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The Odgers Berndtson Global Magazine_

Issue 02
Summer 2014

An exclusive interview with Vineet Nayar

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India's problem solver

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Generation Y
The new breed of leaders challenging old style convention

Corruption
An in-depth investigation into the murky world of corporate fraud

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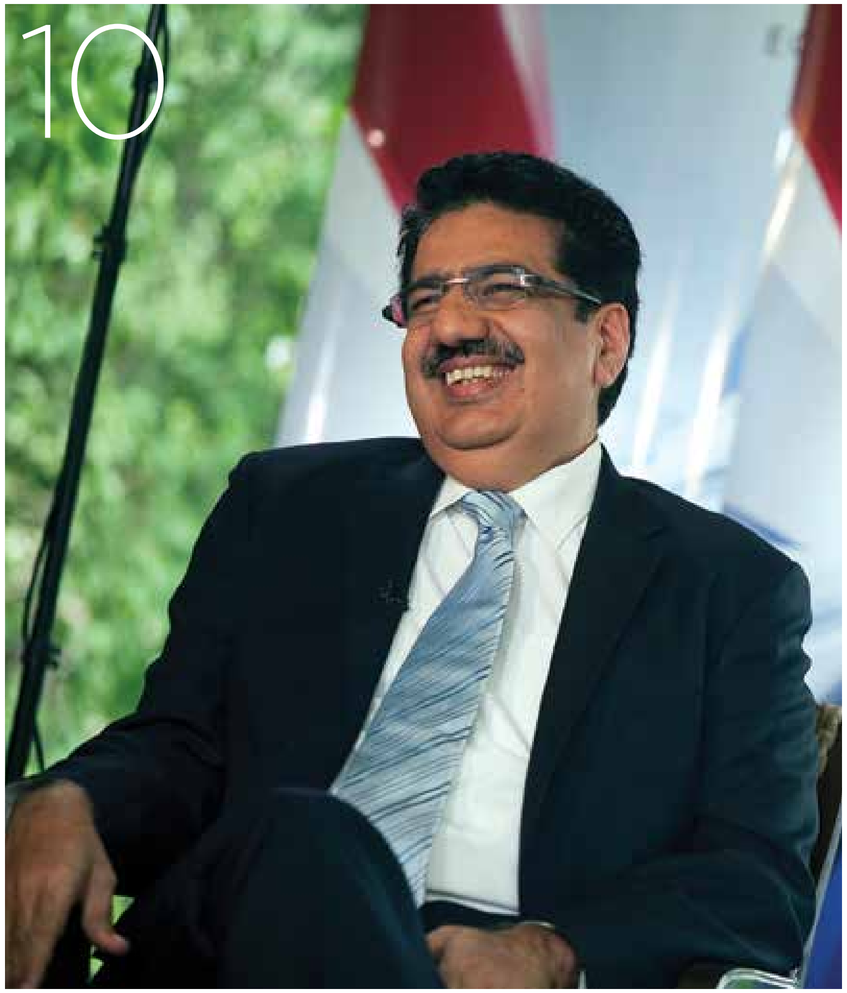

PHOTO: BLOOMBERG/GETTY IMAGES

PHOTO: ALAMY

"That's what excites me, to be in touch with people, working to frame large-scale problems and solve them"

VINEET NAYAR PAGE 10

ILLUSTRATION: MATTHEW RICHARDSON

Welcome to Issue 2 of *Observe*, our international business magazine available in print, on-line from the and App Store.

We have been delighted by the attention our launch edition attracted and hope that you find this issue equally stimulating.

As ever we cover a wide spectrum of topics from digital talent to sport governance and from self-awareness to the rise of personalised medicine.

Our cover story is an exclusive interview with Vineet Nayar, one of India's leading businessmen and philanthropists. His very personal take on what leadership and management mean in India today is decidedly different. For him the employee *always* comes before the customer.

Elsewhere in this issue you can find out why Generation Y is disrupting boardrooms, why Chinese businesses are looking to home grown talent, and how one man is determined to radically change our view of corporate and political leadership.

We hope you enjoy *Observe* and look forward to any comments you may have – do please contact me directly at: **observe@odgersberndtson.com**

We look forward to sharing our next edition with you later in the year.

Richard Boggis-Rolfe,
Chairman,
Odgers Berndtson

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Observatory

Observe travels the globe in search of eye-catching business stories

MARKETS

MEXICO'S GROWTH DILEMMA

According to *Global Finance* magazine Mexico remains a strong player in global markets thanks to recent economic reforms and upgrades by grading agencies. However, it also asks whether that position can be maintained in the light of the latest OECD report which states: "Widespread informal employment [in Mexico] and weak legal institutions diminish the effectiveness of policies and hold back productivity."

DIVERSITY

FEMALE HACKATHONS

With the aim of bringing about software solutions, hackathons bring coders and developers together in a competitive environment over the course of several days – usually for charity. Now Microsoft Research has established The International Women's Hackathon. The event encourages female coders to get involved with computer programming and software coding – a traditionally male domain. Over the course of three days in April, venues in 11 countries from the United States to Kenya saw more than 1,000 college-age women hack their way to software developments in a safe, female-friendly environment. The aim is to give female hackers the opportunity to make connections and meet their peers while developing innovative software solutions.

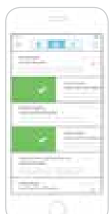
MANAGEMENT

MOVIE BUFFS

The Godfather is the most popular film among CEOs, according to Andrew Cave, who has been interviewing chief executives for the UK's *Daily* and *Sunday Telegraph* for the last 17 years. Keep this in mind the next time your CEO makes you an offer you can't refuse...

WORTH DOWNLOADING

MAILBOX ZERO



Developed with the aim of increasing productivity, Mailbox will help you to manage an overflowing inbox. Built by Orchestra (now part of Dropbox), the app allows you to categorise emails according to the actions you want to perform with just a swipe of your finger. Different gestures will allow you to reply, snooze, archive or delete an email, so you can decide what to do with them in an instant. If you choose to snooze an item, you can set a time for it to return to your inbox, when you will be able to action it. With a clean and simple interface, it's incredibly straightforward to use.

Available from app stores

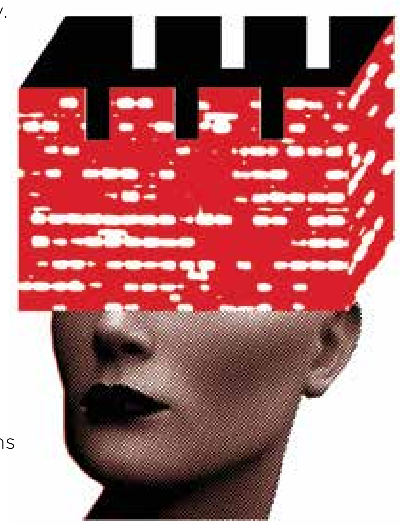


ILLUSTRATION: IKON IMAGES

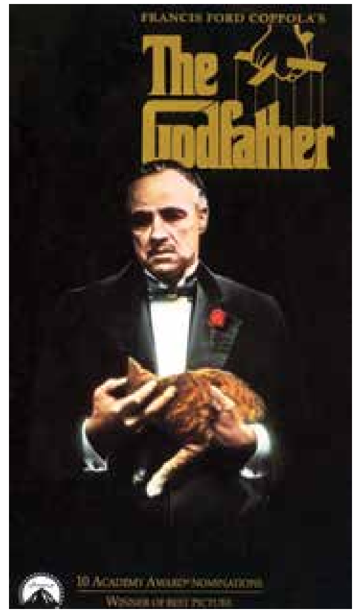


PHOTO: ALAMY

WORTH DOWNLOADING

IT'S GOOD TO TALK

If you haven't already done so, *Observe* recommends downloading TED's official iPad app. Featuring more than 900 talks from business leaders, musicians, teachers and tech geniuses, not only can the videos be streamed, but they can also be downloaded for watching on the go.

Available from app stores

PEOPLE

SAUDI DIVERSITY

Reuters recently reported that National Commercial Bank, a major Saudi Arabian investment bank, has named Sarah Al-Suhaimi as the new CEO of its investment banking arm and as a member of the board. This is the first time that a woman has held such a high-ranking title in the Middle Eastern nation. Ms Al-Suhaimi formerly held the position of asset manager at the bank and has been considered 'a rising star', according to a source at NCB.

TECHNOLOGY

LANDMARK IPO

It's one of the most talked about IPOs this year, but will Alibaba going public in the United States result in it being the biggest tech IPO ever? The company is relatively unknown outside China, where it is the country's second largest ecommerce platform. TechRadar.com recently interviewed investment management company IG's Market Analyst Chris Beauchamp about his predictions for the IPO. He said: "The flotation would make it one of the biggest IPOs in history, dwarfing that of Twitter and potentially putting Facebook in the shade as well."

Citing the fact that the company has excellent market penetration in the country – in spite of low-rates of Internet uptake – and also a larger operating margin than the other two, along with evidence from grey market research, he believes that this August's IPO will see sums of up to $198 billion to $208 billion being raised, far outstripping Twitter's $32.76 billion and Facebook's $104billion.

SOURCE: WWW.ALIBABAGROUP.COM

INDIA

THE BIGGEST LOSER?

According to *Forbes*, the biggest loser in the recent Indian elections is not the Indian National Congress, but China. The magazine reports that: "[Prime Minister] Modi (below right) ran on a platform of fundamental economic reform, promising to do for all of India what he accomplished as chief minister of the western state of Gujarat, where with liberal policies he engineered a boom."

As a result, it looks likely that India will become a more attractive market than China for foreign investment, where there are limits for businesses that want to invest in that country.

PHOTO: ALAMY

WORTH WATCHING

THOUGHT LEADERSHIP

Subscribe to *Forbes'* YouTube channel for the very latest in thought leadership and exclusive interviews with senior executives. We particularly recommend 'My Week on Bitcoin: A Survival Story with Kashmir Hill', where the reporter tries to live solely on the new, global currency for a week. You'll be surprised by the currency's growing popularity in the US.

youtube.com/user/forbes →

SOCIAL

TWEET, TWEET

Twitter use among Fortune 500 CEOs has increased from 3.6 per cent to 5.5 per cent over the past 12 months, while the number that are active on LinkedIn is up from 25.9 per cent to 27.9 per cent, according to research by CEO.com and Domo. "The rise of Twitter in particular really points to the need for speed among CEOs. Business leaders desire information that is quick, succinct and easily digestible. Twitter more than any other social network delivers on that," said Josh James, CEO.com founder. (*See p28 for our feature on the Chief Digital Officer*)

TECHNOLOGY

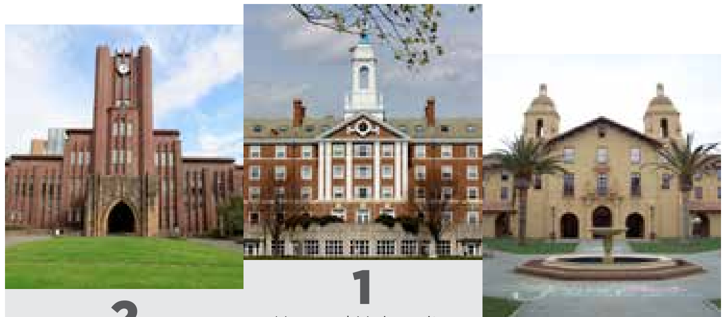
IN REVERSE

While many designers have been including 'wearable technology' in clothes, one Japanese fashion house, led by designer Kunihiko Morinaga, has launched a range of clothes specifically created to repel modern life by using a material which cuts out the wearer's mobile phone and internet signal. Now that's progress!

RWANDA

ONE TO WATCH

We all know about BRIC countries leading the way among emerging markets, but would you put Rwanda in the same bracket? According to a study by Citi, Rwanda is expecting to see "dramatic growth and intense investor interest". The study stated that Rwanda has an "attractive business climate" because of "the right regulatory framework and macroeconomic policy". But Rwanda is also in a region that still has a "heavy reliance on foreign aid".



2 The University of Tokyo

1 Harvard University

3 Stanford University

PHOTOS: ALAMY

EDUCATION

HARVARD NUMBER ONE

Harvard University, famous for handing out degrees to no fewer than eight US presidents, also produces more CEOs than any other university, according to new research. Harvard provided 31 degrees to 25 chief executives of Fortune Global 500 companies. The University of Tokyo was ranked second, while Stanford University came in third.

BRAZIL

SLOW PROGRESS

As the country grapples with two major international sporting events – the football World Cup (held this summer) and the Olympic Games in 2016, a new study by McKinsey and Company reveals that more than 25 years of democracy and political stability have allowed Brazil to make major strides in economic development, including cutting its official poverty rate by half. Yet the forces that provided much of the economy's momentum during the past decade – an expanding labour force, credit-fueled consumption, and high commodity prices – are beginning to stall.

Most households have experienced only modest income growth, while inefficiencies and extra layers of taxes and tariffs push the prices of many consumer goods beyond reach. Having successfully lifted millions out of extreme poverty, Brazil must now deliver on the promise of a middle-class life.

ILLUSTRATION: IKON IMAGES

Testing times

Using psychometric testing or personality profiles can be invaluable in helping establish a candidate's potential. But how do you use them effectively? asks DELIA PEGG

Mention the words 'psychometric testing' in a business environment and you'll get a whole range of responses, from the abusive (a suitable case for treatment, perhaps?) to the indifferent. Whatever your take on or experience of psychometric testing might be it's a subject guaranteed to stimulate debate.

If we want to test someone's verbal, numerical or abstract reasoning ability then these could quite rightly be described as 'tests' as there are usually clear right and wrong answers. If one of these tests has been used it is often safe to make a statement like "compared to a similar group of people this person would be below average, average or above average", although one should note that this is the result of a single test.

However, many clients also ask for a 'psychometric test' when what they really mean is a personality profile. There are a number of different profiles available, but they are nearly all completed by an individual. There are no right or wrong answers, and these give a measure of how individuals see themselves. Despite this, there is a body of research that supports the notion that personality profiles can predict future behaviour.

It has been estimated that more than 85 per cent of FTSE100 companies are using psychometrics for assessment alone. In their 2013 book *Talent Intelligence: What You Need to Know to Identify and Measure Talent*, the co-authors Nik Kinley and Shlomo Ben-Hur claimed vendors of such tests estimate annual sales to be worth between $2-4 billion. Clearly organisations are spending substantial sums measuring personality types, learning styles and personal preferences.

ILLUSTRATION: PETER LUBACH

So what is best practice when using tests or personality profiles? Firstly, they are best used as part of the evidence gathered either when selecting someone for a specific role or for use in personal development. In assessment this might consist of interviews, references and evidence from assessment centres and/or a personality profile. In development, the addition of 360° feedback can be a useful way of finding out how people are seen by their colleagues. As many have found out, it can be dangerous and expensive to make a decision based on narrow or limited evidence.

Secondly, the appropriateness of the relevant profiles or tests should be considered. There are plenty of these on the market, but not all profiles are valid or recommended by relevant professional bodies. Not only that, but there is little point demanding a high score in numerical reasoning if the role does not require this skill.

Thirdly, the process should be fair, open and transparent and should not prejudice any sector of society. The results should ideally be discussed with qualified individuals, and/or a copy of their profile given to them, although whether this is a requirement under data protection legislation will vary from country to country. ■

Tell us what you think:
Observe *is conducting a global survey of the use – or abuse – of testing. Go to:* ***surveymonkey.com/s/odgers***
It will only take a few moments

Delia Pegg is a Partner and Head of Assessment at **Odgers Berndtson** London

INDIA'S PROBLEM SOLVER

Vineet Nayar has spent his life challenging attitudes to leadership and management. Here he talks exclusively to DOUGLAS MORRISON about his work at tech giant HCL, his philanthropic foundation and why employees should come before customers

PHOTO: MARTIN VON KROGH/MOMENT/INSTITUTE

"I am a sucker for problem solving," says Vineet Nayar in a deadpan assessment of his career to date. As one of India's most successful entrepreneurs and philanthropists, he is also a master of the understatement.

Nayar has been solving problems one way or another for most of his working life, most successfully as the former CEO of India's HCL Technologies and more recently at his not-for-profit Sampark Foundation.

This interview is therefore timely, taking place just a few days after the historic election of another great problem solver, Narendra Modi, as India's Prime Minister. Following a record turnout, Modi's landslide victory has at a stroke resolved the persistent problem of weak governance that has beset past Indian leaders and administrations.

"We were choosing a leader who clearly defined his vision of a more assertive, more growth-orientated and more developed India," says Nayar. It was, as he suggests "a watershed election" for India.

Nayar has been a vocal supporter of Modi, not least because he sees a kindred spirit. They both talk of empowering ordinary people as a means of bringing about change, which in Nayar's case means the beneficiaries of the Sampark charity as well as those in the corporate workplace.

Nayar's approach to both HCL and Sampark has been enshrined in his highly acclaimed management book, *Employees First, Customers Second: Turning Conventional Management Upside Down*, which has sold 100,000 copies since publication in 2010 – an impressive tally.

The book's worldwide success is one reason why this interview is taking place on the line to New York, where Nayar is conducting workshops for companies that want to hear how he transformed HCL from a sleeping giant of Indian IT into a powerhouse of a company operating out of 32 countries while achieving a 600 per cent increase in revenues to $4.6 billion – and all in just seven years. He says more than 70 companies across the world have approached him for some Employees First wisdom on the back of his best-seller status. Following the New York workshops he is off to Mexico for more of the same.

Not content with high-end consultancy, Nayar is a serial blogger, whether for the *Harvard Business Review* or on his own website. He is also wise to the quick-fire power of Twitter for getting his ideas across to as wide an →

audience as possible. As one of his recent tweets proclaimed, "Businesses can grow twice as fast and double shareholder value by making employees their competitive advantage."

As Nayar's 19,144 followers would doubtless testify, this tweet sums up the principles spelled out in the book.

If nothing else the book's title is a masterstroke in marketing, appearing wholly counter-intuitive when set against the customer-is-king mantra of so much management thinking. In fact, the Employees First principles do not marginalise the customer at all. On the contrary, by inverting the conventional management pyramid and empowering the employees, Nayar argues that the customer ultimately gets a better experience and as a consequence, of course, the company generates value for itself – everyone is a winner. That was the premise on which he took over as HCL's President in 2005 and set about reinvigorating a company that was losing market share.

"Everybody at that time was obsessed with technology, wanting it to be faster, better. But the smart guys were saying, it is not technology but consumer experience. The same is true with Google and Facebook," he says. Going further back, the same was true of Japanese car makers – one of Nayar's original sources of inspiration. "They said, it's not the car you manufacture but how you manufacture it."

Nayar could have tackled what every management guru goes on about ("product, price, proposition ... all that stuff") but the real value creation lay in

> "We are a group of believers who have come together to create a million smiles by igniting a million minds"

changing how HCL was run. And as he puts it, value is created "on the interface of the employee and the customer" rather than dreamt up in the boardroom. "If our employees on the interface of customers are creating incremental value, which helps us grow faster, what should the business, managers and management be? To me the answer was obvious – that the business, managers and management had to be enthusing and enabling those employees to create incremental value, and that led the business, managers and management to being employees first, customers second."

Nayar's management principles were honed during his time at Comnet, the technology services company he founded in 1993, which though under the HCL umbrella also attracted outside investors such as JP Morgan. The entrepreneur in Nayar spotted a gap in the global IT market for so-called remote infrastructure management and today, Comnet is a $1.4 billion business line for the company. Countless start-ups involve great ideas that come to nothing but Comnet was also, as Nayar suggests, "a hotbed" of management innovation.

"That was the stage on which I experimented with all my ideas on management," he recalls, "and the reason the implementation of all those ideas was simple was because it was a start-up organisation and I was the CEO. There was no history and the people came in because they believed in the core values and management principles which we were propagating. Later on when we thought about it, the ideas and experimentation in Comnet were much easier compared to taking on a traditional organisation that has 20, 30 years of history and enthusing

about a new management idea."

By 2004 and ready for a new challenge, Nayar was preparing to leave the group and devote his energy to Sampark, which he established that year to improve education and living conditions in rural India. But he agreed "reluctantly", to become CEO of HCL and apply his management principles on the big corporate stage. He stepped down in January 2013 after 27 years with the group and eight at its helm. As he says now: "The proof for me of Employees First, Customers Second succeeding is not the 600 per cent growth in seven years but the growth HCL demonstrated after I stopped being the CEO. The growth is as fast if not faster."

Nayar is 52 now and no less ambitious – his targets for large-scale social change through Sampark take problem-solving to a new level. In many respects though, the principles are the same. In both the executives he helps in business and the people he helps through Sampark, Nayar talks about how the desire for change must come from within.

Nayar claims that some of the foundation's projects have already led to a 30 per cent improvement in the livelihoods of the people affected. They are the beneficiaries of what he calls "frugal innovation" where the initial objective is to be able to replicate philanthropic or social initiatives easily and cheaply. The cost of a schools project in Punjab, for instance, works out at $10 per child in a combination of teacher aids and "teacher empowerment" through monthly workshops. It is early days but Nayar hopes that 250,000 children will benefit from that initiative.

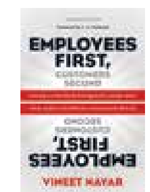
ABOUT VINEET NAYAR

Vineet Nayar's long association with India's HCL Technologies began in 1985 when he joined the group as a management trainee after completing an MBA from Xavier School of Management.

Nayar worked his way up to general manager before founding the Comnet offshoot in 1993 and turning this technology services business from start-up to a market leader in a decade.

By 2005, Nayar was in charge at HCL as first president and then CEO, and leading a turnaround that would result in a six-fold rise in revenues and market value by the time he stepped down in 2013.

This business success is encapsulated in the best seller, *Employees First, Customers Second: Turning Conventional Management Upside Down*, which has won numerous



accolades, not least securing Nayar a place on the 2011-12 Thinkers50 List, which is a definitive listing of the world's top business thinkers.

"You could have solved the problems theoretically by giving them computers and that is the difference between affordability of innovation and non-affordability," says Nayar. He is withering in his criticism of companies ("especially technology companies") that give large but thoughtlessly.

All of which gives Nayar a valuable perspective on India. As he writes in the Sampark literature, India has moved forward in stature and wealth but the same cannot be said about the Indians. "The poor are still poor and find it more and more difficult to seek employment leading to enhanced livelihood."

Yet he is nonetheless optimistic for India under Modi's leadership. According to Nayar, the emphatic nature of the election victory has given Modi such a strong mandate, leading inevitably to better →

PHOTO: BLOOMBERG/GETTY IMAGES

> Nayar's management principles were honed … at Comnet, the technology services company he founded in 1993

decision-making in government, and that in itself will drive the GDP growth rate to six per cent and higher.

In the weeks leading up to the May election Modi's was a business friendly campaign with much focus on job creation and economic activity – critical issues given that the World Bank ranked India as low as 134 out of 189 countries on its latest ease of doing business index. Such is the weight of expectation on Modi that in the days immediately after he became Prime Minister $600 million was reportedly pumped into Indian stock markets by foreign institutional investors.

Nayar sees Modi as the right man for the challenges facing the country, and at the right time. "I get a sense that he is a leader who is not just going to take the responsibility for changing India on himself, which he will definitely do. But he will push the population and say to the people, 'you need to own the change you want to see.'"

It is no different to what Nayar is saying in his book and at his corporate workshops, and to the "millions of people who are at the bottom of the pyramid" and potentially benefiting from his foundation. "That's what excites me," he adds, "to be in touch with people and working to frame large-scale problems and solve them is what I want to do for the rest of my life." ■

Douglas Morrison was formerly city editor of *Scotland on Sunday* and a city reporter for The *Sunday Telegraph*

Watch the interview with Candi Dalipe and Barry Libert, in the *Observe* App

Beauty or beast?

Looks matter in the labour market, and good looks matter even more argues STEVEN MCCORD

Is your chief executive good looking enough? Although many of us would expect physical attractiveness to be rewarded in the entertainment or customer service industries, there is increasing evidence that business leaders face a similar sort of physical assessment, often resulting in higher salaries for those with above-average looks and greater returns for companies that employ attractive CEOs.

CEO Appearance, a new study conducted by University of Alabama academics Douglas Cook and Shawn Mobbs, found that attractive executives are associated with higher annual returns, and that more attractive facial features increase the likelihood of an executive becoming CEO.

"We find evidence that beauty does matter to shareholders, especially for planned CEO transitions when there is more time to consider differences among candidates. Likewise we find beauty is more important in firms where the pool of potential candidates is large and there is greater homogeneity in the skill sets of candidates," the study said.

Similarly, in *Beauty is Wealth: CEO Appearance and Shareholder Value*, University of Wisconsin economists Scott Hsu and Joseph Halford discovered that attractive CEOs boost stock performance when they appear on TV, receive higher total compensation, and achieve better returns in their first days on the job.

Determining why physically attractive CEOs appear to be afforded more favourable treatment and enjoy greater success is difficult. Some researchers argue that good looks are positively associated with general intelligence, while others contend that the perception of attractive individuals as more competent leads to them receiving greater opportunities in the workplace.

A third explanation is that our brains are hardwired to respond positively to attractive features. Studies by psychologists have shown that the act of viewing an attractive person triggers the reward circuitry of the brain, resulting in pleasing emotions and sensations.

ILLUSTRATION: PETER LUBACH

Deborah Rhode, a Professor of Law at Stanford University, argues that although discrimination based on appearance is not our most serious form of bias, it infringes on an individual's right to equal opportunity and reinforces debilitating stereotypes. "Individuals should be judged on merit and performance, not irrelevant physical characteristics," she says.

One way to level the playing field between individuals, Rhode argues, is to make appearance-related discrimination unlawful. Other academics take this logic further, arguing that physically attractive individuals should pay a beauty tax on the basis that their wages are being inflated because of their looks.

While such suggestions have been met with opposition and practical problems, it is undeniable that the worse you look the more likely you are to get penalised.

For aspiring business leaders with below-average looks, however, all is not lost. Alabama's Cook and Mobbs make clear that firms with high levels of R&D are likely to require technical skills of their CEOs. "Since this requirement considerably narrows the search for qualified candidates, it can also result in facial appearance or beauty being a less important factor," they say. ■

Steven McCord is a researcher and analyst at **Odgers Berndtson**

PHOTO: ALAMY

LAYING DOWN A BIOMARKER

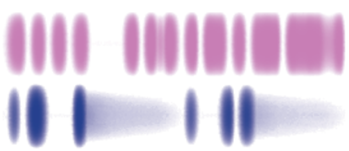
What are the challenges that researchers face in developing personalised medicine – treatment that is tailored to an individual? And what are the implications for finding the right talent to see through this major technological development? SUZANNE ELVIDGE and JOHN JAKENFELDS seek some answers

It might come as something of a surprise to learn that no less than 60 per cent of the 5,600-plus products in the global pharmaceutical industry's pipelines are for personalised medicines – so says research company IMS in its data compiled in 2013 for the Association of the British Pharmaceutical Industry. The industry is changing, as medicine moves away from a broad-brush approach and towards precision therapy.

The basis of personalised medicine is the biomarker. This can be a stretch of genetic code, a protein, a peptide (a chemical compound containing two or more amino acids) – in fact any measurable characteristic where the presence or absence signposts health or disease. In personalised medicine, also known as 'precision therapy', the biomarker is used to place patients into groups that are most likely to respond well to the treatment. For investigational drugs, this approach can speed development by making clinical trials shorter and more efficient. And for approved drugs, it can improve quality of life for patients and cut costs for payors, because outcomes are likely to be better, expensive drugs won't be used in patients who aren't likely to benefit, and time and resources won't have to be used to deal with unpleasant side effects.

"Too often [biomarkers have] been an afterthought, brought in when ... data in a general population is not looking as strong as anticipated from →

pre-clinical studies. We now need to involve biomarker experts at all stages of drug development," says Ian Pike, COO, Proteome Sciences, a company that is involved in developing protein and peptide biomarker solutions for pharmaceutical and diagnostics applications.



Personalised medicine will be most effective in diseases with clear-cut biomarkers that make it easy to spot the patients who will benefit. However, just because a disease has a biomarker, it doesn't necessarily mean that everything will be easy from thereon in.

In cancer, there has been a good deal of research success, based on the plethora of tissue samples and cell lines available, and this has translated into much progress.

"Twenty years ago breast cancer was thought of as one disease, with a very limited number of options available for treatment. Now we know that there are many different types and sub-types of breast cancer, and this in turn has led to a much more personalised approach to diagnosis and treatment," says Kieran Murphy, CEO, GE Healthcare Life Sciences.

Conversely, in areas such as kidney disease, there hasn't been as much progress, as Kumar Sharma MD and founder of ClinMet (a company that provides pharmaceutical companies with clinically relevant insights and practical information about drug response and safety), explains: "We don't have as much information available on the genetics of kidney disease, and we don't know enough yet about the changes that take place in kidney tissues." Sharma, who is also director of the Institute of Metabolomic Medicine and the Center for Renal Translational Medicine at the University of California, San Diego, adds: "Because of this we are in the very early stages of personalised medicine in this field."

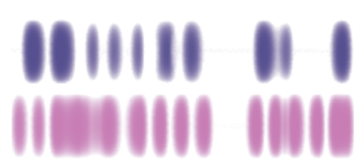
The map of the human genome, effectively our codebook, is smaller than that of some plants, such as maize. Yet it is able to manufacture, 'code for', the proteins that create human beings and their complex processes. A growing understanding of how this works, and how it can go wrong, is the first step towards truly personalised medicine. While the advent of the sequencing of the human genome was a very exciting scientific breakthrough, it hasn't yet lived up to its hype where personalised medicine is concerned. So the next step involves following the science.

According to Sharma, new breakthroughs will be guided by metabolomics (the study of all the metabolic processes going on in the body), which will allow us to sneak a peek at the pathways, and see how disruptions lead to disease. This could lead to drugs to repair those pathways or replace the metabolites, as well as allowing physicians and researchers to gauge the benefit of medications, or monitor the progress of disease.

However, this requires enormous sets of personal data. Companies need to 'think outside the box' for new approaches to gain information. One opportunity could be crowdsourcing information, through websites such as 23andMe and PatientsLikeMe, or from the 'quantified self' movement.

The creation of a successful personalised medicine offering needs the right factors to coalesce at the same time. Successful personalised medicine strategies are more likely to include biologic products such as monoclonal antibodies and cell-based therapies, rather than the older 'small molecule' chemicals used for decades. They will have to include a companion diagnostic (also known as a theranostic) to pair the right treatment with the right patient at the right time.

"These new approaches will change the ways in which drugs are developed, manufactured and distributed," says GE's Murphy. "Not only will manufacturers have to make a new generation of drugs such as cell-based therapies and antibody-drug conjugates, there will be a need for much greater manufacturing flexibility and smaller batch sizes than economically achievable today."



The new paradigm will combine the skills of traditional drug development with a completely new set of abilities and experiences from across a number of different disciplines, including systems and cell biology, chemistry, big data, computational sciences,

engineering and manufacturing, as well as drug and diagnostic R&D. It will be a financial challenge too, according to Proteome Science's Ian Pike: "The economics of drug development will become increasingly marginal and the cost per patient for each new, approved treatment will continue to escalate. Drug developers, regulators and payors will each have to swallow hard."

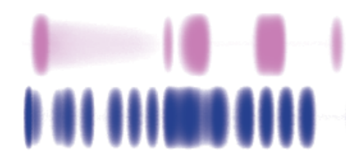
ClinMet's Kumar Sharma avers that: "[Personalised medicine] will require a team approach, from clinicians with understanding of translational medicine and an in-depth understanding of basic biology, through to scientists who can use technology such as mass spectrometry to measure the activity of small molecules in a quantitative manner, to biostatisticians, bioinformaticians and computer science experts."

Companies will have to market the diagnostics as well as the drugs, and as very few companies understand how to blend diagnostics and therapeutic business cultures, a successful business model will almost certainly need to include collaborations.

Discovering the route to personalised medicine will clearly require the combined talents of experts in biology, IT and big data analytics. Creating drugs and companion diagnostics that cure disease comes down to effective leadership, and an ability to deal with change.

"Organisations undergoing change management will have to bridge the gap between the skills their leaders have now and those that will be needed going forward," says Nigel Gaymond, Chair of the Personalised Healthcare Alliance, an organisation that unites life science leaders in a new 'action tank' to improve the environment in personalised healthcare innovation.

Getting to the next stage will involve recruiting unusually skilled leaders, as Richard J. Lipscombe, Managing Director of Proteomics International, explains: "There will be a need for people who can lead a cross-disciplinary scientific team, and who have understanding of basic biology and medicine, and the development of therapeutics and diagnostics. They need to be able to talk to people across all these areas."



Yet leaders need to be able to offer even more than this. They need to be polymaths who can pull together cross-functional teams from across the life sciences, tech, consumer and health sectors, and who can manage teams that cross over between academia and industry, and between companies, even those that would once have been regarded as competitors.

To reach their destination, companies will need to find potential leaders with skill sets beyond the 'usual', and in a major step-change for the industry, they are likely to be scientists who understand leadership rather than commercially trained leaders. They will need to be people who:

- understand patients and why they do what they do
- understand the tensions associated with the increased use of patient and public data
- understand how personalised medicine will create smaller and more defined markets
- understand doctors and how they will prescribe under this new paradigm
- understand the regulators, and work with them to develop new ways to approve and regulate drug and diagnostic combinations
- understand the crossovers between previously unconnected industry sectors
- understand the importance of communication, both internally and externally

They also need to be people who understand the importance of flexibility, as Nigel Gaymond explains: "In light of the convergence across multiple organisations, industries and technologies, as well as the co-operative and collaborative ethos that will be mandated as we shift into a more open innovation environment, a fair degree of fluidity will become essential to leadership teams."

This journey to a new world of dynamic personalised medicine is daunting and exhilarating in equal proportion. Ultimately, life science businesses need to find the game-changing leaders with the skills to lead unusually broad cross-functional teams. Most important of all, they need to have the skill to crystallise a vision for a wider audience, to tell the story of what lies ahead. ■

John Jakenfelds is the Global Practice Leader for Life Sciences at **Odgers Berndtson**
Suzanne Elvidge writes for *New Scientist* magazine

Business corruption

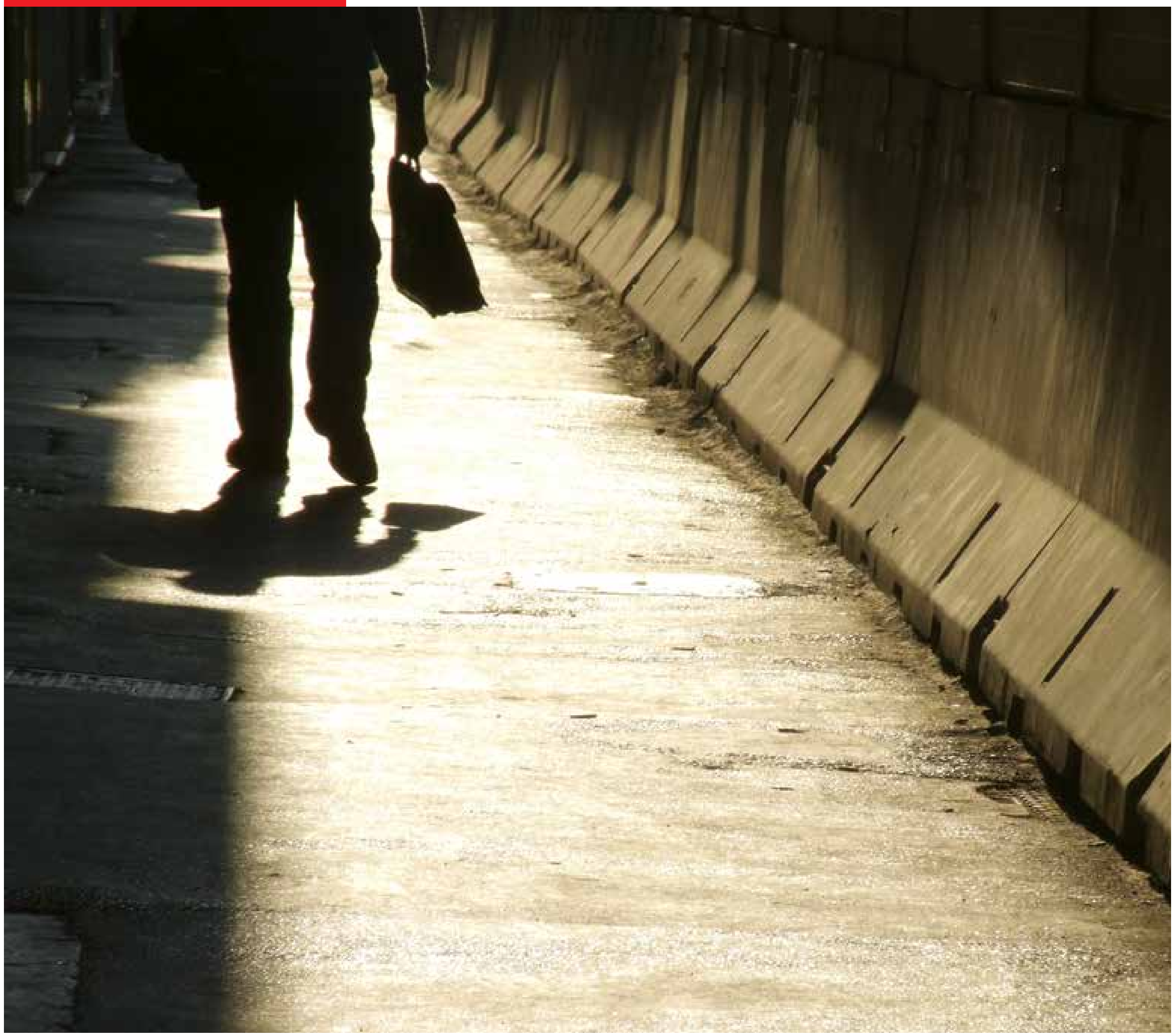
PAYING *the* PRICE

GARY MEAD explores the murky world of corporate fraud where petty corruption, if discovered, can ruin an individual, while grand corruption can be grandly damaging

→

Business corruption

The network of Siemens' corruption was so deeply entrenched that… [it] ran an annual bribery budget of $40-$50 million.



Shigeru Echigo, a former salesman at Deutsche Bank, found himself in front of the Tokyo District Court in April 2014. He pleaded guilty to spending the equivalent of $8,776 on entertaining a client, Yutaka Tsurisawa, a pension fund executive, to 'encourage' him to carry on buying Deutsche's investment products.

But Tsurisawa's portfolio included public pensions, making him a civil servant in the eyes of Japanese law – and if civil servants have this kind of hospitality lavished on them, they can expect to be charged with accepting bribes. Tsurisawa's punishment – apart from career ruin – was a suspended 18-month jail term and forced repayment of the money. When Echigo faced the court he pleaded a version of the Nuremburg defence – he was just following orders. "My actions as a salesman were part of systematic conduct based on instructions and consent of my bosses at Deutsche Securities," he told the court.

Echigo's example is just one end of a very long and murky spectrum, an instance of petty rather than grand corruption. If you want grand, they don't come any bigger than the $800 million the German-based corporate giant Siemens paid to settle a US Department of Justice and Securities Exchange Commission Foreign Corrupt Practices Act (FCPA) in December 2008. It paid the same amount to settle with German regulatory authorities.

The network of Siemens' corruption was so deeply entrenched that, during 2002-06, the German-based corporate giant ran an annual bribery budget of $40-$50 million, according to Reinhard Siekaczek, a former mid-level Siemens accountant who helped manage the payments for the telecommunications subsidiary he worked in. Siekaczek said: "We all knew what we did was unlawful … we thought we had to do it, otherwise we'd ruin the company."

Other than greasing palms, Echigo and Siekaczek shared a belief that their malfeasance was a business necessity. According to Sam Pope, who runs Kasalana, a global business intelligence and investigations consultancy, this is an all-too-familiar pattern. "Corruption often happens because people in the organisation are trying to advance the corporate goal, and they don't understand that what they are doing is criminal. International companies are often ultimately to blame, because they don't give their employees training and support to deal with this." Vincent Ruggiero, a professor of sociology at Middlesex University who studies corporate crime, gives a more general context to the onset of financial crime: "The proliferation of business crime in recent years could be easily attributed to the excessive growth of the financial as opposed to the productive sector in advanced economies. Making profit quickly and constantly requires cutting corners, along with giving an appearance of good economic performance through the increasing value of shares against a background of poor productive performance."

In the course of their career most international business executives are likely to face precisely the same pressures or temptations as Echigo or Siekaczek – and a vast and ever-more-complex legal spider's web is waiting to entangle them.

The US has led the way in tighter regulatory control over corruption, →

"We all knew what we did was unlawful … we thought we had to do it, otherwise we'd ruin the company."

passing into law in 1977 the FCPA, now closely mirrored by many mature economies. The UK's Bribery Act came into force on 1 July 2011 and can similarly touch any national citizen who might engage in corrupt practices overseas. The OECD's Anti-Bribery Convention, which aims at reducing corruption in developing countries by encouraging sanctions against bribery in international business transactions, has now been ratified by 40 countries. Even territories that are a byword for corrupt practices, such as China and India, now at least have stiff regulatory regimes in principle – and increasingly individuals in authority in corrupt countries understand the corrosive nature of corruption, and are trying to stamp it out.

The regulatory snares for the unwary can be extremely costly for those companies that either stumble into or deliberately turn a blind eye to corruption. "I had a European company as a client who, it turned out, had paid a $100,000 bribe on a $1m contract – a 10 per cent 'commission'. It then cost this company $74m to put it right. It was blocked from bidding for contracts within Europe; legal costs alone were $45m," says Pope.

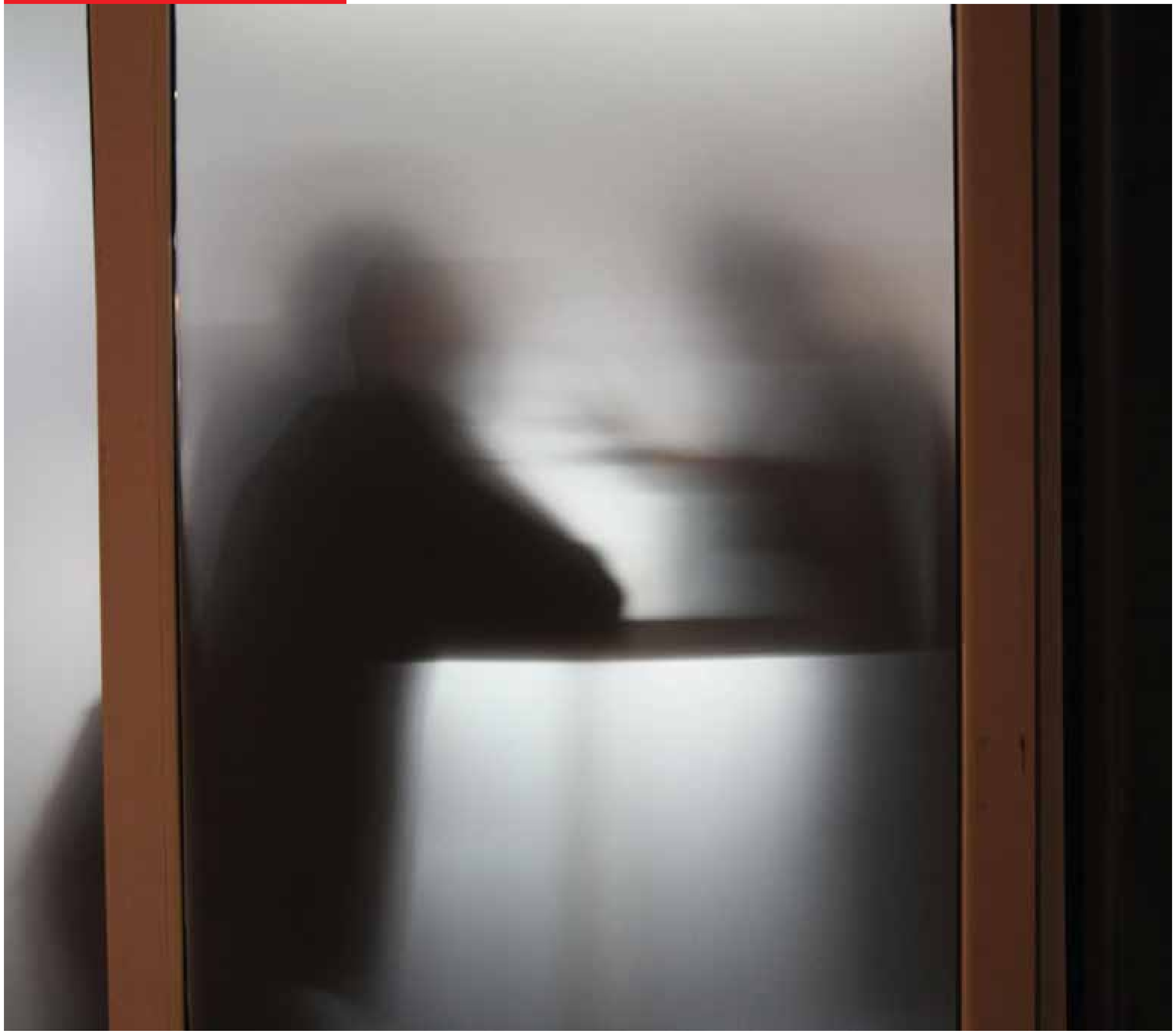
CEOs leading companies into emerging markets can therefore flounder – with the kind of consequences Kasalana's Pope has encountered – if they don't give firm leadership and continuous training. Yet even now many CEOs are apparently willing to turn a blind eye when it comes to overseas territories. Dow Jones Risk & Compliance recently conducted a worldwide survey of 383 compliance professionals involved in preventing corrupt practices. Among the startling findings were that less than a third of companies surveyed thought it feasible to entirely ban 'facilitation' payments, even though giving money or goods to perform, or to speed up the performance of an existing duty, are a bribe and "should be seen as such", according to the UK's Serious Fraud Office (SFO).

According to Harriet Kemp of the Institute of Business Ethics: "If someone is determined to commit fraud, they will do their best to evade anti-fraud measures. But if a company has a culture of openness, where staff are not afraid to speak up if they have any concerns or see something suspicious, then this can be great risk management. It can be hard to find a dark place to hide if the sun is shining!"

Many corporations and their leaders rest content on regulation; if rules ban certain practices, then the company will adhere to the rules and everything's as it should be. But that misses the point of regulation, which is fundamentally a compliance-driven approach; resilience against wrong behaviour requires not just living within the rules, but a top-down embodiment of ethical behaviour, and continuous internal assessment that all employees understand and respect – or else. Says Kemp: "An ethical culture allows for the right decisions to be made when there is no obvious rule to follow. When a situation is not so clear and is less obviously covered by rules, employees will look for guidance, especially where there is discretion in decisions. In rules-driven compliance cultures, employees may flounder if there is no rule covering what to do next. Focusing on the right behaviours within a culture based on values is more likely to encourage employees to feel they can make decisions by considering the consequence to the organisation of not doing 'the right thing' as a basis for action." →

Business corruption

Other than greasing palms, Echigo and Siekaczek shared a belief that their malfeasance was a business necessity.



Transparency International (TI), the Berlin-based international NGO that monitors and publicises corporate and political corruption, describes corruption as "the abuse of entrusted power for private gain". It damages everyone who depends on the integrity of people in a position of authority. Jermyn Brooks, an international board member of TI, argues that in the corporate world: "The problem of corruption often comes about when CEOs say one thing but are prepared to turn a blind eye to the practices of senior managers and staff operating in very difficult environments. That's a slippery slope."

In the US, CEOs and boards who argue that their problems stem from just 'one bad apple' in their corporation will find little sympathy from US lawyers or the American judicial system. The US attitude – which emphasises 'voluntary disclosure' ('fess up' and it will go easier on you) – is that there's no such thing as a bad apple; it's the lack of enforcement of a company's compliance system that is at fault, permitting the bad apple to get away with it. "Companies need to send a very tough message from the top down," argues Brooks. "They need to provide good anti-corruption training, good monitoring of all staff, and ensure they have good internal controls, such as not permitting individuals to control large sums of money."

But how do CEOs combat corruption when their company – which may employ tens of thousands of individuals globally – pushes into markets where corrupt practices are endemic? Says Brooks: "There are many ways that clever businesspeople can convince corrupt counterparties to do honest deals. For one thing, don't compromise your own ethical standards, or give up too quickly. In our experience, from the minute you go in you need to state firmly, clearly and repetitively that what you are being asked to do will result in you being subject to personal prosecution in your own country. This can often take six to 12 months of persistent discussion. But once they are convinced that you mean what you say and will not be moved from that, they stop asking for bribes." Required reading for all CEOs overseeing global corporations ought to be the handbook TI recently updated – '*Resist: Resisting Extortion and Solicitation in International Transactions*'.

Harriet Kemp emphasises that taking a successful stand against corruption in the workplace is not a one-off matter. "This is not something that can be done by simply having a code of ethics in place and some online training. There need to be constant reminders, awareness campaigns, news stories and examples made, both of expected behaviour and of what will not be tolerated. Above all, leaders at all levels must demonstrate the desired behaviour, because people take their lead from what they see others doing, not what they are told."

While petty corruption, if discovered, can ruin an individual, grand corruption can be grandly damaging. In the Siemens case, the whole leadership team was forced to resign. The company implemented a zero-tolerance approach to bribery, which involved pulling out of markets where bribery was the norm. Fines hit companies where it hurts the most – the bottom line. But restoring reputation and trust is a much longer-term challenge; much harder to do than paying a fine. ■

Gary Mead is a business journalist and former commodities editor of the *Financial Times*

Tomorrow's digital leaders

Does your company need a Chief Digital Officer or a Digital Corporate Director? The answer is both. *Observe* sets out the case for strengthening a company's digital leadership

Corporate leaders worldwide, how many of you and your fellow executives are experts in today's digital technologies – cloud, analytics (big data), social, the Internet of Everything (IoE) and mobile – known by the much simpler acronym CASIM? Further, how many of you have digital experts on your leadership team that can help the company set strategy, give advice to management, and monitor organisational progress through the digital pivot that most businesses require today?

Our research and analysis, based on financial data and annual reports from the Standard and Poor's (S&P) 500 companies, indicates that most executives and board members do not have these skills. In fact, despite Forrester's recent research indicating that 93 per cent of corporate executives believe that digital technologies will disrupt their existing business model in the next year, only 15 per cent of executives believe their companies have the requisite digital skills to succeed. In short, most companies don't have a tweet's worth of digital experience and knowledge where they need it.

Since leaders globally realise that they are ill prepared for the digital age in which they find themselves, many companies are scrambling to add digital talent to their leadership ranks. The result is frequently the appointment of a Chief Digital Officer (CDO). Unfortunately, this is often a 'Band-Aid' solution: a quick fix arrived at without proper consideration.

ILLUSTRATIONS: ALAMY

For example, the CDO can end up reporting to a variety of department heads including the Chief Marketing Officer, Chief Technology Officer and Chief Information Officer but not always the CEO. As such, the appointment of a CDO is a only a nod to the digital revolution. It does not, however, ensure that pervasive digital capabilities are created throughout the organisation, especially if the new hire doesn't report to the CEO and have a clear transformation requirement. As such, our recommendation is to also recruit a Digital Corporate Director (DCD) to sit as an independent director on the board, as an ally to the CDO, so ensuring that the digital mandate is supported. In short, two heads are better than one.

Why add a digital board member to your senior ranks?

As a corporate leader, your primary objective, as you know, is to create value for your shareholders. Our in-depth research of the Standard & Poor 500 companies* put some real urgency behind the now ubiquitous exhortation to 'go digital' or else. We found that companies that 'go digital' are two to four times more valuable to investors than those that don't. And that differential is increasing. Put differently, companies that have or are building digital assets (social, mobile, cloud, big data and Internet of Everything) can watch their stock prices rise above the rest. The result: the digitally rich are getting richer and the digitally poor are getting poorer. →

For this reason, we believe that any company that is trying to increase shareholder value – surely every company – needs to recruit a digital leader with the power and influence to help align the company's business and operating model more broadly – not just launch Facebook or Twitter campaigns. For most companies, this will require the expertise of a Digital Corporate Director (DCD).

The research behind our recommendation

To prove to leaders that going digital is critical to their company's development as well as its financial success, we investigated how investors reward companies that take these necessary steps to embrace the digital world – and deploy the right people to action it.

We are witnessing a quantum leap forward in digital technologies and the business models they support. Today's technologies allow for rapid expansion of organisational scale and connectivity at a fraction of the previous cost. Our research indicates that there are four types of business, each associated with different waves, or levels, of technology:

Asset Builders: These companies use capital to make, market, distribute, and sell physical things. The business model for these companies is 'make one, market on, sell one'. Examples include Ford, Wal-Mart and FedEx.

Service Providers: These companies use capital to hire employees who produce billable hours for which they charge. The business model for this type of company is 'offer one, service one'. This model is similar to the Asset Builder model, but it substitutes an individual's output for a machine's output. Examples include United Healthcare, Accenture and JP Morgan.

Technology Creators: These companies use capital to develop and sell intellectual property, such as software, analytics and intellectual property. Once created, these assets can be sold multiple times. The business model for these companies is 'make one, sell many'. Examples include Microsoft, Oracle and Pfizer.

Network Facilitators: These companies use capital to create a network of peers in which every participant is able to interact or transact with the many other members of the network (ie, they may sell products, build relationships, share advice, give reviews, collaborate, and more). The business model for this type of company is 'make many, sell many'. Examples include eBay, TripAdvisor.com and Visa.

The bottom line is this: new technologies enable more value creation with less capital investment. Investors reward Technology Creators and Network Facilitators with Price/Revenue ratios (P/R values) of five times and eight times, while Asset Builders and Service Providers are penalized with lower P/R ratios of two times and three times. This means that over time, more and more investor capital is being funneled into Technology Creators and Network Facilitators at the expense of Asset and Service organisations. This is critical information for any board trying to increase their company's shareholder value.

So what does that mean to your organization?

Creating a CDO position is a step in the right direction, but leaders need to be aware that a CDO normally does not have enough ownership or influence to lead a company-wide digital awakening and to reallocate sufficient organisational assets and capital to change the company's business model. To overcome these issues:

1. Have the CDO report directly to the CEO
2. Recruit a DCD to your board to create digital corporate director skills
3. Recruit these two positions in tandem to ensure success

One note of caution: neither of these recruits will be successful if the CEO has not recognised the digital imperative.

Change is possible

If you're part of the 70 per cent of companies that still haven't crossed the digital divide with a digitally inspired business model take heart – change is possible! Many big companies are recruiting digital talent and creating the offerings they need to succeed:

EXAMPLES OF ASSET BUILDERS AND HOW THEY ARE MOVING IN THE DIGITAL SPACE:

nike.com
Nike is serving its customers with an entire Nike+ ecosystem – hardware and software to track and analyse activity, and network integration so users can tout their long Sunday morning run via Facebook.

nest.com
The Nest brought sexy, and big data, to your home thermostat. Nest Labs is taking over where classic asset builders, like Honeywell, have stopped, bringing new, networked digital technology to home controls.

ge.com
GE is creating the 'industrial internet' (what they call the 'convergence of machine and intelligent data') and using big data to optimise things such as jet fuel use, electrical grids, and hospital operations.

EXAMPLE OF A SERVICE PROVIDER THAT IS ADDING DIGITAL TO ITS CORE OFFERING:

mckinsey.com
McKinsey is 'hardening' its IP to offer software-based solutions that complement the standard people- and billable hour-based offerings.

Integrating digital into your company's leadership ranks requires hiring the right talent and then allocating sufficient capital to their initiatives rather than building out new key performance indicators for the digital age (those age old manufacturing and services KPIs just won't cut it).

So how and where do you get started?

Assess your board's and CEO's commitment to going digital. The first step is to determine whether or not your board and CEO are fully aware of the digital impact of today's technologies and are willing to commit themselves to the necessary 'pivot' in their business plan.
To accomplish this task, you will need to look at your CEO first and see whether he or she really understands what is necessary to embrace and benefit from digital disruption and jump to digital hyperspace to avoid the pitfalls that befell Blockbuster, Kodak and Encyclopedia Britannica. If the CEO is not comfortable going digital, then it may be time to find a coach to mentor him or her or find another leader to take the organisation forward into the digital realm.

Hire a Chief Digital Officer (CDO) as a member of your executive team. We cannot imagine how a company in today's CASIM world would not benefit from real world digital know-how. Finding the right digital talent for this position may require widening your view to consider more youthful, non-CEO candidates. Many companies are finding digital talent in young, venture-backed firms where there is a larger pool of talented professionals. But make sure you give them the power to lead change.

* Starbucks promoted Adam Brotman to a CDO role, giving him free reign over all Starbucks core digital businesses, including mobile and mobile payments, web, card, loyalty, e-commerce, Wi-Fi, and the Starbucks Digital Network.
* McDonalds recently brought in as CDO Atif Rafiq, who has worked at Amazon, Yahoo!, and AOL. In this new role, he is "responsible for McDonald's cohesive and holistic global digital strategy – bringing an entirely new level of convenience and fun to our customers through innovative digital experience and engagement".

Recruit a Digital Corporate Director (DCD) to your board. Recruiting an independent outside director with digital expertise is a requirement in today's hyper-connected world if you want to help your CDO succeed and prosper. Just look at what Starbucks, Nike and Wal-Mart are doing if you don't believe us. Most of the best companies have already begun recruiting digital directors, so if you haven't, start soon. Great DCDs are in short supply. And don't forget that they will need full board support to successfully influence the firm's strategy and capital allocations.

* Disney recruited Sheryl Sandberg, of Facebook fame, to their board, noting: "Sheryl has been at the forefront of a technological revolution that's opened up a world of new possibilities for consumers and which has greatly affected the way we do business."
* Coca-Cola brought in Bobby Kotick, CEO of Activision Blizzard (one of the world's largest gaming companies), stating: "Bobby brings an entrepreneurial mindset and a high level of financial literacy and digital knowledge to our Company."

The conclusion is simple: If you want better stakeholder value for your company, and the related influx of inexpensive capital and enthusiastic customers, start taking digital seriously. Recruit both a Digital Corporate Director and Chief Digital Officer to your organisation and build up your digital chops to secure your future. Time is of the essence. ■

** Research conducted in partnership with Deloitte LLP and the SEI Center at Wharton See: openmatters.com*

Steve Potter is Managing Partner and **Candi Dalipe**, Partner at **Odgers Berndtson** – USA
Barry Libert is Digital Board Advisor and **Megan Beck Fenley** is Digital Researcher at **OpenMatters** – USA

Watch the interview with Candi Dalipe and Barry Libert, in the *Observe* App

Business technology

Together is better

DONALD MCLAUGHLIN, Director of Collaboration at Cisco, on the need to integrate people, processes and technology

Industrialist and founder of the Ford Motor Company, Henry Ford, said: "Coming together is a beginning. Keeping together is progress. Working together is success." While said in a different era, Ford's words are still relevant in today's globalised business world; together is better. Teams are a fundamental part of working life. They account for the vast majority of work done in organisations. Yet when a team is spread from San Jose to Shanghai, keeping that togetherness naturally becomes a far greater challenge.

Collaborative Challenge

Collaboration is more than a technical architecture, solution, or product. It is the experience that integrates people, processes, and technology. Much like Henry Ford, at Cisco we believe that by working together, people can achieve extraordinary things.

An organisational chart may show hierarchy, but it doesn't represent real business collaboration – how people actually interact inside, outside, and across the organisation. Finding ways to improve the connections between people and the information they need to share is critical to driving better business results.

As soon as there is distance involved many organisations, regardless of their size, will experience challenges around working successfully as a team. It is often not practical, productive or financially viable for team members to continually travel large geographical distances. Collaboration technologies can make a significant difference in overcoming this challenge.

Value of Video

In this constantly evolving technological world there are three key areas of innovation which are enhancing collaboration – video, mobile and cloud. High quality HD video is now available at very low cost allowing much smaller organisations to be able to participate in TelePresence meetings on an even footing – without the need for significant financial outlay.

ILLUSTRATION: NICK SHEPHERD

One example of a new generation of TelePresence devices available from Cisco is the Ava 5000 video collaboration robot jointly developed with iRobot. It is controlled remotely via iPad and designed to enable remote workers to not just participate in meetings, but also to move around a building and collaborate with co-workers in areas that otherwise would be difficult, such as manufacturing floors. Additionally the robot can map out a building and then be programmed to arrive at a particular meeting area at a scheduled time without any intervention by the user.

The power and value of video collaboration to also connect with external groups should not be underestimated. If local expertise is not available, only 30 per cent of customer contacts are converted to eventual sales. However, when video collaboration with an expert is available, conversion exceeds 90 per cent[1], recent research by Cisco found.

Cloud and Mobility

To collaborate, people need access to the best tools regardless of where they are or what device they are using; the cloud can facilitate this. The cloud is an accelerator for collaboration, with a recent Forbes Insight report finding 87 per cent of business leaders stating it enhances communications across boundaries and time zones[2]. Collaboration through the cloud can for example allow users to co-author, amend and comment on documents saved in the cloud simultaneously, which naturally speeds up the process of production.

Similarly, Forrester estimates that 56 per cent of US workers are located outside an office[3], showing the importance of incorporating mobility into any collaboration structure. Employees are now able to use their personal or company-issued mobile devices as an extension of the enterprise network and applications. While this does naturally raise the issue of security, this can be easily overcome with correct policy-enforcement. The positive impact this can have on productivity should not be underestimated as it allows tools such as instant messaging, content sharing and web conferencing to take place wherever, whenever. Essentially, collaboration should be as simple and effective outside the organisation as it is within.

Smarter, Faster and More Effective

At Cisco we say "work is not a place you go – it's a thing you do". And indeed, today's workplace is defined by tasks and outcomes rather than locations. To be successful, organisations and individuals alike cannot be an island unto themselves – connections are key. The recent advances in collaborative technology mean that solutions are being fully embedded within an organisation's processes, making a significant business difference. Crucially, solutions are no longer simply helping employees communicate about their work, but creating new ways for employees to do their work regardless of distance, making collaboration smarter, faster and more effective. ■

[1] Cisco, *Work Your Way*, 2011
[2] Forbes Insight, *Collaborating in the Cloud*, 2011
[3] Forrester, *Provisioning a flexible workplace pushes the boundaries of IT and drives a search for outside help*, 2012

The awareness factor

Are you a sponge, willing to learn and adjust, or a rock, resistant to new ideas and set in your ways? It's time, says JAMIE ROBERTSON, to understand your own self-awareness

Self-aware leaders can spell the difference between a sustainable success and a toxic culture where miscommunication and poor performance are normal within an organisation. Many organisations labour under misguided or unexamined conceptions of leadership, miring their efforts in politics of fear and obscurity.

However, a self-aware leader is effective and authentic, honest about themselves and displays openness to others' perspectives and perceptions about their personality and behaviour.

They display a keen interest in learning, actively listening and demonstrating first-class attentiveness. These leaders are humble and grateful in their approach but not fearful of making tough decisions.

Self-aware leaders know how to build trust and are champions for transparency. They own up to mistakes and apologise with sincerity.

These empathetic efforts make colleagues and employees feel valued. It encourages them to share insights that may prove highly valuable, rather than bottling up their opinions for fear of reprisal. In order to make strong decisions, a leader must gather and process all of the relevant information, therefore they must win over those around them by being as real as possible.

Such characteristics hold a particular utility for organisational effectiveness. In his book *Focus*, Daniel Goleman notes that "chief executives need self-awareness to assess their own strengths and weaknesses and so surround themselves with a team of people whose strengths in those core abilities complement their own". Goleman cites research conducted by Accenture on over 100 CEOs. In this study, executives named the most important skills for running a company, the most commonly reported being self-awareness.

The perils of dictatorship

When leadership fails to demonstrate an empathetic style, organisations suffer. There are many examples of dictatorial or detached leadership leading businesses into dissolution. Some, as in the case of Bernie Madoff, develop a high profile on account of such spectacular failures of leadership.

The inverse of empathy is isolation, being cut off from the diversity of perspectives and insights around you. Dictatorial leaders don't perceive a need for other viewpoints, which results in isolation that can be accordingly desolate.

Without the sense of psychological safety and security promoted by empathetic leadership, individuals don't feel comfortable sharing information that is necessary for organisational success. In certain cases this type of sharing is directly discouraged or rejected and important data goes uncaptured over fear of retribution. This type of leadership grows increasingly out of touch, a recipe for implosion.

PHOTOS: ALAMY

Reaction versus response

The empathy that characterises an authentic leader shouldn't be mistaken for softness. When difficult situations present themselves, self-aware leaders respond rather than react. Reactions may be purely emotional or ego-driven: a simple expression of anger, for example. A response follows from the particular details of the circumstance – it may mean seeking more information or opinions.

The more self-aware you are as a leader, the more you'll understand your capabilities and those of others. Seeking out and understanding the perspectives of those you lead may increase capacities and drive your organisation toward success.

How does this affect business performance?

Self-aware leaders have a better understanding of themselves, their organisations' capacities and limitations and are better-informed about the context they operate in. This understanding gives them the data to make informed decisions and provide clearer, stronger leadership.

Genuine interest in the perspectives and interior lives of others in the business is the bedrock of an effective organisation.

Let's consider several ways that self-aware leadership drives more effective businesses.

Businesses based on greater self-awareness foster more creativity and innovation.

Chan Meng Tan, co-founder of Google, has founded a leadership institute (Search Inside Yourself) on the back of greater productivity, innovation and creativity as a result of self-awareness programmes at Google (see siyli.org).

Dominique Turpin, President of IMD, a leading executive development institute, names innovation as one of the key criteria for value creation and the future success of any organisation today. →

Explaining the 'why'

Humans are tremendously complex, emotional beings. Recognition for tasks well done and a sense of progression keeps employees motivated. So, it comes as no surprise that this is the single most motivating factor in the workplace.

This universal tendency reveals an opportunity and a necessity for effective leaders. For team members, a sense of progress is often a matter of context. Why is a particular effort necessary to reach an important organisational goal? Why is that goal important for your success? This ability to create context for your team gives you the crucial power to cultivate emotional buy-in.

Emotional buy-in

Individuals need to understand the 'why' in order to feel a focused sense of investment. Employees need to feel that they have an impact on the effort – even if they aren't shaping the overall direction, they usually want to know that their perspective is important and their voice is being heard.

For example, a sales force under a dictatorial leader may not feel comfortable asking about larger organisational goals, and may not understand the need to pursue a particular type of client or focus on a product or service. This lack of comfort and information breeds a lack of effectiveness. Yet when a leader asks questions, explains reasoning and checks up on progress, this same sales force succeeds more sustainably. This often results in less drop-out and a better-motivated team, ultimately improving results over time.

Tyrannical styles may sometimes achieve short-term results, but they typically result in burn-out and lowered productivity over the long term. Acknowledging concerns of the team will get you more emotional buy-in, leading to much higher performance – particularly during the tough times.

A self-aware leader joins the willpower to see the big picture with the empathy and accessibility to connect with their people.

In order to understand an organisation's capacities and limitations, an executive must understand employees' differing needs.

There are four key ways effective executives create satisfied, motivated teams and sustainable businesses:

1 Live in the real world

At every organisational level, employees must balance their work with other daily challenges. Finding the work-life balance by maintaining relationships, supporting a family and keeping up with physical and emotional health can be difficult.

A leadership approach that acknowledges the ways these needs shape individuals is more conducive to effective communication and co-operation.

2 The modern context

The demands on your team are different from 10 years ago – just as the demands on any leader have changed. In a more connected world, our attention is under constant demand.

If you're in a leadership position and don't understand the demands of the modern context, it's going to be hard to steer a ship that travels in that context.

3 Foster psychological security

In order to work most effectively, a team must feel psychologically secure. They must feel that they can advance ideas and perspectives without fear or repercussions.

These open lines of communication are essential for leaders and organisations to gather relevant information and for individuals to remain satisfied and sustainably productive in their work.

4 Cultivate a self-aware culture

Psychological security, recognition of basic needs and the information barrage of modern life can't all be addressed exclusively by an executive. Our sense of security, for example, may depend on multiple levels of hierarchy and the professional environment as a whole.

That means it's important to thoughtfully shape the environment. What type of culture do you want to create? Self-aware leaders seek to cultivate a more self-aware culture, discouraging dictatorial styles and hiring for qualities such as innovation, creativity, empathy and curiosity. When you promote these values in the very fabric of an organisation, it grows progressively easier to help employees be more successful.

> "Recognition for tasks well done and a sense of progression keeps employees motivated"

A 2014 study of 6,947 professionals at 486 companies found that on average, employees at low-performing companies were 79 per cent more likely to exhibit low self-awareness than those at higher-performing companies.*

In business and in sports, the Rugby World Cup-winning coach Sir Clive Woodward describes two types of individuals: rocks and sponges.

Rocks are resistant to new information and set in their form. Sponges, by contrast, demonstrate a willingness to learn and adjust. According to Woodward, businesses need sponges to succeed. ■

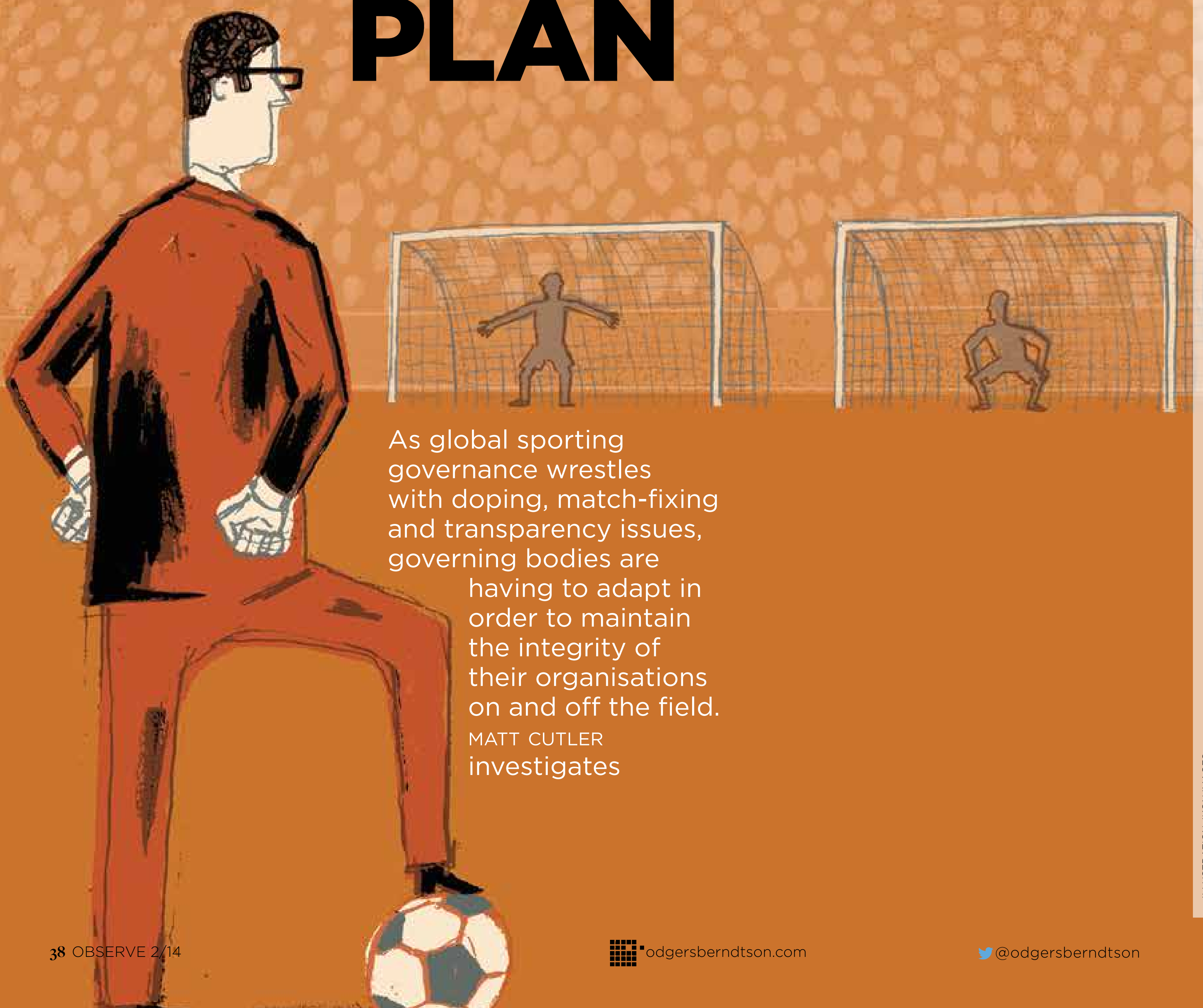
Odgers Berndtson** South Africa has adopted an innovative process to investigate self-awareness of our candidates. To find out more please contact **jamie.robertson@odgersberndtson.co.za

Jamie Robertson is CEO at **Odgers Berndtson** South Africa

Watch the interview with Jamie Robertson in the *Observe* App

Sports governance

CHANGING THE GAME PLAN



As global sporting governance wrestles with doping, match-fixing and transparency issues, governing bodies are having to adapt in order to maintain the integrity of their organisations on and off the field. MATT CUTLER investigates

ILLUSTRATION: IKON IMAGES

In 1988, having won the 100 metres at the Olympic Games in Seoul in a world-record time, Canadian Ben Johnson was stripped of gold after he failed a doping test. Anabolic steroid stanozolol was the drug of the day, and the most popular contest at the biggest multi-sport event in the world was brought into serious disrepute.

The Johnson case was a watershed moment for the sports industry, thought it was far from being the first example of an athlete being caught gaining an unfair advantage through a banned substance. Nevertheless, it focused the world's attention on the problem of doping to an unprecedented degree and would characterise the major issue of sports governance for the next two decades.

Fairness on the field of play

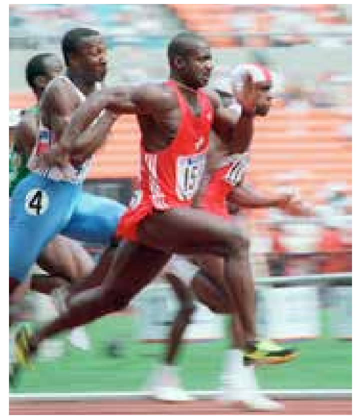
If doping was rife then sport was rotten at its very core, and if fans started to believe the product was compromised and unfair, the fear for governing bodies was that they would turn away in droves to other entertainment options. A huge amount of time and resources were directed to combat the issue. The World Anti-Doping Agency (WADA), the independent body formed in 1999 under the instruction of the International Olympic Committee (IOC) on behalf of the sports community, gave international sports bodies the tools to tackle the problem in a structured and cohesive way.

In 2014, sports governance is still characterised by ensuring fairness on the field of play, however it is not just doping that is a major concern, with match-fixing – athletes being paid cash to alter the outcome of a match for the benefit of, at the very top level, organised crime syndicates – having overtaken doping as the major threat to sports integrity. Three Pakistan cricketers were given prison sentences in 2011 for spot-fixing in a test match against England in perhaps the highest-profile case of recent years, but all governing bodies struggle to get on top of what is seen by many as an escalating issue at every level of professional sport.

There is also a greater focus for governing bodies to be transparent in all decisions off the field of play, particularly when it comes to elections and the awarding of major events. This is something that has brought the spotlight on world sport's most powerful governing body, FIFA, in both its 2011 presidential election and the award of the 2022 World Cup to Qatar the previous year. In late 2011, FIFA invited anti-corruption body Transparency International (TI) to sit on an outside panel to advise on governance reforms. However, TI cut its ties after it said its recommendations on comprehensive governance reform had been ignored.

To put it simply, the threats to sport's integrity are greater than ever, as is the media spotlight on how it is run. For sports governing bodies, this means they have to be run more like a business to ensure they tackle all issues as effectively and transparently as possible.

"The area of sports governance used to be quite narrow, but it's become a lot broader," says Kelly Fairweather, CEO of the →



Clockwise from top: Disgraced Pakistani cricketers; Ben Johnson; Lance Armstrong; Simon Cummins

PHOTOS: GETTY IMAGES, ALAMY

International Hockey Federation (FIH) and former sports director of the IOC. "Doping, match-fixing, issues of sustainability… all these things weren't really something governing bodies used to have to deal with. Also now, in the world of data, digital media and betting, the landscape has become a lot more complex. It brings opportunities, but also a lot more challenges to governing bodies. We are finding more expertise is needed across these areas."

To tackle some of the issues Fairweather speaks of, seismic changes are being made in governing bodies, part of a wider trend of professionalisation in the sports industry – something that is also requiring a change of mindset in the people leading the organisations.

"The structure of sports governing bodies tends to be quite traditional, but we are moving away from that and they are becoming more businesslike," says Fairweather. "I think a lot of sports are wrestling with that. You also, traditionally, have had very top-heavy structures in federations and now you have to have a much broader base of professional staff that have expertise in various areas."

Canadian Dale McMann, who was elected president of the International Softball Federation in October last year, agrees with Fairweather, and says a big challenge at the moment for the body is adapting its structure to be able to effectively tackle the ever-changing challenges of sports governance.

Looking at governance

"One of the things that we are looking at right now is organisational structure, looking at the kind of people we are employing in our sport and ensuring that we have top-calibre people in our commercial, communications and marketing departments," he said at the 2014 SportAccord International Convention in Turkey. SportAccord is the umbrella organisation for all Olympic and non-Olympic international sports federations.

"We are also looking at governance models, and what we have in place from an elected official's standpoint; what kind of models will allow us to expand in the years to come and, as a result, deliver to our athletes and the game on the ground?"

Simon Cummins, head of the global sports practice at Odgers Berndtson, says the changing world of sports governance is seeing two major shifts – firstly in the structures and personnel at board level, and secondly in the hiring of executive leaders who can combine an understanding of what it takes to achieve high-performance sport with a successful, well-run commercial organisation.

"Historically, governing bodies have been run by elected presidents, often very talented former athletes with a great knowledge of the sport. However, lots are realising that there are two sides to running a sports body: the participation and high-performance sports side, but also the business side. It is the business side that, historically, these former athletes haven't been completely au fait with," Cummins says.

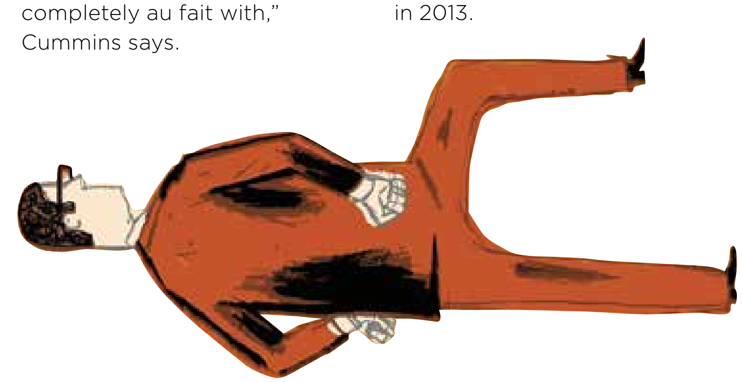
"This has led to a lot of discussions at a strategic level of whether there should be two separate representative boards – one being the council, if you like, and the other managing the business side. The latter board looks very different to those of the past as it is chaired, effectively, by a businessman and with independent, non-executive directors who are also from the world of business and have a more objective view on how decisions are made.

People with credibility

"At the CEO level, it is a fine and delicate balance – governing bodies need people who have credibility with all aspects of the association and organisation, but don't lead with the heart as opposed to the head.

"If someone is too embroiled in the passion and performance side of the sport, sometimes it is hard to stand back and make rational decisions. But, if they have no knowledge, empathy or passion for the sport, it's hard to get that credibility."

One of the most influential executives within sports governance is Vlad Marinescu, who became director general of SportAccord following the successful presidential campaign of Marius Vizer, himself International Judo Federation (IJF) president, in 2013.



SportAccord offers its members highly specialised and professional units in vital areas of sports governance – such as the DFSU (Doping-Free Sport Unit), allowing bodies to outsource their anti-doping activities in part or in full. However, Marinescu says its members are clear that in building a team, wide expertise in senior positions is vital.

"The market is changing for sports executives," he adds. "To be successful, they have to be both passionate and educated business professionals; managerial skills and a clear and deep passion for sport are equally important.

"Management skills are required at every level of the chain. There are, of course, specialists in the major fields of sports governance who have dedicated their time and energy into a specific direction – the CEO or director must study all the respective issues and at the same time surround him or herself with experts in all fields.

"If I had to give my personal opinion of what skills a successful CEO or secretary general would need, it would be, in no order of importance, a sporting background – as either an athlete or an official – professional knowledge of the business of sport and education in the field, a passion for sport, an acceptance of and membership of the community where he or she will work, experience in the field, and loyalty." ■

Matt Cutler is editor of *SportBusiness International* magazine

Meet the new CEO

A new generation of leaders born after 1980 has been pushing into the corporate world, confronting incumbent managers with a different way of doing things as ADRIAN FISCHER explains

When Generation X (those born between 1965 and 1979) entered working life in the early 1990s, the chain of command was still clearly defined: what was decided at the top was not questioned further down the line. That generation lacked the necessary courage, but also the time; after all, the work-life balance concept had not been introduced, and college graduates were busy climbing the ranks as quickly as possible in a quest to outperform one another. The mantra of Generation X was 'work comes first'.

However, Generation X – the established generation of leaders – is now confronted by young managers who want to shrug off the old hierarchy. They will only *perform* if their work is deemed satisfying; that is, work that does not rely entirely on progression through the ranks but takes a much more holistic approach to this work-life ethic. Even at an initial interview they will confront HR managers with questions about opportunities for parental leave, part-time working and sabbaticals. Many companies find this rather disconcerting, indicating as it does a radical shift in what being a *manager* means. But where does this behavioural shift come from?

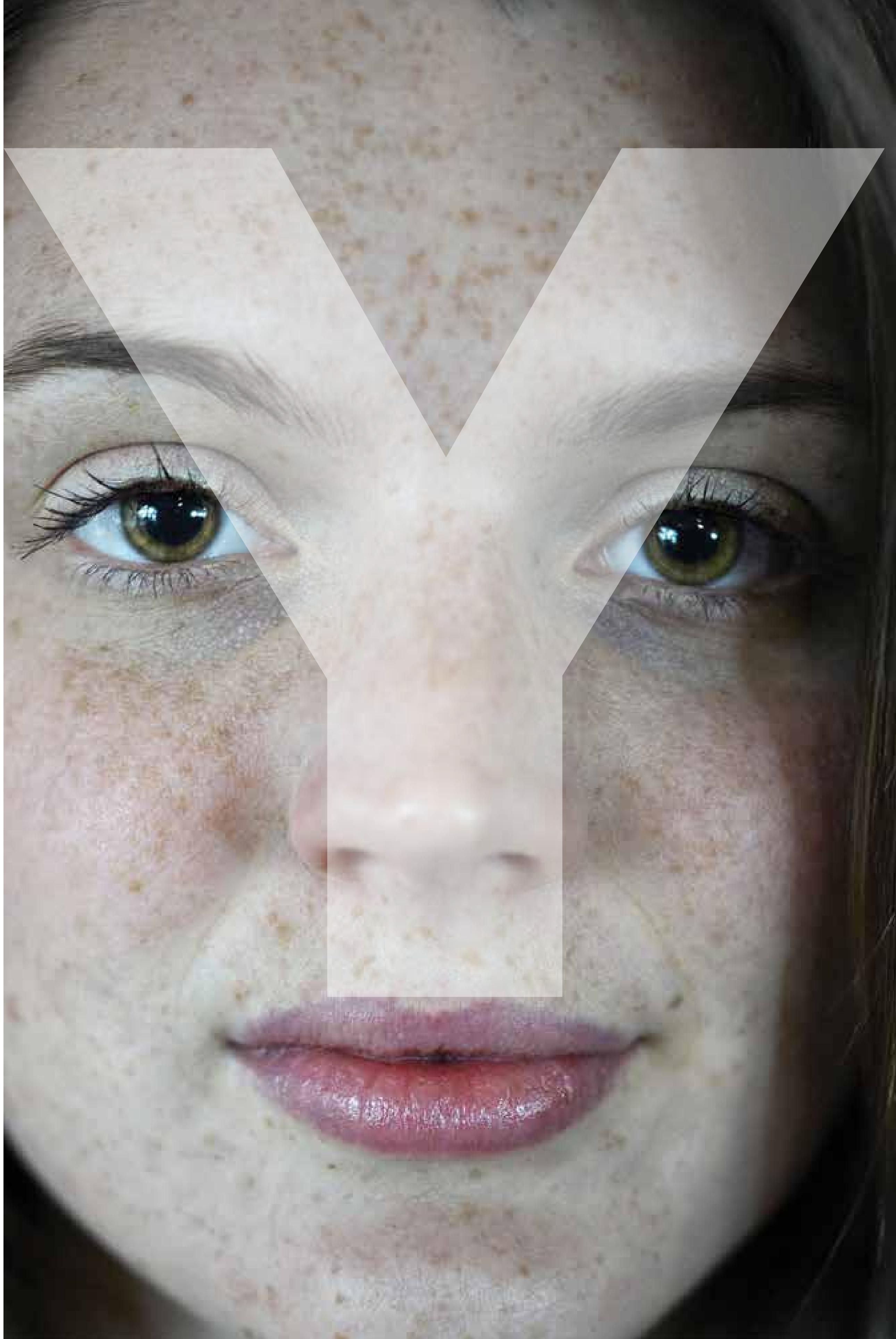
Career motivators for managers have changed substantially over the past three generations. While Baby Boomers, that is today's 50- to 60-year-olds, valued long-term prosperity and security in retirement, Generation X, now in their mid-40s, focused much more on the short term, on making the best possible career for themselves and acquiring status symbols to match. Generation Y, however, is primarily motivated by a good work-life balance, followed by a desire for (work) content driven self-realisation. Only then do they name career ambition as a motivator.

Odgers Berndtson has conducted many polls and international studies in recent years that substantiate these claims. Our global study *After The Baby Boomers*, looked in detail at how companies can prepare themselves for a new generation of leaders by talking to 100 senior leaders of global companies. At Odgers Berndtson Germany our 'Manager Barometer' interviews some 1,200 executives a year about their career motives, commitment and personal work-life balance, highlighting the degree of change in the career motivation of young managers.

A full 62 per cent of the leaders surveyed in the latest 'Manager Barometer' study stated that their greatest motivator was being able to apply their personal strengths and talents and developing their professional potential. Enjoying the role of leading, which used to be the top motivator, has dropped to second place (58 per cent). In fact, for Generation Y managers, leadership comes in only fourth on their list of career motivators.

The fact that Generation Y is less keen to pursue careers than Generation X has also been confirmed in a survey we recently conducted among the 500 largest companies in Germany. More than 70 per cent of recruitment managers surveyed noted a sharp drop in the willingness of junior managers to put professional goals before private interests. They also said that, compared to their own generation, the younger managers were less willing to abide by established values and behavioural norms in the workplace (65 per cent), to take responsibility for decisions →

PHOTO: ALAMY



(37 per cent), or to be geographically flexible about where they would work (37 per cent).

Only time will tell whether this means that Generation Y will subsequently refuse to pursue *careers* as such. So far, they are still young and only just setting out. Could it be that the strengths this generation has will prove to be of great value to their companies? Will the young, internationally trained and highly networked Generation Y managers turn out to have precisely the skills their company requires down the line?

After all, it should be remembered that, alongside this seismic generational shift, world economy is undergoing dramatic change. The main drivers are 'disruptive technologies'. Agile and other novel types of enterprise, generally built on technology-driven or internet-based business models, are challenging traditional ecosystems and creating new ones. In order to survive this massive change and to be in a position to take advantage of the opportunities it provides, many international companies are currently working very hard to transform and innovate their business models to integrate global processes, organisational units and IT systems.

Michael Diekmann, CEO of Allianz Group, one of the leading integrated financial services providers worldwide, says:"Digitalisation is a key need for Allianz's business model. New technologies will enable Allianz to meet the evolving needs of its clients, develop new products and tariffs and become more efficient and competitive."

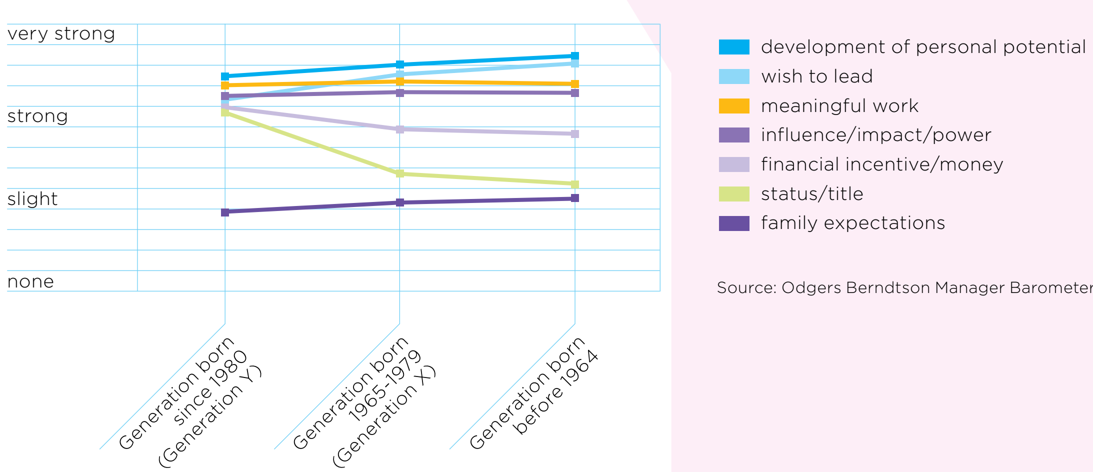
Timotheus Höttges, CEO of Deutsche Telekom, is even more explicit: "The creation of value will be driven by software, not from traditional value chain competences ... everything that can be digitalised and connected will be digitalised and connected."

What global leaders increasingly require are leaders and young talent that can think disruptively while cautiously transforming existing organisations. Even if the recruiters say that Generation Y needs to do some catching up in terms of building expertise, being willing to lead and developing career ambition, they also unanimously praise this generation's better foreign language and internet skills as well as its distinctive team working and networking abilities. Generation Y managers bring a considerable degree of cultural fluency, technological affinity and networked thinking to the table. As digital natives they are used to dealing with rapid changes and have learned to help shape them.

How can global companies attract this talent and retain them over the long term? One thing is certain: Generation Y managers won't be steered by the companies' current incentive models. A bigger office, more staff responsibility or a higher salary are no longer sufficient to keep Generation Y on board or to motivate them to accept leadership roles.

I PERSONAL MOTIVATORS

Young managers value meaningful work more highly than leadership



Source: Odgers Berndtson Manager Barometer

II COMMITMENT TO WORK

Work-life-balance more important than pursuing a career

How do you assess the commitment to work among today's college graduates, compared to those graduating in the 1990s...?

Source: Odgers Berndtson Manager Barometer

Standard staff development models no longer meet the expectations of young managers. In the future, companies will have to tailor development programmes to suit this younger breed of staff. Their first priority should be to address the increasing degree of leadership fatigue among managers by getting to know them better on a more individual basis.

A manager's desire for more individualised, personal career development is also evident in the findings from our 'Manager Barometer'. Not only do the managers we interviewed want to be more involved in systematic career and management programmes (60 per cent), they would also like to receive closer guidance from experienced senior executives – for example, through coaching (49 per cent), mentoring (37 per cent) or institutionalised knowledge transfer from 'old to young' (35 per cent). In addition, the respondents want more in-depth preparation for their leadership tasks, and would like the line managers closest to them to bear that responsibility.

The Generation Y cohort is clear on one overriding thing: it knows what it wants in the workplace and expects companies to respond to its demands if they are going to get the best out of them. Even if young managers have some workplace lessons to learn, the great challenge in the coming years will be for companies to develop a better understanding of this new generation of managers, and to adapt working conditions and HR development goals to accommodate them. Only by embracing such change will companies survive the current upheaval and remain truly competitive on the world stage. ■

The 'Manager Barometer' and 'After The Baby Boomers' *studies are available for download at odgersberndtson.de and odgersberndtson*.com.

Adrian Fischer is a member of the Information and Communications, Business and Professional Services and Industrial Practices at **Odgers Berndtson** Germany

Bookshelf

BOOKSHELF

Observe chooses some of the latest business books covering topics from the global crash of 1914 to cultural intelligence

Saving the City: The Great Financial Crisis of 1914
Richard Roberts
Oxford University Press, Hardcover
$31/€25.65/£20
e-book $21.82/€14.61/£13
Professor Roberts tells the largely untold story of the dramatic financial crisis of the summer of 1914 that surged around the globe. In this centenary year of the outbreak of World War One, and with the most recent financial crash still reverberating, Roberts' book is a must.

Watch the interview with Professor Roberts, in the *Observe* App

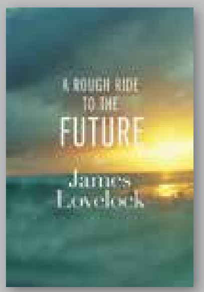
Beauty Queen: Inside the Reign of Avon's Andrea Jung
Deborrah Himsel
Palgrave Macmillan, Hardcover
$26/€19.85/£17.99
e-book $20.33/€14.61/£12
Andrea Jung was arguably the world's most charismatic CEO, credited with the revitalisation of an iconic brand. But then it all went horribly wrong as Deborrah Himsel, former VP at Avon, vividly explains. She asks: "What makes great leaders great? And what makes them fail?" As Himsel discovers, there's a thin line between pride and hubris.

Why Marketing to Women Doesn't Work
Jenny Darroch
Palgrave Macmillan, Hardcover
$35/€29.33/£22.99
Women are now seen as the largest, most lucrative and most active market of all. Organisations are fine-tuning their marketing strategies to better reach women, yet they continue to target them incorrectly, which risks alienating both their female and male customers. Darroch's book is a wake-up call for all those marketers who think marketing to women is easy.

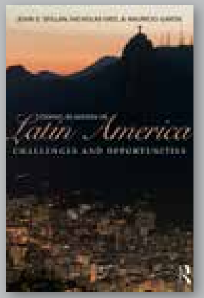
Secrets of Silicon Valley
Deborah Perry Piscione
Palgrave Macmillan, Paperback
$17/€14.04/£10.99
e-book $12.99/€14/£12.80
Not *another* book about Silicon Valley? Well, yes, but this one takes us right inside the Valley's vibrant ecosystem where meritocracy rules the day. Piscione explores the Valley's exceptionally risk-tolerant culture, and why it thrives despite the many laws that make California one of the worst states in the union for business. She argues that the Valley's unique culture is the best hope for American prosperity and the global business community.

Capital Wars
Daniel Pinto
Bloomsbury, Hardcover
$42/€32.07/£25
e-book $19.01/€15.75/£11.32
Pinto's ground-breaking book is subtitled '*The New East-West Challenge for Entrepreneurial Leadership and Economic Success*'. Pinto doesn't shirk from tackling big themes and, although not everyone will agree with his thesis, his book demands attention.
READ OUR EXCLUSIVE INTERVIEW WITH DANIEL PINTO ON P48 OF THIS ISSUE OF *Observe*.

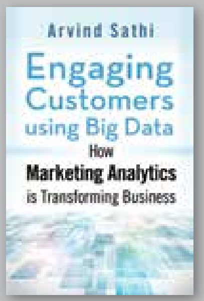
Cultural Intelligence
Julia Middleton
Bloomsbury, Hardcover
$42/€31.91/£25
e-book $28.82/€14.54/£17.06
Middleton's thesis is this: with vast amounts of money being invested in building global brands and companies, where are the global leaders who will lead them? Leaders who can cross cultural boundaries: between east and west, and north and south; between faiths and beliefs; between public, private and voluntary sectors; and between generations. Middleton says the race is on to develop leaders with CQ – or cultural intelligence.



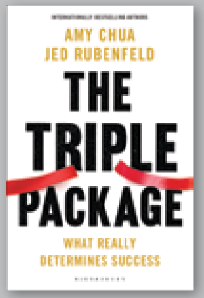
A Rough Ride to the Future
James Lovelock
Penguin, Hardcover
$14.56/€21.72/£16.99
e-book €13.99/£11.99
The latest offering from Lovelock – he of the Gaia Theory – presents a radical vision of humanity's future as the thinking brain of our earth-system.



Doing Business in Latin America
John E. Spillan, Nicholas Virzi, Mauricio Garita
Routledge, Paperback
$64.95/€52.37/£40.99
e-book $62.25/€33.72/£37.07
An in-depth look at a complex and increasingly important trading region. This practical and scholarly account is likely to be a key reference book.



Engaging Customers using Big Data
Arvind Sathi
Palgrave Macmillan, Hardcover
$30/€25.60/£19.99
Big Data is rapidly transforming business functions across many industries. Sathi shows marketers how to seek small samples from their customers to observe behaviour, predict changes and act using a series of unconnected business actions.



The Triple Package
Amy Chua, Jed Rubenfeld
Bloomsbury, Hardcover
$27.95/€21.24/£18.99
e-book $14.69/€12.44/£8.75
This controversial *New York Times* best-seller pulls no punches in its analysis of the social pressures underpinning success and failure.

Daniel Pinto wants to radically change our view of corporate and political leadership. FELIKS POLONSKI went to meet him

PHOTOS BY DANIEL HAMBURY/ STELLA PICTURES LTD.

REINVENTING LEADERSHIP

The London office of Stanhope Capital, one of Europe's largest independent investment firms, with some $9 billion of assets under management, is a most unlikely setting for radical ideas, proposals that could be utterly transformational for companies, stock markets… capitalism itself. Yet the man who established Stanhope, Daniel Pinto, is embarked on an evangelical crusade no less revolutionary than Luther's. Cleansing the Augean stables of Western capitalism is, for Pinto, a huge but vital task. For him, a cabal of poor corporate and political leadership brought Western capitalism to its knees, where it remains today; without more intelligent corporate and political leadership it's in danger of falling flat on its face.

All kinds of phoenixes have arisen from the ashes of the recent financial crisis. One of the most promising birds is *Capital Wars*, a book first published by Pinto in his native France in 2013 and that is now available in English-language markets. *Capital Wars* is a chilling diagnosis of how the West has, through its own short-termist, instant-gratification mentality, lost ground to the rising economic powers of Asia. Its subtitle – '*The New East-West Challenge for Entrepreneurial Leadership and Economic Success*' – well summarises what follows: the financial capitalism eagerly embraced by the West in the past few decades, vastly rewarding senior executives who have little or none of their own wealth invested in the company they run, has "booted out [the] entrepreneurial capitalism" that remains at the heart of economies in the East.

The book fizzes with reformist ideas, not least of which is a sliding scale of tax rates applied to capital gains; the longer shares are held, the lower the tax. "This measure would have a two-fold impact: first, it would rebuild bridges between companies and their shareholders; second it would reduce overall market volatility."

For Pinto, a former SG Warburg (and later UBS) senior banker specialising in M&A, the relative decline of Western capitalism while Asia's has powered ahead is the consequence of a series of mistakes that Western companies, states and voters have colluded in making. Meanwhile, we have lost sight of the pivotal role of the state. As Pinto asserts: "Somewhere between the redistributive state and the saviour state there is also the *partner* state …We in the West have almost completely abandoned the concept of industrial policy … Genuine industrial policy involves identifying the key industries in which the state is willing to dedicate resources over the long term and stimulating the private sector to better co-ordinate its efforts."

ABOUT DANIEL PINTO
Pinto has considerable experience in wealth management and merchant banking, having advised some of Europe's most prominent families and industrialists for over 20 years. Formerly Senior Banker at UBS Warburg in London and Paris, he holds a Harvard Business School MBA, and an MSc in Finance from Universite Paris-Dauphine. He is currently Chairman and Founder of the New City Initiative

For Pinto, "the problem with business leadership in the West today is that it has moved from an owner-managed model to a place where leaders are no longer owners. They have become professionalised, reporting to a shareholder base that is faceless, and both CEOs and shareholders are only focused on very short-term results. There is an urgent need to fix this leadership deficit."

While the owner-managed enterprise has all but disappeared in the West, and the state has withdrawn from what ought to be its prime functions – planning and co-ordination – and withered to the point where it is perpetually firefighting inexorable welfarist problems, Asia's state-entrepreneurial and family capitalism can rely on a stable shareholder base, which allows their companies to build for the long term. "Western business leaders live under the dictatorship of the next analysts' meeting and are required, implicitly or explicitly, to make decisions for tomorrow, not the day after. The central problem is not globalisation. It's the fact that the West has killed the entrepreneurial spirit.

"We have Sarbanes-Oxley [the US Act of 2002 requiring board directors to individually certify the accuracy of financial information] now applied everywhere, but we have still ended up with the boards of many public companies not being competent enough to run the company."

Why? Because boards have become emotionally detached from their businesses. What, for example, does a non-executive director of a soft drinks company know about how to run a bank? Just because they are supposedly 'independent' doesn't mean they can make a better contribution. Such directors turn these boards into bastions of conservatism."

Pinto would like to see a bit of backbone when it comes to boards – and remuneration to change accordingly. "Directors should be properly incentivised. If a director gets a fee of £100,000 a year then that fee should be tied to failure as much as success. When a CEO is appointed to run a company, they should be asked to invest 10 per cent of their own wealth in that company, to demonstrate that they believe enough in the business that they are prepared to act like an owner of that business. It's not a magic number, it might be more, or less, but it should represent a significant portion of that →

> The central problem is not globalisation. It's the fact that the West has killed the entrepreneurial spirit

person's wealth. We need to recreate the conditions of owner-managed businesses, change the relationship between CEOs and the business they are in charge of." Among the many ideas Pinto has floated is the suggestion that entrepreneurs who sell out of their companies quickly should face punitive tax rates, while those who stay the course for one or two decades and really build their business should be rewarded by much lower tax rates.

For Pinto, the financial industry has become too powerful; it should be there to serve, 'to pass the plates'. Today, banks in the West are everywhere in the food chain, and have lost sight of their function. As he says: "The bad news is that the planet's main financial institutions have become too big to manage. It has become near impossible for them to control their own risk." In order to combat this short-termist mentality, in 2010 Pinto founded the New City Initiative, an association of independent, owner-managed British and continental European fund managers who pledge themselves to a long-term approach to investment – years not months – and who each invest their own wealth in the funds they sell to clients, ensuring alignment of interests between manager and client.

According to Pinto, in the West: "There is a direct correlation between the ephemeral nature of our corporations' shareholders, the short-term thinking of our business leaders and our general loss of competitiveness. As long as we fail to break this chain, we will be unable to regain the initiative." In essence, Pinto wants us – in the business and political worlds – to rediscover leadership. Pinto is that truly rare thing – an intellectually gifted business leader with a practical vision, who knows from two decades of experience what he's talking about. Without this kind of practical thinking we are destined to decline further. ■

Feliks Polonski is a freelance journalist specialising in international business affairs

Leadership in times of crisis

TROELS GJERRILD and LINE HENRIKSEN look at what it takes to be a successful leader in an age of flux

ILLUSTRATION: PETER LUBACH

Most successful modern executives are crisis leaders par excellence. Often they are chosen because their personalities fit culturally with their organisations and that brings authenticity to their leadership, which is priceless in times of uncertainty.

Crisis, and sometimes even catastrophe, is the occurrence of events – and subsequently their effects – that we were not capable of predicting or did not expect. In a world characterised by a high degree of complexity, predictability is in short supply. This has radically changed the roles of our leaders – both in corporations and society in general.

In the industrial society, due to a more linear relationship between cause and effect and a transparent net of connections, events could be predicted with much more certainty than is the case today – long-term plans used to make sense in a way they rarely do in the information society. The modern executive does not make a five-year strategy because (s)he does not know what the world will look like in five years' time. Just think about the changes the technological development has brought about in the past decade and imagine the transformations that will take place in the next.

So talking about leadership in times of crisis is talking about leadership in a complex world. First and foremost, this means executives must be aware that they have to deal with unknowns, and it does not deprive them of their power to make and execute decisions. Secondly, they surround themselves with people capable of transforming known unknowns into knowns. Thirdly, they have the ability to make stakeholders followers, instead of just employees or customers.

The difference between any stakeholder and a real follower is that the latter will go with you even when (s)he does not know the exact destination or the obstacles to overcome on the way. When Jørgen Vig Knudstorp became CEO of the LEGO Group in 2004, the company was facing deep crisis, and he had to make serious structural changes and significant staff cuts to meet it. In one speech, he communicated those changes to his employees *and* asked all of them, including the dismissed group, to work for a while longer. And they did, because they had faith in him.

Typically, top executives who succeed in creating followers among their stakeholders possess excellent communication skills and their personal values and convictions align with those of the company. This combination allows them to lead authentically, even in times of uncertainty. From an executive search point of view, this implies that the days of searching solely for professional competencies are long gone. We must find not just the best professionally qualified leader but also the person just right for the company, the one the organisation will follow even if the destination is not clear. ■

Troels Gjerrild is Managing Partner and **Line Henriksen** is a Business Researcher at **Odgers Berndtson** Denmark

China looks inward

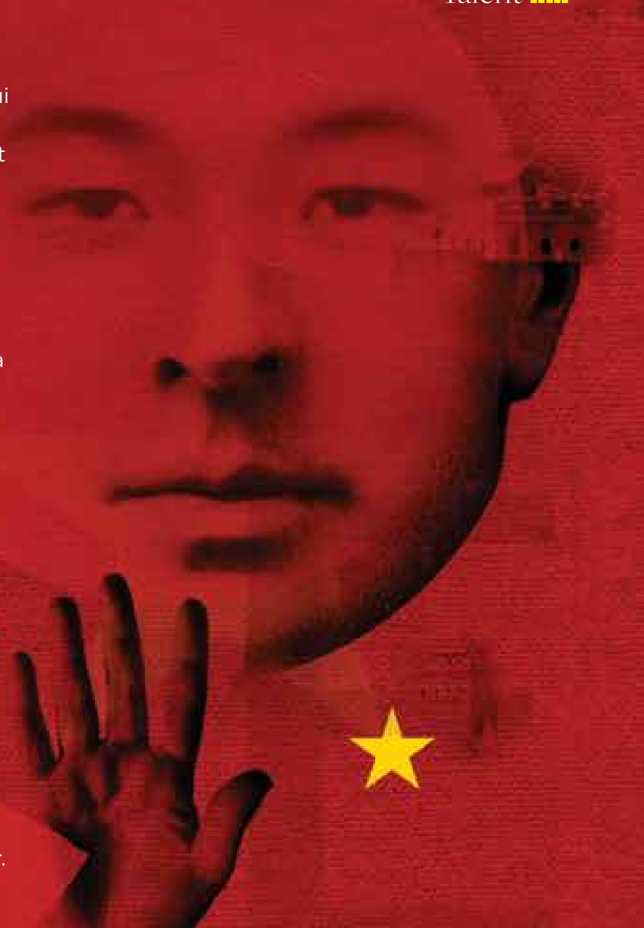
In an unexpected turn of events, companies in China are now increasingly seeking out locally educated talent rather than returnees because they better understand the new Chinese consumer

Since as early as the beginning of the 20th century, Chinese students have left their home country to pursue the best in higher education. Venturing overseas to universities in the U.S. and throughout Western Europe, they have aspired to learn the modern skills, theories and technologies of the Western world. Early days produced some of China's nation-builders, including the father of China's modern economic reform, Deng Xiaoping. Today, these overseas students have become the founders, CEOs and executives of some of China's biggest organisations: Robin Li, CEO of Baidu; Charles Chao, Chairman of Sina; and Charles Li, CEO of the Hong Kong Stock Exchange.

This trend has been most significant over the past 30 years, with 2.64 million Chinese going abroad to study since then. Most, attracted to overseas lifestyles and careers, or educational opportunities for their families, choose to stay abroad. However, the proportion of those who return to work has increased over time as the Chinese economy has developed in size and complexity. That proportion stands at one-third today. These returnees are dubbed hai gui, or its synonym, 'sea turtles', in English, and have traditionally found themselves the darlings of local Chinese organisations and companies eager to leverage their learned modern skills.

However, the nature of the demand for hai gui is changing. First, the quality of education in China has seen vast improvements over the past decade, and more teachers educated overseas are returning to teach China's youth. Their outlook is becoming more international, and Western teachers are also brought in to teach foreign languages. The laurels of a basic college degree earned at China's top universities versus those overseas are not so divergent.

Second, a maturing of the Chinese economy has meant that Chinese companies have become better able to compete with foreign firms in the domestic market, so the need for hai gui has decreased. Instead, young Chinese who know the domestic Chinese market are in increasing demand to help domestic companies compete with multinationals at home, and then help those same Chinese companies go abroad to invest and do business.



Today, a stint abroad represents a potentially heavy opportunity cost for a student who can become woefully out of touch with China's domestic market and the new Chinese consumer. That means increasingly more hai gui have been unable to find meaningful work back home when they do return. In China, there is a new term for such students: hai dai, or seaweed.

The trend can be seen across multiple industries: China's financial services, automotive, e-commerce and consumer industries are less eager to take on hai gui, preferring to seek out young people educated in China who have a deep understanding of the Chinese market, and are in tune with today's contemporary Chinese consumer.

Nevertheless, companies in service industries still value returning oversees students for the skills and global view they bring to their jobs. And, for Chinese firms going overseas, hai gui may be in even greater demand for their dual advantages in understanding Chinese culture, while armed with valuable research and development expertise learned abroad.

This last point is significant because China's economy is evolving. Last year, Chinese company Shuanghui International bought Smithfield Foods, the largest Chinese purchase of a U.S. company. China's e-commerce giant, Alibaba, which boasts a China sales volume greater than that of Amazon and eBay combined, is set to file for an initial public offering in the U.S. this year.

As China increasingly asserts itself globally, demand for younger talent from many Chinese companies going abroad will continue to grow. China needs talented young people who can make local companies more global. The new recruits need to have experience and capability. Those who don't have real working experience in other countries will not be able to help Chinese companies.

What does this mean for the hiring of executives in China? Hai gui are part of a mix of talent that has developed over the last few decades. The mix now includes, in addition to hai gui, Hong Kong and Taiwanese, as well as foreigners who have been working in China for most of their careers.

The spectrum of talent is much more diverse now than just a few decades ago. Diverse business needs will drive recruitment of people from varied backgrounds who have the ability to deal with all types of stakeholders. Young Chinese seeking to enter the mainland labour force from the mainland, Hong Kong or Taiwan will need to adjust their skill sets accordingly. ■

Matthew Maslin and **Cecilia Tsim** are Managing Partners at **Odgers Berndtson** Hong Kong

ILLUSTRATION: MATTHEW RICHARDSON

Paul Deighton, former COO of Goldman Sachs in Europe, took on the task of running the London 2012 Olympic Games...

WHY I TOOK THE JOB

Observe: So why _did_ you take the job?
Paul Deighton: Because they let me! I couldn't believe it. Why was I qualified? I'd been an investment banker my entire career, nearly all of it at Goldman Sachs, and here they were prepared to let me take charge of the biggest sporting event on the planet. The Olympic Games would be something absolutely magnificent and I wanted to be part of it.

What was the first thing you encountered?
I can remember when they announced I was taking the job I realised I had moved from an industry that was very much business-to-business and wholesale, into a business that was very much consumer oriented with massive daily press interest. So on day one I am introduced to the press and I am sitting next to Seb Coe [Lord Coe, Chairman of the London Organising Committee for the Olympic Games] and people are asking me: 'What was my greatest sporting achievement?'. And then the press asking me: 'What are your first Olympic memories?'.

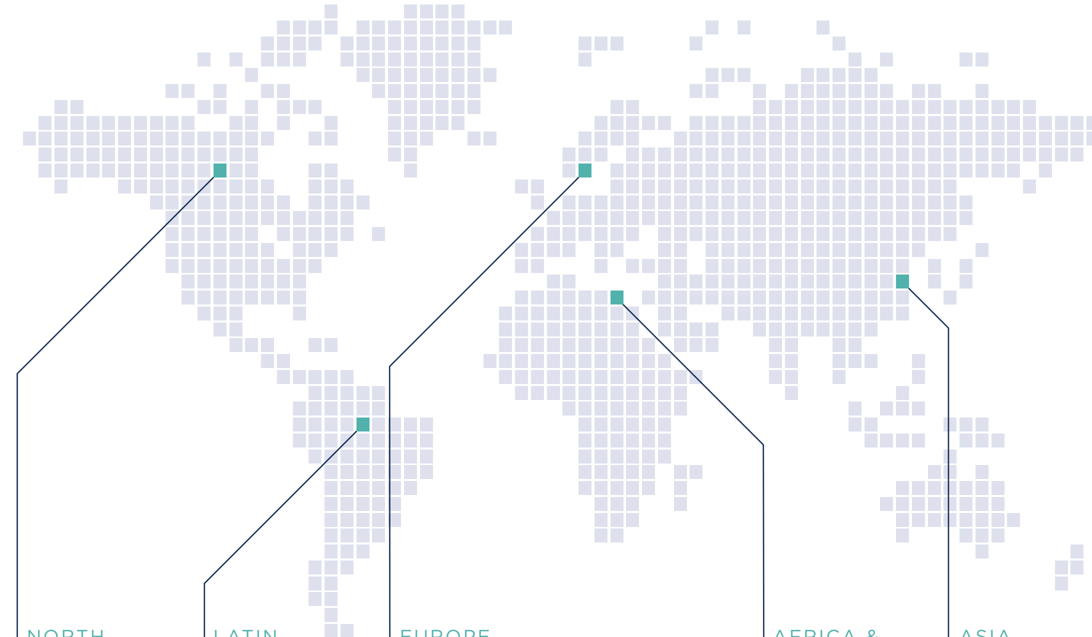
I remember I said David Hemery winning the 400m hurdles in Mexico City. To which one of the journalists yelled out: 'Who came third?'. And I gave them the the answer, which is of course John Sherwood!

What were the most critical moments?
There were lots of critical things you had to get right. The first one was to pick the right senior team, because it was too big and too complicated for me to micro-manage everything. So you had to build a core management team that could manage growth through every stage of an organisation. So getting your key hires right was absolutely critical. But really I spent the first two or three years of the seven year programme really finding out what we had to do in detail, then finding out who was going to do it, then making sure we had the money to pay for it.

What type of people were you looking for?
The beauty of the Olympic Games is that because it is of such a scale and is so inspiring you can attract top class talent. Some of the people I hired were a bit like me; they'd done OK in major organisations but had one big job left in them and thought that doing something like this would be a spectacular way to go out! But I also got some young people who grew with me through the journey and you had to make sure they had the capacity to do that and mentor them through the challenges.

One enduring memory?
The torch relay. As we went from town to town and the crowds got bigger and bigger and more and more enthusiastic, I realised the British people had adopted the Olympics as their own. At that point I knew we had a phenomenon on our hands and it was our job to make sure we cleared out any potential problems and just let the people turn it into an incredible success.

Lord (Paul) Deighton is now Commercial Secretary to the Treasury in the United Kingdom



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