEO in the cockpit of a major company?

As the Lufthansa Airbus 320 with the identifier Zulu Tango Charlie taxis onto the Startbahn West runway at Frankfurt Airport, it looks to all the world as though this will be a perfectly normal flight. In the cockpit the captain gives final instructions. The control tower announces that Bahn 1-8, the official name of Startbahn West, is cleared for takeoff.

Before leaving the gate, the two pilots discuss a figure which is calculated afresh for every flight: the decisive speed up to which they will still be able to abort the takeoff. If they are already over that figure, they will have to take off regardless. The runway would be too short for full braking.

The tension mounts. Zulu Tango Charlie races down the runway at 130 knots, five knots below the decisive speed. Suddenly there is a dull thud. The right engine has failed. The captain yells "Stop" and pulls the controls back. Thrust reversal. At the same time, he starts full braking. The aircraft comes to a halt just before the end of the runway.

"Thanks – that's enough. Well done." Lars Kaulen, a pilot trainer at Lufthansa, is happy. The two colleagues who have prevented a virtual disaster in the Airbus simulator have done everything correctly. In the space of a few moments, they have made and executed the right decision. Such training exercises are about safety, of course, but above all the point is that pilots should internalize concepts that will enable them to respond to the extraordinary in a structured way. "There is no place in the cockpit for gut decisions," says Kaulen.

CEOs, likewise, have to make far-reaching decisions under intense time pressure. Just like pilots, they bear a great responsibility, even if in the business world this affects the survival of companies, rather than people. So can they learn anything from pilots? Could those CEOs who hold a pilot's license actually be the better captains of industry?

When pilots make decisions anywhere in the world, they follow a routine known as the FORDEC method (see box right). "FORDEC is the basis of all decisions in the cockpit," says the Lufthansa trainer Kaulen, whether for avoiding a storm or choosing one of several runways.

Responding to the extraordinary in a structured way

Collecting facts, weighing up options, calculating the cost and benefit and then, on the basis of that, making a decision, putting it into effect and monitoring the impact – something that seems so obvious happens in high-pressure situations only after years of training. This is because, when it really matters, pilots fall back instinctively on routines that they have practiced over and over. In other words, pilots find the solution to a problem by following a model that makes even unforeseen events manageable, not by spontaneously choosing the one correct option out of the whole range on offer. "It is about mastering concepts that will enable you to respond to the extraordinary in a structured way," says Kaulen.

In a real cockpit, you will never find the inspired gut decisionmaker – so beloved of Hollywood – who prevents air crashes all on his own. The routines are deliberately designed to avoid being dependent on one individual. Furthermore, "the crews are consciously shuffled regularly," Kaulen explains. The reason for this is to make sure that the rehearsed routines do not slip because the people know each other well. "Anybody can fly with anybody else, even if they have never met before."

Pilots learn instinctively, and yet in an ordered way, to respond to unexpected situations by internalizing routines. This is a method that can also help to manage risk in business. Perhaps this is why a number of successful CEOs themselves take to the cockpit. Or are they successful because they are pilots? Red Bull chief

With 21.5 fatal accidents per million hours, light aircraft are more than thirty times more dangerous than cars. Scheduled flights, though, are safe. Statistically, one would have to fly for 14,000 years to experience a single accident.

The highest proportion of the flying CEOs in the study by Matthew Cain and Stephen McKeon work in the business services (10.6 percent) and electronic equipment (7.6 percent) sectors.

Dietrich Mateschitz is a pilot, as are the former boss of Google, Eric Schmidt, Virgin founder Richard Branson, and the head of Oracle, Larry Ellison.

Even the academic world has looked into flying CEOs. Matthew Cain, professor at the University of Notre Dame's Mendoza College of Business, and Stephen McKeon, professor at the University of Oregon's Lundquist College of Business, have compared the performance of 179 CEOs who hold a pilot's license with that of 2,931 who do not.

They conducted their study to try to find out whether CEOs who take risks and deal with them as pilots in their leisure time also take greater risks and manage them better in their business activities. The idea that pilots may be especially willing to take risks may seem surprising at first glance, but Cain and McKeon used insurance statistics to show that it is, above all, pilots of light aircraft – the category that applies to most of their CEO pilots – who have chosen a particularly risky hobby. Life insurance companies rate their likelihood of dying as being more than 100 percent higher.

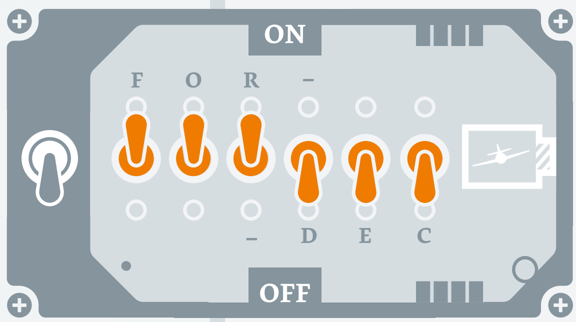
In order to determine how the flying CEOs' attitude to risk is reflected in their approach to business, Cain and McKeon took a closer look at their companies. First, they considered the capital structure: firms run by CEO pilots had on average 14 percent more outside capital on their books than those whose bosses sit in the passenger cabin. "This means they are very aggressive in financing their decisions," says Cain.

Then came their approach to expansion. According to Cain, CEO pilots were "very much more likely" to have carried out mergers and acquisitions in the past. This was also reflected in share prices: these were very much more volatile than in firms that did not have a pilot in command. However, Cain says, this was an indication of the shareholders' mindset. "The type of acquisition pursued by these CEOs tends to be of a higher quality than that carried out by other CEOs. They create added value for their firms."

The most spectacular evidence for this hypothesis probably comes from Oracle CEO Larry Ellison. The son of a US Air Force pilot, he enjoys flying his private jets himself. He may often have done so on the way to a corporate acquisition. Oracle has taken over around 90 companies in the past decade. One of these feats is especially striking: the USD 7.4 billion purchase of Sun Microsystems in 2009, which Ellison describes as "one of the most strategic and profitable acquisitions" that Oracle has ever made.

This passionate pilot describes the source of his drive in these words: "We are all interested in what we can achieve in life, and we all want to test our limits. Perhaps we find it in sport, and perhaps we find it in business." And perhaps, one probably ought to add, successful CEOs also find it in the cockpit. <

At 100 knots (185.2 km/h) on the runway, the co-pilot calls out loud, "Hundred!" This "incapacitation call" is meant to ensure both pilots are fully conscious.



According to an insurance company study, amateur pilots who fly light aircraft are more likely to suffer an accident.

THE FORDEC METHOD

Facts What precisely is the problem? How can the situation be analyzed? What facts are available?

Options What possible solutions are there? What do the alternatives look like?

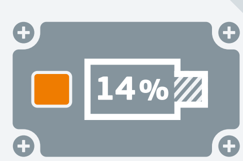
Risks/Benefits Consider advantages and disadvantages: Which solution is closest to your goal? What are the risks and prospects for success of the various options?

Decision Make a decision, communicate intentions.

Execute Execute the decision, organize the process. Who will do what, when and how?

Check Is everything going to plan? Check the decision, start again in the event of new developments.

A firm run by a CEO pilot has on average 14 percent more outside capital than others.



On good management

As companies seek new ways of doing business, management is becoming more direct and personal, less technocratic, more human, and more hands-on, writes Prof. Burkhard Schwenker.

Management faces more challenges than ever before, as investors and employees seek security in an increasingly unpredictable world. What matters most is the ability to anticipate change and give guidance.

As managers, we know that the future is uncertain. Because of this, people in companies have a need for security, and we must address this need. We know we can no longer rely on trends and forecasts, but we still have to plan, budget, and make investment decisions. We also know that we must adopt an interdisciplinary style of management if we are to see the wood for the trees, and yet we also need high-level practical skills to run our businesses on a day-to-day basis. Contradictions like these are the bread and butter of business leaders – so what is the secret of good management?

Managing is getting tougher

Ten years ago, who could have predicted that the internet would revolutionize retailing, or that green technology would become a high-growth sector? That China would become the world's leading exporter, and America enter its Pacific Age? That the financial markets would throw a fit and cause the worst recession in eighty years, or that shale gas and fracking would turn the global energy market on its head?

These days, when you're a manager, uncertainty is almost everywhere you look. Risks grow bigger, technology changes faster, global networks are more complex, and all of these factors have important implications for our view of planning and management. If trends can no longer be relied upon, numbers have limited value as a basis for forecasting and decision making. This being the case, we must get away from the idea that all business decisions can be quantified – what's the point of using an elegant capital asset pricing model to analyze capital costs when the timing of future cash flows is becoming increasingly uncertain? Albert Einstein's dictum is truer than ever before: "Sometimes, what pays cannot be paid for, and what can be paid for does not pay."

This has major implications for good management. In the past we could live with the fiction that life was certain in the medium term, but today we face fundamental doubts about whether the future can be predicted at all. In the past we could make clear statements – these are our goals, this is our plan, this is how we'll achieve it – to reduce complexity and convey a sense of security. Today the challenge is that no responsible manager can stand up and say that their plan will work.

Since we can't hide behind numbers anymore, we must be able to explain what we believe in and what our view of the future is. Management is becoming more direct and personal again, less technocratic, more focused on people, the business, customers, technology. In short, it's becoming more entrepreneurial, which demands personality, courage, reflection, and a strong framework of values. It's about having convictions: to paraphrase Johann Wolfgang von Goethe, in uncertain times, uncertain people compound the uncertainty.

Long-term success is a rare commodity

So are managers coping with all this change? It's clear that many companies do not thrive in the long term; just look at some of the main stockmarket indices. Of the thirty companies in the Dax when it was created in 1988, only eighteen are still there. And of the 500 companies making up the S&P 500 in 1957, only 57 are now in the index. In other words, almost 90 percent fell by the wayside.

Many other companies simply do not keep their heads above water for very long: in western Europe the average age is just 12.3. And of course it's not change in itself that causes failure, but the inability to recognize it and respond boldly.

This is also confirmed by a survey we recently carried out for our book, *Gute Führung*. We asked managers to rate the various causes of business failure, with 7 being the most common reason and 1 the least. They believed that the main reasons were "difficulty in recognizing and managing change," which received an average rating of 5.2; "managers' behavior and personalities" (4.4); and "operational tools" (3.2).

>

12.3

→ *Average age of companies in western Europe*

42.3%

→ *Proportion of survey respondents who said that "good management" was the biggest challenge facing businesses*

PROF. BURKHARD SCHWENKER

is CEO of the supervisory board of Roland Berger Strategy Consultants. He served a previous term as CEO from 2003 to 2010. He was also appointed chairman of the Roland Berger School of Strategy and Economics in 2012. He is widely regarded as a leading expert on management. This essay is based on his book *Gute Führung* (good management), dedicated to founder Roland Berger on the latter's 75th birthday.

"In 2008, when we decided to forget our numbers-based forecasts, we went back to the first principles of management."

FRANZ FEHRENBACH, CHAIRMAN OF THE SUPERVISORY BOARD, BOSCH

The good news is that day-to-day management mistakes are not a major cause of business failure: "operational tools" are key business processes such as financing, audit, human resources, and marketing. Of course, companies can fail because they structure their capital or manage their liquidity badly, but managers make fewer errors in these areas than in others listed in the survey. This is also a compliment to the second- or third-tier managers who are usually responsible for functions like these.

However, recognizing and managing change is one of the key tasks facing top-level managers. According to our survey, the most common mistakes included failing to notice early warning signs, underestimating regulatory or political factors, giving insufficient consideration to market and customer change, and taking successful business strategies for granted. Senior managers are often guilty of hubris, not reflecting enough on their strengths and weaknesses, discouraging disagreement, and failing to live by their values. So companies and managers fail mainly because they rest on their laurels, act arrogantly, and lack the courage and creativity to implement rapid, profound change by breaking away from outdated modes of thinking.

For many years, the American think-tank The Conference Board has been asking senior executives about the most important challenges they face. Two items regularly top the list: excellence in execution (named by 42.3 percent of respondents), and steady, sustained growth (38.8 percent). One recurring theme is how to implement good business decisions quickly, consistently, and convincingly; another is how businesses can achieve sustainable growth. So how can these challenges be combined with the need for good management?

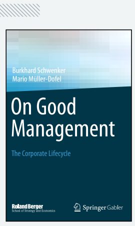
Agenda for effective management

1. Encourage interdisciplinary thinking. As life becomes more unpredictable, it's becoming increasingly important to take an entrepreneurial approach and develop your own vision of the future, one that transcends passing trends. What matters today is the ability to reflect and the willingness to operate along cross-disciplinary lines. The only way to cope with uncertainty is to build bridges between business thinking (how do we achieve a competitive advantage?), economic thinking (how does growth work?), social thinking (what attitudes will prevail in the future?), and geopolitical thinking (what do regional alliances mean?).

2. Make sure the next generation is prepared for change. Reflection and interdisciplinary thinking don't happen of their own accord; they need to become a central focus both of our everyday working lives and the way in which we educate and train managers. Universities must start teaching theory again, create philosophical frameworks, and prioritize analytical modes of thought. At the same time, companies need to change their recruitment policies, stop providing one-size-fits-all career paths, and start combining practical experience with short periods of study that teach people about disciplines and ways of life other than their own.

3. Balance leadership and management. Many years ago, Henry Mintzberg pointed out that "leadership without management gives people ideas above their station and promotes hubris." We need a new balance of power, in which the glamour of being in the hot seat is combined with good, confident, hands-on management.

4. Make values personal. If people in companies feel insecure, they must feel able to trust their managers. It's no good proclaiming your theoretical values if you don't make them your own and put them into practice. As Martin Hilb said, the three things you need to be a good manager are a cool head, a warm heart, and working hands. A cool head because analytical skills are vital in dealing with complexity; a warm heart because if you want to manage people, they must like you and be willing to take responsibility; and working hands, because managing is about working hard and taking risks. <



ON GOOD MANAGEMENT
The Corporate Lifecycle.
An essay and interviews with Franz Fehrenbach, Jürgen Hambrecht, Wolfgang Reitzle and Alexander Rittweger.
By Prof. Burkhard Schwenker and Mario Müller-Dofel
Springer Gabler, EUR 29.99
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"When companies and managers fail, it's often because they have a distorted view of themselves."

JÜRGEN HAMBRECHT, CEO OF BASF UNTIL 2011

To be continued …

Whether you're a superhero or a top manager, your mission is never accomplished. There's sure to be another challenge lurking around the corner: be it your next project, quarterly report, or product launch, life is always an adventure.

Asia's new boom region

Ten Southeast Asian countries are setting up a huge single market.

Dramatic growth in Southeast Asia is being fuelled by a high-spending middle class.

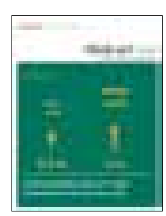
Almost unnoticed, a new economic power is emerging in Southeast Asia. Distracted by rapid expansion in China and India, few businesses have noticed that a powerful free-trade zone, the ASEAN Economic Community, is about to come into being. By 2015, Indonesia, Malaysia, Singapore, Thailand, Vietnam, Laos, Myanmar, Brunei, Cambodia, and the Philippines will abolish most of their mutual trade barriers. Their declared aim is to create a free flow of goods, services, investment, and workers. And experts agree that the ten countries, with a total population of just over 610 million and a combined GDP exceeding that of India, offer breathtaking potential.

What's more, the region's key states are well governed. For years, Singapore has topped the World Bank's annual *Doing Business* report, which measures the ease of setting up a company in each country. Malaysia ranks twelfth, up six places since last year, and Thailand is eighteenth on the list.

The boom is fed by an expanding middle class: millions of people who have fought their way out of poverty, and are now hungry for goods and services ranging from cellphones to cars and healthcare. Last year, consumer spending rose by 4.2 percent to USD 1.2 trillion, with China trailing at a mere 2.6 percent.

But what makes these people tick? A Roland Berger study, *Understanding Mass-Affluent Consumers in Southeast Asia*, analyzes the markets in Indonesia, Malaysia, and Singapore. It finds significant differences between groups of consumers, categorizing them variously as hedonists, traditionalists, performers, and minimalists.

In Indonesia, for example, consumer behavior is significantly influenced by health and environmental factors, whereas people in Malaysia tend to be more interested in the latest gadgets and other status symbols. Businesses seeking a share in these countries' growth must come up with solutions and strategies for these different segments if they are to enjoy long-term success in Southeast Asia.



→ FIND OUT MORE:
Understanding Mass-Affluent Consumers in Southeast Asia, Roland Berger Strategy Consultants, 2013

THE PRIVATE EQUITY MARKET

Investors looking to brighter future

Europe's private equity sector is in an upbeat mood, with investors expecting a growing number of deals to take place this year, particularly in Scandinavia and Germany. But the market in southern Europe looks set to continue its decline, says a Roland Berger study, *European Private Equity Outlook 2013*. The key target sectors are pharmaceuticals, medical, consumer goods, and retail. "The mood in the private equity market is slowly but surely picking up," says corporate finance partner Gerd Sievers. "Since overall economic prospects are expected to remain unchanged, this can be attributed to improvements in financial markets and the development of the euro crisis."

→ FIND OUT MORE:
European Private Equity Outlook 2013, bit.ly/ZqPGNN

CURRENCIES

Other side of the bitcoin

The bitcoin was meant to be like the internet: decentralized, unregulated, anonymous. Long derided as artificial money for hackers, the digital currency is attracting renewed attention from the financial world in the wake of the euro crisis. Its value has surged since the beginning of the year, sparking concern on the market and a growing incidence of fraud. But more than two thousand companies now accept it, and Exante's Maltese-registered Bitcoin Fund, the first hedge fund of its kind, has attracted USD 3.2 million, according to *Forbes*.

CULTURAL PROJECT

Louvre of Arabia

Work has begun on the construction of the new Louvre in Abu Dhabi, designed by star architect Jean Nouvel and scheduled for completion in 2015. The project consists of a micro-city of structures of different sizes linked by a 7,000-ton perforated dome, and is part of an ambitious plan to build three museums on Saadiyat Island. The two others, a national museum and an offshoot of the Guggenheim, are set to open in 2016 and 2017. The developers will pay EUR 400 million for the privilege of using the name Abu Dhabi Louvre, and another EUR 575 million to borrow exhibits from the Louvre in Paris, the Musée d'Orsay, and the Centre Pompidou.

→ **FIND OUT MORE:** *Shifting Sands: Ideas from the Desert*, THINK:ACT Special, Roland Berger Strategy Consultants, 2012, rbsc.eu/VI0ytx

AUTO MARKET

Auto slowdown puts pressure on suppliers

The west European car market is in the doldrums, with domestic sales of new vehicles expected to fall in 2013 for the sixth year running. A study by Roland Berger Strategy Consultants predicts that some 12.8 million commercial vehicles will be sold this year, and there is little prospect of an end to the downward spiral. This is mainly because buyers in southern and western Europe are postponing purchases in the wake of the euro and debt crises. This trend is having serious effects on the industry, with around ten percent of the 750,000 jobs in the supply sector now at risk, mainly in France, Italy, and Spain. The threat of mass layoffs affects not just production, but also research and development.

→ **FIND OUT MORE:** *Rightsizing Europe. The European Car Crisis and Implications for Automotive Suppliers*, Roland Berger Strategy Consultants, 2013, bit.ly/14hz6Zt

Big Business

Megacities, usually defined as urban areas with a population of over ten million, are the economic powerhouses of the future. Many of the fastest growing are in developing countries, and have economies bigger than those of entire nations.

For a long time, the most striking feature of many megacities was their uncontrolled growth. Today, governments across the world are investing heavily in the future of these metropolises. It's a huge challenge: according to one US study, they will need to spend some USD 120 billion on high-tech transport systems between now and 2020 – but with one million people a week moving to cities from the countryside, it's a good investment.

Smart, networked, and fast-expanding urban areas are a multi-billion-dollar market for companies like IBM, Cisco, and General Electric. Digital monitoring and management are transforming previously uncontrollable sprawl into liveable neighborhoods. Germany's biggest company, Siemens, has set up a new employee infrastructure and cities division with 87,000 employees, a one-stop shop for megacities, offering everything from airport luggage carousels to intelligent electricity grids.

The summer of 2014 could bring a foretaste of what's possible. With millions of fans traveling to Brazil for the soccer world cup, traffic should in theory flow freely in Rio de Janeiro, despite the city's 12 million population and notorious mega-traffic jams. A few years ago this was nothing more than an ambitious vision, but now it's set to become a reality as Rio invests in IT and infrastructure to become a smart, networked, thinking city. A command center will collate data on traffic flows, weather forecasts, roadworks and accidents, and live images of bridges and freeways. It will manage an entire city, using digital traffic signs, radio transmitters, and even Twitter and Facebook to tell drivers about delays and alternative routes.

Bigger cities, fewer emissions

Giants like Dhaka and Jakarta have a reputation for dense smog and endless traffic jams, but they're actually more economically productive, innovative, and environment friendly than their smaller counterparts. In their study *Bigger Cities Make Do With Less*, Geoffrey West and Luis Bettencourt of the Santa Fe Institute conclude that, per capita, big cities produce fewer greenhouse gases, consume fewer resources, and are more economically successful. One city with a population of eight million is better than two with populations of four million, requiring 15 percent less infrastructure and saving on materials, energy, and emissions.

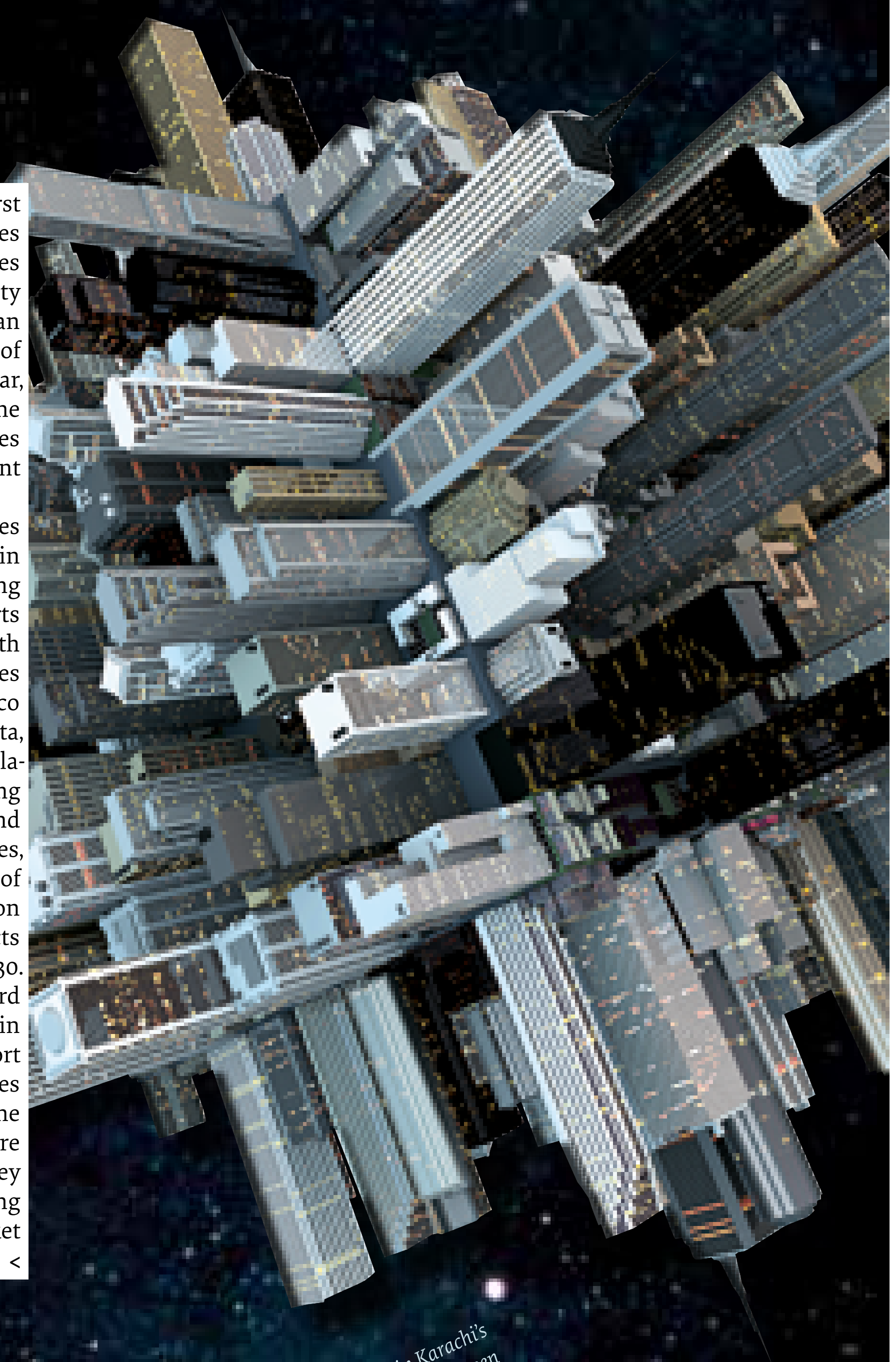
Megacities are also gaining in political importance. On the world stage, national governments haggle over emissions limits and end up agreeing to disagree, but cities are quietly getting on with the job, with backroom agreements at the Rio +20 summit and elsewhere achieving tangible success in preventing climate change. The C40 network of megacities, including New York, Hong Kong, Addis Ababa, and Bangkok, has adopted a joint approach to emissions reduction.

This is just one example of how cities are working increasingly closely together and bypassing traditional summits like the G8 and G10. In the 1980s, British social scientist

Susan Strange predicted that the twenty-first century would be dominated more by cities than by states. Not surprisingly, megacities are indeed gaining more clout. “New York City has a bigger economy than all 46 sub-Saharan states in Africa,” points out Parag Khanna of the Global Governance Initiative. “Each year, Hong Kong receives more tourists than the whole of India. These cities are the engines of globalization, and they operate by different rules than national governments.”

But megacities also pose massive challenges for planners and governments, particularly in developing countries, where they are growing at a similar rate to their European counterparts during the industrialization of the nineteenth century. Eight of the world’s ten biggest cities are in less affluent nations: Mumbai, Mexico City, São Paulo, Delhi, Shanghai, Kolkata, Jakarta, and Dhaka. In 2015, each will have a population of between 17 and 22 million. All are looking for ways to keep growth under control, and provide large numbers of people with homes, jobs, energy, and transportation. Hundreds of billions of euros are already being spent on building infrastructure, and the OECD predicts that the total will reach EUR 30 trillion by 2030.

According to megacities expert Gerhard Schmitt of Future Cities Laboratory in Singapore, “this represents a major export opportunity for the West, and for companies that go where the building is being done and make a local contribution.” If cities are to function efficiently and sustainably, they need things like high-tech air conditioning for skyscrapers and rail systems. “The market potential is incalculable.” <



80.5%

Growth in Karachi’s population between 2000 and 2010. It is home to some 21 million people, and is the world’s fastest expanding megacity, ahead of Shenzhen and Lagos.

The ninety-billion-dollar corridor

The future of India lies between Delhi and Mumbai, where a whole new industrial region is being constructed. The man in charge of this Herculean task is chief planner **AMITABH KANT**

THINK:ACT: The Delhi Mumbai Industrial Corridor (DMIC) will give a new face to north-western India. What exactly is your vision?

AMITABH KANT: The DMIC is India's most ambitious infrastructure project. We're investing USD 90 billion in building a logistics corridor nearly 1,500 kilometers long that will connect India's political heart, Delhi, with its business center, Mumbai – a completely new axis for the northwest that will dramatically reduce transport times. We're initially building seven new industrial cities along this route, and we're planning 24 in total.

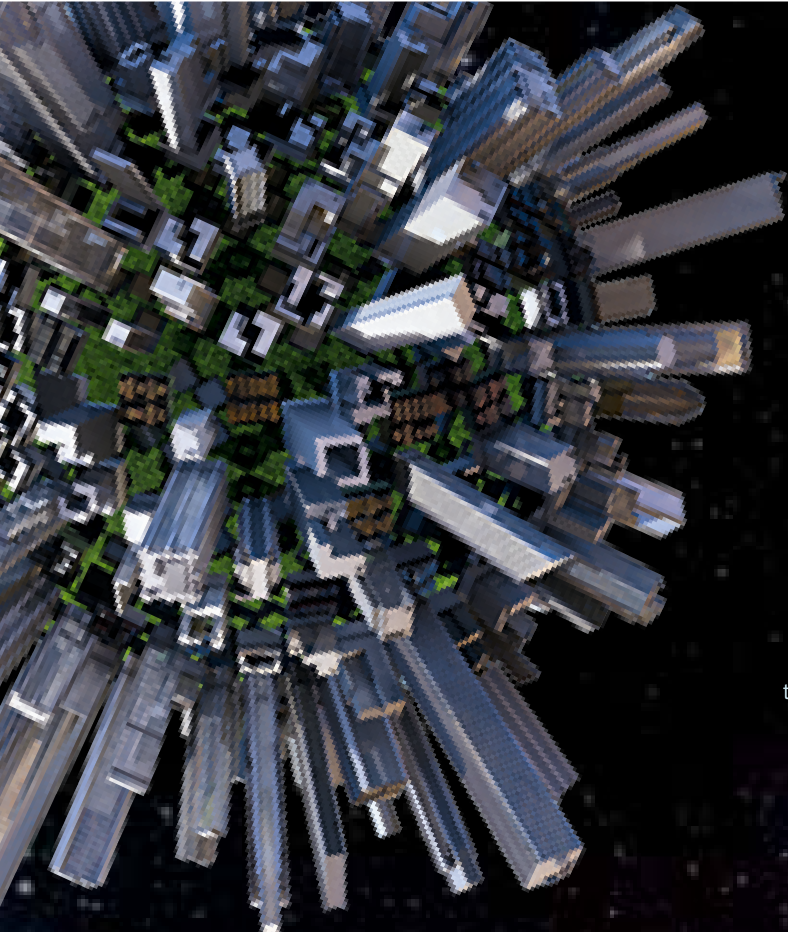
New routes, new cities, new airport – why do you think this project is necessary?

AK: India's economy needs to grow by 8 to 9 percent a year over the next three decades if we're to keep the great majority of our young population in employment. The manufacturing sector alone needs to grow by 14 to 15 percent a year. We're also seeing a massive wave of urbanization: 350 million Indians will move from the countryside to the cities over the next 20 years, and 700 million people will live in urban areas by 2050. The DMIC is intended not only to boost India's economic growth, but to create new cities to absorb the urbanization. These people need long-term jobs, modern cities, and strategies for sustainable growth.

How much will the Indian population benefit from your project?

AK: India is currently going through huge demographic change. Over 70 percent of the population is aged under 35, and they want to play a part in their country's growth, with better prospects and continued improvements in

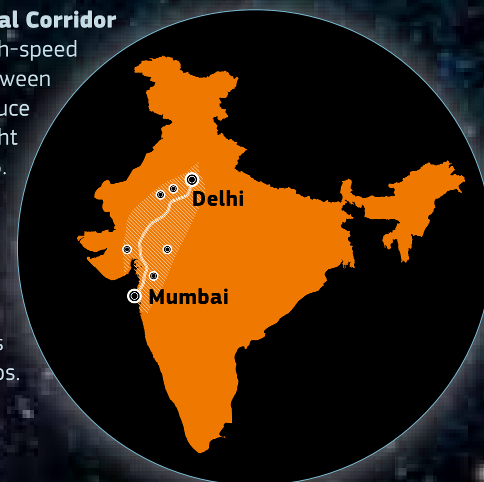
Smart ideas for an urban India: CEO **Amitabh Kant**



68

percent of all Indians, and 41 percent of people in Mumbai, live in slums. There is a huge shortage of infrastructure.

The 1,483-kilometer **Delhi Mumbai Industrial Corridor** spans six states. A high-speed train line between the two cities will reduce the journey time for freight from 60 hours to 13. A total of 24 new industrial cities are being built, complete with power stations, ports, airports, and logistics hubs.



living standards. We're creating jobs for these young people, and helping them to make the transition from agriculture to manufacturing. The DMIC will play a crucial part in the transformation process.

The plans for the corridor are complete, and the first flagship projects are being built. What kind of challenges are you facing at this stage?

AK: We have to use scarce resources effectively, and we see public transportation as having a key role. The cities of the future must have sophisticated transportation strategies, and be a lot more compact and, most importantly, more sustainable. One crucial factor is that India's situation is different to what happened historically in Europe and America, where urbanization created huge, sprawling cities. Land, fuel, and water were cheap and abundant, so many cities were built for cars rather than people. Today, we need a much more innovative strategy of smart cities using digital technology.

Mumbai and Delhi both have populations of well over 15 million, and Asian cities are getting bigger and bigger. What can you learn from other megacities, and what do you want to do better?

AK: We've seen some remarkable progress in the eastern hemisphere over the last few years. For example Kitakyushu in Japan was once the world's most polluted city, and today they recycle everything from cellphones to cars. Yokohama has set new standards in waste disposal, and Singapore is a leading force in water recycling. All around the world, people are using renewable energy in hundreds of innovative ways. If we can bring together all the best ideas, India can be a pioneer in the use of new technology.

What kind of opportunities is the project creating for Western companies?

AK: Companies like Siemens and Bombardier have an important role to play in India. Their consistent focus on smart technology, logistics, water, electricity, and renewable energy means they have the potential to be important partners for us. What we're building in the next three to four decades is bigger than anything we've done in the last five thousand years, so we need the world's most experienced companies. <

Amitabh Kant has been CEO and managing director of the Delhi Mumbai Industrial Corridor Development Corporation since 2009. He was previously responsible for the "Incredible India" tourism campaign, which has lured visitors from all over the world since 2002 and boosted tourist numbers to 6.5 million a year.

→ FIND OUT MORE:
See our video interview with Amitabh Kant at rbsc.eu/242adnk

layar

Transforming trash and traffic

Around the world, international companies and local start-ups are developing new business models to profit from the urban boom. We look at six examples.

Lagos

Using the bathroom

Fast-growing Lagos has a population density of 4,200 per square kilometer. Many residential areas are not connected to the sewers, and most toilets empty into tanks, which can leak into the groundwater and pose a health risk. The city administration is struggling to cope with the task of pumping out hundreds of thousands of tanks. Nigerian microbiologist Olatunbosun Obayomi's company Bio Applications has solved the disposal problem and provided poor people with an energy source. His technology transforms toilet waste tanks into biogas plants: in an average street, one tank is enough to provide up to fifty families with energy for cooking.

São Paulo

Driverless subway trains

São Paulo's subway line 4 is 12.8 kilometers long, and carries up to 900,000 passengers a day. Brazil's economic capital is the first city in South America to have a fully automated, driverless subway line, allowing trains to travel closer together than in traditional systems. It was equipped by Siemens, which has installed similar technology in Paris and Barcelona, and is also modernizing the power supply to São Paulo's underground and overground railways.

Paris **What's mine is yours**

While many of Asia's cities suffer traffic congestion of epic proportions, a car is still an essential status symbol for the new middle class. In the West, many city dwellers see car ownership as a liability, and sharing is an increasingly popular alternative for occasional drivers. Robin Chase, the founder of the Zipcar car sharing network in the United States, has taken the idea one step further in Paris: Buzzcar is a peer-to-peer car rental system, allowing people to rent out their cars by the day, and deal with one another directly rather than through a central service provider. The idea is also being propagated by other start-ups in the UK, Germany, Australia, and the United States.

PARIS

Zhengzhou

Windpower in the fast lane

Zhengzhou in central China has a population of nine million and a booming manufacturing sector, but is not generating enough electricity to keep pace with its rapid growth. In 2014, China's biggest and fastest electricity highway will bring energy to the city from windfarms in the west. One of the companies involved in building the 2,200-kilometer ultra-high-voltage power line is the Swiss technology giant ABB, which is supplying transformers and step switches to bring renewable energy online more efficiently.

Cairo

Door-to-door recycling

Cairo's 17 million people generate 13,000 tons of waste each day, posing a major logistical challenge. A few years ago, a group of European companies tried unsuccessfully to organize a waste collection system by placing containers on each street. The attempt failed because people ignored the containers: they were more used to having their trash collected by the city's 60,000 door-to-door recycling specialists. These micro-entrepreneurs come from poor districts where an entire industry has grown up around waste reprocessing. In the district of Manshiet Nasser, also known as Garbage City, almost every family makes its living in this way. Plastic is washed, dried, and sold to neighbors who process it into granules, which in turn are bought by Chinese companies. Other workshops crush cans and sell the metal. "Over 80 percent of trash is reprocessed," says business owner Laila Iskandar Kamel, who teaches slum dwellers to work as waste managers. The first words they learn during their training are Pantene and Head & Shoulders, the shampoo brands owned by Procter & Gamble. The consumer products giant works in partnership with the trainees, paying a premium for each used bottle to stop pirates from refilling and reselling them.

Mumbai

India's emergency number

In Europe it's 112, in the United States it's 911, and in Mumbai the number used to summon emergency assistance is about to become 1298. Ziqitza Healthcare Ltd was founded by five young Indians who had just returned from study abroad, and was designed to plug a major gap. One of them, Sweta Mangal, recalls: "A friend of ours had a medical emergency. In the United States or England we'd simply have called an ambulance, but there was nothing like that in Mumbai." The company began building a fast, comprehensive emergency response system for the city of 18 million. In 2004 it owned ten emergency vehicles; today the number has swollen to 860. It charges a variable fee so that everyone can afford its services, with poor people being subsidized by NGOs and the government, and the more affluent paying the full price.

Sheryl Sandberg has, by her own admission, always enjoyed talking a lot.

Lean into leadership!

Facebook COO **SHERYL SANDBERG** is one of the most powerful women in the world. Now she has written a book with which intends to show women the way to the top. It also reveals the three decisive turning points in her own career.

Here comes one of the biggest moments of her career. In August 2011 Sheryl Sandberg joins the top club, being ranked fifth in list of the world's 100 most powerful women by *Forbes*. Ahead of her are German Chancellor Angela Merkel, the then US Secretary of State Hillary Clinton, Brazilian President Dilma Rousseff, and the head of PepsiCo, Indra Nooyi. Behind her are US First Lady Michelle Obama and the Indian politician Sonia Gandhi. Sandberg has made it. She has it in black and white. She is powerful.

But she does not celebrate. She does not post it on Facebook. Sandberg is embarrassed. When somebody congratulates her in the lobby of the Facebook building in Silicon Valley, she explains at length how absurd and frivolous the list is. When somebody posts her achievement on Facebook, Sandberg asks them to take it down. She never says, "Thank you for the compliment." "I doubt that a man would feel so taken aback when others considered him powerful," Sandberg writes in her new book. "Even today, I am still working hard on my self-confidence."

Sandberg has a fairy-tale career behind her. After founder and CEO Mark Zuckerberg, she is the top executive at Facebook. She is seen as the silver bullet in the company's management who has taught Facebook how to make money. Now she has written a very personal book about her route to the top. It is Sandberg's story and, at the same time, a manifesto of positive feminism.

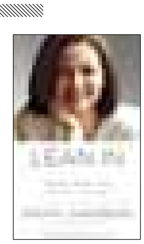
Women need to get involved, join in at the conference table, lean forward, and play a part, according to Sandberg. Her book is called *Lean In*. "We hold ourselves back in ways both big and small, by lacking self-confidence, by not raising our hands, and by pulling back when we should be leaning in," she writes. Sandberg blames women themselves to a large extent for the fact that they are still underrepresented in the business world. She wants to see the end of the office mouse. She wants women to be bold. "The gender revolution has not stalled: it has run into a brick wall," she says. At present, only about 15 percent of top executives in the USA are women. Only seven percent of all women are bold enough to ask for more money in job negotiations. For men, the figure is 57 percent. Sandberg is fighting for this to change.

Find a mentor. Or better still, let yourself be found!

Sandberg herself, now 43 and a mother of two small children, has never been an office mouse. "I have always enjoyed talking a lot," she writes, relating how she ordered her two younger siblings around even when she was a child. She is always the best – first at school and then as a student at Harvard. There she meets Larry Summers. This encounter with the top economist is the first major turning point in Sandberg's career. At lectures, Sandberg always sits with her girlfriends in a corner at the back of the hall. Come the exams, however, she is top. Summers is surprised, Sandberg recalls: after all, he would have expected one of the guys in the front row, who always nodded so attentively, to be the best. He gets to know her better, supervises her final paper, and becomes her mentor.

Sandberg says it is important for one's career to have a mentor, especially for women. However, it is much harder for them for find a patron, because men prefer to seek out protégés who remind them of themselves. Sandberg recommends that you should never ask somebody to become your mentor but convince them by your performance. "We must stop advising young people that they have to find a mentor in order to excel in their career. We must tell them that they have to excel – and then they will certainly find a mentor."

When Summers becomes Chief Economist at the World Bank, he takes Sandberg with him to Washington. Later she moves into business for a few years. Before she is even 30, Summers calls her back and makes her Chief of Staff at his Treasury Department during Bill Clinton's presidency. "I know that my success comes from hard work, help from others, and simply being in the right place at the right >



LEAN IN

is the title and message of Sheryl Sandberg's book. It is a combination of an autobiography and a challenge to women not to leave leadership roles to men but to develop their own, female will to lead.

Knopf, 2013, EUR 14.95

time," she writes. "I feel great and constant gratitude to the people who have given me opportunities and support." However, Sandberg also knows that she must not belittle her own achievements. Women often feel like frauds who are just waiting for somebody to discover that they actually cannot do anything, Sandberg writes. "We continually underestimate ourselves." Sandberg wants to be able to acknowledge her talents.

Success comes with risk – be bold!

After her time at the Treasury Department with Summers come the big names of Silicon Valley: first Google, then Facebook. This is the second turning point in her life. She receives various good job offers in the IT industry and one that she finds particularly appealing at Google. Its founders are competent, their business idea is exciting, and its growth prospects are immense, but the company is still very small and unorganized: it could fail. Also, her job title – Business Unit General Manager – sounds like a joke, for Google does not yet even have any business units. Like many women, Sandberg actually likes things to be safe and tidy. However, the then CEO at Google, Eric Schmidt, advises: "If you're offered a seat on a rocket ship, don't ask what seat. Just get on." Sandberg learns that it is worth taking risks.

Google is a rocket ship – and Sandberg gets on. She perfects the search engine marketing product AdWords and in turn makes a substantial contribution to the company's success. However, after years below executive board level there is a lack of promotion opportunities and challenges. At a Christmas party she meets Mark Zuckerberg, the then 23-year-old founder of Facebook. In 2008 she switches to the social network and becomes its COO, although other firms offer her CEO positions. She develops a model to enable Facebook to make money through advertising. A smart idea is turned into a profitable big company ready to be launched on the stock exchange.

One of Sandberg's greatest strengths is her ability to recruit good people: she was followed to Facebook by dozens of young executives from her former employer Google alone. She does not believe in the traditional management principle that bosses should maintain a certain professional distance from their workers. She writes in her book about fighting back tears during a talk, and she writes about hugs. This has nothing to do with the typical image of the stern manager – but a lot to do with Facebook. Facebook is "a technological manifestation of who Sheryl is," Clara Shih, CEO of the social media start-up Hearsay Social, tells the *Financial Times*. "She's the ultimate networker."

SHERYL SANDBERG

is born in Washington in 1969, one of three children. After attending public school, she studies economics at the elite Harvard University. With her former professor and mentor, Lawrence Summers, she goes first to the World Bank. Later, as US Treasury Secretary, he makes her his Chief of Staff. She joins Google in 2001, switching to Facebook in March 2008, since when she has been, as COO, Mark Zuckerberg's right-hand woman. Since 2009 she has been one of the World Economic Forum's Young Global Leaders.

➔ **MORE:** www.meet-the-ygl.com

However, there is another side to Sheryl Sandberg. She is extremely ambitious and disciplined. She is already writing emails to colleagues at 5.30 in the morning. This itself is part of her message: women should not have to apologize for being ambitious and career-minded – quite the reverse. Sandberg says she wants to be liked, but not only that. "If a woman is competent, she often strikes other people as not nice enough. If she strikes them as being really nice, they think she is more nice than competent," she writes. "But people want to employ staff who are both competent and nice – this is a huge stumbling block for women."

Children and career – both are possible!

As befits a Facebook executive, Sandberg has an extensive Facebook page, where her 1.2 million friends can find out almost everything about her. "I believe I am up for wife of the year – or even perhaps the decade – for not just agreeing, but actually volunteering to spend Valentine's Day with my loving husband, Dave Goldberg, at a Quentin Tarantino movie," she writes. An important message to women: "The single most important career decision that a woman makes is whether she will have a life partner and who that partner is." Her husband, who himself is CEO of SurveyMonkey, a Silicon Valley firm, has always supported her.

Combining motherhood and a career is Sandberg's third big decision in life. She is still at Google when her son is born. She is already answering emails again the day after the birth. Soon after, she holds meetings in her living room while breastfeeding the baby. After three months, she returns to work and misses her baby. Something has to change. After that, she leaves the office at 17:30 every day. "To do everything at the same time and expect it all to go

Sandberg has “learned to sit at the table.” With Facebook founder Mark Zuckerberg (left), among her colleagues (center), and with Barack Obama (bottom).

SANDBERG’S RULES FOR GETTING ON – FOR MEN AND WOMEN

1. Be bold. To stand out, you must make yourself known. To get a pay rise, you must negotiate.
2. You need a mentor. Convince them of your worth instead of simply asking them to be your mentor.
3. Take risks. Small companies can be good employers if they have good growth prospects.
4. Don’t chase job titles, look for interesting tasks!
5. Children and career don’t have to be an either/or. Both are possible if you create the right framework.
6. Look for the right partner, who will support you in your career. Relationships between equals make you happier.
7. Be happy to go home at 17:30. What counts is your performance, not the time you spend at work!
8. Don’t leave before you leave. Don’t plan your career with a hidden agenda of giving it up for your family.
9. Develop a thick skin. Don’t be distracted by every little criticism.
10. You can’t achieve everything at the same time. Give up on perfectionism: it will make you unhappy.

perfectly is a recipe for disappointment. Perfection is the enemy,” she writes. There are always tradeoffs, she says: you constantly have to decide between time for your family and time for your work. However, children and a career are not mutually exclusive, as long as you are prepared not to expect yourself to be perfect all the time.

At Google and Facebook she advocates rules that help women to combine children and a career. At Facebook she has introduced extra maternity leave: an additional four months’ paid time off. Thanks to her, too, there are parking spaces reserved for expectant mothers, immediately next to the entrance. She is annoyed when career women become housewives. She wants to encourage mothers to work full-time. “Sandberg seems to willfully ignore this fact: a great many of us don’t want to,” is the criticism from journalist Carey Goldberg, who gave up her job at the *New York Times* for her children, because she was not offered a part-time job. Sandberg has received more criticism for her book than praise. The main argument is this: a woman like her, with all her privileges, millions, babysitters, and her extraordinary talent, cannot compare her own successes with the lot of ordinary women. “Sheryl Sandberg is both superhuman and rich,” the Princeton professor Anne-Marie Slaughter tells *Fortune* magazine. “She’s made a real contribution with the book, but it’s only half the story.” She believes it is dangerous to concentrate too much on women’s mistakes and too little on the failings of society, business, and politics.

Sandberg will not be put off. She does not intend to let herself be embarrassed anymore, as she was when she was put on the *Forbes* list of the most powerful women. “I know that I have to believe in my own abilities,” she writes. “I still face situations that I fear are beyond my capabilities. I still have days when I feel like a fraud. And I still sometimes find myself spoken over and discounted while men sitting next to me are not. But now I know how to take a deep breath and keep my hand up. I have learned to sit at the table.” <

"Good enough"

Suneet Singh Tuli, CEO of the British company DataWind, presents the world's cheapest tablet, the Aakash, in Hyderabad.

They're simple, robust, and cheap, developed specially for the needs of developing countries. But "frugal" products are also becoming increasingly popular in Western markets – a reversal of the normal direction in which innovations are introduced.

Doctors use electrocardiograph machines (ECGs) to assess how well people's hearts are working. General Electric has been building them in India since 2001, but hardly anyone there could afford these high-tech devices, and they had a market share of less than 5 percent. To use a medical analogy, the patient was General Electric's electrocardiograph division in India, and they were at death's door.

So the company's engineers in Bangalore created an electrocardiograph machine for the Indian market, and christened it the MAC 400. It needed to be battery operated, because of the country's unreliable power supply, easy to use and repair and, most importantly, much cheaper than the USD 3,000 General Electric charged for its cheapest >

machine. It should cost no more than USD 800, and weigh a maximum of 1.2 kilograms.

The MAC 400's specifications are typical of frugal products. The challenges are reflected in the word itself: FRUGAL stands for "functional, robust, user-friendly, growing, affordable, and local." It's certainly a fast-growing market: a Roland Berger study forecasts that frugal products will account for almost a quarter of Western companies' sales by 2018 (see box).

The Indian engineers spent more than two years on the MAC 400 project, and were largely given free rein by General Electric's headquarters. "We were like a start-up that can draw on the resources of a big corporation," says V. Raja, who at the time was CEO of General Electric Healthcare India. "We were simultaneously very small and very large, which was a major advantage." And since the MAC 400 was launched, weighing in at 1.2 kilos and costing USD 740, it's been selling spectacularly in India and around the world – much to everyone's surprise.

Around half of the devices are sold in Europe, mainly France, to doctors unable or unwilling to buy bigger machines. This phenomenon is known as reverse innovation: products created in developing countries turn out to be a success in industrialized nations, with self-imposed restrictions and an avoidance of unnecessary bells and whistles proving a catalyst for radical innovation and simplification.

"Reverse innovation begins not with inventing, but with forgetting. Humility and curiosity are essential to its success."

VIJAY GOVINDARAJAN, PROFESSOR OF INTERNATIONAL BUSINESS, TUCK SCHOOL OF BUSINESS AT DARTMOUTH COLLEGE

While frugal products are developed specially for developing nations, reverse innovation goes one step further: it's what happens when frugal products succeed in industrialized countries, in a reversal of the normal process by which innovation takes place.

Frugal products lack the gimmicks that send a shiver of excitement down the spines of technophiles. They're easy to use, and they don't break the bank. Netbooks, for example, were originally developed in Taiwan, intended as entry-level computers for consumers in developing countries who couldn't afford laptops or desktops, but are now found all over the world. The Aakash 2, a EUR 65 tablet developed by Indian universities in collaboration with a British start-up, could turn out to be another example.

Complexity is a barrier to improvisation

Reverse innovation is nearly always a solution to a pressing problem in a developing country, which is why so many frugal products are medical devices. As well as the MAC 400, General Electric has created a portable ultrasound machine for clinics in the Chinese provinces. It costs only one eighth as much as a stationary machine – and is now being used in US ambulances and emergency rooms.

When products from developing countries find a market in the West, this often happens by chance. But reverse innovation could become a strategy in its own right, helping businesses to remain innovative, says Cambridge professor Jaideep Prabhu. He is the co-author, with Navi Radjou and Simone Ahuja, of a book entitled *Jugaad Innovation*. Jugaad is a Hindi word meaning clever, successful improvisation. The scarcer the resources, the greater the need for jugaad, Prabhu says. He believes complexity is a barrier to improvisation, and shortages make people more inventive. The West's last jugaad innovator, he says, was MacGyver, the 1980s TV hero who solved tricky conundrums with little more than a pocket knife and duct tape.

Sometimes, a product just needs to be good enough. This is not always easy for Western engineers, researchers, and developers to accept, because they believe that only the best is acceptable, so many companies have been slow to take the message on board. There have been some pioneering exceptions, such as General Electric, PepsiCo, and Procter & Gamble, but European businesses are still relying on "glocalization": selling Western

"Traditional rivals like Siemens are competitors, but they could never destroy us; the emerging giants very well could." JEFFREY IMMELT, CEO, GENERAL ELECTRIC

The bigger, the better. That's what designers at John Deere thought – but India's tiny fields actually require small, agile tractors. The American company wasn't taken seriously until it launched the tough little Krish model (above), followed by a range of other new machines. The Indian manufacturer Mahindra, on the other hand, established a niche in the American market by selling very small tractors best suited to lawn mowing. As soon as these had caught on, it began marketing more new products.

products globally, but tailoring them to local needs – simplifying, taking out a feature here and there, using cheap parts rather than expensive ones.

This is based on the belief that there is a growing middle class in the developing countries, which is true, and that they want localized versions of Western products, which is false. People don't want low-tech, cheapskate hardware: they want products precisely tailored to their requirements. The art of frugal engineering lies in making a lot out of not very much.

"Reverse innovation begins not with invention, but with forgetting," says Professor Vijay Govindarajan of the Tuck School of Business at Dartmouth College. He is the author, with Chris Trimble, of a book entitled *Reverse Innovation*. "Humility and curiosity are essential to its success."

The US tractor maker John Deere had much the same experience. It wanted to break into the Indian market, but its tractors were too big, on the assumption that fields would get larger in the wake of economic progress, just as they did in North America during the twentieth century. The bigger the field, the more likely John Deere's products would fit the bill. But fields didn't get bigger, and its share of the Indian market was stuck at around 2 percent.

So the company sent a team to India. They spent two years watching farmers at work, talking to them and to dealers, and concluded that people wanted tractors to be as indestructible and versatile as possible – some even used them as family cars. They also needed good fuel economy and a small turning circle.

After this, in 2007, the team began work on local production of the new tractor, baptized the Krish. John Deere's US headquarters left them pretty much to their own devices, simply providing them with know-how when it was needed. Local competitors weren't able to draw on Western expertise in this way, but they were still a force to be reckoned with because they understood the local market.

"Traditional rivals like Siemens are competitors, but they could never destroy us," says General Electric CEO Jeffrey Immelt. "The emerging giants very well could."

Products from developing countries are clearly set to gain an increasing share of the global market, but the interesting question is who will develop them. General Electric's MAC 400 and John Deere's Krish prove that Western companies are able and willing to do so. <

→ TAKE AWAY

STUDY:

Sales of "frugal" products will almost double by 2018

2012	12%
2018	22%

Frugal products currently account for 12 percent of companies' sales, but this is set to almost double by 2018. This was the finding of the 2013 Roland Berger "FRUGAL products" survey of more than sixty top decision-makers. They said they believed that products developed specifically for developing countries had considerable potential, but admitted that their companies were not doing nearly enough to analyze and satisfy market demand. This was primarily a result of their cost structures: they simply couldn't develop frugal products as cheaply as they'd like to.

→ THE COMPLETE STUDY is available at www.rolandberger.com/media/studies/

Chinese car manufacturer Great Wall Motors' new factory in Bulgaria.

Now it's Eastern Europe's turn

Rarely had the small Polish town of Stalowa Wola enjoyed so much of the political limelight.

It was Saturday night, and the assembled dignitaries were holding a musical celebration of China's biggest investment in Poland, on February 1, 2012, when China's LiuGong group acquired the construction machinery manufacturing operations of Polish company Huta Stalowa Wola (HSW).

HSW is not just any company. During the period of socialist rule, it was a flagship of Polish industry, the country's leading manufacturer of heavy construction machinery, artillery equipment, and armored personnel carriers. But the factory never really adjusted to the market economy after the collapse of communism: it plunged deep into the red, received one government bailout after another, and ended up as a subsidiary of a giant Chinese corporation.

"We were attracted by the technology and the outstanding quality of the finished product," says Hou Yubo, 31, the vice president of LiuGong Machinery Poland. "It takes many years to develop products like these, but much less time to increase their profitability." His company bought the factory for around EUR 70 million, and plans to increase its output from 300 to 3,000 machines in five years.

LiuGong Machinery, a global company which has some 14,000 employees worldwide, is one of a growing number of Chinese groups investing in eastern Europe. Five years ago there were only a

After investing heavily in Asia, Africa, and America, Chinese companies are turning to eastern Europe. Countries such as Poland, Hungary, and Bulgaria are a proving ground for European expansion.

limited number of small Chinese investors in Poland; last year, Chinese investment passed the EUR 300 million mark. Today, 14 Chinese projects worth a total of almost EUR 800 million are currently on the negotiating table, and China has become Poland's second largest foreign investor behind the United States.

"China is discovering Poland, and Poland is discovering China," says Slawomir Majman, head of the Polish information and foreign investment agency PAlilZ. "The Chinese have invested everywhere in Asia, Africa, and America. Now it's eastern Europe's turn."

His opinion is being confirmed across the region. Chinese investment in Romania and Bulgaria is rising rapidly, and in Hungary it has now reached a cumulative total of EUR 2 billion, thanks mainly to the takeover by chemicals giant Wanhua of the BorsodChem plant in February 2011. And Great Wall Motors opened a car assembly plant in Bulgaria last year, the first Chinese automobile manufacturer to venture into the European market.

China's foreign expansion is a relatively new phenomenon. The Beijing government began encouraging businesses to invest their money abroad just twelve years ago, using the motto "go global." Companies that took its advice received generous financial and political support. Chinese businesses invested around USD 16 billion abroad in 2005, rising to USD 46 billion in the first half of 2012 alone. Beijing aims to hit the USD 150 billion mark for the first time in 2015, by which time it will represent some 20 percent of global investment flows.

"Poland is an EU country, and everything we produce here can be sold with the label 'Made in the European Union.'"

HOU YUBO, VICE PRESIDENT, LIUGONG MACHINERY POLAND

China's first major foreign investments were designed mainly to satisfy its hunger for raw materials. Chinese companies snapped up copper mines in Zambia, oil licenses in Sudan and Nigeria, and coal storage facilities in Mongolia, but they initially held back in Europe. More recently, in their insatiable quest for know-how and technology, they have discovered the European market and its 500 million relatively affluent consumers. Examples of this new strategy have included Lenovo's acquisition of IBM's personal computers division, Geely's takeover of Volvo and, on a smaller scale, LiuGong's buyout of HSW.

The figures clearly show that Chinese investors are now setting their sights primarily on eastern Europe. In 2007 they spent 88 percent of their investment in the western half of the continent, but this fell to around 58 percent by 2012. "Eastern Europe is on the up and up," says Roland Berger Strategy Consultants partner Krzysztof Badowski. "The new EU member states are proving particularly attractive to Chinese investors." Based on the number of deals alone, Poland was in fifth place among EU states in 2012.

"The Chinese have invested everywhere in Asia, Africa, and America. Now it's eastern Europe's turn."

SLAWOMIR MAJMAN, HEAD OF POLAND'S FOREIGN INVESTMENT AGENCY, PALILZ

"Chinese are good landlords"

One of the main reasons behind LiuGong's high level of spending is Poland's economic growth, says Hou Yubo. "It is also a secure investment, as it would be anywhere else in the EU, and labor costs are significantly lower than in western Europe." He has nothing but praise for his Polish employees, describing them as "well educated, hardworking, and disciplined." In his first year at the helm, he boosted the factory's productivity by almost 40 percent.

Meanwhile, the Poles have overcome their reservations about the change of ownership. "Considering they're foreign devils, the Chinese aren't too bad at all," jokes one employee. "They are good landlords. They have renovated the factory, and they have fixed the leaks in the roof." Their new boss, Hou Yubo, is now known exclusively by his Polish nickname, Bogus.

Chinese investment in eastern Europe has met little opposition from the authorities or the public. "We feel at home in Poland," Hou says. "We're not out to make a fast buck. We want to learn, understand the machines better, create jobs, and pay taxes." Once the slump in European sales is over, LiuGong has big plans for Stalowa Wola. It also intends to build a European research and development center in Poland, and expand its factory space.

"Poland is an EU country, and everything we produce here can be sold with the label 'Made in the European Union,'" says Hou. "That's a seal of quality, and it should pave the way for LiuGong's expansion into western Europe and the United States."

The eastern European offensive has the blessing of the Chinese leadership. In April 2012, the now former premier Wen Jiabao traveled to Warsaw in the first visit by a Chinese head of government for 25 years, accompanied by dozens of prominent figures from Chinese business. The country is a good proving ground, allowing investors to get to know the European market and adapt to its corporate culture before tackling the highly competitive markets of countries like France and Germany. "Poland is becoming an important regional focus for China," says Jonas Parello-Plesner, senior fellow at the European Council on Foreign Relations. "It also makes a good springboard to the rest of Europe."

Poland enjoys a much higher share of Chinese investment than western Europe, much of it originating from smaller family companies. In Hungary, on the other hand, the pace is being set by big corporations. One is Wuchan, which bought the BorsodChem chemical plant from the investment companies Permira and Vienna Capital Partners in 2011 at a cost of EUR 1.2 billion, and has now started modernizing it. The Chinese battery specialist BYD has a large factory there, and telecoms supplier Huawei plans to build a logistics center and create 1,000 jobs. "Hungary is the center of Europe," says Justin Zhang, the group's head of PR for central and eastern Europe. "It has a highly developed logistics industry and an efficient service sector."

Cause to celebrate Great Wall Motors president Wang Fengying opened her company's first European factory.

USD
100 billion

➔ *The Chinese government's target for trade with eastern Europe by 2015*

500,000

➔ *Area in square meters of Great Wall Motors' factory in Lovech, Bulgaria*

97%

➔ *Percentage of Chinese companies in the EU planning to increase their investment there*

Chinese investors are also pouring money into the two Balkan countries that joined the EU in 2007, Romania and Bulgaria. In Balzau, Romania, China Tobacco International Europe Company has invested approximately EUR 40 million in a factory that made around two billion cigarettes in 2012. The country's largest bicycle manufacturer, Eurosport DHS, is also Chinese owned.

Pushing north

And in Bulgaria, perhaps the most significant Chinese project began last year at Great Wall Motors' plant in Lovech, which is assembling low-cost cars in cooperation with a local partner company. The cheapest of the three models, costing EUR 8,000, is designed to compete with the Renault-Nissan Dacia range. Two thousand were assembled in 2012, and production is scheduled to expand to 50,000 by 2015.

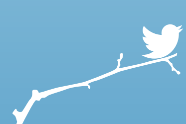
After being repeatedly accused of copying European cars over recent years, Great Wall Motors is now building its own in Europe. It also plans to expand into the north of the continent: first Scandinavia, then the UK, then Germany. Eastern Europe is just the beginning. <

UNSTOPPABLE PROGRESS

Chinese companies are planning to continue expanding their investment in the European Union, using mergers and acquisitions to market their products and services. That was the conclusion of the "*Chinese Outbound Investment in the European Union*" survey, carried out by the European Chamber of Commerce in China, KPMG, and Roland Berger Strategy Consultants and covering 74 Chinese businesses investing in the EU. Of those surveyed, 97 percent of companies said they were planning further investment over the coming years, and 85 percent intended to manufacture products primarily for the European market. More than a third planned to acquire new technology, brands, and know-how to enhance their competitiveness. And while few expressed any complaints about the legal requirements for entry into the European Union, 78 percent said that they had encountered operational and bureaucratic obstacles. The biggest problems included restrictive rules on visas and work permits for Chinese nationals, and inflexible employment laws. A total of 48 percent of companies reported difficulty in getting permits at local level, 85 percent felt that business conditions were more difficult in the EU than in Africa, and 69 percent said they were tougher than in the Middle East.

How to …

… get one million Twitter followers



3,075	2,314	1,389,655
TWEETS	FOLLOWING	FOLLOWERS

Investment guru Warren Buffett played his Twitter debut exactly right. He had amassed 80,000 followers within a day of his first tweet, which read "Warren is in the house," and shortly afterward the figure had risen to around half a million: not bad for an 82-year-old who's not exactly a digital native. His example suggests that if you can make it to the top in real life, it is very quick and easy to make it to the top in social media.

But if this theory is true, why do some of the world's leading managers have such an unimpressive online presence? Virgin's Richard Branson admittedly has three million followers, but other business tycoons' numbers are not nearly so inspiring. Computer pioneer Michael Dell has 66,000, and GE chief executive Jeff Immelt only around 10,000. You will not find many big names in European business at the top of the popularity rankings.

Two megastars, Justin Bieber and Lady Gaga, are an object lesson in social media management, each with more than 30 million followers. But many top businessmen and women still steer clear of tweets and likes, and 70 percent of Fortune 500 chief executives don't have a presence on Twitter, Facebook, or LinkedIn. Maybe they are afraid of the power of the online masses.

You do not need to look very far for communication disasters either. "Board meeting. Good numbers = happy board," tweeted the CFO of quoted American fashion chain Francesca's recently. It was not a great idea, since the company's quarterly figures weren't published until a week later. He was promptly sacked, but took it in good humor, tweeting: "There must be an easier and cheaper way of getting followers."

And so there has been for a long time: buying 50,000 followers, known as zombies, from an online agency will set you back just USD 250. But while fiddling the numbers may create an impression, it can also blow up in your face. When it comes to communicating on the social web, the most important currency is interaction, and if there's no dialog, your message is just vanishing into digital limbo.

A single tweet can send your stock price tumbling, and make or break your product. The mantra of the social media gurus is this: businesses that understand the mechanisms of the internet and have a direct line to their customers, suppliers, and shareholders will also gain the upper hand in the battle for opinion.

Ideally, a chief executive should be a brand in their own right, and their Twitter profile proud evidence of their own importance. But all the money in the world won't buy you an audience of one million – unless you are willing to attempt a conversation with a pale, silent wall of zombie followers. <

Roland Berger Foundation: Human Dignity Awards

Focusing on women's rights: the work of campaigners in India, Afghanistan, and Pakistan is highlighted at Berlin's Jewish Museum.

1 THE WINNERS
The awards went to the Indian non-governmental organization Jagori, the Afghan Women's Network, and Pakistani lawyer Dr. Asma Jahangir. An honorary award was also conferred for the first time, to the Jewish Museum in Berlin.

2 THE AWARD PRESENTERS
Finance minister Wolfgang Schäuble and Bundestag president Norbert Lammert praised the award winners' steadfast commitment to women's rights. The prize money will be used to fund specific projects.

3 THE ORGANIZER
Prof. Roland Berger handed over EUR 1 million in prizes and specially designed Human Dignity Award medals.

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