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# CONVERSATIONS WITH LEADERS ABOUT THRIVING AMID UNCERTAINTY

LEADING IN A COMPLEX WORLD



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LEADING IN A COMPLEX WORLD

CHRISTIAN ORGLMEISTER

GRANT FREELAND

ROSELINDE TORRES

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# INTRODUCTION

**G**LOBALIZATION, TECHNOLOGY, AND RAPID change are creating a more complex world. Corporate leaders are operating in more markets than ever before. Their companies are generating and dealing with more data than ever. Social media are amplifying the effects of customer complaints and internal discussions, creating a greater need for open, honest, and multichannel communications. Executives are interacting with a widening array of stakeholders and addressing an expanding set of business, political, and social issues. Public leaders are facing analogous pressures.

Many organizations thrive amid this complexity. They sort signals from noise and focus on the opportunities that matter most.

Others stumble and struggle. They create an overabundance of committees, layers, key performance indicators, processes, and other internal mechanisms. This organizational mishmash fails to address the complexity they face in the outside world.

To understand the best approaches to addressing complexity, we kicked off our annual leadership series by interviewing four leaders of global companies and—to provide a social sector perspective—a prime minister and the former head of one of the world’s largest private foundations.

- Anil Agarwal, the executive chairman of Vedanta Resources, a mining and metals company that he founded in 1976 and has expanded beyond India into Africa, Australia, and Ireland
- Jaspal Bindra, the group executive director of Standard Chartered Bank responsible for the Asia-Pacific region, putting him in charge of a diverse geography and complex business
- Alessandro Carlucci, the former CEO of Natura, a Brazilian cosmetics company with a direct sales force of 1.5 million and a commitment to maintain its entrepreneurial roots as it expands through South America and elsewhere
- Jeff Raikes, the former CEO of the Bill & Melinda Gates Foundation, whose success depends heavily on working with a diverse collection of private and public partners
- Najib Razak, the prime minister of Malaysia, a nation on the brink of graduating from developing to developed nation
- Martin Richenhagen, the CEO of AGCO, an agricultural-equipment maker created through multiple acquisitions and whose business is increasingly powered by software, data, and connectivity

We selected several leaders based in emerging markets because they are accustomed to working in uncertain and unpredictable environments. They don't necessarily face more complexity than leaders in mature markets, but they may have longer histories of addressing it.

Despite the differences in their backgrounds and organizations, these leaders describe several common characteristics that are effective in conquering complexity. Their organizations are operating at full strength. Their employees possess a deep and intuitive understanding of the strategy, common objectives, and vision—enabling each individual to know what to do and where to focus. They spend their time doing and leading rather than sitting in meetings. And their people are excited about coming to work because these leaders encourage experimentation, failure, initiative, and completion.

In short, rather than commanding and controlling, these leaders favor fluid decision-making. Rather than setting detailed strategies and goals, they impart a directional vision for their employees to follow. Rather than leading from the top through hierarchy,

they institutionalize leadership throughout their organizations. In doing so, they embrace complexity rather than retreat from it or wish it away. (See the sidebar “Complexity Versus Complicatedness.”)

## These Organizations Fire on All Cylinders

Complexity can scatter and fragment an organization's mission and sense of purpose. But adhering to an overall vision for a company—or, in the case of Malaysia, a country—in the face of complexity can concentrate effort on the essential rather than the optional. That vision becomes the North Star for navigating through complexity.

Malaysia, for example, is both a multi-ethnic, multicultural nation and one that is experiencing the effects of globalization. Early in his tenure as prime minister, Najib articulated a vision of “People First, Performance Now” that helps guide the nation's policies on topics as varied as free trade and social programs. “We do not proceed with a policy or program that does not deliver on this philosophy,” Najib said. “It is very important

## COMPLEXITY VERSUS COMPLICATEDNESS

Just because the world is becoming more complex, organization structures and processes do not need to follow suit. Our colleague, Yves Morieux, has spent most of his professional career studying how organizations respond to complexity. In his view, many organizations unnecessarily create internal complicatedness—procedures, vertical layers, interface structures, coordination bodies, and decision approvals—in response to external complexity.

The end result is that managers spend most of their time shuffling papers and attending meetings and very little time working with their teams. Rather than creating formal guidelines and processes, Morieux advocates *smart simplicity*, an environment in which employees can work with one another to develop creative solutions to complex challenges.

His approach incorporates a set of powerful principles called “simple rules.” These rules help managers mobilize their subordinates' skills and intelligence. The idea is to make finding solutions to complex performance requirements far more attractive options than disengaging, ducking cooperation, or pointing fingers. One of the rules, “increase the need for reciprocity,” for example, expands the responsibilities of employees beyond activities over which they have direct control in order to foster cooperation and encourage people to resolve tradeoffs rather than avoid them.

The leaders interviewed for this series intuitively understand and are applying many of these simple rules.

that my cabinet ministers and the rest of government share the same vision and philosophy for the country.”

A vision also helps engage employees who might otherwise feel pulled in several directions. For example, Natura’s slogan—“bem estar bem,” or “well being well”—helps inform the company’s growth decisions. The company wants to grow but also retain the entrepreneurial and idealistic feel of its youth.

Managing complexity requires the full engagement of employees. It is too big a challenge to be managed at the top of the organization or by employees whose hearts and minds are elsewhere.

The goal, says Standard Chartered’s Bindra, is “having people who wake up and want to come to work because they don’t have to put up with the bureaucracy or the complexity that they have had in the past.”

## They Are Street Smart

In a fluid and fast-changing environment, the leaders we interviewed recognize that they cannot set strategy and control decision making as directly as they might have in the past. They are delegating duties downward so that the people closest to the market—closest to the complexity—can solve problems.

“It is really about leadership—and not just at the top end of the company but also leadership pretty far down,” Bindra said. “The firm must have the maturity to empower people—and that takes lots of courage.”

**Simplification.** Delaying is part of the solution to complexity. The six leaders all agreed that organization structure should resist rather than reflect the complexity in the outside world. They are trying to create an environment without structural and procedural “complicatedness”—one in which employees can exercise personal judgment. Standard Chartered, Natura, and the Malaysian government all are undergoing transformations in order to empower employees. “As you keep growing aggressively over the years, organizations can get quite complex,” Bindra said.

When Martin Richenhagen joined AGCO as CEO in 2004, the company had 26 brands. He reduced the number to four and decentralized operations so that local managers have the authority to make decisions. “We are very decentralized, and we try to have the units tailored in a way that they’re not too big and unit management is completely in control of running the unit,” Richenhagen said.

Agarwal built Vedanta Resources through acquisitions and determination. He is equally committed to keeping his organization from growing bureaucratic and sluggish. “I’ll keep my business very simple, trust people, and empower them,” Agarwal said. “I am not going to allow things to get complicated.”

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Organization structure should resist rather than reflect external complexity.

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**Collaboration.** AGCO, for example, is increasingly relying on networks that extend outside the company in order to address the growing expectations of farmers. As agricultural equipment becomes more sophisticated, the company works closely with dealers and suppliers so that its tractors and implements can communicate with other products. “[If you are a farmer, y]our dealer can communicate with you in order to tell you that you’re maybe running too fast or don’t have the right torque,” Richenhagen said.

Natura wants its customers to influence the development of future products and is investing heavily in technologies to make that happen. “We believe that we really can transform our business and become very close to the customer so the customer is only one click away,” Carlucci told BCG in an interview held before he left Natura in September of this year.

Networks of public officials and private-sector executives also have a crucial role to play in helping the public sector address complexity. “The government of the twenty-first century will need to be much more sensitive to what is

happening around us and be able to respond quickly to the needs of the people as well as the private sector,” Najib said.

To ensure that the government is more responsive, Malaysia has created a transformation of civil service that is paying dividends. The country’s Ministry of International Trade and Industry, for example, has helped generate record levels of foreign direct investment in recent times.

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“However much that you rely on data, nothing beats the power of conversations.”

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This public-private collaboration is especially important as such issues as sustainability gain ground. In order to engage in sustainable mining practices, “we have to sit down together with government,” Agarwal said. “There is no question about the importance of sitting down across the table.”

The Bill & Melinda Gates Foundation tackles complex social issues by collaborating with a wide array of public and private organization. “We have what to some might seem like large financial resources, but relative to the scale of the problems that we’re taking on, they’re a small percentage of what is needed. So we have to think in a very catalytic, very leveraged way—engaging partners and getting aligned along outcomes,” Raikes said.

**Big Data.** Ironically, the leaders cited big data as both a prime cause of complexity and a potential solution. By drawing inferences and interpreting probabilities from streams of data, executives can come to make sounder judgments. But ultimately they say that they still must make tough decisions on imperfect information.

“However much that you rely on data, nothing beats the power of conversations,” Bindra said. “People tell you more than they will ever write. When people look you in the eye, you get a gut reaction or at least a track record of belief or distrust.” In other words, people networks are as important as computer networks.

### They Improvise

Leaders say they must recognize that they do not have all the answers to complexity. In response to uncertainty, Natura has become more experimental. “We are trying to adjust—with the customer and our beauty consultants—and use the network and our people to define what is relevant instead of doing research and analyzing everything,” Carlucci said. “Of course, we need to plan some of the initiatives, but we increasingly want to do things by learning on the job. If we decide that something is not working, we can kill the initiative. But we need to start before we have all the answers.” (For a checklist for determining whether your organization is staying on top of complexity, see the sidebar “Ways to Win Amid Complexity.”)



## WAYS TO WIN AMID COMPLEXITY

What specifically can leaders do to take advantage of these complex times? The following checklist summarizes actions that the leaders we interviewed are taking to win.

### Firing on All Cylinders

- The senior leadership is a high-performance team in full agreement on—not just providing lip service to—the organization’s vision, values, and vital priorities.
- The leaders walk the corridors and streets, visit clients and operations, and develop an on-the-ground sense, or take a pulse check, of what is really happening within the company and beyond.
- Leaders observe their teams’ behavior and create the right mindset in their employees by providing timely, accurate, and constructive feedback and by acting as a guardian of values and expected behaviors.
- Systematic programs are in place to reinforce vision, values, and priorities throughout the organization, ensuring that employees have a meaningful role in the design and structure of these initiatives.
- Expected behaviors are clearly expressed and understood across all levels of the organization.
- Mechanisms are in place across the organization to provide and capture feedback so that the employees on the front lines and middle managers have confidence that their voices are heard and they can make a difference.
- Compensation, career tracks, and rewards reflect an adherence to corporate values and culture.

### Street Smarts

- Organization structure is simple and lean in order to ensure accountability and remove redundancies.
- Employees who collaborate effectively across organizational boundaries and with outside stakeholders are recognized and rewarded appropriately.
- Middle managers act both as the conduit for market intelligence but also the translators of vision, values, and priorities.
- When scale effects are less relevant, processes provide guidelines but also allow for flexibility and adaptation.
- Technology tools and surveys capture market data and real-time feedback.
- Employees who combine big-data analytical skills with seasoned business judgment and pattern recognition are given the authority to promote change and rapid decision making.

### Improvisation

- Customers and other outside stakeholders are a core part of the innovation process and build other platforms for collaboration.
- Different perspectives from within the organization are cultivated and captured to generate many options.
- Risk taking, experimentation, and even failure are encouraged by giving successful teams the authority to place small bets without undue approvals.

# ANIL AGARWAL ON SIMPLICITY AND DETERMINATION AT VEDANTA RESOURCES

AN INTERVIEW WITH THE EXECUTIVE CHAIRMAN

**A**NIL AGARWAL LEFT HIS home in Bihar in northern India to seek his fortune in Mumbai in the 1970s. Armed with a high school education and boundless determination, Agarwal started out as a scrap-metal dealer. Today his Vedanta Resources is a global mining and metals company, the largest producer of zinc, the second-largest producer of copper, and an active competitor in oil and gas and power generation.

Vedanta Resources is the product of Agarwal's unending search for undervalued assets and his ability to operate lean. In the 1980s, he migrated from selling scrap metal to making telephone cables after he acquired a small industrial plant at a discount. Next, when he needed to lock up a steady supply of material for the cables, he entered the copper business.

From there, he broadened into other metals and natural resources and ventured outside of India into Australia and Ireland. The rest is rags-to-riches history. As the controlling shareholder of Vedanta Resources, Agarwal is one of India's wealthiest executives.

Despite the diversity of Vedanta's business portfolio and its geographic footprint, Agarwal has always insisted that the company be run simply. He installs strong leaders in operations and gives them the room and authority they require to win. He keeps Vedanta's organization as straightforward as possible.

Agarwal recently sat down for a discussion with Janmejaya Sinha, BCG's chairman of the Asia-Pacific region. Edited excerpts from that conversation follow.

## ANIL AGARWAL

### At a Glance

Born in Patna, Bihar, India

Year Born: 1954



### Education

Sir Ganesh Dutt Patliputra High School

### Career Highlights

- 2005–present, executive chairman, Vedanta Resources
- 2003–2005, chief executive officer, Vedanta Resources
- 1980–2004, chief executive officer, Sterlite Industries (a subsidiary of Vedanta Resources)
- 1976, founder, Sterlite Cables (the predecessor to Vedanta Resources)

### Outside Activities

- Bicycling
- Yoga
- Philanthropy

**It is a matter of personal privilege for me to interview somebody from my home state of Bihar for this leadership series. When did you really start thinking about making such a big empire?**

In Bihar, we have tremendous energy. The energy levels are very high. That is why so many politicians come from Bihar, and it is a center of education.

**It is true that Bihar has produced a lot of leaders in India. It has produced a lot of good politicians, like the first president. It has not yet produced a global business leader like yourself. You may have had energy, but you did not have precedent. How did you think that you could create a business empire of this stature?**

I always had the dream to go to the big city and do something big. I used to read in the newspaper about the big companies being run by the industrialists.

**How did you then think globally?**

The first acquisition was a small cable company, and then there was a company in Tasmania that made a big blunder. The management there had played in the metal market and had gone bankrupt, so I rushed to Tasmania, and the Tasmanian premier said, “I would be very pleased if you can look at this mine.” You’ll be surprised to learn that I bought that mine for \$2.5 million, and every year it has paid us \$100 million. We bought another mine in Queensland, which was very small, and then a gold mine in Armenia.

**So you started identifying undervalued assets?**

That’s all I could do. I had no “pocket.” There were foreign exchange rules and regulations. You could not transfer money from India, but I had belief and determination. I believed in my karma. I believed that if you keep doing, are sincere, and don’t look back, something will happen.

**The world is getting very complex, especially in areas like mining. You have a lot of regulations coming from different**

**groups of people—all with good intent by not always with good outcomes. You have operations across many countries, where you have to retain people and your processes have to be different because sometimes the environment is different. How have you managed complexity?**

I will always keep my business simple. I’ll keep my business very simple, trust people, and empower them. I’m not going to allow things to get complicated.

**So you’re making a profound statement. You are saying, ‘I keep my businesses simple, I hire good people, and I trust and empower them. That is how I deal with complexity.’**

Perfect.

**People say that they can’t leave you, that you personally create an attachment with your team, especially your early team, and that they feel personally committed to you. How do you create that personal loyalty and commitment?**

I try to embrace people and to be with people. With whomever is around me, my love and affection will continue. Whether I’ll be able to cover everybody in today’s business context, it may not be possible.

**So what are your thoughts around sustainability and how you think about your business in this context?**

I will give you the story of Hindustan Zinc; it is an amazing story. When we took over Hindustan Zinc, we were told that we had a reserve for five years, and we made 150,000 tons of zinc every year. We opened the door and we put in the very best people. To cut this story short, today we are producing 1 million tons, we are about seven times bigger, and we have a reserve for 40 years. The company never used to produce silver; we are producing close to 1,000 tons of silver.

We have to sit down together with government; there is no question about the importance of sitting down across the table.

**So you are saying that the whole dialogue around some of this is wrong. Government and business should sit together and decide what India needs and then unlock the full potential of India by allowing business to generate the types of jobs and the kind of future that India deserves. What lesson would you give to somebody who is 25 years old in India today?**

You have to be focused and make sure you have the right boss. This is a very important time for you. Even if they give you too much money, if the work is boring and your boss is not going to inspire you, there's no point working with him. You want to learn. There is so much to do, whether you work for somebody or start your own business. There is no question that you can be successful.

**How would you like to be remembered?**

If I can help to open up India and its natural resources, to make India self-sufficient, and to create win-win situations with the government that create more employment, improve education, and give recognition to entrepreneurs, that is more than enough for me.

# STANDARD CHARTERED'S JASPAL BINDRA ON THE HUMAN FACE OF COMPLEXITY

AN INTERVIEW WITH THE ASIA GROUP EXECUTIVE DIRECTOR

**A** SIA IS A COMPLEX region, home to more than 4 billion people, dozens of countries ranging from among the wealthiest to the poorest in the world, and myriad languages and ethnic groups. Banking is an equally complex undertaking, especially with the regulatory and public scrutiny brought on by the global financial crisis more than five years ago.

At the intersection of this complex region and complex industry sits Jaspal Bindra, the group executive director and chief executive officer, Asia, of Standard Chartered Bank. His answer to this complexity is not even-more complex solutions but rather a return to tried-and-true management practices: strong leadership and alignment throughout the organization, consistent and simple communication, and a relentless focus on business fundamentals. Bindra also believes in the power of one-on-one conversation to get to the heart of important issues facing Standard Chartered.

Bindra does not discount the power of technology or big data to resolve issues. He believes in both. But he also recognizes that banking, like so many other industries, is fundamentally a people business. When people are engaged with their work and believe that their voices are heard, they are more likely to be willing to surface the tough issues that arise in a complex world and work to resolve them.

Bindra recently sat down for a discussion with Janmejaya Sinha, chairman of BCG's

Asia-Pacific region, to discuss complexity. Edited excerpts from that conversation follow.

## JASPAL BINDRA

### At a Glance

Born in Meerut,  
Uttar Pradesh, India  
Year Born: 1960



### Education

1984, master's  
degree in business  
administration, XLRI  
(Xavier School of Management)

### Career Highlights

- 2010–present, group executive director and chief executive officer, Asia, Standard Chartered Bank
- 1998–2010, global head of client relationships for wholesale bank and chief executive officer, India, and other senior positions, Standard Chartered Bank
- 1984–1998, various positions at UBS and Bank of America

### Outside Activities

- Member, board of governors, XLRI (Xavier School of Management)
- Member, board of directors, U.S.–India Business Council

**Since the global financial crisis, we have seen a much greater degree of volatility in the world—and the highest level we have ever seen in financial services and banking. Has your job become more complex?**

Banking has probably seen the worst of the volatility and complexity, particularly since the global meltdown in 2008. And I think we can all be certain that there is still more to come. The real issues for us are regulatory and competitive pressure—and the poor perception that the public has of the banking industry.

**You run one of the most complex regions in the world. It has 4 billion people. It has mature economies and developing economies. It has strong states but also many poor people. How do you deal with this?**

Complexity is testing vested interests, vested authorities, and vested structures in the organization. Complexity is now compelling change.

The effectiveness of change management comes down to good leadership. If we can get good leadership percolating down through the company, that will enable us to overcome the complex environment.

There has to be strong alignment across the company on shared objectives: a consistent, simple message, like the mission of NASA to put a man on the moon. You need that level of alignment throughout the organization as a basic first step.

**How would you help people think about creating shared objectives in a team?**

It is really about leadership—and not just at the top end of the company but also leadership pretty far down. For that to happen, I think, requires two other things. First, the firm must have the maturity to empower people—and that takes lots of courage. Second, it also must have the maturity to accept unintentional mistakes; it must not have a shoot-the-messenger kind of culture.

**Other than leadership, what are some of the levers you use to deal with complexity?**

Three things come to mind. The first one we are currently implementing: simplifying the structure. As you keep growing aggressively over the years, organizations can get quite complex. This is a good time—when the world is moving at a slightly slower pace—to simplify the structure. We are not looking to save. While there might be some element of cost, it's really about productivity. It's about having people who wake up and want to come to work because they don't have to put up with the bureaucracy or the complexity that they have in the past.

The second one we learned from Silicon Valley and we are trying to apply at the bank: defining our core. For sustainable growth, there has to be a core proposition. I think that for a long time, we went with the flow. And I think now we are getting quite mindful about defining our core. It is easier to do it for some businesses and more difficult for others.

The third is technology. I think we need technology to create capacity. We need technology in today's world to mitigate operational risk. And of course it also adds to productivity.

**Let's talk about big data, complexity, and connectivity. There is this avalanche of information, which is coming in all the time. How do you keep a pulse on what's real? How do you distinguish between the signal and the noise in your work?**

It's a day-to-day challenge. Once an issue reaches significant scale, it is very easy to engage with. The real prize is picking up on those issues early. A truism about human behavior is that you always address the urgent quicker than you address the important. It takes a level of intuition combined with experience to get to things early and then to be able to balance the urgent and the important.

I believe that however much that you rely on data, nothing beats the power of conversations. That is the most effective way of taking a pulse. People tell you more than they will ever write. When people look you in the eye, you get a gut reaction or at least a track record of belief or distrust.

**I have been intrigued and fascinated by one facet of your personality, which is the ability to create bonds of loyalty with people that extend even when they leave your organization. How do you create such loyalty among the teams that you work with?**

The basic tenet is that you want to allow access to people. They just can't understand why you're so busy or why you're traveling. For them, it is their 10 minutes, or their half an hour. I think they want you to listen because fewer and fewer people in the world today have the capacity to listen genuinely. It makes a huge difference in every relationship.

If you show that you are actually interested in what they are saying, that demonstrates your caring, which lasts much longer than anything else. If I were to sum it up in a basic tenet, I would just say I enjoy people, whether they are colleagues, customers, friends, or family.

**What is the legacy you would you like to leave? What would you like to be remembered for?**

I will break it into two bits. The first is to be a role model of equal opportunity for Standard Chartered. I belong to an ethnic minority, even in my home country. I am one of a handful at Standard Chartered.

The second thing is probably a more meaningful legacy. I have had the opportunity in this role to engage very actively with all our key stakeholders, including a large percentage of our colleagues. I have access to a large number of our clients, particularly our top-end ones. I have to deal with regulators across several countries. And, of course, I regularly deal with all the major investors. Each stakeholder obviously makes a judgment about every executive in his own way, with his own prejudices, perceptions, and preferences. If I could end up in most of those judgments as one who made a difference, then that will count as my legacy.

# NATURA'S ALESSANDRO CARLUCCI ON COUNTERING COMPLEXITY WITH CULTURE

AN INTERVIEW WITH THE FORMER CEO

**A**LESSANDRO CARLUCCI JOINED NATURA nearly a quarter century ago, when the Brazilian cosmetics company was small, entrepreneurial, and still run by its founders. He served as CEO for almost a decade through September 2014, leaving behind a company with nearly 7,000 employees, a direct sales force of 1.5 million beauty consultants, a strong presence throughout cosmetics-crazy Latin America, and annual sales approaching \$3 billion.

In the face of such growth, Carlucci worked with his team to ensure that Natura would not become what he called a “typical company”—one filled with bureaucratic procedures and disenfranchised employees. One of Carlucci’s primary goals has been to “disassemble the machine,” in his words. He sought to help Natura to retain—and in some cases, return to—the can-do and do-good culture of his early years.

Natura was never a typical cosmetics company. Its slogan—“bem estar bem”—means “well being well.” With a focus on sustainable development, it sources ingredients indigenous to the Amazon ecosystem; the company began using recyclable material for containers before the practice became fashionable.

Growth is as much a part of the company’s DNA. Carlucci focused on keeping Natura

growing and on combating inevitable complexity in the organization by unleashing the potential of Natura’s people, connecting to the sales force and customers through social media and technology, and becoming more adaptive and experimental.

Shortly before he left Natura, Carlucci sat down to discuss complexity with Christian Orglmeister, a partner and managing director in BCG’s São Paulo office. Edited excerpts from that conversation follow.

**At many growing companies, particularly consumer goods companies, leaders start to think about the organization, and its different segments, different geographies, and different product lines, and then suddenly realize that the organization has become a big monster. How do you deal with that?**

It is very honest to say that we have already become, in some ways, a typical corporation, and we need to disassemble the machine—if I can use this expression—otherwise the machine will continue making decisions for us. Instead of driving the machine, the machine is driving us. So we decided—with some courage—to start a cultural project and to face the tough decisions.

I’m calling it the machine. The machine was designed and built by us. I may be the main



# ALESSANDRO CARLUCCI

## At a Glance

Born in São Paulo

Year born: 1966



## Education

- Degree in business administration, Fundação Getúlio Vargas
- Executive degrees from INSEAD and Kellogg School of Management at Northwestern University

## Career Highlights

- 2005–September 2014, chief executive officer, Natura
- 2003–2004, business vice president, Natura
- 2002–2003, commercial vice president, Natura
- 1999–2002, international business director, Natura
- 1997–1999, Brazil sales director, Natura
- 1989–1997, positions in marketing and sales, Natura

## Outside Activities

- Chairman, World Federation of Direct Selling Associations
- Listening to electronic music
- Enjoying Italian food

architect of this machine, so I must be humble enough to allow this machine to be disassembled.

We want to disassemble the machine and build something new. To be honest, before you ask, I don't know what the future is, but we know what we *don't* want to have.

We don't want to have a bureaucratic company. We don't want to have a company in which people are very far from the decisions and people don't feel engaged. We want people to be engaged with the purpose of the company.

**What are you thinking about the capabilities of your leadership team and throughout the company? What are you trying to get out of these leaders? How do you prepare them for the future?**

We need to focus on emotional competencies, the so-called soft ones. I think that we need to be more open—really open, vulnerable. It is difficult for leaders to recognize that they don't know everything; this goes against our mental model. But only by doing that can we really build the trust needed to work in a more collaborative way.

I truly feel that competition is medieval. How can we really use the potential of people? I don't have a precise number, but I think that most of the companies today use less than half of the potential of their people. We are often more attached to your position—what is on your business card—than who you really are.

**As a CEO, how do you make sure that you are still connected to what's happening on the ground with your sales force and with your customer?**

We decided two years ago to invest dramatically in IT and digital technology. We believe that we really can transform our business and become very close to the customer so the customer is only one click away. This is the answer for me: technology, technology, and technology.

**When you think about using technology to reduce complexity, what we observe is that sometimes the opposite happens. We suddenly are exposed to much more data that we can process.**

We need to split the noise from the good data through intuition. Otherwise it's impossible. We have so much information today that you can spend your whole life trying to find the right reason to do something. Of course, you need data, but you cannot forget to use your intuition and your personal beliefs.

**Complexity itself can also be a good thing because it presents many opportunities. Do you see opportunities emerging for**

**Natura from today's increasing complexity not only in data but also in relationships, marketing positions, and businesses?**

The way that we are trying to deal with this is by avoiding predictions, starting things quickly, and making adjustments as quickly as we can. Instead of planning for three years and then starting something that is already dead, we are trying to start with less information and less planning.

We are trying to adjust—with the customer and our beauty consultants—and use the network and our people to define what is relevant instead of doing research and analyzing everything. Of course, we need to plan some of the initiatives, but we increasingly want to do things by learning on the job. If we decide that something is not working, we can kill the initiative. But we need to start before we have all the answers. This is the way to deal with complexity, in my opinion.

**What makes you most proud of what you've done so far as a CEO?**

When you grow, when you become big, the culture of the company starts to dilute, and you start to become more of the same. We have the opportunity to keep growing—growth is part of the DNA of Natura—and to try not to become a typical corporation. I'm talking about how we are structured, our organization, the governance—all the accessories that make a company.

We are in a very special moment. We want to be a different company, as we were when we were smaller. Now that we are big, we have this challenge.

# THE GATES FOUNDATION'S JEFF RAIKES ON CATALYZING CHANGE

AN INTERVIEW WITH THE FORMER CEO

**A**S JEFF RAIKES WILL tell you, the strategies that made Microsoft successful are not all that different from those that enable a philanthropic organization to make a real difference in the world. Among the parallels: the need to partner effectively and the ability to eliminate silos and foster cooperation.

Raikes, a former top executive of Microsoft, brought that mindset to the Bill & Melinda Gates Foundation, where he served as CEO from 2008 through April 2014. During his tenure, Raikes focused on positioning the foundation as a powerful catalyst for progress on seemingly intractable problems such as global health. To achieve this lofty goal, Raikes had to leverage a vast network of partners to achieve concrete, measurable goals.

Raikes' career in the private sector has also made him a firm believer in the power of competition. Competitive pressure can lay bare a company's weaknesses or missteps, driving the organization to adapt or die. Raikes remained similarly attuned to opportunities for improvement in philanthropy, engaging directly in a dialogue with critics of the foundation's education efforts in the U.S. for example. Being open to divergent views, Raikes argues, "really raises the level of your game."

Shortly before his departure from the foundation, Raikes sat down with Wendy Woods, a senior partner and managing director in

BCG's Boston office and the global leader of the firm's Social Impact practice, to discuss how philanthropic organizations can deliver outsized results. Edited excerpts from that conversation follow.

## JEFF RAIKES

### At a Glance

Born in Ashland,  
Nebraska

Year born: 1958



### Education

1980, bachelor's  
degree in engineering-  
economic systems,  
Stanford University

### Career Highlights

- 2008–May 2014, chief executive officer, Bill & Melinda Gates Foundation
- 2001–2008, various positions at Microsoft Corporation, including president of the business division, group vice president of worldwide sales and support group, and senior vice president of Microsoft North America
- 1980–2001, software development manager, Apple

**You served as CEO of the Bill & Melinda Gates Foundation for more than five years after a very successful career at Microsoft. What was the highlight of your tenure?**

The organization really is about having impact in society, taking on issues of equity, and helping enable all people to have an opportunity for a healthy and productive life. At the end of the day, you look at things such as: How many lives were saved because we were able to get kids vaccinated? How close are we now to polio eradication? Are we helping teachers be the best they can be through good teacher evaluation and clear standards such as the Common Core State Standards?

For me personally, I am most proud of helping increase our capacity for that type of impact.

**The foundation aims to have an impact in very diverse areas and has set very audacious goals. At the same time, however, it is a relatively small organization. How do you ensure you are effectively delivering on those goals?**

In order to have broad impact on a global scale, we have to think in terms of being a catalyst and providing leverage. My career at Microsoft really helped me on this. A big part of Microsoft's success was a business model designed around engaging partners. When I was there, more than 750,000 companies made a business out of Microsoft's business. That's a very catalytic, highly leveraged way to operate.

At the foundation, we have to think in the same way. We have what to some might seem like large financial resources, but relative to the scale of the problems that we're taking on, they're a small percentage of what is needed. So we have to think in a very catalytic, very leveraged way—engaging partners and getting aligned along outcomes. We call this catalytic *philanthropy*.

**The foundation teams with and depends heavily on vast numbers of external partners in order to have real impact. How do you manage the complexity of working with those partners and grantees?**

That's fundamental to how we approach our philanthropy. You have to think: What's going to be in their best interests? What do they care about? What do we care about? How do we get aligned along those kinds of outcomes? To achieve our goals, we really have to think in terms of guiding our initiatives through this big ecosystem.

Making this happen requires great leaders and leadership. Great leaders are people who recognize the importance of engaging in a really, rich, constructive relationship with the vast number of partners we have. Great leadership means that they serve as role models of that engagement for people throughout the organization. That's something that I try to do in my role. And I hope that that is reflected throughout our leadership, right down to the program officer who is meeting with a grantee in sub-Saharan Africa.

A good example was my decision a few years ago to personally engage with the critics of our U.S. education work. I wanted to show the rest of our leadership how important it is for us to be intellectually curious, not only among those with whom we work closely but also with those who may criticize our work. In business, competition is a very good thing. It really raises the level of your game. Similarly, in philanthropy, you have to listen to the critics. They may have insights about your work that would cause you to shift your strategy or that will determine how you need to respond to such criticism through your messaging.

**You are working on some of the hardest problems in the world, areas of tremendous uncertainty, and a diversity of viewpoints and critics. How do you sort through that large stream of information to arrive at your investment decisions?**

We're taking on really hard problems. Given how important they are to society and to the global community, if they were easy to solve, they would have already been solved. I have a rule of thumb on this. Any time that you take on a really tough problem, it's likely that the solution is ambiguous. The more ambiguous the solution, the more important it is to

get rich and diverse input and then use your good judgment. At the same time, you have to be willing to suspend your fear of judgment by others because you're going to get some things right and you're going to get some things wrong.

I say to all of our employees, "Even if your grants or strategies don't fully succeed, we only fail if we don't learn."

**Knowing that there will be failures given the difficulty of the problems you are tackling, how do you balance the ability to learn with the need to maintain accountability in the organization?**

I think you have to establish discipline and appropriate rigor. We have four core values at the Bill & Melinda Gates Foundation: innovation, optimism, collaboration, and rigor. One of the reasons Bill, Melinda, and I highlight rigor is to stress the importance of using data and evidence in decision making.

One of the beauties of philanthropy is that a lot of it comes from the heart—caring about improving the world or contributing to people having a better life. At the same time, you want to make sure that passion—that heart—is directed in ways that will really make a difference. So that sense of rigor—that use of the mind to drive what we do—is very important. It's critical that we balance the heart and the mind.

**You are known for pushing leaders to work as a team and for encouraging teamwork across the foundation. How do you make that happen?**

When I came here, I inherited something that is very common within fast-growing companies and startups in high tech. When you want to grow rapidly, it's very logical for leadership to segment the mission, to put leaders in place within those segments, and to tell them to run as fast as they can. That's a very good growth strategy. But one of the unintended consequences of that approach is that you end up with silos. Given how rapidly the Bill & Melinda Gates Foundation grew, it was somewhat natural for some silos to develop.

Part of my job as the CEO was to break down those silos and build teams. One of the techniques I used was restructuring the organization. Another technique was picking the right kind of leaders. Another was to try and set a cultural tone to emphasize the importance of working together.

**Were there other things you've done in the organization to reduce or manage some of the complexity?**

One of the things that I did in the first 120 days or so of my tenure was to sit down with teams across the foundation. I think I had roughly 30 meetings with small groups of program officers. At the Bill & Melinda Gates Foundation, program officers are a little bit like software developers and program managers in the software business. Those are the folks who create the code, the products.

I listened in those meetings to learn what issues were holding people back. One of the most important was a lack of clarity in a number of areas—in how decisions were being made, what the roles were, and what the goals were. As a result, we introduced the term "hygiene." We wanted to clean things up, to get clear about roles and goals. This included clarity on how decisions were to be made; what the timeline was for actions; who was going to provide input; and who didn't need to provide input but needed to be informed so they could carry out the decision.

We really emphasized this term hygiene, which represented getting to that level of clarity. We talked about the importance of collaboration. We talked about the importance of quality intellectual dialogue and the importance of management effectiveness. I laid out those principles and synthesized them into what we called the How We Work Together Principles. Then in the succeeding year, as part of the performance review process, I evaluated the top 30 or 40 leaders in the organization on how effectively they were representing those principles in their work.

**Jeff, you've chosen to move on from the foundation. What's the legacy you want to leave behind?**

Even if your level of resources stays the same, if you can improve by 7 percent each year in terms of using those resources effectively, in 10 years you double your capacity for impact.

If I have helped shape this organization in ways that will significantly increase its capacity for impact in the years to come, then I'll be very proud of the legacy that I leave behind.

# THE PRIME MINISTER OF MALAYSIA ON BALANCING PEOPLE AND PERFORMANCE

AN INTERVIEW WITH NAJIB RAZAK

**M**ALAYSIA IS A DIVERSE nation with ambitious economic aspirations. Najib Razak, the country's prime minister since 2009 and a public servant since the mid-1970s, has been working both to unify and to advance Malaysia. Najib sees the two goals as inseparable: progress must benefit all slices of Malaysian society and all regions, he contends, if it is to be sustainable.

To manage the complexity of bringing an entire nation together while also moving it forward, Najib embraces a strong vision that he introduced when he first took office as Malaysia's leader: "People First, Performance Now." This vision helps drive Malaysian policies in areas as varied as trade, economic development, and training and development.

Transformation is another key part of Najib's strategy in dealing with complexity. He encourages civil servants to operate more like activists and to partner with the private sector in achieving societal goals.

In the multicultural and multiethnic nation of Malaysia, Najib's goals are not easy to achieve. Ethnic Malays make up about two-thirds of the nation's population—the remaining third of the country's people are of Chinese or Indian descent—and tension has at times strained relations among the three groups.

Najib recently sat down for a discussion with Vincent Chin, senior partner and managing director in BCG's Kuala Lumpur office, to discuss complexity. Edited excerpts from that conversation follow.

## **What is the legacy you want to leave your nation?**

Malaysia is a developing economy with strong fundamentals and one of the highest per-capita GDPs in Southeast Asia. Our growth has been driven by factors in which we as a nation have clear advantages, including natural resources, a trained workforce, and a competitive cost structure. Our plan calls for Malaysia to become a high-income, developed economy by 2020, and we are making strong progress toward reaching that goal.

More broadly, I want Malaysia's growth to benefit all Malaysians—to be inclusive growth. Early in my term as prime minister, I introduced the philosophy of "People First, Performance Now." While raising our GDP, we also need to be improving our standards of living, capabilities, and opportunities.

I recently announced a program to improve our development of human capital, targeting those who are not participating fully in Malaysia's success. We will be strengthening our training and development programs for employees. We are also looking at a special pro-

gram to help small- and medium-sized enterprises become public companies. In addition, we have set up a program to build affordable housing for Malaysians in less-developed regions. These are just some examples of policies that speak to the people-first, performance-now philosophy of inclusive growth.

This is not just my legacy but also that of my predecessors—all of whom were instrumental, in one way or another, in spearheading the government’s policies of inclusiveness since our country’s independence.

**Has complexity increased in government? What are the major complexities you face, and how do you address these?**

One of our key complexities is managing the tradeoff between our support for globalization and regionalization and our commitment to the people, or rakyat, and local businesses. My government supports free trade, but we need to make sure that trade arrangements with our partners are fair and beneficial to Malaysians. We will not promote free trade at the expense of our people or local firms.

On the people front, Malaysia is a multiethnic, multicultural nation. This diversity has been a source of strength but also something that we need to manage. So we make sure that our social programs benefit all Malaysians regardless of ethnic background, religious beliefs, or culture.

Our people-first, performance-now philosophy gives us clarity of purpose, which guides our decision making. We do not proceed with a policy or program that does not deliver on this philosophy.

**When addressing complexity, how important is having a shared understanding of goals? Does it help improve collaboration and reduce bureaucracy?**

It is very important that my cabinet ministers and the rest of government share the same vision and philosophy for the country. For real transformation to take place, I must win not only the minds but also the hearts of my colleagues. Without this common understand-

## NAJIB RAZAK

### At a Glance

Born in Kuala Lipis, Malaysia  
Year Born: 1953



### Education

1974, bachelor’s degree in industrial economics, University of Nottingham

### Career Highlights

- 2009–present, prime minister, Malaysia
- 2008–present, minister of finance, Malaysia
- 2004–2009, deputy prime minister, Malaysia
- 1999–2008 and 1990–1995, minister of defense, Malaysia
- 1995–1999, minister of education, Malaysia
- 1976–1982 and 1986–2009, member of parliament, Malaysia

### Outside Activities

- Spending time with family
- Reading
- Golfing
- Photography
- Jungle trekking

ing, we cannot achieve our vision of a developed economy that is inclusive and generates well-being for all.

To achieve these goals, we need to transform government. We must remove red tape, build capabilities, and improve overall public-service delivery. I set up Malaysia’s Performance Management and Delivery Unit to help the country understand the need for transformation and the processes associated with it.

We have a broad set of target outcomes, but beyond these, ministries and agencies are empowered to deliver the transformation and be accountable for results. To date, several of my ministries and agencies, including the Treasury and the Public Service Department, have



initiated large-scale organizational transformations that are already bearing fruit.

**What are the capabilities you are seeking to build in government to cope with a complex, global, and connected world?**

**How do you build these capabilities?**

The government of the twenty-first century will need to be much more sensitive to what is happening around us and must be able to respond quickly to the needs of the people as well as the private sector. Civil servants will need to think and work in different ways, especially in their interactions with the private sector.

The private sector is the key engine for our nation's economic development. The government is partnering with the private sector on several critical infrastructure projects. I need the civil servants to enable the private sector to succeed on these and other projects by developing human capital and reducing regulatory burdens.

We created the Razak School of Government in 2010 to develop high-performing and knowledgeable civil servants. The school is very much at the heart of the government transformation I talked about earlier.

**How do you ensure that you have your finger on the pulse of the people on the frontline? What mechanisms are in place to ensure that people's insights percolate up to you?**

I regularly "go down to the ground" and talk with civil servants and with people in communities and the private sector. I have also set up platforms that focus on the areas that are high on my agenda, including economic development, fiscal policies, national security, and social welfare. The leaders of these committees and councils in turn have their own networks that reach the frontline to ensure that the highest levels in government are kept abreast of grass-roots developments.

# AGCO'S MARTIN RICHENHAGEN ON CUTTING THROUGH CLUTTER

AN INTERVIEW WITH THE CHAIRMAN, CEO, AND PRESIDENT

**A**GCO WAS A STUDY in complexity in 2004, when Martin Richenhagen joined the global agricultural-equipment manufacturer as chief executive. The result of multiple acquisitions, the company was officially created in a 1990 management buyout of Deutz Allis Corporation from its German parent.

Since taking the helm, Richenhagen has devoted himself to simplifying and decentralizing operations at AGCO. He has reduced the number of AGCO brands from 26 to 4 and has empowered local managers to run their business units without unnecessary interference from headquarters. Based in Duluth, Georgia, AGCO maintains manufacturing operations in the Americas, Europe, and Asia, and it generates sales in more than 140 countries.

During this time, Richenhagen has also been preparing AGCO for a digital world. Software, connectivity, and big data are playing increasingly important roles in farming. More and more farm equipment is built with the capability to communicate with other equipment, and farmers and dealers can monitor more and different types of performance through digital apps.

The digitization of farming makes agricultural equipment an even more complicated business. Tractors, for example, now need to com-

municate with combines and other equipment made by different manufacturers, forcing suppliers to collaborate. But if there is much to do, there is also much to gain: the winners will generate greater customer loyalty by helping farmers improve yields, efficiency, and precision.

Richenhagen recently sat down for a discussion with Felix Stellmaszek, a BCG partner and managing director, to discuss complexity. Edited excerpts from that conversation follow.

**When you took over at AGCO in 2004, the company had made roughly 30 acquisitions over 15 years. How did you manage such a complex portfolio, particularly because you not only inherited acquisitions but also made select acquisitions?**

The first 15 years, they didn't manage the acquisitions, they just made acquisitions. Their strategy was to buy everything that became available, cheap and fast. My idea was to look for postmerger integration opportunities and synergies. When I joined, we had exactly 26 brands. We are now down to four.

**So in AGCO today you have four brands, but you have operations across five continents and ten lines of business ranging from high-horsepower tractors to grain storage. How do you manage that complexity from an organizational perspective?**

## MARTIN RICHENHAGEN

### At a Glance

Born in Cologne,  
Germany  
Year born: 1952



### Education

- Master's degree in business administration, University of Bonn
- Degree in business, University of Stuttgart
- Degrees in theology and Romance literature, University of Bonn

### Career Highlights

- 2006–present, chairman, AGCO
- 2004–present, president and chief executive officer, AGCO
- 2003–2004, group executive vice president, Forbo International
- 1998–2002, group president, Claas

### Outside Activities

- Board member, PPG Industries
- Board member, U.S. Chamber of Commerce
- Honorary professor of agricultural machinery, Dresden University of Technology
- Chef d'Equipe of the gold-medal-winning German dressage team in the 2008 Olympic Games

We are very decentralized, and we try to have the units tailored in a way so that they're not too big and unit management is completely in control of running the unit.

**You have operations not only in North America and Europe, which are more developed markets, but also in Asia and Africa, which are rapidly changing environments. How do you manage that kind of complexity?**

We like to hire local managers. So in Germany, for example, we run the business mainly with Germans, and in Brazil, we hire mainly

Brazilians. We do have job rotation, and we try to move people to different countries. We are different in that we don't believe that it's the best solution to have the Americans running all the overseas operations, as some of our competitors do.

**Against that backdrop, what are the qualities in your leadership team that you are looking for? What are the capabilities that you also want to build? And how do you build them?**

We like people who work well in a global environment, understand different cultures, and also speak different languages, which is sometimes a little bit difficult to find in the U.S.

**The agriculture industry is undergoing huge amounts of change. Think about moving from selling iron, like high-horse-power tractors, to selling solutions that enable precision farming. What is AGCO doing in order to ensure that you're emerging as the winner in this race?**

In the future, you will see a higher level of mechanization not only in tractors, but also implements—harvesting combines and so on. Those implements have to be connected, and they must not only communicate with one another but also with products from other companies and other brands. They will have to take into consideration seeds, fertilizers, pesticides, and so on to optimize farming. You will need to look at farming as a whole process, instead of saying, "Today, I used my tractor, and next week, I will use my combine."

**We have all this information and also all these data that are now abundantly available, how do you separate the noise from the important pieces of information?**

In farming, you need to think about what will change in the future. Right now, people think that the master of the information is the tractor because it's typically the biggest investment and it's pulling or carrying other implements. We think that in the future the driving force will be the implements.

We think that the implements will tell the tractor what to do, will define the speed, will define the turning radius and so on. That's a major change, but I think this is the next step you will see.

**How do you keep your finger on the pulse of your customers and your frontline? I know for example you are test driving all the new products yourself, but are there other mechanisms or processes you use?**

You just meet with your customers and talk with them. Farmers are pretty outspoken. They're pretty normal people. So, in our case, you don't have to work through hierarchies. You just visit customers. You visit dealers, and you need to make sure you do it not only in one country or in one area of the world. Once a year, I visit customers in South America. I do that in the U.S. on a frequent, regular basis and in Europe as well. In the future, you will have to do that also in Africa and China.

**Complexity doesn't come only with risk. It also comes with opportunities. How do you take advantage of some of the opportunities associated with complexity?**

I think it's very important to think in networks and to include not only your customer and your dealers but also companies from related industries.

Our tractors today can communicate with a lot of other products. During harvest, our combine can already find out what the crop prices are. When you need a part, you can communicate with your dealer. Your dealer can communicate with you to tell you that you're maybe running too fast or you don't have the right torque or whatever.

Through a simple app, farmers can basically see how their product is working and what it is doing, how much it's producing, how much fuel it is consuming, and things like that. So it's about thinking in networks.

**In thinking about networks, do you have deliberate targets for the suppliers you want to forge partnerships with?**

Yes, we have clearly defined those partners that we want to have a very good and very intense relationship with. There are smaller family-owned companies in our industry that do certain things better than the big three in seeding, tillage, and certain harvesting processes, such as self-propelled vine harvesting.

**What is the legacy that you want to leave behind?**

I would like to make AGCO a business that is too big to be taken over easily. So I'm thinking about \$15 billion in revenues by 2016, margins of 12 percent by 2015, and a complete integration of all the acquisitions we have done. We want to be the leader in customer-perceived quality by 2016 as well.

# NOTE TO THE READER

## About the Authors

Christian Orglmeister is a partner and managing director in the São Paulo office of The Boston Consulting Group. Grant Freeland is a senior partner and managing director in the firm's Boston office and the global leader of the People & Organization practice. Roselinde Torres is a senior partner and managing director in BCG's New York office and global leader of the Leadership topic.

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## For Further Contact

If you would like to discuss the themes and content of this report, please contact:

### Christian Orglmeister

*Partner and Managing Director*  
BCG São Paulo  
+ 55 11 3046 3533  
[orglmeister.christian@bcg.com](mailto:orglmeister.christian@bcg.com)

### Grant Freeland

*Senior Partner and Managing Director*  
*Global Leader, People & Organization Practice*  
BCG Boston  
+1 617 973 1200  
[freeland.grant@bcg.com](mailto:freeland.grant@bcg.com)

### Roselinde Torres

*Senior Partner and Managing Director*  
*Global Leader, Leadership*  
BCG New York  
+1 212 446 2800  
[torres.roselinde@bcg.com](mailto:torres.roselinde@bcg.com)

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The Boston Consulting Group, Inc.

One Beacon Street

Boston, MA 02108

USA

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