



The Stern Stewart Institute Annual Summit 2014 – Review of the Discussions

The year 2014 seems to be dominated by several international crises such as the conflicts in Ukraine, Iraq, and Syria. Given the extent and scale of these conflicts, it goes without saying that international business is affected in many ways and on many levels. Nevertheless, this year's Annual Summit of the Stern Stewart Institute held from September 18-21 at Schloss Elmau concentrated on questions of management, the current situation and on the role of emerging markets and entrepreneurship. This has nothing to do with ignoring the political framework of our business, but reflects our belief that a healthy and positive economic development on both the micro level and the macro level will ultimately make an important contribution to more stable, sound, and sustainable developments in global politics.

LEAN MANAGEMENT 2.0: HOW TO TRANSFER BUSINESS EXCELLENCE FROM THE BLUE-COLLAR TO THE WHITE-COLLAR WORLD?

Business Excellence is a catchword that has not lost its relevance or allure. A whopping 99 percent of our participants consider business excellence in particular in corporate overhead to be either important or very important. Even acknowledging that business excellence is a concept that allows manifold interpretations and many varying characteristics, these findings suggest that there has to be a general consensus on the importance of some kind of measurement of this excellence. And so it comes as no surprise that more than half of those surveyed specified that the follow-up on productivity in their companies is done by

systematic overhead cost benchmarking (52 percent), and 41 percent noted that they foster productivity by sharing best practices between overhead functions (see fig. 1). Nevertheless, other response options were chosen relatively frequently. This seems to indicate that no one single way to address the problem of measuring productivity has emerged and indicates a variety of methods and approaches. This impression is supported by the responses to the question on whether there are already continuous improvement processes in the companies. Less than one-third of the companies have established them in most or all areas of their business (see fig. 2). When asked if Lean Management is the method of choice to improve business excellence, also for corporate support functions and a clear majority agrees, prompting one panelist to hope that the “time of bloated competence centers has come to an end” (see fig. 3).

FIGURE 1

How do you follow up on productivity in the overhead functions of your company?

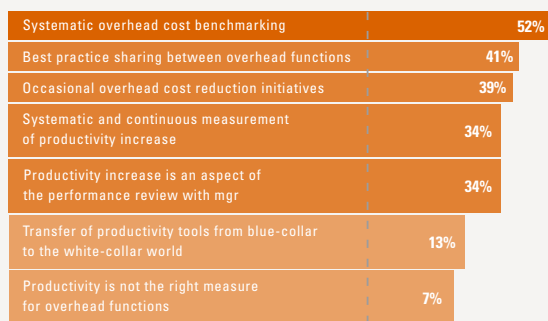


FIGURE 2

Is there an established Continuous Improvement Process in the overhead functions of your company?

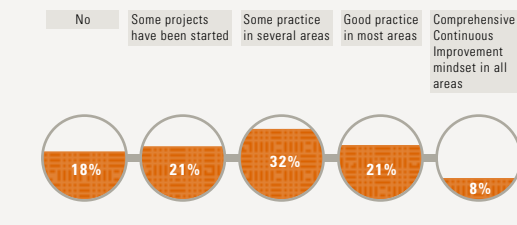
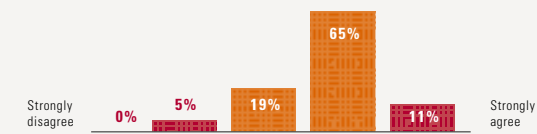


FIGURE 3

Is Lean Management a tool to improve business excellence especially in overhead functions?



EMERGING MARKETS AT HALF OF YESTERDAY'S GROWTH: UNWILLING TO REFORM OR A VICTIM OF THE SELFISHNESS OF INDUSTRIAL NATIONS?

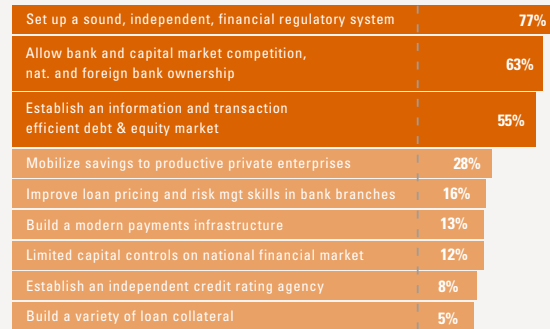
The significant slowdown in growth in all emerging markets has spawned a lively debate on its causes and on its consequences for the global economy. The core question is, of course, whether this development is due to structural or cyclical reasons. The majority of our participants tend to the former (64 percent vs. 36 percent). Even when taking into account that this might be due to the simultaneous slowdown in several countries, as one panelist believed, the impression remains that there is a whole series of measures to be adopted by emerging markets to reform their financial and economic systems.

To begin with, this means setting up of a sound and independent financial regulatory system (77 percent mentioned this as foremost step in the reform process) followed by the need for greater competition in the financial sector (63 percent) and a more efficient debt and equity market (55 percent) (see fig. 4). More controversial than the need for reforming structural deficiencies in emerging markets seems to be the question of how to properly deal with very export-oriented markets. Almost eight out of ten participants believe that it still makes sense to reward markets that export rather than import capital. The question remains whether this majority is due to the dominance of Germans among the respondents, as one of the participants assumed.

FIGURE 4

What do emerging markets need to do to ensure a more efficient allocation of capital?

RANKING ACCORDING TO FREQUENCY IN PERCENT



LEADING THE ENTREPRENEURIAL REVOLUTION: HOW TO CHANGE THE CORPORATE MINDSET FOR THE BENEFIT OF MORE RISK APPETITE AND TO ACCEPT THAT FAILURE IS AN OPTION?

“Why does it take so long to make changes, even when everybody is convinced that they are necessary?” One is often tempted to ask this when discussing the so-called entrepreneurial revolution again. Perhaps this is to a lesser degree due to a reluctance toward deep and fundamental changes to long-established traditions, but can rather be traced back to the lack of a consensus on how to reach this goal. While there is a solid majority of participants that dismisses plans to reduce the requirements for internal control to promote more entrepreneurship in their companies (74 percent), different approaches are mentioned when asked for the key factors to anchor entrepreneurship within their businesses. A total of 69 percent said that the goal of establishing entrepreneurship in their companies is reached by an adequate incentive system and 59 percent by relying on breaking up old “quarter-to-quarter mentalities”. Only 17 percent believe that a high internal management rotation can help achieve entrepreneurial thinking and action (see fig. 5). There is still a majority of respond-

ents (57 percent) who claim that their companies have no culture of productive failure or merely a minimal one. And there is a wide range of responses for the definition of the future leadership roles to allow more entrepreneurship (see fig. 6). These findings are also reflected in most of the statements made during the discussions.

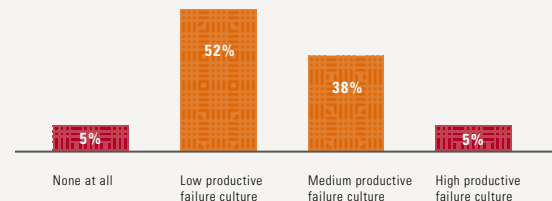
FIGURE 5

What are the key factors to anchor entrepreneurship within your company?



FIGURE 6

What degree of productive failure (i.e. willingness to accept being wrong and to fail) is present in your company?

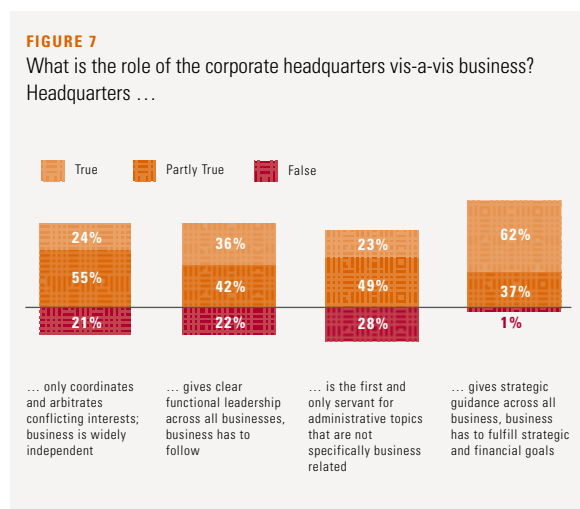


While there is a general consensus on the need for more risk-taking, it is hard to overlook how different the approaches are. While some of the participants emphasized that a company-wide risk culture is only to be achieved top-down, others focused on recruiting, on a better incentive system or tried at least to identify the factors that block entrepreneurship.

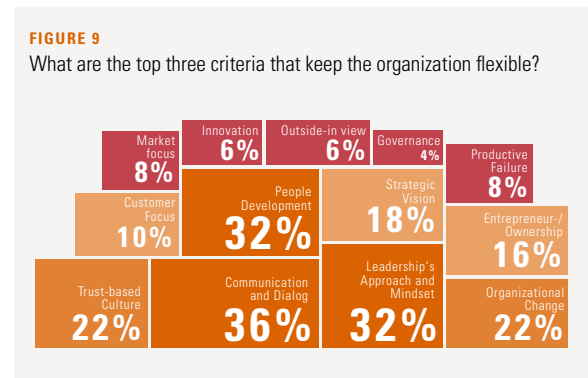
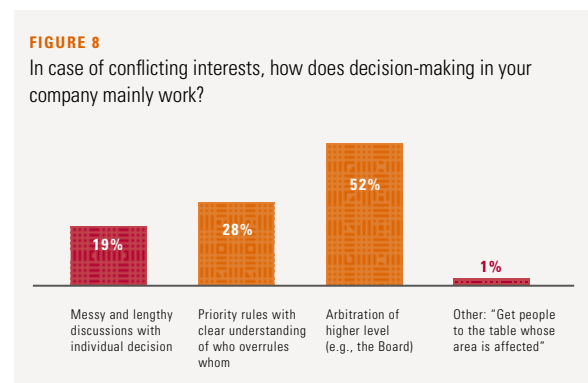
THE FLEXIBLE ORGANIZATION: HOW TO LEAD TODAY'S MULTI-DIMENSIONAL BUSINESS?

On a rather theoretical level, the discussion about how to make today's business more flexible and effective revolved around the dual notion of complexity versus simplicity. On a more practical level, this was reflected by debating the pros and cons of matrix organizations. While some see the matrix organization as too inflexible thus leading to a reduced feeling of responsibility, others see the matrix as an indispensable structure to meet the increasingly complex requirements of global business.

The ensuing discussion showed that even proponents of matrix organizations had to concede certain basic requirements of this structure in order to work properly, e.g., that a cross-regional and cross-functional alignment has to be reflected by the board structure. It was also emphasized that the employees need to understand the approach and don't want constant changes. Therefore, when a matrix organization is to be established it should be done consistently, reliably and with clearly defined lines of responsibility. To return to our poll questions, some other topics were highlighted such as the role of corporate headquarters vis-à-vis business. Here, it is particularly striking that



the statement “HQ gives strategic guidance across all business” received the highest approval rate (see fig. 7). Another highlighted topic was the question of how decision-making works in the companies of our participants (“Arbitration of higher level, e.g., the Board” is in the lead, followed with a large gap by “Priority rules with clear understanding of who overrules whom”) (see fig. 8). Perhaps the most interesting outcome was when the respondents were asked to name the top three criteria that keep the organization flexible:



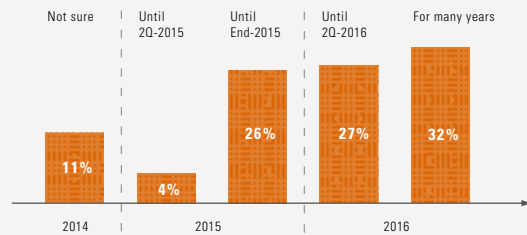
“Communication and Dialog”, “People Development” and “Leadership’s Approach and Mindset” were the top answers – a clear indication of what matters most in today’s business: Communication and people (see fig. 9).

DEFINING MONETARY STABILITY: WHAT WILL BE THE “NEW NORMAL” FOR INTEREST RATES AND FINANCIAL STABILITY WHEN THE CENTRAL BANKS CONCLUDE THEIR PROGRAMS?

Against the backdrop of the continuing “unusual” situation, referring to the current programs of the central banks, it does seem reasonable to ask what can be expected once these programs have run their course. However, before we do that, we have to know how long it will take for the central banks to return to normal.

FIGURE 10

How long do you think the ECB negative interest rates policy and ECB-style QE will last?



In terms of the latter question, the responses of our participants provided only one conclusion. In all probability, it will take several years before we see the end of negative interest rates. Almost one-third of the respondents expect the programs to run for many years to come. And more than 50 percent think we will have to wait at least until the end of next year for a policy change (see fig. 10).

While there is some disagreement on the effectiveness of the programs, the tendency is clear. A slight majority (58 percent) regards the current market rates as a good way to stimulate the economy, whereas only 35 percent of the participants think that the rates are too low (see fig. 11). However, in the long run, far higher rates in the eurozone are desired. A total of 44 percent advocate a level of between 2-3 percent, and 36 percent favor rates of 1-2 percent

FIGURE 11

Do you think the current market interest rates are good for stimulating real investment of companies?

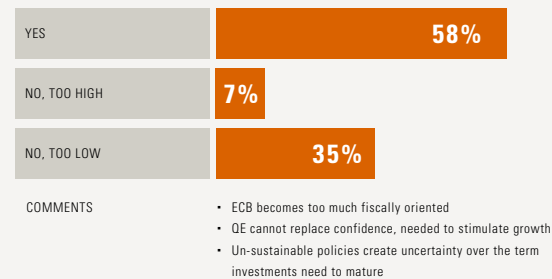
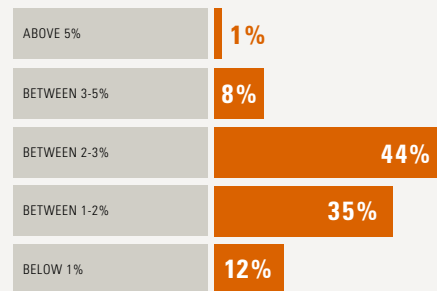


FIGURE 12

Which level of interest rates do you think is better for the Euro area real economy?

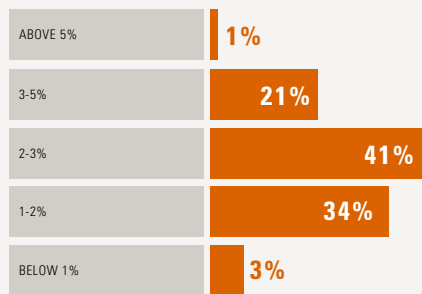


(see fig. 12). These wishes are reflected almost entirely in the expectations of our participants when asked which market rates will prevail when all programs have come to an end thus signaling a rather high level of optimism (see fig. 13).

This optimism might come as somewhat of a surprise since there are a variety of imponderable problems such as the future political and economic development in Europe and, above all, the question of the euro and the stability of the eurozone. These topics were addressed in the discussion as was the role of the banks.

FIGURE 13

Looking ahead, if the ECB and US Fed end all QE programs, what's your best guess of the market interest rates that will prevail?



REINVENTING MATURE BUSINESS: WHAT DETERMINES THE SUCCESSFUL IMPLEMENTATION OF NEW BUSINESS MODELS AND INNOVATION IN CORPORATIONS?

The discussion about what determines whether new business models are successfully implemented started with two key theses. The first thesis is that the products and data become even more important than customer transactions and the second is that the acquisitions become the most important drivers for change and innovation, as we see a decline in the role of joint ventures.

Complex structures are key barriers to implementing innovation, but there are others such as long reporting lines and unions that oppose any change, fearing friction and unforeseeable internal developments. On the other hand, regulation, often labeled as particularly unfavorable for innovation, can foster innovation, at least for established companies.

While our participants are, generally speaking, rather satisfied with the quality and frequency of innovations in their companies (60 percent tending to the positive side), the share of revenue coming from innovations in the past years is estimated to be surprisingly low. A total of 51 percent think that it has been below 20 percent (see fig. 14). Finally, the discussion revisited a topic that we debated

before which was the role of entrepreneurship and risk culture in corporations. When asked to name the typical obstacles for innovation, the respondents showed rare unanimity, and three factors appeared as the front runners by a wide margin: risk-averse culture, lack of acceptance of failure, and lack of management skills (see fig. 15). Once again, we recognize the importance of these. They are a strong indication of what is still missing in many of today's corporations. ❖

FIGURE 14

What is the portion of revenue that comes from innovations from past years?

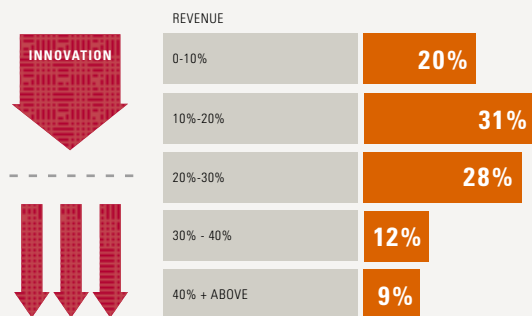


FIGURE 15

What are typical obstacles for innovation?

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