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THE FUTURE IN 3-D »

DASSAULT SYSTÈMES CEO BERNARD CHARLÈS SEES  
A MEDIUM THAT WILL TRANSFORM EVERYDAY LIVES

PLUS: A.G. LAFLEY'S HARVARD BUSINESS REVIEW ESSAY ON EXECUTIVE PAY

# nyse

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A PUBLICATION OF NYSE EURONEXT

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INTERVIEWS » SURVEY RESULTS » STATISTICS

# CEO

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# report

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**N**YSE MAGAZINE IS DELIGHTED TO BRING YOU the results of the sixth annual NYSE Euronext CEO Report. Beginning on page 11, the collective responses of a record 325 participants, 44 percent of whom are based outside of the U.S., reveal a key theme: Companies, despite the crisis in Europe, are focused on growth amid a global economic recovery.

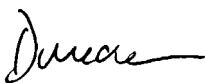
More than 50 percent of CEOs believe China is leading that recovery, and they rank it the third most crucial region for business through 2011, behind the U.S. and Western Europe. We believe in the importance of China and its capital markets and are proud to support the 2010 Shanghai World Expo as the USA Pavilion's exclusive exchange sponsor (see photo).

In China and around the world, our global listings business is embracing a strong 2010. Year to date, NYSE Euronext has attracted more than 50 new listings. The NYSE has won major technology deals this year, including Calix and MaxLinear (see page 7), and we are quickly becoming the global home for innovative non-U.S. companies such as AgroGeneration (see page 4). We have also attracted eight transfers from Nasdaq this year, including Knight Capital and Charles Schwab, which we'll profile in our next issue.

The article on page 42 highlights another important initiative we launched in 2010: NYSE Money Sense, our new financial literacy program for working adults. This launch came on the heels of our announcement that we are working with Junior Achievement in Europe to develop programs that improve financial literacy and entrepreneurship for high school students, which we celebrated with bell ceremonies in Brussels, Paris and Lisbon. To learn more, please visit our financial literacy Website, [nysemoneysense.com](http://nysemoneysense.com).

Still, the year has not been without challenges. Markets have given investors a bumpy ride, including the so-called flash crash on May 6th, when the Dow Jones Industrial Average experienced its worst-ever intraday loss of 998 points. We are proud of how the NYSE behaved that day and the leading role we have taken in working with the SEC and others to develop a market-wide audit trail and single stock circuit breakers, which will provide new investor safeguards and help prevent similar events in the future (learn more at [nyx.com/viewpoint](http://nyx.com/viewpoint)). At the NYSE, we have long believed in the ability to slow our market during times of volatility — analogous to taking the plane off auto pilot during turbulence. However, until recently no such rules or practices existed at the other trading venues. The SEC's new rules will not only apply to the New York Stock Exchange, where similar procedures have been in place for a long time, but to the broad array of electronic exchanges that make up our American market structure.

Sincerely,



**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS** Certain articles about NYSE Euronext in this magazine may contain forward-looking statements, including forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, but are not limited to, statements concerning NYSE Euronext's plans, objectives, expectations and intentions, and other statements that are not historical or current facts. Forward-looking statements are based on NYSE Euronext's current expectations and involve risks and uncertainties that could cause ac-

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**MORE THAN 100 PARTICIPANTS** were on hand for the first-ever remote bell ringing from Shanghai, which took place May 20 from the USA Pavilion at the 2010 Shanghai World Expo.

## DESPITE THE CRISIS IN EUROPE, COMPANIES ARE FOCUSED ON GROWTH.

### DUNCAN'S TOP FIVE

**PEER-TO-PEER** We are advocating with policymakers in Washington to support job-creating measures, such as relaxing Sarbanes-Oxley requirements for small companies.

**MARKET TREND** A more holistic, unified approach to regulating trading now that FINRA has assumed the surveillance and enforcement functions of NYSE Regulation.

**NYSE EURONEXT INITIATIVE** Building two new clearinghouses in London and Paris by 2012 to establish common clearing systems across our European markets.

**MEMORABLE QUOTE** From the *Harvard Business Review* essay on page 44: "If we don't take the lead, Congress and others will, in ways that may be in no one's interest."

**UPCOMING TRIP** To South America in August for meetings with listed companies and prospects.

2009 Annual Report on Form 10-K and other periodic reports filed with the U.S. Securities and Exchange Commission or the French Autorité des Marchés Financiers. In addition, these statements are based on a number of assumptions that are subject to change. Accordingly, actual results may be materially higher or lower than those projected. The inclusion of such projections herein should not be regarded as a representation by NYSE Euronext that the projections will prove to be correct. Articles in this magazine speak only as of June 25, 2010. NYSE Euronext disclaims any duty to update the information herein.



SONY CORP. (SNE) raises HIV/AIDS awareness. **ON THE**AT&T INC. (T) warns against texting and driving. **WEB**

VMWARE INC. (VMW) and SALESFORCE.COM INC. (CRM) join forces.

# upfront

## AGROGENERATION

### Grain in Ukraine

**F**or Charles Vilgrain, CEO of Paris-based **AGROGENERATION** (NYSE Euronext: ALAGR), the soil of Ukraine was an irresistible opportunity. “It’s the best soil in the world to do agriculture,” says Vilgrain, “but it has suffered from a lack of investment for the past 15 years. There’s lots of opportunity to be seized to do agriculture there on a large scale.”

AgroGeneration, a producer of agricultural commodities, says it is positioning itself to meet predicted increased demand for grains with increased supply. The company says that by renting, as opposed to purchasing, the 20,000 hectares already in production in Ukraine, it can afford to invest more fully in other production resources. It plans to have 100,000 hectares in production by 2012.

In addition to meeting the growing global demand for grains, Agro-Generation says it is committed to a sustainable approach to agriculture. This involves eco-friendly techniques such as less use of chemicals and fertilizers, as well as a no-till approach to production, which, the company says, increases the moisture in the soil, decreases erosion, cuts energy costs and reduces pollution. The idea, »

Vilgrain points out, is to maintain profitability without relying on government help. “Our model differs from many others,” he says, “in that we’re depending on the potential of the soil for our profits, not on subsidies.” — *Nikos Valance*

## NEOSTEM

### A Healthy Future

“It’s two different cultures,” **NEOSTEM INC.** (NBS) Chairman and CEO Robin Smith says about doing business in China. “But if you can figure out how to bridge the gap, you’ve got a home run.”

Smith says that NeoStem, which collects, processes and stores adult stem cells, or ASCs, for use in future medical treatment, is ramping up its business in China in part because of the differences in regulation there. “Stem cell therapy is under the jurisdiction of the minister of health,” she explains. “This should provide the ability to start delivering therapies a little more quickly than in the U.S.” The company expects to deliver its first therapies in China this quarter.

Thousands of clinical trials are studying the use of ASCs for ailments, including heart disease, MS and lupus, as well as for aging and orthopedics, Smith notes: “Stem »

#### AGRICULTURE

#### TICKER TAKES

**AGRO-GENERATION'S THREE FARMS, COVERING 20,000 HECTARES IN UKRAINE, ARE THE SIZE EQUIVALENT OF 57 NEW YORK CITY CENTRAL PARKS.**



cells are the body's repair mechanism. With NeoStem's technologies, patients can collect their own stem cells for potential therapy later in life."

A focus in both the U.S. and China is the company's technology that isolates very small embryonic-like stem cells, or VSELs.™ "Studies have shown that 24 hours after a stroke or heart attack, circulating VSELs enhance the body's natural ability to repair itself," Smith says. "What we are doing here and in China is seeing how we can use these cells in drugs." — *Bridget McMahon*

## NORTHEAST UTILITIES Everyone's a CFO

The idea for a new employee-training program at **NORTHEAST UTILITIES SYSTEM** (NU) developed after David McHale, NU's executive vice president and CFO, finished reading *Mavericks at Work* by William C. Taylor and Polly LaBarre, which champions the notion of investing in employees to succeed in business. The CFO of the Connecticut-based public utility holding company says that what emerged was the Finance Academy, a 2½-year program taught jointly by the »

« **39 BILLION DOLLARS** The estimated cost to the U.S. in 2010 of heart-failure-related health-care services, medications and lost productivity, according to the Centers for Disease Control and Prevention.

University of Connecticut School of Business and subject experts from Northeast Utilities. The first graduates completed their studies this year.

The program, McHale explains, offers in-depth training and opportunities for leadership development. Courses range from the electric and gas markets to accounting, finance and case studies on issues important to NU — all of which get students to "think like a CFO" as a way to better understand how their decisions affect NU's overall business.

Steven Casey, manager of financial development at NU and director of the Finance Academy, says that graduates will be better equipped to make decisions in a quickly evolving industry. "The energy business is now a mix of competitive and regulated businesses with more demanding customers," he says. "There is a need for employees to understand how our company operates and why certain business decisions are made."

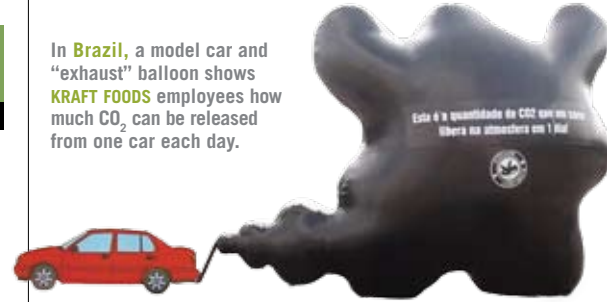
— *Chris Warren*

### TICKER TAKES RECYCLING

A **KRAFT FOODS** EMPLOYEE IN QUEBEC SET UP A BATTERY RECYCLING BIN IN 2007 AND SHARED THE IDEA OVER THE COMPANY'S INTRANET. SINCE THEN, EMPLOYEE TEAMS AROUND THE WORLD HAVE RECYCLED MORE THAN **1 MILLION POUNDS OF BATTERIES**.



In **Brazil**, a model car and "exhaust" balloon shows **KRAFT FOODS** employees how much CO<sub>2</sub> can be released from one car each day.



## KRAFT FOODS Green Goes Viral

**KRAFT FOODS INC.**'s (KFT) newest offering is totally organic: an employee-driven, grass-roots sustainability effort that has literally swept the globe, says Elisabeth Wenner, Kraft Foods' director for sustainability strategy. All-volunteer Kraft Foods "Green Teams" and Cadbury "Green Advocates" are integrating the company's environmental efforts into their daily lives. Employees in Canada created a garden to grow their own vegetables to share with family, friends and the office cafeteria. In Chicago employees created an online system for sharing and reusing idle plant equipment around the world, thereby repurposing 360 machines in 2009 to help keep equipment out of landfills.

These efforts signal a culture change as employees embrace Kraft Foods' commitment to environmental sustainability, Wenner says. Each team connects through an Intranet site that lets them share ideas. "Our employees are feeling empowered to make a difference," she adds.

— *Rebecca McReynolds*

**CORPORATE ID**  
[NAME THIS COMPANY]



- In 1985 this company started as Quantum Computer Services.
- By 1995 the company had reached 1 million members.
- This company became the first of its kind to win an Emmy for online programming with coverage of Live 8 in 2005.
- » In 2009 the company's mascot was inducted into the Madison Avenue Advertising Walk of Fame.

ALL CLUES PROVIDED BY THE COMPANY. SEE ANSWER AT NYSEMAGAZINE.COM/CORPORATEID.

## EATON CORP.

## Supercharged

Cleveland-based power-management company **EATON CORP.** (ETN) is moving toward better fuel economy with its supercharger introduction. Eaton reports that its supercharger technology will debut in China on three vehicle models from independent automaker Chery Automobile Co. Ltd.

Eaton says the supercharger allows vehicle manufacturers to replace large engines with smaller, more efficient ones. According to Darryl Niven, general manager of Eaton's supercharger business, the new design achieves unprecedented levels of efficiency, reliability and noise reduction. "We pay close attention to key market drivers and understand that consumers and governments are demanding reductions in fuel consumption and emissions without any drop-off in performance," Niven says.

The supercharger's twin three-lobe rotors intermesh at high speeds and pump air directly into the engine's intake system. When mixed with fuel, that air creates more power, Niven explains, noting that the supercharger is scalable for use on engines of virtually any size or make for vehicle manufacturers that want the option of using a smaller engine. Niven says that, by providing this option, "we're continually refining our proven strategy to meet not only current demands but future demands as well." — *Shama Hussain*

**EATON's** supercharger allows for smaller, more efficient automobile engines.



RENEWAFUEL cubes are about the size of coal briquettes and generate almost the same amount of energy.



## CLIFFS NATURAL RESOURCES

## Fuel From Farm Waste

Mining company **CLIFFS NATURAL RESOURCES INC.** (CLF) has found the formula to turn waste from local lumber and farming operations into a high-quality, low-carbon fuel source, says William A. Brake, executive vice president at Cliffs and chairman of renewaFUEL, the company's renewable-energy division. By this September, he says, Cliffs will be churning out 150,000 tons of biofuel a year from its new \$19 million production facility in Marquette, Mich.

The plant will produce cubes made from sustainably collected wood and agricultural feedstock to help power two of the company's nearby mines, as well as a local power utility.

Once the plant is up and running, Brake says, Cleveland-based Cliffs plans to build other biofuel facilities wherever the company can find the right mix of available raw material and coal-burning operations. — *Rebecca McReynolds*

## RENEWAFUEL'S BENEFITS

Cliffs reports that, compared with emissions from burning coal, renewaFUEL cubes emit

» **90%**  
less sulfur dioxide

» **35%**  
less particulate matter

» **30%**  
less acid gas



7.5

**HOURS** The average time spent per day that kids and teenagers ages 8–18 use their mobile devices for activities other than phone calls, according to a Kaiser Family Foundation survey conducted October 2008 through May 2009.

## ELI LILLY AND COVANCE

### Rapid Rx

Drug-development services provider **COVANCE INC.** (CVD) is helping biopharmaceutical giant **ELI LILLY & CO.** (LLY) accelerate drug-development time lines. As part of the partnership, Princeton, N.J.-based Covance acquired Lilly's preclinical research facility in Greenfield, Ind.

Covance CEO Joe Herring says the cost of conducting safety and efficacy tests in-house is high, and Covance's goal is to transform the Greenfield site into an efficient, world-class contract research organization that can serve the entire biopharmaceutical industry. Andrew Dahlem, vice president of Lilly Research Laboratories Operations/LRL Europe, says that reducing the time it takes to get a medicine approved allows biopharmaceutical companies to reinvest in R&D. "These savings translate into direct cost savings to Lilly in excess of \$5 million," he says.

Herring notes that the partnership has been a win-win for both companies, adding that each gets to focus on what it does best for the good of patients. "It takes 12 years and more than \$1 billion to bring one new medicine to market," he says, adding that patent expirations and increasing regulatory demands add to the process. "There's no silver bullet that can fix these challenges, but innovative partnerships that improve R&D efficiency can be one part of the solution." — *Bridget McMahon*

## PHARMACEUTICALS TICKER TAKES

COVANCE HAS HELPED TO DEVELOP ONE-THIRD OF ALL PRESCRIPTION MEDICINES ON THE MARKET, INCLUDING THE 25 TOP-SELLING MEDICINES IN THE WORLD.



## MAXLINEAR'S MxL751SM chip



## MAXLINEAR TV on the Go

As broadcast technology becomes more advanced, Carlsbad, Calif.-based chip-maker **MAXLINEAR INC.** (MXL) says it is positioned to deliver broadcast and broadband services for multiple devices. The company says it has built a family of low-power TV tuner chips small enough to embed in a mobile phone but with the performance needed by HD-quality large-screen TVs. The low-power design is also a benefit for video and data set-top boxes that watch and record multiple channels at once.

"These chips have a novel architecture," says MaxLinear CEO and Co-founder Kishore Seendripu. He says they are half the size of comparable chips, relatively low in cost, and ideal for battery-powered applications or boxes targeting Energy Star compliance. "These chips give new options for reliable TV- and broadband-enabled devices." — *Christopher Percy Collier*

## CALIX

### High-Fiber Cyber

**CALIX INC.** (CALX), a Petaluma, Calif.-based provider of broadband communications access systems and software, is working with Iowa's South Slope Cooperative Communications Co. to replace its aging copper communications infrastructure with one of the biggest and most advanced fiber-optic projects in the U.S. Calix CEO Carl Russo says it's an honor to help make South Slope's broadband vision of bringing highly demanded services such as IPTV and symmetrical residential and business data services a reality.

Serving 14,000 rural customers at a cost of \$60 million over five years, the project will provide a network speed of one gigabit per second to each customer location, "10 times the speed of the fastest residential services offered by large service providers in the country," Russo says. The conversion will be rolled out in segments and won't result in any service interruption to customers, the company reports. Calix and South Slope say the project will help avoid continual upgrades in the future.

Emerging consumer demand and heightened competition are driving the project, which, Calix adds, is being completed without federal broadband stimulus funds. — *Nikos Valence*

To read more Upfront stories, go to [nysemagazine.com/newsandtrends](http://nysemagazine.com/newsandtrends).

«12 years and more than \$1 billion are what Covance CEO Joe Herring says it takes to bring one new medicine to market. His company's partnership with Eli Lilly aims to speed up that process. "I do expect we'll see a steady increase in these types of alliances in the future," he says.

**"AS COMPANIES BECOME  
 MORE GLOBAL, THERE'S  
 NO SUBSTITUTE FOR  
 HUMAN INTERACTION."**





**BIO FACTS**

AGE 49

CEO SINCE 2007

EDUCATION BA in economics from Amherst College;  
MBA from Harvard Business SchoolPREVIOUS AFFILIATION President and CEO of the Coors  
Brewing Co. division of Molson Coors Brewing Co.

# WORLD TRAVELER

*President and CEO Frits van Paasschen is building Starwood's brands on a global scale.*

BY JENNIFER GILL

**T**HE MARCH OPENING of the Sheraton Qiandao Lake Resort on one of China's most pristine lakes marked Starwood's 1,000th hotel. By year-end 80 more properties will debut under its nine brands: Aloft, Element, Four Points, Le Meridien, Sheraton, St. Regis, The Luxury Collection, W and Westin. Roughly 80 percent will be outside the U.S., many in emerging markets. Steering the expansion of the \$11.5 billion hotel operating company is President and CEO Frits van Paasschen, 49, who joined Starwood in 2007 after serving as president and CEO of **MOLSON COORS BREWING CO.'s** (TAP) Coors Brewing Co. for two years and in several global executive positions at **NIKE INC.** (NKE) from 1998 to 2005.

## » How important are developing markets to Starwood's long-term strategy?

The emergence of a middle class in China and India is as fundamental to changing the world as the Industrial Revolution was. We have 54 hotels in China today and another 60 being built. We're creating a connection with Starwood. I was in India recently and met 400 associates of **ACCENTURE PLC** (ACN) who are working for Starwood as part of our IT outsourcing efforts. These individuals represent a new middle class — people with salaries, aspirations, the desire to do and see more.

## Should a stay at a Sheraton in Chongqing, China, feel like a Sheraton in Chicago?

The trick to having a soul as a global brand is being just different enough so guests don't feel like they've just sat on a plane for 12 hours and haven't gone somewhere. You want to feel like you're somewhere new but at the same time feel like you're in a Sheraton — that you'll have a Sweet Sleeper Bed in your room, that there will be a Link@Sheraton Internet lounge in the lobby.

That said, when we opened one of our newest brands, Aloft, in China, we adapted some aspects of service because of regional guest expectations — a restaurant, a dining room and room service — that we don't offer at Aloft and other select-service hotels in North America.

## What's the biggest management challenge in running a global company?

Cultural sensitivity and literacy are parts of a mindset that we're continuing to develop. When people come to me and say something's not working "over there," I first ask if they've been there yet. Have they sat and listened and looked at the situation? I've been to more than 300 of our hotels in more than 40 countries. As companies become more global, there's no substitute for human interaction.

## Starwood is moving away from owning its hotels to managing and franchising. Why?

I believe that large organizations can be world-class in only a few things. Being a global operator of lifestyle hospitality brands is what

we want to be better at than anyone else in the world. Owning real estate and managing assets are a separate set of skills. From a financial perspective, the transformation to an asset-light model means you have a business that has great long-term growth without high capital needs and nowhere near the volatility of the owned real estate business.

## Will we see the return of prerecession room rates?

Rates will come back strongly. You have to remember how far down the industry was. Prior to the downturn, many hotels hadn't even reached the financial performance that they had before 9/11. In addition, very few hotels are being built in North America today. The secret to branding is to get people into that "I gotta have it" mode. The trials we're generating through lower rates are a great way to get people to have a new experience with one of our brands and maybe step up over time.

## What motivates you as CEO?

I ran the Pikes Peak Ascent once, and I was nervous the night before. My wife asked me why I spend my free time doing things that make me nervous. I told her because if I got to the top the next day, I was going to stand there thinking that I hadn't known for sure if I could do it, and that's a great feeling. As difficult as the downturn was in 2009, part of me enjoyed the challenge of maintaining our focus on things we could control.

Letting people go is never fun, but steering a company to have a year like 2009, during which we reduced debt, lowered costs, drove top line and stayed true to our strategy, is a classic example of what doesn't kill you makes you stronger. ■

# nyse euronext

THE SIXTH ANNUAL NYSE EURONEXT CEO SURVEY: BACK TO BUSINESS

# CEO

SAMUEL PALMISANO » FREDERICO FLEURY CURADO » URSULA BURNS » JAY FISHMAN » IVAN SEIDENBERG

# REPORT

BY SUSAN CAMINITI » PORTRAITS BY DENNIS BALOGH » CHARTS BY TOMMY MCCALL » ICON BY GRUNDY & NORTHEGE



TITLED “BACK TO BUSINESS,” the sixth annual NYSE Euronext CEO Report provides insight into the strategic outlook of corporate leaders. This year a record 325 CEOs representing more than two dozen industries, 22 countries and a combined market cap of \$1.9 trillion responded to our initial survey in March, and 215 CEOs answered a second round of questions in June in the wake of the financial crisis in Greece. The takeaway: Most CEOs still believe that with the global recovery under way, it’s time to focus once again on growing their businesses.

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For more on how our research was conducted, visit [nysemagazine.com/methodology](http://nysemagazine.com/methodology).

# THE ECONOMY

**CEOS ARE PLANNING** for growth amid signs of recovery. In fact, 80 percent expect growth improvements through 2011.

**D**AVID HAFNER, CEO OF **LEGGETT & PLATT INC.** (LEG), was spending a few days in April 2009 visiting with Wall Street analysts in New York City. Sales reports of the Carthage, Mo.-based manufacturer of items ranging from bedsprings to office furniture and industrial tubing with \$3.1 billion in 2009 revenues were telling Haffner that U.S. consumers were scared and pulling back on their spending. Analysts agreed: One cited a recent poll in which 25 percent of respondents said they were afraid of losing their jobs.

These days Haffner is hearing a different message. "I'm not declaring victory yet, but we are seeing good signs," he says. That sentiment is shared by the majority of respondents in the sixth annual NYSE Euronext CEO Report. In last year's survey, chief executives worldwide were focused on the road to recovery. Today they are focused on returning to growth.

U.S. chief executives are clearly starting to feel better about economic conditions in their home market. After steering their companies

through the most bruising economic downturn since the Great Depression, nearly 70 percent of U.S. CEOs describe economic conditions at home as either good or fair, compared with 10 percent who felt that way last year. Non-U.S. CEOs concur: About 60 percent rate the U.S. economy as fair or good, compared with 9 percent a year ago. Asked to explain this uptick in optimism, the chief executive of one Netherlands-based company responded succinctly: "It's because of the U.S.'s entrepreneurial mentality."

Chief executives are also more optimistic about the state of the global economy. While few CEOs rate global economic conditions as excellent or good, the study finds fewer executives than last year saying conditions are poor, with more than four in 10 CEOs expecting the global economy to fully recover by the second half of 2011 or sooner. The

majority of CEOs (59 percent) expect the global economy to recover in 2012 or later. Non-U.S. CEOs, however, are significantly more optimistic, with 61 percent saying they believe a full global recovery will occur by the second half of 2011 or sooner.

Still, the recovery is not without skeptics. Count James P. Dolan among them. Dolan runs **THE DOLAN CO.** (DM), a Minneapolis-based business information and services company that reported \$77 million in revenues for the first quarter of 2010, up 20 percent over the same quarter last year. Even so, Dolan doesn't anticipate a full U.S. recovery until at least 2012. He believes that any improvement will depend largely on the health of the housing market. "There are

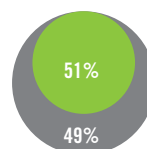
more than 7 million pending foreclosures in the U.S.," he says. "Until those loans get pushed through the system, the housing market is going to remain weak. And housing affects so many things, including consumer confidence and consumer spending."

Housing isn't the only blot on the economic landscape, of course. "Until the unemployment rate drops in a meaningful way, the coast isn't clear," says Mark Zandi, chief economist at Moody's Analytics, a unit of **MOODY'S CORP.**

(MCO). "Consumer confidence — and the spending that accompanies it — goes up with a better jobs picture." **MCDONALD'S CORP.** (MCD) CEO James Skinner concurs. But

WHICH REGION  
IN THE WORLD  
WILL BE THE  
FIRST TO FULLY  
RECOVER?

● China  
● All other regions







## SAMUEL PALMISANO

IBM

HOW ARE COMPANIES CHANGING THE WAY THEY DO BUSINESS?

“If the last decade has posed a series of tough questions, the next one will offer up a rich array of answers.”

**T**he way companies do business is undergoing a major shift, triggered by what historians will come to see as “a rolling crisis of global integration” that has spanned the entire first decade of this new century, says Samuel J. Palmisano, chairman, president and CEO of **IBM CORP.** (IBM). “If the last decade has posed a series of tough questions,” he adds, “the next one will offer up a rich array of answers.”

Those answers will be born out of innovation and technology, according to Palmisano, 58. “Technology is providing us with unprecedented means to unleash economic growth and societal progress,” he says. “If the last few decades have made our planet smaller and flatter,” he adds, the next few “will see it become smarter.”

This smarter planet will leverage technology and innovation to fix its overtaxed systems — ranging from health care to transportation to supply chains to energy to food and water — while balancing the concerns over data security and infrastructure reliability. “Companies and governments are excited about the competitive, economic and environmental advantages of smart infrastructure, from grids to rails, sewers to buildings,” Palmisano says. “But does that mean that our essential infrastructure is only as secure and reliable as a laptop PC? CEOs will have to step up to serious questions like these that require serious consideration and collaborative decisionmaking across all stakeholders of civil society.”

Palmisano envisions the world as moving toward “an interconnected global commons.” Corporations — and governments — need to prepare themselves to operate within “a system of systems,” he says. “Just think about it: None of the systems that run our world today is the responsibility of any one entity or decisionmaker.”

In response to these trends, IBM has transformed itself from perhaps the world’s best-known computermaker to a provider of global-size solutions. This effort began following the end of the dot-com crash in 2002, when IBM acquired PwC Consulting, the consulting arm of PricewaterhouseCoopers. In fact, IBM reports, since 2000 it has spent \$22 billion to add 108 software and service providers and upped its research budget (to some \$6 billion in 2009) to concentrate on analytics research and supercomputing breakthroughs.

The company also shed what it considered its “commoditizing businesses,” selling its hard-disk drive, display and printer systems units as well as its PC division, all in the past seven years. Its mission today, says Palmisano, is to help clients build sustainable growth by addressing the underlying systemic issues that caused the 21st-century crises.

The company’s main vehicle to help do that is the Building a Smarter Planet program, launched in 2008. “Over the past several years, we have all learned a lot about the promise of a smarter planet and about what it takes to build one,” the CEO says. “At the same time, we have also learned about the issues it raises — such as challenges to protecting personal information and securing critical infrastructures.” Palmisano notes that the public’s concern about the security of data in a Smarter Planet system is an issue that companies will have to address as they move forward. IBM’s thousands of mathematics and advanced analytics experts are charged with solving the seemingly impenetrable problems facing business, government and society (for example, the environment, security, and even higher

Internet traffic and identity theft) by seamlessly adding various sensory tools and computer technology to new and existing devices. Likewise, IBM’s Smart Cities program targets the challenges of municipalities as the world’s population becomes more urban and requires a more efficient delivery of services.

“Times like these create winners and losers,” Palmisano says. “The winners will seize the opportunity to open new markets and to develop new capabilities and skills.” — Sharon Kahn

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The number of software and service providers acquired by IBM since 2000



## AMOS SHAPIRA

Cellcom Israel

### WHAT ROLE SHOULD GOVERNMENTS PLAY IN BUSINESS?

**S**ubsidies are fine, says Amos Shapira, president and CEO of **CELLCOM ISRAEL LTD. (CEL)**, but businesses shouldn't get too comfortable with them. "The impact is only felt in the short term," he warns. "Ultimately, allotting government money to subsidies pulls capital away from where it needs to go, which is long-term infrastructure investments."

How can government help business? By investing in education, suggests Shapira, 60. "Creating a culture of excellence in schools can translate into a culture of excellence across the board, including in business. A well-rounded, well-educated individual is the best type of employee."

In terms of direct stimulus to industry, Shapira would rather see governments commit to infrastructure development. "If we have the network for fast and broad types of communications, we then have ways to leverage this network — which means we can create jobs."

Israel, Shapira says, has made great strides in creating a dynamic and prosperous business environment. The country's recession was relatively mild. According to the Bank of Israel, 2009 produced 0.7 percent growth in GDP as the government responded to the global downturn by implementing a fiscal stimulus package, cutting interest rates, purchasing government bonds and intervening in the foreign currency market.

These efforts are paying off, says Shapira. He points out that in May, **MSCI INC. (MXB)** reclassified Israel from an emerging market to a developed one. Also, he notes, Israel was invited to join the Organization for Economic Cooperation and Development. This, Shapira says, "puts Israel — and Cellcom Israel — in an attractive global position, and we see very positive reactions when we meet investors from all over the world." — Sharon Kahn

even though McDonald's maintained a steady hiring pace through the recession, Skinner is convinced that high unemployment equals slow recovery. "Until consumers are confident about their opportunity to work, spending will be restricted," he says. (For more on employment, see "Jobs Wanted," page 17.)

Yet signs indicate that many consumers are ready to open their wallets again, and that's cause for good cheer among CEOs across a wide range of industries. "Consumers haven't rolled over and died like everyone feared they would," says Douglas G. Bergeron, CEO of **VERIFONE SYSTEMS INC. (PAY)**, an electronic payments provider based in San Jose with \$845

million in fiscal year 2009 revenues. Retail sales rose in each of the past eight months, according to the U.S. Commerce Department. One consumer bellwether, appliance manufacturer **WHIRLPOOL CORP. (WHR)**, reported that its earnings more than doubled in the

first quarter of 2010 compared with the same quarter last year, reflecting increased confidence among homeowners.

What's driving that confidence? In part, the fact that U.S. consumers have shed \$600 billion in household debt since fall 2008.

"There's been a massive deleveraging taking place," says Zandi. "Just like companies have cleaned up their balance sheets, so too have consumers."

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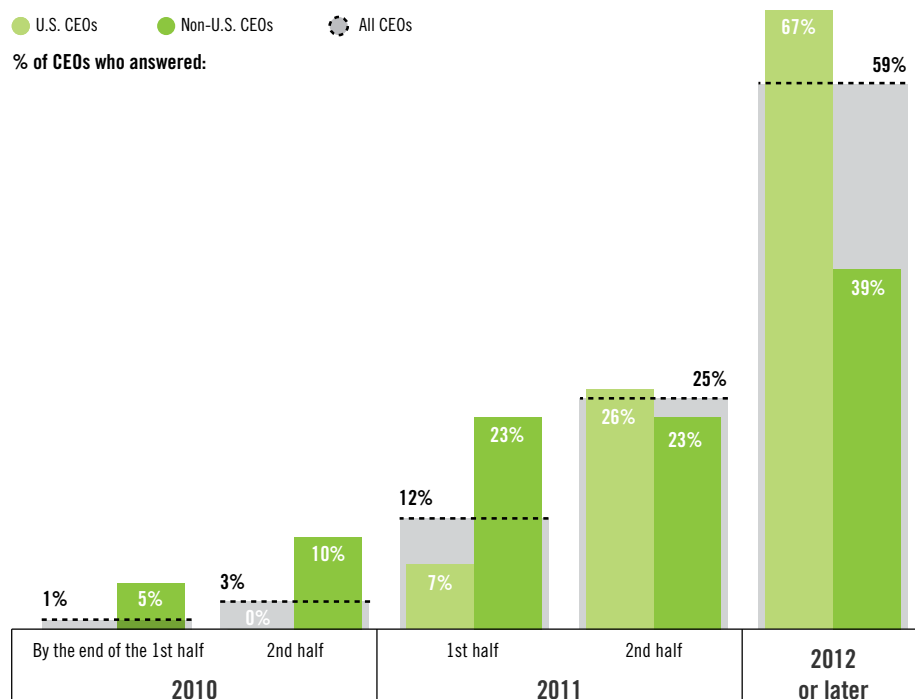
percent of CEOs believe that increased hiring is one of the best indicators of a full recovery

### SIGNS OF RECOVERY

Yale chief economist Robert Shiller likens the current U.S. labor market to that of the late 19th century, when a great surge in road and railway construction employed thousands of unskilled laborers who later lost their jobs

to recession and technological advances like the steam shovel. "Every recession causes a step back, and then progress unfolds," he says. Although victory is not yet at hand, nearly 70 percent of CEOs in our survey believe that increased hiring will indicate an economic

### WHEN WILL THE GLOBAL ECONOMY FULLY RECOVER?



upswing in their regions. More than a third agree that a drop in unemployment is the No. 1 sign of a sustainable recovery. For his part, Leggett & Platt's Haffner is currently looking to fill a few hundred open positions, mostly hourly manufacturing jobs. "Hourly workers are in the best position to be hired back because companies have figured out how to do more with fewer people," he says. "Jobs in administration and middle management are just not coming back."

Our June poll revealed that a majority of CEOs worldwide (54 percent) expect the European financial crisis to have a significant or very significant impact on global economic recovery. Meanwhile, China is expected to be the first to fully recover, according to 51 percent of CEOs surveyed in June, down slightly from 59 percent in March. By contrast, 19 percent believe North America will recover first, up from 16 percent in March. Less than 1 percent of business leaders surveyed see Europe recovering first, down slightly since March.



China's young, growing workforce and emerging middle class help explain why CEOs like Timothy M. Manganello are bullish on the country. Manganello leads **BORGWARNER INC.** (BWA), a supplier of powertrain components to auto manufacturers worldwide with \$4 billion in 2009 revenues. While China accounts for less than one-quarter of the revenues for the Auburn Hills, Mich.-based com-

pany, it's where Manganello sees the most demand for technologies that aim to improve fuel economy and reduce emissions. Zandi declares flatly that China has already recovered, describing the country's blistering GDP growth of 11.9 percent in the first quarter of this year as "unsustainable." He adds: "Their economic stimulus package was twice the size of ours, and when they said 'shovel ready,' they meant it."

**IBM CORP.** (IBM) CEO Samuel J. Palmisano agrees that stimulus programs have had a positive impact on the U.S. and China. But he cautions that those programs "cannot and should not last forever. The key to building sustainable growth lies in addressing the underlying systemic issues that caused the collapse in the first



## DANIEL HURWITZ

### Developers Diversified Realty

#### HOW HAS THE RECENT DOWNTURN CHANGED RETAILING?

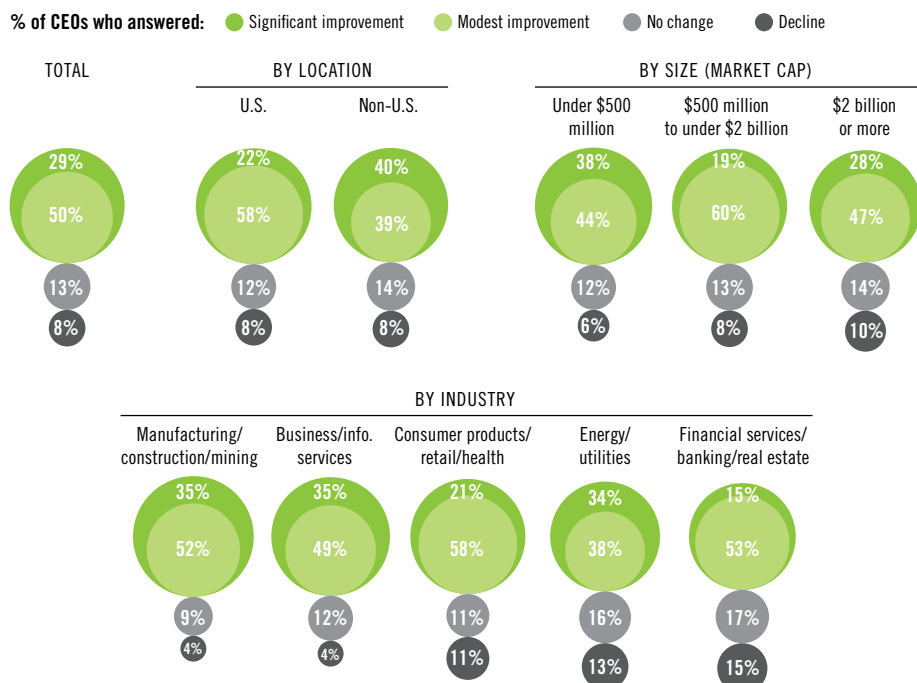
**A**s an owner and manager of 640 shopping centers in North and South America and the Caribbean, **DEVELOPERS DIVERSIFIED REALTY CORP.** (DDR) watches consumer sentiment walk through its shopping centers every day. The past two years have been an eye-opener for consumers and retailers, says Daniel B. Hurwitz, president and CEO. "We have seen the consumer make a significant — and we believe permanent — shift from aspirational shopping and spending to more rational buying," he says. "The consumer continues to seek value and convenience with a heightened awareness of price."

Developers Diversified research suggests the new focus on practicality is consistent across generations. "Baby boomers, who lost a significant portion of their net worth over the past two years, and Generations X and Y, who are now entering their most productive earning years, indicated their shift to value is permanent," says Hurwitz, 46.

The trend bodes well for Developers Diversified, says the CEO, who points to the company's tenant mix of popular-priced retailers, including **WAL-MART STORES INC.** (WMT), **KOHL'S CORP.** (KSS) and **THE TJX COMPANIES INC.** (TJX). "This recession has reminded us that best-in-class portfolios will be rewarded, so over the past year we increased our focus on our prime assets and took deliberate actions to divest lower-quality properties," Hurwitz says.

As consumer preferences evolve, retailers are building their online presence to attract and retain customers. "Consumers are using the Internet to research products and offers to make their shopping trips more productive," Hurwitz observes. But, he says, the primary growth engine for retailers remains traditional brick-and-mortar stores. "Retailers that master a cohesive online and in-store experience will emerge as winners." — Sharon Kahn

#### WHICH OF THE FOLLOWING BEST CHARACTERIZES YOUR CURRENT OUTLOOK ON GROWTH FOR YOUR BUSINESS THROUGH 2011?







## GRAHAM BRIGGS

Harmony Gold Mining

### HOW ARE YOU POSITIONING YOURSELF FOR PROFITABILITY IN THIS ECONOMY?

**C**iting profits of \$311 million in 2009 — compared with a \$30 million loss the year before — **HARMONY GOLD MINING CO. LTD. (HMY)** paid its first dividend in five years at the end of June 2009. “The great thing about gold,” says CEO Graham Briggs, “is that you can always find buyers. We can sell as much as we can produce. The only thing that changes is the price.”

But there’s the rub, he adds, because price determines profitability. By the second quarter of 2010, the price of gold had flattened from a 2009 high of \$1,212 an ounce. Exacerbating that problem for South Africa-based Harmony was the widening exchange-rate gap between the strengthening rand and the faltering dollar. Briggs, 56, a geologist by training, points out that the vast majority of Harmony’s expenses are denominated in rand, and gold (like oil) is priced in U.S. dollars.

Nevertheless, Harmony created efficiencies that held production cost increases to less than 10 percent last year, Briggs says, and positioned the company for future growth. Aggressive cost management moves included the closure of seven shafts and a new labor agreement that will increase group costs by only 5 percent this year. Meanwhile, capital injections from a new joint venture partner and two capital raisings helped Harmony wipe debt from its balance sheet in 2009, says Briggs. “We entered the new financial year with R2 billion [US\$253 million] in cash, an enviable position for any company in these troubled financial markets.”

Harmony’s expressed goal is to increase production to 2.2 million profitable ounces by 2012, from 1.5 million ounces of gold in 2009. It plans to increase profits, Briggs says, through more efficiencies in its existing mines and new exploration, particularly in Papua New Guinea. — *Sharon Kahn*

place. Even as countries begin to emerge from technical definitions of recession, many of these underlying issues remain — not only with banks and real estate markets but across all the systems that run our world.”

### FOCUS ON GROWTH

Despite concerns about the pace and strength of the recovery, 80 percent of CEOs expect improvement in growth for their companies through 2011, with 29 percent expecting significant improvement. CEOs of non-U.S. companies are nearly twice as likely as their U.S. counterparts to predict robust growth next year. Jean Martin, CEO of **BSB INTERNATIONAL SA** (NYSE Alternext: BSB), a Belgium-based IT solutions and services provider with 2009 revenues of \$29.9 million, says his company is “planning to increase its head count by 25 percent in 2010 and to double the size of the company within the next three years in order to support the projects portfolio and the new business opportunities.”

Public companies depend on capital markets to finance their growth, which helps explain why CEOs pay close attention to the international financial system. In our June survey, 75 percent of CEOs say that increases in both consumer and investor confidence are necessary

to stimulate global financial markets, down slightly from 78 percent in March. Access to credit is ranked as the second most effective method (44 percent, down from 63 percent in March). Regulatory reform is third at 14 percent, down from 32 percent in March.

Manganello’s cautious optimism captures the mood of most CEOs. BorgWarner, he says, has restored wages to prerecession levels after cutting them by up to 15 percent. And with three-quarters

of the company’s revenues coming from outside the U.S., Manganello is hiring hourly workers in Korea, China and India to support production demand. New managers are another story. Says Manganello: “I have to approve every salaried person we hire anywhere in the world.” ■

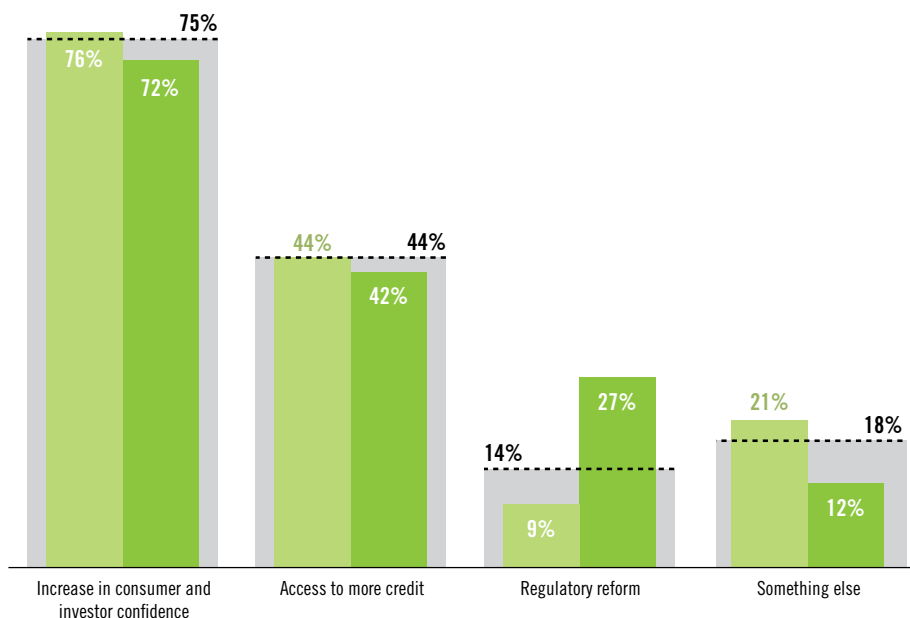
80

percent of  
CEOs expect  
improvement in  
company growth  
through 2011

### WHAT CHANGES ARE NEEDED TO STIMULATE GLOBAL FINANCIAL MARKETS?

● U.S. CEOs ● Non-U.S. CEOs ● All CEOs

% of CEOs who answered:



# JOBS WANTED

» **OF ALL THE SIGNS** that economies around the globe are recovering, none is as crucial, say CEOs, as an increase in hiring.

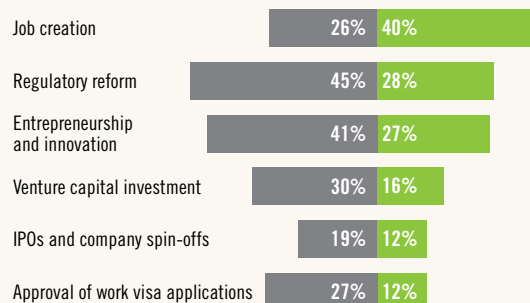
CEOS HAVE SHED LAST year's "bunker mentality," as one chief describes it, and are much more likely today to be hiring than firing. Roughly 40 percent of chiefs in the U.S. and Europe say they will add to their workforce through 2011, with about 45 percent planning to hold head count steady. CEOs elsewhere in the world are even more upbeat, with 65 percent planning to add workers and 19 percent saying they'll leave employment numbers flat.

While there's little disagreement that job creation is essential for a sustainable recovery, CEOs disagree about where those jobs will come from. U.S. chief executives predict that small businesses and the government — in roughly equal measure — will drive job creation through 2011. "Directly or indirectly, I think jobs are going to come increasingly from the government," says **VERIFONE SYSTEMS INC.** (PAY) CEO Douglas G. Bergeron. "People are asking for more government, not less." That said, Bergeron argues that small business jobs have more economic impact. "There's a tremendous multiplier effect that just doesn't exist with jobs created by government," he explains. Outside the U.S., just 10 percent or fewer business leaders believe governments will generate most new jobs.

CEOs everywhere agree that the past year has taught them how to do more with less. "We have found ways to reduce fixed costs and increase productivity with fewer workers," says **LEGGETT & PLATT INC.** (LEG) CEO David Haffner. "That puts the company on firmer ground, which is good for the employees we have now."

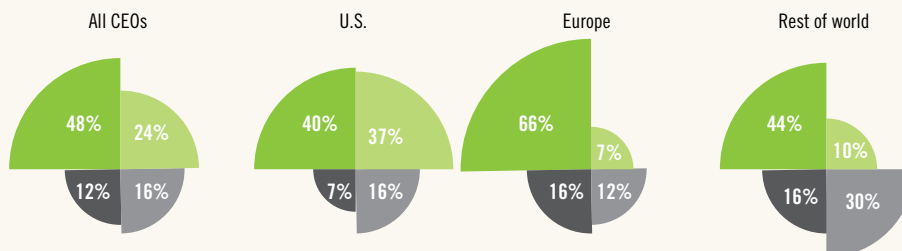
## HOW WILL YOUR GOVERNMENT'S POLICIES AND ACTIONS INFLUENCE THE FOLLOWING THROUGH 2011?

% of CEOs who answered: ● Influence negatively ● Influence positively



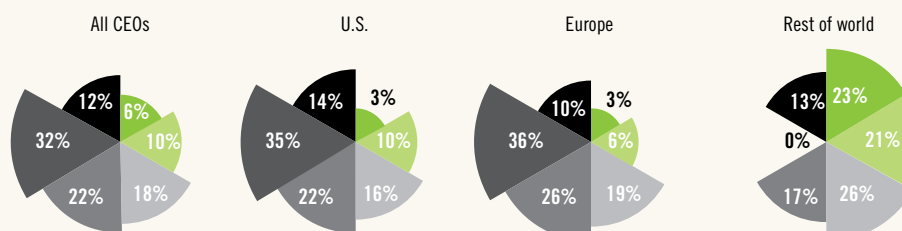
## WHAT WILL BE THE PRIMARY SOURCE OF JOB CREATION THROUGH 2011 IN YOUR COUNTRY?

% of CEOs who answered: ● Small businesses ● The government ● Public companies ● New businesses/ventures



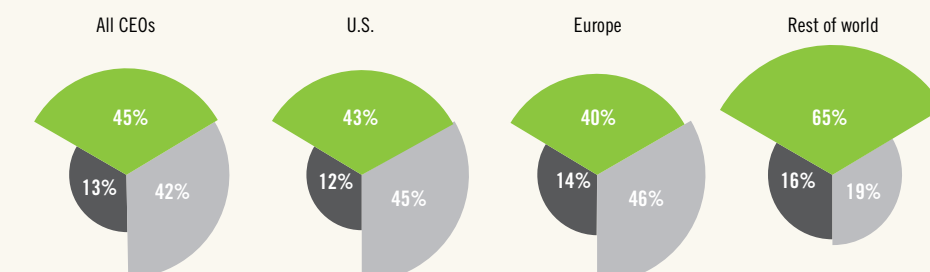
## WHEN WILL YOUR ECONOMY FULLY RECOVER THE NUMBER OF JOBS LOST DURING THE ECONOMIC CRISIS?

% of CEOs who answered: ● By end of 2010 ● By end of 2011 ● By end of 2012 ● By end of 2013 ● 2014 or after ● Do not expect jobs to be recovered



## THROUGH 2011 WILL YOU BE ADDING TO YOUR WORKFORCE?

% of CEOs who answered: ● Adding ● Keeping the same ● Reducing



# OPPORTUNITIES & RISKS

**COMPANIES** are investing again, seeking sustainability and growth outside the U.S.

**B**ORGWARNER CHAIRMAN and CEO Timothy Manganello made some tough decisions last year. Faced with declining cash flow as the U.S. economy bottomed out, Manganello reduced wages by 15 percent for all officers and 10 percent for all salaried employees, closed a plant in Muncie, Ind., and laid off 5,000 employees worldwide, more than a quarter of the automotive powertrain products manufacturer's workforce. But one thing he didn't cut was R&D. "Innovation and new technology don't happen overnight, so you have to fund them," he says. "Spending money on R&D was the easiest decision I made all year."

These days Manganello and his fellow chief executives are focusing more on the future. Nearly 40 percent of CEOs say they'll boost spending on research and development over the next year, up from 19 percent in our last survey. Unlike 2009, when corporate leaders expected to spend more in just a handful of budget lines, they're projecting increases this

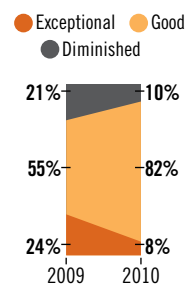
year in all but one area, recruitment costs. Technology, green initiatives, regulatory compliance and capital expenditures are the top four areas where business leaders expect to significantly boost spending through the end of 2011.

While the increased spending generally reflects a more bullish outlook among chief executives, survey respondents expect future revenues, as well as their own investment decisions, to be affected by global and U.S. economic conditions. Although most CEOs continue to see the U.S. as an indispensable market (see "Global Operations," page 22), the number of them who believe that U.S. economic conditions will affect their growth "much more" in the coming year has dropped to 56 percent from 75 percent last year. Going forward, Douglas Bergeron, CEO of VeriFone Systems Inc., expects the

most demand for his company's electronic payment solutions to come from China, Brazil, Turkey, India and Mexico. Bergeron is especially focused on China's booming urban markets, notably Beijing and Shanghai. "I don't want to say the U.S. is at zero for us, but it's not as important as growth in these other areas," he says.

For the first time in modern history, the U.S. economy is failing to lead the world out of recession, notes Mark Zandi of Moody's Analytics. But Zandi remains sanguine about the sole superpower's economic prospects. "Yes, there are jobs in construction and manufacturing that are never coming back," he says. "But growth will be created in the U.S. from demand overseas in emerging markets. As economies like Brazil and China continue to grow and get wealthier, demand for our agricultural equipment, satellites and materials will broaden into management consulting, engineering and other services."

## M&A MARKET OPPORTUNITIES INTO THE NEXT YEAR ARE:



## KEY CONCERNS

During last year's recessionary trough, CEOs in our annual survey overwhelmingly (81 percent) cited operational efficiency as the key internal factor affecting profitability over time. This year business leaders are paying more

attention to new technology adoption, product development, advertising and marketing, and strategic partnerships. Case in point: Ivan G. Seidenberg, chairman and CEO of



# EMBRAER

“During the recent crisis, we did not postpone a single program. Our business is long term.”

## FREDERICO FLEURY CURADO

Embraer

WHAT ARE THE MOST PRESSING BUSINESS CHALLENGES — AND OPPORTUNITIES — FOR 2011 AND BEYOND?

**I**t's the global economy," says Frederico Fleury Curado, president and CEO of **EMBRAER — EMPRESA BRASILEIRA DE AERONÁUTICA SA** (ERJ), the world's third largest airframe maker by revenues. "I see the financial markets, international trade and employment still years from complete restoration."

Curado, 48, says Embraer is positioning itself to meet the challenges and seize opportunities in a weak economy by emphasizing business fundamentals: "We're investing in technology and new products; investing in, motivating and partnering with our people; seeking productivity and excellence in every single process of our operation; genuinely focusing on customer needs; generating returns to shareholders; and effectively being a good corporate citizen," he says.

Part of being a good corporate citizen involves protecting the environment, a task that Curado says can no longer be pushed to the distant future. "It will require massive investments and changes in behavior, which will not be easy to achieve," he says. "But with radical changes come opportunities for innovative, proactive ideas and solutions."

To stimulate innovation, the company determinedly held on to its \$350 million R&D budget during the recession, even though its customers in the global aviation field were hit particularly hard. The payoff, explains Curado,

has been the introduction of seven new airplane models during the past six years.

"During the recent crisis, we did not postpone a single program," says the CEO. "Our business is long term."

Curado worries about when and how government will withdraw its support around the globe and what the collateral effects will be:

"Inflation, large deficits and the danger of continued recession, to mention a few." He raises concern over the failure of the Doha Development Round of world trade talks and fears that the dire situation that many economies are still facing could spark undesirable waves of protectionism.

Still, he disagrees with those who claim that the recent global crisis proved the fundamentals of capitalism wrong. Taking a historical perspective, he points to "how undeniably the human condition has improved over the 250 years since the Industrial Revolution." Running a prosperous and responsible business, he says, "is part of the solution, not the problem."

In fact, he says, emerging markets will play a big role in the recovery. He adds that the years ahead will see an increase of "emerging multinationals," world-class companies such as Embraer that leverage their positions

as home-market stars into global leadership. Indeed, the company has come a long way since it was founded as a government entity in 1969 and privatized in 1994. In 2009, says Curado, 82 percent of Embraer's \$5.4 billion in revenues came from outside Latin America.

**82**  
percent of  
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from outside  
Latin America

"Brazil," says Curado, "will be at the leading edge of this trend" toward multinational corporate leadership. He doesn't whitewash the issues that foreign companies have to deal with when doing business in South America's largest economy. "Creativity, flexibility and openness are just some of the characteristics of our strong culture," says Curado. "Pride and stubbornness as well, I am afraid."

Foreign investors who adapt to Brazil's culture "will enjoy nice tailwinds," insists Embraer's CEO, noting that the country's Banco Central do Brasil projects a healthy 5.8 percent growth rate for 2010. "Brazil's domestic market is indeed strong, as tens of millions of people leave the lower income levels of our society and enter the middle class, generating a material demand for just about everything, from food, textiles and shoes to houses, manufactured goods and services. It is one of the most promising markets in the next decade." — Sharon Kahn



**BEN VERWAAYEN**  
Alcatel-Lucent

#### WHAT IS YOUR CURRENT APPROACH TO INNOVATION?

**A**LCATEL-LUCENT (NYSE Euronext: ALU) has set what CEO Ben Verwaayen admits is a mind-blowing goal: to improve the energy efficiency of communications networks — including the Internet — by a factor of 1,000 from current levels. And he expects his company, along with a consortium of industrial research organizations, academics and network service providers, to demonstrate the key components and deliver the architecture, specifications and road maps required to accomplish this feat within five years.

The goal began when management at Alcatel-Lucent's Bell Labs, the company's research arm, asked researchers to come up with the minimum energy consumption necessary to power communications networks. "To get the most from your talent, you want to give people a spot on the horizon and say, 'This is where we're going. We'll figure out how to get there together,'" says Verwaayen, 58. He adds that it is easy to organize a collaborative, open exchange of ideas with the help of Web 2.0 tools: "You can simultaneously get 9,000 people in a session to talk about strategy or new products or new applications."

Bell Labs' researchers concluded that the communications networks could potentially be powered with just a 10,000th of today's energy drain. Of course, that assumes a total redesign of communications. "Everybody from the chip guys and material makers to operators and governments will have to cooperate," Verwaayen says. So in January, Bell Labs organized the GreenTouch™ consortium with 16 other founders, including **AT&T INC.** (T), **CHINA MOBILE LTD.** (CHL), **TELEFÓNICA SA** (TEF), MIT, the University of Melbourne's Institute for a Broadband-Enabled Society, and IMEC, a nanoelectronics R&D center partially funded by the governments of Flanders and the Netherlands. "Some issues are so big, we need to solve them together." — *Sharon Kahn*

**VERIZON COMMUNICATIONS INC.** (VZ), has opened his company's network to outside developers and smartphone makers such as **MOTOROLA INC.** (MOT). Seidenberg has also joined with partners including **CHINA MOBILE LTD.** (CHL) to create a Joint Innovation Laboratory intended to foster mobile application development worldwide. According to Verizon, the idea is to create a common software platform that mobile carriers can use to launch application stores that will offer a broad range of mobile widgets — that is, small, Web-based applications that give consumers access to information such as weather guides, stock prices and flight schedules. "Our industry is building the smart networks that will be a platform for growth, not just for Verizon but for America and the world," Seidenberg says.

On the dealmaking front, eight in 10 CEOs feel good about the M&A outlook through 2010. "Last year we were all about conserving cash," says BorgWarner's Manganello. "It's better this

year." After walking away from a deal last year "at the altar," Manganello recently acquired an emissions company with annual revenues of \$180 million that should help BorgWarner expand its operations in Spain, Portugal and India, he notes. "There's still a bit of an inflated sense of value among sellers," the CEO says. "We're not bottom feeders, but we don't overpay either."

**80**  
percent of  
CEOs report that  
the environment  
for making deals  
looks good  
through 2011

#### SUSTAINABILITY EFFORTS

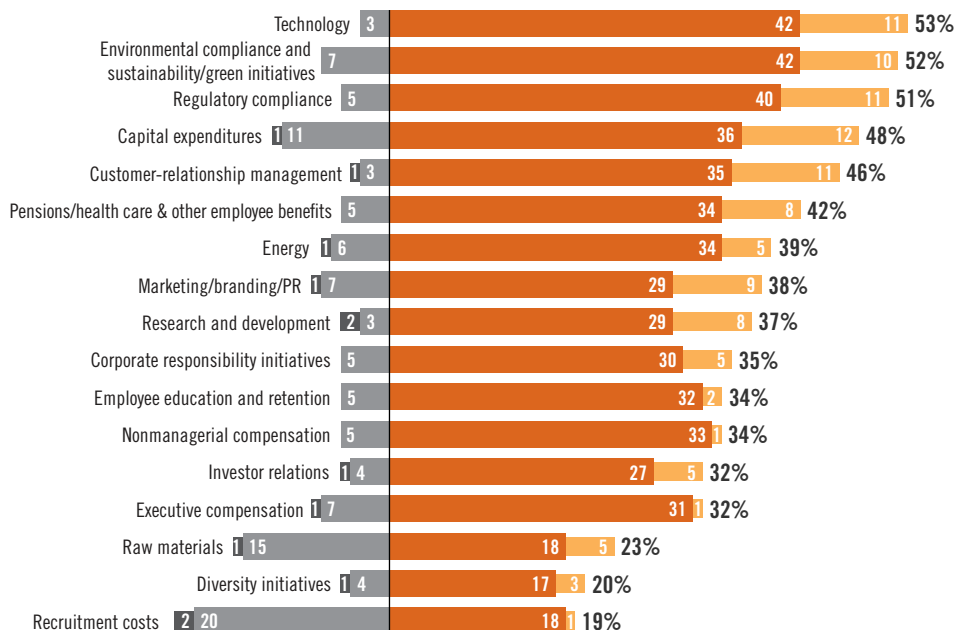
Overwhelmingly, the CEOs in our survey express strong commitment to environmental sustainability. Two-thirds of them say their motivation is simply that it's the right thing to do. About 60 percent say sustainability initiatives are important to their company, and a little more than one-third say they've put green programs in place because their customers expect them to.

Sustainability spending plans vary widely by industry, with 68 percent of manufacturing, construction and mining companies planning

#### FOR EACH OF THE FOLLOWING, HOW WILL YOUR BUDGET ALLOCATION CHANGE THROUGH 2011?

% of CEOs who answered:

● Decrease significantly ● Decrease somewhat ● Increase somewhat ● Increase significantly



to spend more on environmental compliance and other green initiatives in the coming year, versus 56 percent of energy/utilities companies and 35 percent of banking, real estate and insurance firms. Actions speak louder than words, of course. Clint Sidle, director of the leadership program at the Johnson Graduate School of Management at Cornell University, says that business leaders generally want to do “the right things for the right reasons”

but often go awry. “When a CEO isn’t clear on what the company’s contribution is to the world — whether it’s providing financial liquidity in the case of a bank or promoting and protecting health with a pharmaceutical company — they start to make little compromises along the way, and that often includes compromises when it comes to environmental issues.”

Many CEOs argue that commercial viability requires an active commitment to sustainability. “As you bring products and services to market, all will have to go through the sustainability test,” says Ben Verwaayen, CEO of **ALCATEL-LUCENT** (NYSE Euronext: ALU), a global telecom equipment and services pro-

vider based in Paris with \$18.5 billion in 2009 revenues. “If not this generation, certainly the next generation of consumers will demand that.” Alcatel-Lucent recently demonstrated its commitment to sustainability by developing an industrial-scale program to build mobile telecom base stations powered by alternative energy. In March the pilot program won the European Commission’s 2010 Sustainable Energy Europe competition.

Alcatel-Lucent is not alone. “It just makes sense that a company like ours that is about improving fuel economy and reducing emissions should be green in other ways,” says

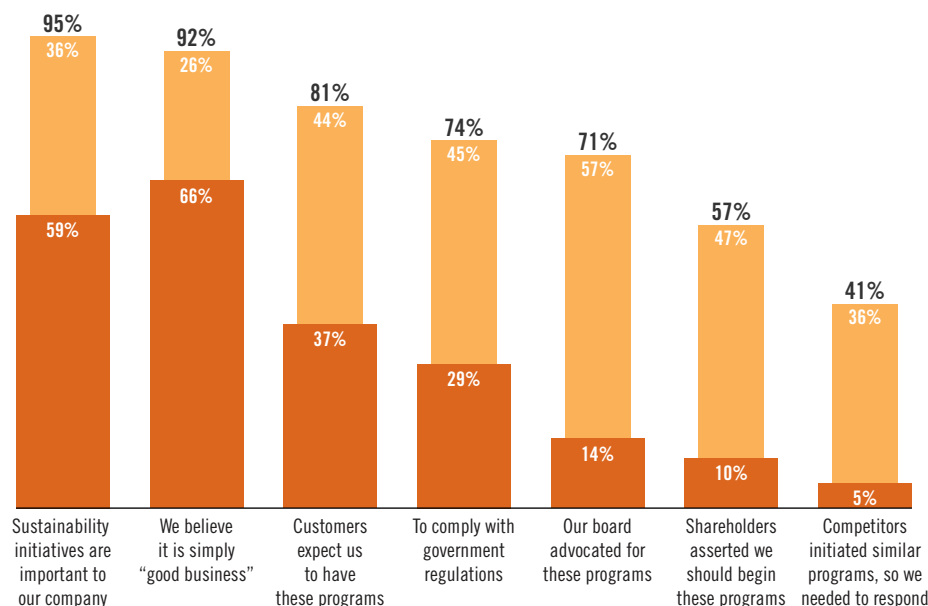
BorgWarner’s Manganello. New BorgWarner plants in China and India recycle cutting fluids and water, and many of the company’s buildings in Europe and the U.S. are built with solar panels to generate energy. Interestingly, just 14 percent of CEOs whose companies have sustainability programs put them in place primarily at the urging of their boards. Says Manganello: “We try to run our business properly and proactively. I shouldn’t need the board to tell me how to do that.”



## TO WHAT DEGREE DO THE FOLLOWING FACTORS MOTIVATE YOUR COMPANY’S SUSTAINABILITY PROGRAMS?

% of CEOs who answered:

Primary motivation Secondary motivation



**JEYA KUMAR**

Patni Computer Systems

### HOW DO YOU ADDRESS CHANGING CUSTOMER NEEDS?

Until recently, suggests **PATNI COMPUTER SYSTEMS LTD.** (PTI) CEO Jeya Kumar, companies essentially followed one of three strategic goals: cost leadership, differentiation or innovation. “But now,” he says, “I think we need to pursue all three at the same time across the different customer segments. That’s the challenge business leaders face today.”

Kumar explains that while companies need to innovate in offering new lines of services, they also need to differentiate existing service lines to better compete, especially in vertical markets, and never let up on maintaining cost leadership. In the case of Patni, says Kumar, 54, the Mumbai-based IT outsourcing company is shifting from providing software tool sets and software frameworks to delivering Internet-based IT services tailored to meet customer needs in vertical industries such as financial services, manufacturing, insurance, telecom, and energy and utilities. “This requires a different kind of thinking,” says the CEO, noting that the company has created innovation labs “with the view that in three years’ time, 10 percent of our revenues will come from services we don’t have today.”

Patni reports that it does 98 percent of its business outside India, with about 80 percent of that in the U.S. As for new markets, Kumar is targeting continental Europe, Asia-Pacific other than India, and Japan. “If you look at wages and salaries as a percentage of GDP, Japan, at around 70 percent, has one of the highest rates in the world,” he says. “And if you look at the decline in nonfarm productivity, outsourcing and offshoring are waiting to happen there. So we are investing ahead of time. We already have a management team in place, and we are building up relationships with local companies and will announce a local joint venture — a first for an Indian IT services firm.” — John Boyd



# GLOBAL OPERATIONS

**CEOS ARE KEEN** on emerging markets but are worried about protectionism and political risks.

**W**HAT WILL IT TAKE TO REIGNITE global economic growth? More confident consumers and investors, obviously, but CEOs would also like to see more political stability, particularly in emerging markets. The ideal economic stimulus would be “peace breaking out around the globe,” in Leggett & Platt CEO David Haffner’s wry phrase. But in fact, most of the U.S. CEOs surveyed (71 percent) say “political risk” is an external factor that will affect the overall growth of their companies through 2011. Slightly fewer non-U.S. corporate leaders (66 percent) feel as much of a threat from political risk.

Top executives differ on whether the potential payoff in emerging markets justifies the volatility and on where the most tempting opportunities are to be found. Although **CHIQUITA BRANDS INTERNATIONAL INC.** (CQB) Chairman and CEO Fernando Aguirre views emerging markets as “major growth opportunities,” he advises companies

to “make sure their main markets such as the U.S. and Europe are back to normal before embarking on renewed efforts elsewhere. Emerging markets remain great opportunities for many companies, but the economic impact has also increased their risk.”

CEOs both inside and outside the U.S. agree that America is an indispensable market. Eight out of 10 business leaders cite the U.S. as being important or crucial to their company’s success, with 61 percent naming it their most important market. Western Europe and China once again came in a distant second and third most important, at 23 percent and 18 percent, respectively, with emerging markets further down the list.

“The U.S. did not have anywhere near the bumps and bruises of Europe and Japan,” says Ian Bremmer, president of Eurasia Group,

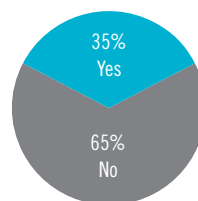
a global risk consultancy based in New York City. “But that’s like saying we’re the smartest kids in the stupid class.”

Still, emerging markets retained an enduring appeal for corporate strategists in light of the developed world’s more modest growth rates. That’s particularly true for the four biggest emerging markets: Brazil, Russia, India and China, known collectively as the BRIC countries.

Douglas Bergeron, CEO of VeriFone Systems Inc., expects the BRIC quartet to post the world’s most robust growth in the years ahead, followed by Turkey, Mexico, the Middle East and South Africa. Of course, not all emerging markets are the same: Contrast India’s vibrant democracy, booming tech economy and burgeoning consumer class (but lingering rural poverty) with the oil-fueled authoritarian revival that marked Russia under Vladimir Putin. “I would take Russia out of the BRIC,” says Bremmer. “It’s a commodity play at best.” In its place, he likes Indonesia and Mexico, countries that he says offer not just natural resources but also organic growth driven by an emerging middle class.

Political scientists have long argued that capitalist democracies do best when they have a prosperous, politically secure middle class. That’s why Daniel B. Hurwitz, CEO of **DEVELOPERS DIVERSIFIED REALTY CORP.** (DDR), which had \$819 million in 2009 revenues, is bullish on

**DOES YOUR COMPANY CURRENTLY HAVE OUTSOURCED OPERATIONS?**





“You have to make your message and your offerings applicable around the world almost immediately.”

## URSULA BURNS

Xerox

HOW HAS DOING BUSINESS GLOBALLY CHANGED IN RECENT YEARS?

**C**onnecticut-based **XEROX CORP.** (XRX) has operated globally for most of its 104-year history. But today's instantaneous flow of information, spurred on by 21st-century telecommunications platforms and digital devices, has changed the very nature of doing business across the world, observes Ursula M. Burns, chairman and CEO. “There were times when you could pace product introductions, operating with a delay to countries far from company headquarters,” she says. “Today you have to make your message and your offerings applicable around the world almost immediately.”

What's more, less developed markets now demand the same immediacy as developed nations. “Emerging countries are skipping technologies,” says Burns, 51, who notes that more than half of Xerox's sales come from 160 countries outside of its U.S. home market. “Instead of evolving through technology solutions, they are moving straight to the smartphone, for example.”

The implications of this acceleration are tremendous. Burns, a mechanical engineer who has been at Xerox's helm since summer 2009, talks about the “huge opportunities” open to even small companies as their potential marketplace increases by many orders of magnitude. She also acknowledges that achieving a reach capable of spanning the planet is a “significant barrier to entry” and says that businesses that choose to remain local give up enormous potential.

This turbocharged form of globalization is changing the way Xerox defines itself, says Burns. Beyond providing its ubiquitous copying devices, Xerox manages document flow for global companies. She points to **THE PROCTER & GAMBLE CO.** (PG) as an example: “We handle this client's document infrastructure — how P&G stores and retrieves documents, whether they are digital or paper,” says Burns. Document management also requires constant evolution of solutions, aided by Xerox's \$880 million annual R&D budget. “For instance, we devised a way to allow P&G executives to download and print their documents from their PDAs so they have access to their information on the road,” says Burns. “We help them sort through only the most relevant documents to find what they need.” This document management “lets P&G do its job of selling Tide and positioning its brands and partnering and doing its core jobs.”

Burns, who says she considers “managing change” one of the most important jobs of a CEO, explains that business as usual tomorrow will differ from business as usual today. Noting that Xerox effectively doubles its R&D budget by working alongside partners, she insists, “It's all about the future. It's about taking something that works fine today but knowing that informa-

tion overload is here, knowing that globalization is here. You have to invest in new, better technologies to maintain relevance.”

Burns worries that the world's educational systems are not adequately preparing the future workforce for such change. “We aren't generating enough creators to solve the world's problems,” she laments. “We need scientists, technologists, engineers, mathematicians, doctors. We need people to solve the challenges and grasp the many, many opportunities.” Burns notes that the U.S., in particular, is falling short on the education front. She is a member of several educational initiatives, including the White House initiative on Science, Technology, Engineering and Math education (STEM).

She does see reasons for hope, however, not just from governments but also from the corporate sector. “Companies like Xerox, **DUPONT** (DD) and P&G — which is clearly a tech company in the sense that it has product formulations, for example — are investing in science, technology and engineering at various levels in the educational cycle,” she says. Preparing for the future by investing in education “is a self-serving issue for companies. It is a self-serving issue for the U.S. and for the communities of the world.” — *Sharon Kahn*

161

The number of countries in which Xerox sells its products and services



## JEAN-LOUIS CHAUSSADE

Suez Environnement

### HOW IS THE WORLD ECONOMY CHANGING?

**T**he earth is outgrowing the linear economic model we've always relied on, which exhausts resources without controlling either by-products or waste, insists Jean-Louis Chaussade, CEO of the Paris-based water and waste services provider **SUEZ ENVIRONNEMENT CO.** (NYSE Euronext: SEV). In its place, "a new, circular economy is developing," he explains, pointing to recent wide swings in prices of commodities and increasing environmental concern from both governments and populations. "The circular economy is the idea whereby secondary raw materials will be able to face up to the needs of the planet, thereby drastically reducing our carbon footprint," says the 58-year-old Frenchman.

To implement this circular economy, Chaussade recommends three key movements: "Societies need to achieve a higher rate of recycling; suppliers must provide better quality of reused water and secondary raw materials; and governments should implement tax incentives favoring recycling," he notes. Suez spent a reported \$65 million in 2009 on more than 65 R&D programs in 200 laboratories around the world.

The company works closely with municipalities to offer sustainable development solutions. "We are concentrating our research on applications aiming at improving our operational performance — anticipating and controlling health and environmental risks and achieving energy efficiency — and perfecting our technical expertise — improving treatment of sludge, desalination and reuse of wastewater," says Chaussade. "Specifically," he adds, "we seek to develop the best technical solutions that allow society to adapt to climate change and prevent its reinforcement, preserve natural resources, and protect the environment and our quality of life." — Sharon Kahn

Brazil, where the company owns a premier portfolio of regional malls in and around São Paulo. "We're seeing very strong growth in retail sales for our tenants as the middle class continues to grow," Hurwitz says. Adds Eurasia Group's Bremmer: "Without question, Brazil is a very exciting market. It has huge deepwater oil reserves, strong demographics and political stability."

### GLOBAL TRADE

In these early days of recovery, CEOs' outlook on global trade has improved, though not to pre-recession levels. The percentage of corporate leaders rating the current trade atmosphere as unfavorable dropped to 18 percent, versus 45 percent who viewed it as unfavorable last year. Meanwhile, 29 percent of chief executives describe global trade as favorable to their business. That's more than double the percentage of CEOs who felt that way last year but still far below the 48 percent recorded in 2007.

Broken down by location, 38 percent of European CEOs (compared with less than 10 percent for the rest of the world) still see the global trade environment as having an unfavorable effect on their business. Twenty-nine percent of U.S. CEOs view the global trade environment as favorable, though the majority of them (62 percent) call it neutral.

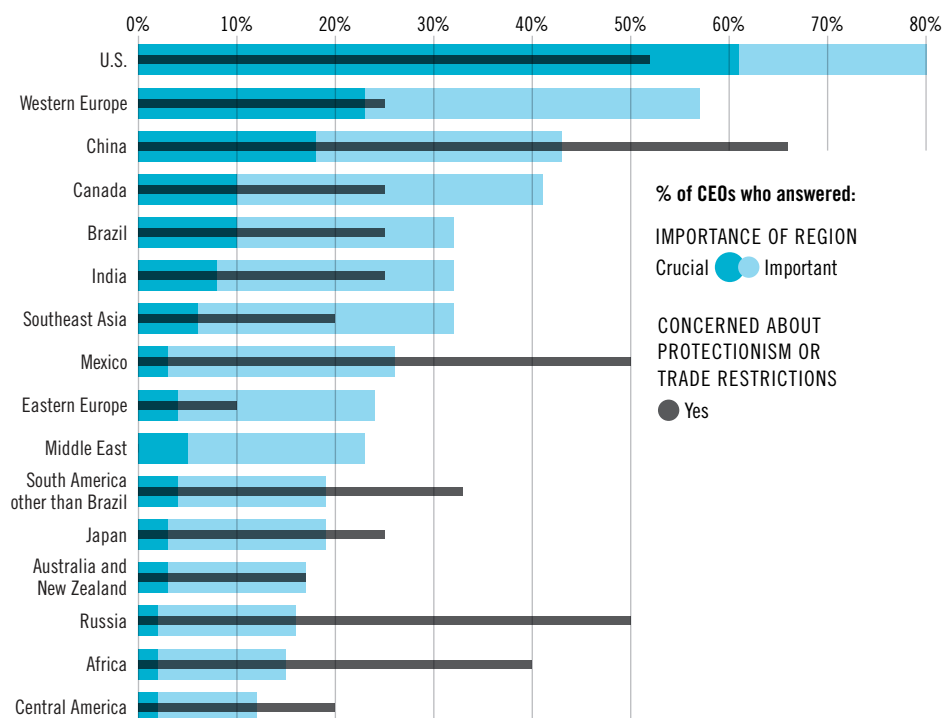
The survey displays some variations in these views by industry. Only 16 percent of CEOs in the consumer products, retail and health sector feel the global trade environment is favorable. The sector with the most positive outlook on the global trade environment is manufacturing, construction and mining, with 39 percent calling it favorable or better.

CEOs are most concerned about trade restrictions or protectionism coming from China and the U.S. Two-thirds of business leaders express particular concern about Chinese protectionist measures, while just over half are worried about U.S. trade restrictions.

29

percent of CEOs say the current global trade environment is favorable to their business

### HOW IMPORTANT ARE THESE REGIONS TO YOUR REVENUE GROWTH, AND HOW CONCERNED ARE YOU ABOUT PROTECTIONISM THERE?





About a third (35 percent) of CEOs surveyed report that they outsource some of their business operations to offshore partners. But 32 percent of CEOs find outsourcing less economically attractive than it was three years ago, while 14 percent find it more attractive. Aguirre of Chiquita Brands currently outsources only a small part of its company's accounting and payroll operations. "Costs in North America have decreased, and outsourcing some activities may not be as appealing as it was before," CEO Aguirre explains. Bremmer insists that outsourcing remains "as attractive now as ever," though he points out that the economics of offshore outsourcing are changing rapidly as traditional destinations like Bangalore and Shanghai become less affordable. "Companies now have to look to interior China and Vietnam to get cheaper labor," he notes.

Whether you seek cheap labor, abundant natural resources or aspirational consumers, success in emerging markets requires cultural understanding and the ability to forge strong ties with local partners, says Jean-Louis Chaussade, CEO of **SUEZ ENVIRONNEMENT CO.** (NYSE

Euronext: SEV), a French water and waste treatment company that provides potable water to 90 million customers worldwide and had 2009 revenues of \$15 billion. "We are a global player, but we act locally and have a strong partnership culture," says Chaussade. "Our association with local partners reinforces the understanding of local challenges while allowing for a sharing of risks and capital invested."



Successful partnering often requires companies to expend resources on activities that pay off in goodwill even if they never show up on the bottom line, says Graham Briggs, CEO of **HARMONY GOLD MINING CO. LTD.**

(HMY). When the South African company with \$1.3 billion in 2009 revenues first started mining in Papua New Guinea, Briggs worked hard to establish good relations with local communities affected by Harmony's mining activities. "We looked at what was best for them," the CEO explains. "The government gets a royalty of 2 percent [of the mineral value that Harmony extracts], and we undertook a lot of administration to make sure the royalty got distributed in a fair way." ■



## FRANK DRENDEL

CommScope

### HOW DO YOU CREATE A GLOBAL RISK-MANAGEMENT STRATEGY?

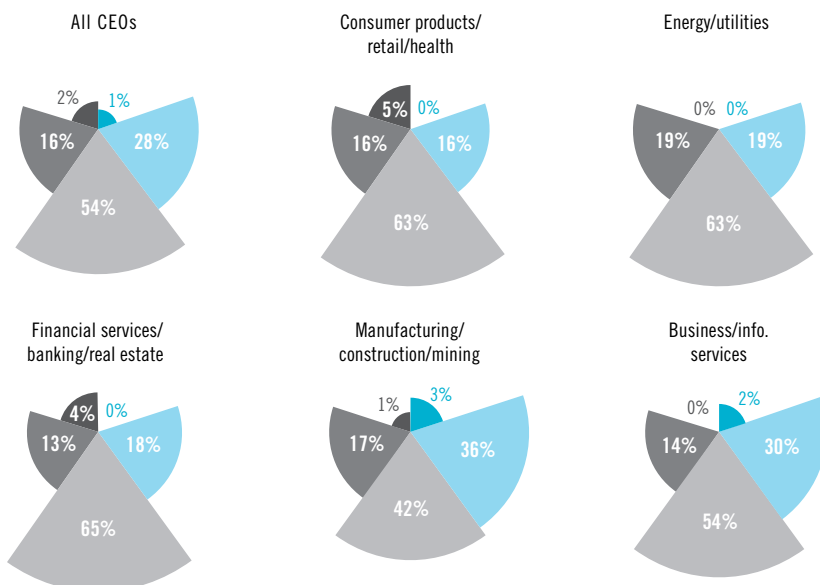
**I**n 35 years of being a CEO, I've learned to expect the unexpected," says Frank M. Drendel, chairman and CEO of **COMMScope INC. (CTV)**. "You can't anticipate that a volcano would shut down international flights, but a CEO today has to build a business plan that prepares for potential disruptions. By fostering a culture of integrity, ethics, quality and risk awareness, we believe we can respond more quickly to global challenges."

The companies that were best prepared for this spring's volcano-related travel interruptions, Drendel says, were the ones that were nimblest. For example, they substituted Internet communications and video-conferencing for face-to-face meetings. The best way to manage risks like that, adds Drendel, 65, is to maintain a solid balance sheet and train employees to recognize and communicate anomalies. "As soon as something happens, we want it communicated to management so we can respond quickly."

The recent global recession strained risk-management strategies, including those of CommScope, which provides network connectivity products and solutions for data, voice and video transmission in wireless and wired networks. "In response to a 25 percent sales decline in 2009, we cut costs, froze salaries, laid off staff and consolidated facilities to gain efficiencies in our operations," Drendel says. CommScope's recession strategy involved focusing on cash generation, maintaining core R&D projects and ensuring that the company's international footprint could still develop after the worst was over. That includes doing business in emerging markets. "In any developing country, you have to have infrastructure," Drendel says. "Once you have water and sewers and electricity, you need telecommunications quickly after that. Every piece of technology begins as an emerging opportunity." — Sharon Kahn

### HOW HAS THE CURRENT GLOBAL TRADE ENVIRONMENT AFFECTED YOUR BUSINESS?

% of CEOs who answered: ● Extremely favorably ● Favorably ● Neutral impact ● Unfavorably ● Extremely unfavorably



# GOVERNANCE

**CEOS IMPROVE** transparency around risk taking, and they are split on separating the chairman and CEO roles.

**T**HE TRADITIONAL IDEA OF A leader — someone who sees the future with superhuman vision and charges ahead — no longer seems appropriate given the complex reality of our world today,” says Samuel Palmisano, chairman and CEO of IBM. Palmisano proposes a gentler but also more rigorous approach to corporate leadership. A chief executive should “influence, not dictate,” he says. “And we need to measure, not guess.”

So what does this mean for corporate governance? For CEOs who also serve as chairman — which is true of 43 percent of the 325 chief executives interviewed for this year’s survey, including Palmisano — the debate over whether to separate those roles continues. Nearly three out of four U.S. CEOs in our survey oppose legislation that would prohibit one person from serving as both chairman and CEO of a public company. Outside the U.S., however, 46 percent of CEOs favor the idea.

Last September the NYSE formed a Commission on Corporate Governance that will seek to address this question as well as other best practices in corporate governance. But changes are already under way. The banking industry, which came under intense scrutiny from politicians and taxpayers during the economic meltdown and more recently during hearings over financial reform, seems to be heeding the call of the public to separate the two positions. **BANK OF AMERICA CORP.** (BAC), **CITIGROUP INC.** (C) and **MORGAN STANLEY** (MOR), for example, have all recently split the chairman and CEO roles, seemingly under pressure from activist shareholders.

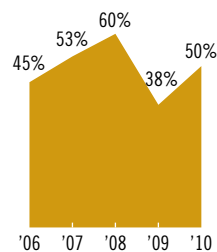
**OLD NATIONAL BANCORP** (ONB), a regional bank with \$8 billion in assets, has separated the two positions since 2004, when Robert

Jones was named president and CEO of the Indiana-based company after a 25-year career at **KEYCORP** (KEY). Larry Dunigan, who has served on Old National’s board since 1982, is chairman. “I think I would find it very difficult to have a foot in both camps,” says Jones. “And quite frankly, it makes my job as CEO easier and provides better governance by giving shareholders an independent voice. I worry about being in management and running the company. The chairman worries about everything else.”

U.S. chief executives seem to devote more time to thinking about who will lead the company when they’re gone. In our survey, 65 percent of chiefs in the U.S. report having a formal succession plan for the CEO role, versus

14 percent of their European colleagues. A solid nine out of 10 U.S. chiefs say they oppose a ruling that would prevent them or their successor from being named chairman, versus one in two international executives.

**PERCENTAGE OF  
CEOS WHO SAY  
THE JOB IS MORE  
REWARDING THAN  
IT WAS THREE  
YEARS BEFORE**



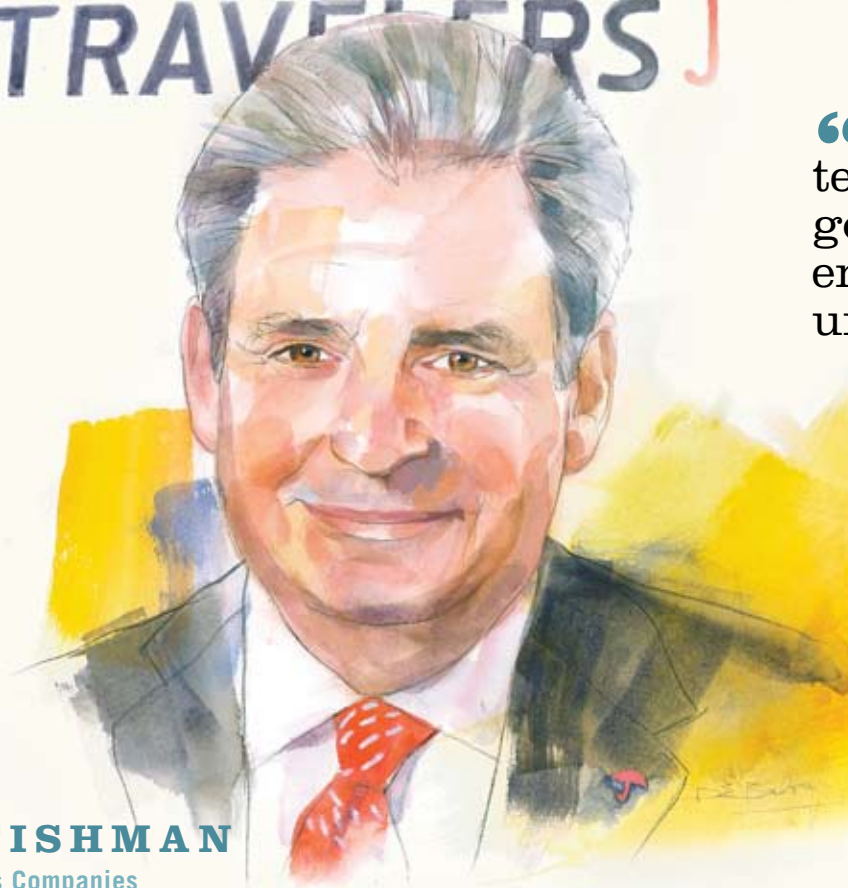
## TEMPERING RISK

At a time when shareholders are increasingly vocal about when and how decisions are made at the top, many companies are re-evaluating their risk-management procedures.

Nearly 80 percent of CEOs in the U.S. report that they have strengthened their board’s role in risk oversight.

“It’s an area we focus on every day,” says William A. Hawkins, chairman and CEO of

# TRAVELERS



## JAY FISHMAN

The Travelers Companies

HOW HAS GOVERNANCE CHANGED IN THE PAST FEW YEARS?

**J**ay S. Fishman, chairman and CEO of property casualty insurer **THE TRAVELERS COMPANIES INC. (TRV)**, describes corporate governance as this: “At its best,” he says, “corporate governance is an independent, knowledgeable and engaged board of directors providing effective oversight and working closely with management to create long-term shareholder value.”

But the financial crisis, he says, exposed the need for better oversight and management of risk. In fact, with the chance to help frame the discussion, under Fishman’s leadership, Travelers joined the NYSE’s Commission on Corporate Governance, an independent advisory commission the Exchange formed in 2009 to examine U.S. corporate governance and the overall proxy process. “As one Federal Reserve official recently noted, ‘Regulation is too important to be left to regulators alone,’” Fishman says. Public companies bear the primary responsibility for restoring trust in the financial markets.”

Fishman does not mean that responsibility for oversight rests solely with CEOs and boards. “I firmly believe that shareholders, counterparties, regulators and credit-rating agencies all play an important role in helping management and the board establish the appropriate risk profile for a company,” he says.

But for those stakeholders to do their jobs, transparent disclosure of a company’s risks is key, insists Fishman, 57. “Consider what the world

would look like today if the companies that recently collapsed had been more transparent in disclosing their risks to the market. Don’t you think that the reaction of shareholders, regulators and the credit markets would have discouraged these companies from such aggressive risk profiles? In my judgment, such increased disclosure may very well have been of long-term benefit to some of these companies.”

For its part, Travelers provides specific, quantitative disclosure in its public filings relating to its catastrophe modeling, explains Fishman. “This disclosure describes the likelihood that various events may occur and the magnitude of the related potential exposure.”

Risk management, especially in the context of recent events, has a lot to do with goals, says the CEO, who wrote in Travelers’ 2009 shareholder letter, “We believe that unrealistic goals drive unreasonable actions.” Fishman suggests that most employees work hard and try to give management what they ask for. “If a management team or board sets unreasonable goals,” he says, “they can, knowingly or not, drive employees to take unjustifiable risks to meet those goals.”

Travelers, says Fishman, strives to deliver a mid-teens return on equity over time, a goal that the CEO calls “challenging, yet appropriate to

“If a management team sets unreasonable goals, they can drive employees to take unjustifiable risks.”

1897

The year that Travelers issued the U.S.’s first auto insurance policy

encourage our employees to thoughtfully balance risk and reward, and to avoid risks for which we are not appropriately compensated.”

Fishman says that “recognizing that risk is an inherent component of all business activity, the challenge of management and the board is to establish an appropriate risk appetite, then make sure effective procedures are in place to manage the company’s actual risk profile consistent with its risk appetite.”

In addition to oversight and management of risk, Fishman says, one of the most important responsibilities a CEO has today is to develop the next generation of the company’s leaders. “While I hope to remain in my position for many years to come,” he says, “the board and I spend a lot of time discussing succession planning. Developing our talent is something we take seriously.”

Fishman adds that Travelers is fortunate to have developed a “very deep bench” of executive talent. “Many of our executives have worked at Travelers and in the industry for many years,” he explains. “Other executives bring important experience from outside the industry. Their experience at Travelers and at other companies gives us important perspective, as well as a healthy appreciation for both the paths to success and potential pitfalls to avoid.” — Sharon Kahn





**RINALDI FIRMANSYAH**

PT Telekomunikasi Indonesia

#### HOW IS EXECUTIVE COMPENSATION CHANGING GLOBALLY?

**W**hen it comes to rewarding exceptional executive achievement in Indonesia, corporations usually rely on annual bonuses, says Rinaldi Firmansyah, CEO of PT TELEKOMUNIKASI INDONESIA TBK (TLK), the nation's largest telecommunications provider. "Management share-option plans are not common here," he says. "However, some companies, including ours, are working to introduce stock options."

PT Telkom, one of two Indonesian companies that adhere to the governance rules set forth by the Sarbanes-Oxley Act of 2002 even though not required to, tried to introduce an executive stock-option plan in 2006, but it was rejected by shareholders. "There was no history, nothing to compare it to, no best practices to follow," explains Firmansyah. "We need more time to make its merits clear."

Despite government and popular backlash against high executive compensation in the U.S. and U.K., Firmansyah doesn't expect the same in Indonesia. "For one thing, the compensation level between management and executives is not as wide as in developed countries," he says. Firmansyah also expects that Indonesian companies will take an approach to awarding stock options that differs from that of their U.S. counterparts. "While our corporations may be based on capitalist principles, compensation is not," he says, explaining that the corporate structure in Indonesia will continue to maintain a certain level of compensation equality. For example, in addition to a board of directors, a board of commissioners provides oversight on behalf of shareholders. "This structure," Firmansyah says, "means shareholders have more say here."

Pursuing a new stock-option plan is not a current priority, he says, adding that this could well change in the next two years as the market becomes more familiar with the concept. — John Boyd

**MEDTRONIC INC.** (MDT), a medical technology company with \$15.8 billion in fiscal year 2010 revenues. "A couple of years ago we looked at our enterprise risk management — broader than product risk, it includes market risk, financial risk and operational risk. We have a very comprehensive approach to risk management." Hawkins adds that he is concerned that society is becoming less and less tolerant of risk. "If I look back over the history of medical devices," he says, "if we didn't have an environment that supported taking risks, we wouldn't have the implantable defibrillators, the deep brain stimulation devices or the insulin pumps that we have today."

About one-third of the CEOs surveyed say their companies have established formal board education programs around risk. CEOs outside the U.S. are more likely to say that they have improved internal and external transparency around their company's risk policies and procedures.

At Old National Bancorp, the board of directors' risk-management committee is led by an outside director with decades of banking experience. "By having this committee, we accomplish two things," Jones explains. "We take a bit of the burden off the audit committee, and we allow directors to focus on different kinds of risk, such as the risk that comes with new technology or any of our compensation plans that might be at odds with what would be best for shareholders."

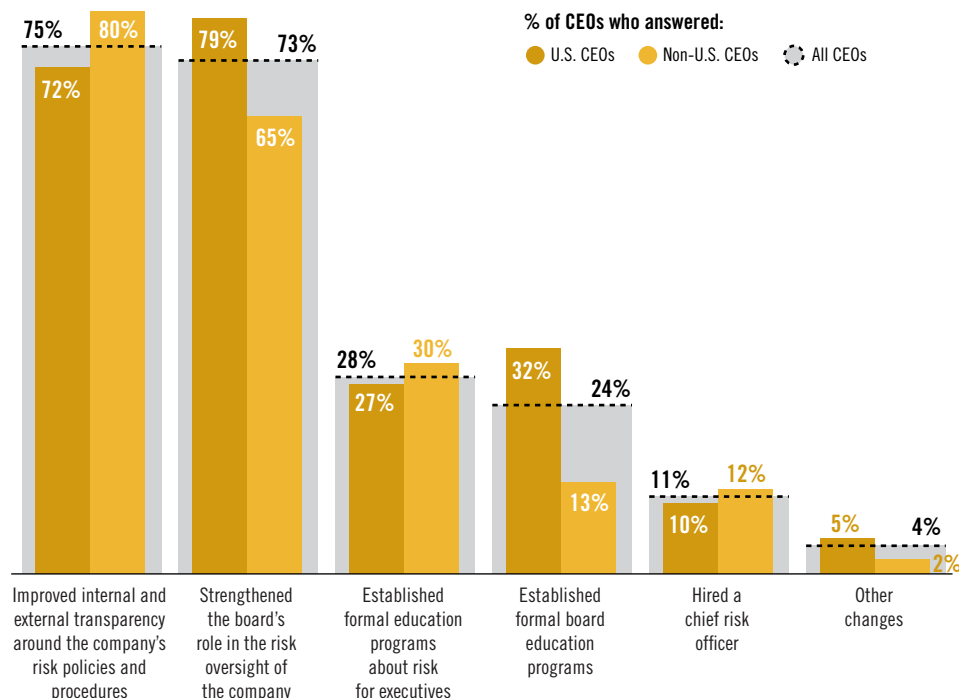
97

percent of CEOs report their job is more time-consuming than it used to be

#### LIFE AT THE TOP

Data from this year's CEO Report suggest that chief executives thrive on adversity. Half of the 325 CEOs surveyed say that their job is more rewarding now than it was three years ago, a healthy bounce back from the 38 percent who felt that way just 12 months ago — the lowest level recorded since the survey began asking the question in 2006. "Business leaders have this almost maniacal desire to perform," observes Old

#### WHICH OF THE FOLLOWING CHANGES HAS YOUR COMPANY MADE IN TERMS OF RISK MANAGEMENT?



National Bancorp CEO Jones. “That’s why I think the best CEOs work best during difficult times.”

Non-U.S. CEOs, who have traditionally found the job more rewarding than their American counterparts, are also feeling more upbeat this year, with 62 percent saying it’s better than it was in years past. Still, nearly all CEOs — 97 percent — say that the job is more time-consuming than it used to be, a sentiment that has remained virtually unchanged since 2006.

“When the economy is good and the numbers are good, the job is great,” says Ralph P. Scozzafava, chairman and CEO of **FURNITURE BRANDS INTERNATIONAL** (FBN), a St. Louis-based premium furniture manufacturing company with \$1.2 billion in 2009 sales. “But even when the fun factor is diminished, you have to find ways to enjoy it or you’ll go nuts.”

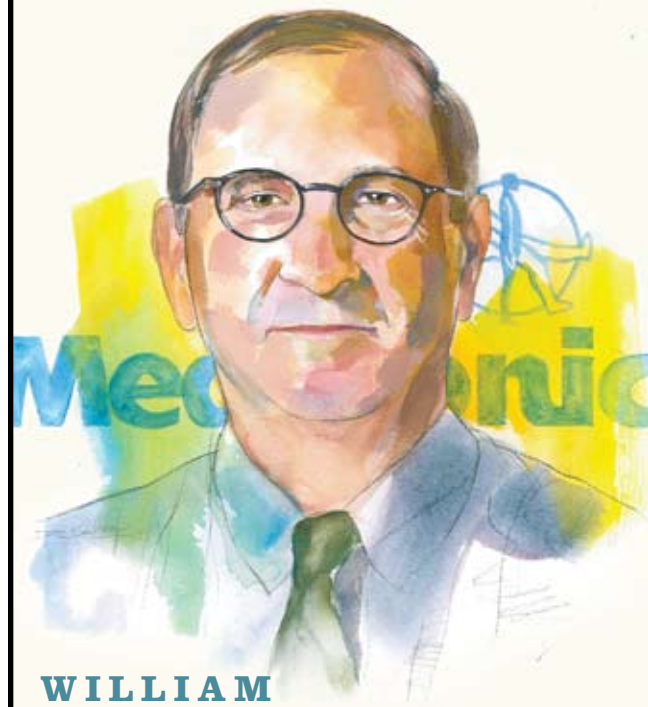
That’s not easy for many CEOs, including Gil Goodrich of **GOODRICH PETROLEUM CORP.** (GDP), an independent exploration and production company that drills for oil and gas in Texas and Louisiana and had \$110 million

in 2009 revenues. Goodrich admits that he derives less pleasure these days from his multiple duties. “The challenges, obligations and regulations are more time-consuming than ever and overshadow your ability to focus just on growing the business,” he says.

As capital markets loosen up, CEOs say they are devoting less time to raising money than they did last year. In this year’s survey, 41 percent of CEOs report spending more time securing capital and financing, down from 56 percent in 2009.

Not surprisingly, a greater percentage of leaders in banking, real estate and insurance spend more time on financing issues, while chief executives in the energy and utilities sector allocate more time to regulatory and compliance issues.

In the era of Sarbanes-Oxley, Goodrich argues that U.S. CEOs are spending too much time on compliance. “I certainly understand that we need regulation, but it has to be more practical and more tailored to different industries,” he says. “We’ve gotten to the point where we have auditors auditing the auditors.”



**WILLIAM HAWKINS**

Medtronic

## HOW DO YOU BUILD YOUR BRAND’S REPUTATION?

**N**early every new **MEDTRONIC INC.** (MDT) employee hears the story straight from the chairman and CEO himself: how in 2007, three months after William A. Hawkins became CEO, the medical technology company voluntarily recalled one of its most popular products, a defibrillator lead. “The problem was not black and white,” recalls Hawkins, 56. “A lot of people questioned why we would recall a life-saving product that had such an impact on Medtronic’s bottom line. But it did not meet our quality standards.” That move, says Hawkins, boosted the company’s reputation with doctors and patients in a way that advertising or executive platitudes never could have.

This anecdote is related at the company’s Mission Medallion ceremony, which each new employee must attend. The silver medallion that each employee receives as a reminder of his or her responsibility to fulfill the company mission is engraved with the words “When life depends on medical technology” on one side and “Contributing to human welfare by the application of biomedical engineering to alleviate pain, restore health and extend life” on the other.

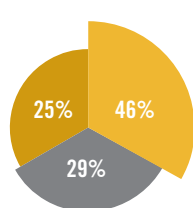
As an innovator of implantable medical technologies, such as coronary stents, defibrillators and pacemakers, insulin pumps, and neurostimulators that control pain and movement disorders, Medtronic follows what Hawkins calls a “bedside to bench to bedside” method in which its engineers work shoulder-to-shoulder with medical doctors. Such collaboration, says the CEO, requires trust. “We’ve worked hard to let medical clinicians know we’re a good company to work with if they have an idea they want to pursue,” says Hawkins. “They see we have the means to invest and to successfully distribute products around the world. You get that kind of reputation by earning it.” — Sharon Kahn

## DOES YOUR COMPANY HAVE A FORMAL CEO SUCCESSION PLAN?

% of CEOs who answered:

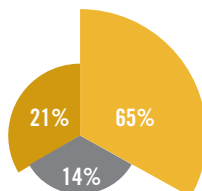
Yes No In process of developing

ALL CEOs

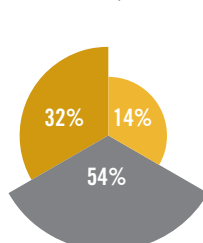


BY LOCATION

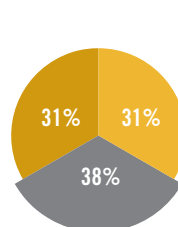
U.S.



Europe

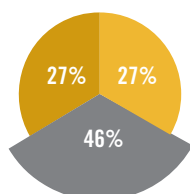


Rest of world

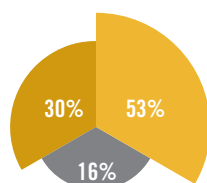


BY SIZE (MARKET CAP)

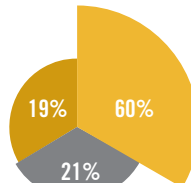
Under \$500 million



\$500 million to under \$2 billion



\$2 billion or more



CUSTOMERS, INVESTORS AND EMPLOYEES

# STAKEHOLDERS

**IT IS EASIER** to attract investors and employees, but the high unemployment rate is keeping customers elusive.

**D**URING THE LOW POINT OF the recession, in late 2008 and early 2009, “people looked at their investment statements and panicked,” says Stephen Russell, CEO of Indianapolis-based **CELADON GROUP INC.** (CGI), one of North America’s largest truckload carriers, with fiscal year 2009 revenues of \$490 million. “They saw their money disappearing.”

But today is different. Investment capital has grown more accessible of late. Compared with last year, CEOs are three times as likely to report having an easier time attracting investors and twice as likely to say that it’s easier to keep them.

“It feels like a better atmosphere in which to be talking to shareholders,” explains Ralph Scozzafava, CEO of Furniture Brands International. “They’re looking ahead to better days, so the conversations are more about growth.”

Gil Goodrich, CEO of Goodrich Petroleum, concurs. “Investors look at the energy

business not from the perspective of whether there will be demand for our product — because there always is — but rather the price at which we can sell it,” he says. “I think 2011 is going to be a good year for our business.”

Still, William McNabb, chairman and CEO of The Vanguard Group, believes that the government needs to do more to encourage longer-term investing to get companies to concentrate on strategies that will benefit all stakeholders and society at large. “The simplest tool for encouraging long-term behavior is tax policy,” he says. McNabb argues that the current one-year definition of “long term” is inadequate. “If you really want to incent longer-term behavior, you might have a graduated capital gains tax where if somebody held a security for more than five years, you have a very low

capital gains rate; if it is between one and five, intermediate; and less than one year, the tax is high.”

McNabb offers three somewhat related lessons to be learned from the recent recession. First, shareholders are looking for CEOs to be very clear about company strategy. Second, shareholders are more focused on a CEO’s track record of execution. Third, governance issues, especially those related to transparency, are more important than ever. The results of the survey back him up: More CEOs (67 percent) report that insufficient transparency about risk taking is one of the top three governance concerns of shareholders. The other most popular concerns are insufficient board oversight (65

percent), executive compensation (55 percent) and insufficiently qualified board members (44 percent). Geographically, concern about executive compensation is more likely to come from U.S. CEOs, while insufficiently qualified board members is a hotter topic in Europe.

When it comes to attracting talent, most chief executives (67 percent) report that tough economic times have made that task easier. “We’re definitely seeing an increase in the number and quality of résumés we’re getting,” Goodrich says.

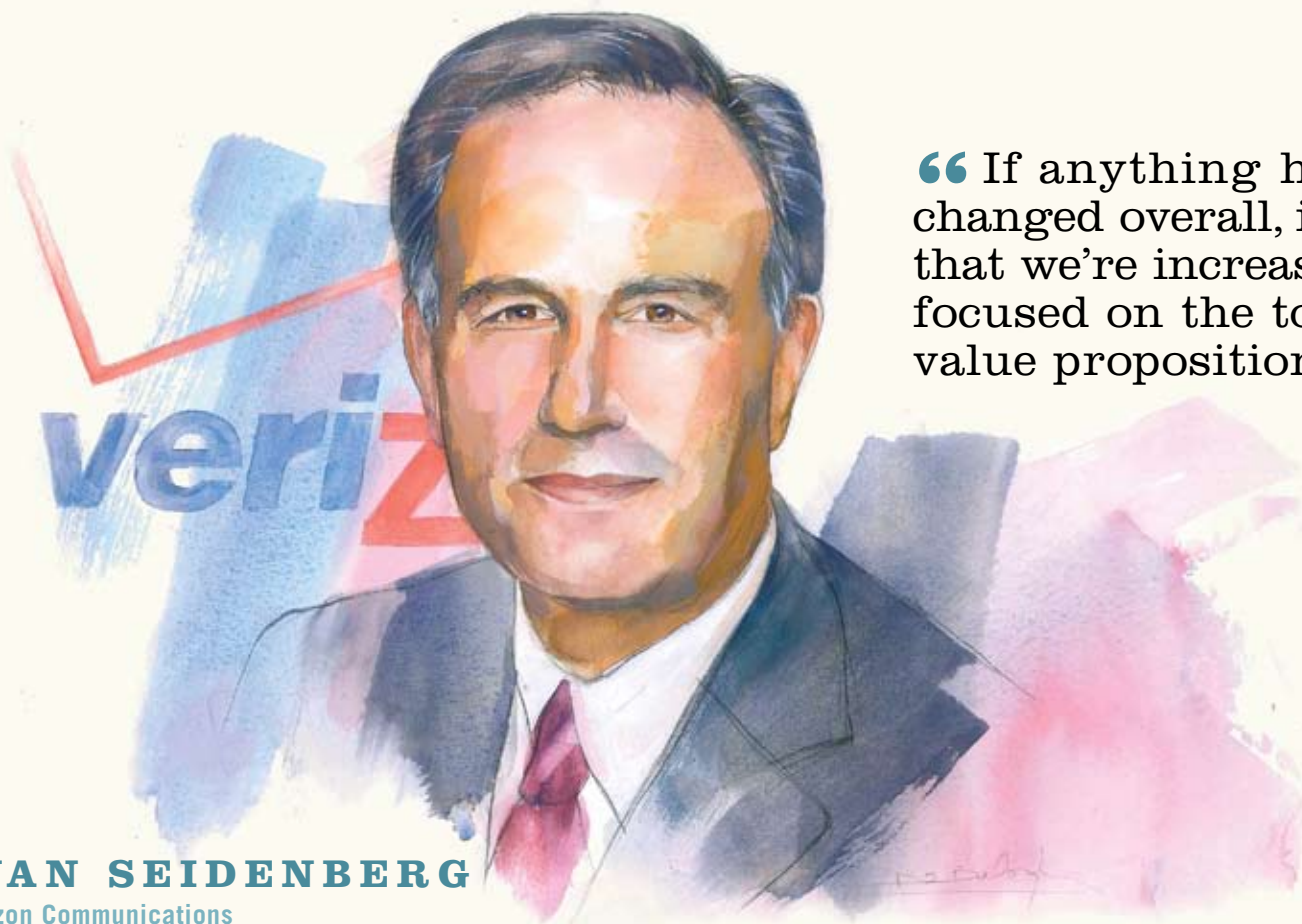
The CEO quickly adds that he’s filling vacated posts as they become open, but he’s not hiring for new positions.

**DO CEOs  
TAKE ENOUGH  
ACTION TO  
PROTECT THEIR  
COMPANIES’  
REPUTATIONS?**

Yes  
76%

No  
24%





“If anything has changed overall, it’s that we’re increasingly focused on the total value proposition.”

## IVAN SEIDENBERG

Verizon Communications

### HOW CAN COMPANIES ATTRACT AND RETAIN CUSTOMERS?

**A**sk Ivan G. Seidenberg, chairman and CEO of **VERIZON COMMUNICATIONS INC. (VZ)**, about the global economy and he’ll predict sluggishness until companies have the confidence to start hiring and consumers begin to spend freely again.

But Seidenberg, who is also chairman of the Business Roundtable, an association of CEOs of leading U.S. companies, doesn’t worry about prospects for the telecommunications industry — or for long-term international growth. “Global businesses are looking at information and communications technology as a way to permanently change the way they do business, making themselves more efficient and environmentally friendly,” he says. “When it comes to the consumer market, the appetite for more bandwidth, more mobility and more ways to manage digital content is growing faster than ever.”

To put it another way: “In an industry changing as fast as ours, 90 percent of our growth opportunities are ahead of us,” says Seidenberg, 63. “That’s why innovation is the lifeblood of our business.”

Verizon’s game plan to attract and retain customers is simple, according to Seidenberg: to create a reliable network that allows customers not just to communicate but also to access all of their digital content, from any device, wherever they happen to be. “The company that can help the customer manage that entire digital environment — or, to use the buzzword, ecosystem —

has a real advantage in the marketplace. It all comes down to investment, innovation and service — just as it always has,” he says.

“On the larger scale, America’s telecom companies invest more in networks every year than the federal government invests in transportation,” Seidenberg said at a recent conference. Investing in the network, he adds, allows Verizon to build on innovation that goes well beyond the ability to support exploding levels of data and video traffic.

“Our new 4G wireless network will embed connectivity into all kinds of physical objects, which will allow you to control energy use, security systems, even home appliances, from wherever you are,” Seidenberg says. He talks of putting various applications in the “cloud” and offering professional services to help global companies manage their operations more efficiently. “We’re using our technology to help create a smarter society through things like electronic medical records, smart grids and other energy-saving technologies, medical imaging and the like,” he explains.

To attract customers, Verizon is also being bold in marketing the value of its networks. “We’re pretty aggressive, and our marketing spend has been fairly consistent,” the CEO says. “If anything has changed overall, I think it’s that we’re increasingly focused on the total value proposition. We’ve never

competed exclusively on price, but now it’s even more crucial that we have bundles and usage plans to fit different customer needs, and a diverse mix of devices and applications that can be tailored to the individual.”

As for retaining customers, Seidenberg says, the key is to make them aware that Verizon will continue to deliver more value to them over time. “So when you sign up for FiOS [Verizon’s bundled communications service for Internet, phone and television], for example, you have confidence that our list of on-demand videos will grow, that we’ll keep developing new ways to integrate home networks, that we’ll attract more and better content, and so on,” he says. “Same with wireless, as we expand our portfolio of devices, continue to make network improvements

and provide more ways to access content; and same with the large business market, as we organize ourselves around helping our customers get the most from their technology investments.”

As the digital universe becomes more complex, he says, “we’re developing more and more tools for keeping customers’ data safe and secure and their privacy and personal information protected.” The bottom line, he adds, is that “it’s about developing a long-term relationship with customers based on trust and record of service.” — Sharon Kahn

50

billion dollars  
invested  
by Verizon in  
technology  
infrastructure  
in five years



## WILLIAM MCNABB

The Vanguard Group

### WHAT DO TODAY'S SHAREHOLDERS WANT MOST?

**I**t was September 2008. As the economic meltdown was growing worse, The Vanguard Group sent a salvo to CEOs of its 900 largest holdings: a single-page document called “Our Views on Corporate Governance” — also known as the principles letter. One of the world’s largest institutional investors was laying out what its active managers want to see when investing in a company. “You could argue that these are principles that a good investor should have been living by before the crisis, but there’s an even bigger emphasis today,” explains Chairman and CEO William McNabb.

Vanguard’s six key principles include independent oversight of the board, accountability to shareholders (enhanced by annual board elections), engagement (or regular dialogues) with shareholders, sensible compensation tied to performance, shareholder voting rights consistent with economic interests (one class of shares), and minimal anti-takeover devices. Although it’s no guarantee, companies that follow those principles have a better shot at meeting earnings targets, says McNabb, 52. “We see an increasing awareness by investors that a lot of companies can have the right strategy, but if they don’t execute well, it doesn’t really matter,” he notes. “And when we can check the box on these governance items, we have more confidence that the management team is on the right track.”

McNabb says most of the principles relate to transparency, which is increasingly important to investors. “Shareholders are looking for CEOs to have an increased focus on clarity; they want to be able to understand the numbers and put them into perspective,” he says. “The less clarity around off-balance-sheet activity, the higher the hurdle rate for the investment manager to get comfortable with what’s going on at a company.” — Sharon Kahn

Goodrich says that prior to the financial meltdown that began in the fall of 2008, his company’s shareholders tended to focus on top-line revenue growth. Today he feels that their concerns are more likely to revolve around liquidity and balance-sheet strength.

“No one really knows what’s going to happen 12 to 18 months out,” the CEO says. “So shareholders want to know you have a strong balance sheet and the ability to finance and execute your corporate strategy.”

With unemployment stuck near 10 percent and consumer confidence low, CEOs are having more trouble on the customer front. Nearly a third of U.S. chiefs say that acquiring new customers has grown more difficult over the past three years, versus 44 percent of CEOs in Europe and 15 percent of those in Asia and elsewhere. “The products we sell are discretionary, big-ticket items,” says Scozzafava, whose company sells high-end furniture brands including

Thomasville, Drexel Heritage and Broyhill. “Whether the economy is good or bad, people still have to eat and brush their teeth. Living room or dining room furniture purchases can be postponed.”

### CORPORATE REPUTATION

Many companies have taken serious reputation hits in recent years. At the same time, the percentage of corporate leaders who believe that CEOs in general do enough to protect corporate reputations has fallen steadily in our surveys, from 84 percent in 2006 to 76 percent this year. The numbers reflect a growing sense among business leaders that “lip service just won’t cut it anymore,” says

Jeffrey Resnick, global managing director at Infogroup|ORC, which conducted the CEO survey on behalf of NYSE Euronext.

What sort of behaviors can help improve a company’s reputation? The answers, according to CEOs, are not much different from

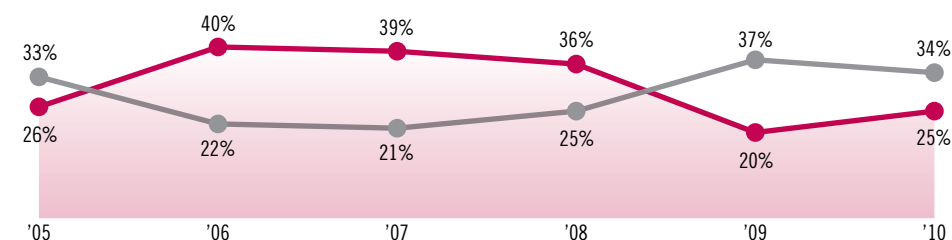
44

percent of European CEOs say it is more difficult to attract customers than in the past

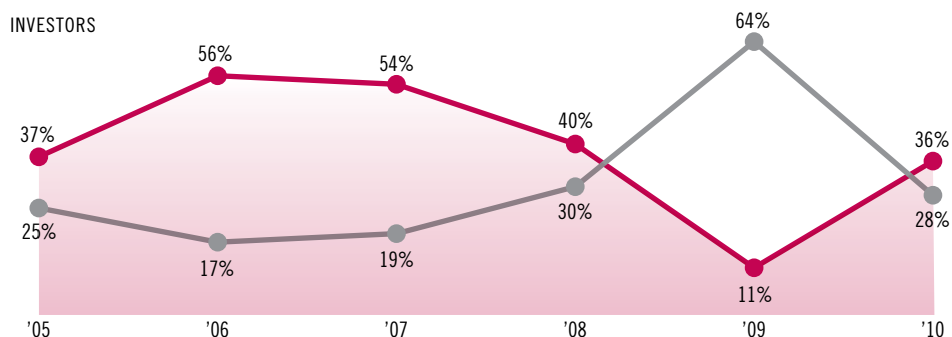
### COMPARED WITH THREE YEARS AGO, HOW MUCH EASIER OR MORE DIFFICULT IS IT FOR YOUR COMPANY TO ATTRACT CUSTOMERS AND INVESTORS?

% of CEOs who answered: ● Easier ● More difficult

#### CUSTOMERS



#### INVESTORS



what Mom taught you: honesty, integrity and ethics. Transparency and leading by example are other actions mentioned frequently by survey respondents. Verizon CEO Ivan Seidenberg is proud of his company's role in delivering Internet connectivity to consumers. At the same time, the CEO acknowledges the dangers of this connectivity. At the end of the day, he says, Verizon's reputation depends on its ability to help customers stay safe online. "We're concerned about making the Internet as safe as possible for consumers," Seidenberg explains. "We provide customers with cyber-security tools and educational programs that empower parents and children. We also work closely with law enforcement to assist with investigations involving crimes against children."

In the past two years, perhaps no industry's reputation has suffered more than banking's. Tellingly, leaders in the banking sector were more likely than their counterparts in other industries to list integrity and honesty as behaviors that have a positive

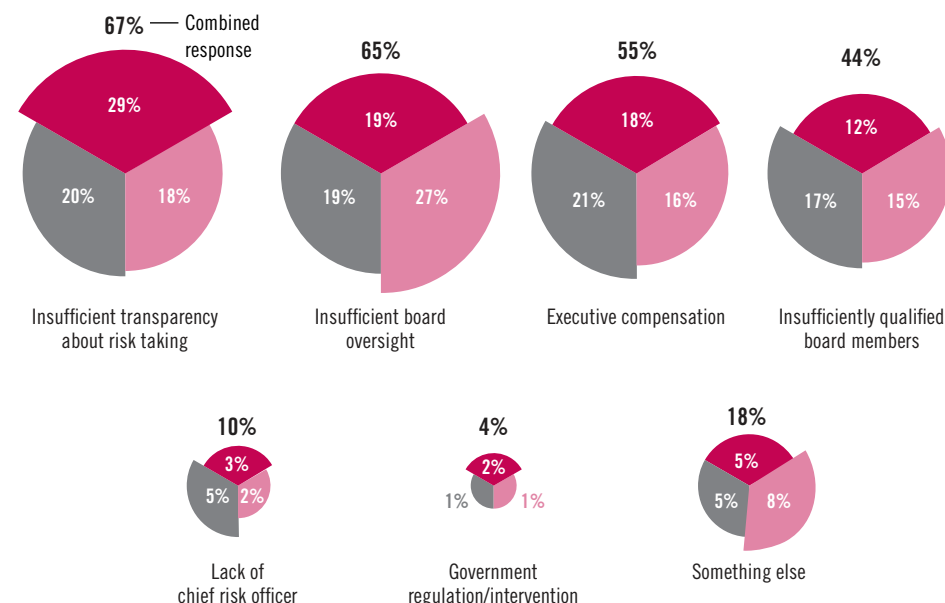
impact on corporate reputations. Robert Jones, CEO of Old National Bancorp, believes his most potent weapon against reputational damage is transparency. "Be honest," he says bluntly. "Don't hide anything. It always backfires." Jones followed his own advice when Old National posted a large credit loss in the fourth quarter of 2009. Before the company's quarterly earnings announcement, he made sure that his CFO filed a Form 8-K with the SEC alerting investors to the loss. "We weren't required to file that form, and some people asked me why we would do it right before earnings," Jones recalls. "But we didn't want to hide anything."

Jones applies the same principle internally. "This may sound obvious, but it bears repeating," he says. "The people who work for you will know in an instant when you're spinning a bunch of b.s. their way. And if employees see it at the top, they'll figure it's okay for them to do it too. As a CEO, model at the top what you want to see throughout the whole company." ■



## WHAT ARE THE TOP THREE GOVERNANCE CONCERNS OF SHAREHOLDERS TODAY?

% of CEOs who answered: ● No. 1 concern ● No. 2 concern ● No. 3 concern



## MARK HOPLAMAZIAN

Hyatt Hotels

### HOW DO YOU ATTRACT AND RETAIN EMPLOYEES?

**HYATT HOTELS CORP. (H)** President and CEO Mark S. Hoplamazian describes the company's mission as "providing authentic hospitality." He explains: "That means we make a difference in the lives of the people we touch every day." And the only way to accomplish that mission, he says, is through engaged associates at Hyatt's 434 hotel properties in 45 countries. "A lot of companies talk about the importance of their people," Hoplamazian says, "but think about it from our perspective. Our associates are the vehicle through which we deliver services to our guests and define our brands. This is not conceptual for us. It is real."

The expression "authentic hospitality" was adopted shortly after Hoplamazian, 46, became CEO in 2006. The company, which until 2004 was a collection of separate businesses owned by the Pritzker family, had been unified on paper by then, but "we needed a direction and expression of what the company stood for to bring us together as a single entity," he says.

While communicating the newly stated mission, Hyatt developed an entrepreneurial framework to put the authentic hospitality mission in employees' hands. What the CEO calls "the Hyatt family" is a very decentralized company, with each general manager responsible for his or her hotel's operation. Within that structure, work units of as few as six individuals are required to create a plan with goals to improve the group's processes for the benefit of guests. Through an annual "engagement" survey, various tracking mechanisms and constant guest evaluations, Hyatt monitors progress toward the goals and rewards employees accordingly. When the company talks of "succession planning," says Hoplamazian, it is talking of a career path for every employee. — Sharon Kahn





# The Future in



**FROM AIRLINER DESIGN TO THE NEXT AVATAR,  
DASSAULT SYSTÈMES CEO BERNARD CHARLÈS IS PLOTTING  
THE FRENCH SOFTWARE COMPANY'S NEXT MOVES.**



“I’VE HAD MY DREAMS, AND I’VE BEEN ABLE TO FOLLOW THEM,” says Bernard Charlès, president and CEO of **DASSAULT SYSTÈMES** (NYSE Euronext: DSY), of his nearly three decades at the French software company. “I said, ‘Can we make 3-D to replace flat drawings so that everyone can understand them?’ I was obsessed with developing software that would unflatten the world of engineering.”

Since Charlès joined Dassault Systèmes in 1983, when it was a two-year-old startup, the company has moved from helping car designers by transforming the flat into the solid to being a pioneer in product life-cycle management, or PLM. Dassault Systèmes’ latest PLM platform, V6, uses the supreme versatility of digital content to allow companies to follow their products from design and manufacture to maintenance and recycling — in short, from cradle to grave — optimizing processes all along the way.

BY JOHN MCLAUGHLIN PHOTOGRAPHS BY MICHEL SETBOUN



According to Sanjeev Pal,\* a PLM industry analyst with International Data Corp., or IDC, Dassault Systèmes has taken PLM to a whole new level. The company not only added a visual, specifically 3-D, component to PLM — what had been a dry, engineering-based applications market — but it dissected the market vertically into sectors, and not just the old computer-aided design and manufacturing (CAD/CAM) stalwarts of aerospace and automotive, but other, nontraditional PLM verticals such as life sciences and construction.

“They are very innovative,” Pal says. “With their new V6 platform, they said,

‘We’re going to innovate and come up with a platform that not only does social computing but does it in the cloud.’ They’ve opened it up to everybody.” In doing so, Pal adds, “they’ve reinvented the PLM business.”

In November 2008, Dassault Systèmes moved from Suresnes into a sparkling new campuslike headquarters in Vélizy-Villacoublay, a slice of Silicon Valley transplanted to the Paris suburbs complete with a futuristic virtual reality center for clients to experience the possibilities of 3-D firsthand (*see sidebar, page 38*). Charlès says the company has offices in 27 countries, including the U.S. and Japan. Last year Dassault

Systemès reported that it had generated net income of €221 million (\$273 million) on revenues of €1.3 billion (\$1.6 billion), and as of mid-June, it had a market capitalization approaching €6 billion (\$7.4 billion). And, the company notes, 3-D technology has made enormous strides. It has spread like wildfire across the industrial- and product-design landscape and has taken the entertainment world by storm as well, whether through video games such as *Aura II: The Sacred Rings* and *Lazy Raiders* or through the billion-dollar, Oscar-winning film *Avatar*. Dassault Systemès products were employed in some of the equipment used to make the movie, the company says.

In fact, 3-D technology and its applications are developing so rapidly that, in Charlès’ view, they are ready to become a fundamental and transforming part of our

**IN CHARLÈS’ VIEW, 3-D AND ITS APPLICATIONS ARE DEVELOPING SO RAPIDLY THAT THEY ARE READY TO BECOME A FUNDAMENTAL PART OF EVERYDAY LIVES.**



Bruno Delahaye, the company’s vice president for ENOVIA market strategy, in a 3-D virtual reality room



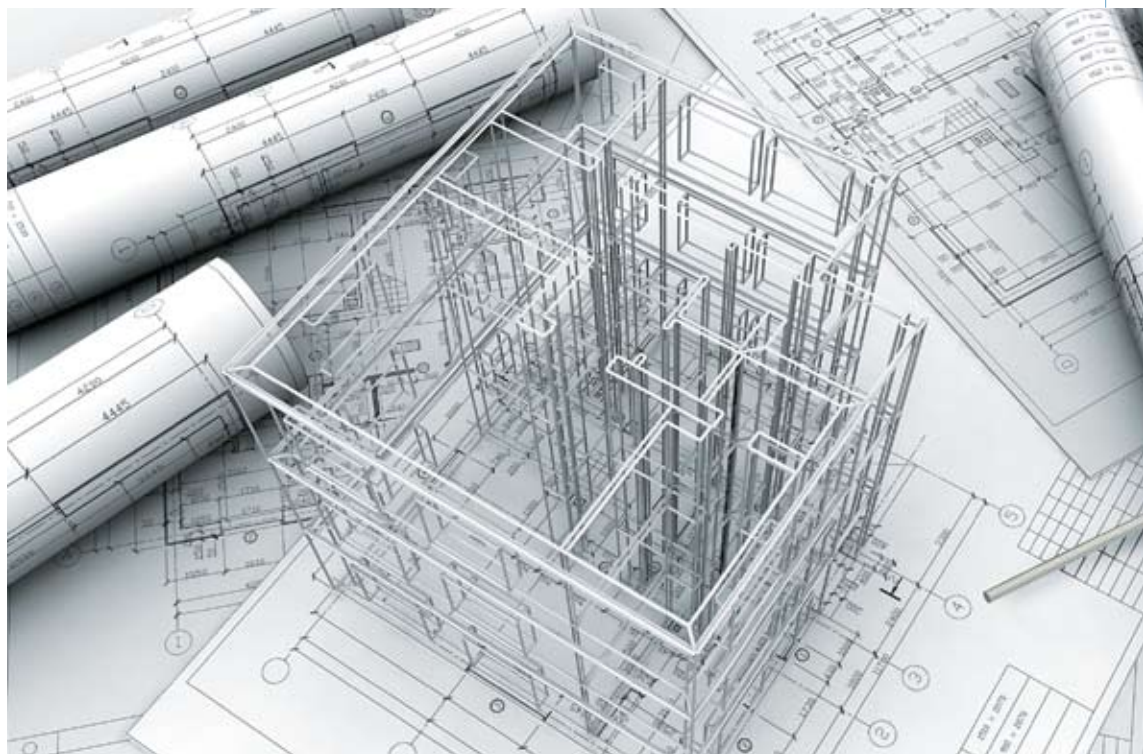


everyday lives, a ubiquitous new medium for the young millennium. “This,” he promises, with the energy of a true believer, “is a special moment.”

Dassault Systèmes’ success, says Charlès, owes much to long-running partnerships with industrial heavyweights, including **IBM CORP.** (IBM) and **THE BOEING CO.** (BA). Now it has a new partner in **THE PROCTER & GAMBLE CO.** (PG) and the potential for another technological step change that has Charlès’ juices flowing. “What is going to happen in the next 10 years is really cool,” he says. “Through the power of computer graphics and increased network capacity, 3-D is going to become a medium like MP3 or JPEG. You need good tools to create it, but this is a way for people to communicate, and sophisticated collaboration between engineers will begin to make it affordable.”

Charlès believes that Dassault Systèmes’ relationship with P&G will bring this future closer, faster. “Many brands want to create social communities,” he says. “It’s a new type of relationship.” He talks of creating a 3-D shopping experience for P&G that would allow consumers to do interactive product reviews on screens installed in their homes, walking the aisles of a virtual supermarket and picking products from the shelves. “It’s what they call ‘the first moment of truth,’” he says, “when a customer picks up a product, and it goes either into the cart or back on the shelf.” He adds: “We would be able to assess consumers’ reactions through their eyes [by recording eye movement]. There is explicit feedback and implicit feedback that people don’t know how to express.”

Pal says Charlès’ passion creates interest in the industry. “Who would have thought that 3-D could play any role in PLM, let alone play the central role?” he asks. But Charlès managed it. “His charisma and his focus on innovation draw people to him. They listen to him, and they believe in his vision,” Pal adds. “He’s played a key role in the success of Dassault Systèmes.”



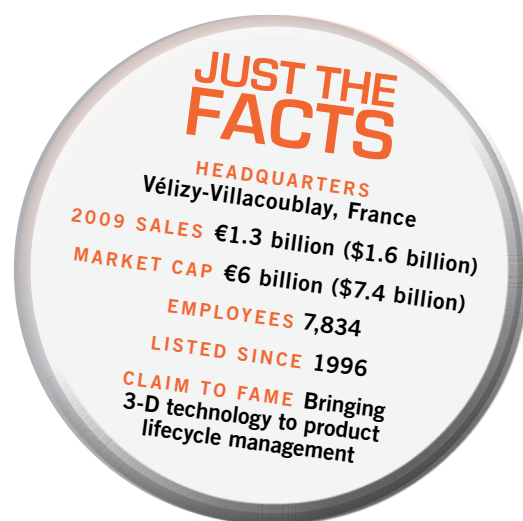
## A Highflier

A graduate of École Normale Supérieure, one of France’s top universities, Charlès first arrived at Dassault Systèmes in 1983, two years after it had been spun off from French aerospace and defense company Avions Marcel Dassault, now **DASSAULT AVIATION** (NYSE Euronext: AM). He was supposed to be doing his national service, but as a highflier he was sent to a cutting-edge corporation for work experience. At the time, Dassault Systèmes was what Charlès

describes as “a great engineering team of just 20 to 25 people” and one brand — Computer Aided Three-dimensional Interactive Application, or CATIA.

CATIA was already making inroads in the automotive industry as a sophisticated 3-D design tool for the likes of BMW, Mercedes-Benz — now owned by **DAIMLER AG** (DAI) — and **HONDA MOTOR CO. LTD.** (HMC). It also had a little operator called IBM handling sales and marketing. Charlès says he spent almost half of his time at IBM in Kingston, N.Y. “To them, our software was seen as a marketing tool,” he says. “They thought, ‘Let’s sell this so we can sell our hardware.’ But this wasn’t bad for us. It also created an incredible incentive for them to sell our software.”

With IBM handling sales, the company says it prospered through the 1980s. “I handled strategy, then research, then both, and in 1989 I became chief executive,” Charlès says, though he had to wait for changes in French tax law in the mid-1990s to be officially confirmed in the role. He says it was Dassault Systèmes’ experience with Boeing,



that “really showed what we could do” and propelled the company to the next level.

Dassault Systèmes had already collaborated with Boeing on the 747-400 program, using CATIA to do digital rather than physical mock-up of an unusually large number of parts. It was with the 777 program, though, that Dassault Systèmes says it hit pay dirt, when Boeing proposed doing the entire program using digital mock-up, an unprecedented move.

“We were in a meeting room with my little team and their huge team,” says Charlès. “They asked, ‘Do you think you can do it?’ I asked how many parts it was, and they said, ‘Three million!’ Now, there was not a single computer that could handle that at the time, so of course the IBM guys are starting to smile. This was a \$10 billion program involving 5,000 engineers around the world. Boeing’s then chief executive took me aside and said, ‘What would you do if you were me?’ I said, ‘I don’t know, but whatever we do, we have to do it as a team.’”

They formed their team and went to work, which, Charlès says, paid off. “It was such a shock for industry around the world

that many people came to us and said, ‘Why didn’t you do this with us?’ There were Volkswagen AG, Mercedes-Benz, **LOCKHEED MARTIN** (LMT) and Grumman Aerospace [now part of **NORTHROP GRUMMAN CORP.** (NOC)]. It is how we became what we are today.”

## The Next Dimension

Growth, both organic and through voracious acquisition, accelerated after Dassault Systèmes’ 1996 IPO, according to the com-

pany. Its purchase of SolidWorks, a developer of PC-based CAD, simulation and data-management software, was a key moment, with Charlès making the pilgrimage to Boston 10 times in six months to convince executives at SolidWorks that their company’s future was not in a SolidWorks IPO but in joining Dassault Systèmes. As Charlès recalls, his board was unimpressed: “They said, ‘It has \$7 million to \$8 million of business. It’s los-

Dassault Systèmes’ 3-D virtual reality room



# Step Into 3-D Reality

ANYONE DOUBTING THE IMMERSIVE POWER of virtual reality need only drop by Dassault Systèmes’ headquarters in Vélizy-Villacoublay, south of Paris, with an appointment, of course. Here, the company has built a virtual reality center dubbed LIVES — for Lifelike Immersive Virtual Experience Space — to show how far it has come in providing software to create 3-D virtual worlds and products, and to provide more than a hint to visiting and prospective clients of just how far it might take all this.

At the center, two large glass walls and an acrylic floor function as a giant screen on which seven video projectors backed by 10 computers conjure a convincing 3-D set. As a user, you enter that world armed with only stereoscopic glasses and a navigator’s joystick; your every move is tracked by five cameras that allow for interaction with any one of 20 different environments, from city streets to an oil platform. Once you have walked into the screen and dodged the same iron pillar on the oil platform for the second time in the certainty that you were about to walk into it, you are ready to believe.

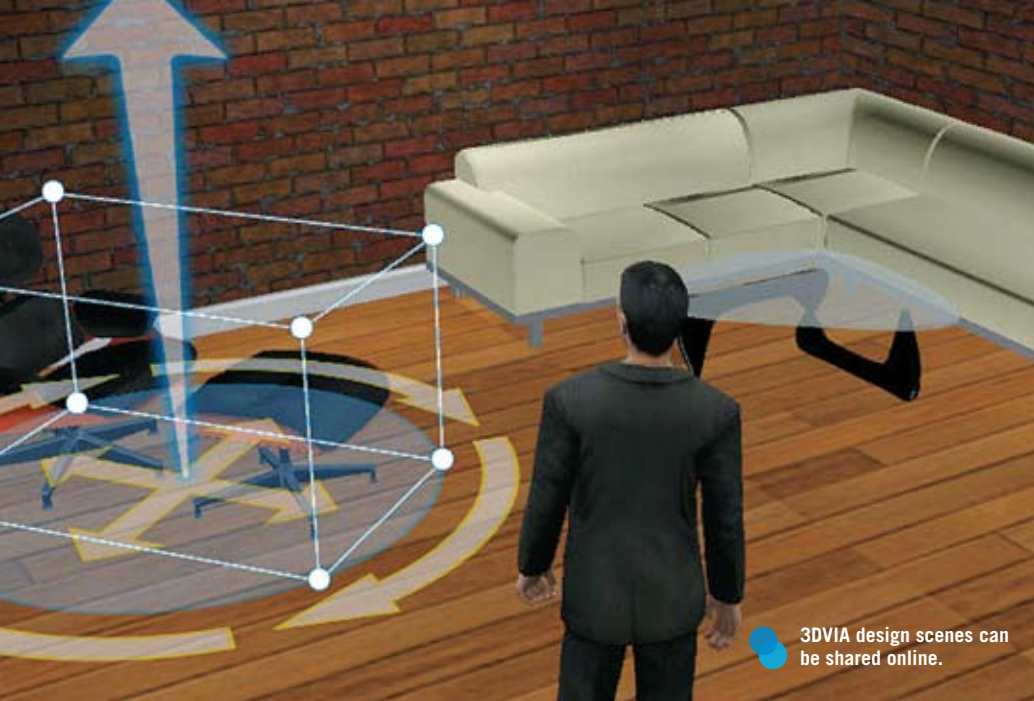
Olivier Alloyer, who as LIVES’ manager designed and oversaw the installation of the space, says that this year there will be improvements. These include adding new sets and, given Dassault Systèmes’ burgeoning relationship with Procter & Gamble, he says, “creating a virtual supermarket experience is my top priority.”

Other priorities include introducing “finger tracking,” in which participants will be able to feel objects in virtual reality — a car’s steering wheel, a broken pipe on that oil rig — via a high-tech tracking glove.

And far more is to come. Alloyer talks of using holographic systems to make virtual reality more lifelike, of tossing away the joystick and allowing users to touch the screens and move objects around with their hands. He also imagines avatars interacting across continents — in videoconferencing, say, or product design: “You might have a very big company with sites in France and the U.S. Teams could come together in a virtual environment to work on the same virtual product. This is not science fiction. It’s very close.”

» To see a video tour of the LIVES center, visit [nysemagazine.com/dsreality](http://nysemagazine.com/dsreality). **ON THE WEB**





3DVIA design scenes can be shared online.

ing money. And you're going to pay \$325 million for it?" He got his way, though, and SolidWorks prospered. Charlès says that it now accounts for 25 percent of Dassault Systèmes' business.

SolidWorks is one of six core brands Dassault Systèmes markets as both stand-alone products and an integrated suite for PLM solutions, the development of which the company says has been its main focus for the past decade. The others are CATIA, for product design and innovation; DELMIA, for digital manufacturing and production; ENOVIA, which allows for intellectual property management aboard a collaborative Internet platform; SIMULIA, a sophisticated simulation tool; and 3DVIA, the newest of the company's brands.

Dassault Systèmes says it has always been about setting targets that appeared just beyond reach and hitting them. As a result, the company's progress has come in giant leaps. 3DVIA, according to Charlès, could be the biggest leap yet. This suite of software, which the company says it expects to roll out later this year, is about opening up the world of 3-D communication to everyone from creative professionals to ordinary Joes. It will allow them to create their own virtual worlds for purposes as diverse as interactive gaming and education through the exploration of vir-

tual environments where, the CEO says, "you click to get to the first level and double-click to go to the level below."

Bruno Delahaye, Dassault Systèmes' vice president for ENOVIA market strategy, adds that big opportunities are beginning to open up through the development of online communities. "Let's say you want to create the next-generation cell phone," he says, "and you have a plant in China, a seller network in Europe and a designer in New York. They could all interact and leverage online tools on the 3DVIA platform. You could connect the services, the content and the people."

**"LET'S SAY YOU HAVE A MANUFACTURING PLANT IN CHINA, A SELLER NETWORK IN EUROPE AND A DESIGNER IN NEW YORK. THEY COULD ALL INTERACT ON THE 3DVIA PLATFORM."**

The technology and electronics industries are perhaps the most obvious candidates to lead the charge. Laurent Cherprenet, Dassault Systèmes' general manager of high-tech industry, says that the speed at which increasingly complex products are developed, coupled with their short shelf life, puts mounting pressure on such companies to transform their business processes.

Disciplines that were once independent elements in product development — electronics, mechanics and software content —

are now more integrated, Cherprenet says, and the need for tighter coordination between them is increasing quickly. At the same time, he says, it is an industry in which key players in a project are often located far apart but must find one another and collaborate. Hence the need for an online platform, which Dassault Systèmes is currently deploying with several tech firms.

Delahaye cites another example in which 3DVIA could be useful: "TOYOTA [MOTOR CORP. (TM)] has 25 suppliers in Malaysia. They could preload, say, 100 accesses for people on the cloud, and then you're one click away from a collaborative structure. It's a very strong value proposition."

It is the developing world, however, that Delahaye sees as "the largest challenge," particularly "how to work with them so that they can start creating eco-sustainable products without having to give them the most sophisticated tools to do it. They need access in an easier way, and that way will be online. It's all about sustainable innovation." (*To read more about 3-D and the environment, visit [nysemagazine.com/dsgreen](http://nysemagazine.com/dsgreen).*)

As Dassault Systèmes pushes against the outer limits of 3-D technology, Charlès notes that the company is still on a learning curve with 3DVIA. But the potential, especially for

applications accessible on the cloud and for the expansion of 3-D-based social networking, has him bubbling. IBM, he says, will be a partner. The CEO notes that his company must commit itself once again to a goal that seems just beyond reach. "We are going to bet everything we have on this," he says, smiling. "It will be like being a startup all over again." ■

\*Sanjeev Pal, a PLM analyst with International Data Corp., is not an officer, director or member of an advisory committee at Dassault Systèmes. He does not own Dassault Systèmes securities.



**ON THE WEB** » Visit [nysemagazine.com/greenproducts](http://nysemagazine.com/greenproducts) to see the eco-friendly products showcased at the Green Summit.



# A GREEN DAY

*NYSE Euronext hosts a meeting of the minds on sustainability.*

BY PATTY ORSINI

**T**HE FOCUS AT THE NEW YORK STOCK EXCHANGE on April 22 was green, but not the kind of green usually associated with the buying and selling of securities. In recognition of the 40th anniversary of Earth Day, **NYSE EURONEXT** (NYSE) and the Yale Chief Executive Leadership Institute hosted the Exchange's first Green Summit, a day for corporate executives, government policymakers and academics to collaborate on eco-friendly initiatives. The gathering "serves as a great reminder of the need to address the issues that affect our planet and the opportunities to make our world even better in the future," NYSE Euronext CEO Duncan Niederauer said in his opening remarks.

Co-sponsors included CNBC, which is part of NBC Universal, a segment of **GENERAL ELECTRIC CO.** (GE); Deloitte LLP; **THE DOW CHEMICAL CO.** (DOW); **HEWLETT-PACKARD CO.** (HPQ); **OFFICE DEPOT INC.** (ODP); **PEPSICO INC.** (PEP); The Body Shop International PLC, Mother Nature Network; Sesame Workshop and **UNITED PARCEL SERVICE INC.** (UPS). Yale Senior Associate Dean Jeffrey Sonnenfeld, a conference organizer and panel moderator, said: "There was a sense of authentic cross-sector excitement about this conference. You would not have seen the same innovative solutions unifying economic development and environmental sustainability during the first Earth Day celebration."

Wayne Balta, **IBM CORP.**'s (IBM) vice president of corporate environmental affairs and product safety, noted how far corporate America has come on the issue of environmental responsibility, recalling the first Earth Day in

**"IF YOU CAN INSPIRE PEOPLE, THOSE POLICIES WILL BE MORE SUCCESSFUL."**

— STEVE ODLAND, CHAIRMAN AND CEO, OFFICE DEPOT

1970. "The focus was on control, with the Clean Air Act and the Clean Water Act," Balta said. "Today it's not just control — it's also about innovation and how we can collectively innovate."

Throughout the day, Sonnenfeld said, "engineers, environmentalists, community activists and marketers were sharing ideas. There were no ideological battlefields."

**WASTE MANAGEMENT INC.** (WM) CEO David Steiner enjoyed the give-and-take. "It's comforting to know that other very smart businesspeople are struggling with the same challenges," he said, after discussing how Waste Management is helping **WAL-MART STORES INC.** (WMT) achieve its goal of zero waste by taking part in Walmart's Sustainability Consortium (*see [nysemagazine.com/walmartconsortium](http://nysemagazine.com/walmartconsortium) for more*). "Business is good, and we are planning for a future where we see growth through managing the materials that flow through our waste stream." (*For details, visit [nysemagazine.com/wastetowatts](http://nysemagazine.com/wastetowatts).*)

CEOs listed specific policies — like Office Depot's effort to recycle 80 percent of the products it uses internally in three years — that have resulted in tangible differences for their companies. Those policies and standards, CEOs noted, were internal programs initiated by management. "Nobody wants to be forced to do things," said Steve Odland, Office Depot's chairman and CEO. "If you can inspire people, if it comes from within, those policies will be more successful."

Linda Fisher, chief sustainability officer for **DUPONT** (DD), added that the real win will be when sustainability is embedded within the business and you no longer need a CSO. ■

EVENTS

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## THE GLOBAL MARKETPLACE UP CLOSE

# MAKING MONEY SENSE

*NYSE Euronext wants to empower working Americans when it comes to financial literacy and is calling on listed companies for help.*

**F**ew organizations find themselves as closely associated with investors' financial well-being as NYSE Euronext. The company is leveraging this distinction to help ease the difficulty many workers have in understanding and managing their money, particularly now that the economic and financial crisis has dealt them such a blow. During April, National Financial Literacy Month, NYSE Euronext launched a comprehensive financial literacy initiative, at the heart of which is NYSE Money Sense, a new online resource designed to help Americans become better consumers and money managers.

"With the economy remaining fragile and unemployment persisting, it is time to take bold action to empower Americans with the skills to

make sound financial decisions," says NYSE Euronext CEO Duncan Niederauer. "We took on this challenge and are calling on our listed companies to help."

To do so, companies may distribute NYSE Money Sense content to employees and offer links to NYSE Money Sense on their internal networks. The Website connects consumers with leading financial sources that provide insights on a range of

personal-finance topics across five categories: earn, spend, save, borrow and protect. It features Q&As and in-depth reviews of financial sites. It also allows users to ask questions of a panel of experts and take a test, upon completion of which participants receive a certificate showing their score.

To help shape and advance its efforts, NYSE Euronext formed a distinguished Financial Literacy Advisory Committee. Tahira K. Hira, professor of personal finance and consumer economics at Iowa State University, is chairperson. "I am so proud of the New York Stock Exchange for identifying the important role it could play in improving individual consumers' economic

**50** **PERCENT** of Americans do not have a "rainy day" fund for unanticipated financial emergencies, according to a national survey by The FINRA Foundation.



health,” she says. “As a prominent member of our U.S. and global business communities, the NYSE recognized the seriousness of the issue, wanted to connect with working American adults and came up with a plan to prepare them to make better financial decisions. Together we’re going to make a change in our nation’s future economic health, and I’m very excited about that.”

Hira hopes more companies will recognize the financial challenges in the U.S. and feel compelled to do something. “We want them to care about their employees’ financial health and then take steps to better equip them to make decisions,” she says.

The site launched during Financial Literacy Week (April 26-30) at NYSE Euronext, when all week The Opening Bell® and The Closing Bell® recognized companies for their contributions to financial literacy and advocacy, including **VISA INC. (V)** and **THE MCGRAW-HILL COS. (MHP)**, which — along **THE BANK OF NEW YORK MELLON CORP. (BK)**, **THE CHARLES SCHWAB CORP. (SCHW)** and **DISCOVER FINANCIAL SERVICES (DFS)** — is delivering NYSE Money Sense content to employees.



“By leveraging our reputation and our community of listed companies, NYSE Euronext is positioned to improve working Americans’ financial capabilities,” says Niederauer. “Improving our nation’s financial skills will have profound implications on our financial security and ultimately our economy.” — *Jeanne Cotroneo Darrow*

Visit [www.nysemoneysense.com](http://www.nysemoneysense.com) to learn more.

## CAPITAL IN QATAR

*A strategic partnership between the State of Qatar and NYSE Euronext is expected to create a global exchange.*

In 2009 NYSE Euronext partnered with Qatar Holding, the strategic and direct investment arm of Qatar Investment Authority, by acquiring a 20 percent stake in what is now the Qatar Exchange (formerly the Doha Securities Market), or QE, to create an internationally recognized, world-class exchange — one that trades cash equities and derivative products, brings together global investors and issuers using next-generation technology, and follows the highest standards of disclosure, transparency and investor protection.

Today — thanks to the joint project between NYSE Euronext, QE and many stakeholders in the Qatar market — this new venture with the State of Qatar is on its way to bringing the U.S. exchange operator’s technology and market expertise to the Middle East, one of the world’s fastest-growing regions. Besides the contribution of knowledge, NYSE Euronext’s \$200 million investment in QE is its largest ever in a foreign exchange.

“Our investment in QE gives us a valuable presence in the Middle East and reflects the global nature of our business strategy,” says NYSE Euronext CEO Duncan Niederauer. “We believe exchanges are an essential building block for emerging economies and more open societies. QE represents the beginning of a new era, filled with technology, information, openness to the rest of the world and the spread of prosperity to more people.”

QE is working with regulators and market participants to diversify its products and to implement international standards. NYSE Euronext will be providing the technology for QE’s cash exchange and is working with QE to deploy NYSE Euronext technology and expertise to create a derivatives market in the

future. QE will be one of the first exchanges outside of the NYSE Euronext family of exchanges to use its Universal Trading Platform, or UTP, system, which is the platform of choice for nearly all NYSE Euronext markets worldwide. QE is on track to transform its own market structure and fully adopt UTP by September 2010. This, according to H.E. Sheikh Hamad bin Jassim bin Jabor Al-Thani, Qatar’s prime minister and minister of foreign affairs, will pave “the way for Qatar to take a prominent role in the world’s capital markets for the benefit of both the people of Qatar and the Middle East more generally. Our vision is to create a world-class financial center around a global exchange that is on par with the deepest pools of capital across Europe, the U.S. and Asia.” — *Jeanne Cotroneo Darrow*





# OUR SAY ON PAY

*In Harvard Business Review, A.G. Lafley argues that it's time for CEOs to take a stand on executive pay.*



**F**or some time now, CEO pay has been a lightning rod for criticism and debate, but CEOs themselves have stayed pretty quiet on the topic — often because it's uncomfortable for us to speak out about how others are paid and simpler to leave it to our compensation committees. Our well-intentioned advisers — HR leadership, outside consultants and lawyers, even board members — avoid the subject, fearful of sending the wrong message to a high-performing CEO. So it's time for CEOs to speak up about unacceptable and inappropriate amounts and forms of compensation — particularly since “say on pay” shareholder votes are on the horizon. If we don't take the lead, Congress and others will, in ways that may be in no one's best interest. Here's what I propose.

**Reward with equity.** Every element of a pay package should strengthen the CEO's stewardship of the firm, providing incentive to consistently create value over the short, medium and long term. It should align him with the company not only when he is active but also in retirement, because the surest measure of his contribution is the quality of succession and the business's performance in the year or two after he hands over the reins. For this reason I strongly believe that equity should make up the lion's share of a CEO's retirement package.

**Restore integrity to equity grants.** Let's also require that CEOs hold a meaningful portion of their company-awarded equity into retirement. This sets an example by affirming the company's long-term values and culture for other top executives. It's painless — many CEOs already do it — but it underscores the importance of the long-term health of the enterprise. In some cases, a CEO may have accumulated so much equity that additional grants provide little incremental motivation. At that point, the CEO should ask the compensation committee to put those grants back into the pool for other employees.

**Eliminate post-employment provisions not pegged to performance.** So-called safety-net provisions such as outsize change-in-control or severance payments and supplemental retirement plans are indefensible — as are “mega equity grants” that are way out of proportion to the CEO's contributions. Stock options were never intended to be automatic. Their purpose is to recognize extraordinary individual performance, clearly align the CEO with shareholders and

encourage longer-term value creation. A CEO who has amassed sufficient wealth to provide for any eventuality needs no security blanket.

**Implement more detailed analyses.** A few years ago, companies started using tally sheets to ensure that all the components of an executive's compensation could be seen in one place. We should adopt two additional analyses: walk-away wealth accumulation and internal pay equity. The first pulls together the total wealth an executive will take with him under various termination scenarios. Whereas the tally sheet is a front-end snapshot, the walkaway provides a full picture, including the outcome of all the gains (realized, unrealized and projected) from all

**“IF WE DON'T TAKE THE LEAD, CONGRESS AND OTHERS WILL, IN WAYS THAT MAY BE IN NO ONE'S BEST INTEREST.”**

previous (and pending) grants. The internal pay equity analysis adds up all the components of an executive's compensation going back several years to determine whether one of them may have distorted pay ratios.

Cynics may say, “Lafley can afford to talk this way because he already got his.” In fact, I had no employment contract, no severance, no change-in-control payments, no gross-ups, no pension (beyond stock from a modest profit-sharing trust that all P&G employees participate in) and no supplemental retirement plan, and 90 percent of my pay was at risk in the form of restricted stock and stock options. I truly hope and believe that if we as a group embrace — and implement — the tenets above, we will have come a long way. ■

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