

Design Thinking and Innovation

An Interview with
Bill McDermott, Chief Executive Officer, SAP

EDITORS' NOTE Bill McDermott is Chief Executive Officer and a member of the Executive Board of SAP. McDermott and former co-CEO Jim Hagemann Snabe are credited with leading the reinvention of SAP in the era of mobility, cloud computing, advanced analytics, next-generation business applications, and in-memory technology. He joined SAP in 2002 to lead the business in North America and has steadily risen to his current role. Before joining SAP, he served in senior executive roles with Siebel Systems and Gartner, Inc. He launched his business career at Xerox Corporation, where he rose to become the company's youngest corporate officer and division president. McDermott got his start as a young entrepreneur running a small delicatessen business on Long Island, New York, at age 17. He received his bachelor's degree from Dowling College and his Master of Business Administration from the Kellogg School of Management at Northwestern University.



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COMPANY BRIEF As market leader in enterprise application software, SAP (sap.com) helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront and desktop to mobile device, SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of competition. SAP applications and services enable nearly 300,000 customers to operate profitably, adapt continuously, and grow sustainably. SAP is listed on several exchanges, including the Frankfurt Stock Exchange and NYSE.

What has made SAP so successful year after year?

We have kept our focus on where the customer is today but also where that customer is going.

In 2010, for example, we rebooted the company's strategy. At the time, we were the leading business applications and analytics company in the industry. We've spent a lot of time thinking about where the industry would be five years down the road. This caused us to rethink the vision and focus on helping the world run better, which is authentic to SAP, and improving people's lives, which is representative of this consumer-driven economy we're in.

Helping the world run better and improving people's lives was driven in part by the fact that data was doubling in the world every 18 months, and it became clear that 20th Century databases weren't going to survive in the 21st Century.

We anticipate 60 billion devices coming into the market by 2020, and it's clear that the mobile revolution where everybody's life is managed on a device has taken hold.

It also became clear that we needed to have consumer-grade – meaning beautiful-to-use – applications, because

people wanted the same experience on Monday in the office as they had on Saturday on their own couch.

We envisioned the world moving into the cloud, not just the line-of-business executives but entire companies. We also saw what nobody else did, which was the idea of inter-enterprise computing, meaning businesses essentially transacting commerce between businesses digitally on a global scale.

The secret sauce is the idea of design thinking and innovation. When we applied the rules of design thinking and innovation, we asked, do we have the big idea? Is it desirable? Do we have a plan to get us there? Is it feasible? Is it financially viable, meaning can we pull it off in the boardroom with a business case?

This is pretty much how we run the company.

As a leader within the space, what does Sustainable Value Creation mean to you?

One of the things we try to do is to keep it humble. When I became CEO, one of my first acts was to announce the Hasso Plattner Founders' Award. Once a year, employees can become Hall of Fame members by doing something very special for the company in the spirit of innovation and value creation. Naming the Founders' Award after Hasso was my way of saying SAP believes in the idea of sustainability, and tying business results together with social and environmental results.

We are building a culture that is all about trying to encourage our employees to come up with the next big idea. Be it innovating or making great software; thinking about our business in terms of how we help the world run better and improve people's lives; or how we consume less greenhouse gas and try to eliminate as much carbon in the environment for us and our

customers as we can. We're constantly thinking about new and better ways to do things.

We recently had our annual general shareholders meeting and I touched on our integrated reporting. We not only report on our business results, which serves our customers, shareholders, and business partners, but we often talk about the integration of social performance into all of this.

For example, we put a lot of focus on autism. Our goal is to have 1 percent of our workforce built on individuals that are on the autism spectrum in some form or fashion by 2020, because there is a global talent war out there and we have to be creative in finding and embracing the very best people.

Overall we try to incentivize our people and get them to think like social entrepreneurs as we run a company daily.

Is there a need for a greater focus on any particular constituency?

We have to focus very aggressively on the customer today and where the customer needs to go. We try to do that in 25 distinctly different industries, because customers have different characteristics based upon the industry and the market dynamics of the industry they're competing in.

One thing we accentuate above all else is the customer, because when we focus intently on the customer, we serve the interests of all our stakeholders, including the shareholders of SAP. We inspire this in the people who work for us because everybody knows it's the right thing to do.

Everybody knows that in the end, the customer alone determines whether we win or lose, or whether we have a job. Every business and social result ultimately comes down to whether we got it done for that customer.

This runs through the entire ecosystem because all partners want to deal with a company that is obsessed with customer satisfaction and loyalty.

I don't expect there will be changes to this anytime soon, given where I came from and the concept that nothing happens unless a customer walks in the door and nothing good happens unless we take great care of that customer while he or she is on our side of the door.

Better yet, when they're leaving the store, they should say they've had an experience like no place else so they will come back again. I

always tell colleagues that by doing well, we are able to do good. Only a successful company is truly free to focus on innovating its own future.

Has the role of the board changed or evolved and what are the key characteristics and the responsibility of a board today?

The real power of a well-functioning board is to take strategy and a vision for the future to a new level.

Often management teams in companies get caught up in the here and now, and they execute very well on that. But a good board is always asking great questions, like what they expect the market to do five years from now, what the consumer will look like and what they will want, and how they're positioned for the future. They compare what they offer to their competitors' offerings and ask how they are competitively advantaged to get management to see the big picture. Good management is often determined on the here and now, and the board has to always be a great sounding board around what will be happening in five years onward.

So it really needs to have a long-term outlook to be sustainable?

I really believe that. What is a leader's role in the world? A leader can be forgiven for a lot of things – we all make mistakes. But the one thing the world and one's team won't forgive a leader for is a lack of vision. With a lack of vision, it's impossible to have a good strategy. Without a good strategy, good workers who might otherwise be successful dig themselves into a deep ditch to nowhere because they're executing against a bad strategy. This is unforgivable.

After formulating a vision and a strong strategy, it's extremely important then to demand outstanding execution, which really is an art form.

It's the leader's role to put the company in the position to execute beautifully. This has to be built on a solid foundation of vision and strategy.

In this modern era, the vision also has to be purpose-driven. There is no interest, especially for young people, in being part of an organization that does not have a higher purpose in the world.

Some people might prefer that this wasn't the case, but that's too bad because it's representative of the world we live in. I'm really encouraged and inspired by young people. They want to do well, but they also want to do the right thing and work for a company that is going someplace important and doing something important for the world.

That is a real distinction between vision and strategy. We have to appeal to the great sense of humanity in people, and do unbelievable things to change the world.

Do the causes that SAP supports need to align somewhat with the business?

In a certain sense, it's all part of the vision and the strategy of the company. I refer to our vision every day because every company has to have a true vision. If we're not helping the world run better with our software, our

solutions, and what we bring to the equation, we can quickly find ourselves as an irrelevant part of history.

If we're not improving people's lives, we're not recognizing the major shift going on in the global economy, which is that business-to-business is no longer relevant as it once was. Today, it's a consumer-to-business economy, so it's about a business' ability to have the humility and empathy to understand the consumer in any business on any channel on any device on any given day, and it's our job to make sure they get what they want.

This has turned the logic of companies upside down.

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SAP has also been a leader in building a diverse and inclusive workforce. How critical is it that diversity is mirrored within your workforce and can you be successful without building that type of inclusive environment?

The company we build has to be representative of the market dynamic that we serve. It's also entirely clear to me and always has been that great leaders have one thing in common: they all have followers. The reason they have

followers is they're secure enough to hire people who are much better than them. Those that are much better than them should be diverse in every way – in gender, race, thought, perspective, geography, etc. because it's ultimately our differences that make us stronger and better. We all come from different angles and places, and when we can put together teams of people that represent all of that human capital coming together in an integrated way, we become difficult to beat.

It's also fun to be with people who can teach us something. It's fun for a leader to see them flourish, and to become leaders of consequence so that when my job is done, they will take it to the next level.

An inclusive environment enriches everyone and enhances their performance along the way.

As CEO, are you able to still get in the client time?

Absolutely; as much as I can. And even though my mind might be on visiting customers 80 percent of the time, we have to build a culture, a vision, and a strategy that enables everyone in the company to either mentally or physically be in front of the customers' objectives 80 percent of the time.

Over the years, I have worked to realize the vision, strategy, and platform for scale, which has to be incredibly well thought out if we're truly intent on following through on the promise of having a customer-driven culture.

Also, people in their early years of management hear words like "culture" and it sounds good but they don't know what to do with it. The more advanced their platform becomes and the greater their responsibility, the more they realize culture is everything because they're only one person and in a 75,000 person company, individual contributions don't scale. So how do they make sure their minds are as sharp on that culture as ours is?

Is it important to celebrate the wins as they happen or are you always thinking about what's next?

As much as I love achieving goals, the celebrations are, by necessity, always incredibly short – no matter how hard the goal was to hit. I refuse to overdue the celebration because there is always another goal waiting for us that's every bit as central to our vision and our customers' success.

In terms of leading the company, however, I believe that celebrating a victory is essential. People have to feel the joy of winning and celebrate it. When we think about value creation, it's difficult to keep focused on being sustainable if we can't make success itself enjoyable.

Having said that, it's also about establishing in the culture that having a great time is no excuse for contracting a complacency disease. It's because you're a winner and have dreams, and because you're going after the next goal and are a mature professional, that there is a time to celebrate and a time to get back to work. I try to manage that balance. ●