

# Lessons from Greece

Change

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# Agenda

- I. Truth
- II. Culture
- III. Leadership
- IV. Focus
- V. Accountability

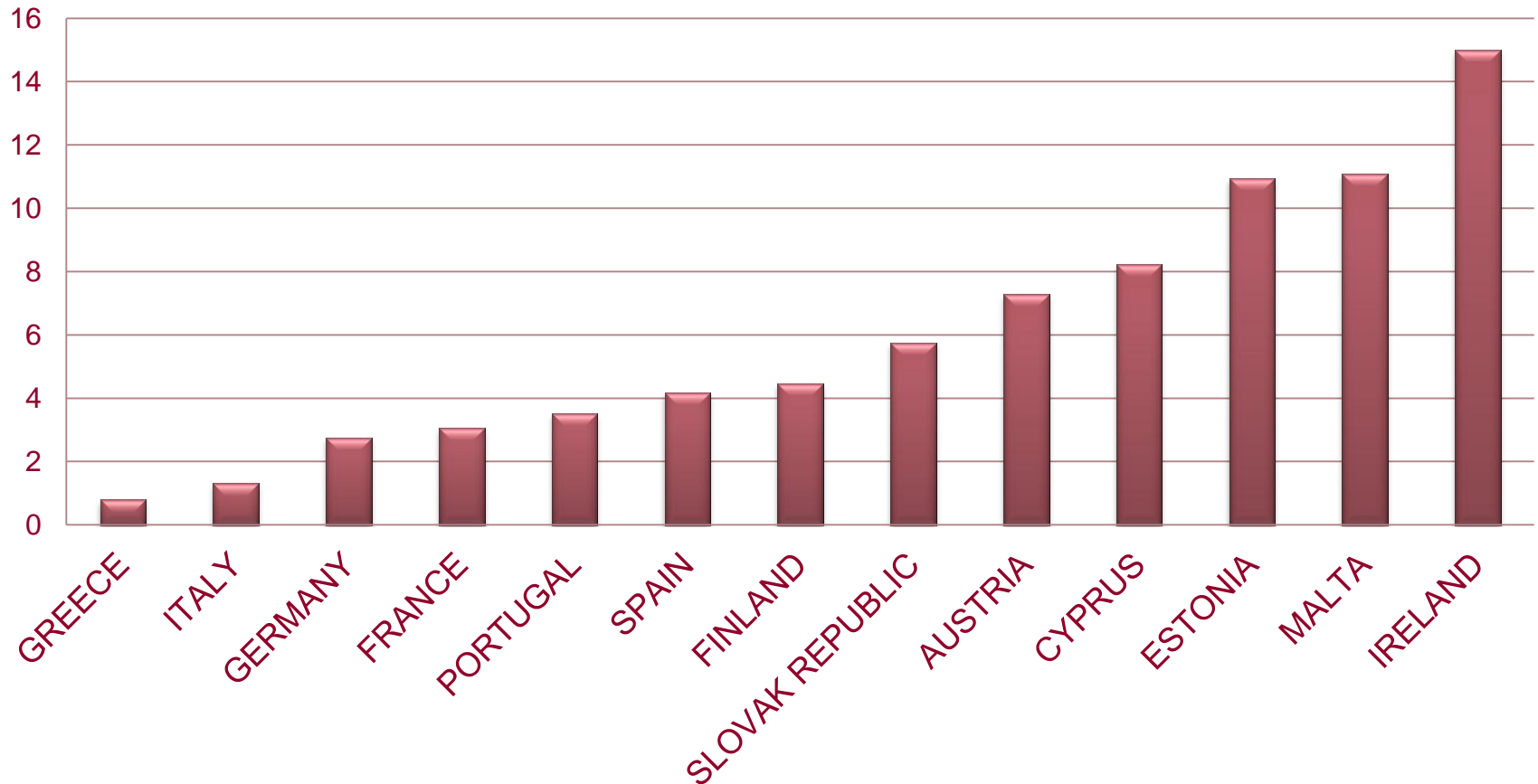
# Truth

“If you look for truth, you may find comfort in the end; if you look for comfort you will not get either comfort or truth only soft soap and wishful thinking to begin, and in the end, despair.”

C. S. Lewis

# Attractive for Foreign Investors?

Foreign Direct Investment as % of GDP, average between 2000 and 2007

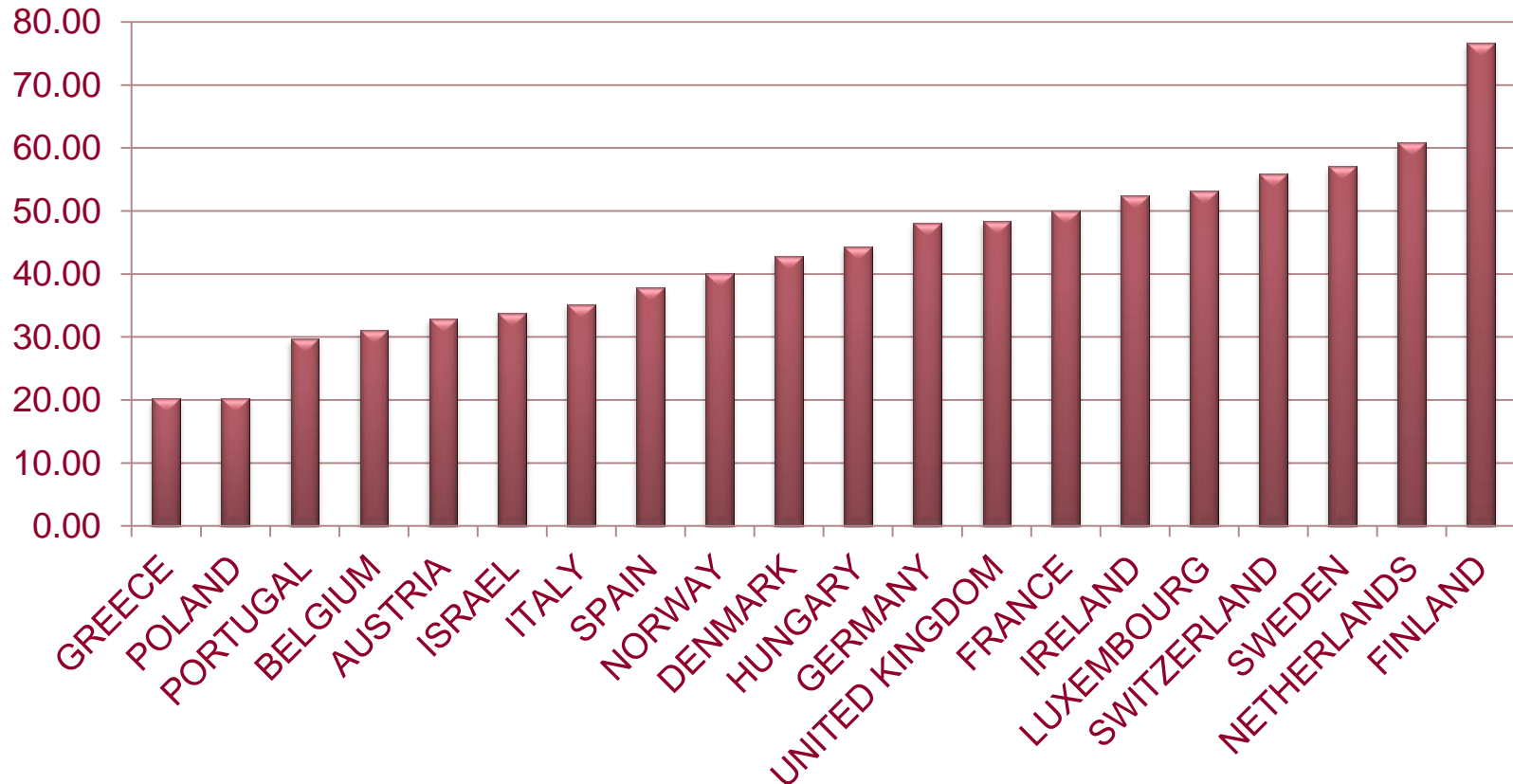


Source: "Foreign direct investment, net inflows (% of GDP) | Data | Table," The World Bank, accessed September 2015, <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS/countries?display=default>.

# Competitiveness of Companies

Greek economy not globally competitive before the crisis

**% of Sales Outside Home Country**



Source: WorldScope, author calculations, weight adjusted based on the sales of each company in 2007.

# Do Not Blame The Patient

## Changing Reality

- Greek governments have a record of consecutive accounting number manipulations
  - “Greece is in a class of its own. It manipulated its borrowing statistics to look good.” BBC, December 2011
- Austerity
  - Imposed by markets

# Culture

“A people that values its privileges above its principles soon loses both.”

Dwight D. Eisenhower

# Creating a New Culture

## Changing Values

Systematic attack on:

### **Meritocracy**

- Institutionalization of nepotism
- Legitimization of corruption
- Race to mediocrity not excellence
- Villainize business, commerce and entrepreneurship

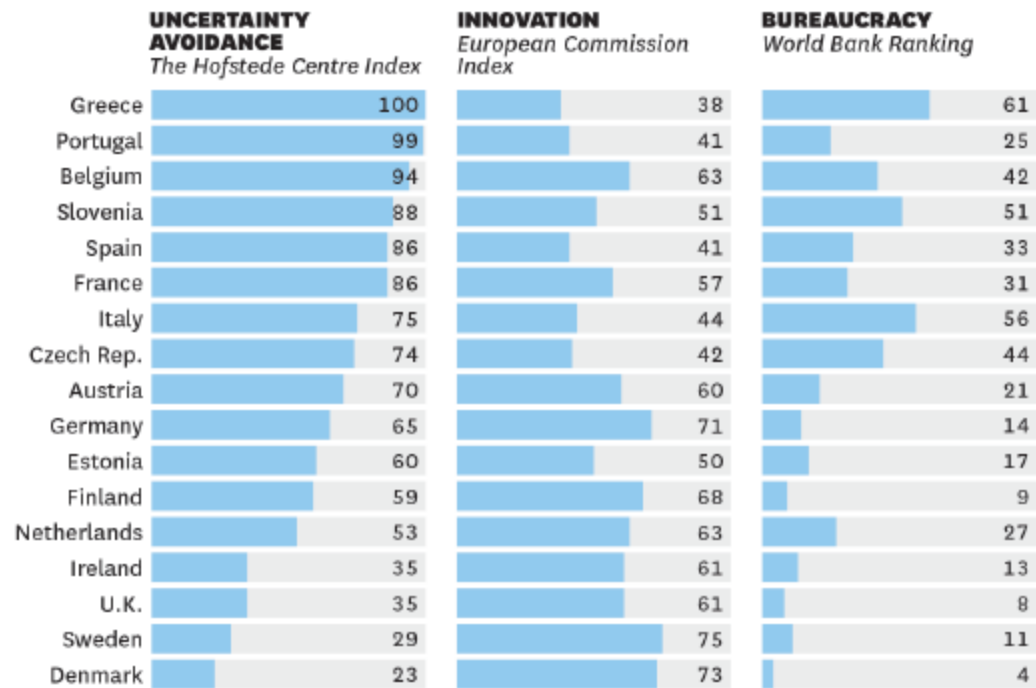


# Uncertainty Avoidance

## Innovation and Bureaucracy

### COUNTRIES THAT AVOID UNCERTAINTY ARE LESS INNOVATIVE AND HAVE MORE BUREAUCRACY

Comparing national scores on indices and rankings of innovation, bureaucracy, and culture.



SOURCES THE HOFSTEDE CENTRE CULTURE COMPASS, EUROPEAN COMMISSION INNOVATION UNION SCOREBOARD, WORLD BANK EASE OF DOING BUSINESS RANKING

HBR.ORG

Source: George Serafeim, Harvard Business Review, March 13, 2015. <https://hbr.org/2015/03/if-greece-embraces-uncertainty-innovation-will-follow>

# Leadership

“It is better to lead from behind and to put others in front, especially when you celebrate victory when nice things occur. You take the front line when there is danger. Then people will appreciate your leadership.”

Nelson Mandela

# Tone At the Top

"We don't believe in the measures that were imposed upon us"

# Tone At the Top



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N9-115-036

FEBRUARY 10, 2015

MOZAFFAR KHAN  
GEORGE SERAFEIM

## Accor: Designing an Asset-Right Business and Disclosure Strategy

Sebastien Bazin was now in charge of Accor, the world's largest French hotelier, a CAC 40 company, with 3,600 hotels in 92 countries and a market cap of €10 billion. As the European head of Colony Capital, one of the largest private equity groups and the largest shareholder of Accor, Bazin had since 2005 relentlessly pushed an asset-lite strategy from his perch on the Accor Board in the face of vigorous opposition from employees, senior management, and some Board members. Accor's stock price underperformance and the continuous fight over the strategic direction of the company had created turmoil and turnover in the C-suite and on the Board. After multiple CEO exits, and a failure by the Board to identify the next CEO in 2013, Bazin's offer to resign from Colony and assume the CEO position at Accor was met with incredulity from friends, alarm from Accor employees, and applause from the stock market. The offer was accepted by the Accor Board, and on the partially sunny morning of August 27, 2013, Bazin strode into Accor headquarters at 110 Avenue de France in Paris as the new CEO.

Over the next 90 days Bazin maintained radio silence with the investment community, but the stock price surged 17% in anticipation of an uninhibited and accelerated asset-lite strategy. On November 27, 2013, Bazin finally broke his silence and addressed the markets on Accor's Investor Day. The strategic direction he announced caught investors off guard. That day, the stock price dropped 8%.



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N9-115-055

AUGUST 19, 2015

GEORGE SERAFEIM  
SHANNON GOMBO

## Turnaround at Norsk Gjenvinning

Erik Osmundsen, CEO of Norsk Gjenvinning (NG), was driving alongside one of his employees in a waste collection truck at 6 a.m. just outside of Oslo. Every month he ventured into the field to connect with employees and to gather first-hand knowledge of the challenges and routines that front-line workers experienced. While driving, he found himself thinking about the past two years and his tenure as the CEO of NG. As a result of a program to eliminate corruption and improve compliance, the company had experienced a turnover of almost half of its top 70 line managers and strained relations with several competitors and the waste management industry association. Osmundsen had relentlessly pushed an agenda that involved transforming and professionalizing the waste management industry to mitigate instances of corruption and other crimes. As his agenda threatened interests of organized crime that controlled parts of the waste management industry, he had personally received anonymous threats.

Osmundsen realized the importance of reshaping the industry in order for NG to be competitive and remain the leader in waste management in Norway. "I think it is fair to say that, at the moment we are not at the state where the playing field is leveled. As such, we are taking the extra cost for compliance, our competitors are not taking these costs, and the customers are not willing to pay a premium. So this is unsustainable. While we already see some positive impact on our financials from the changes we implemented, we have a long road ahead," he said.<sup>1</sup>

# Who Do You Want to Be?

**Him?**



**Or him?**



# Focus

“That's been one of my mantras - focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains.”

Steve Jobs

# Micromanaging

## Instead of Focusing on What Matters

~ 1,000 reform recommendations since May 2010

- Taxes
- Labor market
- Public administration
- Pensions
- Healthcare
- Business environment

# Outcomes

## Has Greece Become More Competitive?

### Competitiveness?

- **Taxes**
  - Large increases
- **Pension system**
  - Large cuts
- **Bureaucracy**
  - Time and steps required to set up new business or import/export declined
- **Public sector**
  - Shrink

### Competitiveness?

- **Institutions**
  - *Property Rights*
    - Courts not functioning efficiently and property rights not well protected
  - *Accountability*
    - No mechanisms introduced
- **Financing**
  - Cost of capital still very high
- **Labor**
  - Brain drain

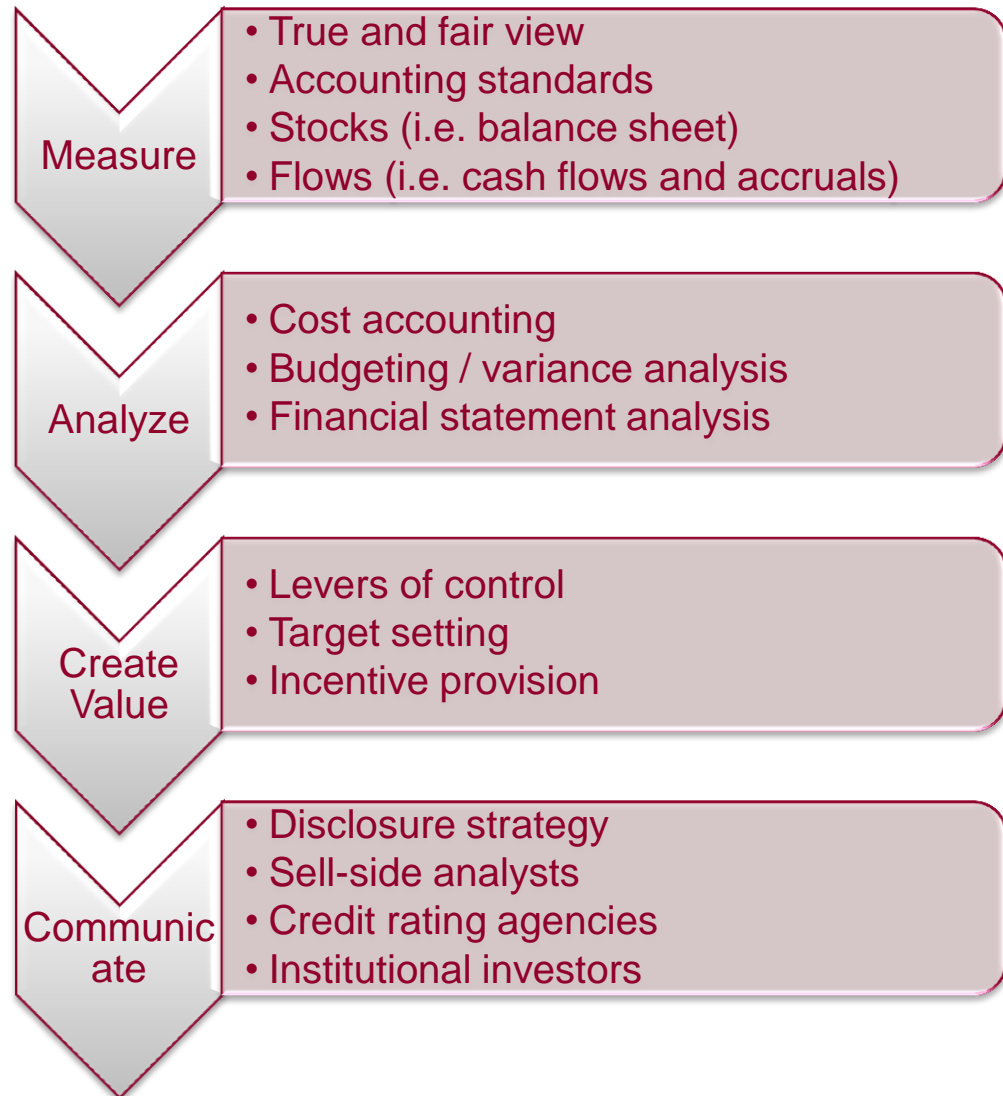


# Accountability

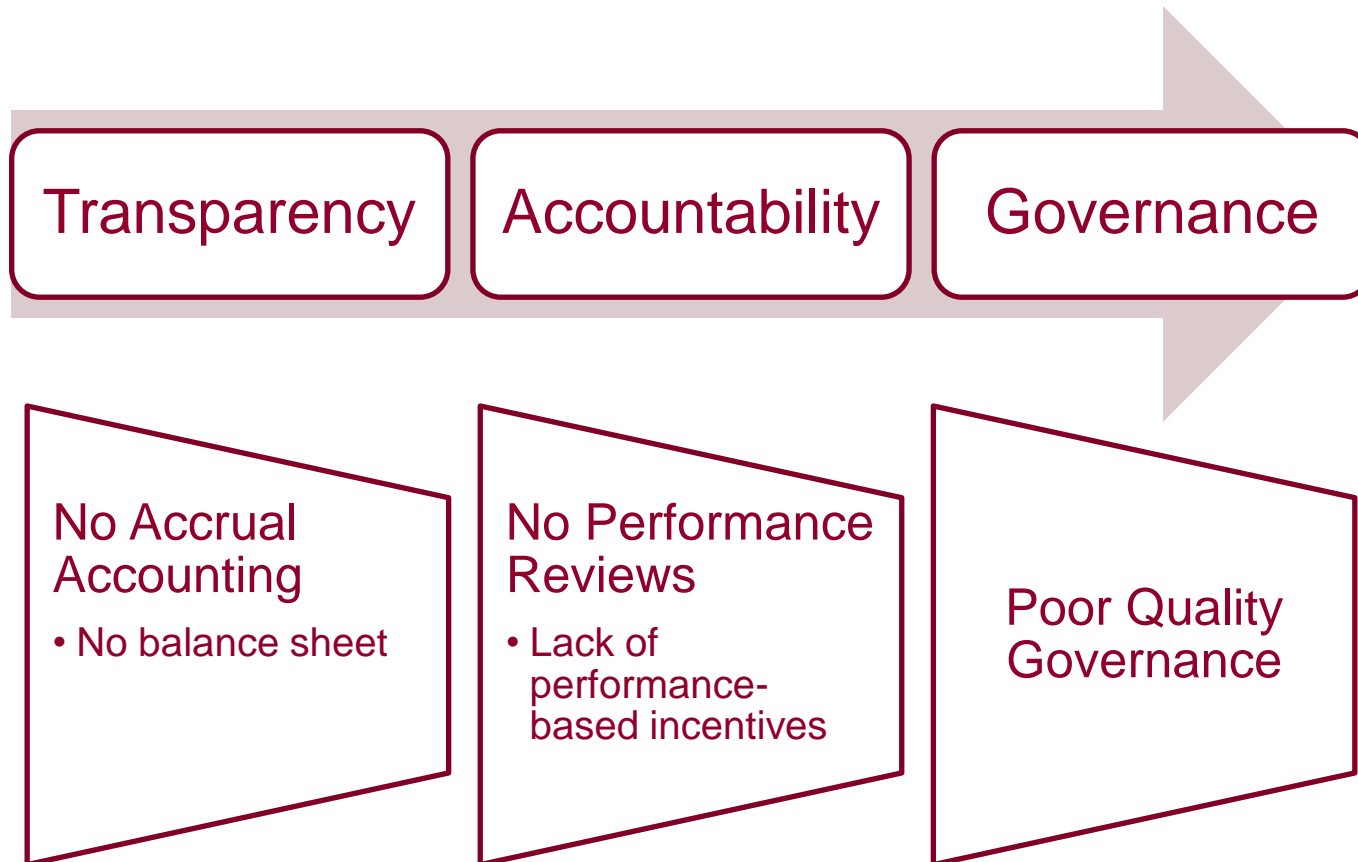
“Democracy must be built through open societies that share information. When there is information, there is enlightenment. When there is debate, there are solutions. When there is no accountability, there is abuse and corruption.”

Atifete Jahjaga

# MACC



# Ingredients For Success



# An Example

## Debt Measurement



- Face Value
- Debt Under IFRS or US GAAP
- Net Debt: Debt Minus Financial Assets

## Why such big difference?

- Very long maturities
- Deferral of interest and principal
- Below market interest rates
- Rebates on interest and profits



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N2-115-063

JUNE 16, 2015

GEORGE SERAFEIM

## Greece's Debt: Sustainable?

After six years of economic recession, substantial disagreement surrounded the level of indebtedness of Greece and whether the country had actually too much debt, which needed to be subject to a haircut, or too little debt, which actually represented a competitive advantage. The situation was further complicated by an announcement, made in May 2015 by the Greek deputy finance minister Dimitris Mardas, that Greece would adopt accrual accounting and the International Public Sector Accounting Standards (IPSAS).<sup>3</sup> This announcement was previously made several times since the beginning of the crisis but was never fulfilled.<sup>1</sup>

# Possible

Race to excellence

# Forward



Thank you