

Shaping the Future –
Thriving in a Changing World
Some Food for Thought



Jürgen H. Daum,
Chief Solution Architect,
SAP Business Solution Architects Group, SAP

13th European CFO Roundtable
July 1-2, 2010, Villa Kennedy, Frankfurt Germany



1. A Changing World?

2. Shaping the Future

3. Role of Finance

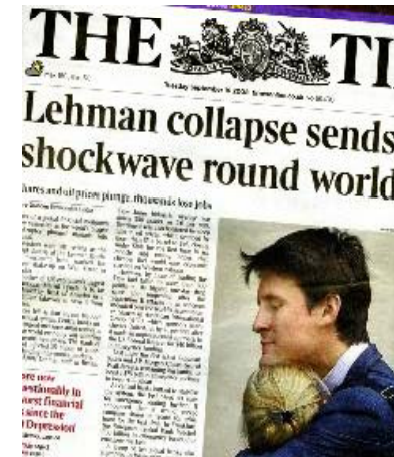
The turning point in 2008



September 15, 2008: The U.S. government refused to bail out Lehman Brothers



Lehman Brothers filed for Chapter 11 bankruptcy protection – creating the largest bankruptcy filing in U.S. history.



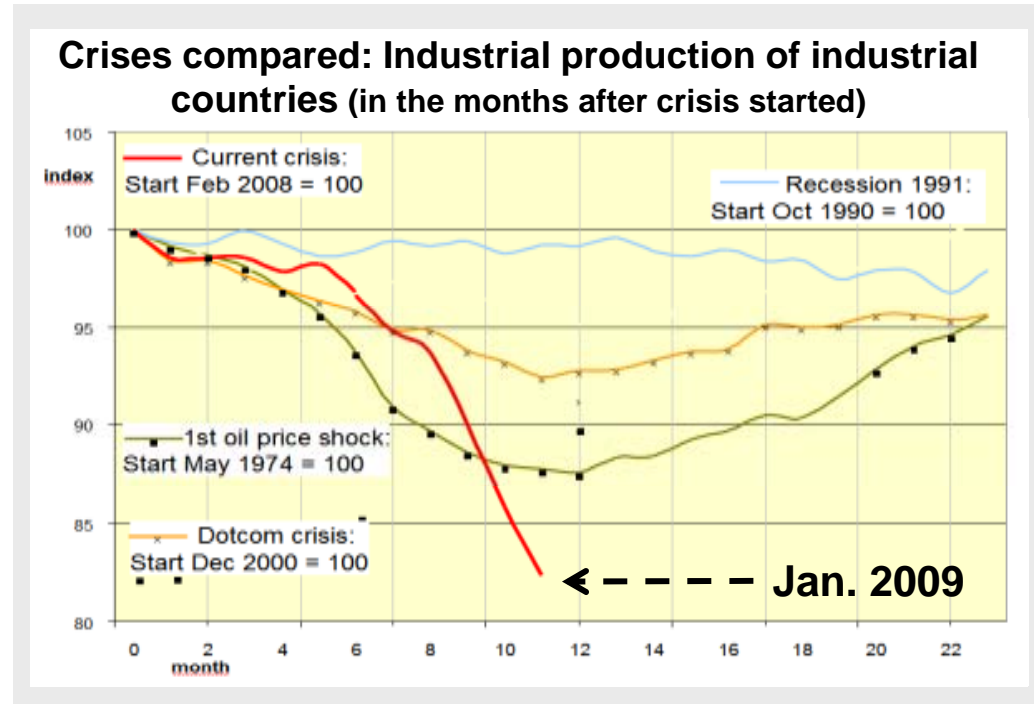
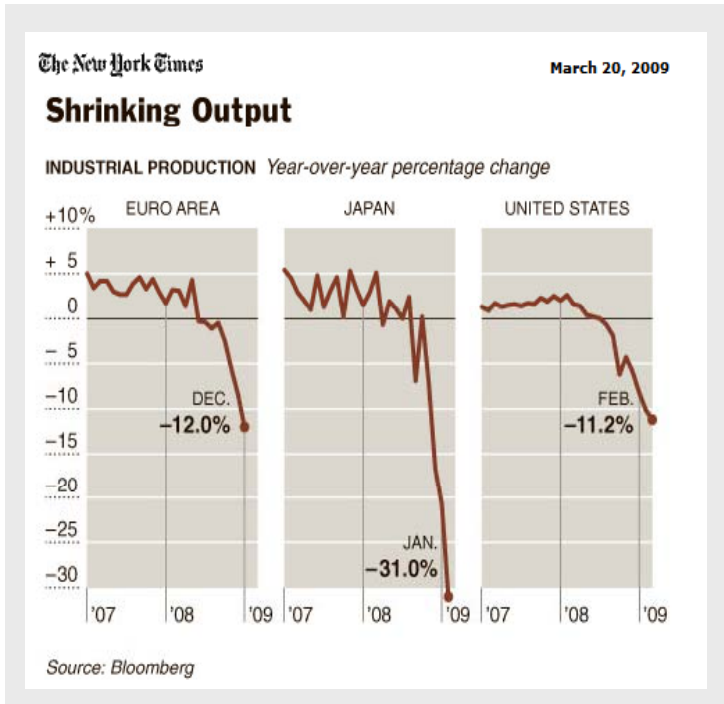
Perceptions and business climate were quickly changing

THE WALL STREET JOURNAL.
18 Sept. 2008
**Worst Crisis Since '30s,
With No End Yet in Sight**



Der Spiegel,
9 March 2009:
„How the
bankruptcy of
a single bank
provoked a
world crisis“

Great Depression II?



The New York Times

March 20, 2009

Rapid Declines in Manufacturing Spread Global Anxiety

The end of the world as we know it?

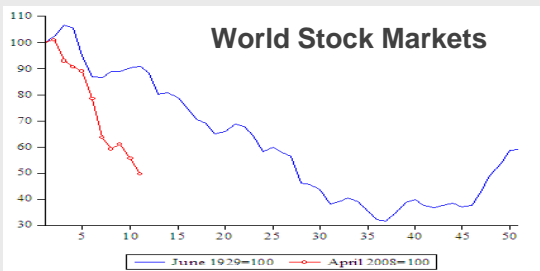
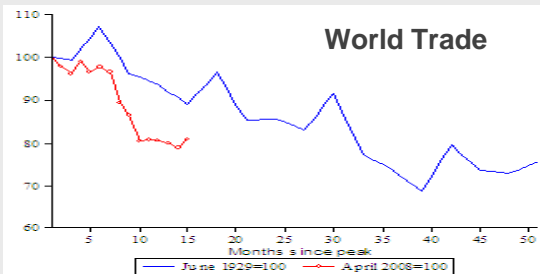
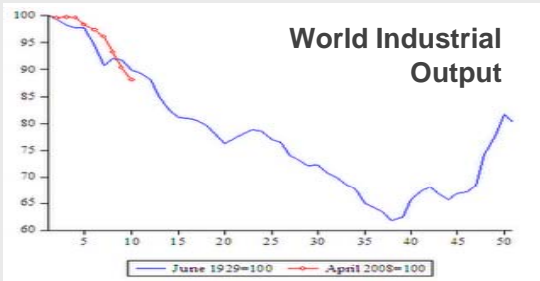


Economist's perspective

Great Depression (1929-1933) versus current crisis (2008-2010)

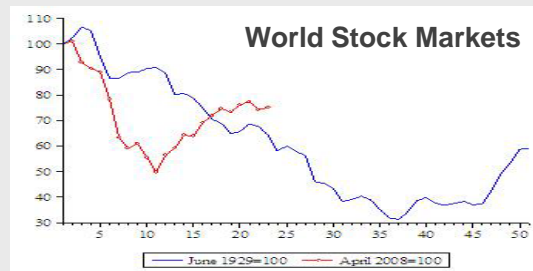
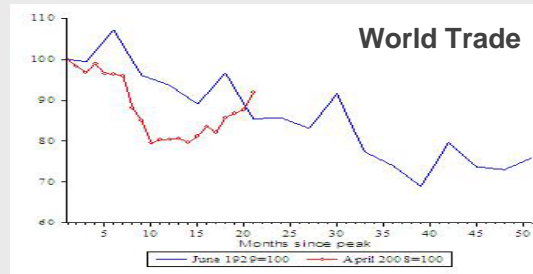
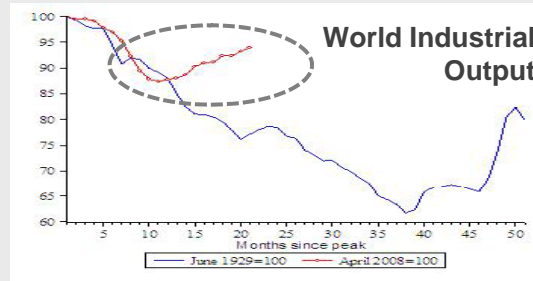


As of April 2009



— Current Crisis
— Great Depression

As of March 2010



— Current Crisis
— Great Depression



Barry Eichengreen

Professor of Economics and Political Science at the University of California, Berkeley



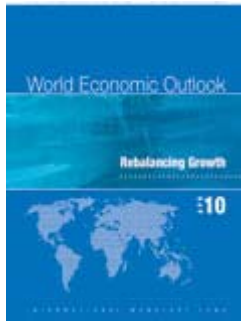
Kevin H. O'Rourke

Professor of Economics at Trinity College Dublin

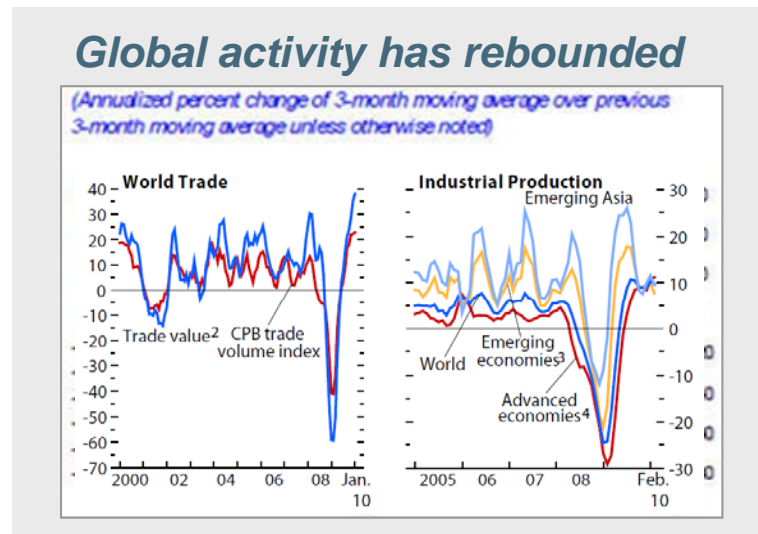
“This is a **sharp divergence** from experience in the Great Depression [...]

The question now is **whether final demand for this increased production will materialize** or whether consumer spending, especially in the US, will remain weak, [...] **resulting in a double dip recession.**”

Source: Barry Eichengreen and Kevin H. O'Rourke, 8 March 2010 on: <http://www.voxeu.org/index.php?q=node/3421>



- ▶ **Recovery has proceeded better than expected:**
In 2010, world output is expected to rise by about 4¼ percent, following a ½ percent contraction in 2009.



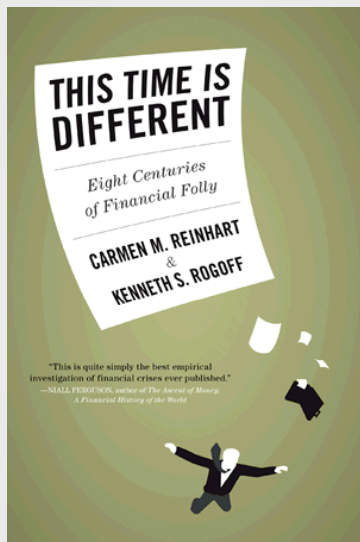
- ▶ **Multispeed recovery will continue, but with varying speeds across and within regions:**
Economies that are off to a strong start are likely to remain in the lead, as growth in others is held back by lasting damage to financial sectors and household balance sheets.

- ▶ **Policies need to sustain and strengthen recovery:**
Activity remains dependent on highly accommodative macroeconomic policies and is subject to downside risks, as fiscal fragilities have come to the fore.

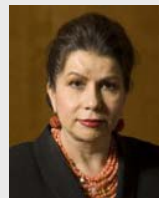
**It's too early to say: "The crisis is over"
There is still considerable uncertainty.**

Lesson from the crisis (I)

Learning from history



**This Time is Different:
Eight Centuries of
Financial Folly**
Princeton, 2009



Carmen M. Reinhart

Professor of Economics
and Director of the Center
for International Economics,
University of Maryland



Kenneth S. Rogoff

Professor of Economics,
Harvard University

Findings and conclusions:

- Financial fallout occurs in clusters and strike with surprisingly consistent frequency, duration, and ferocity (a common pattern exist)
- Major default episodes are typically spaced some years (or decades) apart, creating an illusion that “this time is different” (typical attitude among policymakers and investors).
- ▶ The recent US sub-prime financial crisis is hardly unique.
- ▶ Short memories make it all too easy for crises to recur.

Lesson from the crisis (II)

The revival of the theory of business cycles



Joseph A. Schumpeter, economist 1883-1950

„If [the reader] comes to survey industrial history [...] he will discover [...] that booms are unmistakably characterised by revolutionary changes in some branch of industry[...]. Booms consist in the carrying out of innovations in the industrial and commercial organisms. [...].

Booms and consequently depressions are not the work of banks: [...] **entrepreneurs demand is the initialing cause**”*

*Source: Joseph A. Schumpeter, The explanation of the business cycle, in: *Economica*, 1927

Business cycles are the work of entrepreneurs and of revolutionary changes in an industry caused by them

The real economy influences capital markets much more than the other way round



Klaus Holschuh, Head of Research, DZ Bank

„The real economy **influences capital markets much more than the other way round.**

[And the real economy business cycles] **are reinforced through people’s static expectations:** if something is growing, it will continue to grow. If something is decreasing, it will continue to decrease. Time and again, **this herd instinct provokes exaggerations that are corrected afterwards.**”

*Source: Interview in: *Frankfurter Allgemeine Zeitung*, 18 June 2010, p.21

Conclusion: In order to better master crises, we need a better understanding of the fundamental changes happening in the real economy

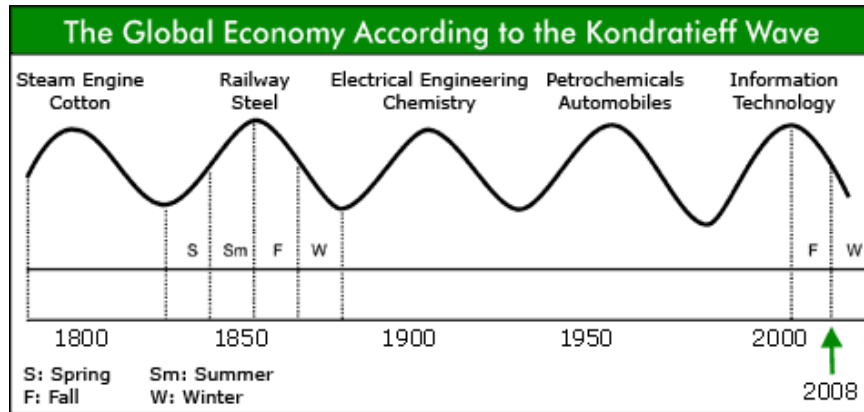
Lesson from the crisis (III)

The bigger picture: The long-wave cycle theory



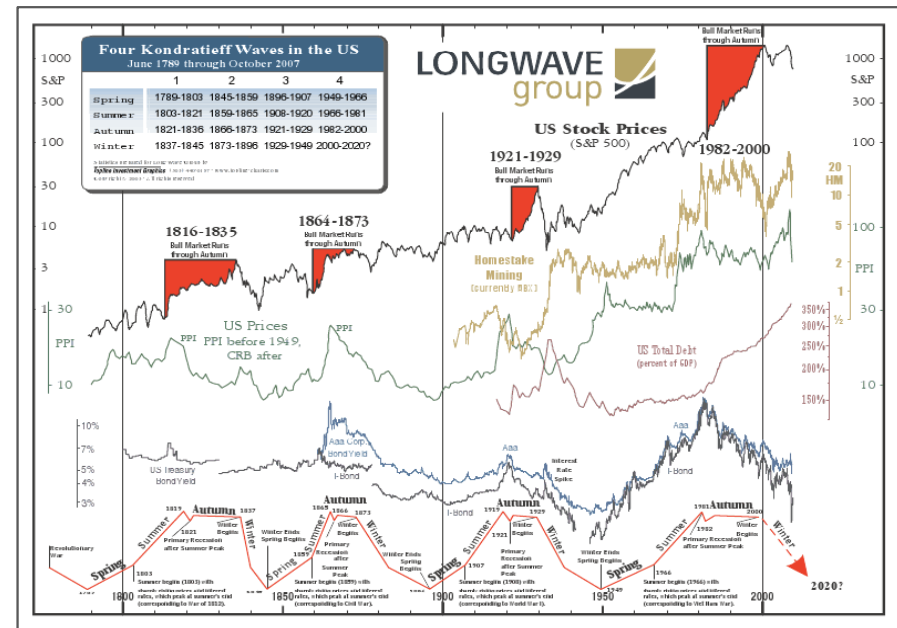
Nikolai D. Kondratieff,
economist
1892^{greg.} - 1938

- Proposed a theory of long term economic cycles of 50-60 years in capitalist economies (in his book: *The Major Economic Cycles*, 1925)
- He was convinced that his studies of economic, social, and cultural life proved that a **long term order of economic behavior** existed and could be used for the purpose of **anticipating future economic developments**.



Source: http://education.wallstreetsurvivor.com/Kondratieff_wave

Isn't the current crisis just a symptom that we are heading to the end of a long-wave cycle (and to the begin of a new one)?



Source: <http://www.financialsense.com/fsu/editorials/2009/1201.html>

Fundamental change on the horizon

Some signals (selected examples)



Shift of wealth from West to East

“In terms of size, speed, and directional flow, **the transfer of global wealth and economic power now under way** – roughly from West to East, **is without precedent in modern history.**”

The international system, as constructed following the Second World War, **will be almost unrecognizable by 2025.**”

Source: U.S. National Intelligence Council, Global Trends 2025, November 2008

The Future of the EU(RO)?

“Unfortunately, **one cannot exclude the collapse of the EURO** and of the European project.”

George Soros

Source: Interview in DIE ZEIT, 24 June 2010, p. 25

The Future role of the U.S.?

“The US Finds its Superpower Structure and Capital are Insufficient to Cope with a Transformed World.”

Source: www.oilprice.com , 12 January 2010

The rise of China

“**China proclaims the end of the big workbench** China wants to move away from cheap subcontractor (manufacturing) work. The government leverages incidents at Honda and Foxconn to accelerate the structural transformation.”

Source: Frankfurter Allgemeine Zeitung, 10 June 2010, p.12

The Future of Financial Services?

“More than one-third of Americans **are less trusting of financial institutions** than a year ago.”

Source: AlixPartners poll, press release from May 26, 2010

Change, even fundamental disruptions, will more likely be the norm in the next decade rather than an exception.



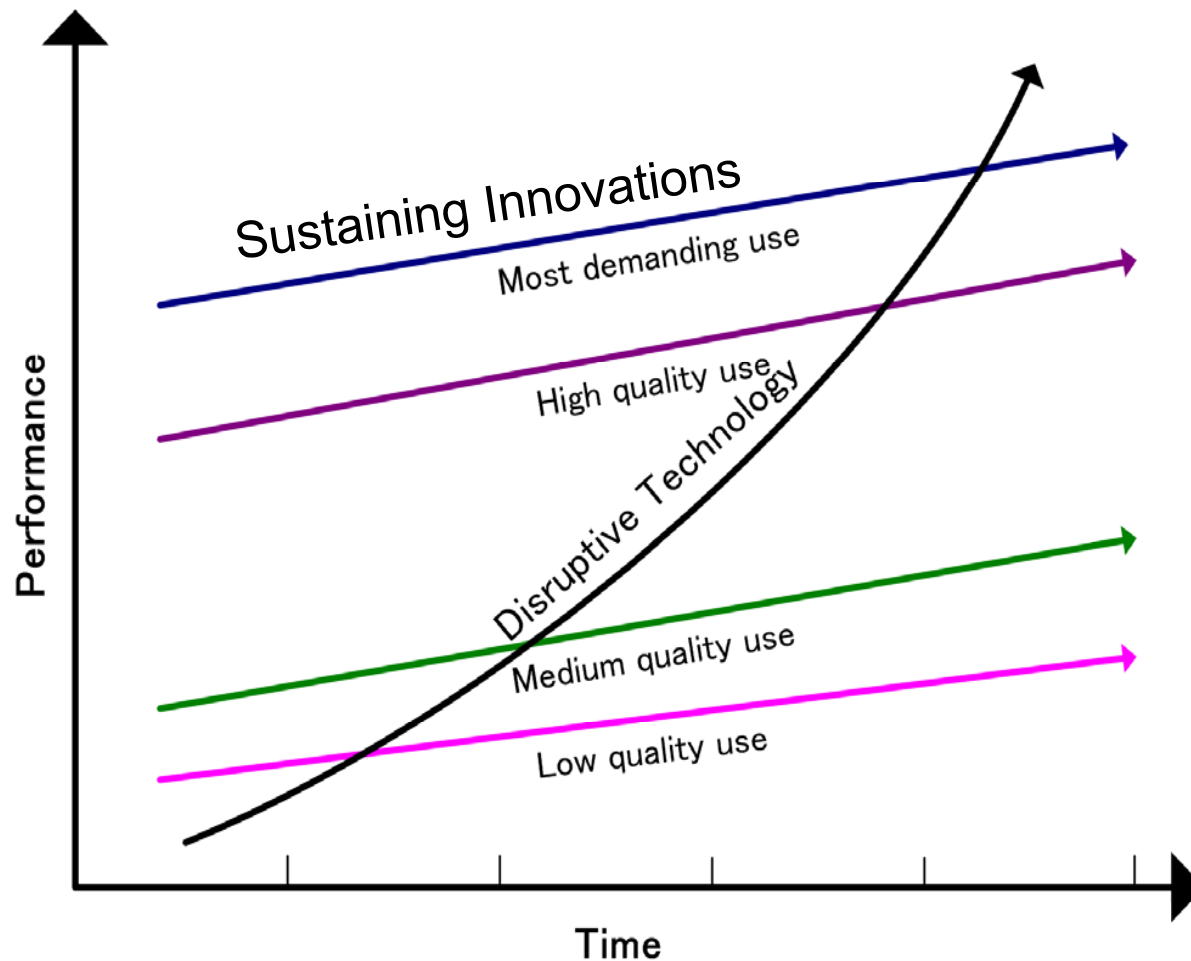
1. A Changing World?
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The challenge of dealing with disruptive change

Example of the disruptive innovation model



The disruptive innovation model



1.

Disruptive innovations develop first unnoticed by the established players – until it's too late

2.

Traditional planning and forecasting fail when companies have to deal with disruptive technologies and disruptive innovations

Figure: from http://en.wikipedia.org/wiki/Disruptive_technology

Business model disruption (examples)

How the web threatens the existence of many companies



Music industry:

EMI: The Cost-Cutting Continues, This Time In Layoff Form



In its continued quest to save as much money as possible before the market for recorded music completely dries up, EMI will cut "up to 2,000" jobs from its 5,500-member-strong employment rolls this coming Tuesday. Departments

likely to be hardest hit: sales, marketing, distribution, and artist management. The Telegraph is also reporting that the company will "take a more focus group approach" to upcoming releases, quoting sources who are claiming that EMI is currently putting out records while being completely clueless about their appeal to the masses. Have fun figuring out *who's going to survive that edict!*

13.01.2008

Publishing industry:

Newspaper Print Ad Sales Fall 9.4%, Most on Record

By Tim Mullaney

March 28 (Bloomberg) -- U.S. newspapers suffered their worst drop in print advertising sales since industry record-keeping began 57 years ago, hammered by the housing-market slump and competition from the Internet.

Revenue plunged 9.4 percent to \$42.2 billion, from \$46.6 billion in 2006, the Newspaper Association of America said today at its [Web site](#). A 19 percent rise in Internet ads to \$3.17 billion cushioned the decline.

More shelf space

Germany said goodbye this week to a cornerstone of its intellectual and cultural life, when Brockhaus, the 200-year-old publishing firm, announced it was stopping publication of the print edition of its famous encyclopaedia.

In future the 30-volume collection of books - which took up 1.7 metres of shelf space - will be available only online. As if to underline the significance of this internet victory over traditional publishing, Brockhaus - seen as the German equivalent of the Encyclopaedia Britannica - added that the collection, which costs an impressive €2,670 in the print version, would be free of charge (with advertising) on the net. FT, 14.2.2008

Banking:

Gartner Says Social Banking Platforms Threaten Traditional Banks for Control of Financial Relationships

Non-bank competitors are pushing aggressively into banking and investment services, threatening to undermine banks in the financial relationship, according to Gartner, Inc. The threat is particularly pronounced in two businesses that are at the very heart of banking, namely lending and payment.

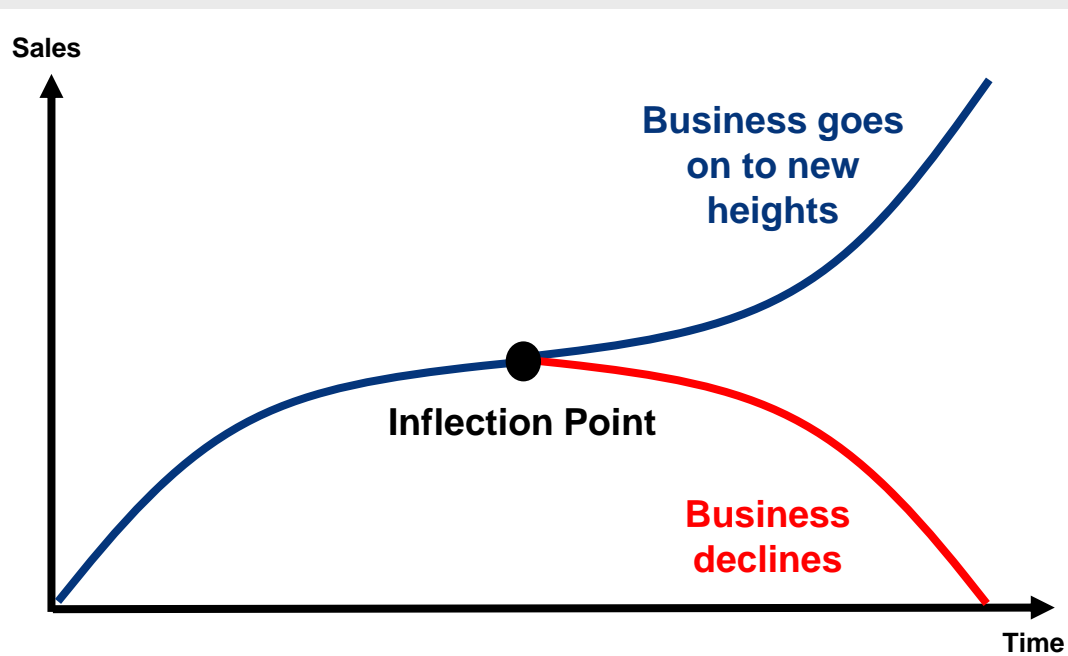
Are you disrupting – or are you disrupted?

Mastering the strategic inflection point

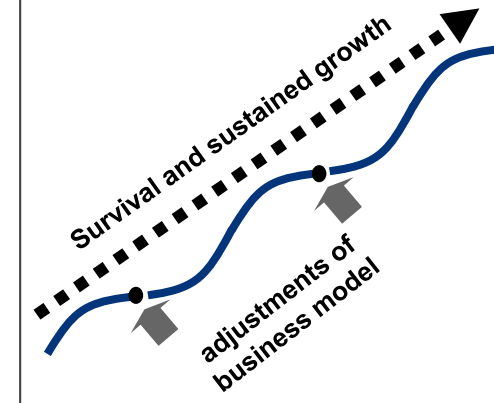
The key to success



The inflection curve



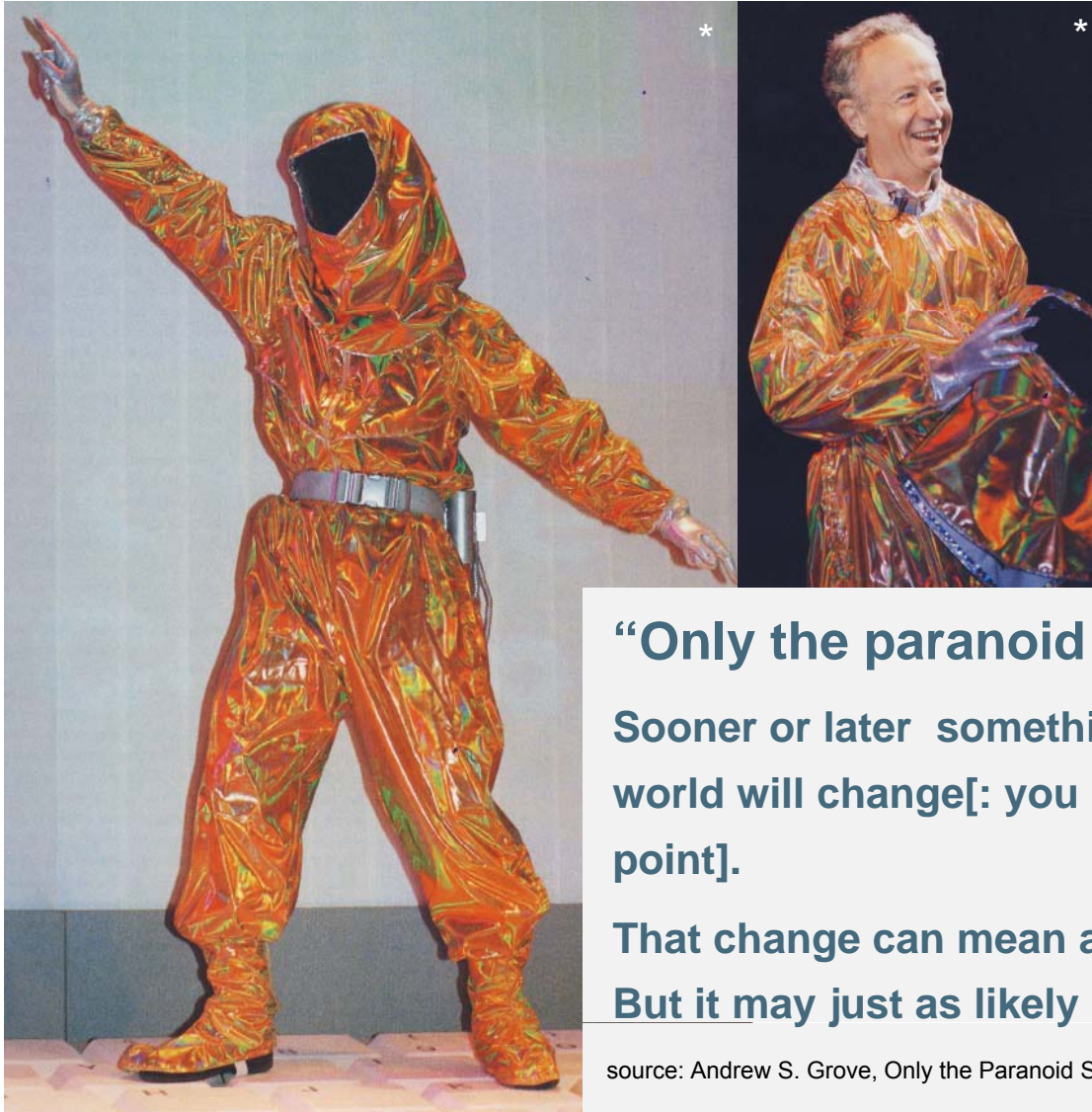
The objective:



requires timely change,
i.e. innovation and
business transformation

Mastering the strategic inflection point

Lessons from the ‘friendly paranoid’*



Andrew S. Grove

- Senior Advisor to Intel Corporation
- Chairman of the Board of Intel (1997-2005)
- CEO, Intel (1987-1998)
- President, Intel (1979-1997)
- Cofounder of Intel (1968)

“Only the paranoid survive

Sooner or later something fundamental in your business world will change[: you have reached a strategic inflection point].

That change can mean an opportunity to rise to new heights. But it may just as likely signal the beginning of the end.”

source: Andrew S. Grove, Only the Paranoid Survive, 1996 (preface)

*adopted from: brand eins, June 2010

Mastering the strategic inflection point

Lessons from the ‘friendly paranoid’



Andy Grove

“Having been a manager at Intel for many years, I’ve made myself a student of strategic inflection points. Thinking about them has helped our business survive [...]”

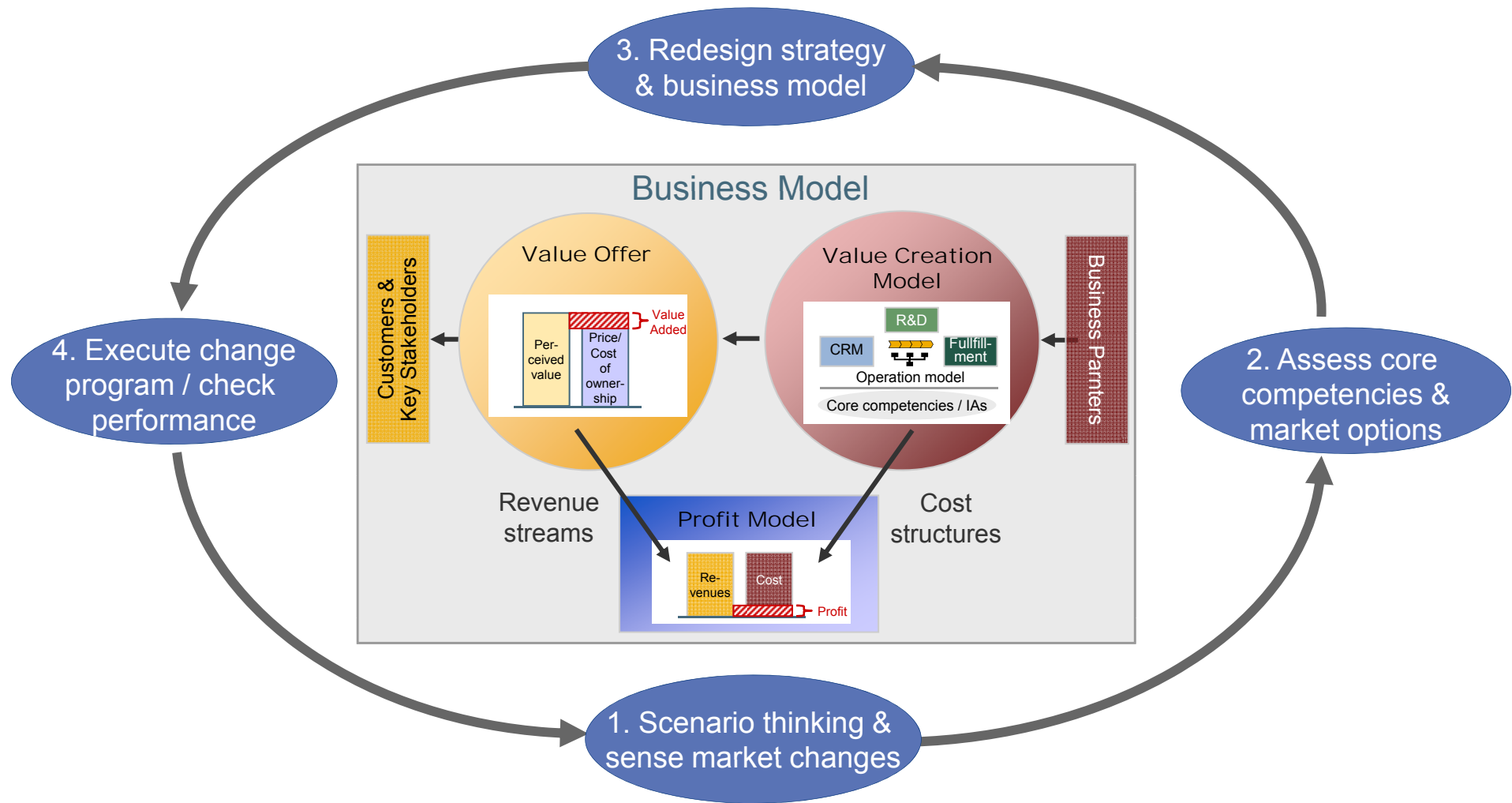
Lessons learned from mastering Intel’s first inflection point

- What leaders should be aware off*:

- ▶ Your (managerial) priorities in an organization are formed by your identity – your identity that has been shaped through **what you have done in the past**. And it’s that identify from the past **that becomes your biggest hurdle to change**.
- ▶ Managers must adopt **an outsider’s intellectual objectivity [“face the reality”]** **and have to stick to it** until the organization has switched perspectives.
- ▶ **People lower down in the organization**, middle managers, sales people and financial **analysts are the earliest to know**, when the fundamentals of a business change.
- ▶ No amount of formal planning can anticipate such changes. You have to shape **an energetic and efficient team that is capable of responding to the unanticipated as well as to any ordinary event** .

*adopted from: Andrew S. Grove, Only the Paranoid Survive, 1996 (chapter 5: Why Not Do It Ourselves + Preface)

Required: Institutionalized business model innovation and business transformation





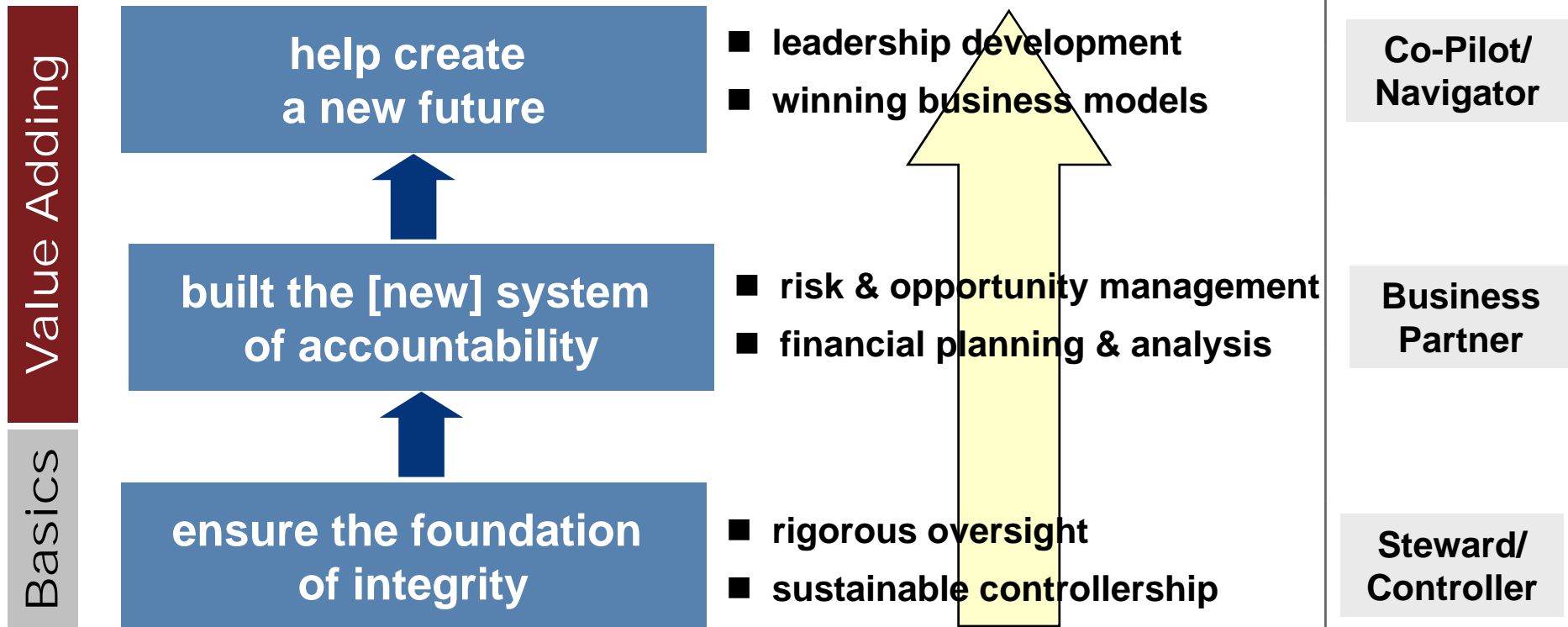
1. A Changing World - Really?
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- 3. Role of Finance**

The role of finance

The CEO's expectations



Example: General Electric (Jeff Immelt's view)



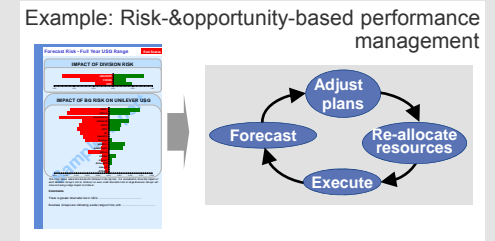
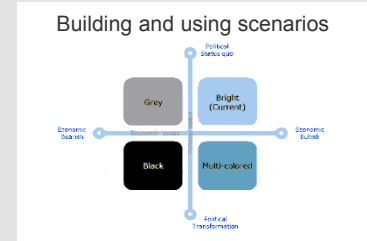
Adapted from the presentation of Björn Bergabo, CFO of GE Commercial Finance, for the SAP Finance Best Practice Network (SAP Finance Best Practice Workshop)

Shaping the Future – Thriving in a Changing World

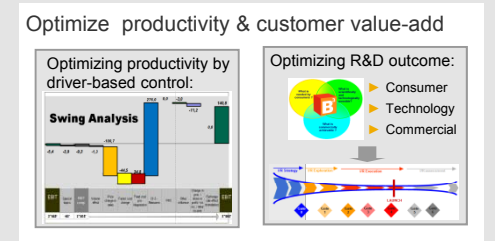
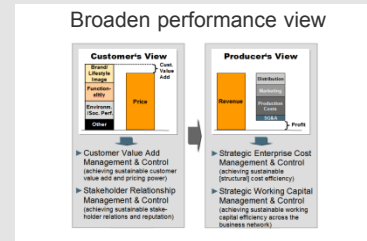
Role of Finance



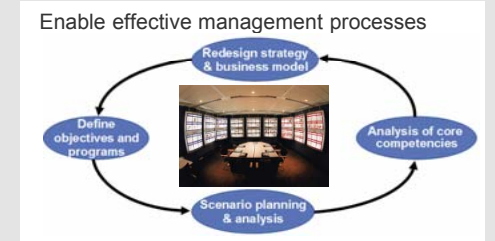
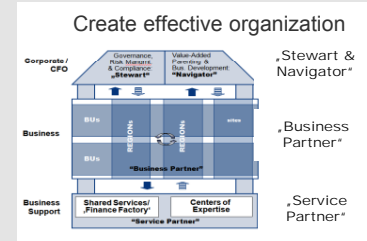
- ▶ Create transparency on strategic and operational risks and opportunities



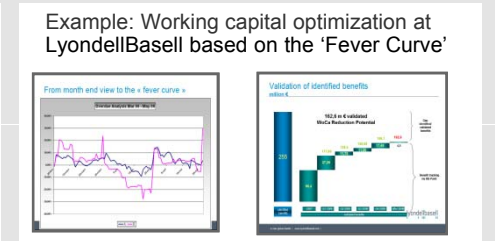
- ▶ Help to focus the enterprise on productivity and customer value-add (to improve competitiveness, pricing power and profitability)



- ▶ Enable effective management processes / decision-making + help to create an effective organization



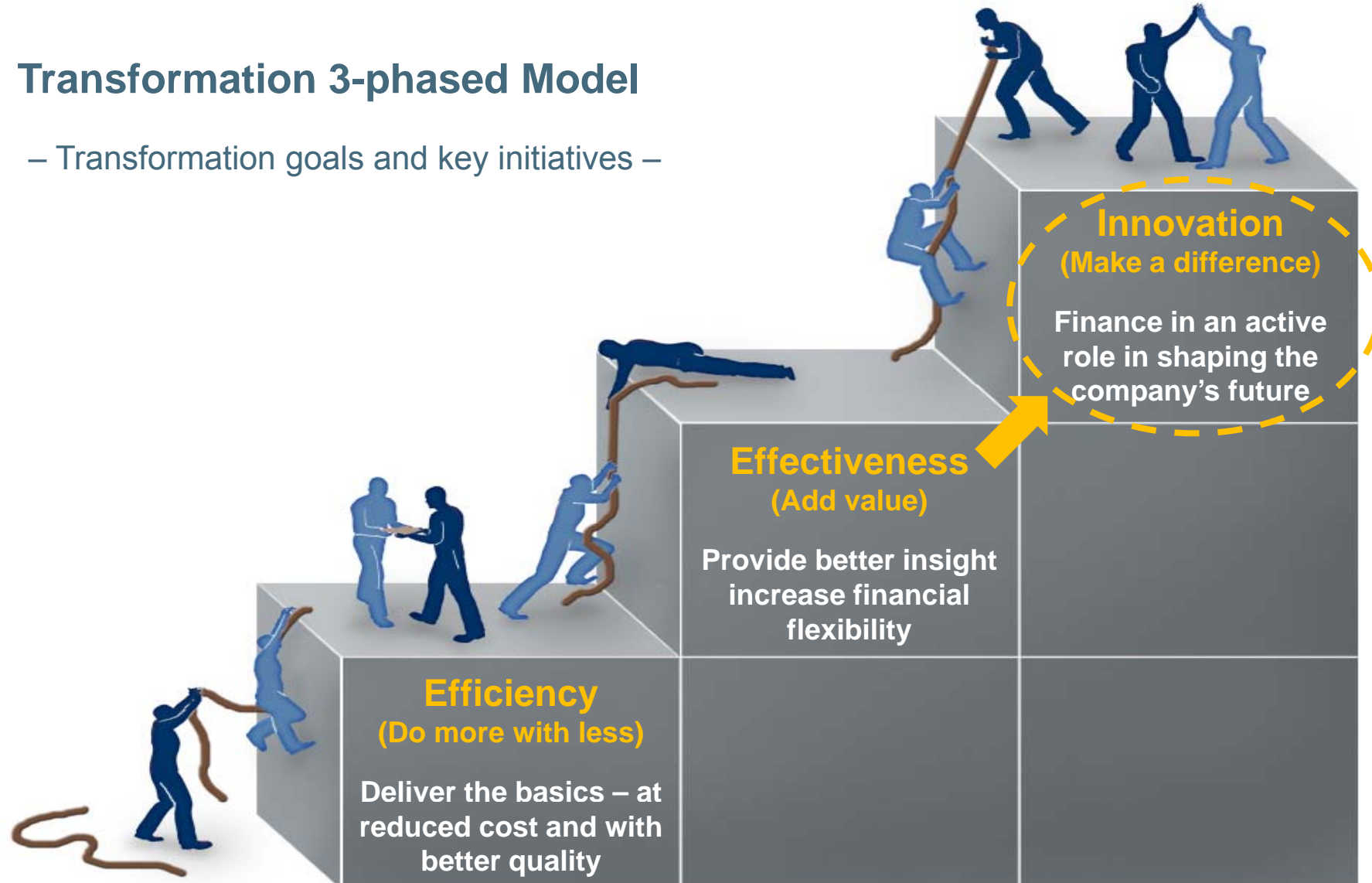
- ▶ Secure liquidity and manage cash efficiently





Transformation 3-phased Model

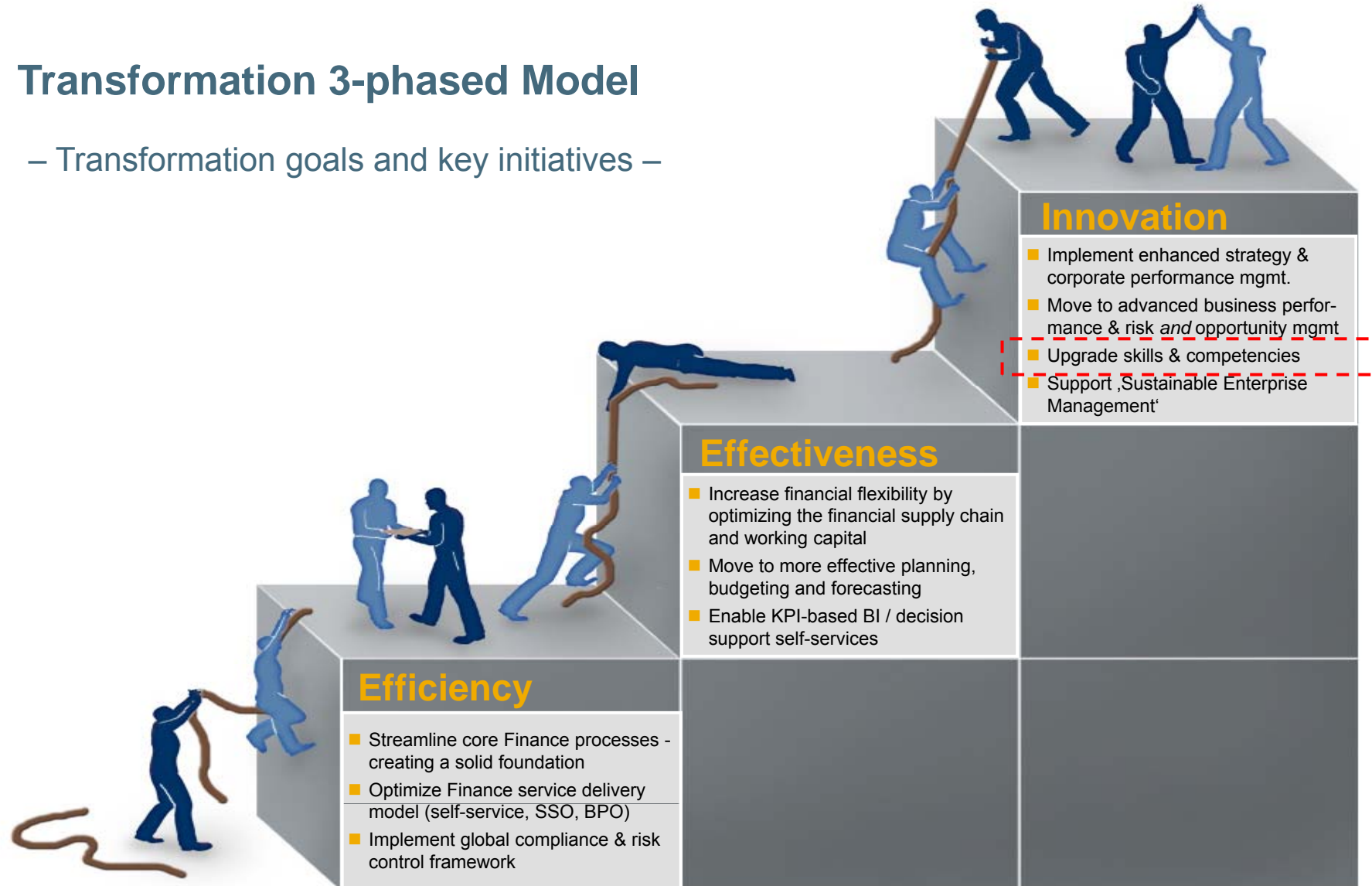
– Transformation goals and key initiatives –





Transformation 3-phased Model

– Transformation goals and key initiatives –



Upgrade Human Intelligence Effectiveness Required: digital and human intelligence capabilities in sync



Frankfurter Allgemeine 30 April 2010

Multitasking: What happens with our brains?

- ▶ New neuroscientific research revealed that **multitasking** provoked by the extensive usage of digital media **weakens the command center in our brain**
- ▶ **We might have hired the wrong trainer for our brain:** too many of our activities in the digital world reduce selective concentration as well as empathy – both foundations of human intelligence.



Patrick M. Georges,
senior neurosurgeon,
Professor in
management at
H.E.C., Paris and
Human Intelligence
Management expert

„If you understand, how the brain is working, you can achieve tremendous results in improving your personal productivity as executive.

The key to unearth the full potential of a person's intellectual capacities is to **understand the brain's weaknesses and adapt your behavior accordingly.**”



Management Cockpit
War Room conceived
by Patrick M. Georges

Interview



Patrick M. Georges, 50 Jahre alt, ist ein französischer Neurochirurg und Professor für Management an der HEC Paris. Er ist auch ein Experte für die menschliche Intelligenz und die Auswirkungen von Digitalisierung auf das Gehirn. In diesem Interview spricht er über die Herausforderungen der Digitalisierung für die menschliche Intelligenz und die Möglichkeiten, diese zu verbessern. Er betont die Bedeutung von Aufmerksamkeit und Empathie in der digitalen Welt und schlägt Strategien vor, um diese Fähigkeiten zu stärken. Er ist der Erfinder des Management Cockpit War Room, einer innovativen Umgebung für die Entscheidungsfindung in Unternehmen.

Articles are available
at our book desk



Role of Finance in a changing world

**Helping the company to
master critical inflection
points and to drive
business performance
and growth**

while

**ensuring good
governance and
financial peace
(by enabling fact-based
decision making)**

Thank you!

Juergen H. Daum
Chief Solutions Architect
Business Solutions Architects Group, SAP EMEA

juergen.daum@sap.com





- ▶ CFO adviser and Chief Solution Architect, Business Solutions Architects Group at SAP EMEA
- ▶ Author, lecturer and trainer in enterprise management, finance transformation, innovation management and entrepreneurship

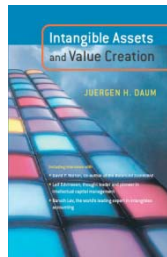
Career background:

- ▶ **CFO** in a mid-sized German company before joining SAP in 1992
- ▶ **Five years in SAP's field organization** in Germany and Europe: sales, consulting, product management with the focus on financials and enterprise management
- ▶ **Five years in SAP's product development: Product Manager** SAP R/3 EC and **Strategic Enterprise Management (SEM), Program Director for mySAP Financials**
- ▶ **Since 2002: advising CFOs, and finance professionals** of European companies - current focus on finance transformation & enterprise performance management
- ▶ **Frequently publishing and speaking** on enterprise management, finance transformation and other management topics; author of the books "Intangible Assets and Value Creation" (2003) and "Beyond Budgeting" (2005) - more at <http://www.juergendaum.com>

Publications (selection)



Books:



Intangible Assets and Value Creation
by Juergen H. Daum

John Wiley & Sons,
Chichester, 2003
ISBN 04708455120

More information at
<http://www.juergendaum.com/mybook.htm>



**Intangible Assets
oder die Kunst,
Mehrwert zu schaffen**
von Jürgen H. Daum

Galileo Press, Bonn, 2002
ISBN 3-89842-112-0

Mehr Informationen unter:
http://www.juergendaum.de/mybook_d.htm



Beyond Budgeting

von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München, 2005,
ISBN 3-89975-533-2

Mehr Informationen unter:
http://www.beyondbudgeting.de/bb-buch_d/bb_buch_d.htm

Upcoming:



**Finance
Transformation
– Der CFO als
Business Partner**

von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München,
ISBN 978-3-89975-105-5

Contribution to book's of others (selection):



**The CFO
as Business
Integrator**

by Cedric Read and
Dieter Scheuermann

John Wiley & Sons,
Chichester, 2003
ISBN 047085149X



**Intangibles
in der Unter-
nehmenssteuerung**

von Peter Horváth und
Klaus Möller (Hrsg.)

Vahlen, München, 2004
ISBN 3-8006-3035-4



**Neugestaltung
der Unternehmens-
planung**

von Peter Horváth und
Ronald Gleich (Hrsg.)

Schäffer-Poeschel,
Stuttgart, 2004
ISBN 3791021079

**Business Performance
Measurement
– An Introduction**

by Shyam Sunder
Kamberhammettu (ed.),

Le Magnus University Press,
Hyderabad, 2005
ISBN 81-89333-00-3

For the complete publication list see: <http://www.juergendaum.com/publications.htm>