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April 2010



The Future of Leadership

Conversations with Leaders about Their Challenges and Opportunities

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The Future of Leadership

*Conversations with Leaders
about Their Challenges and Opportunities*

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April 2010

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Introduction

In developed markets, the Great Recession shredded income statements, shuttered factories, and trimmed workforces. While its effects were less severe in developing markets, the downturn still sent shock waves through China, India, and other emerging economies.

For several months spanning 2008 and 2009, the global economic system was teetering on the edge. Employees everywhere were looking to their leaders to make sense of the chaos. Leadership was then—and remains—a huge challenge, even for companies relatively unscathed by economic turmoil. Today, employees continue to seek guidance from their leaders, who must find time to reassure their people while trying to establish a pole position for the future.

Over the past six months, as the economy has started to stabilize, we have talked to leaders from around the world about leadership in order to understand how they led through the Great Recession and whether they see leadership roles and styles changing. (The Future of Leadership, a companion content suite at the Web site www.leadership.bcg.com features videos of five of our interviews with senior leaders.)

Lessons from the Leaders

Leaders are stuck in the middle of a rapidly changing world: Government intervention and protectionism are rising; employee engagement and trust are declining. So did the leaders we interviewed tell us that they feel the need to change their style and way of leading?

Not really. James M. Cornelius, Bristol-Myers Squibb's chairman and CEO, explains that "good leadership is the

same in good times and bad and in changing environments."¹

The nine leaders we interviewed serve in a wide range of industries and both developed and developing markets. Despite the relatively small sample, key themes nonetheless emerged: Chief executives in China and India are concerned about accountability, communication, motivation, and talent development. So are their peers in the West. Furthermore, even though leaders in different industries may require unique knowledge, all the interviewees share common leadership qualities.

The developed and developing markets, of course, differ—and leaders need to tend to those differences. Leaders of companies in developed markets, for example, will likely need to chase growth in places such as China and India. Conversely, leaders of companies located in those emerging markets will need to defend their local businesses against Western assault.

Strategies for leadership succession also differ widely, depending on the age of the company. The leaders we spoke with in developing markets are running young companies, while the leaders in developed markets oversee established institutions. The Chinese and Indian leaders worry about leaving a permanent legacy. They want to create the next Microsoft, not the next Netscape.

These corporate leaders navigate in economies where government involvement, uncertainty, and volatility are ways of life. As Jeff M. Fettig, Whirlpool Corporation's chairman and CEO, puts it: "I used to tell our Brazilian

1. Cornelius will retire as CEO on May 4, 2010; he will remain chairman of the company.

employees that some day, as the country emerges as a market, it will become more like the United States or Europe. The reality is that the rest of the world is becoming more like Brazil.”

The demands of the job are clearly greater than ever. Indra K. Nooyi, PepsiCo’s chairman and CEO, explains, “Aspiring CEOs have to understand that they are signing up for a lot more than CEOs did in the 1970s, 1980s, 1990s, and even four or five years ago.”

It Takes a Village

The nine chief executives we interviewed head up organizations in industries as diverse as banking, pharmaceuticals, consumer goods, and outsourcing. Some of their companies, such as BASF, a chemical company, and Whirlpool, a consumer durables company, operate in industries hit hard by the recession. Other companies were much less affected. The companies are headquartered around the globe, from Milan, Italy, to Shenyang, China. But despite these different starting points, the executives share common views on several leadership challenges. They worry about instilling decisiveness and accountability into their organizations and getting the most out of their people. These are the common strands in leadership DNA.

Decisiveness and Accountability. Two qualities were in high demand during the Great Recession: decisiveness and accountability. Jürgen Hambrecht, BASF’s chairman of the board of executive directors, talks about the need “to act on the spot, decisively, and in a structured way.”

Alan Joyce, Qantas’s CEO, echoes the sentiment: “In crises, you need to make quick and rapid decisions without perfect information. You need to make a decision and then correct it, if necessary.”

Whirlpool’s Fettig brings the picture into greater focus: “For us, the first step was to institute greater control. By narrowing our focus, relying on the right metrics, and doing a good job communicating with our top 800 leaders, we have been able to focus on the things we can control. But the second step was to deploy that control. Every employee in the company has a personal cost-reduction objective. Everyone who touches any aspect of our cash chain has a cash objective.”

While the leaders from developed markets set direction from the center during the crisis, they also emphasized the need for the middle and front lines of the organizations to act on their own and adapt, as necessary, to the volatile environment. This was—and continues to be—a tricky balancing act.

There will always be differences of opinions about opportunities, but as a leader you need to make a choice.

The desire for decisive action and clear responsibility and responsiveness is just as apparent among CEOs of companies in developing markets, even though their businesses have not been thrown into turmoil over the past 18 months. Of course, these CEOs have lived in the crucible of risk since they started their companies. As Uday Kotak, the executive vice-chairman,

managing director, and principal founder of Kotak Mahindra Group, says, “The ability to seize opportunity is critical. . . . But there’s a thin line between conviction and foolhardiness.”

Liu Jiren, who started his career as a computer science professor and is now Neusoft Corporation’s chairman and CEO, also recognizes the need to be decisive in the face of conflicting choices. “There will always be differences of opinions about opportunities, but as a leader you need to make a choice,” he says. At the same time, Liu wants his managers to have the confidence and conviction to act on their own. “If people are allowed to make their own decisions, if they have an obligation and accountability, then they will become smarter,” he says.

People, Talent, and Culture. People drive performance. This has always been a recognized truth in service industries such as investment banking, but it has become accepted wisdom in manufacturing and other asset-intensive businesses as well. As Hans-Paul Bürkner, president and CEO of The Boston Consulting Group, says, “All companies are people businesses. Whether you are a manufacturer, a pharmaceutical company, or a consulting firm, it is people who make the difference.”

All the leaders emphasized the need to tap into the reservoir of creativity and energy that engaged employees can provide. Nooyi’s PepsiCo, a consumer goods company, and Liu’s Neusoft, China’s largest outsourcing firm, sit at opposite ends of the business spectrum, but both chief executives talk about the need for employees to be emotionally attached to their work and for the companies to

develop their people. “We try to build a good career platform for our employees and give everybody enough room to realize their potential,” Liu says. This is especially important, says BASF’s Hambrecht, in order to address uncertainty: “The world is changing. It’s becoming quicker, less predictable, and more complex. We need to have the best people working together and forming a real team.”

It is not enough, however, to have the best people; companies also need the glue of a strong culture. Hambrecht, for example, says that culture can continue to provide a performance boost after a company has squeezed all the efficiency gains out of an organization. “At some point, we will reach diminishing returns on improving efficiency. The next step is to engage our people even more in order to earn their full support and buy-in,” he explains.

At UniCredit Group, a bank based in Italy, a series of mergers has created the need to unify culture. “Through acquisitions, we expanded into more than 20 countries and acquired both expertise and diversity. But we now have differences in culture, vocabulary, and ways of interpreting events,” says Alessandro Profumo, UniCredit’s CEO.

In India, founders of two financial institutions talk about the importance of culture to future growth. Kotak, the founder of Kotak Mahindra Group, says that creating a “one-firm culture” is critical to the bank’s success. Deepak S. Parekh, a founder of Housing Development Finance Corporation (HDFC), says that the mortgage lender has been able to keep its senior leadership team intact not by paying top wages but by maintaining a strong culture. Both Kotak and Parekh, however, worry that the cultures of their institutions will be hard to maintain as young, ambitious employees join.

A Tale of Two Cities

Leadership qualities may be universal, but markets are far from uniform. Leaders in the developed and developing markets must apply their leadership skills in very different contexts. These differences shape their view of challenges relating to business, people, and the future.

Ensuring Continuity versus Seizing Opportunity. All six of the chief executives from developed markets head

up organizations that have survived the test of time. The businesses all were operating during the Great Depression and have passed through several generations of leadership. (Arguably, UniCredit Group, the bank based in Italy, is a more recent creation of mergers and acquisitions, although its original banks are old, established European institutions.)

The way that the CEO projects himself or herself on the organization sets the mood for the company.

Their stability and durability can be a double-edged sword. On the one hand, they have established talent-management and leadership-development programs and other signs of permanence and longevity. On the other, they can be slow moving. At large, established organizations, “there are people who have made an art form of avoiding accountability and responsibility,” says Qantas’s Joyce, who previously launched and ran Jetstar, a low-fare subsidiary with a nimble start-up culture.

Now turn that picture upside down. Two of the three companies we looked at in China and India are still run by their founder—and the third, HDFC, was founded by the current chairman’s uncle. These are all young institutions that have not yet passed the endurance test. One of their primary leadership tasks is to create permanence without sacrificing vitality. They are giving employees ownership stakes while also recognizing the size of the multigenerational challenge they face.

As Parekh of HDFC says, “Success is what you leave, not what you have achieved. You have to leave the organization better and stronger than when you began.” Kotak reinforces this sentiment when he says, “If what you create cannot outlive you, then you have failed.”

Two Sides of Employee Engagement. In developed markets, recent challenges have centered on the need to communicate and give confidence to employees. During the Great Recession, “we were very visible, doing as much walking around as possible,” PepsiCo’s Nooyi says. “The way that the CEO projects himself or herself on the organization sets the mood for the company.”

In developing markets, chief executives are more concerned with how they can maintain the organization’s entrepreneurial spirit as it grows and how they can hold on to young employees who are more impatient than workers from the older generation are. Young employees

“want success to happen quickly and are much less loyal to institutions,” Kotak says. “One of our challenges is overcoming the gap between the culture in society and the culture we want to build in the firm.”

The Millennial Generation also exists in developed markets, of course, but the challenges presented by job mobility and declining loyalty are not new, especially in the United States. And, for the time being, many employees in developed markets are content to have a job.

A View of the Future. The Great Recession was a mind-warping event for leaders in developed markets but barely a blip on the radar for many companies in developing markets. Neusoft, for example, reported record profits in 2009, and Kotak Mahindra and HDFC—whose fiscal years end on March 31—are on track to achieve new heights in profitability.

The radically different financial performances influence how leaders in the two regions view the future. For leaders in developed markets, the economic turmoil has turbocharged trends already under way. If, as conventional wisdom suggests, growth rates in developed markets slow, companies need to develop new products and expand in developing markets.

Western leaders we interviewed say they maintained their research-and-development budgets during the downturn and are doubling their attention on globalization. Globalization will force companies to be more nimble in order to take advantage of fleeting opportunities.

“Our business is not just driven by the United States anymore. We are operating in a truly global economy in which volatility and the speed of change have radically increased,” Whirlpool’s Fetting says. “We are moving from a plan-forecast-and-deploy model to a read-and-react model. You cannot predict a lot of this stuff, but you better be good at reading market signals and reacting really fast.”

The Western leaders predict that a greater role for government in economic affairs will be a lasting legacy of the Great Recession. “The world has become much more complex, and the only way companies can function effectively is if we put ourselves in the shoes of lawmakers

and nongovernmental organizations (NGOs), and they put themselves in our shoes,” PepsiCo’s Nooyi says. “We can’t have an adversarial relationship.”

For the leaders in developing markets, the economic downturn has influenced their views but not fundamentally altered them. They expect greater competition from Western firms, but they have not radically revised business plans based on the recent performance of the global economy. Their domestic economies are still strong and business models are intact.

One of our challenges is overcoming the gap between the culture in society and the culture we want to build...

Cross-Fertilization

Leadership has become a two-way street. Leaders from the East have long been avid students of Western leadership practices. HDFC’s Parekh worked in London before returning to India. Kotak absorbed many lessons about culture and leadership during the years that his firm partnered with Goldman Sachs. Neusoft’s Liu competes directly with Western companies and says that he tries to learn from their practices. And developed markets still have more to teach developing markets about institutionalizing practices such as succession and culture building.

Leaders in China and India, however, can also teach their peers in developed markets a few things. They have achieved rapid growth, even with the visible hand of government in their economies—and operations.

Doing business in China and India also requires creativity, adaptation, and experimentation. Leaders there conduct strategy in real time. HDFC built a mortgage business with low default rates by coming up with creative ways to assure repayment. Kotak Mahindra’s first financial product took advantage of market inefficiency. Neusoft’s first software product was quickly pirated, so the company adapted and began selling services. These opportunistic moves paid off. In developing markets, risk management is a way of life, not a back-office function.

But don’t take our word for it. In this report, you’ll find excerpts from our conversations with nine chief executives. Let the leaders speak to you about leadership in their own words.

Leading Through Uncertainty

James M. Cornelius

Chairman and chief executive officer, Bristol-Myers Squibb

James M. Cornelius was hired as interim chief executive of Bristol-Myers Squibb in 2006 and expected to stay three months. Years later, he is still there, leading the pharmaceutical company as chairman and CEO through the toughest economic times in decades and managing to beat Wall Street's expectations in the process.¹

We talked recently with Cornelius about leadership, as part of our series of conversations with chief executives. We asked the CEOs, representing a broad range of industries, not only what they did to pull their companies through the Great Recession but also what they are planning to do in the recovery period.

Cornelius has been a leader in the health care industry for many years. He spent 28 years at Eli Lilly and Company, rising to chief financial officer and board member before becoming chairman of Guidant, a medical devices company and Lilly spinoff, for five years. He retired in 2000 but was pulled back into service in 2005 when Boston Scientific and Johnson & Johnson were battling for control of Guidant. After Cornelius negotiated Guidant's sale to Boston Scientific in 2006, he retired again.

But then Bristol-Myers Squibb came knocking, following the abrupt resignation of its CEO. Cornelius, then a member of the board, was asked to step into the chief executive's job. At the time, the company was under the supervision of a court-appointed monitor in order to avoid prosecution for manipulating earnings. It was also facing the expira-

tion of its patent on Plavix, its blockbuster blood-thinning drug.

In his conversation with Grant Freeland, a senior partner and managing director of The Boston Consulting Group, Cornelius describes how he has grappled with leadership issues over the course of his long and successful career.

Cornelius is not one to chase the latest leadership fads and fashions. He believes that leadership qualities are enduring, but that strategy in uncertain times is not. Bristol-Myers Squibb has fundamentally reshaped its strategy during his tenure. Excerpts from the discussion follow.

The last 12 to 18 months have been traumatic for the world economy, maybe a little less so for the pharma-

1. Cornelius will retire as CEO on May 4, 2010; he will remain chairman of the company.



JAMES M. CORNELIUS

Born in Kalamazoo, Michigan
Year Born: 1943

Education

1965, Bachelor's degree, magna cum laude, Michigan State University

1967, Master's degree in business administration, Michigan State University

Career Highlights

1983–1995, chief financial officer and director, Eli Lilly and Company

1995–2000, chairman, Guidant

2006–present, CEO, Bristol-Myers Squibb

Outside Activities

President, Cornelius Family Foundation

Fan of Indianapolis Colts football team

ceutical industry. What are some of the key challenges you are preparing for?

We have not been faced with the drop in demand experienced by other companies. On the other hand, we've been facing a "patent cliff." Our blockbuster, Plavix, will go off patent in 2011 or 2012 [an application to extend to 2012 is pending]. Our competitors face the same cliff with some of their blockbusters. We are all facing questions like, "What's the right size of the company, and how do we get through this period?" This situation has been exacerbated by the possibility of health care reform, so we've been trying to get ready for both the patent cliff and the changing environment here in the United States.

The expiration of the patent on Plavix must be emotionally tough for your employees. How are you preparing them?

We've been very public with employees, Wall Street, and every other constituency, explaining that this product could go from \$6 billion in revenue to zero, literally in months. I think that we've gotten high marks from Wall Street about being the first to admit that there was a cliff. We've taken a couple of strategic actions to change the cliff into a platform for growth. But there's no way we can fill in for the \$6 billion in revenue. Making the necessary changes now puts us in better shape than just waiting for it to happen.

Could you compare this period versus five or ten years ago? What have you had to do differently?

Times are less certain today than ever before—so you go back and re-examine your strategy multiple times during the year. You have to be much more adaptive.

How do you become more adaptive? Who do you involve? How does the board get involved? How do you involve your senior leaders?

Early in my career, strategy sessions with boards of directors lasted 30 to 90 minutes. Now, at Bristol-Myers Squibb, we might take two to three days of board time to review every element of strategy so that board members are familiar with it, can question it, and influence it. In order to

get ready for that kind of showdown, it probably takes a full year of strategic-planning meetings.

We have agreed to target serious unmet medical needs in five or six therapeutic areas. We have an active business-development program, called the "string of pearls," aimed at those therapeutic areas. So our strategy setting is literally around the clock. Once we get one acquisition done, we move to the next therapeutic class.

As you reflect on your career, what are some of the keys to being a good leader?

You're not going to be successful without teamwork, so you need a strong supporting cast. You need to have the right team and give the members the responsibility to carry out the strategy.

During this period of turmoil, it can be tempting for a leader to tighten the controls and get more involved in what's going on. How do you maintain tight controls while encouraging people to be innovative and empowering leaders?

I once had a boss who was very involved in everything that I did, and I didn't like that. Senior people are paid senior wages and given a great deal of responsibility. They must perform, and only when they need help do I get directly involved in the things they do. If you asked my team members, they'd say, "If he's not asking me a bunch of questions, I'm doing okay. If he's helping me, then there are things I need to improve on."

Sometimes, however, I need to be more involved. For example, for the past few years, you could not hire an employee anywhere in the world without my signature. Why did I do that? Not because I enjoy signing my name, but I wanted people to be more cognizant of the importance of hiring and its effect on profitability. In that process, we have raised the hurdle—we are interviewing better people and slowing down hiring. Before, the attitude was, "We have a job open, let's fill it." Over the last 36 months, total head count worldwide has declined every month—and yet sales have increased by probably 50 percent.

In this environment, how do you keep the best people? What are you doing about talent management?

Times are less certain today than ever before—so you go back and re-examine your strategy multiple times...

As I mentioned earlier, the keys are having a good team surrounding the CEO and being able to execute the strategy. The retention, promotion, and development of those people are critical. It's a matter of getting people into the right kind of jobs, giving them the right direction, and then leaving them alone to perform.

Even though we have been shrinking the size of the company, we've been uniquely successful at attracting talent from other large pharmaceutical companies.

What portion of your current executives were able to manage the transition to this new way of working?

I'd say the bulk of them. I'm not sure that we have a 100 percent buy-in, but it feels a lot better today than it did three years ago. People are being handed these stretch goals, and I think we're getting much better effort today.

Can you discuss the benchmarking that was conducted shortly after your arrival at Bristol-Myers Squibb? How did that start, and how did the journey go?

When I joined, I had been out of the pharmaceutical industry working in medical devices for many years, and I wanted to identify the best performers in this industry. I had come from two companies that had been in the upper quartile of performance. We hired BCG to help us benchmark the best performance on almost every line of the income statement. The exercise showed that we were often below the median, so we set targets that could make us a leader.

It took us 12 to 24 months to reach those goals. It was a real stretch and created dissonance. But, along that journey, we decided that we did not need our nonpharmaceutical businesses. In fact, we needed to sell them in order to fund our string-of-pearls strategy. Today, Wall Street would say that we're the best performing biopharmaceutical company.

The key to success in the pharmaceutical industry used to be revenue. These days, pricing is tougher, and costs are more important. How did you change the culture so that your people are not focused just on revenue?

My personal style, regardless of the environment, is to meet face to face with executives.

Our CFO has added the concept of cash flow management, which has allowed us to build a \$7.8 billion cash balance to help fund the acquisition of new technology.

We have moved from an income-statement orientation to a balance-sheet orientation. We literally had to do tutorials with some of our most senior management about what a balance sheet is and why those accounts are important. It was something that our industry has never looked at.

And as you reflect on your time working at Bristol-Myers Squibb, if you could have done one thing differently, what would you have done?

I started out in the job with the shackles of a government program, which made us move at a much slower pace. If I had to do it all over again, I would speed up the clock and do the things we've done now, but do them even faster.

Do you find that you're spending more time dealing with the external world?

Yes. We do most of our lobbying through our trade group, PhRMA [Pharmaceutical Research and Manufacturers of America], and that probably takes 15 percent of my time.

We're spending a lot of time trying to persuade Congress to give us periods of market exclusivity on patents that run at least 12 years and to stay away from getting involved in setting prices in the United States.

Are you spending more time working together with your executives as a senior team?

My personal style, regardless of the environment, is to meet face to face with executives. Almost every Friday, we spend a half day together, sometimes a full day, addressing both operations and strategy.

And was that a practice of yours 10 or 20 years ago?

Yes. I inherited that from a very good boss at Lilly, and I have continued it throughout my career. So even though I've never mandated attendance, it's amazing how many of the direct reports show up on Fridays.

Have you found that any senior roles have changed over the last couple of years? Has the CFO role, for example, become more important?

I was a practicing CFO for a decade or more, and I think the relationship between the CEO and the CFO has to be very good. We hired a younger CFO from a medium-sized company. As we made cultural changes, he's been a real asset. So I think our teamwork, particularly between the CEO and CFO, has gotten stronger in this last year or two.²

Has your relationship with the board changed? Since this crisis occurred, are they more involved?

I've sat on maybe a dozen boards over time, and there's certainly a trend for boards to be more active—and they are more involved here. Before becoming CEO, I was an independent board member and so, as the new CEO, I probably had the advantage of being viewed as one of them. I've gone out of my way to inform them about what's going on in the company, and I think the relationships are as good as they can be. There is a tendency with active, interested board members to occasionally cross over into management roles, but part of the CEO's job is to manage that involvement and to direct it in the right way.

As a leader, how do you encourage ethical behavior?

You must have a strong belief in doing the right thing. I've preached over my career that you never want to see your ethics being questioned in the right-hand column in *The Wall Street Journal*. And it really boils down to having the leader walk the talk. Every day, you have to behave ethically, do the right things, be fair, and hope that that trickles down to the rest of the organization.

Are you harder now on unethical behavior than you were before?

Yes. Our company has had a checkered history of being in and out of trouble. We paid enormous fines. I think people today understand that you cannot go into the gray area.

Executive compensation is in the spotlight. Are you doing anything to better match risk with reward?

In our case, stock options have not delivered the target values that are set by the compensation consultants, and we're in the process of eliminating those and moving to a kind of quasi-restrictive stock that has both a floor and a ceiling. I think we will be the first in our industry to do this. I doubt that the restricted stock would ever go to zero or infinity. We have 28,000 people, and this would cover probably the top 10 percent.

How do you motivate and what are you doing for the other 90 percent?

You must make sure that you have a competitive pay package. In our case, our short-term performance has been extraordinary. We've been growing, at the bottom

line, probably by about 15 percent, so our cash-bonus program has paid above target. We have been able to make up somewhat for the lack of stock option appreciation with cash bonuses.

As we move into a world where growth is likely to be slower, how do you keep employees motivated?

We struggle every day with trying to keep people performing beyond their capabilities, or at least at their capabilities. Our strategy is built around targeting the most serious diseases, and we think that's a great rallying cry. We bring in patients who have been cured or who have had their life extended, and half the audience has a tear in their eye after they hear these speeches. The things we do are critical to human life, and I think that gives us an extra degree of motivation during these tougher times.

Is the essence of good leadership timeless?

I support the thesis that good leadership is the same in good times and bad and in changing environments. I have had the advantage of working in a very successful large company, a very successful medium-sized company, and in start-ups. I think that experience and consistency are critical. I've seen other companies trying to adopt the flavor of the month, and I don't believe that works. The consistency that I bring to our management approach should be a plus for our team.

² CFO Jean-Marc Huet left Bristol-Myers Squibb at the end of 2009, after this interview was conducted.

Read and React

Jeff M. Fettig

Chairman and chief executive officer, Whirlpool Corporation

For most companies, economic turmoil struck in 2008. By then, appliance maker Whirlpool Corporation was already coping with a full set of economic challenges, notably stiff competition from several of their global competitors and severe commodity inflation. In the United States, Whirlpool's largest market, the collapse of the housing bubble had sharply cut into demand for new appliances long before the official start of the Great Recession.

Jeff M. Fettig, who became Whirlpool's chairman and chief executive officer in 2004, is a believer in the adage that the best thing to do with lemons is to make lemonade. He has used this rolling series of economic shocks to dramatically reduce the company's costs, while maintaining its global presence and commitment to innovation. Whirlpool's senior leaders quickly seized control and narrowed the company's focus—and almost as quickly delegated responsibilities to middle and line managers through rapid and frequent communication.

One of the lessons of the last year has been that Whirlpool must be far quicker to respond to uncertainty and fast-moving events. The company is now able to react more swiftly to change than it was just a few years ago.

In a conversation with Grant Freeland, senior partner and managing director of The Boston Consulting Group, Fettig

shares his insights on leadership during the downturn and beyond. Excerpts follow.

Could you describe your approach to leadership and define a few characteristics of leadership?

Every role that you have throughout your career helps build that foundation of leadership. You learn the business and the industry and build your network. You also have different experiences that shape your core leadership beliefs. Leadership is earned, not given. It's hard to be a leader if you have no followers. The respect that you earn over time enables you to lead.



JEFF M. FETTIG

Born in Elwood, Indiana
Year Born: 1957

Education

1979, Bachelor's degree, Indiana University

1981, Master's degree in business administration, Indiana University

Career Highlights

1981–1989, positions in operations, sales, and planning and product development, Whirlpool

1989–1990, vice president of marketing, KitchenAid Appliance Group

1990–1992, vice president of marketing, Phillips Whirlpool Appliance Group of Whirlpool Europe B.V., Whirlpool's European subsidiary

1992–1994, vice president of group marketing and sales, North American Appliance Group

1994–1999, executive vice president of Whirlpool and president of Whirlpool Europe and Asia

1999–2004, director, president, and chief operating officer, Whirlpool

2004–present, chairman and CEO, Whirlpool

Outside Activities

Director, The Dow Chemical Company

National Board of Governors, Boys & Girls Clubs of America

Everyone has different definitions of leadership. For me, leadership is the ability to be a catalyst for positive change. Each of those words is important. You need to be a catalyst or a change agent for the company. You need to be positive and not lead by fear. And change is a constant in any organization. If you are not changing, you are probably falling behind. People who take initiative, who strive for positive outcomes for the organization, and who enable and motivate an organization to change are leaders.

Are those characteristics of leadership perennial?

Although the conditions change, I think the fundamental traits of leaders have not changed. Leaders deal with reality. Leaders initiate and help drive change, which leads to a positive outcome in their organization. Leaders inspire others to achieve. Leaders enable others to achieve. And as a whole, the organization achieves. Those fundamental principles are true in tough times and in good times. In times when leadership is most tested, those characteristics show up the most. Your top leaders emerge in tough times.

Could you describe what Whirlpool experienced over the last 18 months of the Great Recession and the leadership actions that you took?

Our industry was already going through several challenges prior to the financial crisis—specifically globalization and commodity inflation. The cost of steel, oil, and precious metals doubled, tripled, and even quadrupled from 2004 through 2008. The housing boom in the United States was a bubble and peaked in 2005. We had already experienced negative demand in 2006, 2007, and 2008 prior to the recession.

So, by September 2008, we were facing three things: an incredible cost shock that began several years earlier, a new demand shock caused by financial destabilization, and a currency shock as investors fled to what were perceived as safe currencies. We could not forecast how this was going to play out, but we did believe that this worldwide financial deleveraging would have a profound impact on every aspect of business.

In September 2008, U.S. appliance demand dropped more than at any time since World Wars I and II. Our

models didn't work, our experience was not relevant, and we were in new, undefined territory. We tried to step back and take a very critical view of the business.

The first thing we did was narrow our focus. The most critical thing a business has is liquidity. So our number-one priority was cash. What did we need to do to generate cash, preserve our liquidity, and ensure sufficient funding? The second thing we instituted was radical cost reduction. We needed to lower our breakeven point faster than sales were falling. We will take out two times more costs in 2009 than we ever have before.

The third thing we did was respond to a different consumer environment in North America and Europe. We diverted our consumer-advertising spending to the point of sale. We believed that we were not going to attract consumers to the market to buy appliances through advertising. This was going to be a replacement market, so we wanted to ensure that when consumers visited a store they would buy our appliances.

I am glad to say that all three approaches are working. So by narrowing the focus, we have been able to adjust our business to levels we would not have thought possible two or three years ago.

During crises, it's rather common for leaders to want to take firmer control of the business. Did you do so? Did you change your leadership style in other ways during this period?

For us, the first step was to institute greater control. By narrowing our focus, relying on the right metrics, and doing a good job communicating with our top 800 leaders, we have been able to focus on the things we can control. But the second step was to deploy that control. Every employee in the company has a personal cost-reduction objective. Everyone who touches any aspect of our cash chain has a cash objective. It is crystal clear to every salesperson in the world what we are trying to accomplish. In terms of pure execution, 2009 is the best year we have ever had.

During this period, did your board of directors become more interested in what was going on? Have you been spending more time with the board?

You need to be a catalyst or a change agent for the company. You need to be positive and not lead by fear.

Just as we did with our employees, we increased the frequency of communication with our board. In a normal cycle, we have six face-to-face board meetings a year. Beginning in October 2008, we also scheduled telephonic board meetings every other month, so we were meeting every month until August 2009. This frequent communication helped us execute faster when a decision required board approval.

Do you think that your relationship with the board has permanently changed, or will it revert to the way it was five or six years ago?

I would say more timely communications with the board is a new norm—and frankly, a good norm.

Has your relationship with other senior leaders changed?

Not really. We probably had more meetings for the first six months, but we have the same operating style and use the same management systems to help us review the businesses and our priorities.

What did you do over the last year or so to keep your employees informed about how things were going?

We share the results of our cost-reduction program every quarter with employees. This year, 50 percent of everyone's bonus worldwide is based on achieving our cost-reduction goals, so it's of very high interest to all our employees.

It can be difficult to keep people motivated over a long period by just focusing on cost. If you look out two or three years, how will you keep your employees motivated?

I would say it's hard to keep employees motivated when you're not delivering good results. Dealing with cost in this environment is a key to delivering better results, but it is not the only thing we're doing. We're still investing in great new-product innovations. We have not reduced our research-and-development or product-development expenses. I think 2010 will be the biggest year ever for us when it comes to new-product launches in the marketplace.

What about the importance of brands in the future? You have been focused on the point of sale in this environment. Are you going to move back to more general advertising?

The mediums through which we reach consumers today are so radically different from those of five to ten years ago. We are continuously looking at all the different ways of reaching consumers, including television and online advertising. But the point of sale will always be important. Appliance consumers are usually in the market for less than two weeks, so it is important for us to be strong at the point of sale. Over the past year, it was especially important, because we did not think we were going to attract people to the market who were not ready to buy anyway. We trained salespeople very well and have done an even better job of communicating benefits to the floor. We're converting those consumers when we have an opportunity.

As we get into a more normal environment, consumer advertising and online activities certainly will be part of the mix. Our distribution of mediums will be more balanced. But in the current environment, we feel pretty good about where we are directing our investments.

Are you resetting your business in response to the recession?

It's pretty profound what's really going on around the world right now. In Europe and the United States, I think there will be a slow and long recovery, and we need to reset our expectations for demand. At the same time, the recession appears to be long over in Brazil, India, and China. We're seeing growth rates that we've never seen before in these markets.

Our business is not just driven by the United States anymore. We are operating in a truly global economy in which volatility and the speed of change have radically increased.

We are moving from a plan-forecast-and-deploy model to a read-and-react model. You cannot predict a lot of this stuff, but you better be good at reading market signals and reacting really fast.

We [operate] in a truly global economy in which volatility and the speed of change have radically increased.

How are speed and volatility changing how you lead your company?

It's more important than ever to have great leaders throughout the organization who understand local markets. We have been in Brazil for more than 60 years. Through the country's ups and downs, we've always made money because we have always had great general managers there. I used to tell our Brazilian employees that some day, as the country emerges as a market, it will become more like the United States or Europe. The reality is that the rest of the world is becoming more like Brazil. Volatility is harder for people in North America and Europe to handle than it is for people in an emerging market. We need to be able to radically reposition our business in three months rather than three years or five years.

Can speed and volatility be catalysts for change rather than negative influences?

I think that's the only positive way to look at it. You can either choose to be a victim of the environment or you can take advantage of changes in the environment. Volatility can mean opportunity, and speed of change—if your company is faster than others—can be a competitive advantage.

Speed and volatility are realities. The first thing a leader has to be able to do is face reality. In the past, speed and volatility have probably had a negative impact on our business, but we have learned. We have parts of the business that excel in these environments. Increasingly, we see speed and volatility more as opportunities than as detriments to our business.

Is working globally part of the new norm?

Absolutely. You have to be comfortable doing business in the United States or China or India or Brazil. There is no substitute for seeing what's actually going on in China, India, or Brazil. To do that, it's best to work in one or two other parts of the world at some point in your career. Of course, you can't work everywhere. I personally would not profess to have a great understanding of the Indian consumer, but I know we have the processes, the market research, and the approach to brand management and

product development to capture consumer insights anywhere in the world.

Executive compensation is a hot issue. Is Whirlpool rethinking how it compensates its executives?

We've always believed that aligning executive compensation with shareholders' interest is the right thing to do. We have a heavily weighted pay-for-performance system for executives. Short-term bonuses and long-term incentives are both tied to specific shareholder metrics. If we succeed in delivering on those metrics, we are rewarded. If we do not, we are not. Last year is a great example. Both of our bonus plans paid out at

only 25 percent of their targeted payouts. It was the right thing to do, given that we did not meet our performance metrics. Of course, we will watch and listen and learn from what others are doing or proposing to see if we can improve, but overall I feel very comfortable that our plans line up well with our shareholders' interest.

Ethics has also been a big issue in the press. Some companies and some sectors in particular have been hit very hard by ethical issues. Are you doing anything differently in this arena?

We have had a long history, dating back to the beginning of the company, of being a very ethical and morally responsible company. It is part of our culture. We evaluate people on ethics. We have a very broad compliance and training program. We have a saying at Whirlpool: There's no right way to do the wrong thing. At the same time, we are a big global company. We have 70,000 people in 170 different countries. You always worry that someone somewhere could do something that is not appropriate.

Is Whirlpool experiencing greater government regulation and intervention?

Without a doubt. Historically, depending on the business or country, government involvement could have more or less of an impact on your business. But over the last five years, it has been increasing. In China, any investment has a level of government involvement. In places such as the United States and Europe, governments are becoming more involved. Energy regulation, efficiency, and compliance are all large issues that have been positively sup-

ported by government incentives or consumer labeling systems.

More broadly, in the United States and Europe, it is uncertain what role government will play in businesses at large—whether the issue is taxes, health care, or fundamental costs of doing business. But in my 28 years at Whirlpool, the government has never been more involved than it is today, and I think that involvement will increase.

Has the nature of competition changed over the last five years or so, and what has that meant for leadership?

Over the last ten years, we've seen a move from regional competition to global competition. There are four, five, or six global companies that are getting bigger and stronger. The growth of the Asian market has spawned a handful of Asian companies that are very competent global competitors. We have European competitors, and we are certainly the largest U.S.-based competitor. But we are all global companies. In Brazil or Russia or China or India, we are going to face those same competitors. In the end, I think it's leadership, talent, and execution—as well as the strength of the brand and business model—that will determine who succeeds and who fails.

Straight Talk

Jürgen Hambrecht

Chairman of the board of executive directors, BASF

Jürgen Hambrecht, the chairman of chemical giant BASF, has a simple but powerful motto—“say what you think, and do what you say”—that sums up his approach to leadership and communication. The chemical industry was hit hard by the global recession. BASF acted quickly to reduce production and inventory—and to be honest and up front with employees about the need to make tough choices. At all times, Hambrecht strives to be authentic, to show respect and empathy for BASF’s employees, and to be decisive.

Based in Germany, BASF, the largest chemical company in the world, is a truly global company. More than 40 percent of its sales originate—and one-third of its employees are based—outside of Europe. Hambrecht joined the company in 1976 as a chemist and, after a series of promotions, became a member of the board of executive directors in 1997. He rose to chairman in 2003.

In his conversation with Grant Freeland, a senior partner and managing director of The Boston Consulting Group, Hambrecht discusses how BASF managed through the recession. While many senior leaders have been centralizing decision making, Hambrecht and the BASF board sought information from and provided guidance to its business leaders—but let them make key decisions. As Hambrecht looks to the future, he says he expects to rely even more on the contributions of employees throughout the company to drive performance. Excerpts from the discussion follow.

What are some of the key leadership lessons you have learned over your 30-year career? What makes a good leader?

A leader needs to make decisions based on solid analyses and experience. I have had a lot of different positions at BASF, which allow me to look at an issue from different angles and come to my own conclusion after listening very carefully to people.

It is also important to prepare leaders for future roles. I started my career at BASF in research, was given purchasing responsibilities, and then acquired operational, regional, and segment responsibility. Over the years, I have had quite a lot of exposure to many employees from different cultures around the world. This experience helped



JÜRGEN HAMBRECHT

Born in Reutlingen, Germany
Year Born: 1946

Education

1975, Ph.D. in chemistry, University of Tübingen

Career Highlights

1976–1985, chemist, BASF

1985–1990, head of research and purchasing, BASF Coatings

(Following positions held at BASF)

1990–1995, president, engineering plastics division

1995–1998, president, East Asia division

1997–2002, member of the board of executive directors

2003–present, chairman of the board of executive directors

Outside Activities

Member, Daimler AG supervisory board

Member, Lufthansa AG supervisory board

Chairman, Asia-Pacific Committee of German Business

prepare me to become chairman. At the beginning, you think maybe the job is too big. But at the end of the day, you realize it is possible.

Are you saying that the ability to make the right decisions develops over time? Do you think it would be difficult for an outsider to lead a large company?

I am absolutely convinced that it would be a big mistake to have an outsider lead BASF. The company is very complex, very diversified. You need to understand the different businesses. You need to understand the culture. At BASF, there is no single culture. We have a lot of different cultures that you must understand and respect.

Is having global experience necessary to become a leader these days?

Absolutely. International experience is a crucial part of our long-term career-development program at BASF. Exposure to different cultures helps our people appreciate diversity and learn that there are many different routes to Rome.

There has been tremendous turmoil in the global economy and the chemical industry over the last 12 to 18 months. What have you learned about managing in a crisis?

You need to have your own early indicators. You also need to have a gut feeling about what's likely to happen. If you rely on official statistics—or even statistics that might be developed within the company—you might be too late. You have to act on the spot, decisively, and in a structured way. You need to make clear and solid decisions.

What were some of the early indicators that gave you a gut feeling that changes were necessary?

One of the signs was the off-balance-sheet activities of banks. And then I became sensitive to the performance of our customer industries.

I started to talk about the fact that something was wrong and that we needed to be careful in March 2008. You may

say that was too late, but it was very early in our industry, which was still on the upswing. October 2008 was the best month that we ever had.

Did your leadership team share your concerns?

Not entirely. We had very intensive rounds of discussions. At the time, our business was constantly improving. I was convinced that something was wrong, but it was difficult to argue that position. Our top leadership team—the 40 top people—meets every month. And in July 2008, I told them that there were risk indicators and that they should start to look into those indicators very carefully and reduce their inventory.

How did you communicate with your employees?

In general, we do quite a lot of communication; but in the crisis, we had to intensify it. We followed the motto: Say what you think, and do what you say. And we did this equally for both external and internal audiences. I think this is of the utmost importance.

I have three basic rules for myself: be authentic, have respect for everybody, and have empathy for everybody. In the middle of this triangle is courage. Once you are done thinking, just do it. Do not debate forever.

During this period, did you interact differently with your executive board than you had two or three years before, when growth was still strong?

We probably met more frequently. We implemented task forces, and we asked for more information about, for example, inventory and production. But we did not make major changes.

What were you doing with the information? Was the executive board making more decisions, or were you asking for information in order to encourage other people to act in different ways?

The board did not make more decisions or take over decisions, which need to be made by the responsible people, such as division heads. However, we did offer them more information from around the world and provided guidance about, for example, reducing inventory.

If you could have done one thing differently during this last year or so, what would it be?

Being even more courageous by saying even earlier that things are changing fast.

Given the slow-growth environment we appear to be in, do you plan on changing how you lead in the future?

I don't think my leadership style will change, but as an organization, we need to address the soft factors more than we do now. We need to change the culture.

At some point, we will reach diminishing returns on improving efficiency. The next step is to engage our people even more in order to earn their full support and buy-in. This enables the team to better exploit its potential. Therefore, you need to have the empathy to understand what is really going on with your people.

Are you emphasizing the need to change the culture and listen to and engage with your people because you think that engaged employees will be more productive?

Absolutely. We have the best team in the industry already. However, we need to become even better. The world is changing. It's becoming quicker, less predictable, and more complex. We need to have the best people working together and forming a real team, as we did during the crisis. Flexibility and solidarity are real values for BASF.

BASF has a high-quality workforce. Do you think that makes it easier or more difficult to form strong teams? Often, as you know, stars can be more difficult to manage.

This is a very interesting question. We are in a rather advantageous situation because people like to work at BASF. We can select the best people in their respective disciplines. But we also look at social skills and whether people can work together in teams.

Cultural change is something companies talk about doing but often don't actually achieve. How are you thinking about changing the culture?

We will reach diminishing returns on improving efficiency. The next step is to engage our people...

We have a saying within BASF: Everyone counts. Especially now in challenging times. Communicating difficult decisions is not easy, but it has to be done. You need to talk to employees so they understand the decisions. Some may not like them. But if they understand the underlying reasoning, it's better. These are exactly the things that we are doing at this moment. We try to talk more often and deeply with one another throughout the company. It's not always easy because we are concentrating on running the business as efficiently as possible and often wonder where we can find the time to talk, but you need to find a way to do it.

Some leaders say that they are spending more time with the external world—shareholders, governments, unions, and work councils. Have you found that to be true?

I have been more internally focused than externally focused—especially now. Before I talk to the outside world, I talk to the inside one. When it comes to closing plants or sites, when it comes to major changes, before anything happens, we will inform employees first. I think this is of the utmost importance.

Executive compensation is a big issue, at least in North America. Are you planning to make any changes related to executive compensation?

This is an issue in Europe as well. We are in the process of adjusting the contracts of the members of the executive board to reflect a new German law on executive compensation. However, these are not fundamental changes; we already have a system that works. We are making changes in order to evaluate and reward performance over several years.

The performance part of our pay for all employees is based on return on assets. It will go down very, very substantially this year. So that tells you it works. We did not have the hugely exaggerated pay that you found in banks and in some other companies in North America.

The issue of ethical behavior raised its head again and again in the crisis, certainly in the financial sector. Is that something that you think you'll increase your focus on in the future?

We have an ethics system, which has worked very well for a long time. We have a chief compliance officer, for example, who reports directly to me. Our values and principles are strong, so there is no reason for change. Our employees around the world are living these values.

How do you keep people motivated when growth is slower than it once was?

I do not think that money provides motivation. Of course, you have to offer a fair, competitive pay system. But at the end of the day, you need to motivate employees with something else. You need to talk to them, listen to their ideas and concerns, and offer guidance and advice. For example, this is what I do on a regular basis with the top 50 managers. You also need to develop a vision of your people and their careers. You need to talk, eye to eye, very openly and honestly. You need to tell them the truth.

Do you think there's a need for a new vision, a resetting of the business, given the new reality?

Partly yes, partly no. We have businesses that we do need to reset and other businesses in which our existing strategy is working.

Many people believe that global growth rates are slowing. Will this trend change how you manage the company?

I think we should be confident that the world will continue to grow and that people will strive to have a better life. There will be shifts. Growth will mostly come from Asia. Highly developed economies will probably grow more slowly. We need to address these issues in our strategy. But we are a global, transnational company. We are everywhere, so our strategies are not for Germany, they are not for the United States—they are for the world.

You have a broad perspective because BASF serves so many industries and because of your involvement on supervisory boards and other organizations. Have the past 18 months changed your perspective on any issues?

If growth slows dramatically and unemployment rises significantly in Europe, social unrest could become an issue. A related issue is the shift in growth to Asia. People in the highly developed economies will have to accept that there is cheaper, plentiful labor available elsewhere. Germany's social-market-economy system is performing well and is taking care of this issue, but it is different in other countries.

Do business leaders need to play a more active role than they have been playing?

I think industry needs to raise its voice more. There is the temptation to lean toward protectionism and bureaucracy, especially in Europe. We need to have the freedom to operate, and we need to explain why this is important to the public. Industry leaders have to be more outspoken. We need to jointly speak out and recognize that we have a responsibility beyond the company—a social responsibility. I think we need to improve in this area.

Are good leadership practices universal, or has there been a fundamental change because of the crisis?

I don't think there has been any change. You need to say what you think, and do what you say—and keep both feet on the ground.

Two Companies, One Leadership Style

Alan Joyce
Chief executive officer, Qantas Airways

Alan Joyce took over as chief executive at Qantas Airways in November 2008. The then-42-year-old leader had just completed a successful five-year run as founding chief executive of Jetstar, Qantas's low-cost carrier. He was being called upon to spin his magic at the parent company, no easy trick during the darkest days of the Great Recession. Air travel was in decline, and Qantas—the second oldest airline in the world—was not nearly as nimble and entrepreneurial as Jetstar.

Despite this challenging start, Qantas reported pre-tax profit of U.S.\$146 million for the fiscal year ending June 2009 and U.S.\$81 million for the first half of fiscal year 2010.¹ (By comparison, the global airline industry was projected to lose several billion dollars in 2009.)

As chief executive of both a start-up and an incumbent, Joyce has relied on classic leadership qualities—decisiveness, communication, accountability, and teamwork—to drive results. Decisions may take longer at Qantas than at Jetstar, but Joyce says he's used the same leadership style at both firms.

Over the next several years, Joyce has ambitious goals to boost the level of employee engagement and innovation at Qantas. He does not want simply to import what worked at Jetstar but to call upon the traditional strengths and proud heritage of Qantas.

In his conversation with Andrew Dyer, a senior partner and managing director

of The Boston Consulting Group and global leader of its Organization practice, Joyce discusses leadership challenges. Excerpts from their conversation follow.

In your 20 or so years as a business leader, what are some of the leadership qualities that have helped guide you?

The aviation industry is subject to, as one of my predecessors said, constant shock syndrome. Something is always changing. One of my philosophies—and one of Qantas's—has been to maintain flexibility and the ability to

1. We converted Qantas's reported results of A\$181 million and A\$90 million using currency conversion rates at the end of the respective reporting periods.



ALAN JOYCE
Born in Tallaght, Ireland
Year Born: 1966

Education
1986, Bachelor's degree in physics and mathematics, Trinity College in Dublin
1987, Master's degree in management science, Trinity College in Dublin

Career Highlights

1988–1996, positions in sales, marketing, IT, network planning, operations research, revenue management, and fleet planning, Aer Lingus

1996–2000, responsible for network planning, schedule planning, and network strategy functions, Ansett Australia

2000–2003, responsible for network planning, schedule planning, and network strategy functions, Qantas

2003–2008, CEO, Jetstar

2008–present, CEO, Qantas

Outside Activities

Fellow, Royal Aeronautical Society

adapt. Those two characteristics have helped both Qantas and my own personal development.

I am also a big believer in people and in the need to communicate. You cannot overcommunicate. An important part of my job is bringing together great people and giving them the ability to do their jobs.

How have you managed to think about the balance between the longer-term perspective and the here-and-now urgency of deflating demand and rising fuel prices?

When you go through a crisis, it is your immediate concern. We are very good at handling crises. Qantas is probably one of the best airlines in the world at dealing with adversity because we have been in business 90 years, longer than any other airline.

In crises, you need to make quick and rapid decisions without perfect information. You need to make decisions and then correct them, if necessary. There needs to be clear direction on what the organization needs to do.

At the same time, as President Barack Obama's chief of staff said, "You never want a serious crisis to go to waste." It gives you an opportunity to make significant changes in the business. The crisis was a great opportunity for us to accelerate our people agenda, our change agenda, and several important strategic issues.

A lot of organizations may go into their shells during crisis, but we made big, long-term strategic investments while managing the cash and profit-and-loss position of the airline.

How did you get alignment with your board and your management team to make those bigger, bolder, longer-term decisions?

During this period, I had the opportunity to enhance the management team. A few people had retired, so we hired some people and also leveraged the existing team. That helped in building a collaborative approach. Our executive committee was the decision making body, and we had long and fruitful debates about the right direction for the company. Once we had reached a decision—and we

reached decisions pretty fast—everybody got behind it, even the dissenters. We did not have anybody behind the scenes trying to undermine it.

The board was unbelievably supportive. When management presented a proposal, the board did what a board should do: They pressure-tested it and gave their view of what they were hearing from other businesses, but they did not try to interfere in day-to-day management. Through this process we reached even better conclusions.

The global economy seems to be in an upturn, but there is still a lot of uncertainty. Developed markets are growing more slowly than developing markets. How will this affect the way you lead Qantas?

We are trying to maintain that flexibility I talked about earlier. The Australian economy is performing well, and our brands are making money in the Australian domestic market. But internationally, there's still a lot of uncertainty. Our international operations are losing money, so we are not assuming that the worst is over. We think that the global economy will get stronger, and we have the flexibility to grow if that occurs. But if things do get worse, we are also capable of being able to manage it.

We believe that, compared with our competitors, we have a robust business model and a lot of strengths. We have a clear vision of where we want to go. That vision is to be the world's best premium and low-fare airline. We feel that we are unique in that we can have both, and we have created a strategy for how we are going to get there while also dealing with the crisis.

You run a global organization with more than 35,000 employees. How do you bring them along with your bold plans when the business environment has been so hard?

For us to achieve our vision of running the world's best premium airline and best low-fare airline, we need a great people strategy and engaged people. We are a large organization, with more than 35,000 employees spread out geographically. We have been flying for 90 years. Big organizations like our own sometimes lose engagement, and we did. We had gone through industrial relations dis-

A lot of organizations may go into their shells during crisis, but we made big, long-term strategic investments...

putes with engineers and had problems with some of the other employee groups. Over the last 18 months, we have begun to focus on engagement and have begun to turn it around.

We conducted a big benchmarking study to understand how engaged our people were across different job categories and age groups. In overall engagement, we were ranked in the lowest quartile among thousands of companies. We said, “We can do better than that.”

In terms of pride and passion, we were actually in the top quartile. We had people who felt extremely passionate and had great pride in the company. We felt that we could tap into that pride and turn overall engagement around.

We have given ourselves the target that, over the next four years, we will go from the bottom quartile to the top quartile in overall engagement. We are developing a wide range of strategies, focusing particularly on communications. If we can do this, we believe absolutely that it will massively help us and will be a core part of our achieving our vision.

You’ve talked about the importance of bringing your people along and the need to raise engagement levels. Are there values and behavioral issues that are also absolutely critical to the next leg of success of Qantas?

We have been working on what we believe are the right sets of behaviors and leadership styles that the business should demonstrate. We have identified the characteristics of Darth Vader, the manager who you do not want, and of the ideal manager. Historically, we have been an outcome-driven business. We still demand excellence but we also want people to have some level of enjoyment in what they do. This is a critical leadership issue that we spend a lot of time on.

You came from a start-up, Jetstar, where the team was young and dynamic and had an attacker mentality. At Qantas, you inherited a very proud organization with a rich history. Can you talk about your transition and how the expectations and leadership styles may be different at the two companies?

[Moving to Qantas] is like moving from driving a speedboat to being captain of the Queen Mary.

It is like moving from driving a speedboat to being captain of the Queen Mary. They are very different in several ways but also similar. They are both airlines. They both have industrial relations, people communications, and people management issues that are similar. But Qantas is a lot bigger and more complex. Given its legacy, you have to recognize that things move a little bit slower, in some cases a lot slower. That can be frustrating at times.

The exciting thing is that the Qantas brand is very well known. Qantas is one of the top ten airlines in the world. There is no other airline that I would want to run, particularly through the environment that we have gone through. Why? We have the flexibility and ability to adapt. We have unbelievably great people, and we have two brands, which gives us more strategic options than any other airline in that top-ten category.

Have you had to change your leadership style or your decision-making style, or has Qantas caught up with the nimbleness that was the hallmark of your success at Jetstar?

The styles are the same. Your leadership style is your leadership style. You need a fantastic team. You need to have a clear vision. And you need collaboration and teamwork. And you need to reward people for being decisive. In a start-up organization, it’s very easy to assign accountability and responsibility. In an organization that has existed for 90 years, there are people who have made an art form of avoiding accountability and responsibility. It’s very important that you hold people responsible for what they’re doing and you give them the ability to make the decisions.

I am very big believer in innovation and creativity in business. Jetstar has a great philosophy of innovation, and it’s there in spades in certain areas at Qantas. People forget our history. Qantas was the first airline to create business class. Qantas has been at the forefront of the design of aircraft. The innovation’s there in the organization. We need to tap into it and take it to the next level.

There’s a trend toward a greater role for government in regulating business activities. How do you balance

your time between managing these internal issues and the external environment?

The aviation industry is probably still one of the world's most regulated industries. Many nations are still protecting and regulating their own national airlines. Qantas does not have governmental support, so it is important that we have a level playing field. We have been continuously talking to governments in different jurisdictions about our belief in open skies.

You have many things to do as the CEO. Stakeholder management—dealing with customers, government regulators, employees, unions, and the general media—is a big part of the job. But so is making sure that the team has the right environment in which to thrive to take the organization in the right direction. That's the part that I like the most; actually, that's the part I think is the most exciting, because it is the core of running an airline.

Seizing Opportunity

Uday Kotak

Executive vice-chairman, managing director, and principal founder,
Kotak Mahindra Group

Uday Kotak entered the finance business in the early 1980s, shortly after his graduation from business school, by spotting an arbitrage opportunity. Kotak noticed that banks were paying depositors interest rates of 6 percent but making short-term loans at 17 percent. He built a flourishing trade-finance business by borrowing money from family and friends at 12 percent and providing short-term trade credit to suppliers of a subsidiary of Tata, one of India's strongest companies, at the bank rate.

From that humble start in trade finance, Kotak built one of India's largest financial institutions by being quick, nimble, and willing to take risks. The Kotak Mahindra Group, as the firm is now known, entered the auto leasing business when it was a novelty in India. In the 1990s, it formed a joint venture with Ford and with Goldman Sachs. In 2003, Kotak Mahindra Finance became the first Indian company to convert to a commercial bank.

Today, Kotak Mahindra has the second highest price-to-book ratio among major global banks, and the bank's market capitalization has grown by 30 times since going public in 1992 to about \$6 billion. Kotak owns 48 percent of the stock. Even so, he wants the bank to continue its hungry search for the next great opportunity and retain its up-from-the-bootstraps culture.

Although Kotak Mahindra did not teeter on the brink of extinction, as many Western banks did in 2008 and 2009,

the firm faces its own challenges. India is a competitive hothouse. Young employees are restless. And the bank itself is a young institution that has yet to pass leadership reins to a new generation.

In his conversation with Janmejaya Sinha, a senior partner and managing director of The Boston Consulting Group, Kotak outlines his views on leading a dynamic organization. Excerpts from their conversation follow.

How have your thoughts on leadership changed over the past 20 to 30 years, and what have you learned?

First, you need to be brutally honest with yourself. The members of the leadership team need to be brutally honest with one another. We also try not to be too self-congratulatory. As a firm, we have gone through many trials by fire, and we have come out of each of them hav-



UDAY KOTAK
Born in Mumbai, India
Year Born: 1959

Education
1980, Bachelor's degree, Sydenham College
1982, Master's degree in management studies, Jamnalal Bajaj Institute of Management Studies

Career Highlights
1986, Kotak Mahindra Finance Limited is founded

1992, Kotak Mahindra goes public
2003, Kotak Mahindra Finance Limited is converted to a commercial bank
2006, Kotak Mahindra repurchases Goldman Sachs' stakes in two subsidiaries

Outside Activities
Board member, Indian Council for Research on International Economic Relations
Board member, Mahindra United World College of India
Board member, Indian School of Business

ing learned something. One of those lessons is, “If something seems too good to be true, it is too good to be true.”

Other than honesty, what attributes would you see in a leader?

The ability to seize opportunity is critical. The trouble with opportunity is that it never announces itself when it is there. As a firm, we have done fairly well at recognizing opportunities in bill discounting, car finance, the Goldman and Ford joint ventures, asset management, life insurance, and banking. But there’s a thin line between conviction and foolhardiness. I think our culture of brutal honesty has helped us avoid entering businesses that may have looked appealing but would not have been a good fit.

The world is a different place because of the financial crisis. How has the crisis affected Kotak Mahindra? Will you lead differently in the future?

The bank of the future must have three qualities. The first is prudence. Banks should not take on excessive leverage. The second is simplicity. The bank of the future will have simpler products that rely less on derivatives. The third is humility, or a lack of arrogance. Financial services should be a business that serves the real world.

If you had one thing to do differently in terms of leadership, what would it have been?

I wish I had a much better grasp on the speed of the evolution of technology; it always amazes me how my kids are much smarter than I am in this area. Technology will likely play a key role in bringing banking services to the unbanked in India.

Why has your team stayed together for so long?

We have spent a lot of time working together. Throughout the 1990s, during every crisis we would huddle together like a cricket team. Growth also has helped to keep the team together. As we grew, the team took on more responsibilities, so there was a significant growth path for everybody.

Did the team members always get along with one another?

No. The world is never perfect, but I think we have the ability to be frank with one another. We have conducted several organizational and developmental workshops that helped us think through roles and responsibilities.

The ability to seize opportunity is critical. ...But there’s a thin line between conviction and foolhardiness.

How do you see your role changing in the future?

One of the big leadership issues is how you balance the big picture with detail, especially as the firm grows. A leader who only sees the big picture and forgets the small trading unit taking disproportionately large risks will encounter trouble, as we saw in 2007 and 2008. At the same time, if a leader is too hands-on, he or she will not be able to manage the institution effectively. The balance also needs to change from time to time. During a crisis, you need to pay attention to the details. The ability to get that balance right is a very important aspect of leadership.

In 1996 and 1997, for example, business was strong, and it required me to be out front and public. I realized then that the firm needed to be institutionalized. An individual can have a reasonable dominance for a while, but over time that dominance will limit a firm’s progress. One of the biggest challenges for managers is letting go.

Do you see the role of government changing in your business?

No. We have a strong banking regulator in India, and we have a constructive relationship with the regulators. My salary, for example, is set by the regulator. As a firm, we have respect for regulation and regulators. One key to our success has been that we watch the regulatory environment very closely. If we had a hostile relationship with regulators, it would have been much more difficult to achieve what we have achieved.

Do you think it will be easier or harder in the future to attract talent, especially young people?

The leaders of our firm all possess middle-class values. We grew up together and share many of the same beliefs, especially hard work, loyalty, and shared sacrifice. To-

day's younger people are very different. They want success to happen quickly and are much less loyal to institutions. One of our challenges is overcoming the gap between the culture in society and the culture we want to build in the firm. On the positive side, the new generation is significantly more tech savvy and much more ready to change than previous generations have been.

What are the leadership challenges as Asia continues to gain economic power?

Let's look at 2010 and beyond. There are three possible global scenarios, particularly for the West. Scenario one is an even deeper crisis; scenario two is sluggish growth; and scenario three is sharp recovery. I would bet on sluggish growth for the West.

How would that affect India? Global liquidity would be adequate, and interest rates would be low. Capital would chase growth and would flow to India, which would continue to have strong domestic consumption. We would, however, see an impact on trade flows. So, I think it is reasonable to assume that in 2010 and beyond, domestic GDP will grow around 8 percent annually.

Mountain climbers have a different view the higher they climb. What do you see now that you did not see ten years ago in terms of confidence, aspirations, people, or any other issue?

I think that today we have much greater confidence in our ability to achieve sustainable growth, but we need to make sure that we do not become complacent. We need to make sure that we stay nimble enough to spot and grab opportunity. We want to have the stability of an institution but maintain the nimbleness of a start-up.

How will you retain your culture in the face of a changing society as you continue to grow?

If what you create cannot outlive you, then you have failed. Our ideal outcome is that we keep growing...

One of the big lessons I have learned from Goldman executives is how brilliantly they manage their "one-firm culture." We are deeply committed to building one firm. It is getting tougher. Somebody told me the other day, "Uday, we have 18,000 people, and you probably know 500." Connecting, communicating, and having processes that encourage people to think of the medium-term rather than then the short-term horizon are all critical. These challenges are becoming increasingly difficult as the gap between our firm's culture and the culture of civil society grows. We have not found the perfect solution, but the future of this firm is deeply dependent on this issue.

Western banks may be a bit shaken now, but they will eventually try to expand in Asia-Pacific. How will their attempts to move into this region affect Kotak Mahindra?

If what you create cannot outlive you, then you have failed. Our ideal outcome is that we keep growing and that family ownership will dilute. We need to make sure our employees own more and more of the company. When we need capital for growth, we need to be willing to dilute the family ownership. Eventually we will reach a point in time when Kotak Mahindra will be a widely held institution, charting its own destiny and largely independent of the original owners.

What advice would you give to a new leader in his or her first year on the job?

I have five rules of leadership. One, have the courage of your convictions. You need to be really convinced of what you are doing because people are often of two or even three minds. Two, face reality. If there is a problem, do not wish it away. You have to deal with it. Three, think long term. Four, understand the new generation and what it wants. Five, stay the course; yes, importantly stay the course.

Managing Rapid Growth

Liu Jiren

Chairman and chief executive officer, Neusoft Corporation

Liu Jiren and two colleagues at Northeastern University in Shenyang, China, founded Neusoft Corporation in 1991. Its first software product was quickly pirated, so the company switched gears and started selling software and services. In less than 20 years, the company has grown to more than 16,000 employees and become China's largest provider of IT solutions and services, with \$600 million in revenue. While most of the rest of the world suffered through a recession in 2009, profits at Neusoft grew by 30 percent. In order to gain the skills it needs to fuel this growth, Neusoft has created a powerful talent network with several IT education and training institutes.

While Liu may not face the same business environment his Western peers do, Neusoft's chairman and chief executive still must address universal leadership challenges: How do you motivate and retain your staff, and maintain your corporate culture as you expand globally? How do you set strategy and develop business models in the face of uncertainty?

In 2009, Liu was named one of the top ten Economic Persons of the Year in China by China Central Television, the national TV station of the People's Republic of China. He oversees a company that now serves customers in a wide range of industries, from mobile telecommunications and utilities to health care. About 30 percent of Neusoft's revenues are generated overseas, a large proportion from Japan. In 2009 Neusoft

expanded in the United States and European markets through mergers and acquisitions.

The company also formed a joint venture with Philips in 2004 to develop and manufacture medical imaging systems. The company went public on the Shanghai stock exchange in 1996, creating a wave of millionaires among its employees.

In his conversation with David Michael, a senior partner and managing director of The Boston Consulting Group, Liu discusses leadership. Excerpts from their conversation follow.

What are the leadership secrets, or the most important factors, behind the success of Neusoft?



LIU JIREN

Born in Dandong, Liaoning Province, China
Year Born: 1955

Education

1980, Bachelor's degree in computer applications, Northeastern University

1982, Master's degree in computer applications, Northeastern University

1987, Ph.D. in computer applications, Northeastern University

Career Highlights

1987, professor of computer applications, Northeastern University

1988, cofounder, Computer Software & Network Engineering Research Lab at Northeastern University

1991, founder, Neusoft Corporation

Outside Activities

Vice-chairman, China Software Industry Association

Inductee, Outsourcing Hall of Fame, International Association of Outsourcing Professionals (inducted in 2009)

CNBC Asia Innovator of the Year, 2008

I have not taken MBA courses. My educational background is not business, but computer science and engineering. So my leadership is mainly based on practice. At Neusoft, we compete against companies that have a lot of capital and talent, so we need to understand our unique position to differentiate ourselves, and we need to know how to execute. Because we are a relatively young company, we need to prove ourselves. I am happy to say that 2009 was our best year ever, with profits rising by 30 percent. We will also try to grow aggressively in 2010.

How do you separate the good opportunities from the bad ones and balance your broad portfolio of businesses?

You need to be very careful and recognize when you are too early or too late for opportunities. There will always be differences of opinions about opportunities, but as a leader you need to make a choice. Generally, we try to enter a business before everybody else thinks it is a good idea. The best opportunities generally come from new and emerging sectors. But no matter how wide we broaden our business portfolio, we will focus on our core competency in software.

How do you think about the risks of entering new businesses?

Opportunities are always accompanied by risks. When entering new businesses, we need to predict the risks and prepare to overcome them. We try to learn from history. After World War II, for example, Japan focused on manufacturing low-priced goods. Later, Japanese companies began to focus on quality and innovation. In China, we need to learn from this example and focus not just on costs but also efficiency, quality, and innovation. Also, as a company, we need to learn from the past success and failures of our competitors, and try to draw valuable lessons from their experiences.

Neusoft has grown rapidly and evolved its strategy over time. How have you adapted your leadership style, especially as Neusoft has become larger and more diverse?

You need to be open-minded, listen to all sides, be sensitive to the environment, and then make decisions. You

cannot formulate one strategy to serve for 10 or 20 years, especially when the company is a start-up. At first, our goal was just to survive. We started with three people. You must have one single dream, and our dream was, “We want to be the best software company in China, and then we want to be the leading software company in the world.” But we needed to move one step at a time.

You cannot formulate one strategy to serve for 10 or 20 years, especially when the company is a start-up.

Initially, we used half of our cash just to develop a small piece of software. But by the second year, everybody was pirating our software. So at that time we decided that, in China, being a consumer software company probably was not the right model for us.

Our conclusion was that Neusoft should sell software and services to large companies. We started to develop software in document management, multimedia management, and CAAD [computer-aided architectural design] for big companies and state-owned companies, which need our continuous services. We also developed software for facilities management, power management, and telecom operations. We also embedded our software in hardware or systems.

Software is our core, just as coffee is the core of Starbucks, and it is a very stable model. We now have around 6,000 engineers, for example, developing embedded software for mobile phones, automobiles, and health care and other industries.

So, to answer your question, we tried to be flexible and develop strategies based on our resources. We did not copy other organizations’ models. The leader needs to learn from other people and companies and try to make the right decisions.

You must know yourself. Sometimes you have one small success and another small success and you start to think, “I am great.” But sometimes you are just lucky or you get a great opportunity.

Today, what is the strategy for many typical Chinese enterprises? They make money fast, easily. They know how to grow by 20 percent a year—but that growth may be driven by the government stimulus plan and overall rising demand. In fact, many of them may not know how to survive if the market’s growth rate suddenly drops.

One of the strengths of Neusoft is your people. How has the people-management challenge evolved as Microsoft, Intel, and other foreign companies have come to China and tried to acquire talent? How do you maintain your advantage in terms of people and culture?

First, if you trust people and give them an opportunity to show their value, people will be passionate about their work. Money is important to employees, but it is not as important as some people think.

Second, I do not want people who just agree with the CEO all the time. They must be free to make their own decisions. We try to build a good career platform for our employees and give everybody enough room to realize their potential.

In the traditional Chinese company, everybody waits for the CEO to make a decision. How do you create the culture in China where low-level people can make decisions and the CEO can learn from them?

I am professor. I am not a manager, I did not know management at first, but I knew one thing: If people are allowed to make their own decisions, if they have an obligation and accountability, then they will become smarter. We expect our managers to be responsible for profit, revenue, and market share. They have a responsibility to hire people, lay off people, and to make decisions. This open culture motivates our managers and unleashes their creativity, which will lead to better performance.

I understand that your senior management team is very loyal?

We have a very low attrition rate, so I think they are happy with their jobs. They get a sense of accomplishment from their work. I am proud of them, and they are proud of themselves.

You have a very young workforce. The average age for your employees is 28 years old. How does your culture enable people, especially young employees, to demonstrate their value?

If people are smart, they will get promoted and face new challenges at Neusoft. This is exciting for employees.

When employees get a new job, I tell them, “I trust you can do this. I know you are not good today, but I trust you will be capable if you work hard.”

We also try to share the fruits of our growth with employees. If our goal is to become a leading global IT solutions and services provider, our employees must earn income that is similar to what they would receive at a multinational company. It is okay if we pay 20 percent under the market because we have a good working environment, values, and culture. But we cannot pay 50 percent under the market.

One of the things we need to start preparing for is hiring non-Chinese employees. Eventually, 15 to 20 percent of our employees may be from outside China and we need to have a culture that also appeals to these workers.

What is your overall outlook for the Chinese economy, and what are the biggest challenges for the Chinese economy and for Chinese companies?

I think China has 10 to 20 years of healthy growth ahead of it. Domestic demand is huge, and there is a lot of vigor and potential in the country. The rapidly rising middle class in the country will create a huge consumer market in the near future. People work like crazy in China. If you ask young people, “Do you want to work eight days a week?” many would say, “Yes.”

Developed countries will also continue to send work to China because of our country’s talent and lower costs. China and India are the only countries with large and young populations.

We can handle large volumes of low-cost manufacturing, but we are also quickly climbing the global value chain. Innovation is moving from developed countries toward emerging countries. China will become a major innovation center in the world.

The biggest challenge for the Chinese economy will be how to transform from an export-driven to a consumption-driven economy. We need to optimize our economic structure, invest more in infrastructure and green technologies, and build efficient social-safety nets. This will ensure sustainable growth and long-term prosperity.

For Chinese companies, I think the biggest challenge is how to strengthen their unique competitiveness through innovation. Innovation is not only about technology, but also about business model, cost, speed, and cooperation. In the rapidly changing business environment, companies that can perfectly balance cost, speed, and technological innovation will win.

The global economy is still not stable. What do you think are the biggest risks for the global economy, and what are your biggest concerns?

I think the biggest risk for the global economy is whether it can be successfully transformed to a balanced and sustainable growth model. I worry that people in developed countries have not changed their behavior and will continue to consume too much, while people in developing countries will save too much because they do not yet trust social safety nets.

The world needs a new and more effective global governance system to accelerate the optimization of resources and collaborative innovation. Without a shared vision, objectives, and efforts, the world economy cannot achieve balanced and sustainable growth. Also, we need new drivers of growth. Innovation will be one of the most important drivers for the global economy.

One of the big themes that emerged from this financial crisis is that the government is going to become very involved in the economy. Does this change the way you have to do business?

In China, that is not a big problem, because many sectors, such as railroads, finance, and telecom, have never been private. We know how to manage in this environment very well.

Performance with Purpose

Indra K. Nooyi
Chairman and chief executive officer, PepsiCo

About three years ago, shortly after Indra K. Nooyi became chief executive officer, PepsiCo embarked on a corporate mission—“performance with purpose”—meant to marry financial success and social responsibility. The Great Recession has only strengthened Nooyi’s belief that performance and purpose mutually reinforce each other. PepsiCo’s emphasis on environmental sustainability, for example, is more relevant than ever today, because going green can actually save money and, along with other acts of citizenship, attract and retain the talent needed to succeed in difficult times.

If Nooyi says that she has not changed her leadership style during the recent economic turmoil, it is mostly because she has believed for several years that tomorrow’s leaders must have fundamentally different skills from those required of executives in the past. These include the ability to work closely with public officials and to exhibit emotional intelligence toward employees. She also stresses the need for leaders to have direct personal understanding of the markets and cultures in China, India, and other growth spots. Nooyi herself spent two weeks in China last summer, making sure to get out of conference rooms and into the countryside and people’s homes.

In a conversation with Grant Freeland, senior partner and managing director

of The Boston Consulting Group, Nooyi elaborates on her views about the changing nature of leadership. Excerpts follow.

Could you briefly describe your personal background and your professional background?

I’ve been at PepsiCo for 15 years and became chairman and CEO about three years ago. Before my time at Pep-



INDRA K. NOOYI
Born in Chennai, India
Year Born: 1955

Education
1974, Bachelor’s degree, Madras Christian College
1976, Master’s degree in business administration, Indian Institute of Management Calcutta
1980, Master’s degree in public and private management, Yale University

Career Highlights

1980–1986, consultant, The Boston Consulting Group
1986–1990, business development executive and vice president and director of corporate strategy and planning, Motorola
1990–1994, senior vice president of strategy and strategic marketing, Asea Brown Boveri
1994–1996, senior vice president of strategic planning, PepsiCo
(Following positions held at PepsiCo)
1996–2000, senior vice president of corporate strategy and development
2000–2001, senior vice president and CFO
2001–2006, president, CFO, and director
2006–2007, president and CEO
2007–present, chairman and CEO

Outside Activities

Director, Lincoln Center for the Performing Arts
Chairman, U.S.–India Business Council

siCo, I was at Asea Brown Boveri and Motorola, and before that, I cut my teeth at BCG. I am married, have two kids, and am trying to juggle being a CEO, a mom, a wife, a daughter, and a daughter-in-law.

You talk about performance with purpose. Could you describe this idea?

Performance with purpose is what I'd like PepsiCo to stand for. I'd like that to be the way we do business. My honest belief is that corporations are little republics in their own way. Look at PepsiCo. Our market capitalization is almost \$100 billion. We're bigger than many countries. We have enormous influence in the world. But we cannot be guided purely by the earnings cycle, or we might end up adding costs to society. We have a profound role to play in society, and we have to make sure that we are constructive members of society.

Was performance with purpose challenged during this last 18 months as the economy worsened?

I have to go back and explain to you the origins of performance with purpose to explain why it was untouched by the events of the last 18 months. In fact, I'd say that it was reinforced by the downturn. Purpose has three elements. The first is human sustainability. How do we make sure that we provide products that range from treats to health foods and allow customers to make balanced, sensible choices? The second element is environmental sustainability. How do we make sure that, as a company, we replenish the planet and leave the world a better place than it was when we began playing around with it? The third element is talent. How do we make sure that people who work for PepsiCo are able not just to make a living but also to have a life?

The most important part of performance with purpose is the use of the word "with." It's performance *with* purpose, not performance *and* purpose, or performance *or* purpose. Unless you focus on purpose, you cannot deliver performance. And unless you deliver performance, you can't fund purpose. This is a very closely linked ecosystem. If we do not transform our portfolio, we cannot sustain performance. If we do not become greener than we are today, young people are not going to come to work for us.

During this downturn, people realized that it's even more important to focus on portfolio transformations and to be green, because being green actually saves you costs. And in today's environment, people still want to eat healthy foods. The downturn has reinforced all the elements of performance with purpose.

In a recent speech, you talked about five ways in which the role of the CEO will change. Could you elaborate on those five characteristics?

You have to focus on the long term. The notion of focusing only on short-term earnings is a thing of the past.

I based these observations on my wandering around the world and leading our company. First, you have to focus on the long term. The notion of focusing only on

short-term earnings is a thing of the past. Too many companies have not done right by their shareholders by focusing strictly on the short term.

Second, you need to understand that public-private partnerships are critical for companies to be successful. The world has become much more complex, and the only way companies can function effectively is if we put ourselves in the shoes of lawmakers and nongovernmental organizations (NGOs), and they put themselves in our shoes. We can't have an adversarial relationship.

Third, you must be able to think globally and act locally. This is an old notion, but we must take it to a whole new level. Half of humanity lives east of the Middle East. Western models cannot simply be applied to those markets because they differ culturally. The civilizations are vastly different. They speak different languages, and their religious backgrounds are different. Our businesses in those markets need to tailor products, business models, and people practices to the local market.

Fourth, you must become much more open-minded. CEOs have to become learning CEOs. Not only do we have to learn the next leadership principle or the next management practice, but we also have to learn about technology and the younger generations. To be able to manage these young kids who are coming to PepsiCo, we have to be able to think digitally and be able to manipulate all this new technology.

Fifth, you must develop emotional intelligence. Today's young people do not want to be wedded to a job like the

people of my generation were. If you do not treat them right, people today will say, “Goodbye, we’re going to the next job.” The only way you can hold onto these employees is by hooking them emotionally to the company, through our business model and what we stand for. But you also need to be able to look at that person and say, “I value you as a person. I know that you have a life beyond PepsiCo, and I’m going to respect you for your entire life, not just treat you as Employee Number 4,567.”

You talk about thinking globally and acting locally. How do you make that a reality at PepsiCo?

Many companies take a global product and send it to Asia painted in a local color or given a local flavor. But the way people live east of the Middle East is vastly different from how they live in the rest of the world. As a Western company, we at PepsiCo have to make doubly sure that we don’t just export a model and say, “Give it some local colors or local flavors.” We actually have to tell our people, “Develop a model in your country that’s right for your country.”

Let’s take PepsiCo’s beverages. In the developed markets, we work with large stores. We can develop hundreds of new products, and stores have enough space for them. Now let’s consider India, which has tiny stores. How can we introduce lots of new products there? We can’t do it. So the question is, How do you still give the consumer in India a choice?

We need to think about the needs of a country and the way people live and behave in that country. How can you stay true to the business you’re in while delivering choice in a completely different way—one that’s sensitive to the unique needs of a country?

You talked about needing to be open to cultures and customs. How do you find the time when you’re running a company the size of PepsiCo?

First, you surround yourself with great people, who run the businesses. Then, you start traveling. You cannot just swoop like a seagull into and out of a country or a city. In the key markets and cities, you need to make sure you spend quality time. This summer, I spent two weeks in China. I went to consumers’ homes and visited with both

younger and older people there, trying to understand how they live, what they think about products, and what we should be doing differently as a company. I visited a school of traditional Chinese medicine to understand how the Chinese practice prevention and cure and how our products might play a role.

You talked about public-private partnerships. Are you spending more time with the external world now than you were before? Has the recession exacerbated that trend?

Governments have gotten more intrusive. They’re challenging corporate governance issues in every which way, and the trust in companies is at an all-time low. I am spending a lot of time with lawmakers, presidents, prime ministers, commerce ministers, health ministers, and NGOs. That’s the new reality.

Let’s just focus a little bit more on the last 18 months. What were some of the actions that Pepsi took to manage a drop in demand?

Early on, we realized that we were going to have a slowdown. We launched a restructuring program in October 2008, and we made some fairly deep cuts to create some breathing room, because we wanted to keep reinvesting in the business through the downturn. We did not want to cut back on all of our long-term investments. We actually thought this might be the right time to make some long-term bets.

Did you cut research and development?

We increased R&D through the downturn. The economy enabled us to hire great people and make investments with external companies at a much lower cost since there were fewer companies competing for those resources.

In periods of crisis, leaders can be tempted to take greater control and drive change from the top. Is that what happened in this situation?

We set the agenda very, very carefully. First, we were very visible, doing as much walking around as possible. The way that the CEO projects himself or herself on the organization sets the mood for the company. So by being

visible and not hiding myself in my office, I was telling people, “Hey, things are okay. We’ll come out of this okay.”

Second, we kept on trying to practice what I call realistic optimism. Be realistic, but don’t project doom and gloom. I kept saying to our employees, “The economy’s bad, unemployment is going up, but we’ll do okay. And the reason we’ll do okay is because of A, B, C, and D. And the good news is that we’re a consumer staple company, so we won’t be affected as much.”

Third, we undertook brutal prioritization. At the beginning of the year, we started with five priorities and we kept hammering on those priorities every quarter, in every town-hall meeting, in every interaction we had with the employees, and in every piece of communication.

Fourth, once we gave the line managers their agendas, we let them loose and said, “Go make it happen.” And the only time I got intrusive is when a business needed to be turned around. In a downturn, it’s even harder than usual to turn around a business because the rules are changing, the marketplace is changing, and the consumer value proposition is changing. So I picked my battles.

We are likely entering a period of low growth. Historically, growth has been a very good motivator for people. How do you keep employees motivated in a slower-growth environment?

If you look around the world, there’s still growth, but we have to view our portfolio differently. Although developed markets may not grow as fast as they have in the past, developing and emerging markets will grow faster. We have to make sure people understand that growth patterns will shift. We also must give people the opportunity to work in international markets if they’re so inclined and have the capability. And as long as PepsiCo keeps doing well, people will be okay.

Within PepsiCo, do you think that the importance of the global market is recognized?

Among the senior leadership, it is. But I think it will take time for the rank and file to understand that international growth is a critical part of our future.

You wrote the parents of your 29 senior executives. Why did you do that and what did you learn?

When I was visiting India two years ago, I went to visit my mum, and she wanted me to dress up and sit with her as she entertained all her friends, neighbors, and second through fifth cousins, who were coming to visit. When all her guests came in, they ignored me. They didn’t even say hello. They went to my mum and said to her, “You brought up such a good kid.”

They complimented my mother and didn’t really focus on me.

That’s when I realized that I had not told the parents of the executives who do such an extraordinary job for PepsiCo that they themselves did a great job bringing up their children. When I came back from India, I wrote to those parents and told them how much they contributed to the success of PepsiCo through the gift of their son or daughter. And it unleashed emotions that were unbelievable, creating an emotional bond among the executives, their parents, and me.

As you reflect on the last couple of years, what have you learned that surprised you?

Being a CEO is not that much fun after all. *[Laughter.]* This is more than a job—it’s a calling. It’s 24/7. And it’s no longer about dealing with the traditional cast of characters—your employees, customers, suppliers, investors. You are dealing with governments, with NGOs, and with any interested party that decides to take on the company. So this is a whole new environment, and the role of the CEO has forever changed. Aspiring CEOs have to understand that they are signing up for a lot more than CEOs did in the 1970s, 1980s, 1990s, and even four or five years ago.

Home Builder

Deepak S. Parekh
 Chairman, Housing Development Finance Corporation

Deepak S. Parekh may be India’s number-one business executive–statesman. At the start of 2010, Parekh retired as chief executive of Housing Development Finance Corporation (HDFC), a \$22 billion mortgage lender, but his wings are still spread wide. He has served as the Indian government’s unofficial crisis counselor for decades, appearing on the scene most recently when an accounting scandal erupted in 2009 at Satyam Computer Sciences. Parekh continues to serve on so many government committees and corporate boards that his resume has begun to look as thick as the Mumbai telephone directory.

His accomplishments in public service, however, should not overshadow his leadership of HDFC. The institution has enabled 3.3 million middle-class Indians to buy homes—while never experiencing a cumulative default rate of more than 0.04 percent. Although its stock price suffered during the Great Recession, HDFC’s balance sheet remained strong because Parekh and his lieutenants never engaged in the go-go practices of so many mortgage lenders.

Parekh worked at several Western firms before joining HDFC in 1978. One year earlier, his equally legendary uncle, Has-mukhbhai Parekh, founded the firm as India’s first mortgage lender. Deepak Parekh became chairman in 1993 and oversaw the firm’s cautious diversification moves into other financial services. Remarkably, turnover in the executive

suite is about as low as HDFC’s default rate. Senior executives do not leave. Still, Parekh acknowledges that his successor, Keki M. Mistry, may need to alter some of the HDFC’s practices as an accommodation to the restlessness of younger employees and the relentlessness of growth.

Parekh discusses leadership in his conversation with The Boston Consulting Group’s Janmejaya Sinha, a senior partner and managing director, and Vikram Bhalla, a partner and managing director. Excerpts from their conversation follow.



DEEPAK S. PAREKH
 Born in Mumbai, India
 Year Born: 1944

Education
 1965, Bachelor’s degree, Sydenham College
 1969, Fellow, Institute of Chartered Accountants in England and Wales

Career Highlights
 1970–71, management consultancy division, Ernst & Ernst

- 1972–1975, finance officer in merchant banking, Grindlays Bank
- 1975–1978, assistant representative–South Asia, Chase Manhattan Bank
- 1978–1983, deputy general manager, HDFC
- (Following positions held at HDFC)
- 1983–1985, executive director
- 1985–1993, managing director
- 1993–2009, chairman and CEO
- 2010–present, chairman

Outside Activities
 Perennial designee, *India Today’s* “50 Powerful People,” an annual list
 Youngest recipient, Lifetime Achievement Award, *The Economic Times Awards for Corporate Excellence*
 Awarded Padma Bhushan, India’s third-highest civilian honor, in 2006

You have managed to keep your team and culture in place at HDFC during the recent economic crisis. Do you feel that there's been any fundamental change in the basic tenets of leadership?

I think the basics have been reinforced. The crisis woke everyone up. We always have had a policy not to go for market share. If you go for market share, you get in trouble. We always were cautious and conservative. When we started, we had a 100 percent share of the market. So we have seen our market share drop from 100 percent to 33 percent of new business.

Even though our market share has come down over the years, it has not bothered us. We pay attention to return on equity. We are representatives of our shareholders. There are not many companies in India that are owned entirely by public shareholders. Most large companies have a foreign partner, are part of a multinational, or are owned by a large private investor.

We are a different business. It's a lending business—with only limited or no security. When we started, there were no foreclosure laws. Now there is a law, but it is not very effective.

We had to be innovative about making collections and managing risk. We went to companies and asked them to deduct monthly payments from paychecks. In the first ten years, about 50 percent of monthly payments were coming through salary deductions. We also accepted postdated checks. We accepted personal guarantees from people who knew the borrower. We had to do things that brought down the risk of lending. Imagination was more important for us than strategy.

What would you say are the key attributes of a leader?

There are many qualities of a leader. One is vision, and, in a lending organization, another is conservatism. You cannot sit in an ivory tower. You have to be accessible. Walk the office. Make people feel at home. Perhaps you need a little bit of competence, too!

Another thing is service. We recognize that we are in a service industry and need to give good service. We devel-

oped our reputation by providing service, even when we were the only player in town. We did not have to give good service—people would have still come to us—but we did.

Why did you think about service in those years?

We had seen it work abroad, and it was inculcated in some of the senior people who worked here in the early days. That was very important in shaping our culture.

You recently retired as chief executive. How important is succession planning for a leader?

You must have a good succession plan. I know many leaders who are one-man bands, and they make all the decisions themselves. Although I retired on January 1, for the last two or three years, I have not been looking at day-to-day, nitty-gritty details. We have competent people who have been doing that.

Did you give your successor, Keki M. Mistry, any special advice when he became chief executive?

I told him that cautiousness and conservatism pay off in the long run. We have all grown up with that philosophy. Most of the senior leaders at HDFC have been here 25 years, so we all have the same beliefs.

Why did your team stay with you?

I think most people stay because of the way we treat them. It's not that we are paying the highest salaries. Fortunately, our employees have generated capital gains because we gave them stock options.

People have stayed, I guess, because the environment is very important to them. There's no cutthroat competition or backstabbing. It is not easy to create a culture like that. Not all institutions in India have such a culture.

You have a very public profile in India, serving on several government commissions. When did you recognize the need to be a public citizen? Do you think it's important for a leader to understand the external environment?

I think a leader's expertise and reputation grow if he is involved in public activities. Unfortunately, many people are fully tied up in their own businesses, in their own cocoons. At HDFC, we needed to be involved. We were building a business in a new sector.

You rarely hire senior managers from the outside. Why is that?

The logic has been that we recruit 50 to 60 MBAs every year and promote from within. If we bring people from outside, it will demotivate our current staff. We want to give people within the organization a chance.

You promote people more slowly than at some other companies and pay them a little less. But they do not leave. How do you do that?

We always say that we hire ordinary people and make them do extraordinary things. That's been our policy. We don't necessarily hire the candidate who wants to be chairman in ten years. That slot is not open. Honestly, we don't go to the A-list colleges. We would rather go to a B-list MBA school and get the top students from there.

As India continues to grow and as your business continues to grow, can you sustain your hiring practices?

Probably not. The world is changing rapidly. Younger people have different expectations. So we may need to make changes—increase starting salaries, hire laterally, or use some combination of these strategies.

We traditionally have been a one-product company, but now we are involved in banking, mutual funds, and insurance. I think the present management will have to re-evaluate our policies. They are probably more broad-minded than I was in terms of recruiting.

How do you see the younger generation as different from the earlier?

I don't see them as very different except for their expectations. They are impatient, and they do not want to wait to be promoted. People have become more ambitious.

Culture is something that cannot be bought or sold. It has to be inculcated over a period of time. We have a culture that we should try and keep, but it is becoming more difficult to do that.

What was the biggest risk you took?

Leaving Chase Manhattan Bank and joining HDFC at half the salary was a big risk when I did it.

You have taken some big risks in businesses that you have entered, such as insurance and mutual funds. How have you made those decisions?

We have a good board, and we discussed our strategy with them and then we went into it with full steam. You have to put your heart and soul into it. Otherwise it doesn't work.

Any final thoughts on leadership?

The leader is a role model. If you misbehave, others will misbehave. If you cheat, others will cheat. If you are using foul language, others will use foul language. So I think moderation at the top is important. This even applies to your temper. You have to control your temper. You need to show your displeasure if someone does not do a good job but not use bad words.

How do you define success?

Success is what you leave, not what you have achieved. You have to leave the organization better and stronger than when you began.

We always say that we hire ordinary people and make them do extraordinary things. That's been our policy.

Addressing a Legacy of Growth

Alessandro Profumo
Chief executive officer, UniCredit Group

Alessandro Profumo has served as CEO of UniCredit Group for 13 years, an eternity compared with the tenure of most of his peers. During that time, he has transformed a regional Italian bank into a continental powerhouse with nearly \$1 trillion in assets, through a series of acquisitions and a relentless focus on shareholder value. The bank has grown from about 700 branches in 1995 to 10,000 branches in 22 countries today.

UniCredit has been able to weather the recent global economic crisis without resorting to government aid and, remarkably, the bank has reported profits each quarter throughout it. But financial success is only one of Profumo's measures of success. He would also like to create a stronger, more capable organization.

At the beginning of the crisis, Profumo consolidated decision making within the executive suite. One of his challenges now is to redelegate decision making. He would also like to accelerate the work of changing selected processes and organizational behaviors that are relics of past mergers.

In a conversation with Ron Nicol, a senior partner of The Boston Consulting Group and the global leader of all its practices, Profumo discusses the challenges he confronted in building UniCredit—and those that remain. Excerpts from their conversation follow.

What have the last 12 months meant to you and to UniCredit Group?

The crisis has forced us to understand who we are. We grew quite rapidly through mergers and acquisitions, and the recent events have offered us a new understanding of our strengths and our weaknesses.

For example, we realized that the quality of some of our processes and systems was not necessarily aligned with our scope and aspirations.

The crisis has also forced us to have a clearer definition of our core businesses and capital management processes. We have had to pay more attention to the balance sheet, rather than the profit-and-loss statement, and better understand the link between capital and risk. We have now begun to amend our processes.



ALESSANDRO PROFUMO

Born in Genoa, Italy
Year Born: 1957

Education

1987, Bachelor's degree, Bocconi University

Career Highlights

1977–1987, branch clerk, manager and director, Banco Lariano

1987–1989, consultant, McKinsey & Company

1989–1991, consultant, Bain Cuneo & Associati

1991–1994, general manager, Riunione Adriatica di Sicurtà

1994–1997, deputy general manager, chief general manager, and CEO, Credito Italiano (became UniCredit in 1997)

1997–present, CEO, UniCredit

Outside Activities

President, European Banking Federation, Brussels

President, International Monetary Conference, Washington, D.C.

Awarded the Cavaliere al Merito del Lavoro, an Italian knighthood, in 2004

The financial crisis has also forced us to confront the fact that we are a large organization that was created by M&A. Through acquisitions, we expanded into more than 20 countries and acquired both expertise and diversity. But we now have differences in culture, vocabulary, and ways of interpreting events. It is very difficult to manage such an organization with subtlety.

I've talked with several CEOs of very large organizations who think that they are driving a speedboat instead of a tanker. While the CEO is saying, "Left full rudder, right full rudder, left full rudder," the crew is standing behind him saying, "What is this guy doing?" Large organizations need to turn right and stay there.

I think we have a slightly different problem. I may want to go right, but not 90 degrees. I would like my tanker to go 45 degrees, or 30 degrees. It is an issue involving calibration.

In order to speed up the change, we tend to send very strong messages across the organization. In doing so, the risk is that we go too far and miss the desired outcome. Calibrating the strength of the signal you send to thousands of people is crucial.

Also, given our internal differences, you have to be very simple in your messages in order to have people react in the same way. And you risk oversimplifying the message.

In summary, it is difficult managing an organization that has been mainly created by M&A, rather than one that has existed for 50 years, where people are more likely to have a common understanding and treat topics in the same way.

What else have you learned?

All of us in finance focused too much on microeconomics and not enough on macroeconomics. For that reason, we did not foresee the financial crisis. Almost no one else did either. If people had stepped back to look at the big picture, they would have seen this coming.

In 1857, Karl Marx covered a banking crisis as a journalist. What he described back then is what we are seeing today.

Only the names have changed. I think that all of us—including governmental authorities and the media—missed what was going on.

How much do you think securitization contributed to the crisis?

Not so much. More than securitization, I think the risk management culture and systems contributed to the failure. In general, banks were comparing their performance with other banks on such measures as revenues to risk-weighted assets, rather than analyzing their assets as closely as they should have.

In order to speed up the change, we tend to send very strong messages across the organization.

As a leader, how do you affect what people in the branches, in different parts of the country, and in different countries do? How do people in the middle of the organization get the message?

This is a key issue—how do you move the leadership model down the pyramid? People management, process, procedures, and systems are part of the answer. Value systems are also very important. Value systems and people management are connected. The way that you evaluate people has a very strong effect on an organization's culture. Let's say that an employee is a higher performer but a disaster at people management. If you ask this employee to leave the company, you send a very strong message to other people.

How do you institute change within an organization?

I don't like to talk about organizational changes any more, because then people have the opinion that you can improve the effectiveness of an organization by changing the structure. I want to focus more on softer elements such as behavior, decision making, and culture, which are equally important in shaping an organization.

Are you leading differently now than during the worst of the financial crisis?

My involvement has always been very high. I live for the company. However, before the crisis, I had appointed three deputies to handle many of my responsibilities. The idea was to have an office of the CEO that would manage

the company as a single group, with each deputy having a specific area of oversight—retail; corporate, investment, and private banking; and operations.

But then the crisis came, and I had to become more involved to speed up the decision-making process and ensure the best alignment between the bank and the board. Since I was so involved in managing during the crisis, my challenge now is to step back once again so that the three deputies can do their jobs.

Do you think the crisis has changed the strategic horizon of banks?

I believe it's appropriate to shift the time horizon for strategy development. We traditionally managed our company through three-year plans and annual budgets.

The problem is that even when you plan over three years, legacy systems and practices can constrain strategic thinking and innovation. I believe that going forward we should first imagine the bank in ten years, free of constraints, and then plan in three-year cycles in accordance with this longer-term perspective. I think this is the best way to cope with shifting consumer behaviors, regulation, and technology, which are driving profound change in our industry.

How are you going to address the succession issue? How are you going to determine your successor?

I am very transparent with the board. We have a very well-organized process. The final choice will be made by the board.

Note to the Reader

The Organization practice embarked on this project almost a year ago. We had a hunch that talking about the Great Recession with leaders who lived through it would yield a wealth of insights. The exercise did not disappoint. We hope you enjoyed reading their insights as much as we enjoyed gathering them.

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