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Leadership in a Two-Speed Economy

Conversations with CEOs on Straddling Different Worlds

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LEADERSHIP IN A TWO-SPEED ECONOMY

CONVERSATIONS WITH CEOS ON STRADDLING
DIFFERENT WORLDS

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JUGGLING ON A TIGHTROPE

CURRENTLY, MOST GLOBAL COMPANIES are operating in a two-speed world, yet this scenario was not on the drawing board when today's leaders were rising through the ranks.

The length of the economic malaise in mature markets and the sustained growth of emerging markets have jumbled the deck for them. Emerging markets are no longer satellites circling far away from the center. Leaders now must figure out how to fold their emerging-market businesses into the core of their companies and generate predictable returns from their still sizable mature-market businesses.

Ultimately, today's chief executives will be judged on how well they manage this balancing act of leading in a two-speed world. Half of the global GDP growth in this decade is expected to come from Asia. Brazil will deliver greater growth than Germany, France, or the U.K.

And it is not just the speed of emerging markets that is different. Culture, talent, business models, and the role of the state all play out differently in these economies. The emerging markets are also producing global challengers, companies that rival traditional multinationals for industry leadership.

To understand how companies are navigating these two worlds—and the new competitive order—we have spoken with seven chief

executives, who shared their perspectives in interviews:

- Nils S. Andersen of A.P. Moller–Maersk Group
- Ki-Seok Park of Samsung Engineering
- Siegfried Russwurm of Siemens Industrial Sector
- Howard Schultz of Starbucks
- Jean-Pascal Tricoire of Schneider Electric
- Lorenzo H. Zambrano of CEMEX
- Dieter Zetsche of Daimler

The gaze and orientation of these chief executives are shifting increasingly overseas, especially toward emerging markets. Across all the interviews, the leaders highlighted the same four critical capabilities, specifically the need to excel at:

- Leading from the global field
- Feeding two beasts
- Managing the new rules of culture and engagement
- Creating a global talent pool

Leading from the Global Field

CEMEX, Daimler, Maersk, Schneider Electric, and Siemens each do business in more than 100 countries and have manufacturing operations in dozens of them. Starbucks has stores in 60 countries. Samsung Engineering is managing projects in more than 20 nations. So even if these companies' chief executives were able to *manage* businesses from headquarters, they could not *lead* their people in the outer reaches of their empires from afar.

Leadership is a contact sport. People want to know their leaders. "We are a company that benefits from physical meetings and being in close touch with our people," Schultz said.

"Reality happens in the field, with customers and with employees."

The flip side, of course, is that leaders need to know their people and the businesses that they run. "When you meet the frontline, you get the truth," Andersen said. "If you just stay at your desk, you lose relevance."

Leaders of large businesses have always been on the road; this is not a new development. But now the stakes are higher. With so many key overseas markets demanding attention, it is more difficult to check the pulse of the people, to gauge the effectiveness of local leaders, and to know when to intervene.

Based in Hong Kong, Tricoire is on the road about 80 percent of the time. As he puts it, "Reality does not happen in corporate. Reality happens in the field, with customers and with employees." Zetsche also is a frequent flier. "Even five years ago, most of my entry stamps in my passport would have been from the Western Hemisphere. Today, most of them are from Asia," he said.

Tricoire frequently travels alone. "When I arrive at Schneider in another country, I am with the people of the country. There is no barrier or no interpreter in between the teams and myself. After a few days together

without any protection, I hope that people dare to tell me the good, the bad, and the ugly," Tricoire said. "My job is to deal with the bad and the ugly, and to support them to do the good."

Russwurm uses customer visits as an opportunity to become familiar with the local staff. "I see how they interact with the customer, how well they understand the customer's needs, and how well they argue the Siemens value proposition to specific customers," he said. "That is a wonderful source of insight."

The Siemens managing board frequently meets in emerging markets, but it does not simply sit in a conference room. Following a presentation by the local leadership team, the ten board members fan out into the field and visit with customers and government officials.

"After two days, we reconvene and try to consolidate typically 200 touch-points to see if they mesh with the descriptions that our local team has given us and to reach conclusions. What are the investments that Siemens should make in these regions?" said Russwurm.

This approach neither replaces nor undercuts the delegation that executives are taught is necessary to run large, complex, multimarket enterprises. But it does remind us that while management requires delegating, leadership demands getting dirty.

Feeding Two Beasts

For all the promise and potential of emerging markets, the center of gravity for Western-based companies is still located in mature markets. The developed world generates most of the revenues, employs most of the people, and houses most of the assets. Also, a company's culture is generally formed in its home country. Against the backdrop of these realities, nurturing small but fast-growth markets can be tricky; they risk being smothered by the institutional inertia and a history of operating in mature economies.

Alternatively, senior executives might become overly enamored of emerging markets and

lose sight of the challenges of operating in mature markets. “You have to be very aware that the slow-growth markets need a lot of attention precisely because they have to do many things well in order to survive in a highly competitive environment,” Zambrano said.

One of the hardest things to do is directing resources where they are needed most—and that may be away from the mature markets. “In slow-growing or no-growth areas of the world, you have to be very firm. As much as they would like to keep the funds they generate, they do not need the money,” Zambrano said. “So it has to go to where you actually get a better financial return.”

Emerging markets frequently require specific products and services tailored to their income levels, infrastructure, traditions, and habits. Maersk, for example, would not be able to enter the shallow ports in many emerging markets if it hadn’t added special ships. And yet, if every market is free to do its own thing, the advantages of scale, brand, and consistency fall away.

One way in which Starbucks has managed that tradeoff is by reorganizing around three regions—the Americas; Asia-Pacific; and Europe, the Middle East, and Africa—rather than functions. The Americas region is disproportionately larger than the other two, but what the new structure lacks in symmetry it gains in agility by pushing decision-making closer to the customer. The regional presidents effectively operate as the “CEOs of their own businesses,” Schultz said.

“If the stewards of any consumer brand believe that they can create local relevance sitting in a white tower somewhere in the U.S.—and dictating the ways in which consumers will react all over the world—they are on a collision course with time,” said Schultz. “The challenge that we have to understand and overcome is creating the balance between the Starbucks experience that customers all over the world expect and desire and a healthy dose of local relevancy that demonstrates respect to the local customer.”

Siemens and Maersk are both organized around vertical business units, rather than re-

gions. To ensure that attention is paid to emerging markets, Siemens has implemented mechanisms and formal structures that foster its vertical businesses.

Maersk divided responsibility for 15 fast-growing, high-priority markets among its six-member executive team. “We are responsible for determining whether there are new activities or synergies that we can take advantage of in terms of cross-selling in these countries,” Andersen said.

“Our culture is a culture of local empowerment and decentralization.”

Forty percent of Schneider Electric’s revenues are generated in what Tricoire calls “new economies,” so the company is accustomed to meeting the specific needs of these markets. “Our culture is a culture of local empowerment and decentralization,” Tricoire said. “One of the assets that we have benefited from in new economies has been our capability to trust our local employees and local teams and give them the capability to adapt our approaches and business model.”

Managing the New Rules of Culture and Engagement

Culture is the glue that unifies disparate businesses into an organization greater than the sum of its parts. But global organizations will not capture the true value of emerging markets if the glue does not allow for local wiggle room.

The energy and vitality of emerging markets are part of what makes them special. “An important thing we can learn from developing markets is their enthusiasm. The willingness to go after growth and seize opportunities is refreshing,” said Andersen.

At the same time, however, letting a thousand flowers bloom could lead to mild forms of corporate anarchy. There needs to be a common culture, built around broad principles

and values, that both celebrates local nuance and corrals it. “We are responsible, excellent, and innovative. That is true wherever Siemens operates,” Russwurm said.

Samsung Engineering focuses on its corporate values but also remains sensitive to local custom and convention. But, as Park explained, “We also aim to be a local company within each market we serve, respecting cultural or religious differences and diversity. We adjust our working styles, for example, to accommodate daily prayers. We call this balance between integration and localization *glocalization*.”

At Schneider Electric, new employees frequently tell Tricoire that his company has a strong culture. “But that does not mean that the people of Schneider China operate the same way as the people of Schneider U.S. do. They operate with different soft skills, but they share the same values,” Tricoire said. “Our values are what keep us together. Straightforward dialogue is one of the important values that we carry together.”

“We call this balance between integration and localization *glocalization*.”

In China, Starbucks recently held two meetings, one in Beijing and one in Shanghai, for the parents of employees. The meeting served as a way to express the company’s understanding of the importance of family in China. “It was as locally relevant as anything we have ever done,” Schultz said. “And yet it was part of the culture and fabric of our 40-year history.” While Schultz recognized that this “annual meeting of parents” may not work globally, he said he believes that it shows the new ways that today’s leaders and their teams engage with employees.

Social media has also changed the nature of the relationship between companies and the market and their employees. The instant communication of fact and fiction raises the stakes for leaders. “You have to be authen-

tic,” Zetsche said. “Once you accept that, it becomes a tremendous opportunity.”

Creating a Global Talent Pool

The seven leaders spotlighted here all run businesses that boast strong employer brands. But even as employers of choice, both in their home markets and abroad, these companies face stiff competition and challenges in developing a global pool of talent—employees who can move seamlessly across emerging and developing markets.

“The typical board of a German company is male, white, 60, and German,” Zetsche said. “When you want to ‘conquer the world,’ it is certainly not a recipe for success for the future.” Over time, Zetsche explained, Daimler will promote non-German executives so that the board is “ultimately representing the markets that we are doing business in.”

Starbucks, for example, has tended to rely on expatriates to run businesses in emerging markets, in order to ensure that the Starbucks culture is properly incubated. Starbucks, in the words of Schultz, has always sought to be “a different type of company that would balance profitability and benevolence.” It is therefore difficult, he explained, to build “an organization with people who are not imprinted with the history of Starbucks.” Relying on expatriates is an expensive approach, so Starbucks is working to develop local leaders who can rise through the ranks.

Maersk has a rich and long history of global talent mobility. More than 70 nationalities are represented in its headquarters, and mid-level executives frequently rotate between mature and emerging markets. Yet mobility slows as executives move up the ranks. It is far easier to move from an emerging to mature market as a sales manager than as a country manager. “We are increasing our recruiting activities for top talent in the developing world and trying to diversify the skills and cultural background in the group. But it is a work in progress,” Andersen said.

Schneider Electric has actively sought to encourage that type of movement through pro-

grams such as Marco Polo, which allows recent graduates to work outside their country of origin for their first two years of employment. “If you are like me—a gypsy and ready to go to one place and to the other one, to bring your know-how, and to mingle with other communities—this is a very exciting place to be,” Tricoire said. “We believe that mobility and diversity are big sources of innovation and creativity.”

Mobility is a good thing so long as all the moving occurs within and not *beyond* the organization. As Zambrano said, “Even in areas of the world where unemployment is high, unemployment for very talented individuals does not exist.”

Samsung Engineering engages in talent exchanges among markets as a way to reduce the gap in talent between mature and

emerging markets and to overcome cultural differences. “Our engineers in Korea are conducting projects with engineers from the U.S. and India. We are planning to continuously expand labor exchanges between our main engineering hubs in these three locations,” Park said.

Because these companies are desirable employers and have reputations for offering strong training programs, their employees are recruited frequently and aggressively, especially in emerging markets. “To keep the best and the brightest is an interesting challenge that we increasingly have around the globe,” Russwurm said. “We make quite the effort to ensure that those people stay with us.”

SERVING THE GLOBE, ONE MARKET AT A TIME

NILS S. ANDERSEN, CEO,
A.P. MOLLER–MAERSK GROUP

FOR A.P. MOLLER–MAERSK GROUP, the world has always been its market. Maersk, based in Copenhagen, has been carrying goods to the far reaches of the globe since 1904, so the shipping and oil giant is accustomed to dealing with all different kinds of customers and economies.

Nils S. Andersen, chief executive officer, says that Maersk’s global shipping heritage helps the company in today’s two-speed economy and across its varied commercial activities. While some Western companies struggle to adapt to fast-growing markets, Maersk has never had a choice: Because its traditional ships cannot enter many ports in Africa, the company has had to change considerably to gain access to some emerging markets.

In promising markets, Maersk has cultivated people “on the ground” who know the scene, so that when the company is ready to expand in a new area, it already has a head start. In recent years, Maersk has been making moves in many such markets, building its asset-intensive ports and terminals as well as its oil-rig and oil-exploration businesses.

One of the keys to success in these markets, according to Andersen, is an intense focus on customers whose needs often differ greatly from those of customers in developed markets. Maersk generates this customer focus through a decentralized organization. Strong

adherence to corporate values and culture bind the local businesses and markets together—and also give Maersk a built-in advantage

NILS S. ANDERSEN

AT A GLANCE

Born in Denmark
Year Born: 1958

EDUCATION

Master’s degree in
economics, Aarhus
Universitet



CAREER HIGHLIGHTS

- 2007–present, partner and group chief executive officer, A.P. Moller–Maersk Group
- 2001–2007, chief executive officer, Carlsberg
- 1999–2001, executive vice president and member of the executive board, Carlsberg
- 1997–1999, chief executive of the drinks division, Hero Group
- 1983–1997, various positions in marketing, sales, and general management including assignments in Germany and Spain, Carlsberg

OUTSIDE ACTIVITIES

- Member, ERT European Round Table of Industrialists
- Member, EU-Russia Industrialists’ Round Table Board Member, Inditex

as it expands. The company's strong reputation, Andersen explains, serves as a powerful calling card when dealing with local officials in developing markets.

Andersen recently sat down for a discussion with Grant Freeland, a senior partner and managing director at The Boston Consulting Group. Edited excerpts of their conversation follow.

What are some of the tensions in managing markets or businesses that are running at very different speeds?

We have been dealing with different markets for a long time because shipping, by definition, is global. Our company has been sailing into Asia since the 1920s, and we started shipping goods to Russia in 1904. If you go to Africa or to the smallest countries in Asia or Latin America, you will find a Maersk office there. We are located in more than 140 countries—and in some of those countries, we may be the only international company present. At our headquarters, our employees represent 75 different nationalities.

Today in some mature markets, we are affected by slow growth or recessions, and we have responded by focusing increasingly on growth markets. Still, we will maintain a strong presence in mature economies. They remain the largest economies and main destinations for growth-market exports.

In order to serve fast-growing markets, we have had to make sure that our shipping fleet has the capabilities and capacities that are required to go to ports that may not be up to the Rotterdam standard or that have inland logistics that are more complicated than those in Europe. We have trained our people and sent them around the globe so that they really know the world.

The whole world is our workplace. If one of our businesses wants to move into a country, we usually already have people on the ground who know the markets, the relevant decision makers, and the opportunities.

This has helped us tremendously in building up the ports business in growth markets over the past four or five years. We have built a

strong position in West Africa, and we are helping these countries join the global economy by cutting their wait time for vessels. In Latin America, we just signed a contract to build a new Pacific port in Mexico, and we are almost finished with a large terminal in Brazil.

At the moment, we are also using our contacts and global experience to build the oil business. We have recently entered Angola and Brazil. We are also looking at new opportunities for expansion in the Middle East. We use the great brand that we have to build up additional businesses.

“The whole world is our workplace.”

Is most of the talent in these markets local? How much of it is Danish talent? And do you try to manage that balance?

At our headquarters in Copenhagen, our top layers of management are largely Nordic for tax and other reasons. But around the globe, we mainly have local people. We also circulate talent so that, whatever your home market, you have great chances to move up the ladder or move into different countries.

What we have seen is that talent from developing markets tends to move to other developing markets. They can easily go and become sales managers in the U.S. or Europe, for example, but when it comes to managing countries, they typically have gone to other developing markets. That is not by design; it is just the way it has happened so far. Also, developing markets are diverse, and what motivates people in one region might not work in another. We are increasing our recruiting activities for top talent in the developing world and trying to diversify the skills and cultural background in the group. But it is a work in progress.

How does the strength of your brand in developing markets compare to its strength in Denmark?

Our brand is incredibly strong. In many developing markets, we are seen as a top employer. We are also known for providing very good education and training programs. Our brand is our strongest asset in recruiting.

You have a portfolio of different businesses and different markets. How do you make sure that they are receiving the right amount of management attention?

We adjust to account for the different levels of industry attractiveness through our investment allocations. To compensate for the weakness and volatility in shipping, we have decided to strengthen three additional legs in the group over the next strategic-planning horizon: oil, ports, and drilling.

In terms of geographic expansion, we have defined 15 promising countries that we call the M15; we have allocated responsibilities for these countries across the executive team, which comprises six people—including the CFO and me. We are responsible for determining whether there are new activities or synergies that we can take advantage of in terms of cross-selling in these countries.

Of course, at the end of the day, we are an asset-heavy company. So the proof in the pudding is where we have placed our investments. A couple years ago, we ordered 22 vessels specialized for Africa and 16 specialized for Latin America. Our terminal investments are almost exclusively in Asia, Latin America, and Africa.

“[W]e cannot have different values depending on the market.”

Where do you spend your time? How much time do you spend in Denmark? How often are you in Asia and Africa?

I probably spend half my time traveling, and I try to cover most of our markets. I have spent a significant amount of time in Africa, where I usually go at least once a year for a week or

more. I spend quite a bit of time in Latin America as well. Thirty-five percent of our shipping customers and a lot of the oil industry customers are in the U.S., so I am there quite a bit. And, of course, I go to Asia a couple of times a year for a week more.

How do you connect with your people in all of these countries?

We all travel a lot. My colleagues and I hold town hall meetings wherever we go. We talk about our values, what we are trying to achieve, and where we invest—and then we listen to the employees’ input. When you meet the frontline, you get the truth. If you just stay at your desk, you lose relevance.

I also try to minimize hierarchy. When you have a philosophy of decentralization and minimal hierarchy, you are more agile.

How do you try to create a common culture across the businesses? How much variation do you allow among countries?

We do not negotiate or deviate from our values. It is a global marketplace, and we cannot have different values depending on the market. So we are very straightforward about our values.

Of course, businesses in developed markets and less developed ones are very different. The level of service you have to provide to assist someone importing goods into an African country is quite different from what you need to provide in Germany. In developing markets, you need more organizational strengths and a higher level of attention, but the rules of the game are the same.

You have created shared-service operations in China, the Philippines, and India. Can you describe it?

Over the past few years, we have taken about \$3 billion in costs out of operations. One of the things that we have done is move about 10,000 back-office positions in both mature and less-mature markets to low-cost service centers primarily in India and the Philippines. We also have a large shared-service center in China; this center wasn’t really

created for cost reasons but rather because China is such an important place for us, and the customers want our people to speak their language.

We have also created a decentralized organization. The organization must be focused on the market and not on all the wonderful machines and ships that we happen to own.

Also, we have reduced layers in the organization so that there are fewer layers between the top managers of the business units and the customers.

Are the days of exporting ideas and technology from the developed world to emerging markets over? Or are developing markets now a primary source of inspiration?

We are still trying to lift the efficiency of terminals in developing markets to the same level of efficiency we attain in mature markets. That is necessary to keep the businesses in the developing markets competitive.

But we do not see ourselves as exporters of what works in mature markets. We hope to export what works regardless of the origin or destination. Several ideas and solutions that we have rolled out globally originated in growth markets.

An important thing we can learn from developing markets is their enthusiasm. The willingness to go after growth and seize opportunities is refreshing compared with some of the doom and gloom we see in mature markets.

You operate in many countries in which the state plays a large role in the economy. How does that affect your way of doing business in those countries?

We are a known player in all the countries in which stakeholder management is important or state support is high. When I travel to developing markets, I try to meet top ministers to explain what we are trying to do and to listen to them and hear their needs. Are they happy with the infrastructure, whether it is a warehouse or a port? Logistics is a must for any country that has any ambitions, and we are probably the best known and most respected players in that industry.

We try to be partners with the countries, and I think we have the ethics and the history to be taken seriously by most governments. Our business is complex, but running these countries is also a complex undertaking. We have a lot of respect for those who are trying to do it well.

MOVING INTO NEW MARKETS

KI-SEOK PARK, CEO,
SAMSUNG ENGINEERING

SAMSUNG ENGINEERING WAS FOUNDED in 1970 as the first South Korean engineering-design firm for domestic projects but quickly began a global expansionary campaign. Today, South Korea accounts for less than 25 percent of Samsung Engineering's \$8.4 billion in revenues—and the rest of Asia accounts for even less. Since 2000, the Middle East has been Samsung Engineering's primary market—which is not surprising because oil, gas, and petrochemical projects are the company's primary business.

Ki-Seok Park, Samsung Engineering's chief executive, says that dividing the world into mature markets and emerging markets is less meaningful than understanding the nuances of each market. Projects in the Middle East tend to be negotiated at fixed prices. This practice plays to his company's strengths at pricing and managing risks. In the U.S. market, by contrast, cost-plus-fee contracts allow contractors to put more risks on their customers. "In all the markets that we serve, our success has been based on our unique understanding of local conditions, our initiative, and our management capability," Park says.

Samsung Engineering often competes against larger Western competitors, such as Technip and Saipem, in the engineering, procurement, and construction (EPC) market. While recognizing their strengths and capabilities, Park says that Samsung brings its own advantages.

"The Korean 'bbali, bbali' culture of speed and efficiency helps us deliver large projects under deadline, and Samsung's high standards and skilled resources allow us to manage complex projects with minimal rework and error," Park explains.

Park recently sat down for a discussion with John Wong, a senior partner and managing director at The Boston Consulting Group. Edited excerpts of their conversation follow.

How global is Samsung Engineering?

In a recent ranking of global contractors by the *Engineering News-Record*, we were ranked fifteenth based on overseas sales, compared with ranking thirty-fourth in 2011. More than 75 percent of our revenues were generated overseas in 2011. We are currently working on projects in 20 countries. About 20 percent of our workforce is from outside Korea, coming from 34 different countries.

We have been especially active in emerging markets undergoing industrialization and urbanization. Southeast Asia, India, and Mexico all have rich natural resources and are enjoying rapid economic development. We have also aggressively expanded in the Middle East, which has the ability—due to high oil prices—to finance large infrastructure and energy projects. To continue the momentum of growth, we are trying to expand into other

promising markets rich in resources such as CIS [Commonwealth of Independent States] nations, South America, and Africa.

We talk about a two-speed world: slow growth in many mature markets, with strong growth in emerging markets. How does this apply to Samsung Engineering?

For our company, it makes more sense to create differentiated strategies for our clients, products, and businesses based on regional and national characteristics rather than to divide the world into high-growth and mature markets.

In the Middle East, fixed-price contracts are common, and we have been successful winning and managing business in that environment. We know how to price the projects and manage the risks. We broke into the market with a small project in Saudi Arabia in 2001. Our success has come through customer trust, world-class performance, and localization, and it has resulted in close to \$12 billion in project awards there. We have been able to advance into other nations by building on our accomplishments in Saudi Arabia, such as the United Arab Emirates, Bahrain, Iraq, and Algeria.

In the U.S., most projects are governed by cost-plus-fee contracts. Many of our natural advantages—a flexible workforce and strength in pricing—are less important there, and we do not have long relationships with contractors. Consequently, we have needed to establish new business practices and business models. Since labor costs are so high in the U.S., we need to ensure that we have efficient labor-management practices and long-term partnerships with contractors.

The boom in oil-sand and shale-gas projects has created new opportunities in North America that we are trying to pursue. We created Samsung Engineering America in 2008 for the purpose of strengthening our technical knowledge and expanding our EPC capability.

In all the markets that we serve, our success has been based on our unique understanding of local conditions, our initiative, and our management capability. The two-speed world is more of a peripheral issue for us.

KI-SEOK PARK

AT A GLANCE

Born in Seoul, Korea
Year Born: 1954

EDUCATION

- 1979, master's degree in chemical engineering, Kyung Hee University
- 1977, bachelor's degree in chemical engineering, Kyung Hee University

CAREER HIGHLIGHTS

- 2010–present, president and CEO, Samsung Engineering
- 2009, chief marketing officer, Samsung Engineering
- 1998–2008, various positions, starting as vice president of overseas business development division and rising to chief operating officer for hydrocarbon division, Samsung Engineering
- 1996–1998, managing director, Samsung Engineering Thailand
- 1993–1995, general manager, Samsung Group corporate strategy office

OUTSIDE ACTIVITIES

- Member, board of directors, Korea Green Foundation
- Honorary member, International Contractors Association of Korea
- Honorary member, Korea Plant Industries Association
- Special company member, American Chamber of Commerce in Korea
- Member, European Union Chamber of Commerce in Korea



What is your strategic focus in each of these markets?

We have a different focus in each market. The Middle East presents a large number of projects, but competition is fierce. We have tried to strengthen our relationship with existing customers there in order to win repeat business. In Saudi Arabia, we have actively taken part in Saudization, the national policy of job creation in the private sector. Finally, we are diversifying into areas that aren't fo-

cused on hydrocarbon, such as power generation and water treatment.

South America is a challenging but promising market. Domestic-content laws there require the use of local equipment and supplies. This makes bidding and managing costs more challenging since we know we can source components more economically outside of South America. We assume all competitors face the same issue. Nevertheless, we have focused on resource-rich countries, such as Brazil and Bolivia, and we recently won an assignment for a fertilizer plant in Bolivia.

In the CIS nations, we have used a hub-and-spoke approach. This means that we maintain a main office in one country and try to serve all the surrounding countries from that hub. For CIS, our main office is in Moscow.

Sub-Saharan Africa has tremendous resources and growth potential but is lacking both financial capacity and business experience. Despite these challenges, we are strategically investing our time and resources to position ourselves for future opportunities in the region.

Do you require different business models and organizational structures in different markets? Have you taken a different approach in the Middle East than, say, the U.S.?

From one market to the next, our external organizational structures and operations look similar. However, there are internal differences in business practices and human resources because our clients have different business styles and contracting systems.

As a leader, how much time do you spend overseas? How much time do you spend in mature markets like the U.S. and Europe, and how much time do you spend in the Middle East or Latin America?

When I was in charge of sales, I spent more than half the year overseas, mostly in emerging markets such as Southeast Asia, Mexico, and the Middle East. Since becoming CEO, I travel about three months of the year to key markets such as the Middle East, North Africa, and South America. I visit advanced markets, including the U.S., twice a year.

Do you try and maintain a common culture across the globe, or do you encourage local variation? What aspects of culture are nonnegotiable, and what can be modified? How do you balance the dueling needs for integration and localization?

The Samsung Group follows the same values around the world. Our group values—people, excellence, change, integrity, and co-prosperity—are universal and help drive a common vision and code of conduct.

We also aim to be a local company within each market we serve, respecting cultural or religious differences and diversity. We adjust our working styles, for example, to accommodate daily prayers. We call this balance between integration and localization *glocalization*.

Samsung Engineering also has its own distinct values. One is continuous challenge, which is moving on to achieve targets with passion and persistence. A second is global citizenship, which is realizing global standard management by understanding and utilizing diversity and securing global capabilities. A third is creative convergence, which is creating new future values through insight, communication, and cooperation.

“We also aim to be a local company within each market we serve.”

Talent is a big global issue these days. What are the challenges in Korea? Do the same issues exist in the more mature markets? How do you encourage talent mobility between the fast- and slow-growing markets?

We are not immune from the challenges of securing and managing talented workers. In our industry, talent is one of the key ways that companies compete. It is especially important to secure experienced workers in new markets and new business areas. In particular, the U.S. petrochemical market is un-

dergoing structural changes as shale gas exploration and investment take off. This is creating labor shortages throughout the business.

To reduce the gap in talent between advanced and emerging markets and to overcome cultural differences, our engineers in Korea are conducting projects with engineers from the U.S. and India. We are planning to continuously expand labor exchanges between our main engineering hubs in these three locations.

“The Korean ‘bbali, bbali’ culture of speed and efficiency helps us deliver large projects under deadline.”

The days of exporting what works in developed markets to new markets are over. What can Samsung Engineering teach leading Western companies about operating in emerging and developed markets? What are the strengths of Samsung Engineering in terms of talent, ideas, and product?

Fluor, Technip, and Saipem and other companies from mature markets possess vast experience, technology, business capability, and stable business portfolios. We try to emulate their best practices.

At the same time, as a relatively young company, Samsung Engineering has acquired some key competitive differences. First, we try to have a thorough customer-oriented mindset. We keep our promises with customers and deal with them on the basis of diligence, sincerity, responsibility, endless innovation, and passion. Second, we are more likely to accept and manage risks in the management of projects. This has helped us earn the trust of customers and solidified our reputation.

Third, we have expanded upstream into offshore, gas-oil separation plants, liquefied nat-

ural gas, power generation, mining and metallurgy, and front-end engineering design. In October we formed a joint venture with Amec, a leading engineering firm with extensive experience in offshore projects. We intend to strengthen our core competence in this growing market. We are working hard to establish a more stable business structure throughout the areas focused on and beyond hydrocarbon. This makes us stronger and more competitive across markets.

What are the core strengths of Korean companies in the global EPC market? Do you view Chinese and Indian players as threats? What is your strategy to compete against them?

Starting in the 1970s, Korean companies served as design and construction subcontractors for leading companies. In the 1980s, they began transforming themselves into comprehensive EPC companies with a global mindset. In the 2000s, our capabilities caught up with the leading European, Japanese, and U.S. companies.

Korea has outstanding human resources. We have a strong zeal for education. About 500,000 Korean students graduate from college every year, and they represent the foundation of growth for Korean companies.

The Korean “bbali, bbali” culture of speed and efficiency helps us deliver large projects under deadline, and Samsung’s high standards and skilled resources allow us to manage complex projects with minimal rework and error. When we make a commitment to our clients, we keep it. We have a can-do spirit.

We deploy a creative and holistic way of thinking about projects. We try to flexibly manage and allocate both human and physical resources from the start to the end of a project to maximize our performance. Our approach is contrary to that of Western companies, which tend to value functional specialties.

Currently, Chinese and Indian companies are not strong competitors for large-scale projects in the global EPC market, especially for the sophisticated energy segment. That

will change over the mid- to long-term, however.

As a leader, how do you make connections with your people in markets very different from your home market?

We regularly hold events where foreign executives and staff and Korean staff can mingle together. Whenever I go on a business trip abroad, I visit global offices and sites and directly communicate through a meeting. I also utilize IT infrastructure such as video conferencing, video chats, and a CEO blog to communicate virtually. Most importantly, as a CEO, you need to be honest, demonstrate that you understand others' points of view, and try to reach consensus.

How do you manage the expanding universe of stakeholders, especially in markets in which state support for local companies is strong?

Our localization strategy takes into account the role of stakeholders and their needs and expectations. For example, one of the main concerns for Saudi Arabia is its rising unemployment rate among young adults. To address this issue, we recently opened a \$100 million engineering complex, the Samsung Naffora Techno Valley, which will benefit the country by creating jobs and transferring skills and knowledge specifically to Saudi engineers.

UNITING A FAR-FLUNG EMPIRE

SIEGFRIED RUSSWURM, CEO,
SIEMENS INDUSTRY SECTOR

SIEGFRIED RUSSWURM, THE CHIEF executive of Siemens Industry Sector, is an engineer by training who oversaw human resources at Siemens earlier in his career. He recognizes that managing a global business requires both precision and judgment.

Russwurm has a precise understanding of the specific capabilities required in emerging markets and the challenges of managing businesses across both emerging and mature markets. But he also recognizes the art—the “managerial spirit”—of his job.

Siemens Industry Sector is a large and global business with revenues of €20 billion in fiscal 2011 and operations in almost 200 countries. Tremendous variation exists across its markets. Managing talent requires the company to transfer knowledge to younger employees in mature markets, for example, and to find young employees with the right skills in emerging markets and ensure that they stay.

Culture is what connects the far-flung empire into a cohesive whole. Three words—responsible, excellent, and innovative—form the bedrock of values at Siemens, and they are not negotiable. The entire managing board of Siemens also travels together twice a year to distant markets and spends several days in the field as a sort of reality check on how Siemens is doing. Russwurm believes that one of

the best ways to evaluate his employees is by watching them in action during his numerous client visits.

Russwurm recently spoke with Christian Veith, a senior partner and managing director at The Boston Consulting Group. Edited excerpts of their conversation follow.

The managing board travels together twice a year to distant markets.

Professor Russwurm, thank you for giving us this interview. Talk about the sector you are leading. How global is Siemens Industry Sector?

We reflect the global aspirations of Siemens. About 100,000 people serve customers in almost 200 countries. Our roots are in Germany. About 40,000 of our people are in Germany, and the others are quite balanced throughout the rest of Europe and the adjacent regions. We have about 20,000 people in the Americas and almost 20,000 people in Asia. So it is a truly global enterprise.

One of the key topics we talk about today is this two-speed world, with more mature

SIEGFRIED RUSSWURM

markets growing slowly—or at least less fast—and emerging markets growing relatively fast or very fast. How does this paradigm apply to the business you are responsible for?

It is clear that the future is with fast growth. So we have to be in these growing economies to secure our future. At the same time, we have to accept—and we will fully accept—that our traditional customers in the traditional markets currently drive volume. Moreover, those customers from the Western Hemisphere—to simplify it—are on their way to the emerging economies. So in the two-lane approach, we have to balance our efforts in the traditional markets and in the emerging markets.

How much time do you, personally, spend in these two worlds?

It is quite balanced, although the absolute numbers would argue for the mature markets. In order to build up new ecosystems in the emerging countries, I spend about half of my time in those markets.

How do you make sure that those parts of the businesses get the right attention? Is that happening naturally?

We focus on this. We focus both on regional strategies and on the strategy of vertical businesses with respect to their footprints around the globe. The board of Siemens is also traveling to those regions. Twice a year, we typically have board meetings in interesting regions of the globe, sometimes in the BRIC nations and sometimes in the second-wave countries. It is quite a nice regime because the whole board travels to a country. We first have a session with country management, and they give us their view on how Siemens is doing in the environment. And then ten board members spread out to see stakeholders: customers, government officials, you name it.

After two days, we reconvene and try to consolidate what are typically 200 touch-points to see if they mesh with the descriptions that our local team has given us and to reach conclusions. What are the investments that Siemens should make in these regions?

AT A GLANCE

Born in Marktgraitz, Germany
Year Born: 1963

EDUCATION

Doctoral degree in production engineering, University of Erlangen-Nuremberg



CAREER HIGHLIGHTS

- 2010–present, chief executive officer, Siemens Industry Sector, and member of the managing board
- 2008–2010, head of Corporate Human Resources, and member of the managing board, Siemens
- 2006–2008, member of group executive management, Siemens Medical Solutions Group
- 2003–2006, head of Motion Control Systems Division, Siemens
- 1999–2003, head of Electromedical Systems Division, Siemens
- 1992–1999, held various positions in Medical Engineering Group, Siemens
- 1988–1992, research positions at University of Erlangen-Nuremberg, department of mechanical engineering

What are some of the key differences in the way that the two worlds operate?

Going to market is different in emerging countries because customers there are different and their needs are different from those in the mature markets. Product life-cycle management and product design have to take into account different boundary conditions and technical perspectives. We try to adapt. But we also take this diversity as a source of learning for us as an entire organization.

In what way do you try to keep a global culture in your businesses? What aspects of culture are not negotiable? And in what way do you respect different cultures in different parts of the world, and how do you balance these two approaches?

There is common ground, and there are common values: We are responsible, excellent, and innovative. That is true wherever Siemens operates. On the other hand, we do adapt to local cultures. We have a leadership team that is truly global, so we have local people that help us to understand local cultures. We want to be as local as it helps our business and it fits our culture, but we are also as global as the customers want in order to realize that benefit as well.

Are you saying that there is huge variety in the emerging markets?

Yes, but it is built on a solid foundation. There are common values and beliefs that are nonnegotiable throughout the globe.

Talent is a big global issue today. What are the challenges in the fast-growing countries? Are they the same issues as in mature markets?

In our mature markets, it is more a question of generation diversity. How can we make sure that, with the demographic changes in these markets, younger people and newcomers to our company can harvest and inherit the expertise of their predecessors? That is a different ball game than in an emerging country, where we are building our operations. There, the question is more, How can we hire people who have expertise for the specific market? In some of these emerging markets, we have to be very precise about the expertise we need—and whether, for example, schools and universities can give us that expertise.

It is also a matter of attrition. Having two years of experience at Siemens listed on a CV is an advantage in many parts of the globe. People are happy to join us so that they get a good education within a multinational company, but then they are attracted by offers from others. To keep the best and the bright-

est is an interesting challenge that we increasingly have around the globe. We make quite the effort to ensure that those people stay with us.

“We want to be as local as it helps our business and it fits our culture, but we are also as global as the customers want...”

As a leader, how do you make connections with your people in the various markets beyond simply meeting with them, in order to get a real view of them and their qualifications?

The best opportunity is to visit customers together with them. I see how they interact with the customer, how well they understand the customer’s needs, and how well they argue the Siemens value proposition to specific customers. That is a wonderful source of insight.

Looking at the various stakeholders, how do you manage that group, specifically in places where the state has a very important role?

That is not always easy. There is no straightforward recipe. It is one of those challenges of managerial life that requires you to make decisions. There is no algorithm that says, “If you ask the following questions you will get these results.” There is a managerial spirit that you have to apply.

A RECIPE FOR GLOBAL REACH AND LOCAL RELEVANCE

HOWARD SCHULTZ, CEO,
STARBUCKS

EACH WEEK STARBUCKS SERVES 60 million customers in nearly 18,000 stores in 60 countries. For a company that started as a corner coffee shop in Seattle 41 years ago, those are steamy numbers.

This global growth has been built by carefully tailoring the Starbucks brand to the specific needs of local markets—each with its own traditions, habits, and customs. This is not an easy balancing act, and it all starts with an emphasis on products, “partners” (employees), and customers.

In Beijing and Shanghai, for example, Starbucks recently held an annual meeting for the parents of its employees as a way to demonstrate respect for their families. In the U.K. and France, the company has modified the recipes for its espresso-based drinks to appeal to local tastes—something it had never done before.

CEO Howard Schultz, who has been with Starbucks for most of its history, is painfully aware of what can go wrong when customer focus is lost. Schultz relinquished the chief executive’s role in 2000 but returned in 2008 after changes in stores diluted the customer experience and exacted a heavy toll on the company’s bottom line.

Schultz began rebuilding the brand by reviving the in-store experience. Starbucks spent

\$30 million to bring 10,000 store managers to New Orleans for a meeting that helped improve employee engagement. He also closed all U.S. stores for three hours one day to re-train the staff in making coffee.

To build on the success of the New Orleans event, Starbucks will hold a similar confer-

HOWARD SCHULTZ

AT A GLANCE

Born in Brooklyn,
New York
Year Born: 1953

EDUCATION

1975, bachelor’s
degree in communica-
tions, Northern Michigan University

CAREER HIGHLIGHTS

- 1987–2000 and 2008–present, president and chief executive officer, Starbucks Corporation
- 1987–present, chairman, Starbucks Corporation
- 1986–1987, chief executive, Il Giornale
- 1979–1982, sales, Hammarplast
- 1976–1979, sales, Xerox Corporation

OUTSIDE ACTIVITIES

Member, board of directors, Square



ence in 2012 in Houston, once again bringing together store managers to engage in leadership activities and community service.

Starbucks recently moved from a functional to a regional structure—instituting regional presidents for the Americas; Asia-Pacific; and Europe, the Middle East, and Africa—to ensure that local markets receive adequate management attention.

Starbucks has gotten its groove back. Despite the difficulties in Europe, Starbucks has indicated that during the fiscal year 2013 (which began in October 2012) the company expects to grow by 10 to 13 percent and open 1,200 new stores.

Schultz recently sat down for a discussion with Grant Freeland, a senior partner and managing director at The Boston Consulting Group. Edited excerpts from that conversation follow.

“We have tried to...balance profitability and benevolence.”

Few CEOs can claim the success that you have had here at Starbucks. As you reflect on this journey, what would be the highlights?

We have tried to build a different kind of company that would balance profitability and benevolence. The manifestation of that goal—and probably the highlight of my career—has been the creation of two unique benefits for our people: comprehensive health insurance long before the current administration mandated it and equity in the form of stock options.

My father never got a chance to work for a company that respected him. He was an uneducated war veteran. In the back of my mind, I have been trying to build the kind of company that my father never got a chance to work for.

You talk about a two-speed world: high growth in the developing markets, slower growth in the developed markets. How does Starbucks think about growth in those two segments? What are your aspirations, and are you satisfied with where your company is right now?

We are growing as fast as we possibly can in Asia—and specifically in China—because the wind is at our back, and we understand that. In Europe, given the macroeconomic challenges, we have decided to grow in a different way. But we are still growing there. We are going to use and leverage licensing and joint-venture partners rather than company-owned stores in Europe to minimize risk to our own capital. But our commitment to achieving growth and building market share is the same.

How do you make sure that the fast-growing markets that are small relative to the U.S. market receive management’s attention—and do not get smothered by the larger markets?

When a customer goes into a Starbucks store in any small town in America, or, in this case, a smaller country, I do not think he or she is conscious of whether that locale has the infrastructure, the scalability, or perhaps the long-term opportunities of New York City or China in terms of growth and development. We have to view each store on its own merit. We must fund and provide the resources and tools for those smaller markets; otherwise we should never have opened there, and we should go home. I think our commitment to resourcing those markets and providing tools for our people are the same whether we are in China or Cyprus.

Do you have a global incentive program for senior executives to make sure they focus on both? Do you carve out time at senior meetings to make sure that you pay attention to smaller, high-growth countries?

Over the last few months, we changed the way Starbucks is organized. We have created a consumer-packaged-goods business and three regional businesses—the Americas;

Asia-Pacific; and, finally, Europe, the Middle East, and Africa. We moved from centralized management to four separate presidents managing these four businesses. In a sense, they are the CEOs of their own businesses.

Each one of those business units gets equal time and equal resources because we cannot survive without one or the other. The time spent at meetings is sometimes overly focused on where we have a problem or a crisis, but generally we are managing the businesses equally and with great focus and attention.

“[The annual meeting of parents] had nothing to do with marketing or the customer, but everything to do with the equity of the brand...”

How different can the business models be, and how much variation do you allow across the regions?

If the stewards of any consumer brand believe that they can create local relevance while sitting in a white tower somewhere in the U.S.—and dictating the ways in which consumers will react all over the world—they are on a collision course with time. The challenge that we have to understand and overcome is creating the balance between the Starbucks experience that customers all over the world expect and desire and a healthy dose of local relevancy that demonstrates respect for the local customer—whether it is local food, how the stores are designed, pricing, or the tailoring of recipes to local tastes.

For the first time in our history, we just changed the espresso recipe for certain beverages in the U.K. and France. We have never done that before, and I think that is indicative of our commitment to being locally relevant.

I assume that the culture is fairly similar around the world, but with some differences. How much variation do you allow?

We have nearly 200,000 people in 60 countries. There are different languages, customs, politics, and all different types of external issues that we have to integrate into the culture of Starbucks. What I have found—and what perhaps has been the biggest surprise of my life—is that the culture and values of Starbucks are as relevant and as desirable in Jordan, Singapore, and Malaysia as they are in Seattle, Washington. Whether you are an employee or customer, you want to be respected, valued, and treated with dignity.

We just did something in China that I think is one of the most innovative things we have ever done in our history—and it had nothing to do with the customer. It was not customer facing; it was internal. We just had an annual meeting of parents. Think about an annual meeting of shareholders; we had an annual meeting of parents in Beijing and Shanghai, and we had about 90 percent participation. We did not know who or how many would come. In most cases, there were whole families. There were parents, grandparents, aunts, and uncles. It was unbelievable.

We had simultaneous translation. We had demonstrations of what the company is about. We had partners speaking in Mandarin on what it has been like working at Starbucks. Then we had people from other countries expressing their relationships with the company. I spoke about what we are trying to do in China and why. It was a stunning experience.

Beijing was great, and Shanghai was even better because it was bigger, and I think we were better prepared two days later. I think we clearly had some trepidation, but it was a breakthrough for the company and a milestone for local relevancy and sensitivity.

It had nothing to do with marketing or the customer, but everything to do with the equity of the brand and the culture and values of the company. It was as locally relevant as anything we have ever done. And yet it was part of the culture and fabric of our 40-year history.

Are you going to have these meetings in other countries?

I cannot think of how many parents would show up in America. And I think that says something, doesn't it? I think we will do it every year in China. I just told a major U.S. retailer about it, and I think they may do it, too.

That relates to attracting talent, which is a global issue. Have you had challenges recruiting in developing and high-growth markets?

The short answer is that we have not had trouble attracting and retaining great people. The issue for us is getting the right people in the right positions. There is quite a debate inside Starbucks today about expats. It is hard to build an organization with people who are not imprinted with the history of Starbucks. So, by and large, we have sent a lot of people overseas to help build the organization. It turns out that this approach is extraordinarily expensive. There is a tradeoff. Those companies that do it very well—and I do not think we are there yet—have built a pipeline of people at the local level, and that is what we need to do.

The days of exporting products and ideas from developed countries to developing countries are over. In fact, some people say we can learn from developing markets. Do you find that true? How do you think about a global rollout of ideas?

The real challenge is creating disruptive innovation that changes the market and that gives people real value and significant opportunity to enhance their lives, whatever the product or category. I will be a sponge absorbing any innovative idea, product, or category from any part of the world. We have certainly benefited from certain flavors and categories that

we have brought over from Asia. I think that the lifeblood of trying to grow an enterprise is truly creating innovative, breakthrough, disruptive ideas. But I would not want to put a label on whether or not those can or should not come from one place or the other.

How much time do you and the leadership team spend outside the U.S., particularly in developing economies?

If I looked at my calendar the past 12 months, I think I was traveling maybe 30 to 40 percent of the time. And I would say 80 percent of that travel was outside the U.S. You go where the opportunity, crisis, or challenge is.

How do you connect with nearly 200,000 partners?

It is very hard, really hard. We are a company that benefits from physical meetings and being in close touch with our people, so it requires a tremendous amount of travel. We instituted something, maybe 20 years ago, that we call "open forums." Every quarter, all over the world, we stand up in front of all of our partners and talk about the past quarter's accomplishments. It is an open environment, almost like a town hall meeting with an open microphone. Our people are talking to us about their ideas, concerns, and complaints—any issue whatsoever. There is no net for the leader because you do not know what is coming. There's no retribution. I think it has built a groundswell of trust and understanding within the company.

CREATING THE BEST SOLUTIONS IN THE WORLD

JEAN-PASCAL TRICOIRE, CEO,
SCHNEIDER ELECTRIC

SCHNEIDER ELECTRIC'S REVENUES ARE well distributed across the globe. The energy-management company generates about 30 percent of its revenues in Western Europe, 25 percent in North America, 25 percent in the Asia-Pacific region, and 20 percent in the rest of the world. CEO Jean-Pascal Tricoire boasts that about 40 percent of Schneider Electric's revenues come from "new economies."

This enviable balance in the business eliminates any work-life balance for Tricoire. He travels 80 percent of the time because, as he puts it, reality happens in the field—with employees and customers—and not at headquarters. Generally, Tricoire travels alone, finding that this helps build trust among local employees, who are willing to tell him the "good, the bad, and the ugly."

Tricoire does not just travel to faraway markets—he lives in one. While Schneider Electric is headquartered near Paris, Tricoire himself is based in Hong Kong. He has, in fact, spent most of his 26-year career at Schneider Electric working and living outside France. The corporate employees of Schneider Electric are also spread around the globe, in rough proportion to the distribution of business.

A self-professed gypsy, Tricoire encourages the local Schneider Electric businesses to

maintain their own specific cultures, undertake local initiatives, and develop relationships with the leading local schools—so long as they do all this while also living in accor-

JEAN-PASCAL TRICOIRE

AT A GLANCE

Born in Beaupréau,
France
Year Born: 1963

EDUCATION

- Master's degree in business administration, EMLYON Business School
- Electrical engineering degree, École Supérieure d'Electronique de l'Ouest

CAREER HIGHLIGHTS

- 2006–present, president and chief executive officer, Schneider Electric
- 2003–2006, chief operating officer, Schneider Electric
- 2002–2003, president, international division, Schneider Electric
- 1999–2001, head of global strategic accounts and Schneider 2000+ program, Schneider Electric
- 1986–1999, positions in China, Italy, Germany, South Africa, and the United States, Schneider Electric



dance with Schneider Electric’s global values. Those values—which are grounded in passion, openness, straightforwardness, and effectiveness—help bind together employees from different backgrounds. Schneider Electric also encourages employee mobility, rotating workers through different regions and different parts of its countries in order to aid innovation, and creativity and enable the exchange of knowledge.

Recently, Tricoire sat down for a discussion with René Abate, a senior advisor of The Boston Consulting Group. Edited excerpts of their conversation follow.

“We are...attached to values that are the links between the people of Schneider.”

Over your career at Schneider Electric, did you work a lot in many overseas markets?

I have been here 26 years. Time is really flying. I have spent most of the time outside of my country of origin. I believe a chief executive must face reality, and reality does not happen in corporate. Reality happens in the field, with customers and with employees. It is good to be with them all the time. It places some constraint on the way we live, but it is also the biggest pleasure of the business.

Have you had to adapt your business model and your organization to meet the needs of emerging markets? And do either of these differ from what you have in more mature markets?

They are very different. New economies, especially when they are large and have a deep industry culture, come with a different way of doing business. Today, new economies represent 40 percent of Schneider’s business. Already, we are a very significant company in the new economies—accounting for about €8 billion. If you look at our dynamics over the past ten years, our growth in the new economies is 10 percent above our growth in the mature economies.

Our culture is a culture of local empowerment and decentralization. One of the assets that we have benefited from in the new economies has been our capability to trust our local employees and local teams and give them the capability to adapt our approaches and business model. We also provide big chances and big opportunities to our local people early in their careers.

You are known to have very strong relationship with your local managers. What do you do specifically? You travel, you meet them, but do you go beyond that?

The biggest problem in large companies is that people tell you things that are not true. We all run the risk of living in an ivory tower, where people tell you what you want to hear.

At Schneider, we have a culture of straightforward, direct expression. And I want to maintain this culture. So I tend to travel alone. I do not go with other people. When I arrive at a Schneider in another country, I am with the people of the country. There is no barrier or no interpreter in between the teams and myself. After a few days together and without any protection, I hope that people dare to tell me the good, the bad, and the ugly. My job is to deal with the bad and the ugly—and to help and support them to do the good.

You mentioned your global culture. Are there specificities in some countries that you accept as variations of Schneider’s global culture?

Our culture is based on local empowerment and decentralization, which means that there is a very strong component of the local culture, too. We absolutely authorize and cultivate those different cultures, whether across countries or businesses. We are also attached to values that are the links between the people of Schneider.

Our company has grown a lot in the past five or six years. We have multiplied in size, growing 2.5 times larger during this time. Half of the growth has come through acquisition. But when people join us from the outside, what strikes me is that they say, “You have a strong culture.” But that does not mean that the

people of Schneider China operate the same way as the people of Schneider U.S. do. They operate with different soft skills, but they share the same values.

Our values are what keep us together. Straightforward dialogue is one of the important values that we carry together.

“We want to be the place where people who have a passion for the future of the planet...want to work.”

Can you tell me how global Schneider Electric is?

Our revenues break down to roughly 25 percent in North America, 25 percent in Asia Pacific, 30 percent in Western Europe, and 20 percent in the rest of the world. The split of our employees corresponds with the split in our business. We operate on a global scale. But we want our people to be close to the most advanced customers and the most competitive universities, so we have chosen a mode of management that puts our people very close to the markets.

In many companies today, talent is becoming a critical element of strategy: specifically, how to find talent and how to nurture it. How do you address this at Schneider Electric? Is there a difference between the mature markets and new economies? And what do you do about mobility?

We've always had a culture of trying to nurture talent from the inside in order to give a chance to the people who have been engaged and loyal to the company for a long time. At the same time, we introduce people with exceptional talent at higher levels in parts of the company.

Our business is also changing and moving. We are recruiting people with other competencies, so that today Schneider is a blend of people from the inside and the outside.

Is there a difference between mature economies and new economies? Frankly, at the end of the day, I would say no. We want to be the place where people who have a passion for the future of the planet—and for the technologies that solve the big, hairy problems of climate change—want to work. And they want to work with us because this is the most diverse, the most close-to-the-market, and the most equitable company in the industry. We want to be extremely attractive.

We work with universities to detect students. We have created programs like Marco Polo that give you the opportunity to work for two years outside of your country of origin straight out of the university.

We also cultivate mobility inside the business. If you are like me—a gypsy and ready to go to one place and to the other one, to bring your know-how, and to mingle with other communities—this is a very exciting place to be. We believe that mobility and diversity are big sources of innovation and creativity. That's basically a very strong point of our company.

Our customers, whether local or global, expect from Schneider the best solutions in the world. Our being global makes a lot of sense for them. They know that we can supply them with the best Japanese, U.S., or Chinese solutions wherever they are on the planet, provided that we share our knowledge and we create the network to carry that know-how to our customers. For that to happen, the best way is to make sure that we have a maximum number of people who have been exposed to mobility, who know more than one business in the company, and who know more than the capabilities of just one country within the global company.

BUILDING THE FUTURE

LORENZO H. ZAMBRANO,
CHAIRMAN AND CEO, CEMEX

WHEN LORENZO H. ZAMBRANO took charge of CEMEX in 1985, the company was a regional cement producer serving northern Mexico. Now CEMEX serves the world. It is the largest global producer of ready-mix concrete and one of the largest producers of cement with operations in more than 50 countries and more than 40,000 employees.

Zambrano figured that global expansion was his best option for staying independent in a consolidating industry: if CEMEX didn't acquire, it may have been acquired itself. That expansion, achieved largely through acquisition, has allowed CEMEX to enjoy a balanced portfolio of businesses in the two-speed world. About half of CEMEX's revenues originate in the U.S. and Europe, and faster-growth markets generate most of the rest. CEMEX has used cash generated in mature markets to finance its growth in promising developing markets.

CEMEX has also been a leader in the use of technology to connect distant operations and in the establishment of global policies to spread best practices and talent throughout the organization.

As with other companies tethered to the construction industry, however, CEMEX has not found the last few years to be easy. Still, recent results are encouraging, as the U.S., Asian, Latin American, and Caribbean markets are all bouncing back. Europe will take

longer. It is important, Zambrano said, to pay special attention to mature markets because those businesses need to be running as efficiently as possible in this environment.

Zambrano recently sat down for a discussion with Larry Shulman, a senior partner and managing director at The Boston Consulting Group.

LORENZO H. ZAMBRANO

AT A GLANCE

Born in Monterrey, Mexico
Year Born: 1944



EDUCATION

- 1982, master's degree in business administration, Stanford Graduate School of Business
- 1966, bachelor of science degree in mechanical engineering, Monterrey Institute of Technology and Higher Education (ITESM)

CAREER HIGHLIGHTS

- 1995–present, chairman, CEMEX
- 1985–present, chief executive officer, CEMEX

OUTSIDE ACTIVITIES

- Member, board of directors, IBM
- Member, board of directors, Museo de Arte Contemporáneo de Monterrey

Edited excerpts from that conversation follow.

How did you view the task and the mission of turning CEMEX into a global company?

We had to expand internationally to survive. We increased our presence within Mexico by buying two of our biggest competitors. Then we went to Spain in 1992. We had to go to the European markets, otherwise we would not exist as an independent company today. After 17 years of preparing myself to be CEO, to have been taken over by another company a few years later would not have been fun. So we worked very hard to be in a strategic position so that we would not be vulnerable.

So in some sense, going global was not really an option—it was survival?

Yes. It was survival. We went multinational, and then we had to learn how to manage a multinational company—and then how to turn a multinational company into a truly global, integrated company.

The press writes about this being a two-speed world—a fast-growth world in the developing economies and a slower-growth world in the developed economies. How do you think about CEMEX in that context?

I have never before seen such a contrast between markets. Many countries in Europe and a few others will grow very slowly for the next eight to ten years. Others, like the U.S., which are growing slowly now, will come back much sooner. Those that are growing are keeping our balance. This is why we created a global company in the first place—to spread risk around.

In slow-growing or no-growth areas of the world, you have to be very firm. As much as these regions would like to keep the funds they generate, they do not need the money. So it has to go to where you actually get a better financial return.

How much of your time and your attention do you devote to the fast-growing markets, other than Mexico—the rest of Latin America, Africa, and Asia—relative to the big markets in Western Europe and the United States?

You have to be very aware that the slow-growth markets need a lot of attention precisely because they have to do many things well in order to survive in a highly competitive environment. Growth, on the other hand, tends to make a lot of management sins invisible. It covers them up. It is important to find a balance for where you put your attention.

How global are the incentive structures for your senior leaders? How do you mix the local and the regional incentives with the broad global CEMEX incentives?

The higher up you are in the organization, more of your compensation comes from the global results of the company.

How do you try to maintain a common culture in CEMEX?

You make sure that the corporate policies are the same around your company, on the one hand. On the other hand, the way you respond to customers' needs—how you interact with your stakeholders—in each part of the world has to be local.

How big is the global talent issue? How hard is it to find the people you need to grow and run the company and to make it better?

Because everyone speaks about scarcity of talent and how they are looking for it, you have to work hard to keep it—which is, in a way, ironic. Even in areas of the world where unemployment is high, unemployment for very talented individuals does not exist.

You have many complex stakeholder relationships, especially with governments, given that CEMEX's business is so key to the infrastructure of so many countries. How do you think about managing the stakeholders in such a complex world?

We have to interact with them constantly. The best way to do that is by supporting your community so that, politically, they are on your side and will defend your position. That is what we have tried to do, and in some places we have been able to do it.

DRIVING GLOBAL GROWTH

DIETER ZETSCHKE,
CHAIRMAN, DAIMLER

DIETER ZETSCHKE, BORN IN Turkey and raised in Germany, has worked in Argentina, Brazil, and the U.S. He has run car and truck businesses and has held senior engineering and sales positions. And now he is chairman of Daimler and head of Mercedes-Benz Cars.

A career that pulled him in many directions has prepared Zetschke well to lead a company in a global economy that is moving in different directions and at different speeds. Daimler's luxury Mercedes-Benz brand has flourished in China and other emerging markets.

But Zetschke is not one to rest on past accomplishments. He wants to see more local executives rise into top positions in emerging markets. Until that happens, he says, foreign firms such as Daimler will have a hard time hiring and keeping the strongest local candidates. Zetschke would also like the top management ranks of Daimler to reflect the markets it serves—to be, in other words, younger and more diverse.

Although his travel is concentrated in emerging markets, Zetschke recognizes the need to keep doing the things that have made Daimler a preeminent maker of cars and trucks in mature markets. Even in 2020, these markets will still account for one half of Daimler's sales.

Zetschke recently sat down for a discussion with Antonella Mei-Pochtler, a senior partner

and managing director at The Boston Consulting Group. Edited excerpts from that conversation follow.

What keeps you passionate about Daimler?

This company was founded by the inventors of the car. And the car changed the world. Our first responsibility is not just for the next quarter but to lay the groundwork for the next 125 years.

Are you happy with Daimler's global footprint?

Today about 30 percent of our revenues and profits are generated in Asia and the so-called emerging markets. It was less than 10 percent only a decade ago. That is certainly progress. Are we satisfied? No. Because there are so many more opportunities. We might talk later, for instance, about who is running our companies in these countries. Do we have enough local leadership? There are many more things we can and we will improve, but I think we have made major inroads.

Setting priorities in such a large company is one of the critical decisions for a CEO. In this two-speed world, how do you make sure that priorities are established and followed? More broadly how do you personally set priorities?

DIETER ZETSCHKE

The general expectation is that from 2010 to 2015, about 25 percent of growth will occur within the triad markets [the European Union, the U.S., and Japan] and that the rest will happen in emerging markets. From 2015 to 2020, we expect 95 percent of the growth to come from emerging markets. Those numbers speak a clear language.

Yet, even in 2020, almost half of revenues will still be within the triad markets. So you cannot do either/or. You have to maintain your strength in the traditional markets and even expand it. At the same time, you have to leverage these tremendous growth opportunities in the emerging markets.

Will the composition of the management board—and also the time that you spend in the emerging markets versus the mature markets—change dramatically to prepare for this shift in relevance of the various markets?

The typical board of a German company is male, white, 60, and German. When you want to “conquer the world,” it is certainly not a recipe for success for the future. This is a change that will happen over time. But it is more than obvious that we have to become more female—not individually but as a group—and that we have to have more non-German members, ultimately representing the markets that we are doing business in.

What about incentive systems?

We used to set a plan and would incentivize the fulfillment of this plan. If you beat it, you get high bonuses. If you miss it, you get lower bonuses. And it was very obvious what the whole organization was focused on: How can they set their plans as low as possible?

We now have just two elements. One is a year-over-year comparison. You compare yourself to last year. If you do better, it is good. If you do worse, it is bad. And the second part is long-term strategic development. Employees are evaluated against their progress against five- or ten-year goals.

Do you have specific initiatives to manage talent and mobility at Daimler to en-

AT A GLANCE

Born in Istanbul, Turkey
Year Born: 1953



EDUCATION

- 1982, doctorate degree in engineering, University of Paderborn
- 1976, degree in electrical engineering, University of Karlsruhe

CAREER HIGHLIGHTS

- 2006–present, chairman and member of the board of management, Daimler; and (since 2005) head of the Mercedes-Benz car division
- 2000–2005, member of the board of management, CEO, and president, Chrysler Group
- 1999–2000, member of the board of management, commercial vehicle division, DaimlerChrysler
- 1997–1999, member of the board of management, sales division, Daimler-Benz and DaimlerChrysler
- 1995–1997, member of the board of management, sales division, Mercedes-Benz
- 1992–1995, deputy member of the Mercedes-Benz board of management; chief engineer, development division in the passenger cars business unit
- 1991–1992, president, Freightliner Corporation
- 1989–1991, president, Mercedes-Benz Argentina

sure that your brand is being lived everywhere?

You have to show with your appointments that you mean it. The right moment to ensure this process is not when people come back and you give them the right job. The right moment is when you send them out. When you send out the guys you do not need at home, the consequences are pretty clear.

As a leader, how do you make sure you connect with the various parts of the company? In particular, how do you manage

your new stakeholders in the different parts of the world?

To cut a long story short, even five years ago, most of my entry stamps in my passport would have been from the Western Hemisphere. Today, most of them are from Asia.

“There is no way of hiding or pretending. You have to be authentic.”

In terms of stakeholders, we have established some new forums. We now have an annual sustainability dialogue to which we invite NGOs, politicians, and so on to talk about sustainability. There is a very open dialogue, and we receive a lot of criticism. But at the end of

the two- or three-day session, we leave with specific tasks. A year later, we have to report what we have done.

Are social media for you a nightmare or a positive platform in this dialogue?

The only assumption you can make is that everything you do—whatever you want to do—is transparent. There is no way of hiding or pretending. You have to be authentic. Once you accept that, it becomes a tremendous opportunity because you turn around and say, “Let’s not try to paint something pink which is not pink. But let’s rather listen, let’s use these platforms.”

Today we see very early in the blogosphere when something is not going well. And we take that seriously, not by trying to block the bloggers but by understanding the problem.

NOTE TO THE READER

About the Authors

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