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The main challenge isn't technology. It's culture.

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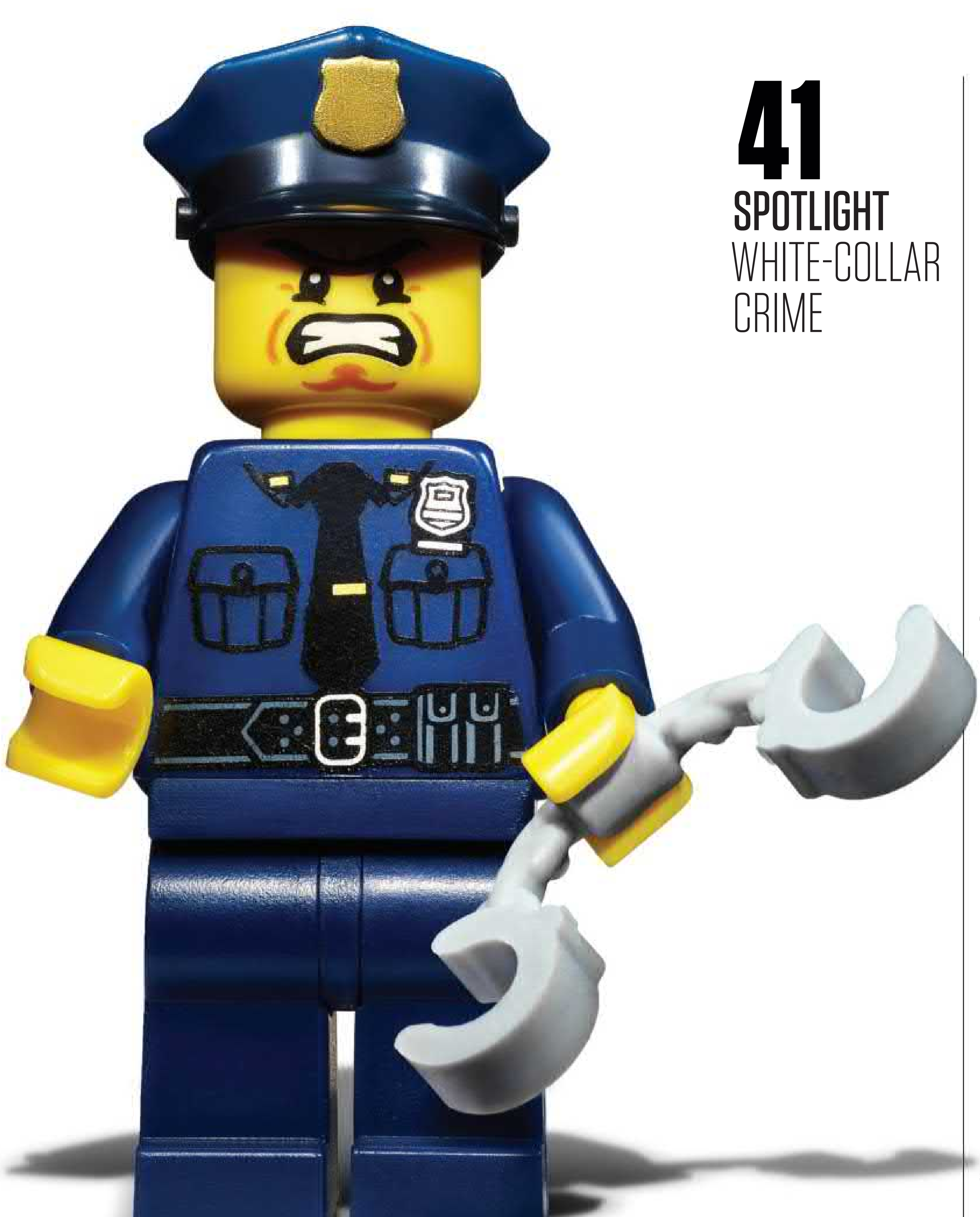

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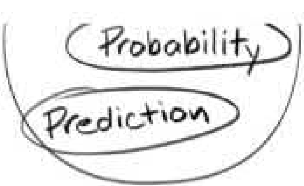
EDITOR'S NOTE: *The original version of the article "Your Approach to Hiring Is All Wrong," in the May–June issue, named three recruitment outsourcing companies and stated that they use subcontractors in India and the Philippines. The three company names have been removed because the specifics of their subcontracting practices were unverified.*

Photograph by JUSTIN CLEMONS



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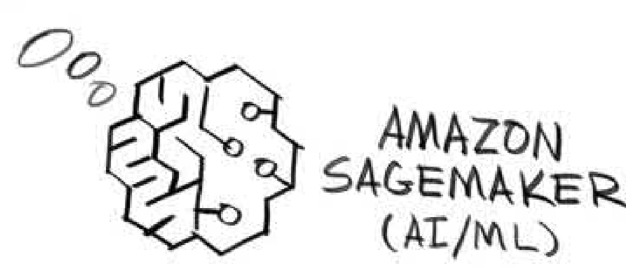

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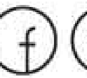
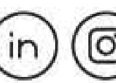

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The Thing About Integrity

HBR's editor, Amy Bernstein, with Adi Ignatius

LATELY, THE NEWS has been filled with stories of embezzlement, bribery, and other kinds of corporate corruption. In a 2018 survey, PwC found that nearly half the 7,228 participating organizations had experienced economic crimes or fraud in the previous year—up from 30% in 2009. So it's no exaggeration to say that white-collar crime is a growing problem. And it's one that has considerable costs: It destroys shareholder value, drains management resources, and tarnishes brands, sometimes irredeemably.

The same PwC survey also found that more than half the white-collar criminals were "internal actors"—a phenomenon that Paul Healy and George Serafeim of Harvard Business School explore in "How to Scandal-Proof Your Company" (page 42). They argue that the cause isn't weak regulations or compliance systems. At firms hit by scandals, they say, "a culture of making the numbers at all costs trumped any concerns about how the targets were being met."

The root of all this is leadership: "Senior executives at most companies that suffered highly publicized transgressions didn't see these incidents as their personal responsibility to address or as evidence that something was fundamentally amiss in their organizations," say Serafeim and Healy. While these leaders accepted the importance of compliance, they placed greater emphasis on beating competitors and wowing investors—a message that can foster a culture of wrongdoing.

It shouldn't come as a surprise, then, that the opposite is also true: The leaders who prioritize integrity themselves tend to run organizations that discourage winning at any cost and, in the process, cultivate higher employee engagement and more-profitable growth.

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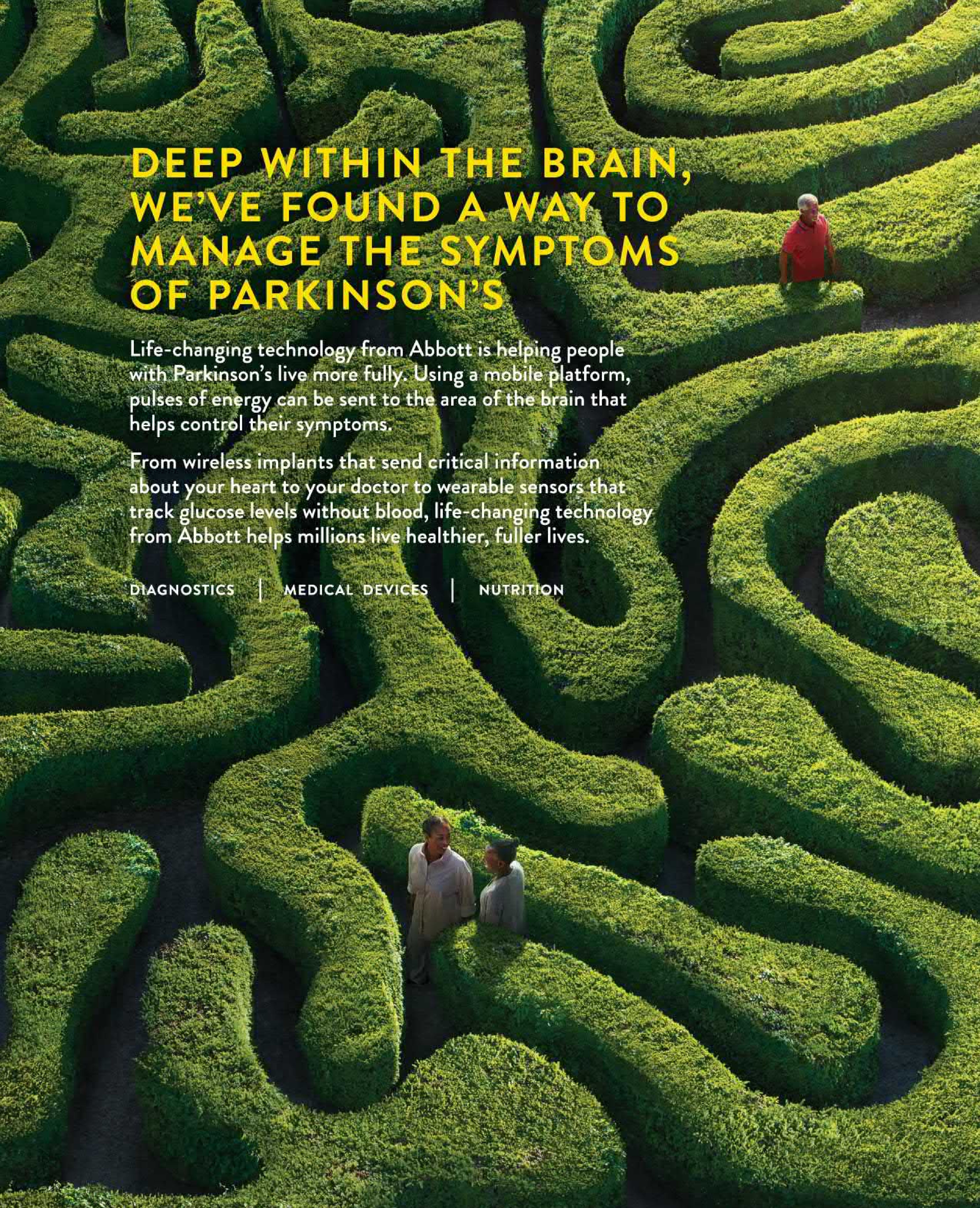
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Paul Healy's interest in corporate crime was sparked by the scandals at Enron and Worldcom in the early 2000s. "I was intrigued," says Healy, a professor at Harvard Business School. "I wanted to understand why such seemingly successful companies and executives had become embroiled in wrongdoing." The result was years of research—much of it conducted with his HBS colleague and coauthor George Serafeim—on the causes of corporate wrongdoing and how leaders can combat them. Their article in this issue shares their findings.

42 How to Scandal-Proof Your Company

Daisy Wademan Dowling first noticed the struggles working parents face while she was running global talent-development efforts at two *Fortune* 500 companies. She is now the founder and CEO of Workparent, a training, coaching, and advisory firm for working parents and the organizations that employ them. And as the mother of two young children, she's no stranger to working-parent life herself. "I founded this company because I needed its services," she jokes. In this article, she provides a framework for men and women facing the demands of children and careers.

147 A Working Parent's Survival Guide

When he was young, **Spencer Harrison** had a box of "very important papers"—cutouts of his drawings of superheroes, movie monsters, and other invented characters. Although he never bought comic books as a child, he was deeply interested in that style of art and wanted to be an animator for Disney. Today he is a professor at INSEAD, where much of his research focuses on how serially creative organizations—including Marvel Studios, the subject of his article in this issue—balance novelty and continuity. He continues to draw and still sees his drawings as "very important papers."

136 Marvel's Blockbuster Machine

Deborah Ancona loves doing research: "You get your arms around an interesting problem and then go into an organization to learn from practice." For her article in this issue, Ancona, a professor at MIT's Sloan School, and her coauthors gathered data from meetings, interviews, and team observations and categorized their findings. Done well, qualitative, structured research can be used to shift theory as well as practice, she says, but it doesn't deliver easy-to-digest takeaways. "Our biggest 'aha' was that you had to understand the whole system." The challenge is to distill insights but not oversimplify a complicated reality.

74 Nimble Leadership

"Electronics are becoming objects of worship," says **Leonardo Ulian,** a London-based artist whose work is featured in this issue. "I want to show what's hidden inside the devices we use all the time." Ulian builds his delicate sculptures by welding together hundreds of symmetrically patterned electronic components. He's inspired by mandalas, the Indian and Tibetan geometric religious symbols. "In mandalas," Ulian says, "everything grows from a center, and it's the same in my work—everything starts with a central microchip and builds out."

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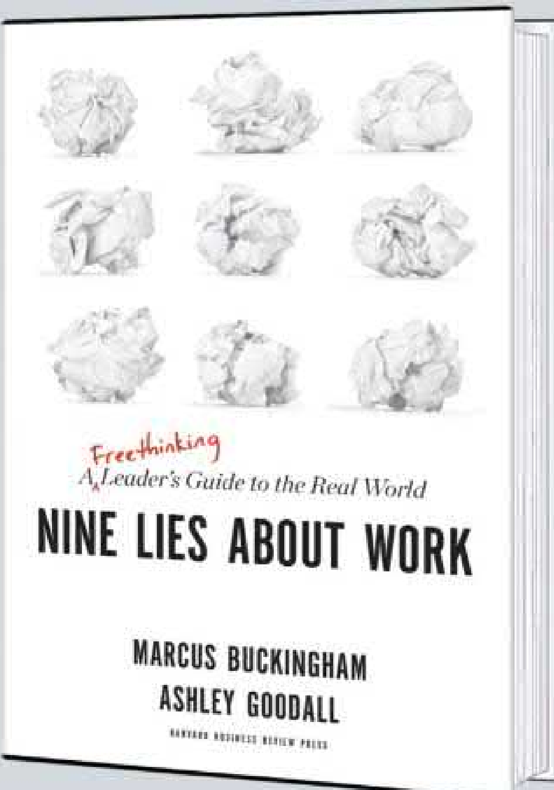

FORGET WHAT YOU KNOW ABOUT THE WORLD OF WORK

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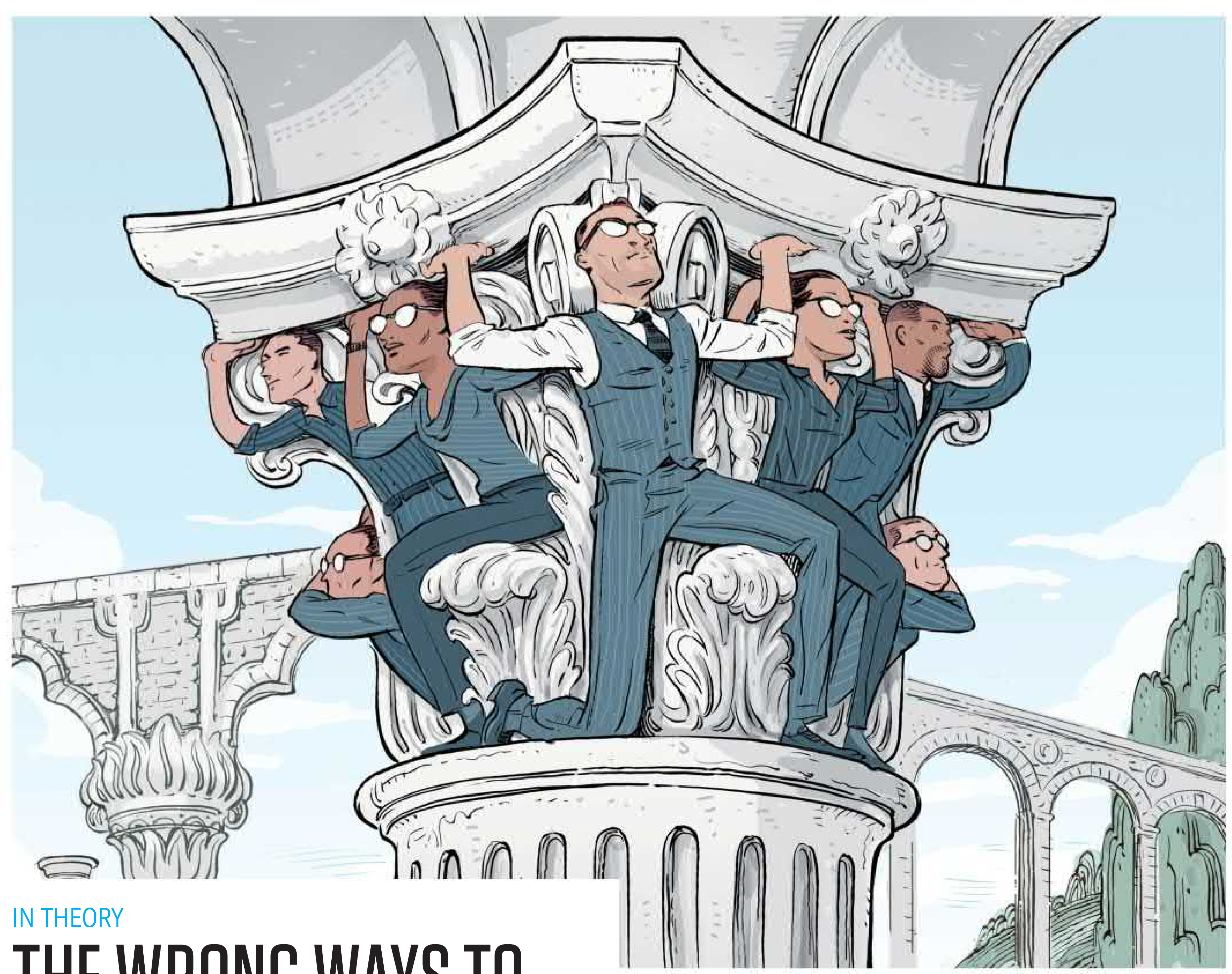

IN THEORY

THE WRONG WAYS TO STRENGTHEN CULTURE

The three missteps that thwart many efforts

COMPARED WITH SOME other activities of business leaders, such as hiring the right talent and setting strategy, changing corporate culture can be especially challenging. Culture is amorphous; there are no direct levers for shifting it in one direction or another. Indications are that CEOs are putting a higher priority on this aspect of leadership than in the past. According to a study by the research and advisory firm

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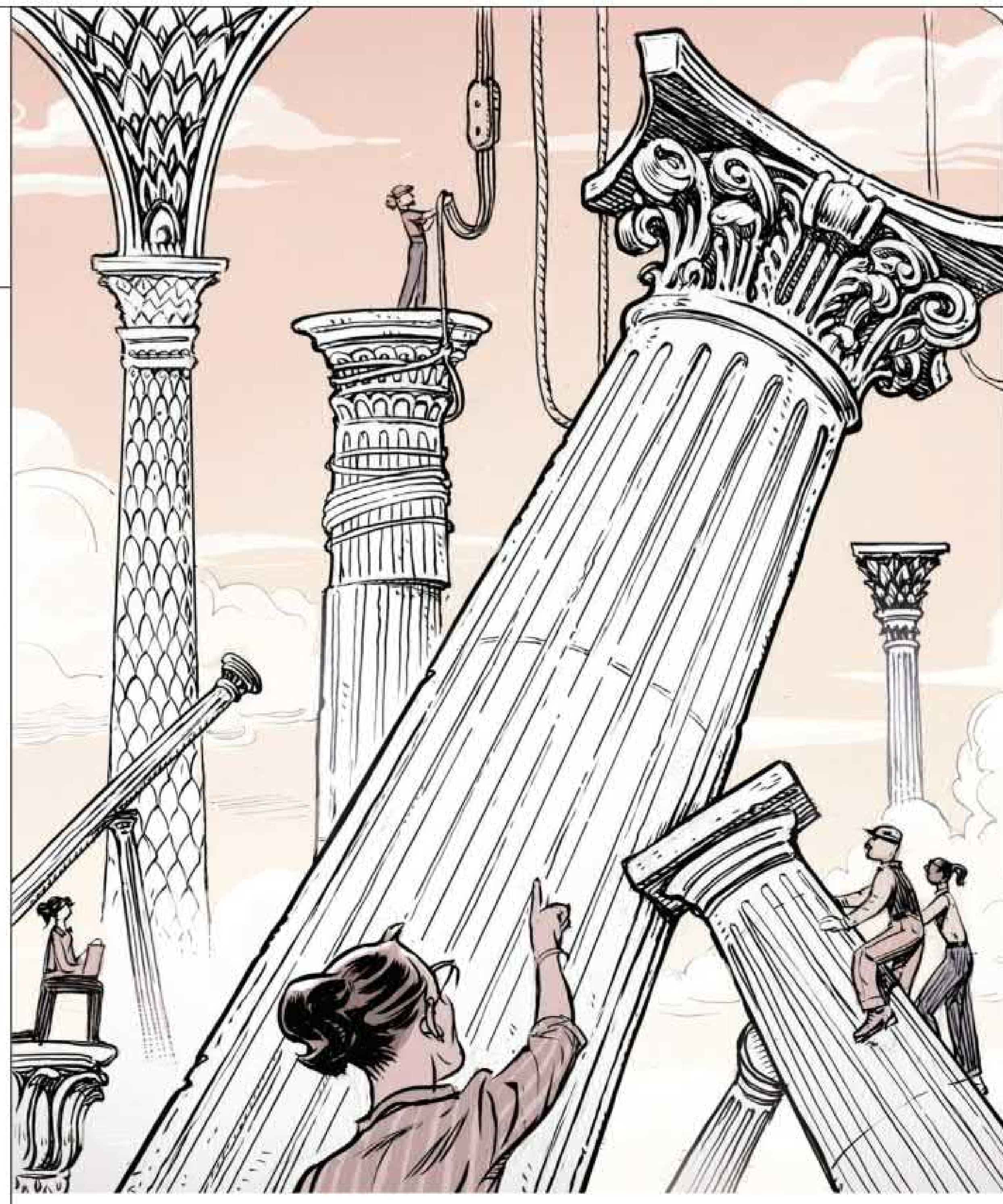

Gartner, CEOs mentioned culture 7% more often during earnings conference calls in 2016 than in 2010. In surveys both CEOs and CHROs say that "managing and improving the culture" is the top priority for talent management. But the data suggests that there's lots of room for improvement: Each year companies spend $2,200 per employee, on average, on efforts to improve the culture (much of the money goes to consultants, surveys, and workshops)—but only 30% of CHROs report a good return on that investment.

When trying to spearhead culture change, many leaders use the wrong tools. Having surveyed more than 7,500 employees and nearly 200 HR leaders at global companies and conducted in-depth interviews with 100 HR leaders, Gartner has written a report identifying the most- (and the least-) effective ways leaders try to transform culture. To increase their odds of success, the report advises, they should avoid three mistakes.

Don't use simple adjectives to describe culture. Because culture feels "squishy" and hard to describe, leaders tend to resort to a generic, overused set of adjectives: Cultures are said to be high-performing, collaborative, innovative, customer-focused, entrepreneurial, results-oriented, transparent, or trusting. Gartner studied how companies using these various buzzwords compared with one another on progress toward revenue goals and found no significant differences—meaning that none of the labels creates an advantage. One reason: Often the chosen buzzword is at odds with how the company actually operates. That causes what Bryan Kurey, Gartner's managing vice president for research, calls a say/do gap: Employees see leaders' cultural aspirations as hypocritical.

Instead of using a single adjective to describe the culture you aspire to, *illustrate* it by acknowledging an important tension. "The tension is about the intersection of the ideal and present realities and how those play out day to day," Kurey says. Talk about wanting to create a "culture of innovation" might sound fanciful and out of touch if the business currently devotes 80% of its resources and personnel to existing product lines. The CEO should instead speak to the tension: "We support a culture of innovation while continuing to seek growth and profits from legacy businesses."

Other tensions evident in most businesses include the need to achieve both short- and long-term goals and an emphasis on results and accountability while also caring about employees' well-being and work/life balance. Explicitly recognizing such tensions avoids the disillusionment that can result when employees see leaders espouse one set of behaviors but live by another.

Don't measure culture with data alone. Because culture feels intangible, many companies depend on employee

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surveys when trying to quantify what frontline people think about it. Often the surveys overrely on measures of employee engagement. Firms also commonly look at turnover rates as an indication of culture and morale. But those numbers can provide false comfort. "The feedback gets sanitized at the leadership level, even if you're not trying to do that," Kurey says. "Data gets aggregated and averaged and becomes a little generic." Gartner suggests that companies include open-response questions in their surveys and ensure that leaders see some of the raw feedback. Smart leaders also go beyond periodic surveys, providing an atmosphere of safety that allows employees to speak up at any time without fear of reprisal.

Such unfiltered feedback is especially useful given that many employees feel disconnected from leaders' cultural aspirations. Gartner's research shows that on average, 69% of employees don't believe in the cultural goals set by their leaders, 87% don't understand them, and 90% don't behave in ways that align with them. By closing these gaps, Gartner says, companies are 9% more likely to meet or exceed their annual revenue goals. And having a qualitative sense of how employees are feeling can help them do so. "CEOs must not only encourage the unvarnished truth, but also create an environment that demands it," the researchers write.

Don't forget to alter policies to support cultural change. It's all well and good to talk about a company's collaborative culture. But if that company uses a forced-curve performance management system—in which a certain percentage of employees must receive low marks—it has created an environment in which workers must compete against one another for high marks, undercutting collaboration. Similarly, companies might declare themselves to be customer-centric but clamp down on the expense account spending necessary to let sales reps travel to meet customers face-to-face. "This is the area where leaders are least consistent—putting the operating model behind the culture," Kurey says.

To drive change, leaders must align what they say, how they behave, and how their companies operate in terms of processes, budgets, and policies. Many companies overlook the third item. "The 'operate' component has the biggest impact on workforce-culture alignment, [but] leaders are least focused on the most important aspect of role modeling," the researchers write.

Good leaders recognize that although aspirational talk about culture may originate in the C-suite, the actual culture manifests in cubicles and on shop floors far from top leaders' purview. That disconnect makes it essential that CEOs do more than talk a good game. "As the leader, you need to set up the structures, processes, and incentives in your organization and put your money where your mouth is," Kurey says. "That's the part of leadership people often miss—enabling your organization to actually adopt the new culture you seek to have."

HBR Reprint F1904A

ABOUT THE RESEARCH *"Three Culture Conversations Every CEO Must Have with the Head of HR," by Gartner (working paper)*

IN PRACTICE

"It's Not a Win-Lose Situation"

In 2012 the Guatemalan family-owned conglomerate CMI hired ***Oscar Rivera*** *as its first-ever chief culture officer. Since then he has led a cultural transformation process to adapt how the firm's 37,000 employees work. Rivera spoke with HBR about the challenges of the effort and how he measures success. Edited excerpts follow.*

What about CMI's culture needed fixing? We are a highly diversified conglomerate, with six businesses that were very siloed. The company had been taking steps to create more synergies, such as implementing a companywide IT system, transforming the HR function, and consolidating purchasing efforts. Those projects had trouble getting traction, and our family owners concluded it was a cultural issue that CMI needed to resolve.

What did you do first? We needed to hear what employees thought and help them find a way forward. Over 18 months we held more than 30 workshops that included the company's top 300 leaders. The dialogues recognized the tension between the benefits of behaving more like a single company and the facts that each business is unique, the people

running it have special expertise, and they need to run it with some autonomy. So there was some resistance to change.

How did you overcome that?
Through dialogues in the workshops, people recognized how siloed we were and concluded that what had gotten us here would not take us into the future. The leaders realized we would be more successful if we became more focused on managing synergies and value chains. And we urged everyone not to think of this as a win-lose situation, where the company is going to be one way or another. For example, you don't need to focus on either short- or long-term goals; you try to balance them. There are many examples of how ideas that are in tension can coexist.

How do you ensure honest feedback on how employees feel about the culture?
We do surveys that yield data, but comments really matter too. Twice a year all employees attend a workshop at which they talk about how they are living our values. The focus isn't on teaching behaviors; we want people's opinions, and the workshops are the main source of feedback on the transformation. Sometimes comments correlate with the survey data; sometimes they don't. The most important thing is listening to what people have to say.

What's an example of how you changed processes to support the culture shift?
In collaboration with our head of HR, José Miguel Larios, we proposed changing how we measure and recognize the performance of our top 300 executives. In the past it was focused on short-term and individual business results. The new system introduced two significant elements linked to how the entire company was performing over the long term and how the overall cultural transformation effort was progressing. That reinforced the idea that people weren't doing this because it was politically correct. There were benefits to individuals.

What's the return on the time and money you've invested in this? In 2012, when we asked employees to describe our culture, the majority said it was coercive. By 2017 more people described it as "democratic" and "visionary." We invested about $50 million in the overall transformation project. We'd hoped to earn that back in 10 years; we managed to do it in seven. We're no longer organized around our six businesses; today we think of the business as two large platforms. We're starting to have conversations to make the two platforms unique but collaborative. The work on culture is never-ending.

Photograph by DANIELE VOLPE

NO LENIENCY, NO VACANCY

Airbnb listings with strict cancellation policies have, on average, 4% higher demand than others, because prospective renters see the stringent rules as a sign of quality homes and trustworthy hosts.

"Cancellation Policy as a Signal of Trust and Quality in the Sharing Economy: The Case of Airbnb," by Lior Zalmanson, Davide Proserpio, and Irit Nitzan

PRODUCTIVITY

People Who Achieve Goals Aren't Just Self-Disciplined

Remember the marshmallow test, in which children were given a treat and told they could have a second one if they delayed eating it? That experiment measured self-control, which both research and intuition suggest is vital to achieving goals. A new study finds another factor that informs who reaches the finish line: the type of goals people set.

The researchers conducted three surveys involving more than 800 people in all. In the first, subjects listed recent goals, rated how well those goals aligned with their "true selves," and indicated their progress toward them. The more closely a goal aligned with a person's sense of self—what the researchers call *goal authenticity*—the greater the progress. In the second survey, subjects indicated their progress toward goals that made them "feel like they are really being themselves" and toward ones that "made other people like them" or "made other people respect them." Here, too, progress correlated with authenticity. A third survey eliminated the recollective aspect of the first two: Subjects were asked to set a new goal, to rate how much it "reflects who I am deep down inside," and to report back a week later. Once again people made greater progress toward more-authentic goals.

The study also found that people who rate themselves high on self-control are more likely to set authentic goals. "[This] research has provided initial evidence showing that the benefits of trait self-control might lie not only in how people pursue goals but also in what kind of goals they select in the first place," the researchers write.

ABOUT THE RESEARCH *"Choosing Goals That Express the True Self: A Novel Mechanism of the Effect of Self-Control on Goal Attainment," by Olga Stavrova, Tila Pronk, and Michail D. Kokkorist (*European Journal of Social Psychology*, 2019)*

CAREERS

Women Need a Different Kind of Network Than Men Do

Professional networks are critical to career success. New research compares those of high-achieving men and women and finds an important difference.

The study drew on 4.5 million anonymized email exchanges among a subset of MBA students graduating from a top U.S. business school in 2006 and 2007—some 728 people in all, 26% of whom were women. By identifying who emailed whom and how frequently, the researchers mapped each student's network and assessed his or her centrality—that is, not just how many direct contacts each had but whether those contacts were in touch with lots of other people, providing second-degree connectedness to a wider group. The researchers also looked at students' interactions with their "inner circle"—their two to four most frequent contacts. They then examined how each person fared in the job market after graduating, controlling for factors including undergraduate GPAs, test scores, sociability, country of origin, and prior work experience.

Among men, those in the top quartile of centrality did best, landing jobs with 1.5 times as much authority and pay, on average, as those found by the bottom quartile. The researchers believe that centrality drives success by providing fast access to employment information.

For women, the story was more nuanced. The most successful also had

a high degree of centrality, but they needed something else: an inner circle of female contacts. Women in the top quartile of centrality who had a female-dominated inner circle found jobs that were 2.5 times as high in authority and pay as those found by peers who lacked that combination, probably because the female inner circles provided critical gender-related information—whether a firm had good advancement opportunities for both men and women, say. And not all female inner circles were equal: The best ones comprised women who were tightly bound to one another but had nonoverlapping extended networks, presumably affording access to more information. (The gender breakdown of men's inner circles had no effect on what jobs the men found.)

The researchers say that when thinking about their networks, women should favor quality over quantity (seeking people with multiple networks), embrace randomness (to avoid associating only with people like themselves), and guard against building an inner circle that is too interconnected. Organizations can support such efforts by encouraging people to meet colleagues outside their functional silos. "Women face a greater challenge in networking to find professional opportunities," the researchers say. "[But] by taking a smart approach, women can continue to find meaningful advancement options."

ABOUT THE RESEARCH *"A Network's Gender Composition and Communication Pattern Predict Women's Leadership Success," by Yang Yang, Nitesh V. Chawla, and Brian Uzzi* (Proceedings of the National Academy of Sciences, *2019)*

TIME MANAGEMENT

Employees Rarely Ask for Extensions—but Often They Should

Deadlines are a major source of on-the-job stress, and workers tend to regard them as immutable—an unfortunate but unalterable fact of life. But what if there's a simple solution to the pressure they impose?

A new study examines employees' reluctance to ask for more time and finds that it is largely misplaced. The researchers conducted 10 experiments involving 7,241 participants in all. Some people were asked to imagine or perform tasks such as essay writing and event planning and given opportunities to request more time; others served as their supervisors. People avoided asking for extensions, primarily because they thought they'd be seen as incompetent—but that fear was misplaced. Supervisors rated participants who sought extra time as equally competent and more motivated than their counterparts and were generally open to granting leeway.

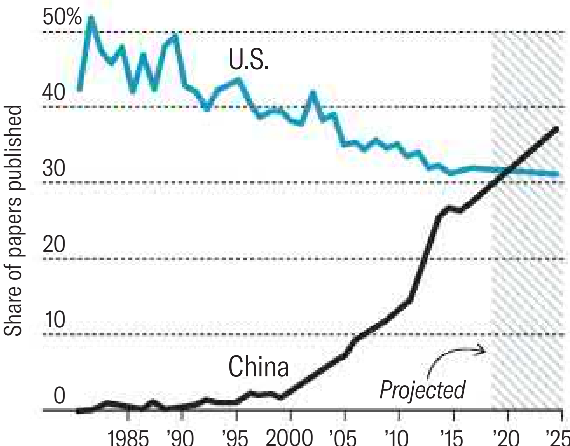
For employees, "asking [for] and receiving more time may lead to reduced task stress and improved task performance," the researchers write. As for managers, they should "strategically think about ways to encourage employees to ask for more time when they need it, without the fear of being negatively judged. To do so, [they] may need to… clarify that (1) an extension request does not signal incompetence and (2) the benefits of extra time could be more substantial than employees may believe."

ABOUT THE RESEARCH *"It Doesn't Hurt to Ask (for More Time): Employees Overestimate the Interpersonal Costs of Extension Requests," by Jaewon Yoon, Grant Donnelly, and Ashley Whillans (working paper)*

TECHNOLOGY

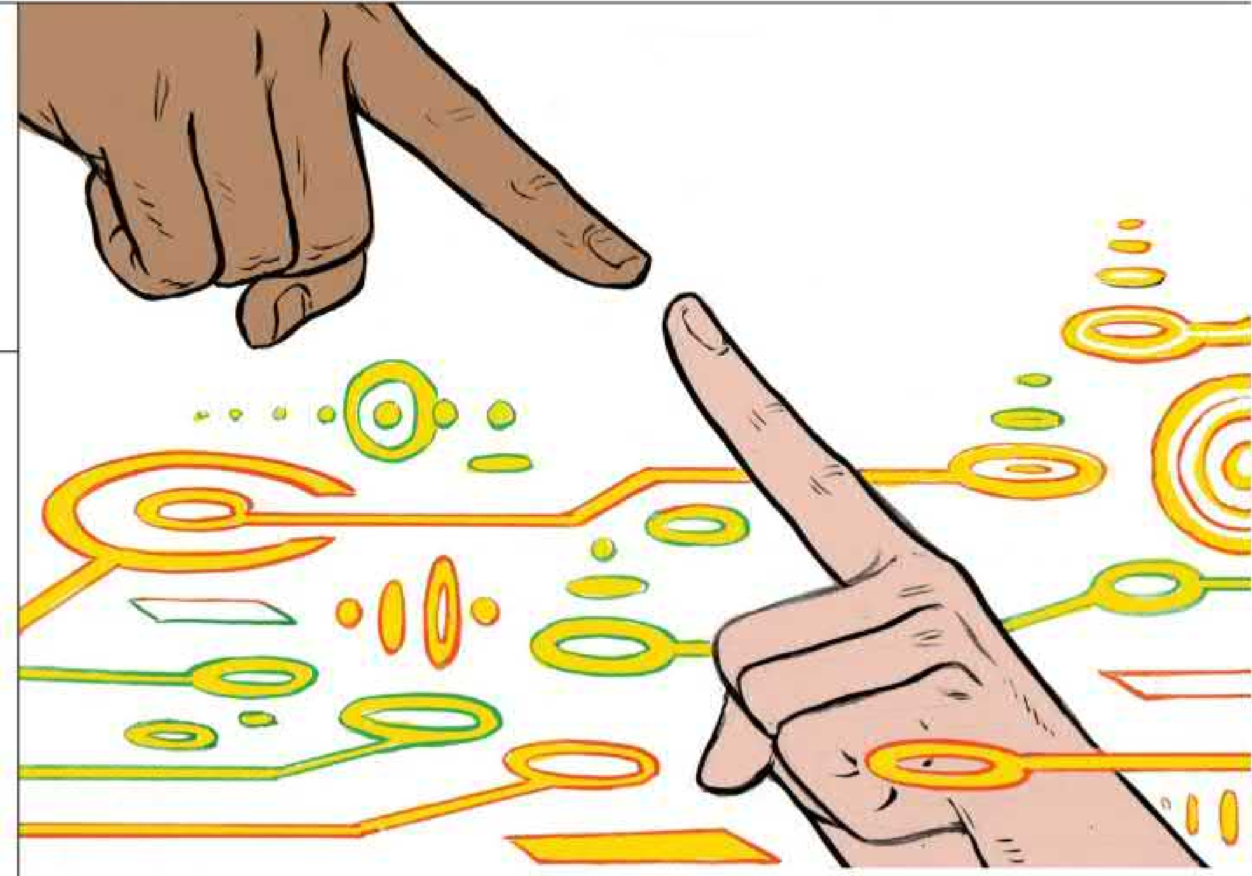
A New Leader in AI Research?

Chinese researchers are projected to overtake their U.S. counterparts next year in the share of high-impact papers published on AI.



Note: "High-impact papers" are defined as the top 10% in terms of number of citations. Projections are based on the past five years' worth of data.

Source: Allen Institute for Artificial Intelligence



CUSTOMER SERVICE

How Necessary Is the Human Touch?

Self-service technologies are increasingly common in settings that are inherently anxiety-provoking, such as financial services and health care. Given that people often seek advice when they are anxious, researchers wondered: What effect do such technologies have on customer relations? Across three experiments, they found that although access to a live interaction doesn't necessarily reduce customers' anxiety, it makes them happier with their decisions and more trusting of the firm.

In one experiment, 219 participants were asked to imagine they had $100,000 to invest over multiple years under market conditions that varied from subject to subject. The participants were divided into three groups. The first had no access to another person, the second could use a chat button to contact an investment expert, and the third could chat with peer investors. Researchers assessed the subjects' anxiety before and during the task, their satisfaction with their investments, and their trust in the firm providing the investment tool. For subjects investing during market downturns (times of high anxiety), the ability to chat—whether with an expert or simply with a peer—significantly boosted their satisfaction with their decisions and stemmed losses in firm trust. Tellingly, this happened even though few people actually used the chat button; the mere *availability* of contact seemed to be enough. And in a real-world experiment among 238 applicants for consumer loans, the option of contacting an agent increased loan uptake rates by 16%.

"Adding access to human contact bolsters customers' confidence in their own decision-making and in turn elevates their trust in the firm," the researchers write. However, "the incorporation of human contact does not require firms to add costly service personnel. Rather, firms may improve customer choice satisfaction in high-anxiety settings by providing access to *other customers,* which may be virtually costless."

ABOUT THE RESEARCH *"Mitigating the Negative Effects of Customer Anxiety Through Access to Human Contact," by Michelle A. Shell and Ryan W. Buell (working paper)*

BOSSES

Venting Won't Make You Feel Better

It's a common impulse: When employees think their supervisor has been unfair to them, they often talk it over with a trusted colleague. After all, conventional wisdom holds that it's better to blow off steam than to stew in silence. But a new study finds that although such venting may make people feel better in the moment, over time it tends to damage the employee-supervisor relationship and erode the worker's "citizenship behavior."

The researchers surveyed 170 London bus drivers about unfair treatment from their bosses and any subsequent discussions with colleagues. Six weeks later they assessed the extent to which the drivers had experienced emotions including anger and hope in the intervening time and evaluated their forgiveness of the offenders. Six weeks after that they asked supervisors about the drivers' behavior. Results showed that discussing perceived injustices heightened drivers' anger and diminished their optimism—and those things lessened their ability to forgive and to behave in helpful ways. In a follow-up experiment involving U.S. undergraduates, the same pattern prevailed. But in both situations, there was an important caveat: When listeners helped people reframe an unhappy experience in a more positive light, the negative effects of talking disappeared.

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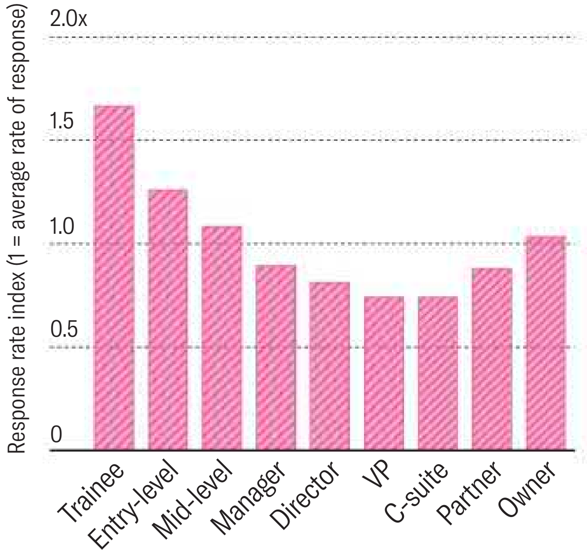
"A self-imposed moratorium on unfairness talk seems unlikely and ill-advised," the researchers write. "Rather, we suggest that employees should pay particular attention to *whom* they talk [to]." As for managers, "Our research will hopefully increase the attention that organizations place on helping employees address supervisor unfairness. Potential approaches include training supervisors to improve conflict management skills…and engaging [workers] in expressive writing about the unfairness."

ABOUT THE RESEARCH *"Pacification or Aggravation? The Effects of Talking About Supervisor Unfairness," by Michael D. Baer et al.* (Academy of Management Journal, *2018)*

RELATIONSHIP BUILDING

"Please Add Me to Your Network"

People just starting out and those with an ownership interest in their firms are more likely than others to respond to requests from strangers.



Source: LinkedIn, based on an analysis of user data from May 2014 to November 2018

COMMUNICATION

Overconfidence Is Less Risky When It's Nonverbal

We've all seen colleagues express great assurance in their skills or knowledge only to later learn they had no idea what they were doing. Confidence is generally viewed as a positive attribute—but when does an excess become risky? A new study suggests that depends on how it's conveyed.

Researchers conducted five experiments in which participants about to engage in a task had to choose a partner from two subjects they had observed. Some experiments focused on either men or women; some featured in-person meetings, while others took place online. In each case one subject had demonstrated confidence either verbally or nonverbally (through body language), and the other had exhibited caution. Participants overwhelmingly picked the confident subject. After making their choice, they were told that both subjects had performed poorly during a practice round and were again asked which one they would rather collaborate with. They still preferred subjects who had expressed confidence nonverbally to those who had been cautious—but now they shied away from people whose confidence had been overtly stated.

Nonverbal confidence is akin to flirting, the researchers say: Smiles and eye contact are a safer way to communicate "I'm interested in you" than saying so outright, because they preserve plausible deniability—and a similar phenomenon applies to expressions of confidence. "Precisely because of its indirect signaling, we argue that people who act confident through nonverbal behaviors are able to capitalize on the benefits of those signals without incurring the costs if performance falls short," they write.

ABOUT THE RESEARCH *"Is Overconfidence a Social Liability? The Effect of Verbal Versus Nonverbal Expressions of Confidence," by Elizabeth R. Tenney et al.* (Journal of Personality and Social Psychology, *2019)*

THE GORDON RAMSAY EFFECT

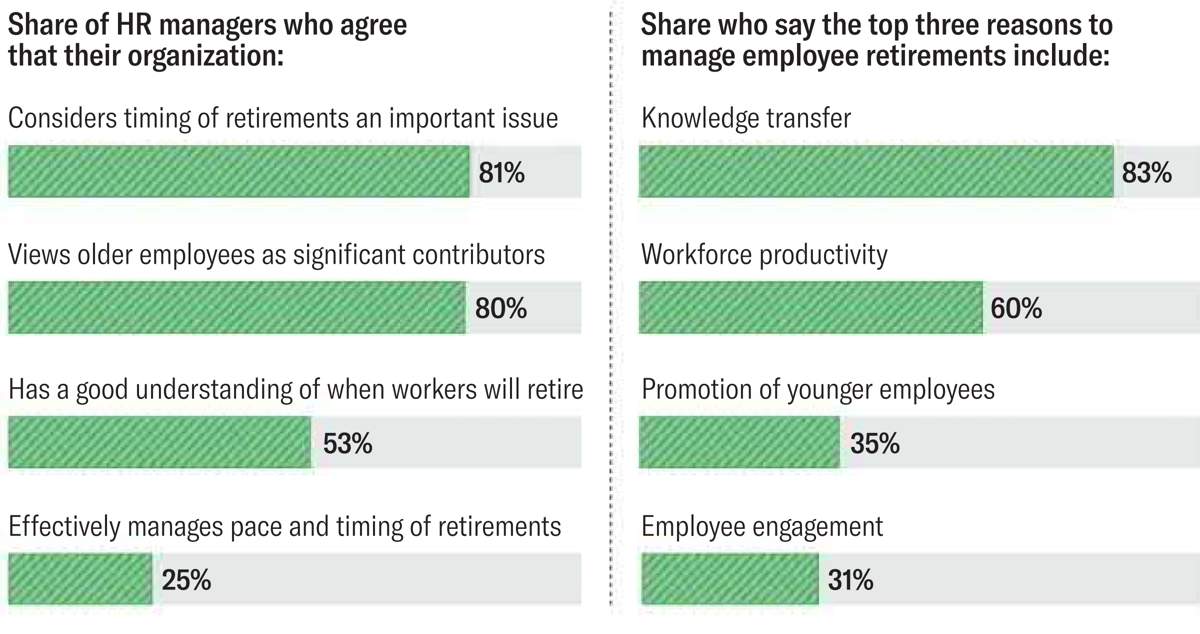
Restaurants, salons, and other concerns featured on reality TV shows such as *Kitchen Nightmares*—shows aimed at turning troubled businesses around—fail twice as often as the industry average.

"How Effective Are Expert TV Hosts at Saving Failing Businesses?" by Russell S. Sobel et al.

RETIREMENT

When Will a Generation of Workers Give Notice?

As global populations age, companies face a challenge: planning for the retirement of millions of workers who, to avoid becoming "lame ducks," often don't communicate their exit plans in advance. A 2018 survey of 143 HR managers (whose organizations together employ 2.9 million people) shows that companies consider managing the pace of retirements an important issue and have good reasons for that concern—but only a minority believe they are taking effective action.



Source: Willis Towers Watson

TALENT

When Headquarters Should Hire Local Employees

As HR screening processes become more automated and job interviews migrate to Skype and videoconferences, companies with geographically disparate operations face a decision: whether to shift responsibility for hiring from local offices to headquarters.

A new study uses real-world data to explore when such a shift is beneficial. The researchers studied 33 months' worth of hiring data from a large U.S. retailer that gradually went from having store managers find their own workers to putting the head office in charge. It made that change because it wanted employees who would embrace company values such as teamwork, kindness, and friendly service and thought that centralizing hiring would help it bring in people with "the right personality." The move toward centralization was also fueled by a perception that some store managers were too busy to devote sufficient time to the process and were hiring indiscriminately to fill open slots.

The researchers looked at departure data to determine the success of new hires. They found three circumstances in which local managers had an informational advantage over the head office: when a store's customer demographics differed significantly from the chain's overall demographics, when a store had many repeat customers, and when a store was far from headquarters, meaning that the local manager was likely to have insights not easily available to the head office. Among stores with two or more of those characteristics, the switch to centralized hiring was associated with relatively high departure rates. Among stores lacking those characteristics, however, the ones that switched to centralized hiring fared better in terms of retention than the ones that continued with decentralized hiring.

In support of why departure rates of newly hired employees matter, the researchers established that high annual turnover hurt stores' mystery shopping scores—a key measure of performance. "While centralized hiring can ensure that enough resources are invested in hiring people aligned with company values, it can also neglect the unit managers' local knowledge," they write.

ABOUT THE RESEARCH *"Who Should Select New Employees in Geographically Dispersed Organizations: Headquarters or the Unit Manager? Consequences of Centralizing Hiring at a Retail Chain," by Carolyn Deller and Tatiana Sandino (working paper)*

Masha Shunko of the University of Washington and her colleagues, Vivek Choudhary of INSEAD and Serguei Netessine of Wharton, analyzed data on 382 Singapore residents who, in the hope of getting an insurance discount, agreed to let an app monitor and rate their driving. The researchers found that driving scores were 13.3% worse on trips people took right after reviewing their ratings than on trips taken when people hadn't reviewed them. The conclusion:

Instant Feedback Hurts Our Performance

Professor Shunko, DEFEND YOUR RESEARCH

SHUNKO: The drivers we studied had installed a mobile-phone app from Raxel Telematics that scored them on behaviors like speeding, braking, accelerating, and so on. They could see how they performed on each trip and get an overall score, and if over six months they kept that score above 70 (out of 100), they'd qualify for an insurance discount. Most drivers never looked at the feedback. But when we examined the performance of those who had, we found that, on average, their driving got worse on their next trip. That's not to say that no one improved after getting those ratings; some people did. But looking at the feedback corresponded with significantly more dangerous behavior—for example, an 18% increase in the distance covered while speeding.

HBR: But doesn't research generally show that feedback improves our performance? The findings are mixed, and different factors can play into whether it has a positive or negative impact. For example, we know that people process feedback as it relates to their goals. So if you learn that you're way ahead of a target you set for yourself, you'll respond differently than when you hear you're not meeting that goal.

Why did you choose to study drivers who were getting feedback? Apps like the one in our study are a modern way of providing feedback and have been gaining popularity in the automotive and insurance industries. Their goal is to improve people's driving skills and make the roads safer, but it's not clear they're actually delivering those benefits. Our analysis showed higher variations in the trips that drivers took right after they'd reviewed their feedback, which indicates they were trying to change something in response to the information they'd gotten. We saw more jumps in behavior. And on average, those were jumps into more-dangerous driving.

Why would feedback make someone's driving worse? We're running further experiments right now and don't have the exact answer yet, but we have some theories. Say your goal is to achieve this minimum score of 70, which will give you an insurance discount. If the feedback tells you you're almost there, that could motivate you to improve. But if you're already over your goal, especially by a substantial amount, then you might relax and not work as hard. That may be one potential mechanism. Another may relate to how far you are from your target. If the feedback shows you're 50 points below where you want to be, you might see your goal as unattainable and give up.

Did drivers respond differently to negative and positive feedback? There was a slight difference. The overall response to feedback, whether

it was positive or negative, was to get worse. But the drop in performance was smaller with negative feedback. If drivers saw that they weren't reaching their goal, their subsequent performance still fell, but not as much as that of drivers who saw they were meeting or exceeding their goal. We also noticed that people who saw that their driving was getting worse were more likely to keep reviewing their feedback. It seems that learning you're not doing well is more motivating than learning you're doing fine.

People in the study chose whether or not to look at their feedback. Could the people who reviewed it just be worse drivers? We didn't find a correlation between feedback-seeking behavior and initial level of performance. Both good and bad drivers occasionally chose to review their scores.

How do you know it was the feedback that was making them worse, and not something else? We took care to establish that feedback was really causing drivers to perform poorly. We tried to control for everything else we could observe about those trips: location and time of day, both of which affect congestion; mileage, because you might perform differently on a short trip than on a long one; and so on. We also controlled for how frequently people were driving, because being on the road all the time might make you a better driver. Finally, we used instrumental variable regression to identify our causal effect.

How might the real-time or immediate feedback you can get from an app work differently from other types of feedback? The feedback you get at work is usually an annual or a monthly review of everything you've done in that period. Or it's about your performance on a task or project you've finished. Maybe you can apply it next time, or maybe it's no longer applicable because you've moved on to another task. That's very different from what we're studying. Apps can give you almost instantaneous feedback, which you can respond to right away, while it's still fresh in your mind and relevant. You have an opportunity to change your behavior. Whether you change for better or worse is another question. A few studies on real-time feedback have shown that it can generate positive results, however. For example, in one experiment, people given real-time data on their hot water usage reduced their consumption by 22%.

So if I want to give someone feedback, when should I do it? What you should really do is provide individualized feedback, because no single approach is going to work well for everybody. Some people prefer to get feedback right away; others might want to wait until later. Some people respond better to feedback in the form of social comparison—your performance is better or worse than your neighbors'. Some people are more motivated by feedback that compares them only against themselves—you did better or worse than you did last week. In experiments we're running now in collaboration with J.D. Power and Raxel Telematics, we manipulate the last two forms of feedback—giving people a social and a self comparison—because the app in our initial study didn't provide that. The users didn't have any information about other drivers, and although they could remember or look up their own earlier performance, we didn't highlight it. We're interested to see if that extra information makes a difference.

Do some people just reject any kind of feedback at any time? Most people believe that they're good drivers, and many surveys show that, on average, we tend to overestimate our abilities. That type of overconfidence may make you less likely to believe feedback and therefore make you reject it.

You looked at performance on trips after drivers reviewed their scores. But how did feedback affect their driving over the course of the program? We found that the feedback didn't have an impact on long-term performance. So one of our conclusions is that the effect of feedback is very short-lived. It lasted for about two trips, but then it faded away.

Is this consistent with other research on immediate feedback? We just tend to forget it? Our study is one of the first to focus on this specific issue. Most of the existing research has looked at situations in which there's a delay between feedback and performance and there's no real insight into whether the recipients have even looked at what they were given. We were able to track both whether the drivers reviewed their scores and their performance on the very next trip.

Do you think your findings would extend into other contexts where people receive real-time feedback? Some of the behaviors we observed will. These driving apps are similar to the ones you see for fitness and diet, for example—and might have some of the same problems. And I think the general conclusion that we're trying to highlight—not all feedback is equal—will for sure translate to other settings.

How can I use feedback to make my performance better, not worse? One experiment we did indicates that focusing on what you've done well in the past—your best previous performance—is a good way to understand what you need to do to succeed, while thinking about an average performance would have less impact. You want to set a high reference point for yourself.

Interview by **Nicole Torres**

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HOW I DID IT MATCH GROUP'S CEO ON INNOVATING IN A FAST-CHANGING INDUSTRY

by Mandy Ginsberg

The transformation that has taken place at Match Group since I first began working here, 12 years ago, is incredible to contemplate. Back then dating websites were accessible only from a desktop or a laptop. They often required monthly fees and a lot of patience from users, who scrolled through profiles and waited for responses. Online dating also carried a definite stigma, so if a couple had met on Match, they often lied and said they'd met "through friends." Although the sites had rudimentary matching algorithms in their early days, most users relied on "open search": They read many profiles that might have little relevance in hopes of finding someone they really wanted to meet.

If you describe that process to a 25-year-old Tinder or Hinge user today, it sounds as antiquated as fax machines. Over the past decade, significant industrywide shifts in technology and business models have occurred—the biggest one being mobile. They have completely changed the way people use our products, which now run almost entirely via apps and smartphones. Those product changes have been accompanied by an attitudinal shift: In the *New York Times* Weddings section on Sunday, people now routinely mention the dating app on which they met. Research shows that 35% of marriages

Photographs by JUSTIN CLEMONS

Match Group has dozens of dating products that operate around the world. This wall at headquarters displays some successful user connections.

start online, up from around 3% when I began working here.

The speed of change is one of the things I love about this industry. Each shift has made us completely rethink our approach. I've built my career trying to develop consumer insights and use them to create appealing new products. Match Group is a great place to do that. Perhaps the biggest lesson I've drawn from this experience is that companies need to innovate constantly—with technology, pricing, product features, and business models—to stay ahead of competitors and continue to grow.

THREE BIG INFLUENCES

Not many large companies have female CEOs, which has caused me to reflect on why my upbringing compelled me to pursue this kind of career. I count three big influences that led me to my current role. The first is that I grew up in a matriarchal environment. I'm the product of a very strong mother, I'm one of three daughters, and I attended an all-girls school while growing up in Dallas. All my early role models were women, and expectations were high for me and my sisters to pursue careers.

The second factor was that I played competitive soccer and was recruited to play for UC Berkeley, which had one of the strongest teams in the country. I wasn't the biggest or the fastest player, but I understood team dynamics and could recognize people's strengths and weaknesses and help find ways for us to play better together. Only later did I recognize how useful that skill is when one is leading people—and teams—in business.

Finally, I grew up in a very entrepreneurial environment. My father and grandfather owned their own businesses. Looking back, I can't recall any family member who had a traditional 9-to-5 job. That atmosphere taught me the benefits of thinking like an entrepreneur and taking risks.

After college I moved to Israel and worked for a few years at a tech company. I met my first husband while I was there. In 1994 we moved to San Francisco, where I joined Edelman, a large public relations firm. I spent nearly five years working with Silicon Valley tech companies. It was an incredibly exciting time to be in the Bay Area, and I loved working on strategic marketing plans for high-tech companies, but I knew I wanted to run a business and not stay in marketing forever. I realized it was time to move on and enrolled in Wharton's MBA program; my husband and I and our infant daughter moved to Philadelphia.

A week after I signed my student loan, my husband told me he was leaving and wanted a divorce. In an instant my whole world changed. I was alone, without the support system I had expected, in a demanding MBA program, with a one-year-old child. It was a life-changing experience, but I graduated from Wharton stronger than before, and I made lifelong friendships and connections in the process.

As I finished at Wharton, my mom was diagnosed with ovarian cancer. I wanted to move back to Dallas to be with her and my family. While she fought the disease, I became the head of marketing at a B2B tech firm that made supply chain management software. It wasn't the perfect fit, but it was important that I be nearby during what turned out to be the last two years of my mother's life. I also met my current husband at that company.

TWO IMPORTANT SHIFTS

Soon after my mother died, I got a recruiting call from Match. The company was looking for someone who had a background in marketing to run Chemistry.com, the start-up it had launched to compete with eHarmony, which had launched a few years earlier. To join eHarmony, users had to fill out a lengthy psychological profile, and the site's stated mission wasn't to help people date but to help them marry. Because Match wasn't set up explicitly for finding spouses, eHarmony caused its image to change: Match became seen as a site for casual dating, whereas eHarmony was for "serious" dating. I ran Chemistry.com from 2006 to 2008. It was my first general management job, and I loved building the team. We grew the site quickly.

But even as Chemistry.com expanded, the company's flagship Match.com seemed to be plateauing. So in 2008 management asked me to move over to Match.com and try to reenergize that brand.

Two important shifts were under way that hurt Match.com. First, OkCupid and Plenty of Fish, recent entrants, had pioneered a new business model: Instead of charging users monthly fees, they relied on advertising for revenue. That attracted people who were interested in online dating but reluctant to pay for it, and it marked the beginning of an era in

which companies rethought how to price and monetize their platforms.

The second shift involved algorithms. All the early dating websites had search functionality, and all asked users to specify the type of people they hoped to meet. But by 2008 companies were getting more sophisticated about analyzing and understanding users' preferences and behavior. We rolled out a feature whereby every Match.com user was sent five Daily Matches, and we monitored whether people liked them or not. We began hiring more data scientists and changing our algorithms to more closely track users' actual behavior rather than their stated preferences. For example, if people say they prefer to date tall blondes but they're sending messages to short brunettes, our algorithm should recognize that and send them matches that reflect actual activity patterns. Because our data tells us what types of profiles users like, we also began to encourage them to send messages or likes or winks, rather than just peruse profiles—after all, no dating can actually occur unless someone reaches out first. We began advertising on television, which was very successful because it made online dating seem mainstream.

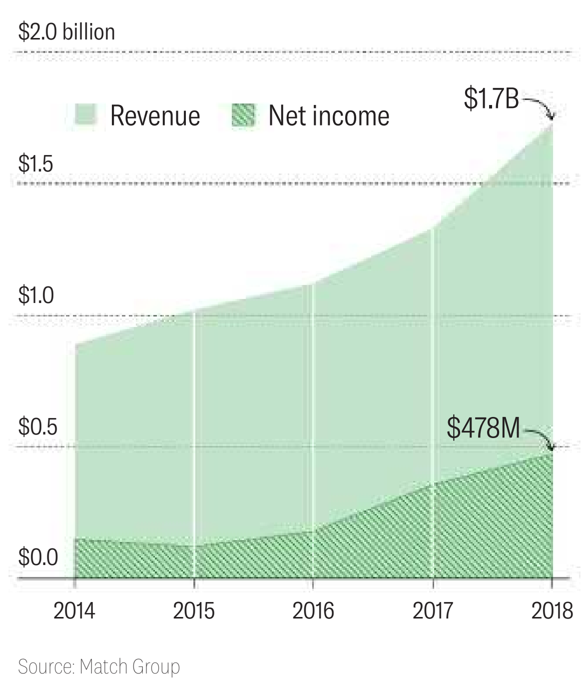
As these two shifts took place, we initiated a third that became an important driver of our growth. In 2009 Match made its first big acquisition, in the form of a company called People Media. Unlike Match, which ran just two websites, People Media had a variety of smaller sites aimed at specific demographics—for example, BlackPeopleMeet.com and SeniorPeopleMeet.com (now called OurTime.com). Online dating relies on network effects, so in theory a very large site should be more successful, because it has a deeper pool of people to date. But we'd already seen the advantages of having a variety of targeted brands when the market segmented into "serious" and "casual" dating. Now Facebook and Twitter were bringing more people onto social media, which sparked more interest in online dating, especially from older people. If it was suddenly socially acceptable to meet friends online, why not dates? As the age range of our users began to broaden, providing sites that appealed to various demographics became more important. No one wants to be on the same dating platform as a parent or a grandparent. Over time, Match acquired other brands, including OkCupid and Plenty of Fish. Today we have dozens of dating products that operate around the world. When we acquire a new brand, we have a lot of experience to help it grow.

But without a doubt, the biggest technology shift came after 2008. That's when Apple introduced the App Store. Smartphones were becoming ubiquitous, and most dating platforms began migrating away from desktops and onto apps. Within a few years that completely changed the face of our industry—a change sparked largely by Tinder.

FACTS & FINANCIALS

Match Group

Founded 1995
Headquarters Dallas, Texas
Countries 190
Languages 40+



Source: Match Group

TINDER'S INNOVATION

In 2012 Tinder came out of an incubator that IAC, Match's parent company, had started; it's now part of our portfolio. It was very different from existing dating products. From the beginning, it was designed for smartphones and existed only as an app. Tinder was location-based, so users could see who was nearby, which brought spontaneity to the industry. Instead of long profiles, which would be hard to read on a mobile device, Tinder relied on photos and a very short bio. Its biggest innovation was swiping—swipe right if you find someone attractive, left if you don't. When two people swipe right on each other, Tinder notifies both of the mutual attraction. If people know the attraction is mutual, they're more comfortable initiating contact. This was great for women: It was the first time they could filter potential matches and choose whom to talk to, as opposed to getting unsolicited messages.

Tinder introduced its product at a number of universities. It went viral among college students, and we never imagined how fast it would grow. Before Tinder, relatively few people under 30 used online dating. Today Tinder has tens of millions of users, and the majority of them are between 18 and 25. Young people who use it tend to also use two or three other dating apps, which makes our strategy of owning a portfolio of brands even stronger.

Most dating apps, including Tinder, have shifted to a "freemium" or paywall strategy. Joining is free, and users get basic functionality. They can opt to pay for premium features such as seeing who likes you and swiping in another city. Last year Tinder's revenue topped $800 million, demonstrating that many people are willing to pay for these features.

When we create a feature that works well on one of our apps, we roll it out across our other brands. There's a lot of copycatting among our competitors as well, which can make it hard to sustain the competitive advantage created by innovations. When possible, we take steps to protect our intellectual property. In 2017 we patented some of Tinder's key functionality, and since then we've taken steps to defend that IP. [Editor's note: Match Group has filed a lawsuit against Bumble, a dating app created by one of Tinder's original employees, alleging patent infringement. Match Group has also reached settlement agreements with other companies that utilized the swipe.]

THE NEXT PHASE OF GROWTH

By 2017 I had led some of Match's biggest brands, and the board asked me to become CEO. Today I spend much of my time trying to understand what customers want and need from our products and how we can innovate to help satisfy those needs even better.

Right now we're working on several new strategies that we expect will drive our next phase of growth. I've always thought it ironic that people refer to our industry as "online dating" when no one really ever *dates* online—at a certain point you meet face-to-face. Too often, the spark that was ignited online dies out when people actually meet. The holy grail of our industry is finding ways to use technology to better predict whether that chemistry will persist in real life. If a company could reduce the number of unsuccessful dates, customers would be even more satisfied.

Video is one of the best tools for that. If you're unaccustomed to talking to people by video, it can feel awkward. But you get used to it. Our company uses video calls extensively—I'd say 90% of my work calls are now done on video. You can pick up so much more about people when you can see them—how they carry themselves, their sense of humor, their confidence. Using video for online dating isn't a new idea. Years ago we owned a dating platform that let users post videos. People didn't know what to say, so we saw a lot of 10-minute videos of someone reading aloud from a book. That's not very useful. But the market is better able to use video now. Millennials post videos of themselves on Instagram and Snap, so they're naturally comfortable with

> There's an epidemic of loneliness in the world, and we need to address the health implications of that.

the format. We've begun allowing users to post video snippets on Tinder, where users tend to be younger; for our brands where users tend to be older and less comfortable posting videos of themselves, we're working to find more-natural ways to let their personality come through on video without their feeling embarrassed. Considering how quickly this industry changes, I can only imagine how video may be used on these apps in five years.

We're also expanding in international markets where online dating is less mature. Markets across Asia tend to have lots of young singles with smartphones and evolving dating norms. For Indians of my generation (I'm in my forties), arranged marriages were common. That's changing. In fact, my second husband is Indian, and he was the first person in his family to forgo an arranged marriage. In Japan, until recently, a stigma was still attached to online dating. We bought a brand called Pairs, which is the top app for serious dating in Japan, and it's been growing quickly. These markets are very exciting for us as we look to the future.

Match Group has a lot of scale and expertise, and we're trying to use those advantages to be smarter and faster than our competitors. We need to keep innovating, because this is meaningful work. There's an epidemic of loneliness in the world. People are beginning to understand the health implications of that, and we need to address it. Even in a technology-driven society, people crave intimate connections, whether that means getting married or just sitting down together for coffee. We help people make those connections. Finding more-effective ways to do that has proved very fulfilling.

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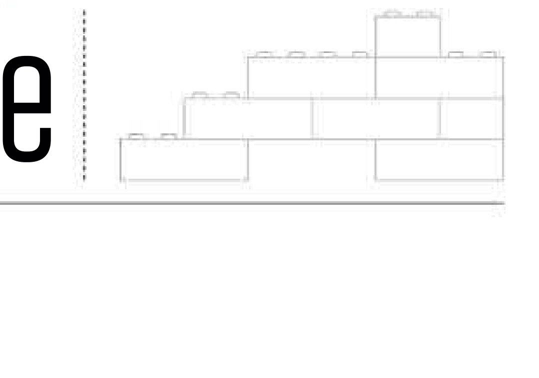
Spotlight

White-Collar Crime



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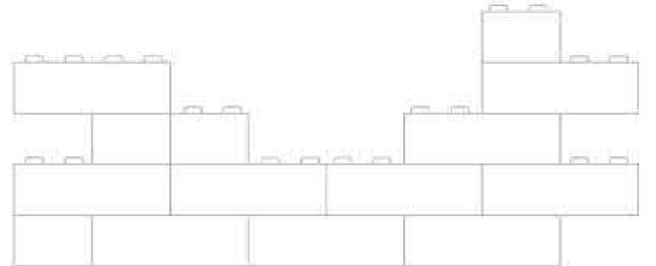


Paul Healy
Professor, Harvard Business School

George Serafeim
Professor, Harvard Business School

How to Scandal-Proof Your Company

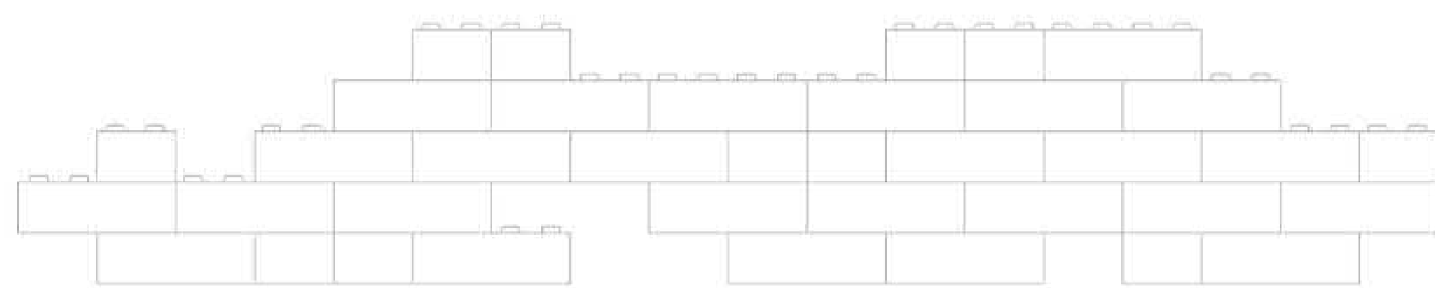
A rigorous compliance system is not enough.

In the late summer of 2016 allegations that employees of Wells Fargo's retail banking unit had opened more than a million unauthorized accounts and sold customers thousands of unneeded products hit the national news. The scandal cost Wells Fargo dearly. On September 8 the Consumer Financial Protection Bureau (along with the Office of the Comptroller of the Currency and the City and County of Los Angeles) fined the company $185 million—and after revelations of more consumer abuses came out, Wells Fargo would later be fined an additional $1 billion and shell out $575 million to settle legal claims. By the end of September, the bank's stock price had fallen 13%, slashing Wells Fargo's capitalization by some $20 billion, and it continued to stagnate while the market soared. John Stumpf, who resigned as CEO that October, and Carrie Tolstedt, the head of the retail bank who'd announced her retirement that July, were forced by the board to forfeit tens of millions of dollars in pay. Four of the unit's senior managers were terminated for cause. Wells Fargo's reputation was left badly tarnished—a humiliation for the 160-year-old institution.

Misconduct was widespread in the retail unit even though Wells Fargo had control and risk-management systems, which were overseen by its board of directors. So what went wrong? An

Sam Kaplan/Trunk Archive

Spotlight



investigation commissioned by the board found that a warped corporate culture, a decentralized organizational structure, and poor leadership were to blame. The postmortem revealed that much of the illegal behavior had been prompted by pressure to hit overly aggressive sales targets linked to bonuses and promotions. Management had received ample warning signs: From 2000 to 2004 the number of cases in which employees had gamed sales and compensation goals rose 10-fold, and critical articles that raised questions about the new accounts, the pressure on the sales force, and increasing employee turnover had appeared in the *Wall Street Journal* in 2011 and the *Los Angeles Times* in 2013. Yet leaders of the retail bank had blamed a few bad employees for the problems. Accustomed to deferring to the business units, Stumpf simply accepted that explanation.

Unfortunately, the Wells Fargo saga is not unique. White-collar crimes—such as fraud, embezzlement, bribery, and money laundering—have destroyed enormous amounts of shareholder value at companies like Alstom, Odebrecht, Petrobras, Rolls-Royce, Siemens, Telia, Teva Pharmaceutical, VimpelCom, and Volkswagen. In aggregate, the losses add up to billions of dollars. The legal penalties companies incur can be substantial: Siemens was hit with $1.6 billion in fines, Odebrecht $3.5 billion, and Volkswagen about $20 billion. And then there are the business costs: the time and energy that management must devote to cleaning up the mess and negotiating settlements rather than to beating rivals; the reputational damage; the impact on sales, profits, and stock price; declines in employee engagement and productivity; and increases in employee turnover. Research by the University of Washington's Jonathan Karpoff and others indicates that those costs swamp the legal penalties.

In response to high-profile cases and rising public concern, regulators in the United States and other countries have demanded that companies increase their efforts to deter wrongdoing. As a result, almost every multinational company now invests heavily in compliance and espouses zero tolerance of illegal behavior by employees. Yet in practice, increased regulation and controls alone do not guarantee that crimes are detected early or averted. Indeed, both anecdotal evidence and the data indicate that white-collar crime not only is still rampant but is actually rising. In a 2018 PwC survey, 49% of 7,228 organizations reported that they had experienced economic crime and fraud in the prior year—up from 30% of organizations in a 2009 survey—and that more than half the perpetrators were "internal actors." Meanwhile, stories about white-collar crime—including allegations that Goldman Sachs employees were involved in a multibillion-dollar fraud in Malaysia, that Deutsche Bank helped clients transfer money from criminal activities to tax havens, and that Airbus engaged in corrupt contracting practices—continue to abound in the media.

The root cause of the problem isn't ineffective regulations and compliance systems, however. It's weak leadership and flawed corporate culture.

Indeed, our research reveals that many of the firms hit by major scandals had controls similar to their peers' and, like Wells Fargo, had received early warning signs of impending problems. But at each of those companies, a culture of making the numbers at all costs trumped any concerns about how the targets were being met.

For the past 10 years we've studied white-collar crime and explored how companies can create an environment that discourages it. We used data from individual companies and from surveys by PwC, Transparency International (an NGO founded in 1993 to combat

Idea in Brief

THE PROBLEM

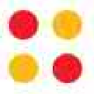
Despite government-mandated corporate expenditures on systems to deter white-collar crime, data and anecdotal evidence indicate that it's continuing to rise.

THE CAUSES

Extensive research suggests that the real culprit is not the systems but weak leadership and flawed corporate cultures that push employees to make the numbers at all costs.

THE SOLUTION

Leaders need to broadcast that crime hurts everyone in the organization, punish perpetrators equally, hire managers with integrity, create decision-making processes that reduce the opportunity for illegal or unethical acts, and champion transparency.



At the firms hit by major scandals, a culture of making the numbers at all costs trumped any concerns about how the targets were being met.

corruption), the World Bank, executive recruiting firms, and other organizations. All told we looked at data on thousands of organizations and individuals. In addition, we interviewed more than 50 senior and middle managers at 10 organizations that had experienced scandals. And in our research we've found time and again that while compliance systems are important, leadership plays a critical role in shaping an organization's attitudes toward preventing crime and its responses when wrongdoing is detected. Yet all too often, executives abdicate responsibility.

In our interviews we heard a common sentiment: Senior executives at most companies that suffered highly publicized transgressions didn't see these incidents as their personal responsibility to address or as evidence that something was fundamentally amiss in their organizations. Rather, those leaders viewed them as extremely rare occurrences caused by "a few bad apples" and insisted that they couldn't have been prevented. Although the leaders accepted the importance of investing in compliance systems and said they expected employees to act with integrity, they typically saw outperforming competitors and wowing investors—not enforcing high legal and ethical standards—as their priorities. Even worse, all too many leaders overlooked questionable business practices or were lenient toward members of their old-boy networks who were caught committing crimes. That indifference trickled down to employees. It encouraged them to develop a "check the box" mentality: to satisfy training and reporting requirements without internalizing the standards that compliance programs are supposed to instill.

Our research also shows that the leaders who *are* effective in combating illicit employee behavior are deeply involved in setting social norms at their firms and in managing the risk of misconduct. They do so by broadcasting a clear message that crime hurts everyone in the organization. They do not make exceptions when they punish perpetrators. They recruit and promote managers who value integrity, and they create decision-making processes that reduce the opportunity for illegal or unethical acts. Finally, they go the extra mile in making their transactions in corrupt countries transparent, are proactive when it comes to cleaning up their industry's dirty practices, and support societal institutions that empower corporate accountability and honest business behavior.

Send the Message That Crime Doesn't Pay

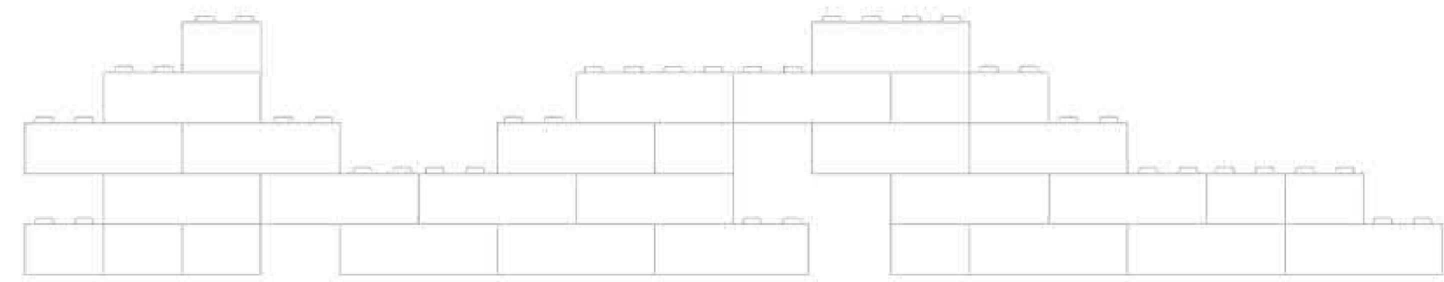
In our work we made two startling discoveries: Business obtained through illicit means adds little or nothing to the bottom line, and people across the company—not just the perpetrators, their supervisors, and the CEO—suffer when a crime is exposed. Leaders need to understand this and spread the word throughout their organizations.

Illegally acquired business isn't very profitable. In public, leaders of multinationals state that their companies do not tolerate corruption. But many turn a blind eye when people in their organizations pay bribes—either directly or through local partners—in developing economies where anticorruption laws are weakly enforced. Their rationale: "We have no choice. If we don't pay bribes, we won't be able to compete in those markets and will suffer financially."

The facts paint quite a different picture. Two cases in point are Siemens and SNC-Lavalin, engineering and construction companies that in the past 12 years were separately charged with bribery. Senior executives at those firms told us that audits conducted afterward revealed that the profits on the transactions involving the illicit payments were unexpectedly low—largely because of the substantial cost of the bribes (as much as 10% of the contract value).

Those companies' experiences appear to be the rule, not the exception. In our research we looked at the financials of 480 multinationals that had been rated by Transparency International in 2006 on the anticorruption systems and activities disclosed in their annual reports and on their websites. When we compared their performance from 2007 through 2010, controlling for industry, host country, stock market listing, and other relevant factors, we found that the firms with poor anticorruption ratings had 5% higher annual sales growth in weakly regulated regions than firms with good ratings did. However, the multinationals with poor ratings also saw *lower profitability* on their sales growth in weakly regulated regions than their highly rated peers did. The profitability differences were comparable in magnitude to the bribes typically paid in those regions.

The extra sales growth generated by illicitly obtained business also



doesn't boost shareholder value—even if the bribes go undetected. Using standard valuation models, we found that among poorly rated firms, the increase in shareholder value from additional sales in weakly regulated regions was offset by lower profitability. Of course, if corrupt practices come to light, a company's reputation will suffer and its stock price will take a hit. That is no small risk: When we examined the data from 2007 to 2010, we found that companies with poor anticorruption ratings had a 28% higher likelihood of having a scandal break in the media.

Everyone suffers. Perpetrators of crimes who are punished obviously pay a price financially and professionally. But what is less obvious or widely recognized is the damage to employees who had nothing to do with the crime. When we studied more than 2,000 senior managers (C-level executives and leaders of business units and functions) who had changed employers, we found that people who had left companies with criminal scandals to join new organizations were paid nearly 4% less than their peers. The difference in salaries persisted for years, resulting in a significant loss of wealth for the affected executives—even those who'd left a company *before* a scandal and were completely uninvolved. The cost of this stigma was greater for more-senior executives (a 6.5% difference in annual pay), for women (7%), and in countries with strong regulatory and governance systems (6%).

All these findings, not to mention the legal penalties and business costs, should persuade leaders to take a personal stand against corruption. They should use the data from our and others' research to show people throughout their organizations that crime is costly to the firm and to their own careers, and that it's everyone's job to fight it.

Of course, leaders must also take seriously any concerns raised by employees about possible wrongdoing and performance pressures. A failure to do so makes it more likely that good people will find themselves in situations where they feel compelled to behave badly or to tolerate transgressions. Though that may sound obvious, we have found that in far too many instances, leaders don't act on problems that have been brought to their attention. The board-commissioned postmortem of the Wells Fargo scandal found that Tolstedt, who had led the retail unit since 2007, didn't like to be challenged or to hear negative information; she intimidated people—even senior managers—at the retail bank. Stumpf, the parent bank's CEO, minimized concerns about misconduct in retail banking that were first raised in 2002 and then raised again in 2004 and from 2012 to 2014. When the critical *Los Angeles Times* articles appeared in 2013, Stumpf (and the board) failed to recognize the full harm to customers and adequately investigate the allegations. And although the reports of misconduct under Tolstedt were persistent, Stumpf continued to support her, even when Wells Fargo's lead independent director and the chairman of the board's risk committee suggested that she be dismissed in late 2015.

Ensuring that whistle-blower programs work effectively is crucial. (Recent research conducted by our colleague Eugene Soltes found that 20% of whistle-blower hotlines do not function properly and that organizations with weak internal controls do not permit whistle-blowers to remain anonymous.) Leaders should honor—or at least protect—whistle-blowers, who too often are treated poorly by managers and their colleagues for "ratting out" perpetrators. Even generous financial rewards for whistle-blowing, which can take years to collect, pale in comparison with the steep costs: lost relationships, stress on the individuals and their families, difficulty in landing another job.

Last, leaders must be crystal clear with employees about the behavior they won't tolerate. Interviews we did at Siemens and SNC-Lavalin revealed that those firms' executives failed to set explicit boundaries between acceptable and unacceptable practices for salespeople and business partners operating in highly corrupt countries. One Siemens executive told us that the message employees received from their managers was "Get the business—I do not need to know how you got it."

In contrast, consider the steps a large pharmaceutical maker that had experienced a fraud took to communicate its stance on such behavior: It commissioned Harvard Business School to write a case about the incident and used that case in its own training sessions to help managers diagnose the causes of the problem and brainstorm ways to deter future incidents.

Don't Play Favorites

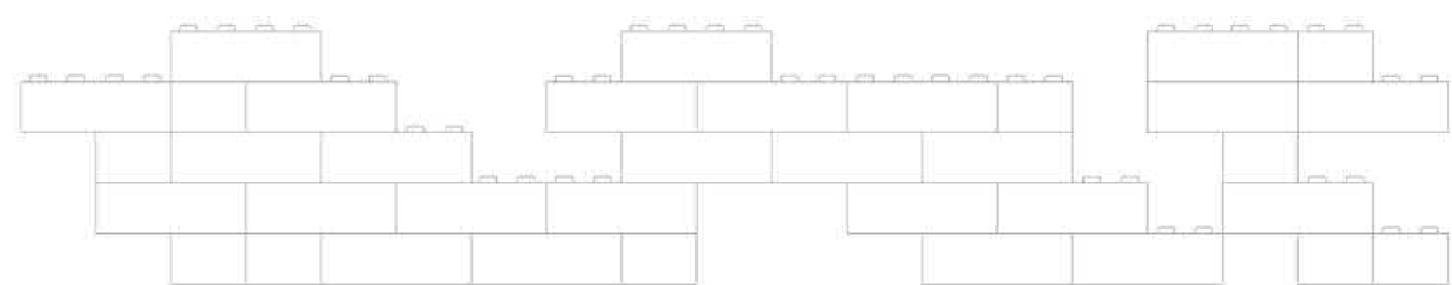
To make it clear to everyone that they really mean it when they say illicit

behavior will not be tolerated, leaders must respond decisively to crimes, dismissing and taking legal action against *all* perpetrators on a uniform basis. Yet anecdotal evidence and our research show that many leaders fail to do this.

Siemens permitted managers caught paying bribes in Italy to retire with full pensions, and it paid a $1.6 million settlement to the departing CFO responsible for overseeing the contract involved. The #MeToo movement's spotlight on harassment and assault faced by women has brought to light numerous cases in which corporate leaders, and in some cases boards, allowed senior male executives to remain in their jobs despite multiple allegations that they had abused female employees. And leaders of the Roman Catholic Church treated clergy accused of child molestation leniently, often by moving them to other parishes rather than expelling them or supporting their prosecution.

To examine whether that kind of permissiveness is pervasive in business, we analyzed the punishments companies gave to perpetrators of white-collar crimes. We used data from a PwC survey that asked firms about their experiences with crime in 2011, including data on the nature of the offenses, punishments, and main-perpetrator demographics. Of the 3,877 firms responding, 608 reported detecting white-collar crimes by employees that year. When we looked at the most serious crime each firm reported, we found that 42% of the main perpetrators had been dismissed or left the organization and faced legal action, 46% had been dismissed with no legal action, and 13% remained with the organization (with or without a transfer or warning). The low rate of legal action against the perpetrators most likely reflects the practical challenges of prosecuting white-collar criminals: Evidence that an individual committed an act doesn't suffice; there also has to be proof that he or she intended to commit it or had knowledge of wrongdoing. Given the potential penalties and reputational risks to companies, corporate attorneys often advise executives to quietly dismiss perpetrators without any legal action.

Treating perpetrators leniently, however, sends a message to potential



offenders that crime pays or isn't risky, and it also damages the morale of honest employees. At several companies plagued by crime, the employees we interviewed expressed frustration over their leadership's unwillingness to remove senior managers accused of wrongdoing; the employees said it hurt morale and led some people to quit.

Another troubling finding of our research was the uneven pattern of punishment. Controlling for the type of crime and its magnitude, our analysis of the PwC data revealed that perpetrators who were junior managers or staff members were 24% more likely to face legal action and dismissal than perpetrators who were senior executives. Even when crimes were similar, senior executives were more likely to be given a warning or an internal transfer, and junior managers were more likely to be dismissed.

Undoubtedly, leaders are more reluctant to fire a senior executive because of his or her relationships with customers or the belief that the person's expertise will be difficult to replace. But our findings about how women are treated relative to men suggest that this is not the full story and that cronyism and favoritism are significant factors. Senior women, who are often seen as outsiders in informal male social networks and are less likely to have close personal relationships with the male decision makers who determine punishments, are disciplined more severely than senior men who've committed crimes of the same type and magnitude.

Companies operating in countries with greater workforce gender inequality (such as India, Turkey, Middle Eastern nations, Indonesia, and Italy) were also more likely to impose harsher punishments on senior women than on senior men. In addition, we found that punishments were harsher for senior women at firms that had a weaker commitment to internal controls and that failed to report crimes to regulators, thereby making it easier to respond to them inconsistently.

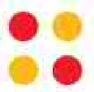
The obvious remedy is to create and religiously enforce a policy of punishing everyone equally. That's what Erik Osmundsen did at Norsk Gjenvinning (NG), a Norwegian waste management company. Soon after being appointed CEO, in 2012, he set out to eliminate widespread fraud, theft, and corruption at the firm. He created a set of values that included behaving like a responsible entrepreneur—one who did not cut corners—and being a team player within both the company and society. The values were translated into specific codes of conduct for each job, which every employee had to agree to follow. The company then implemented a four-week amnesty period, during which employees could confess any transgressions they had performed or witnessed. After that, nobody was forgiven for any infraction. Altogether about 170 operating and staff managers—roughly half the total—left the firm over the next 18 months. The vast majority chose to quit; a handful were fired. (See "We Were Coming Up Against Everything from Organized Crime to Angry Employees" in this issue.)

Recruit Leaders with a Record of Integrity

To change the culture of a company plagued by systemic crime, you need to bring in new leaders with a reputation for honesty. If the industry itself is rife with corruption, it may be necessary to hire executives from other industries, who will have a different perspective and are likely to shake up the status quo.

Siemens replaced Klaus Kleinfeld, who had stepped down as CEO during the bribery investigation, with Peter Löscher, an executive from the pharmaceutical industry. One key factor in Löscher's appointment, cited in the press release (in a rare move for such announcements), was "his upright character." Recognizing the challenges in changing the culture at Siemens, Löscher brought in from the outside several senior managers whom he had worked with previously and who he knew had high integrity. They included Andreas Pohlmann as chief compliance officer and Peter Solmssen as general counsel and member of the management board. Both men, along with Barbara Kux, who came in as chief sustainability officer and member of the management board, played a critical role in developing a plan to address the problems at the company and reform its culture. (See "The CEO of Siemens on Using a Scandal to Drive Change," HBR, November 2012.)

Since NG's problems were endemic to the waste management industry, Osmundsen opted to recruit fresh blood from outside it (from building



Even when their crimes were similar, senior executives were more likely to be given a warning or an internal transfer, and junior managers were more likely to be dismissed.

materials, aluminum, retail, oil and gas, and soft drink firms). He persuaded people to join NG with his vision of making it a model green company—one that, by pursuing innovative approaches to waste management, could play a significant role in furthering environmental sustainability. In the short term, employee turnover hurt the company's financial performance. But within three years it had recovered financially and was well-positioned for more-profitable growth.

Require Employees to Make Tough Decisions in Groups

When Statoil, a Norwegian energy company (recently renamed Equinor), established a large market presence in Angola, its executives and board recognized that its employees would face pressure to pay bribes there. (Transparency International has ranked Angola one of the most corrupt countries.) To reduce the likelihood that they would succumb, the company's leaders ordered employees to make decisions in groups. This was a direct result of Statoil's experiences in Iran. In 2004 and 2006 the company agreed to pay fines in Norway and the United States, respectively, for bribing a government official to secure a contract in Iran (though the firm neither admitted nor denied guilt). A senior executive told us that one lesson from that scandal was that employees were much more likely to cut corners and do the wrong thing when they made calls on their own.

Making a tough decision in a group requires people to have open and honest discussions, and that doesn't happen automatically. Employees must have faith that other group members are committed to hearing and valuing their opinions and that the firm's leaders will support the group's decisions, even if they have adverse financial consequences. If leaders don't inspire that trust, simply relegating decisions to groups is unlikely to solve the problem. Research by our Harvard colleague Amy Edmondson has shown that it takes strong leadership to create a climate of psychological safety. Leaders must actively promote the behaviors they expect people throughout the organization to adopt—by, for example, showing that it's OK to ask tough questions and express dissenting views, empowering frontline employees to speak frankly to their superiors about signs of potential trouble, being candid about the organization's past errors and openly discussing them, and acknowledging their own ignorance about a topic or area of expertise.

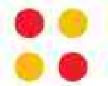
Champion Transparency

After Statoil's bribery charge, Helge Lund, its new CEO at the time, decided that the company would become one of the first firms in an extractive industry to publicly disclose the payments they made to foreign governments to gain access to countries' natural resources—a practice that regulators and public interest groups had long advocated for. This decision sent a strong message to employees that the old ways of conducting business would no longer be tolerated.

Supporting institutions that investigate and report on corruption is another way that leaders can demonstrate to employees that they're serious about conducting business in an ethical fashion. The work of these organizations promotes fair competition and increases the public's confidence that business crimes are detected and punished; and to the extent that it reduces corruption, it stimulates economic development.

Statoil became one of the original members of the Extractive Industries Transparency Initiative (EITI), which aims to bring together companies, governments, and NGOs to reduce corruption in resource-rich countries and increase transparency about payments by oil, gas, and mining companies there. Over time participation in the initiative has steadily increased, and while early EITI reports provided aggregate information on company payments and country revenues, the latest frequently include detailed company disclosures of payments. Collective action appears to be moving things in the right direction: Our empirical research, analyzing data from 186 countries over more than 10 years, suggests that countries with EITI reporting have experienced a significant decrease in corruption, especially those that began with high levels of it.

At Siemens, Löscher and Solmssen reached out to competitors, governments, NGOs, and other stakeholder groups to make a case for broader reform. In 2009, as part of its



A free press lowers corruption. Business leaders serious about combating crime can and should support journalists.

settlement with the World Bank for its past misconduct, the company agreed to spend $100 million over 15 years to support organizations and projects fighting corruption through collective action, education, and training. By the end of 2017, it had made $73 million in grants for 55 projects. In addition, Siemens became a member of the World Economic Forum's Partnering Against Corruption Initiative (PACI), which includes 87 major companies.

Transparency International and the World Bank (which created a program to fight corruption in 1996) both are active in educating and informing companies and the public. These organizations support research on corruption and regularly rate countries on perceptions of the extent of their public-sector corruption.

Another institution that plays an important role is the media. Smaller organizations that report on corruption are emerging beside the major news outlets. For example, the FCPA Blog publishes news, commentary, and research findings to help compliance professionals, business leaders, and others understand how anticorruption laws work, how corruption arises, and how it affects people and organizations. In Russia, Alexey Navalny operates RosPil, a nonprofit at which a small group of lawyers investigate and report on potential incidents of corruption. In India, Ramesh and Swati Ramanathan have created ipaidabribe.com to provide a platform for people to report incidents when they've been asked to pay a bribe.

Research by Aymo Brunetti of the University of Bern and Beatrice Weder of the Graduate Institute Geneva confirms what you would expect: A free press lowers corruption. But press freedom is under attack: Hostility toward the media is no longer limited to authoritarian countries; it has spread to democratic nations, where efforts to threaten and delegitimize the media are on the rise, according to Reporters Without Borders, an NGO that publishes the annual World Press Freedom Index. Business leaders serious about combating corruption can and should support journalists, by publicly recognizing their legitimacy and defending them when they come under attack.

IN LARGE ORGANIZATIONS, mistakes will be made. The world is a messy place, and humans are imperfect. But by creating a culture that encourages employees to act ethically and legally, leaders can minimize the likelihood that a scandal will hit their company and increase its ability to bounce back from any illicit actions that do occur. To set the right tone, leaders have to model high standards in both their professional and personal lives.

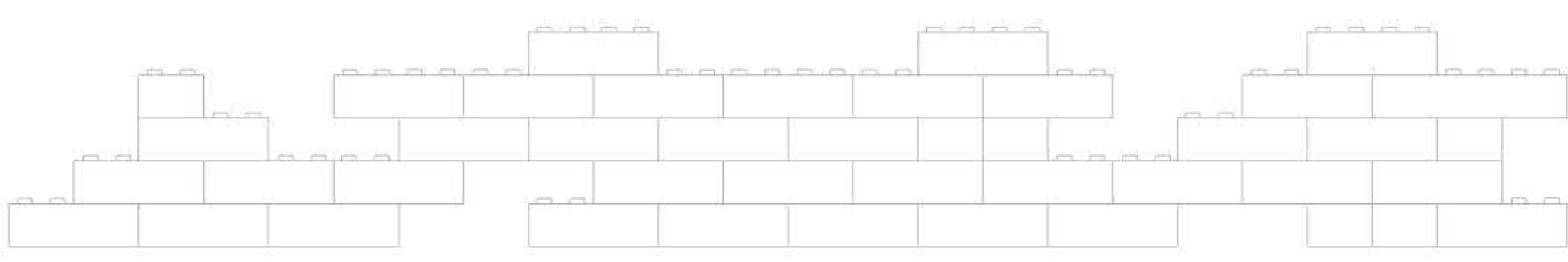
All too many leaders still fail to continually stress the importance of organizational integrity. They either underinvest in compliance systems or have a check-the-box mentality toward risk management and delegate the responsibility to lawyers and accountants. Red flags go unheeded. When crimes are detected, they're dealt with quietly and unequally. These leaders justify their behavior by saying, "Corruption is an industry problem that we cannot fix," "It's the way business is conducted in these countries," or "We can't afford to lose the business."

In contrast, other leaders, many operating in high-risk countries or sketchy industries, set high standards and practice what they preach. They don't just install strong compliance systems; they also support training programs and performance-feedback and whistle-blowing systems; create an atmosphere where it's psychologically safe to speak up when something seems wrong; and engage their industry peers to fight corruption together. Our research indicates that organizations with such leaders don't pay a high financial price for their integrity. Although they may not grow as quickly as their less-scrupulous peers, their growth is more profitable.

Then there are the less widely discussed benefits. Many employees who have chosen to work at high-integrity companies in high-risk countries and industries have told us that they did so because of those firms' values. Some people even told us that they accepted lower pay from those employers. Such companies and their leaders have the respect of their customers, regulators, and communities. They are more likely to prosper and endure.

HBR Reprint R1904B

PAUL HEALY *is the James R. Williston Professor of Business Administration at Harvard Business School.* **GEORGE SERAFEIM** *is a professor of business administration at Harvard Business School, a cofounder of KKS Advisors, and the chairman of Greece's National Corporate Governance Council.*



Where Is Your Company Most Prone to Lapses in Integrity?

A simple survey to identify the danger zones

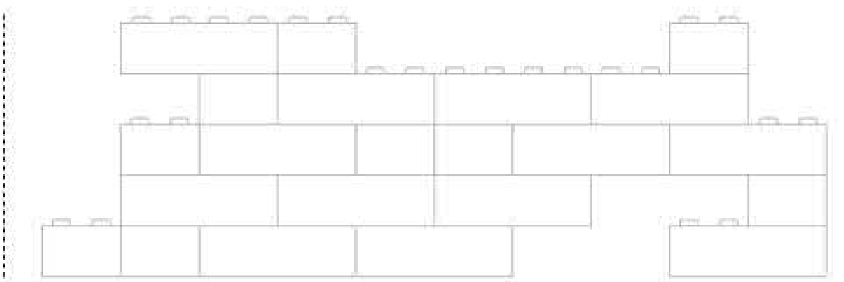
Eugene Soltes
Professor, Harvard Business School

EVERY SIZABLE ORGANIZATION HAS integrity gaps—areas where what's considered appropriate behavior diverges from the norms set by its leaders. Within these pockets, things like offensive language, overly aggressive sales practices, or conflicts of interest may be overlooked or even implicitly condoned. Such lapses not only endanger the reputation of the company but also pose regulatory and liability risks.

Many corporate leaders don't discover the magnitude of integrity gaps until a problem has blown up into a crisis and the threat of government action or litigation looms. Board members are often taken by surprise, asking, Why didn't we spot this earlier? Shouldn't we have known where we were vulnerable and how? Compliance and ethics programs are supposed to prevent such crises, but the people running them are often playing defense rather than strategically rooting out trouble before it grows and spreads. Fortunately, however, company leaders can get ahead of the risks by setting up systems for early detection through routine data collection.

Integrity gaps arise for several reasons. In a geographically dispersed organization, local norms and cultures can vary widely, making it a challenge to set unified standards and expectations. In an extensive global survey examining fraudulent business practices, for instance, EY found that

Photograph by JAN VORMANN



no senior managers in Switzerland approved of misstating financial performance. But the same survey found that more than a quarter of managers in Vietnam and Indonesia were willing to engage in such deception. Attitudes and ethics can also differ by demographic segment. EY's survey revealed that one in five employees under age 35 could justify paying cash bribes to help a business survive an economic downturn, but among employees over 35, only one in eight could.

Before your organization can develop a plan to identify integrity gaps in its culture, it needs to accept two things:

First, *some* misconduct occurs at your firm. When I looked at data from a host of internal reporting sources for three innovative *Fortune* 100 companies—none of which has faced a recent civil or criminal charge—I found that on average, each firm had experienced a violation that could lead to regulatory sanctions (such as a bribe or financial fraud) once every three days. While their organizations have issues more frequently because of their size, these companies also have some of the most robust and effective controls I've seen. Their violations were much smaller than the kind that hit the news, but they illustrate that even companies that invest heavily in compliance will have some malfeasance within their ranks.

Second, a considerable amount of misconduct is not going to be internally reported. Violations that company leaders learn about through traditional channels are probably only the tip of the iceberg—and that should make leaders nervous. Though some attorneys argue that a company shouldn't proactively try to identify misconduct because it could turn into discoverable evidence that might be used against the firm, "ignorance is bliss" is not a sustainable way to run a business. Allowing integrity gaps to grow is especially unwise in an era when employees are increasingly likely to bring allegations straight to the media or regulators if they feel ignored by their leadership.

Gathering Data to Identify Gaps

Once you've acknowledged that integrity gaps exist in your organization, how can you figure out where they are? Just ask.

Randomly giving employees a simple survey can provide a ground-level view of practices that senior leadership may be missing—and help you identify where the problems lie. The survey has three questions:

1 In the past quarter have you observed any of the following? Please check all that apply.

- ☐ Conflicts of interest
- ☐ Sexual harassment
- ☐ Bribes or inappropriate gifts
- ☐ Accounting irregularities
- ☐ Antitrust violations
- ☐ Theft

While the kinds of misconduct companies need to ask about will vary with their business models and risks, the question above includes examples of the most pertinent problem areas. Different organizations, and subgroups within them, will get dramatically varying responses to this part of the survey. I have seen some companies where fewer than 0.5% of employees report observing certain types of questionable behavior. But that figure can reach 10% or more in individual geographic and functional subgroups in some firms.

When analyzing the survey data, you should focus on looking for *integrity* problems rather than strictly *legal* violations. For example, a senior manager might regularly say things that wouldn't legally constitute sexual harassment but that nonetheless make employees deeply uncomfortable. Or an employee might believe he witnessed a payment that would violate the U.S. Foreign Corrupt Practices Act when it was technically a facilitation payment permitted under the law. These issues are still worth identifying because anything employees perceive to be a violation can affect workplace morale. Moreover, they often can be leading indicators of more-serious misconduct that will develop into legal or regulatory exposure.

2 If you observed questionable conduct, did you report it? Please answer yes or no for each of the following:

- Conflicts of interest ________
- Sexual harassment ________
- Bribes or inappropriate gifts ________
- Accounting irregularities ________
- Antitrust violations ________
- Theft ________

Leaders, especially those who are legally focused, sometimes take false comfort in the fact that they have a code of conduct that requires employees to report any violations they see. In reality, however, that promise is a check-the-box exercise for many

employees. The responses to the second question will often illuminate gaps between the code and actual behavior.

Gartner, which is regularly asked to survey companies' employees about their organizational culture, has observed that reporting rates vary significantly for different kinds of violations. Workers are most likely to report a theft of company property or accounting irregularities; 46% of those who observed a theft reported it, and 41% of those who saw fraudulent accounting practices did. However, the reporting rate is considerably lower in other instances, including inappropriate gift giving (27%) and conflicts of interest (34%). Notably, Gartner's data shows that the average reporting rate is less than 50% for all types of violations, whether they're HR related, sales related, or regulatory related.

3 **If you noted in question two that you didn't report the questionable conduct, why not?**

Conflicts of interest __________
Sexual harassment __________
Bribes or inappropriate gifts __________
Accounting irregularities __________
Antitrust violations __________
Theft __________

The potential reasons employees don't report wrongdoing are numerous. They may fear retaliation, be reluctant to get involved, feel conflicted because the incident involved a friend, or worry that exposing the misbehavior could undermine the firm's goals or financial performance. Fear of retaliation tends to be most common; in surveys done within companies, 10% to 30% of employees list it as their major concern.

Many of the barriers to reporting are institutional problems that require understanding the source of employees' concern. Others, like not wanting to get involved, indicate that the reporting process itself is—or at least is rumored to be—too cumbersome. Companies that work to reduce that perception can increase reporting rates. In a recent internal pilot, compliance leaders at Kimberly-Clark went back to employees who had reported integrity issues (nonanonymously) and asked them whether they felt the reporting process was fair and whether they would recommend it to a colleague. Notably, the compliance executives did not ask whether the people reporting problems agreed with the outcome of investigations; instead they emphasized the aim of improving the process to ensure that people knew their input was valued and respected in the organization. On the basis of the feedback, Kimberly-Clark now is refining how it communicates to and trains people about the reporting process.

To get answers to these three questions, organizations can simply send employees a short "pulse" survey or integrate a survey into routine compliance training. Critically, data collection should be conducted anonymously—that is, without capturing individuals' names or identities—to encourage complete candor. Anonymity can be preserved while the firm gathers nonidentifying metadata, including the location and rank of employees (assuming there are more than a few dozen people in each subgroup). That information will reveal to managers which parts of the organization deserve greater attention. To ensure employee confidentiality, many companies hire a third-party consultant to conduct the surveys and restrict access to their data to in-house compliance, legal, and audit teams.

Identifying gaps is not a onetime HR exercise in finding the "bad apples."

Learning from the Data

Data from this simple survey can produce three types of insights:

Where to focus. Identifying the location of specific integrity gaps—by both function and geography—can be extremely valuable. By analyzing data on violations in these areas, companies can unearth the causes of misconduct and devise a strategy to address them—perhaps by redesigning incentives, creating new controls, or conducting training.

Identifying gaps is not a onetime HR exercise in finding the "bad apples" and separating them from the good. Violations often happen among the most dedicated and successful employees. These people may even be especially susceptible to certain kinds of misbehavior. For example, high-performing sales employees may feel more pressure to inappropriately book sales if they're behind on the budget at the end of a quarter. This is why data collection should be done periodically across different groups of employees throughout the year. Ideally, each quarter a randomized subset of employees would be surveyed.

Better ways for employees to voice concerns. While it may be obvious that norms will differ among countries, offices, and even teams, figuring out how they differ and what to do about them is a challenge. Employees' survey responses helped a large consumer products company

tackle this. From them the firm learned that in one country where citizens feared monitoring and reprisal by an authoritarian government, workers were hesitant to call their local integrity hotline. To make them more comfortable about reporting their concerns, the company created a toll-free number for them in the United Kingdom.

The true size of the iceberg. To prevent wrongdoing, you need to understand issues that may be developing below the surface. Yet it's often difficult to know what kinds of problems are slipping through compliance processes (like hotlines) and other internal controls. The survey data can help companies better estimate the actual amount of misconduct within the organization—and the amount that's not being reported. Ultimately, this kind of modeling will help senior leaders get a clearer picture of the integrity issues and violations that otherwise would probably never come to their attention.

MANY LEADERS PUBLICIZE their firms' commitment to integrity and say that their employees should feel empowered to speak up if they see something questionable. Yet the best leaders don't rely on these statements alone. Instead they collect data to monitor and assess whether their organizations actually adhere to their ethical standards. Sustaining a company's cultural integrity requires constant vigilance—and measuring progress is the best way to manage it effectively. Data that allows leaders to proactively identify emerging gaps is a critical tool for staying one step ahead of problems that might land their companies in the next day's headlines.

HBR Reprint R1904B

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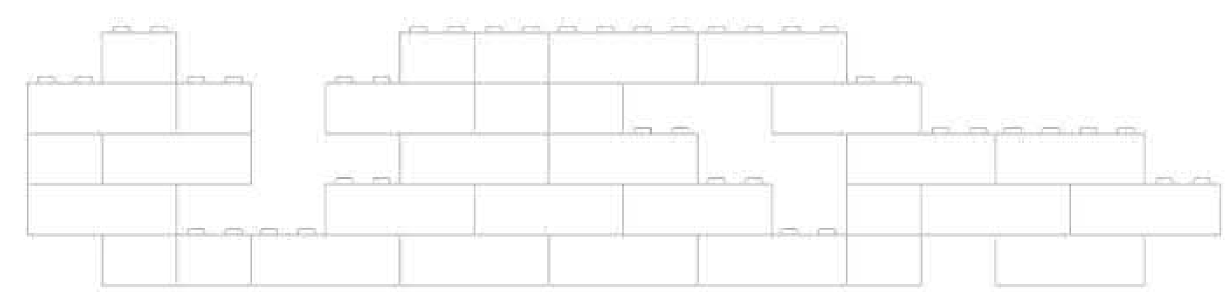


"We were coming up against everything from organized crime to angry employees"

A conversation with **Erik Osmundsen**, CEO of Norsk Gjenvinning

HEN ERIK OSMUNDSEN BECAME CEO of Norsk Gjenvinning (NG), Norway's largest waste management and recycling company, in 2012, he believed the industry was ripe for consolidation, professionalization, and international expansion—and that the recycling movement spelled huge opportunities. But what Osmundsen didn't realize was that waste management in Norway was rife with corruption—as it was around the world. (Before serving as an outside financial adviser to the private equity firm acquiring NG in 2011, he had no experience in the industry.) Discovering NG's problems shortly

after taking the helm, Osmundsen, now 50, decided to instill ethical practices at the company and turn it into an industry role model. He recently spoke with HBR senior editor Steve Prokesch about how he led that transformation. Here are edited excerpts of their conversation:

HBR: How did you discover that NG and the industry were plagued by corruption?

OSMUNDSEN: I spent time in the field—on the front line with our people, customers, competitors, and suppliers. Although the staff I met generally had high standards, stories about corruption and the illegal disposal of waste started to come up. We uncovered embezzlement and internal and external fraud. There were also stories about other illegal activities people were doing—not for personal profit but because things had always been done that way in the industry.

During this period the nonexecutive chairman and I agreed to touch base frequently in the evening and discuss what had come up. That led to a board meeting where the directors basically said, "We'll fully back you as long as you're totally transparent about what's going on and can create a competitive advantage out of this." Our chairman, a partner at Altor, the private equity firm that had bought NG, was adamant that we look not only at the short-term costs of cleaning up the company and the industry but also at the long-term gains from doing so.

We decided that first of all, we had to have a positive and inspiring vision of where the company was going, because we needed to motivate the people who would be rebuilding the company. Our vision was that NG would become a leading player in the circular economy—one in which all waste is recycled.

How did you change the behavior of employees?

Although the majority of our 1,500 employees at the time were, in fact, not corrupt, there was an underlying culture we needed to change—a culture of taking shortcuts because "this is the way it has always been done, and everyone else does it." To address that, we started coming up with new values. One was a balance between entrepreneurship and responsibility. Responsibility means not cutting corners, not doing things illicitly. Entrepreneurship means truly understanding your customers and creating and capturing more value in a responsible way. Another of our values was being proactive in bringing about change. The last value was being a team player—on your own team, across the company, and in society.

Next, for every job we translated those values into a very specific code of conduct. For example, if you're a driver, this is what you can and cannot do.

Photograph by SAM KAPLAN

Then we asked everyone to formally agree to follow it. That created an uproar. Some people didn't want to sign the agreement; others were skeptical.

We simultaneously declared a four-week amnesty and asked everyone to disclose anything illicit or unethical. We said, "If you come forward, we will, to the best of our ability, not go further with a case against you, and you'll be able to continue to work here as long as you promise not to do it again." However, we were clear that any very serious matters had to be reported to the authorities. The purpose of the amnesty was to draw a line in the sand. After the four-week period was over, we said, "Now we have zero tolerance for intentional illegal behavior." A lot of people who were doing things on the fringes or in the gray zone were either fired or asked to resign, or they left by themselves.

What did you do next?
We rolled out one compliance or control system per week—things like internal and external whistle-blower systems, background checks that employed sophisticated technology to figure out who had economic interests with whom, and dawn raids to check on inventories to see whether their declared value was honest. It was a pretty strict regime that set a new standard for controls in the industry. We had a very good compliance officer who oversaw the new initiatives.

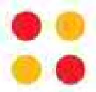
Eighteen months after the amnesty ended, 44% of the top 70 operating managers were gone. The normal turnover rate had been around 15%. Most of them left voluntarily, but some employment contracts were also terminated. In addition, about half the top corporate and divisional staff managers turned over. Only two of the eight people who were on the senior leadership team when I became CEO are still at NG. But it was the departure of the operating managers that was the big deal. Most went to competitors and took their customer relationships with them. They were hard to replace quickly, so it was a very difficult period. But it created a whole different atmosphere for the people who remained. Some said, "For the first time I feel like this company is something I trust and can be proud of."

How could the business continue to function with all the turmoil?
We took huge hits, but we never went into the red. We had the benefit of being the largest company in the industry, which allowed us to absorb the costs better, and of having long-term contracts and relationships with customers. We also did all the things to lower costs and increase efficiency and profitability that any private-equity-owned company normally would do, but we tried to do them twice as fast. The fact that ours is a scale business meant that there were many things we could improve.

Since the entire waste management industry has a reputation for corruption, how did you replace the people who left?
The challenge was to find suitable people from outside the industry to complement the high performers we already had internally. We wanted to recruit people with the right values who also had the new skills and perspectives we'd need to carry out our strategy of becoming a leader in recycling materials. So we asked, "Who has skills for international global sales of raw materials?" And then we hired the downstream manager of Norsk Hydro, the big aluminum and renewable-energy company. We asked, "Who has skills for lean manufacturing?" and then hired a plant manager from Saint-Gobain, the global manufacturer of building products. Ultimately we achieved a good balance between people who had been at NG a long time and people who came from different industries. This created the competitive advantage that the owners were looking for.

Talk about the challenge of hiring outsiders who didn't know the waste management business.
The immediate impact was net negative, of course. We tried to do things to make it easier. For example, we implemented the "junior-senior strategy." We had a few senior guys who were very knowledgeable and valuable but wanted to cut back or were getting close to retirement. So we hired younger people who were hungry and analytical and had skills from other businesses to work as the senior people's wingmen or wingwomen. Then after a few years, we swapped their positions. We also standardized the operating model—kind of like McDonald's—saying, "This is the way we do the upstream logistics, this is the way we operate our machines," and so forth. We've created teams of specialists who go from region to region to help people raise their game. That has been quite successful.

I gather you stopped practices that were temptations.
Yes. Paying cash for the metal waste delivered to our depots is one. It was baffling that it was even allowed in Norway—the UK had outlawed the practice, and metal thefts there had fallen by 80%. We went to the regulators and said, "Wouldn't this be a good idea?" They said, "It would," but nothing happened. Then we went to our competitors and industry associations and said, "We should



We decided that we couldn't clean up the industry alone. I personally reached out to three big competitors and got two to support the drive for reforms.

self-regulate." The response was "You don't know if there is anything illegal going on." So we banned the practice ourselves, issued press releases, and publicly urged others to follow us. Still, no one did. Six months later I was quoted on the front page of Norway's main financial newspaper saying this is an industry with low morality, and things blew up. One of the industry associations asked me to stop speaking up and said that if I didn't, NG would be banned from the group. We said, basically, "Go ahead." It didn't ban us. In fact, a year later the association announced that it would ban players that paid cash for metals.

Shortly after the trade group had threatened to throw us out, we decided that we couldn't clean up the industry alone and needed to build a movement. I personally reached out to the CEOs of three big competitors. All of them were family-owned businesses and seemed respectable. I got two to support the drive for reforms. It changed the dynamic, and then we got smaller competitors to join us.

Was your board nervous that you talked so publicly about this?
We all felt that speaking up would signal to our employees, customers, and partners that we were serious about cleaning up the company. But there was certainly a downside. Our openness about internal affairs and industry issues could have led the media or the government to start investigating us. So our story became "Our vision is to be 100% clean. We are not 100% clean yet, but here are the steps that we are taking." That worked.

What response have you had from the police and regulators?
From the beginning, we reported anything illegal that we discovered to the authorities and were transparent with the media. Our position was that if we were serious about cleaning up the company and the industry, we wouldn't hide our dirty laundry. We feared sometimes that it would backfire. If the authorities and the media had decided to come after us, the consequences could have been severe. We got fined in some instances, but in most cases we were seen as reformers and treated leniently. We just paid the fines and used the lessons learned to further improve our practices.

What kind of personal toll did this huge effort take?
More than anything this experience has given me a stronger faith in our ability to tackle obstacles and change the culture, but of course there has been a personal toll. The period when we were trying to clean up the business—2012 and 2013—was a very tough time. I wasn't certain that reform was possible, and I wasn't certain that I was the right person to lead the effort. We were coming up against everything from organized crime to angry employees to threats from a local criminal group.

A local criminal group?
We had a contract with an upstream collection company run by the heads of a local criminal group. We had to terminate that contract once we understood the situation. No one wanted to sign the termination note, so I ended up signing it. During this time we began receiving threatening phone calls at headquarters. When the callers failed to reach me, they reached one of my reports and started talking about his son. They told him, "Your son is a good guy and goes to that school. You should take care of him."

These were anonymous callers?
Yes, but we knew who they were. The biggest threat, though, was from disgruntled former employees—the people who had been fired or gone to jail or were angry with us. We hired a security firm to help us. But once we had gone public about everything, there was nothing more. There was really no reason to go after us.

Did you ever think about giving up?
Of course. There were certain tough times when that thought hit me. But I believed in our social mission—to recycle waste and improve the environment—and I thought that as an individual you don't get too many chances to really make a difference. And since I believed that I, with the talented team we had built, could do the job, and I had such strong support from the board, I felt obligated to do it. But there were some severely sleepless nights.

Where do you think NG is now?
The dramatic measures were in place by 2014. But I think the job is never done when it comes to strengthening the culture. You cannot prevent one rogue person from trying to do something. What you can do is create the best control system and culture possible—and then keep managing and developing them.

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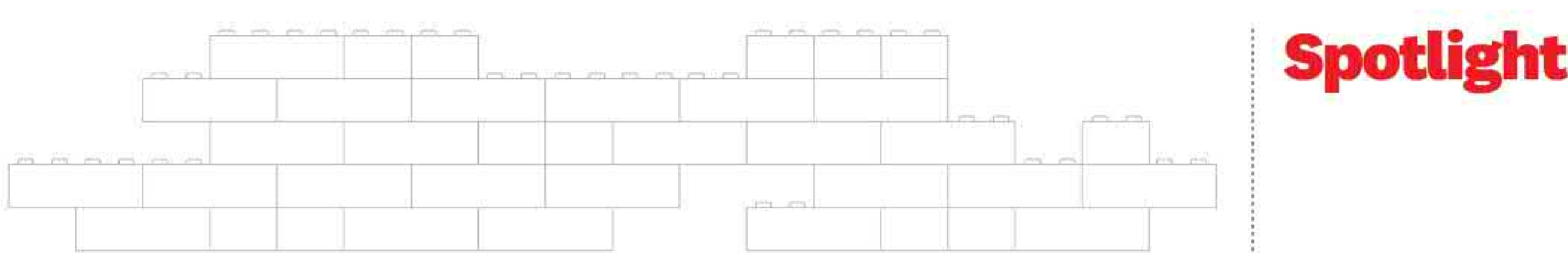
What I’ve Learned About White-Collar Crime

Mary Jo White
Former chair of the U.S. Securities and Exchange Commission

WHEN I BEGAN PRACTICING LAW, in the 1970s, white-collar crime didn’t get much attention outside my old office, the U.S. Attorney’s Office for the Southern District of New York. Prosecutors cared much more about homicides, drug kingpins, and the mob. Financial crimes weren’t considered very serious or interesting by most prosecutors. That’s changed for a variety of reasons.

Over the past 30 years, we’ve had a large body of white-collar prosecutions, and they’ve shown us that deterrence really works. For instance, people on Wall Street pay a lot of attention to how prosecutors treat insider-trading cases. They say, “Gee, somebody just like me went to jail for a significant period of time.” There’s no bigger deterrent than a jail sentence. Most white-collar

Mark Wilson/Getty Images



defendants have nice lives, and they value their freedom and liberty. Prosecuting these crimes and getting judges to send white-collar criminals to jail really does alter people's conduct. As a prosecutor, I prioritized white-collar crime and helped make people more aware of the costs of crossing the line.

I've also done a lot of defense work, and that's given me a window into what motivates people accused of white-collar crimes. As a prosecutor, you tend to stay at arm's length from alleged perpetrators, but when you're defending them, you wind up exploring their motivations in a very intimate way.

Why do they do it? Part of it is that white-collar crime doesn't seem to inspire the deep feelings of guilt caused by, say, a crime such as assault, where you're doing tangible, significant harm to someone. Some of these crimes, like tax fraud, may be perceived as "victimless," even though that's not really true. Part of the motivation is greed, of course, but there's more to it. The piece that the public underestimates is ego. Many of the people who commit these crimes have been successful, and they don't want to fail. Very often the market has turned on them, but they need other people to still *see* them as successful. There's often a financial motive, but in a highly charged business where there are temptations, you have to account for human nature and the need for status and continued success, too.

When I do an investigation for a company that's experienced an ethical or legal lapse—I'm doing a lot of that work right now—I'm not just trying to uncover what happened. A standard part of the process is to make recommendations about how to prevent future wrongdoing. Compliance programs are important, but what really matters is the culture and the tone that a leader sets for the organization—that's often a more effective way to increase the odds that lapses won't happen again.

In the aftermath of a scandal, some leaders will claim they didn't know what was going on. Sometimes that's true. But when it is, you have to ask if the leader built a communication system that's designed to bring bad news up to his or her level, or whether the system is designed to insulate leadership. Every company has hotlines for whistle-blowers; only some of them directly reach the board's audit committee or the CEO's office. In those systems, in which the most-senior leaders are actively seeking out complaints and allegations, the compliance culture is much stronger. In contrast, some hotlines seem designed to give leaders plausible deniability: We have a system for reporting complaints, and there haven't been many. Leaders have to ask, Why is that? Are employees reluctant to come forward for fear of retaliation?

The biggest mistake companies make in trying to prevent crime or misconduct is to ratchet up compliance simply by throwing more resources at it. They believe every extra dollar has the same incremental effect. That's incorrect. Particularly when you're dealing with potential violations of the Foreign Corrupt Practices Act (which targets bribery) or the Bank Secrecy Act (which focuses on money laundering), you need to be surgical and intelligent about where the biggest risks are. This is especially true in global organizations—very often problems are popping up far from headquarters, in overseas subsidiaries or with joint venture partners.

Much of prevention really comes down to culture. If you're a new leader in an organization, my advice is to let people get to know you—and your values. Let them know how serious you are about doing the right thing. Make it clear that if they see someone do something wrong, they *must* report it—and that by doing so, they're supporting all the people in the organization. When someone strays, it diminishes the entire company, and employees can't let that happen. That's the message leaders need to deliver—and it's how they must act, too.

One vital marker of an ethical culture is whether there really is a zero-tolerance policy for wrongdoing. Many companies claim to have one, but when high producers or senior people break the rules, leaders may go easy on them, either for business reasons or out of loyalty. That undermines everything. You can't rely just on compliance and audits; you have to be willing to punish people who cross the line. To build an ethical culture, you have no choice but to follow through on your no-tolerance promise. Don't just talk the talk; *walk* the talk.

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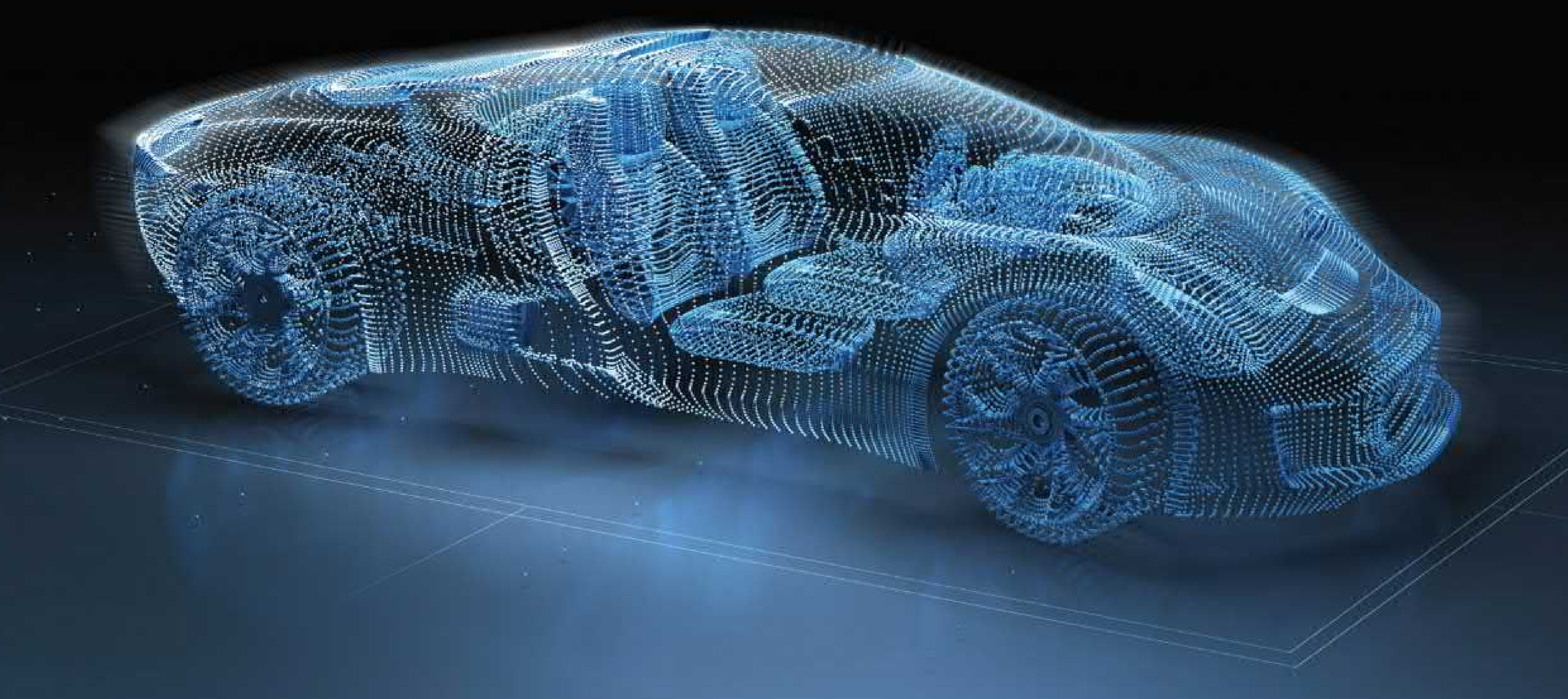
MARY JO WHITE, *currently the senior chair of the law firm Debevoise & Plimpton, is the former chair of the U.S. Securities and Exchange Commission and the former U.S. attorney for the Southern District of New York.*



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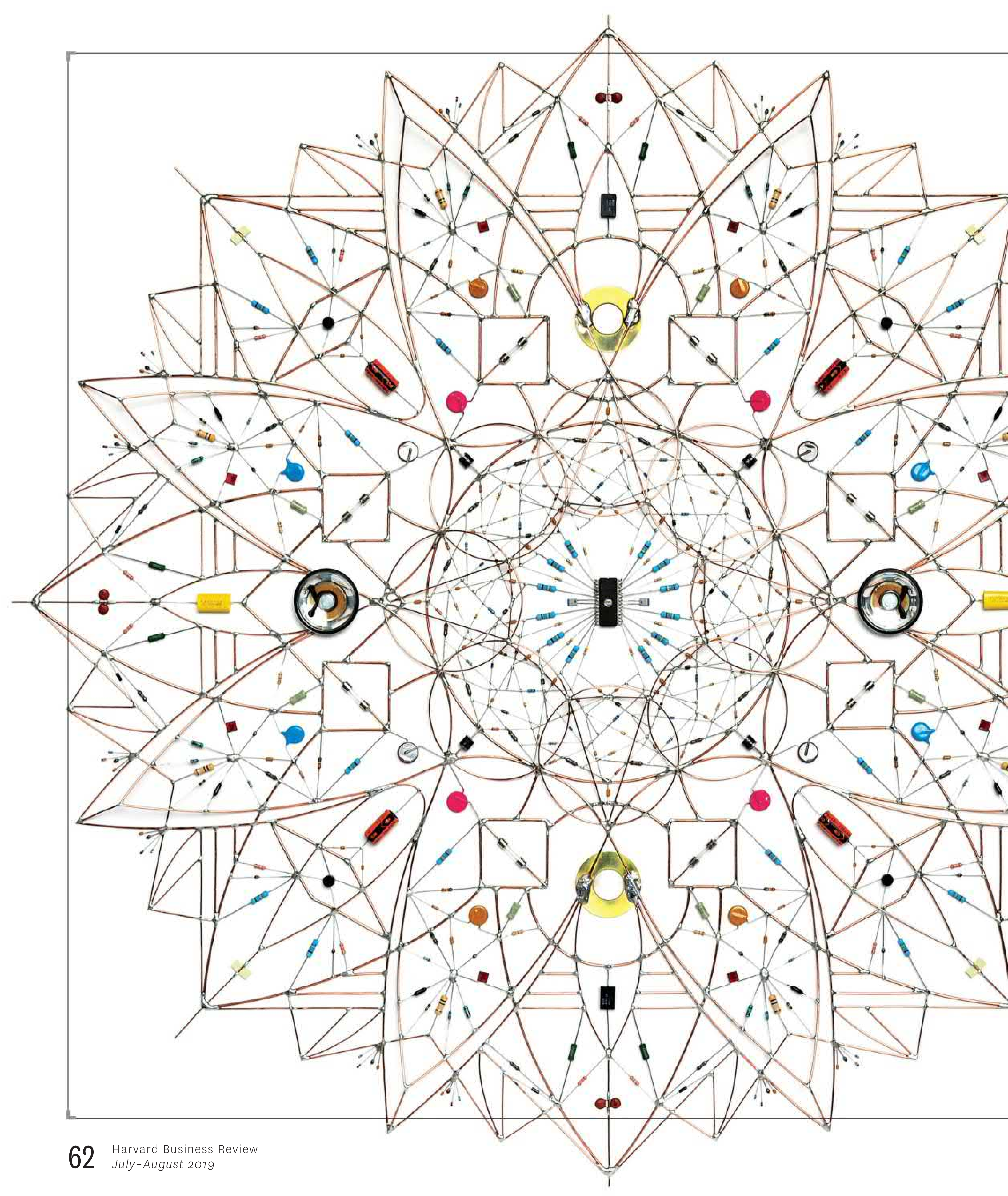
Features

“At most businesses that aren’t born digital, traditional mindsets and ways of working run counter to those needed for AI.”

—“BUILDING THE AI-POWERED ORGANIZATION,” PAGE 62

Illustration by LARS LEETARU



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TECHNOLOGY

Building the AI-Powered Organization

Technology isn't the biggest challenge.

Culture is.

TECHNOLOGY

Artificial intelligence is reshaping business—though not at the blistering pace many assume. True, AI is now guiding decisions on everything from crop harvests to bank loans, and once pie-in-the-sky prospects such as totally automated customer service are on the horizon. The technologies that enable AI, like development platforms and vast processing power and data storage, are advancing rapidly and becoming increasingly affordable. The time seems ripe for companies to capitalize on AI. Indeed, we estimate that AI will add $13 trillion to the global economy over the next decade.

Yet, despite the promise of AI, many organizations' efforts with it are falling short. We've surveyed thousands of executives about how their companies use and organize for AI and advanced analytics, and our data shows that only 8% of firms engage in core practices that support widespread adoption. Most firms have run only ad hoc pilots or are applying AI in just a single business process.

Why the slow progress? At the highest level, it's a reflection of a failure to rewire the organization. In our surveys and our work with hundreds of clients, we've seen that AI initiatives face formidable cultural and organizational barriers. But we've also seen that leaders who at the outset take steps to break down those barriers can effectively capture AI's opportunities.

Making the Shift

One of the biggest mistakes leaders make is to view AI as a plug-and-play technology with immediate returns. Deciding to get a few projects up and running, they begin investing millions in data infrastructure, AI software tools, data expertise, and model development. Some of the pilots manage to eke out small gains in pockets of organizations. But then months or years pass without bringing the big wins executives expected. Firms struggle to move from the pilots to companywide programs—and from a focus on discrete business problems, such as improved customer segmentation, to big business challenges, like optimizing the entire customer journey.

Leaders also often think too narrowly about AI requirements. While cutting-edge technology and talent are certainly needed, it's equally important to align a company's culture, structure, and ways of working to support broad AI adoption. But at most businesses that aren't born digital, traditional mindsets and ways of working run counter to those needed for AI.

To scale up AI, companies must make three shifts:

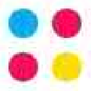
From siloed work to interdisciplinary collaboration. AI has the biggest impact when it's developed by cross-functional teams with a mix of skills and perspectives.

IDEA IN BRIEF

THE PROBLEM
Many companies' efforts to scale up artificial intelligence fall short. That's because only 8% of firms are engaging in core practices that support widespread adoption.

THE SOLUTION
Cutting-edge technology and talent are not enough. Companies must break down organizational and cultural barriers that stand in AI's way.

THE LEADERSHIP IMPERATIVES
Leaders must convey the urgency of AI initiatives and their benefits for all; spend at least as much on adoption as on technology; organize AI work on the basis of the company's AI maturity, business complexity, and innovation pace; and invest in AI education for everyone.



> At most businesses that aren't born digital, traditional mindsets and ways of working run counter to those needed for AI.

Having business and operational people work side by side with analytics experts will ensure that initiatives address broad organizational priorities, not just isolated business issues. Diverse teams can also think through the operational changes new applications may require—they're likelier to recognize, say, that the introduction of an algorithm that predicts maintenance needs should be accompanied by an overhaul of maintenance workflows. And when development teams involve end users in the design of applications, the chances of adoption increase dramatically.

From experience-based, leader-driven decision making to data-driven decision making at the front line. When AI is adopted broadly, employees up and down the hierarchy will augment their own judgment and intuition with algorithms' recommendations to arrive at better answers than either humans or machines could reach on their own. But for this approach to work, people at all levels have to trust the algorithms' suggestions and feel empowered to make decisions—and that means abandoning the traditional top-down approach. If employees have to consult a higher-up before taking action, that will inhibit the use of AI.

Decision processes shifted dramatically at one organization when it replaced a complex manual method for scheduling events with a new AI system. Historically, the firm's event planners had used colored tags, pins, and stickers to track conflicts, participants' preferences, and other considerations. They'd often relied on gut instinct and on input from senior managers, who also were operating on their instincts, to make decisions. The new system rapidly analyzed the vast range of scheduling permutations, using first one algorithm to distill hundreds of millions of options into millions of scenarios, and then another algorithm to boil down those millions into just hundreds, ranking the optimal schedules for each participant. Experienced human planners then applied their expertise to make final decisions supported by the data, without the need to get input from their leaders. The planners adopted the tool readily, trusting its output because they'd helped set its parameters and constraints and knew that they themselves would make the final call.

From rigid and risk-averse to agile, experimental, and adaptable. Organizations must shed the mindset that an idea needs to be fully baked or a business tool must have every bell and whistle before it's deployed. On the first iteration, AI applications rarely have all their desired functionality. A test-and-learn mentality will reframe mistakes as a source of discoveries, reducing the fear of failure. Getting early user feedback and incorporating it into the next version will allow firms to correct minor issues before they become costly problems. Development will speed up, enabling small AI teams to create minimum viable products in a matter of weeks rather than months.

Such fundamental shifts don't come easily. They require leaders to prepare, motivate, and equip the workforce to make a change. But leaders must first be prepared themselves. We've seen failure after failure caused by the lack of a foundational understanding of AI among senior executives. (Further on, we'll discuss how analytics academies can help leaders acquire that understanding.)

Setting Up for Success

To get employees on board and smooth the way for successful AI launches, leaders should devote early attention to several tasks:

Explaining why. A compelling story helps organizations understand the urgency of change initiatives and how all will benefit from them. This is particularly critical with AI projects, because fear that AI will take away jobs increases employees' resistance to it.

Leaders have to provide a vision that rallies everyone around a common goal. Workers must understand why AI is important to the business and how they'll fit into a new, AI-oriented culture. In particular, they need reassurance that AI will enhance rather than diminish or even eliminate their roles. (Our research shows that the majority of workers will need to adapt to using AI rather than be replaced by AI.)

When a large retail conglomerate wanted to get its employees behind its AI strategy, management presented it as an existential imperative. Leaders described the threat that digital retailers posed and how AI could help fend it off by improving the firm's operational efficiency and responsiveness. By issuing a call to arms in a fight for survival, management underscored the critical role that employees had to play.

In sharing their vision, the company's leaders put a spotlight on workers who had piloted a new AI tool that helped

ABOUT THE ART
Soldering together electronic components of various shapes and colors, Leonardo Ulian creates geometric designs reminiscent of traditional spiritual mandalas.

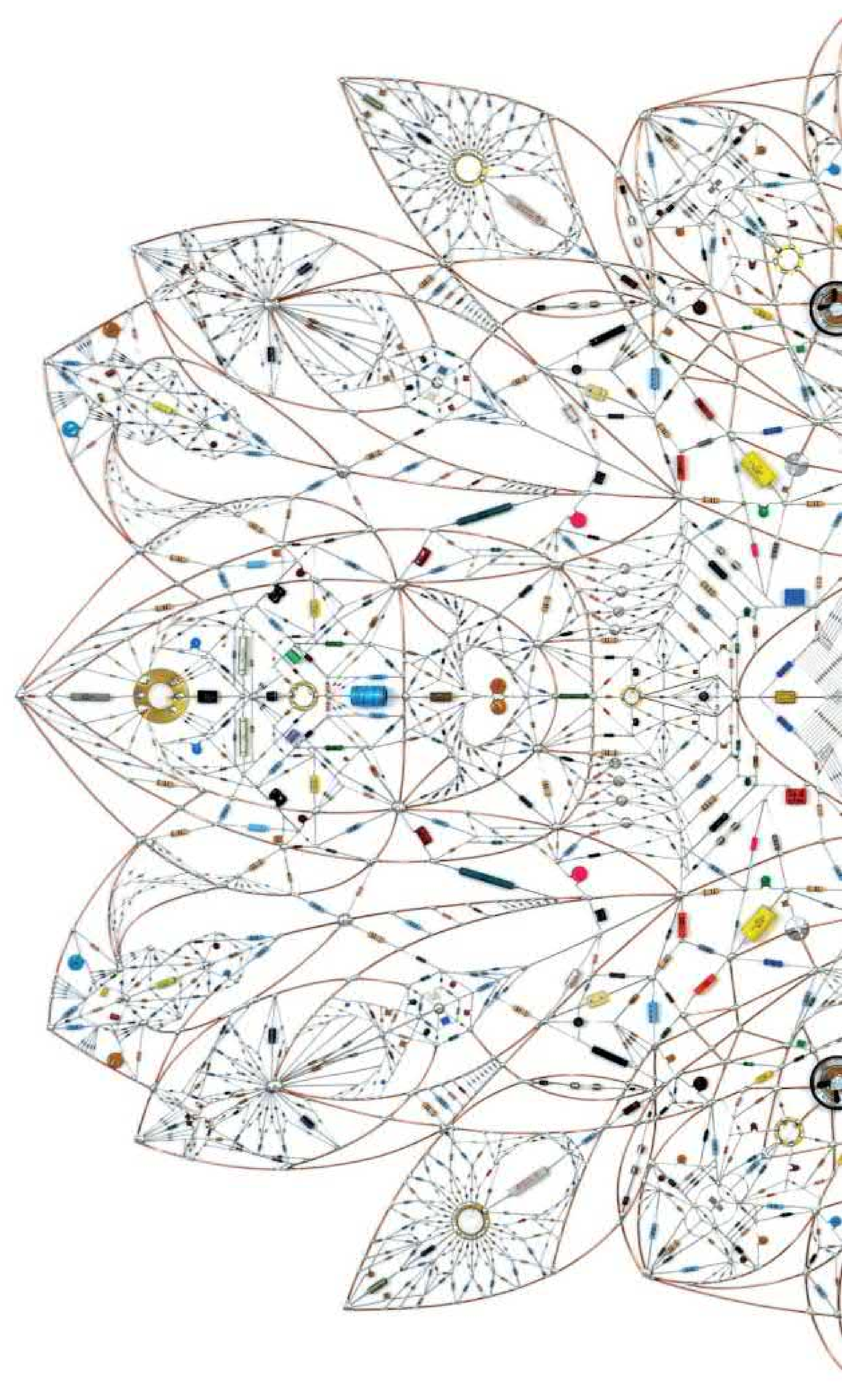
them optimize stores' product assortments and increase revenue. That inspired other workers to imagine how AI could augment and elevate their performance.

Anticipating unique barriers to change. Some obstacles, such as workers' fear of becoming obsolete, are common across organizations. But a company's culture may also have distinctive characteristics that contribute to resistance. For example, if a company has relationship managers who pride themselves on being attuned to customer needs, they may reject the notion that a machine could have better ideas about what customers want and ignore an AI tool's tailored product recommendations. And managers in large organizations who believe their status is based on the number of people they oversee might object to the decentralized decision making or reduction in reports that AI could allow.

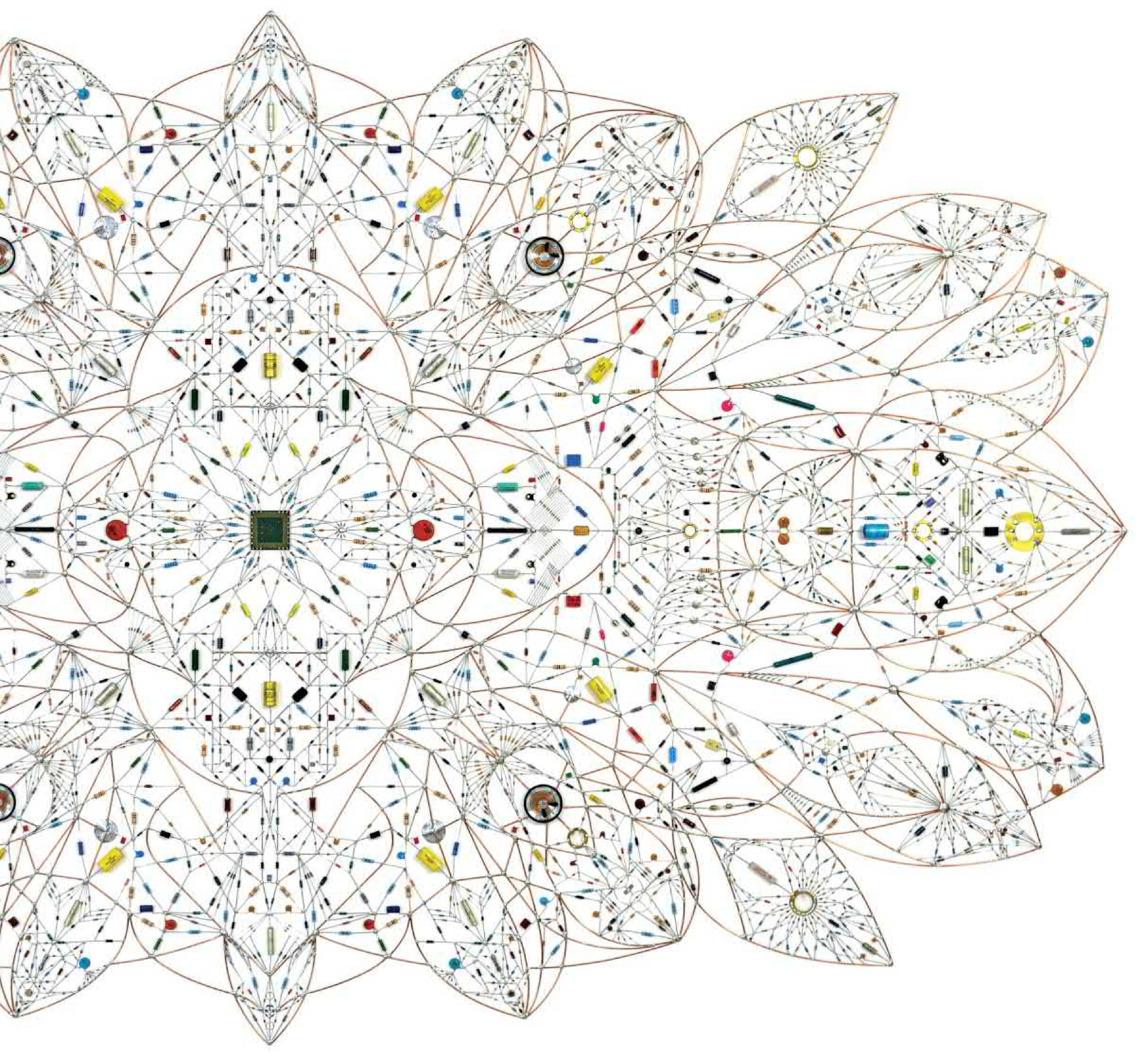
In other cases, siloed processes can inhibit the broad adoption of AI. Organizations that assign budgets by function or business unit may struggle to assemble interdisciplinary agile teams, for example.

Some solutions can be found by reviewing how past change initiatives overcame barriers. Others may involve aligning AI initiatives with the very cultural values that seem like obstacles. At one financial institution with a strong emphasis on relationship banking, for example, leaders highlighted AI's ability to enhance ties with customers. The bank created a booklet for relationship managers that showed how combining their expertise and skills with AI's tailored product recommendations could improve customers' experiences and increase revenue and profit. The AI adoption program also included a contest for sales conversions driven by using the new tool; the winners' achievements were showcased in the CEO's monthly newsletter to employees.

A relatively new class of expert, analytics translators, can play a role in identifying roadblocks. These people bridge the data engineers and scientists from the technical realm with the people from the business realm—marketing, supply chain, manufacturing, risk personnel, and so on. Translators help ensure that the AI applications developed address business needs and that adoption goes smoothly. Early in the implementation process, they may survey end users, observe their habits, and study workflows to diagnose and fix problems.



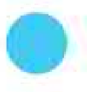
> Relationship managers who pride themselves on being attuned to customers may reject the notion that a machine could have better ideas about what customers want.



Organizing AI for Scale

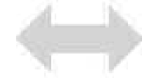
AI-enabled companies divide key roles between a hub and spokes. A few tasks are always owned by the hub, and the spokes always own execution. The rest of the work falls into a gray area, and a firm's individual characteristics determine where it should be done.

GOVERNING COALITION
A team of business, IT, and analytics leaders that share accountability for the AI transformation



HUB
A central group headed by a C-level analytics executive who aligns strategy

Responsibilities
- Talent recruitment and training strategy
- Performance management
- Partnerships with providers of data and AI services and software
- AI standards, processes, policies



GRAY AREA
Work that could be owned by the hub or spokes or shared with IT

Responsibilities
- Project direction, delivery, change management
- Data strategy, data architecture, code development
- User experience
- IT infrastructure
- Organizational capability assessment, strategy, funding

SPOKE
A business unit, function, or geography, which assigns a manager to be the AI product owner and a business analyst to assist him or her

Responsibilities
- Oversight of execution teams
- Solution adoption
- Performance tracking

EXECUTION TEAMS
Assembled from the hub, spoke, and gray area for the duration of the project

Key Roles
- Product owner
- Analytics translator
- Data scientist
- Data engineer
- Data architect
- Visualization specialist
- UI designer
- Business analyst

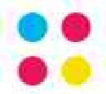
Understanding the barriers to change can not only inform leaders about how to communicate with the workforce but also help them determine where to invest, what AI initiatives are most feasible, what training should be offered, what incentives may be necessary, and more.

Budgeting as much for integration and adoption as for technology (if not more). In one of our surveys nearly 90% of the companies that had engaged in successful scaling practices had spent more than half of their analytics budgets on activities that drove adoption, such as workflow redesign, communication, and training. Only 23% of the remaining companies had committed similar resources.

Consider one telecom provider that was launching a new AI-driven customer-retention program in its call center. The company invested simultaneously in AI model development and in helping the center's employees transition to the new approach. Instead of just reacting to calls canceling service, they would proactively reach out to customers at risk of defection, giving them AI-generated recommendations on new offers they'd be likely to accept. The employees got training and on-the-job coaching in the sales skills needed to close the business. Coaches and managers listened in on their calls, gave them individualized feedback, and continually updated the training materials and call scripts. Thanks to those coordinated efforts, the new program reduced customer attrition by 10%.

Balancing feasibility, time investment, and value. Pursuing initiatives that are unduly difficult to implement or require more than a year to launch can sabotage both current and future AI projects.

Organizations needn't focus solely on quick wins; they should develop a portfolio of initiatives with different time horizons. Automated processes that don't need human intervention, such as AI-assisted fraud detection, can deliver



Nearly 90% of companies with successful scaling practices spent more than half their analytics budgets on adoption activities.

TECHNOLOGY

a return in months, while projects that require human involvement, such as AI-supported customer service, are likely to pay off over a longer period. Prioritization should be based on a long-term (typically three-year) view and take into consideration how several initiatives with different time lines could be combined to maximize value. For example, to achieve a view of customers detailed enough to allow AI to do microsegmentation, a company might need to set up a number of sales and marketing initiatives. Some, such as targeted offers, might deliver value in a few months, while it might take 12 to 18 months for the entire suite of capabilities to achieve full impact.

An Asian Pacific retailer determined that an AI initiative to optimize floor space and inventory placement wouldn't yield its complete value unless the company refurbished all its stores, reallocating the space for each category of goods. After much debate, the firm's executives decided the project was important enough to future profitability to proceed—but not without splitting it in two. Part one produced an AI tool that gave store managers recommendations for a few incremental items that would sell well in their outlets. The tool provided only a small fraction of the total return anticipated, but the managers could get the new items into stores immediately, demonstrating the project's benefits and building enthusiasm for the multiyear journey ahead.

Organizing for Scale

There's a lot of debate about where AI and analytics capabilities should reside within organizations. Often leaders simply ask, "What organizational model works best?" and then, after hearing what succeeded at other companies, do one of three things: consolidate the majority of AI and analytics capabilities within a central "hub"; decentralize them and embed them mostly in the business units ("the spokes"); or distribute them across both, using a hybrid ("hub-and-spoke") model. We've found that none of these models is always better than the others at getting AI up to scale; the right choice depends on a firm's individual situation.

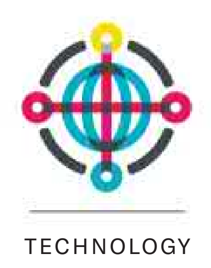
Consider two large financial institutions we've worked with. One consolidated its AI and analytics teams in a central hub, with all analytics staff reporting to the chief data and analytics officer and being deployed to business units as needed. The second decentralized nearly all its analytics talent, having teams reside in and report to the business units. Both firms developed AI on a scale at the top of their industry; the second organization grew from 30 to 200 profitable AI initiatives in just two years. And both selected their model after taking into account their organizations' structure, capabilities, strategy, and unique characteristics.

The hub. A small handful of responsibilities are always best handled by a hub and led by the chief analytics or chief data officer. These include data governance, AI recruiting and training strategy, and work with third-party providers of data and AI services and software. Hubs should nurture AI talent, create communities where AI experts can share best practices, and lay out processes for AI development across the organization. Our research shows that companies that have implemented AI on a large scale are three times as likely as their peers to have a hub and 2.5 times as likely to have a clear methodology for creating models, interpreting insights, and deploying new AI capabilities.

Hubs should also be responsible for systems and standards related to AI. These should be driven by the needs of a firm's initiatives, which means they should be developed gradually, rather than set up in one fell swoop, before business cases have been determined. We've seen many organizations squander significant time and money—spending hundreds of millions of dollars—up front on companywide data-cleaning and data-integration projects, only to abort those efforts midway, realizing little or no benefits.

In contrast, when a European bank found that conflicting data-management strategies were hindering its development of new AI tools, it took a slower approach, making a plan to unify its data architecture and management over the next four years as it built various business cases for its AI transformation. This multiphase program, which also includes an organizational redesign and a revised talent strategy, is expected to have an annual impact of more than $900 million.

The spokes. Another handful of responsibilities should almost always be owned by the spokes, because they're closest to those who will be using the AI systems. Among them are tasks related to adoption, including end-user training, workflow redesign, incentive programs, performance management, and impact tracking.



To encourage customers to embrace the AI-enabled services offered with its smart, connected equipment, one manufacturer's sales and service organization created a "SWAT team" that supported customers using the product and developed a pricing plan to boost adoption. Such work is clearly the bailiwick of a spoke and can't be delegated to an analytics hub.

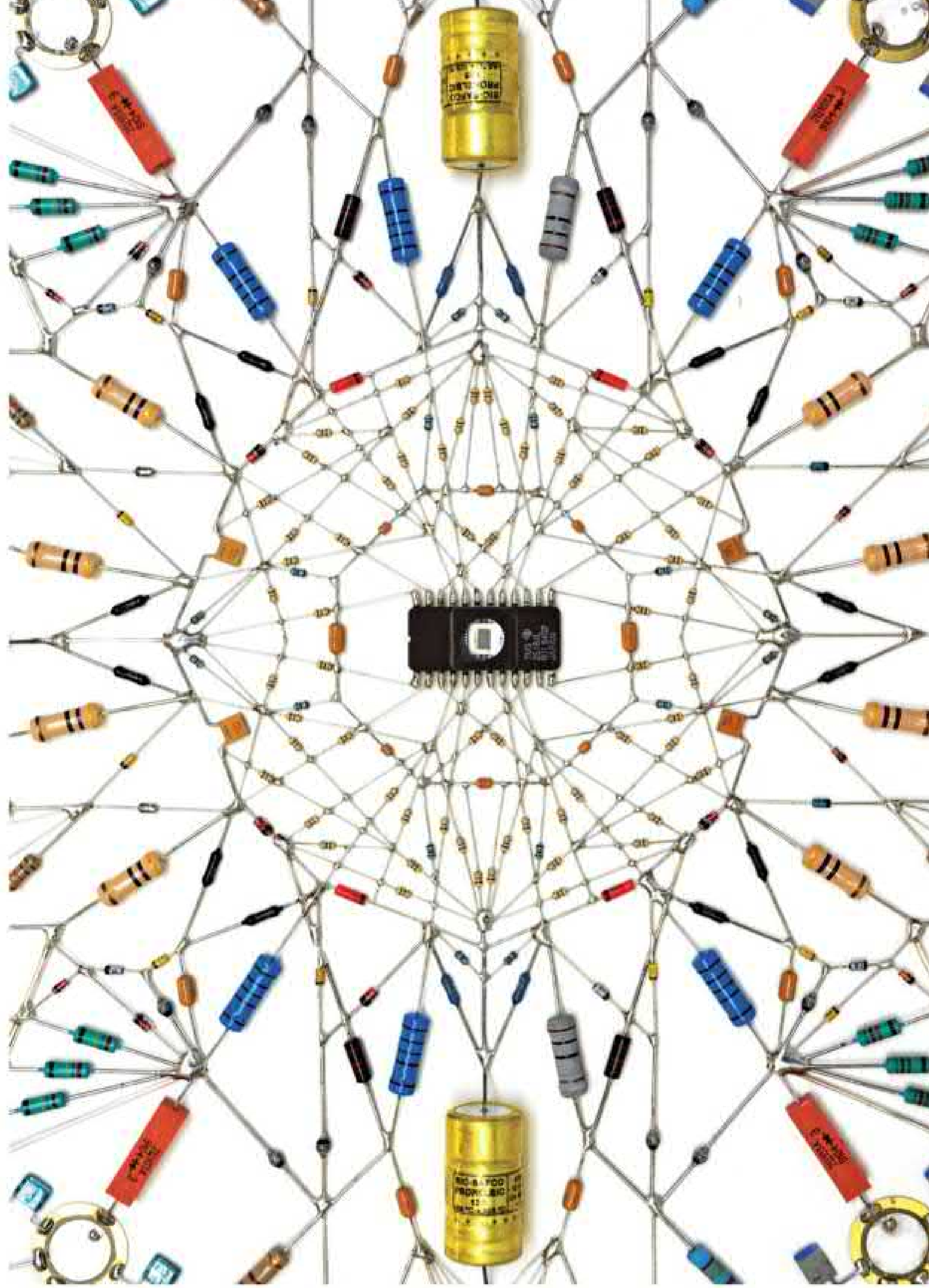
The gray area. Much of the work in successful AI transformations falls into a gray area in terms of responsibility. Key tasks—setting the direction for AI projects, analyzing the problems they'll solve, building the algorithms, designing the tools, testing them with end users, managing the change, and creating the supporting IT infrastructure—can be owned by either the hub or the spoke, shared by both, or shared with IT. (See the exhibit "Organizing AI for Scale.") Deciding where responsibility should lie within an organization is not an exact science, but it should be influenced by three factors:

> THE MATURITY OF AI CAPABILITIES. When a company is early in its AI journey, it often makes sense for analytics executives, data scientists, data engineers, user interface designers, visualization specialists who graphically interpret analytics findings, and the like to sit within a hub and be deployed as needed to the spokes. Working together, these players can establish the company's core AI assets and capabilities, such as common analytics tools, data processes, and delivery methodologies. But as time passes and processes become standardized, these experts can reside within the spokes just as (or more) effectively.

> BUSINESS MODEL COMPLEXITY. The greater the number of business functions, lines of business, or geographies AI tools will support, the greater the need to build guilds of AI experts (of, say, data scientists or designers). Companies with complex businesses often consolidate these guilds in the hub and then assign them out as needed to business units, functions, or geographies.

> THE PACE AND LEVEL OF TECHNICAL INNOVATION REQUIRED. When they need to innovate rapidly, some companies put more gray-area strategy and capability building in the hub, so they can monitor industry and technology changes better and quickly deploy AI resources to head off competitive challenges.

Let's return to the two financial institutions we discussed earlier. Both faced competitive pressures that required rapid



innovation. However, their analytics maturity and business complexity differed.

The institution that placed its analytics teams within its hub had a much more complex business model and relatively low AI maturity. Its existing AI expertise was primarily in risk management. By concentrating its data scientists, engineers, and many other gray-area experts within the hub, the company ensured that all business units and functions could rapidly access essential know-how when needed.

The second financial institution had a much simpler business model that involved specializing in fewer financial services. This bank also had substantial AI experience and expertise. So it was able to decentralize its AI talent, embedding many of its gray-area analytics, strategy, and technology experts within the business-unit spokes.

Some art is involved in deciding where AI responsibilities and roles should live.

As these examples suggest, some art is involved in deciding where responsibilities should live. Every organization has distinctive capabilities and competitive pressures, and the three key factors must be considered in totality, rather than individually. For example, an organization might have high business complexity and need very rapid innovation (suggesting it should shift more responsibilities to the hub) but also have very mature AI capabilities (suggesting it should move them to the spokes). Its leaders would have to weigh the relative importance of all three factors to determine where, on balance, talent would most effectively be deployed. Talent levels (an element of AI maturity) often have an outsize influence on the decision. Does the organization have enough data experts that, if it moved them permanently to the spokes, it could still fill the needs of all business units, functions, and geographies? If not, it would probably be better to house them in the hub and share them throughout the organization.

Oversight and execution. While the distribution of AI and analytics responsibilities varies from one organization to the next, those that scale up AI have two things in common:

> **A GOVERNING COALITION OF BUSINESS, IT, AND ANALYTICS LEADERS.** Fully integrating AI is a long journey. Creating a joint task force to oversee it will ensure that the three functions collaborate and share accountability, regardless of how roles and responsibilities are divided. This group, which is often convened by the chief analytics officer, can also be instrumental in building momentum for AI initiatives, especially early on.

> **ASSIGNMENT-BASED EXECUTION TEAMS.** Organizations that scale up AI are twice as likely to set up interdisciplinary teams within the spokes. Such teams bring a diversity of perspectives together and solicit input from frontline staff as they build, deploy, and monitor new AI capabilities. The teams are usually assembled at the outset of each initiative and draw skills from both the hub and the spokes. Each generally includes the manager in charge of the new AI tool's success (the "product owner"), translators, data architects, engineers and scientists, designers, visualization specialists, and business analysts. These teams address implementation issues early and extract value faster.

For example, at the Asian Pacific retailer that was using AI to optimize store space and inventory placement, an interdisciplinary execution team helped break down walls between merchandisers (who determined how items would be displayed in stores) and buyers (who chose the range of products). Previously, each group had worked independently, with the buyers altering the AI recommendations as they saw fit. That led to a mismatch between inventory purchased and space available. By inviting both groups to collaborate on the further development of the AI tool, the team created a more effective model that provided a range of weighted options to the buyers, who could then choose the best ones with input from the merchandisers. At the end of the process, gross margins on each product category that had applied the tool increased by 4% to 7%.

Educating Everyone

To ensure the adoption of AI, companies need to educate everyone, from the top leaders down. To this end some are launching internal AI academies, which typically incorporate classroom work (online or in person), workshops, on-the-job training, and even site visits to experienced industry peers. Most academies initially hire external faculty to write the curricula and deliver training, but they also usually put in place processes to build in-house capabilities.

Every academy is different, but most offer four broad types of instruction:

Leadership. Most academies strive to give senior executives and business-unit leaders a high-level understanding of how AI works and ways to identify and prioritize AI opportunities. They also provide discussions of the impact on workers' roles, barriers to adoption, and talent development, and offer guidance on instilling the underlying cultural changes required.

Analytics. Here the focus is on constantly sharpening the hard and soft skills of data scientists, engineers, architects, and other employees who are responsible for data analytics, data governance, and building the AI solutions.

Translator. Analytics translators often come from the business staff and need fundamental technical training—for instance, in how to apply analytical approaches to business problems and develop AI use cases. Their instruction may include online tutorials, hands-on experience shadowing

veteran translators, and a final "exam" in which they must successfully implement an AI initiative.

End user. Frontline workers may need only a general introduction to new AI tools, followed by on-the-job training and coaching in how to use them. Strategic decision makers, such as marketers and finance staff, may require higher-level training sessions that incorporate real business scenarios in which new tools improve decisions about, say, product launches.

Reinforcing the Change

Most AI transformations take 18 to 36 months to complete, with some taking as long as five years. To prevent them from losing momentum, leaders need to do four things:

Walk the talk. Role modeling is essential. For starters, leaders can demonstrate their commitment to AI by attending academy training.

But they also must actively encourage new ways of working. AI requires experimentation, and often early iterations don't work out as planned. When that happens, leaders should highlight what was learned from the pilots. That will help encourage appropriate risk taking.

The most effective role models we've seen are humble. They ask questions and reinforce the value of diverse perspectives. They regularly meet with staff to discuss the data, asking questions such as "How often are we right?" and "What data do we have to support today's decision?"

The CEO of one specialty retailer we know is a good example. At every meeting she goes to, she invites attendees to share their experience and opinions—and offers hers last. She also makes time to meet with business and analytics employees every few weeks to see what they've done—whether it's launching a new pilot or scaling up an existing one.

Make businesses accountable. It's not uncommon to see analytics staff made the owners of AI products. However, because analytics are simply a means of solving business problems, it's the business units that must lead projects and be responsible for their success. Ownership ought to be assigned to someone from the relevant business, who should map out roles and guide a project from start to finish. Sometimes organizations assign different owners at different points in the development life cycle (for instance, for proof

10 WAYS TO DERAIL AN AI PROGRAM

Despite big investments, many organizations get disappointing results from their AI and analytics efforts. What makes programs go off track? Companies set themselves up to fail when:

1. They lack a clear understanding of advanced analytics, staffing up with data scientists, engineers, and other key players without realizing how advanced and traditional analytics differ.

2. They don't assess feasibility, business value, and time horizons, and launch pilots without thinking through how to balance short-term wins in the first year with longer-term payoffs.

3. They have no strategy beyond a few use cases, tackling AI in an ad hoc way without considering the big-picture opportunities and threats AI presents in their industry.

4. They don't clearly define key roles, because they don't understand the tapestry of skill sets and tasks that a strong AI program requires.

5. They lack "translators," or experts who can bridge the business and analytics realms by identifying high-value use cases, communicating business needs to tech experts, and generating buy-in with business users.

6. They isolate analytics from the business, rigidly centralizing it or locking it in poorly coordinated silos, rather than organizing it in ways that allow analytics and business experts to work closely together.

7. They squander time and money on enterprisewide data cleaning instead of aligning data consolidation and cleanup with their most valuable use cases.

8. They fully build out analytics platforms before identifying business cases, setting up architectures like data lakes without knowing what they'll be needed for and often integrating platforms with legacy systems unnecessarily.

9. They neglect to quantify analytics' bottom-line impact, lacking a performance management framework with clear metrics for tracking each initiative.

10. They fail to focus on ethical, social, and regulatory implications, leaving themselves vulnerable to potential missteps when it comes to data acquisition and use, algorithmic bias, and other risks, and exposing themselves to social and legal consequences.

For more details, read "Ten Red Flags Signaling Your Analytics Program Will Fail" on McKinsey.com.

Because analytics are simply a means of solving business problems, the business units must lead AI projects and be responsible for their success.

of value, deployment, and scaling). That's a mistake too, because it can result in loose ends or missed opportunities.

A scorecard that captures project performance metrics for all stakeholders is an excellent way to align the goals of analytics and business teams. One airline company, for instance, used a shared scorecard to measure rate of adoption, speed to full capability, and business outcomes for an AI solution that optimized pricing and booking.

Track and facilitate adoption. Comparing the results of decisions made with and without AI can encourage employees to use it. For example, at one commodity company, traders learned that their non-AI-supported forecasts were typically right only half the time—no better than guessing. That discovery made them more open to AI tools for improved forecasting.

Teams that monitor implementation can correct course as needed. At one North American retailer, an AI project owner saw store managers struggling to incorporate a pilot's output into their tracking of store performance results. The AI's user interface was difficult to navigate, and the AI insights generated weren't integrated into the dashboards the managers relied on every day to make decisions. To fix the issue, the AI team simplified the interface and reconfigured the output so that the new data stream appeared in the dashboard.

Provide incentives for change. Acknowledgment inspires employees for the long haul. The CEO of the specialty retailer starts meetings by shining a spotlight on an employee (such as a product manager, a data scientist, or a frontline worker) who has helped make the company's AI program a success. At the large retail conglomerate, the CEO created new roles for top performers who participated in the AI transformation. For instance, he promoted the category manager who helped test the optimization solution during its pilot to lead its rollout across stores—visibly demonstrating the career impact that embracing AI could have.

Finally, firms have to check that employees' incentives are truly aligned with AI use. This was not the case at a brick-and-mortar retailer that had developed an AI model to optimize discount pricing so that it could clear out old stock. The model revealed that sometimes it was more profitable to dispose of old stock than to sell it at a discount, but the store personnel had incentives to sell everything, even at steep discounts. Because the AI recommendations contradicted their standard, rewarded practice, employees became suspicious of the tool and ignored it. Since their sales incentives were also closely tied to contracts and couldn't easily be changed, the organization ultimately updated the AI model to recognize the trade-off between profits and the incentives, which helped drive user adoption and lifted the bottom line.

THE ACTIONS THAT promote scale in AI create a virtuous circle. The move from functional to interdisciplinary teams initially brings together the diverse skills and perspectives and the user input needed to build effective tools. In time, workers across the organization absorb new collaborative practices. As they work more closely with colleagues in other functions and geographies, employees begin to think bigger—they move from trying to solve discrete problems to completely reimagining business and operating models. The speed of innovation picks up as the rest of the organization begins to adopt the test-and-learn approaches that successfully propelled the pilots.

As AI tools spread throughout the organization, those closest to the action become increasingly able to make decisions once made by those above them, flattening organizational hierarchies. That encourages further collaboration and even bigger thinking.

The ways AI can be used to augment decision making keep expanding. New applications will create fundamental and sometimes difficult changes in workflows, roles, and culture, which leaders will need to shepherd their organizations through carefully. Companies that excel at implementing AI throughout the organization will find themselves at a great advantage in a world where humans and machines working together outperform either humans or machines working on their own.

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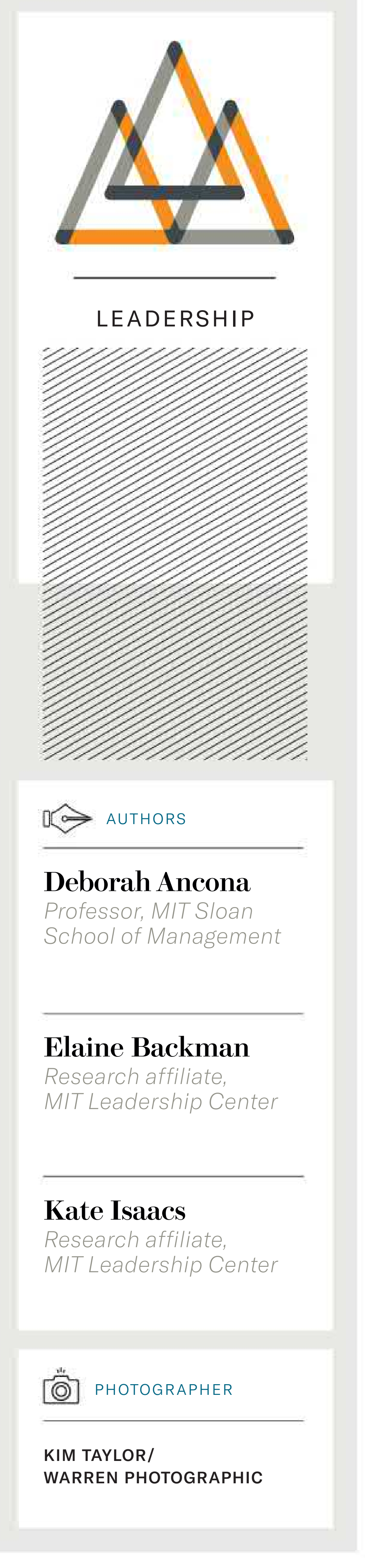
Nimble Leadership

Walking the line between creativity and chaos



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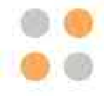
LEADERSHIP

Nobody has really *recommended* command-and-control leadership for a long time. **But no fully formed alternative has emerged, either.**

That's partly because high-level executives are ambivalent about changing their own behavior. They know perfectly well that their companies need to become more innovative—and they suspect it won't happen unless they're willing to push power, decision making, and resource allocation lower in the organization. But they're terrified that the business will fall into chaos if they loosen the reins.

In our research at MIT we've sought to understand how that tension gets resolved in organizations with a strong track record of continuous innovation. Most studies of leadership in fast-changing, uncertain environments have focused either on traditional bureaucracies attempting to become more agile or on very young, entrepreneurial companies. We took a different tack, looking in depth at two organizations that have been around a long time—and therefore have frequently adjusted to changing conditions—and have also maintained an entrepreneurial spirit and a first-class innovation capability: PARC, Xerox's famous R&D company in Silicon Valley, and W.L. Gore & Associates, the privately held materials science company.

During several rounds of qualitative data collection and follow-up interviews from 2009 to 2011 (with updates in 2019), we found many processes and behaviors commonly associated with agile organizations: multidisciplinary teams, a spirit of experimentation, and so forth. But we saw less familiar patterns of leadership, too.



The mechanisms that enable self-management also balance freedom and control. PARC and Gore function efficiently and exploit opportunities while minimizing rules.

First, we identified three distinct types of leaders. *Entrepreneurial leaders,* typically concentrated at lower levels of an organization, create value for customers with new products and services; collectively, they move the organization into unexplored territory. *Enabling leaders,* in the middle of the organization, make sure the entrepreneurs have the resources and information they need. And *architecting leaders,* near the top, keep an eye on the whole game board, monitoring culture, high-level strategy, and structure.

Second, both PARC and Gore integrate cultural norms—many dating back to their earliest days—that support innovation and resilience. The most important of these might be a shared belief that "leadership" should rest with whoever is best positioned to exercise it, regardless of title.

The three leadership roles, along with the cultural norms, have allowed the two organizations to become self-managing to a surprising degree. Many employees define and choose their own work assignments. New products and services are dreamed up not by high-level strategists or "innovators" housed in a separate incubator but by teams of employees who are free to walk away if a project loses steam. Early-stage funding goes to the projects that attract staffing; as success escalates, more resources flow in. And because lots of small bets are being made and employees are choosing which ones to back—that is, which project teams to join—the companies themselves become collective prediction markets that pool talent around good ideas and drain it from bad ones.

And here's the real beauty of the system: The mechanisms that enable self-management also balance freedom and control. The companies function efficiently and exploit new opportunities quickly even as they minimize bureaucratic rules.

Let's look first at the three types of leaders and the cultural norms they embody.

Entrepreneurial Leaders

Much more is expected of frontline leaders at PARC and Gore than of similar employees in more-bureaucratic settings. Entrepreneurial leaders "sense and seize" growth opportunities, lobby for early-stage resources, pull colleagues in with their vision for moving forward, and fully exploit the opportunities that pan out. Most of those we observed exhibited three qualities.

Self-confidence and a willingness to act. These leaders believe in themselves. They experiment, and they're resilient in the face of failure. An engineer at Gore, for example, became interested in a better way to seal fleecy material using the company's proprietary waterproof-membrane technology—something that had baffled specialists. He got hold of some sheep-shearing tools and spent months in his spare time trying various methods to shave fleece, until he finally arrived at a solution. He and colleagues then found a machine that could duplicate the method but do the job faster and better. At that point the project would normally have gone to a different team for development, but the engineer advocated to stay with it in a leadership role, believing he grasped the potential for exploitation better than anyone else could.

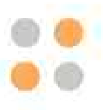
A strategic mindset. Entrepreneurial leaders understand the goals of their organization, business unit, and team

IDEA IN BRIEF

THE CHALLENGE
Mature companies struggle to balance the need for innovation (which requires creative self-starters at all levels of the organization) with the need for discipline (which calls for strong internal controls).

THE CASE STUDIES
PARC and W.L. Gore are exceptions. They've held onto their entrepreneurial spirit and ability to innovate even as they've grown and their industries have changed.

THE FINDINGS
Both companies encourage employees at all levels to take on leadership roles. They also let the actions of employees collectively determine which growth projects to fund. As a result, key decisions are aligned with strategic goals—and bureaucracy is kept to a minimum.



Projects aren't always started at the behest of a high-level manager; many happen because a group gets interested in an opportunity.

at a very deep level. When they take action, they do so to advance those goals.

Often that deep understanding exists because the organization has formulated and communicated simple rules of operation. An engineer at Gore told us, "It's got to be novel, and we make sure the product does what it says it does. And we need to make sure that the revenue will be big enough—a $500,000 opportunity isn't going to get a lot of effort out of us." Even low-level technicians at PARC can talk with sophistication about its business model: the markets the company wants to serve, the percentage split between commercial and government contracts, the expected financial returns, and the available resources.

Entrepreneurial leaders build on this high-level understanding of corporate goals with regular ground-level exposure to customers' needs. Through external outreach they sense new opportunities and refine product ideas. One told us, "We have a lot of people who explore the changing needs of real users....here are the trends, here is where things are shifting."

Many of these leaders have so fully absorbed their organization's strategic goals that they are adept at deciding which investments of time meet multiple goals. A senior leader at PARC told us his people aim for "triple word scores" (a phrase borrowed from Scrabble): opportunities that contribute to success on at least three strategic fronts. One team, he said, aimed to "publish, get government funding, produce commercial outcomes, and create synergies with the rest of the organization"—all from one initiative.

Absorbing cultural norms—"how we do things here"—is as much a part of developing a strategic mindset as is understanding the business model. At Gore the expectation is that every innovation will build on the company's core materials technology, and business dealings must be fair to all stakeholders. At PARC "good taste" is a mantra, and technologies are expected to be best-in-class.

An ability to attract others. Leaders at PARC and Gore aren't handed followers; they must earn them. Many new product-development projects aren't started at the behest of a high-level manager; they happen because an individual or a group gets interested in an opportunity, does some digging, and figures out whether it's worth further investment. At that point the initiators must be able to pull people (and financial resources) onto a team. That takes persuasiveness, confidence, and (often) a good product-innovation track record.

Once volunteers have formed a team, the entrepreneurial leader initially takes the reins—but that doesn't mean people follow blindly. Both firms we studied are committed to collective decision making. This was instilled at PARC in its early days. The first head of its computer lab, for instance, famously "never made technical decisions; the group as a whole did." A manager at Gore said, "People in this culture will often push back and say, 'I don't agree with that, and here's why I think it won't work.'" A good team leader, he added, might respond, "OK, that's interesting, and it's new information." So entrepreneurial leaders need to be confident enough to pull people in but open to changing course if presented with an evidence-based argument. (On some teams decisions require a consensus; on others the leader makes the call once the pros and cons have been discussed.) People join and leave teams in a somewhat organic fashion dictated by the project's needs and their own interests.

Taken together, these qualities—self-confidence, a strategic mindset, and the ability to attract others—allow new product-development ideas that are aligned with strategic goals to emerge and grow in a free-flowing, bottom-up fashion. And those qualities thrive in part because of three long-standing cultural touchstones. The first is *job autonomy.* Gore and to a lesser extent PARC were created with the idea that employees would have significant choice in their work assignments and teams. The freedom to shift work commitments enables the rapid, voluntary redeployment of people to new projects as needs arise.

The second touchstone is *the practice of making many small bets and providing just-in-time resources.* It's impossible to know which ideas will work out, so many bets are needed. At both organizations a collective review process is in place to determine which ideas will move forward, ensuring that the best ones are chosen and that funds are provided without a long wait for senior team approval. The third touchstone is *stepping-up and stepping-down leadership.* Both companies embrace the idea that everyone, not just those in formal positions of power, can lead. A manager at Gore told us that all new product development participants need "a willingness to know when they should be leading"—which implies also being able to discern when they should be following. The

process demands humility, respect, and putting the success of the team and the company above one's own achievements.

Enabling Leaders

Leaders who have more experience than their entrepreneurial colleagues (and are often above them in the flattened hierarchy) focus on helping project leaders develop as individuals, navigate organizational hurdles, connect with others, and stay in touch with larger business shifts. Certain skills are key.

Coaching and development. Enabling leaders often act more like coaches or mentors than a traditional boss would (and they might not be the formal manager of the person they are coaching). They tend to ask questions rather than offer explicit direction. One sales manager described his relationship with a coach this way: "He was a manufacturing guy. He didn't know anything about sales, but somehow—in half an hour I'd come away with a sense of 'now I get it'....He'd get me to the right questions. It was never 'I think you should go left' but 'Do you think you should go right or left?'" The enabling leaders we spoke with had learned not to jump in to solve problems for entrepreneurial leaders. One told us, "The temptation is to say, 'OK, I'll fix it; I'll call that person for you.' But when you do that, you're enabling dependence."

A key part of coaching is helping teams navigate the product development process—and in that context, an enabling leader may become a more active problem solver. (Often these leaders have started out on project teams and have a deep understanding of the issues that can arise.) When a team at Gore needed to get colleagues excited about a project, an enabling leader helped members think through how to position the opportunity. He got them onto the agenda of a divisional team leadership meeting and coached them on their presentation, the questions to anticipate, and what angle was most likely to galvanize the group.

These leaders also help people think about their own development, matching the needs of the business with employees' needs for increasingly complex roles. This can be a fairly straightforward task, owing to the nature of self-organizing teams: If someone has attracted followers and done a bang-up job on a challenging project, he or she will be sought-after for new initiatives and broader tasks. For other workers, enabling leaders offer feedback on how to improve.

THE DOWNSIDES OF NIMBLE LEADERSHIP

This system of management is a powerful driver of innovation and reinvention, but it isn't for the faint of heart, for several reasons:

It's really complicated. These organizations have lots of moving parts. That many of those parts are self-managing doesn't make coordinating them any easier; in some ways it makes coordination harder. And leaders have to believe the system will work; otherwise it's tempting to hang on to bureaucratic controls.

Change at these companies (ironically) can be hard to pull off. Because people at PARC and Gore are used to consultative, crowdsourced decision making, they sometimes balk at changes they perceive as having been imposed on them. Other times they might be frustrated with the slow pace of change.

The system doesn't suit everyone. Even some very talented people aren't comfortable with the degree of autonomy these organizations allow; they'd rather be given clear direction and specific goals. (Both PARC and Gore spend a great deal of time during the hiring process exploring cultural fit.)

Even if it is a good match for someone, learning it takes time. Employees at PARC and Gore go through a lengthy and expensive socialization process.

Connecting. While coaching supports entrepreneurial leaders in their individual growth, connecting helps them experience "creative collisions." Enabling leaders typically have a broader view than do team leaders of what's happening around and outside the organization, so they can see opportunities to create value and can spot "structural holes" that need to be filled. In some cases they connect entrepreneurs to end users; in others they provide connections to similar or complementary projects within the firm. They also ensure that various functional groups—marketing, sales, and regulatory specialists, for example—know what the other functions are up to. Connectors tend to travel to broaden their already-wide networks and link people across functional and geographic borders. One manager described a superconnector in the product development space. "We have one guy seeing all the product concepts...and he's constantly gauging them all," he told us. "He can say, 'There's a guy in Arizona, one in Tapania, and one in France, all thinking the same way....Let's have them all sit in a room and work together."

Communicating. We noted above that even lower-level people at PARC and Gore have a sophisticated understanding

of their firm's business model. Enabling leaders put a great deal of energy into keeping that understanding up-to-date by sharing information about emerging opportunities and changes in the external environment.

The simplest form this communication takes is making sure one part of the organization knows what the other parts are doing (and that it all adds up to something coherent). That's especially important—and challenging—when regional priorities don't perfectly align with global goals. One enabling leader told us, "Twice a year we meet with the divisions and say, 'Here's what we'll do, here's how you'll benefit, here are the projects we're working on for you. Are we missing something? What are your business problems? We're you, and you're us.'"

Enabling leaders also keep an eye on maintaining the organization's values in new business contexts. This works best when they fold communication into a business conversation rather than present it as a blanket directive. One project leader at Gore said that a manager reviewing a royalty agreement under development with a supplier immediately wanted to know, "Is it fair to them?" That simple question reinforced one of Gore's core values: that the company won't prosper over the long term if its partners don't.

Two additional cultural touchstones support enabling leaders' work. First, PARC and Gore have traditionally valued *rapid access to information and high levels of connectivity* throughout their firms. Gore tries to keep plant size to a human-community scale of fewer than 300 people to maximize face-to-face interaction and information exchange. With changes in technology and the rise of global teams, new IT and communication tools also foster interaction. The firm asks most employees to spend much of their first six months building networks across the organization. And PARC was the first company in the world in which all employees were electronically connected.

Second, both firms use *vision, values, and simple rules as decision guardrails,* as the Gore manager's concern about fairness to suppliers illustrates. We've noticed that often these decision guardrails support growth, innovation, and cultural values—and we've been fascinated to see that they also provide a mechanism for managing risk. Everyone at Gore knows the "Don't poke holes below the waterline" principle: If something makes them uncomfortable, employees have an obligation to stop the conversation and say, "I think this is a risk for the company"—and the group then consults with knowledge experts about the issue. (If you damage a ship below the waterline, it sinks.)

Architecting Leaders

Senior leaders focus most of their attention on big-picture issues that require changes in organizational culture, structure, and resources.

Sometimes the game board needs to change because of shifts in ownership or governance structure. In a 2002 Xerox restructuring, for instance, PARC (which had been a division of Xerox) became a stand-alone subsidiary and consequently needed to diversify the types of businesses it was in. Survival required new commercial clients, more government work, and the seeding of start-ups, and the message went out from on high. At other times the game board needs to change because of shifts in the external environment for which internal groups are unprepared. None of Gore's subunits had a broad enough view to see the value of having manufacturing facilities in Asia, but the top team determined that they would be in the company's best interests and redirected resources accordingly.

Architecting leaders not only respond to external threats and opportunities but also serve as caretakers of internal operations. As such they might amplify a move that originated from below, as when Gore's leadership expanded on a push toward greater sustainability that had been championed by enabling and entrepreneurial leaders. They might fill holes no local unit had perceived. They might find ways to make the company more effective or efficient, as when senior leaders at PARC initiated a drive to hire PhDs who were great scientists with entrepreneurial interests.

Senior leaders at Gore were worried about declining success rates for new product development efforts, so they introduced the "real/win/worth" process to help entrepreneurial leaders, in consultation with functional leaders, decide whether to pursue opportunities. This involved three simple but profound questions:

- → **Are the product and the market real?**
- → **Can the product and the company win in the market?**
- → **Is the investment worth it, and does it make strategic sense?**

Finally, changes might be called for because individual groups are making decisions that are sensible locally but are suboptimal for the company as a whole. For example, groups are often interested in developing their own computer, HR, and financial systems—but experience shows that decentralizing those functions hinders coordination and collaboration across the firm.

HOW SATYA NADELLA IS REINVENTING MICROSOFT'S CULTURE

When 22-year veteran Satya Nadella became CEO of Microsoft, in 2014, the company needed a serious reboot. The stock price had stalled, product development was lagging, and employees were more focused on competing than collaborating. This was not what one would call a nimble organization. The firm needed to get out of mobile phone telephony and invest heavily in cloud computing—but for that to succeed, the culture would have to be rebuilt from the ground up. Nadella's efforts to that end bear many hallmarks of the organizational form we studied at PARC and Gore, echoing the cultural touchstones, coaching style of leadership, and continuous learning we observed at those organizations. (Herminia Ibarra, Aneeta Rattan, and Anna Johnston described Microsoft's cultural changes in a recent London Business School case study.)

Nadella used a single overarching metaphor to guide those changes: Carol Dweck's concept that a growth mindset, rather than a fixed one, is key to developing a dynamic, learning-focused culture. (He told a *Wall Street Journal* reporter that his wife "forced" him to read Dweck's *Mindset: The New Psychology of Success.*) With help from a "culture cabinet," he announced the pillars of the new strategic direction: customer obsession, diversity and inclusion, and the idea, captured in the phrase "one Microsoft," that everyone needed to pull in the same direction.

Nadella introduced multiple changes to how decisions were made, performance was evaluated, and leaders were expected to behave. First he built a new senior team—one he could trust to both raise tough questions and function cohesively once a decision was reached. He chose members for technical competence, of course, but was just as interested in whether they were empathetic and respectful to employees at all levels. He wanted to change how company leaders conversed with and guided people. His predecessors, Bill Gates and Steve Ballmer, had engaged in "precision questioning"—the sometimes-aggressive dismantling of other people's arguments, which conveyed impatience with imperfection and could create an atmosphere of outright hostility. Nadella, who says he learned empathy as the parent of a special-needs child, wanted to convey curiosity instead and proceeded on the assumption that he could learn from whoever was speaking. He expected other leaders to do the same.

Stacked rankings, which required that 10% of employees receive a "poor" performance rating, had pretty much killed collaboration at the company, Nadella thought. He substituted continuous coaching and gave local managers more control over compensation.

He also urged leaders to model growth-mindset behaviors—which means admitting when they make mistakes. He has played role-model-in-chief in this regard, too. During a conference on women in computing, he advised a questioner to be patient and have "faith that the system will actually give you the right raises." Not surprisingly, women did not find this advice helpful, and they made their objections very clear. Rather than stand his ground or wait for the noise to die down, Nadella told employees he'd given a completely wrong answer and learned a valuable lesson.

Changing Microsoft's culture hasn't been easy, and the process isn't complete. But the company's performance since 2014 has been extraordinary—and senior leaders believe that changing the culture was the key to changing the company's fortunes.

Brian Smale/Microsoft via Getty Images

If big changes are in order, senior managers may need to make top-down decisions, which of course flies in the face of collective decision making. When that happens, leaders need to spend time explaining—and listening. Even so, some employees will resist the change, while others wish senior leaders would just "rip the Band-Aid off" and move decisively ahead. Facing such inflection points, architectural leaders probably won't succeed unless they have an excellent personal reputation within the firm—and the company has an equally good reputation with external stakeholders. (See the sidebar "How Satya Nadella Is Reinventing Microsoft's Culture" for a description of one company's drive to institute change and become nimbler.)

A Whole Greater Than the Sum of Its Parts

The cultural touchstones we've discussed support all three types of leadership, and together they create a system that's adaptive and self-reinforcing. Because employees have so much autonomy, talented people are always available to start and join new projects. Because power is distributed throughout the organization, people are free to push forward good project ideas. Because people get early leadership training and build strong networks, they learn to engage the right people. The creative collisions facilitated by connecting far-flung

The employees who volunteer for a new product development team (or don't) are a big factor in whether the project is funded.

people and communicating shared goals transform siloed projects into synergistic collaborations. The collective allocation of resources on an as-needed basis means that promising projects get the support they need. And the emphasis on explicit, widely shared values and simple rules ensures that investment decisions are aligned with organizational priorities.

Three aspects of the system are worth highlighting.

Distributed leadership. At both PARC and Gore a remarkable number of employees refer to themselves as leaders; the culture expects them to. As a result, the companies have a cadre of ready-to-go leaders, and the reins really do pass from one set of hands to another easily, as the situation requires.

The different types of leaders interact with one another all the time, of course, and their tasks are certainly not 100% distinct. (We could have included sections on "strategic mindset" and "communication" under any of the types, for instance.) We don't believe one person can fill all three leadership functions simultaneously, but the roles are more fluid than we've made them sound. A natural-born enabling leader will connect, communicate, and coach, whatever his title or hierarchical position, just as a brilliant entrepreneurial leader will keep coming up with new product ideas while she's running the company. We saw several enabling leaders initiate and manage large-scale change campaigns that might more predictably have been handled by architecting leaders.

The power of the many. Academics use the word "emergence" to describe a process whereby order at the system level arises from individual interactions at lower levels of aggregation. We saw that play out at PARC and Gore. As we described above, the volunteers who show up for a new product development team (or don't) are a big factor in whether the project is funded—and if more people vote "yes" by joining the team later on, resources continue to flow in. Time will tell whether this form of crowdsourced strategy combined with architecting leadership works better than decisions handed down by the CEO, but the track record so far is good. And with many people reading the environment, talking with customers, and acting on what they see, the whole organization is nimble and able to move in new directions.

Processes that balance freedom and control. When we speak with leaders about this kind of system, most agree intellectually that power, decision making, and resource allocation should be distributed. But making that happen is another matter. Their great fear is that the organization will fall into chaos. But PARC and Gore show that it's possible to build processes that, taken together, can maintain order better than any bureaucratic regulations while also supporting innovation. We've described those processes throughout this article, but let's look explicitly at some of the ways in which they help maintain order.

→ **Because individuals need to be persuaded to join a project, their feedback and misgivings are incorporated early in the development process, and talent is drained away from less-promising projects.**

→ **Because enabling leaders devote much time and energy to discussions about new information, nobody's strategic mindset becomes inflexible.**

→ **Because cultural values and simple rules relating to the business model are part of everyday conversations and decision processes, people don't go off in myriad directions.**

→ **The collective vetting ensures that investment decisions aren't determined by a leader's pet projects.**

→ **Because projects begin with small bets and are reinvested in iteratively, one bad bet won't bring down the entire operation.**

THE LEADERSHIP ROLES, cultural norms, and system-level checks we've described give these organizations a leg up with employees that's difficult to define but quite tangible nonetheless. On each visit to Gore we heard about some new, usually unexpected area of interest—and recent explorations have included everything from insulated cables that enable reliable Wi-Fi on airplanes to footwear technology that provides warmth without bulk. Remarkable energy and joie de vivre pervade both PARC and Gore. Companies that need to improve their new-product hit rate—and boost employee engagement—should take note.

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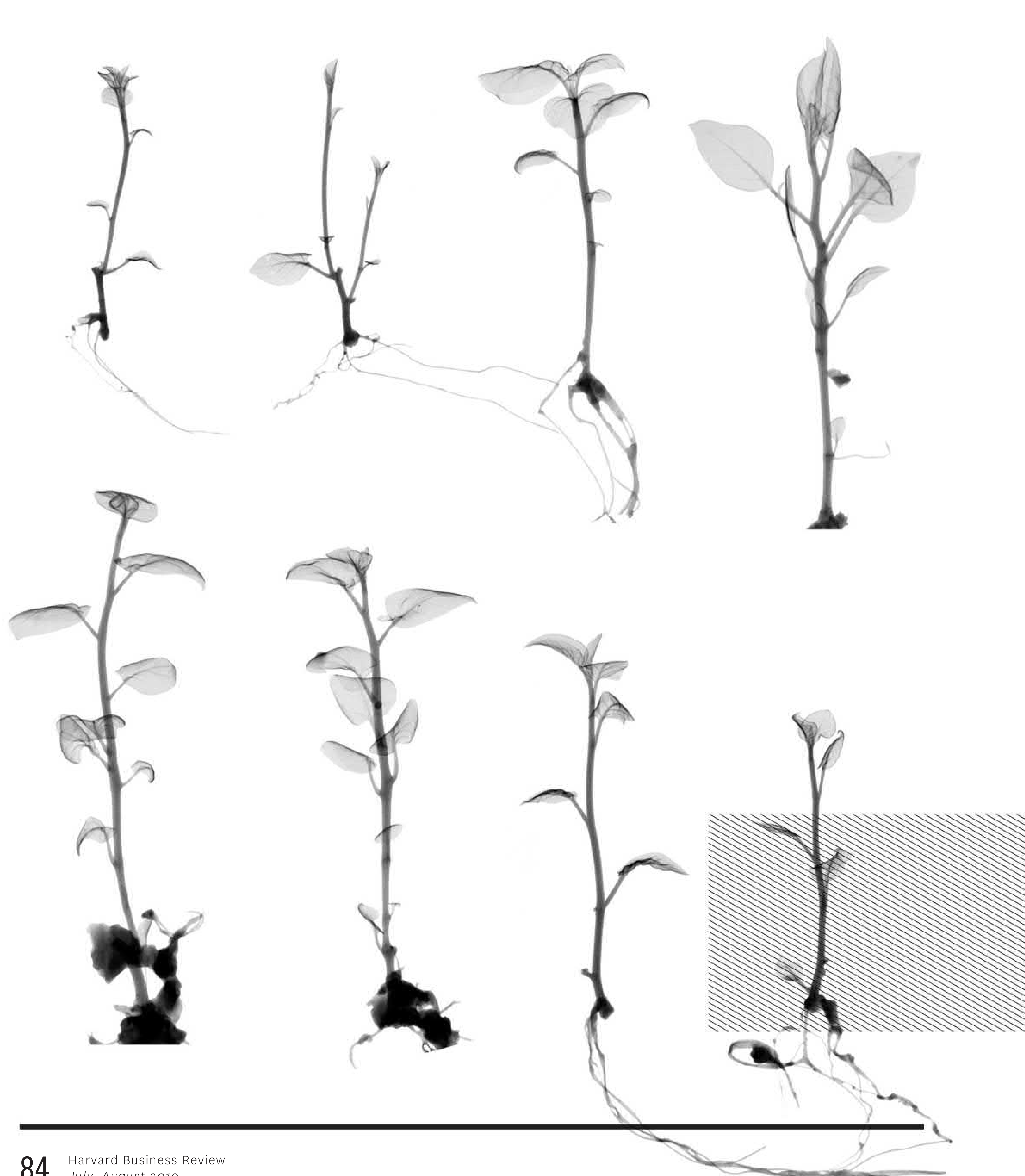
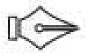


ENTREPRENEURSHIP

The *Soul* of a Start-Up



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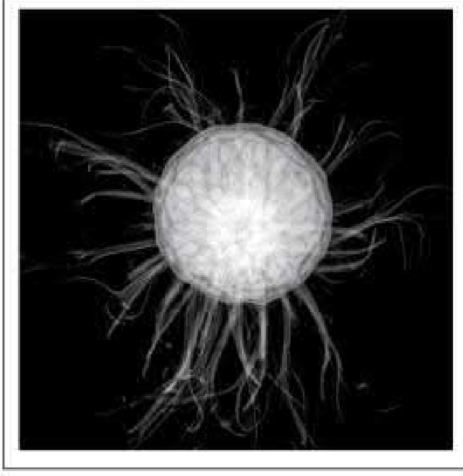


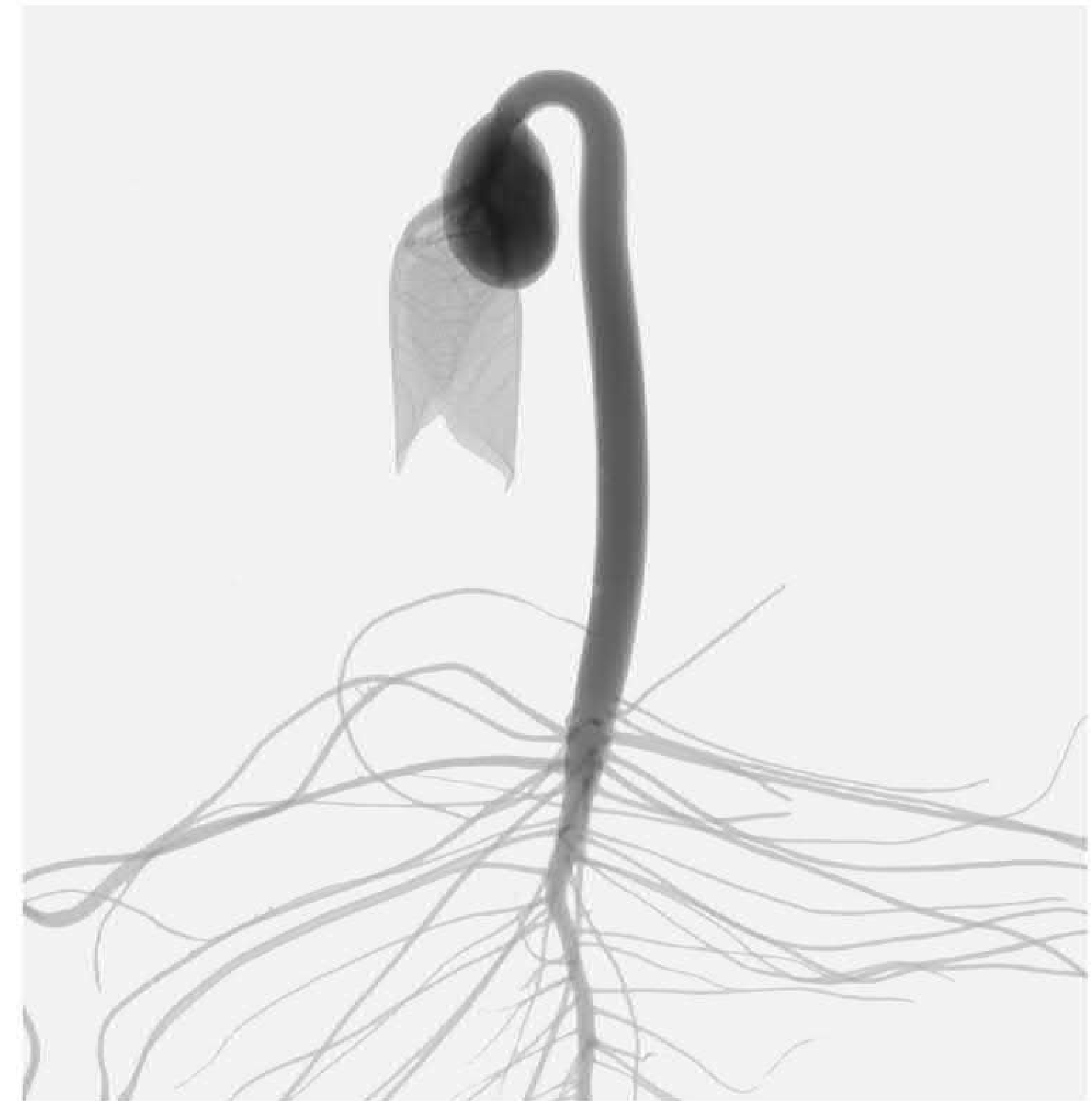
Companies can sustain their **entrepreneurial energy** even as they grow.

IDEA IN BRIEF

THE PROBLEM
As companies grow, they need new systems and structures to manage their evolving businesses. Too often, however, they lose sight of the original spirit and essence that during their early days attracted and energized stakeholders.

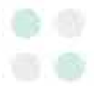
THE RESEARCH
Interviews with more than 200 founders and executives at a dozen fast-growth ventures show not only that this "start-up soul" is real but that it can be broken down into three key elements: business intent (the company's reason for being); customer connection (a crystal clear focus on those being served and what they want); and employee experience (allowing people to have voice and choice).

THE SOLUTION
If a company follows the lead of Warby Parker, Netflix, and BlackRock and thinks more consciously about what it needs to do to keep the three elements at the forefront of its strategy and daily operations, it can preserve its soul—or revive it.



There's an essential, intangible *something* in start-ups—an energy, a soul. Company founders sense its presence. So do early employees and customers. It inspires people to contribute their talent, money, and enthusiasm and fosters a sense of deep connection and mutual purpose. As long as this spirit persists, engagement is high and start-ups remain agile and innovative, spurring growth. But when it vanishes, ventures can falter, and everyone perceives the loss—something special is gone.

Photographs courtesy of Holly Johnson Gallery



Most founders believe that their start-ups are about more than their missions, business models, and talent.

The first person I heard talk about "the soul of a start-up" was a *Fortune* 500 CEO, who was trying to revive one in his organization. Many large companies undertake such "search and rescue" initiatives, which reflect an unfortunate truth: As a business matures, it's hard to keep its original spirit alive. Founders and employees often confuse soul with culture and, in particular, the freewheeling ethos of all-nighters, flexible job descriptions, T-shirts, pizza, free soda, and a family-like feel. They notice and wax nostalgic about it only when it wanes. Investors sometimes run roughshod over a company's emotional core, pushing a firm to "professionalize" and to pivot in response to market demands. And organizations trying to recover an "entrepreneurial mindset" tend to take a superficial approach, addressing behavioral norms but failing to home in on what really matters.

Over the past decade, I've studied more than a dozen fast-growth ventures, conducting 200-plus interviews with their founders and executives, in an attempt to better understand this problem and how it can be overcome. I've learned that while many companies struggle to retain their original essence, creativity, innovativeness, and élan, some have managed to do so quite effectively, thereby sustaining strong stakeholder relationships and ensuring that their ventures continue to thrive. So often entrepreneurs, consultants, and scholars like myself emphasize the need to implement structure and systems as a business grows, missing the importance of preserving its spirit. We can and should focus on both. With effort and determination, leaders can nurture and protect what's right and true in their organizations.

IN SEARCH OF ORGANIZATIONAL SPIRIT

Perhaps not surprisingly, investors and founders seem to harbor different views on whether start-ups have souls. In my research I found that some executives at VC and private equity firms tended to discount the notion as an illusion or irrelevant. Their focus was on applying professional management and process discipline to their portfolio companies.

Most founders, by contrast, believed that their start-ups were about something more than their missions, business models, and talent, even if those founders couldn't articulate it precisely. For example, in his book *Onward*, Howard Schultz described the spirit of Starbucks this way: "Our stores and partners [employees] are at their best when they collaborate to provide an oasis, an uplifting feeling of comfort, connection, as well as a deep respect for the coffee and communities we serve." I interviewed another founder who identified "loyalty to customers and the company" as the "core essence" of what made his business great. A third spoke about this essence as "a shared purpose built around an audacious goal and a set of common values." Early employees told me that they identified intensely with their enterprises, feeling what Sebastian Junger, in his book *Tribe,* refers to as "loyalty and belonging and the eternal human quest for meaning."

I became certain that these people, who knew their companies best, were onto something. Across spiritual traditions, the human soul is often described as "the real self." In Hindu, it is the *atman*. For Jews, it's the *neshama*. While Christian theologians and Western philosophers have long had debates about the soul, many have believed in it and in its persistence over time. The dozens of founders and start-up employees I interviewed felt similarly, perceiving their organization as having a "true" self in which all stakeholders are intertwined.

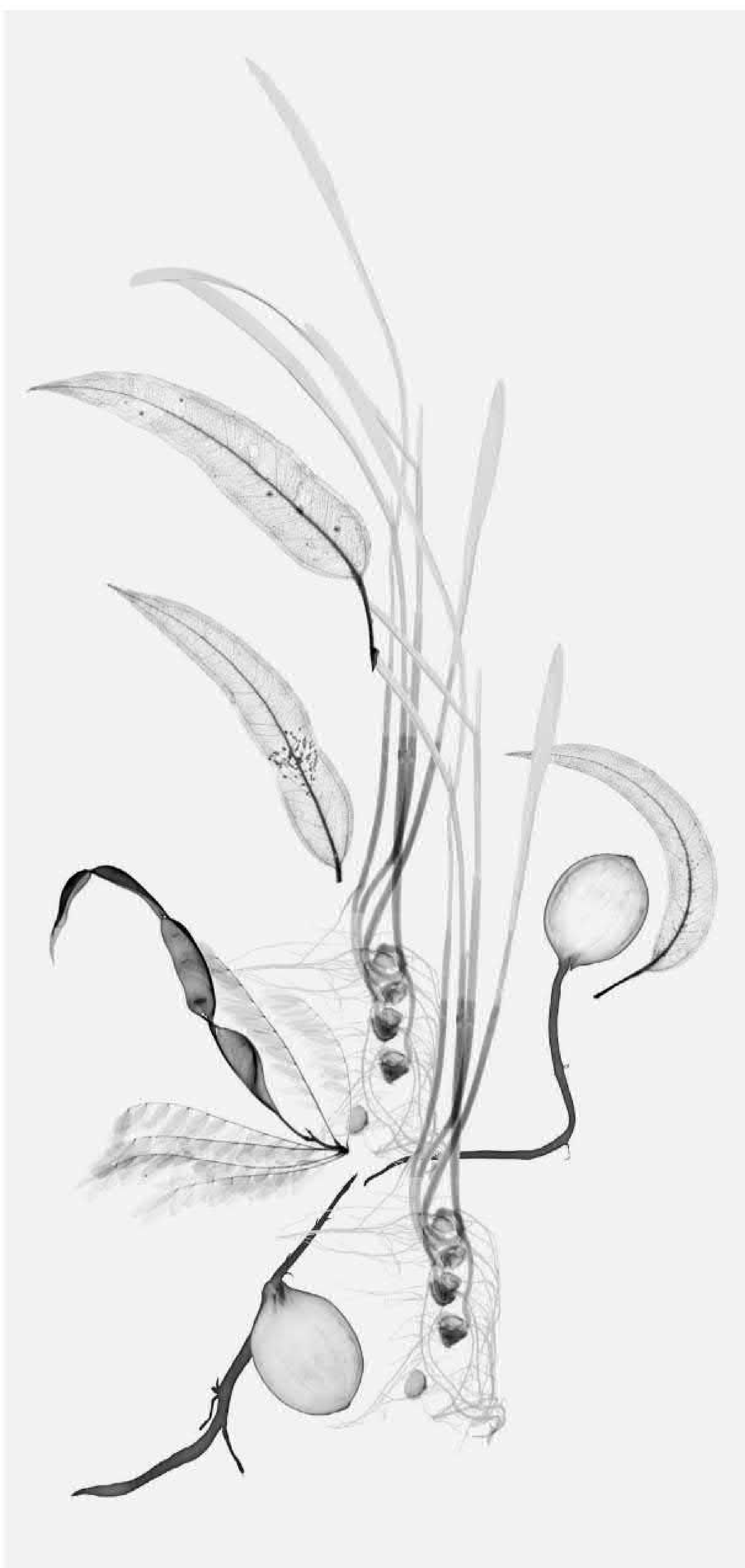
DIMENSIONS OF THE SOUL

I began to wonder if it might be possible to catalog what specific elements of this soul engaged stakeholders and drove a venture's success. In other words, what aspects of a start-up do leaders really need to preserve as the business grows?

My investigation pointed to three elements that combine to create a unique and inspiring context for work: business intent, customer connection, and employee experience. These are not simply cultural norms designed to shape behavior. Their effects run deeper, and they spark a different, more intense kind of commitment and performance. They shape the *meaning* of work, rendering work relational instead of merely transactional. Employees connect with a galvanizing idea, with the notion of service to end users, and with the distinctive, intrinsic rewards of life on the job. People form emotional ties to the company, and those ties energize the organization.

ABOUT THE ART

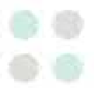
Photographer Dornith Doherty has spent 10 years using X-ray machines to capture the beauty of seeds and plant samples from global seedbanks for a project she calls Archiving Eden.



Business intent. All the ventures I studied had their own animating purpose. Usually this "business intent" originated with the entrepreneur, who communicated it to employees to persuade them to trade stable jobs for long hours and low pay. Although many factors—including the desire for an eventual windfall—drove the people I interviewed to join their companies, all had a loftier desire to "make history" in some way, to be part of something bigger. They wanted to build businesses that improved people's lives by changing the way products or services were created, distributed, or consumed. Many ventures define their mission or business scope, but the intent I uncovered went further, taking on an almost existential significance—a reason for being.

Consider Study Sapuri, a Japanese enterprise started in 2011 within the multibillion-dollar information-service and staffing company Recruit Holdings. Seeking to turn around Recruit's declining education business, Fumihiro Yamaguchi, a relatively new employee at the time, hatched a plan to create a website that helped students by giving them free access to study guides to university exams. When he presented the idea to an internal group charged with launching in-house ventures, he explained that the website would address educational inequity in Japan by providing more people access to learning materials—an intent that aligned well with Recruit's long-standing mission of creating new value for society.

Since its launch, Study Sapuri has continued to evolve but always with deference to its original intent. Among other moves, it has marketed its services as a college prep service and a tool for high school teachers to use with remedial students, and has expanded its content to include elementary- and junior-high-school material and academic coaching. In April 2015, through its parent company, it acquired Quipper, which offered similar services mainly in Southeast Asian markets. Quipper's founder, Masayuki Watanabe, remarked that he liked the deal because of Study Sapuri's intent: "We believed that learning is a right and not a privilege. We shared the same vision." Top talent felt the same way. "I was drawn to the idea of addressing these issues," one employee told me. "My motivation to join was to offer true value to customers; the users and their parents can actually see that their academic ability is improving." By early 2019, Study Sapuri had emerged as a central brand of Recruit's educational business, with 598,000 paid subscribers.



What set apart successful firms was not a “fun” or “crazy” culture but the unusual creativity and autonomy employees showed.

Customer connection. A close bond with customers also figured prominently in the successful companies I studied. Founders and employees intimately understood the perspectives and needs of the people to whom their products and services were targeted, and felt personally connected to them in a way that unleashed their energy and creativity. In its early days, Nike sent sales reps—dubbed *Ekin*s because they needed to know the company’s products backward and forward—around the United States to not only market to sneaker buyers but also gather insights from them and feed that information back to headquarters. Many Ekins, including cofounder and then-CEO Phil Knight, were so passionate about the brand that they got its now-iconic swoosh tattooed on their feet or legs.

At the global asset manager BlackRock, the mission has always been to improve customers’ financial lives by flexibly anticipating market trends and minimizing risk through a computerized operating platform. And cofounder and CEO Larry Fink repeatedly emphasizes the company’s unusually close relationship with clients. One expression of this commitment is a decision Fink made early on that BlackRock would never trade for its own account. While many other firms do this kind of trading, which is often extremely lucrative, it can result in conflicts of interest. “The temptation is enormous,” Fink explained. “But then we can’t say that we’re a fiduciary to our clients.”

BlackRock’s customer focus conferred a competitive advantage, allowing the firm to attract more assets, while becoming a rallying cry for staff. “You can’t have a conversation without talking about clients, because that’s what’s important,” one employee said. Another highlighted the firm’s emphasis on empathy: “Once we truly understand what the clients want and need, then we can apply our expertise.” A third talked about the “really simple and clear” idea of “helping real people...build a better financial future.” And in a recent engagement survey, more than 80% of BlackRock’s employees said they were motivated to go beyond the basic requirements of their jobs.

Employee experience. My research turned up a third dimension to a start-up’s intangible essence, one connected with the experience of work itself. What set apart successful young firms was not a “fun” or “crazy” culture, as the stereotype goes, but rather the unusual creativity and autonomy that employees encountered on the job, which fostered greater engagement and better results. Having articulated their business intent and emphasized the customer connection, leaders gave their people what I have called “freedom within a framework”—the liberty to operate within well-delineated boundaries—as well as opportunities to influence key decisions, such as which strategies to pursue or products to develop. With both “voice” and “choice,” employees valued their work more and bonded with peers and the company itself.

Eyeglasses retailer Warby Parker has emphasized employee experience since its founding in 2010. Team members are expected to think for themselves, and the company seeks out self-directed hires. No one needs to “meet with a manager every day” to get work done, one executive told me. Personal expression and candid creative input are prized; employees don’t feel they need to censor themselves. Cofounder Neil Blumenthal has also established an “initiatives” system in which employees pitch their own technology ideas on a quarterly basis, and a quarterly recognition—the Blue-Footed Booby award—celebrates employees who exemplify the firm’s core values.

I found many other smart companies using programs to embed voice and choice. Founders at one venture, which had a staff of more than 500 and was growing fast, assigned all new employees to five-person teams and asked each team to spend three months building a business that might destroy one of the firm’s existing ones. Participants could then decide whether to continue working on the idea or take a different position at the organization. Many of the new businesses launched by this company have emerged from this program.

HOW THE ORGANIZATION’S SOUL DIES

At some of the companies I studied, the start-up spirit eroded over time as a result of investors’ interventions, leaders’ own actions, or both. The people in charge either didn’t fully understand what they had or failed to appreciate its usefulness as they pursued growth. The urgent need for survival and then pressures to scale up the business sent them down this perilous path.

> Added bureaucracy and "new blood" can cause workers to feel stifled, customers to feel disconnected, and an organization's entrepreneurial flair to disappear.

Young companies often move into a mode of frenzied expansion. Their leaders can become highly tactical and pivot quickly and repeatedly, which is fine if the underlying business intent remains constant and continues to be communicated. But when it doesn't, the shifting focus of leaders may be problematic. They can become so enamored with their products and services and so obsessed with generating cash that they stop listening to and partnering with both customers and employees.

Start-ups do tend to fail if they don't instill discipline and order as they grow. As my and others' research has shown, they need to add formal systems and processes and hire professional managers. Such changes can be enormously productive if done thoughtfully, with input from all early stakeholders, the business intent on everyone's mind, and the customer bond and team experience maintained. But there is a danger that added bureaucracy and "new blood" will cause workers to feel stifled, customers to feel disconnected, and an organization's entrepreneurial flair to disappear. I interviewed several seasoned "growth stage" CEOs who'd been brought in to replace the founders of companies and who, despite the best of intentions, quickly squelched the spirit of those enterprises.

At the Indian mobile handset company Micromax, for example, the four founders yielded control in 2011 to more-experienced executives who professionalized the company's strategic planning, supply chain management, HR, and other functions. By most accounts, those changes were both necessary and successful, leading to a range of performance gains. But there was a cost. Many employees felt they had lost direct access to senior leadership, as well as true insight into customers and a clear, driving purpose—that is, they felt Micromax had lost its soul. The founders also grew uncomfortable with the changes, and when these tensions reached a boiling point in 2013, they decided to step back in. Later they transferred control to a new team of outside managers—only to have the same saga repeat itself.

Often, it takes a crisis for people to notice that a company's soul is disappearing or gone. Recently, Facebook and Uber both publicly apologized to customers for losing their way. In 2018 hundreds of Google employees demanded that the tech giant shelve plans to develop a search engine that would facilitate the stifling of dissent in China. "Many of us accepted employment at Google with the company's values in mind," they noted in a letter to the company, "including... an understanding that Google was a company willing to place its values above its profits."

PRESERVING THE SOUL

It is possible to find a middle ground in which high-growth, dynamic companies add structure and discipline while still retaining the three critical elements that provide meaning.

As Netflix looked from its DVD-by-mail business to its next frontier, the company pivoted from video distribution to movie and TV production, while also exporting its model from the United States to the far reaches of the world. It's hard to imagine that an organization could retain its original essence through so many profound changes. But Netflix did, in part because those moves were aligned with its core intent of becoming the best global entertainment distributor and helping content creators around the world find an audience. They also supported its brand promise of providing customers stellar service, suppliers a valuable partner, investors sustained profitable growth, and employees the chance to have a huge impact.

The company created innovative new offerings, including highly successful original content, with its audience squarely in mind. And it has maintained an employee experience in which managers provide context about the organization and its operations and then free workers to make informed decisions. The message is "We think you're really good at what you do," according to chief talent officer Jessica Neal. "We're not going to mandate how you do it, but we're going to trust and empower you to do great work." Internal recruiters hire employees who fit in with this culture and train them to navigate it. And CEO Reed Hastings and other leaders have implemented a range of policies designed to enhance voice and choice. They abolished limits on vacation time, replaced formal HR rules with commonsense guidelines, encouraged candid feedback, and opened up the decision-making process. "Ideas are rolled out as conversations with everyone," Neal told me.

Like other successful start-up-to-scale companies I studied, Netflix remained both stubborn and flexible as it grew.

ENTREPRENEURSHIP

In some areas it practiced radical agnosticism, abandoning or altering plans as necessary. But when it came to business intent, customer connection, and employee experience, it took an uncompromising stance, strengthening and protecting them over the years. It worked to preemptively protect its soul.

Even if one of the three elements of a start-up's spirit has eroded, companies can address the problem. Let's look in more depth at Warby Parker's initiatives program. As the retailer grew its workforce and added new layers of management, its leaders spoke about retaining a "small-company feel." But the company's software engineers, who had once helped choose which projects to prioritize, were now simply executing tasks assigned to them. To fix the problem and re-create the employee experience of old, the company developed the "Warbles" program, asking engineers to suggest and advocate for new technology initiatives, such as altering web pages and improving order-processing workflow, which are then reviewed and voted on by senior management. The program also emphasizes intent. "For each piece of work that gets proposed, we ask people to attach metrics associated with our strategic objectives," cofounder Dave Gilboa told me. Also, though projects are ranked according to the number of votes received, engineers can choose to pursue any on the list if they feel it aligns with their priorities and can deliver maximum value. "If it's a new piece of work they're excited to learn or a new technology, we give them that freedom," Gilboa said. Adam Szatrowski, principal software engineer, added: "This is where autonomy shines."

When damage to the soul is especially grave, founders have sometimes returned to restore it. In 2008, Howard Schultz resumed the CEO role at Starbucks because, as he explained in his book, he "sensed something intrinsic to the Starbucks brand was missing." In the ensuing months, he undertook a number of measures to nurse the company's spirit back to life. Notably, he convened an off-site at which leaders thought broadly about the brand and focused specifically on customer relationships. As he told his team, "The only filters to our thinking should be: Will it make our people proud? Will this make the customer experience better? Will this enhance Starbucks in the minds and hearts of our customers?" Weeks later, when presenting a transformation plan to investors, he invoked a return to the company's original business intent, saying, "There are people in this audience...who believed in a young entrepreneur's dream that we could create a national brand around coffee, that we also could build the kind of company that had a social conscience....It's time to convince you and many other people...to believe in Starbucks again."

SAFEGUARDING THE ORGANIZATION'S soul is a critical if little appreciated part of the founding cohort's job, on par with such key decision areas as governance and equity splits. Netflix, Nike, BlackRock, Warby Parker, Study Sapuri, and Starbucks all blossomed as start-ups thanks to their founders' deliberate efforts to preserve the alchemy that made them great enterprises from the beginning. Over the long term, a strong soul will draw in and fire up various stakeholders. Even as companies institute processes, discipline, and professionalization, they should strive to retain the spiritual trinity of business intent, customer connection, and employee experience. It's the secret to not only growth but also greatness.

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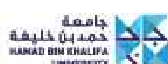

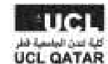

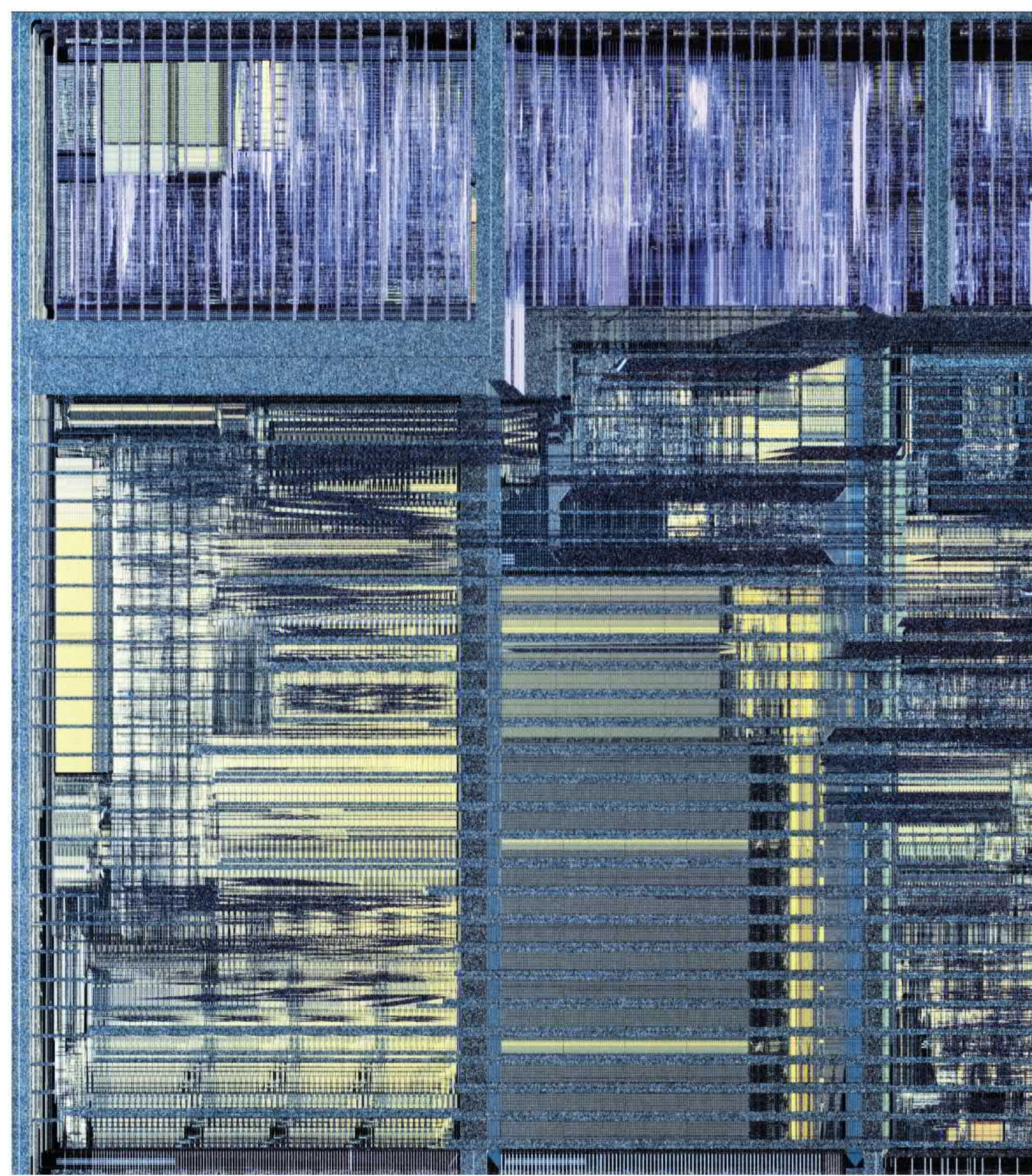

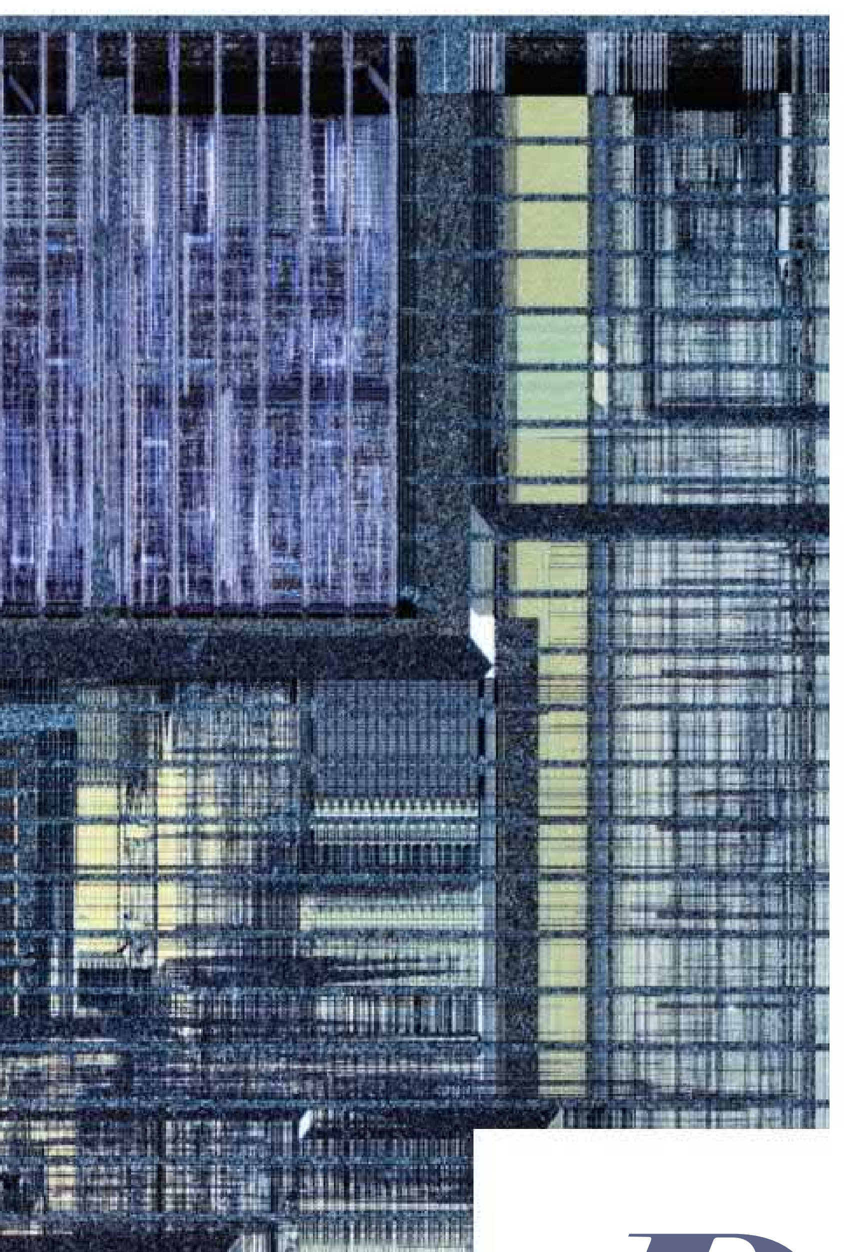

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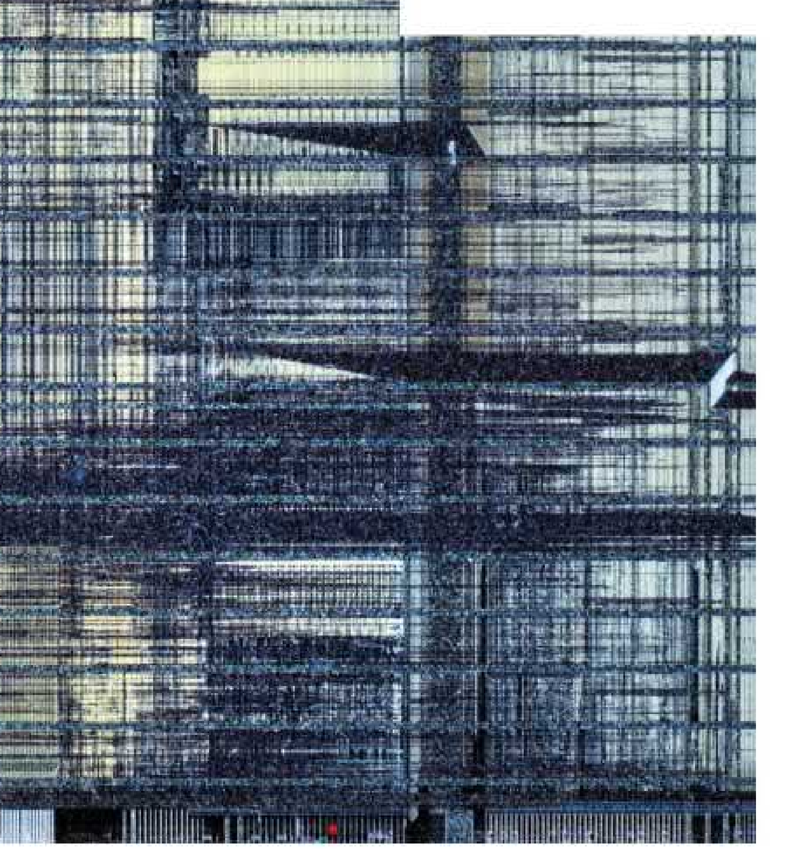
STRATEGY

Digital Doesn't Have to Be Disruptive

The best results can come from adaptation rather than reinvention.



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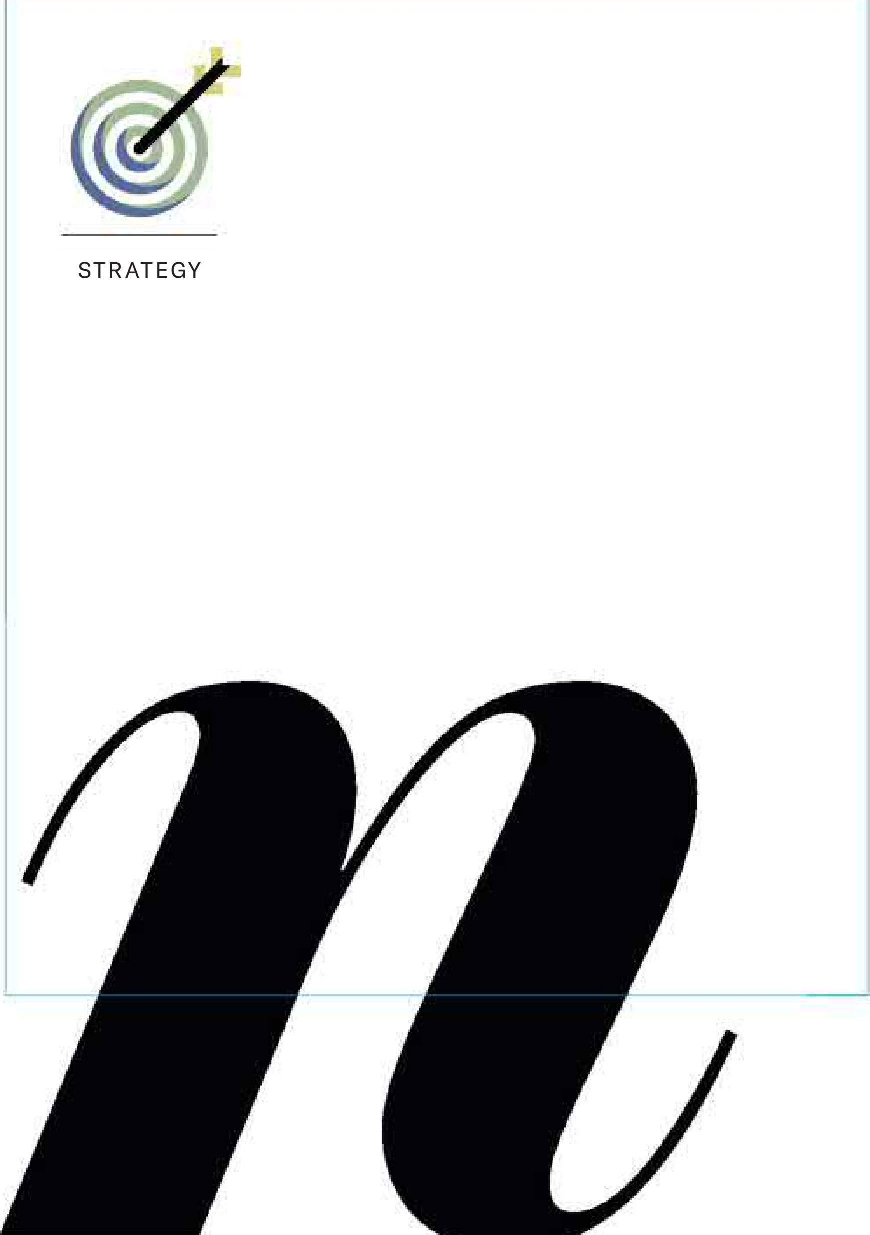


Near the end of a long lunch overlooking tranquil Lake Geneva, a senior vice president at a leading global company confessed to us: "We have a dozen committees on digital transformation; we have digital transformation initiatives; we are going full steam on digital transformation...but no one can explain to me what it actually means."

At a very basic level, the answer is simple: The much-used term simply means adapting an organization's strategy and structure to capture opportunities enabled by digital technology. This is not a new challenge—after all, computers and software have been around for decades and have brought changes both to products and services and to how we make and deliver them. But the point the SVP was making is that it has become increasingly difficult for a company to translate that answer into an action plan. Computers today can fit in your pocket or on your wrist, and the software applications that run on them increasingly enable the automation of tasks traditionally done by humans (such as managing expenses), the virtualization of hardware, and ever more targeted product and service customization. What's more, these apps can reach people everywhere: Sensors embedded in devices and interfaces permit the real-time feed of data, allowing even more informed decision making and machine-driven recommendations. In short, digital technology is no longer in the cordoned-off domain of IT; it is being applied to almost every part of a company's value chain. Thus it's entirely understandable that managers struggle to grasp what digital transformation actually means for them in terms of which opportunities to pursue and which initiatives to prioritize.

Faced with this reality, it's not surprising that many managers expect digital transformation to involve a radical disruption of the business, huge new investments in technology, a complete switch from physical to virtual channels, and the acquisition of tech start-ups. To be sure, in some cases such a paradigm shift *is* involved. But our research and work suggest that for most companies, digital transformation means something very different from outright disruption, in which the old is swept away by the new. Change is involved, and sometimes radical replacements for manufacturing processes, distribution channels, or business models are necessary; but more often than not, transformation means incremental steps to better deliver the core value proposition.

In the following pages we draw on the insights we have gathered—from interviews with more than 60 companies and from the hundreds of senior leaders with whom we have interacted while teaching—to dispel some critical myths about digital transformation and to offer executives a better understanding of how businesses need to respond to the current trends.

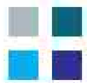
MYTH

Digital requires radical disruption of the value proposition.

REALITY

It usually means using digital tools to better serve the known customer need.

SOME MANAGERS BELIEVE that to achieve a digital transformation, they must dramatically alter their company's value proposition or risk suffering a tidal wave of disruption. As a result, at the start of many digital transformations,



> Digital technology is no longer in the cordoned-off domain of IT; it is being applied to almost every part of a company's value chain.

companies aspire to be like Apple and try to find a new high-tech core product or platform that will serve brand-new customer needs. Although some might succeed, we believe that the customer needs most companies serve will look much the same as before. The challenge is to find the best way to serve those needs using digital tools. As the senior executive of Galeries Lafayette, a high-end French fashion retailer, told us, "This is another modernization. We have been around for more than 100 years, and we have had to undergo other changes in our history, such as the arrival of hypermarkets, shopping malls, specialty chains, fast fashion, brands becoming retailers, and finally e-commerce."

The shipping container company Maersk provides a good example of what this executive meant. The costs of shipping are affected by global trade barriers and inefficiency in international supply chains. The industry also suffers from a lack of transparency. These are familiar challenges. What digital did for Maersk was provide a new way of overcoming them. The company partnered with IBM and government authorities to deploy blockchain technology for fast and secure access to end-to-end supply chain information from a single source. The technology, coupled with an ability to receive real-time sensor data, allows trustworthy cross-organization workflows, lower administrative expenses, and better risk assessments in global shipments. This shift allows Maersk to serve its core customers better. But Maersk has not been transformed into Google. It remains a company whose value proposition is providing a fast, reliable, cost-efficient shipping service—one with the potential to be more streamlined and transparent, thanks to a smart leveraging of digital technology.

Another good example is the Russian airline Aeroflot, which has transformed itself from one of the world's worst airlines into one of the best, with a Net Promoter Score that rose from 44% in 2010 to 72% in 2016 and a passenger load that grew from 64.5% in 2009 to 81.3% in 2016, according to company data. How? The airline used digital technology to significantly improve core activities: operations, reporting, passenger booking, scheduling, and customer care. Specifically, it created dashboards that provide management with an instant overview of more than 450 key performance indicators. The company also aggregates information from sensors installed on the planes, allowing visibility into aircraft performance and preventive maintenance and thereby reducing operating costs. The PR department was even able to lower its headcount, because responding to journalists' inquiries about company data now requires less effort: It's all available on the dashboard. In addition, Aeroflot repurposed the digital architecture created to run the main airline to simultaneously run a low-cost carrier—something few other airlines have succeeded in doing. Once again, nothing has altered the company's raison d'être: It remains a passenger airline, selling seats on planes to many different destinations. It's just a more efficient and user-friendly one through the use of digital tools.

This is not to say that disruption doesn't occur. Make no mistake: Things are changing quickly, and companies that do nothing will be either disrupted or at a minimum outcompeted by those that transform using digital tools. But even in the classic industries where disruption strikes hardest, the story is always a little more complicated when you look below the surface. Whether you are disrupted or not always

IDEA IN BRIEF

THE PROBLEM

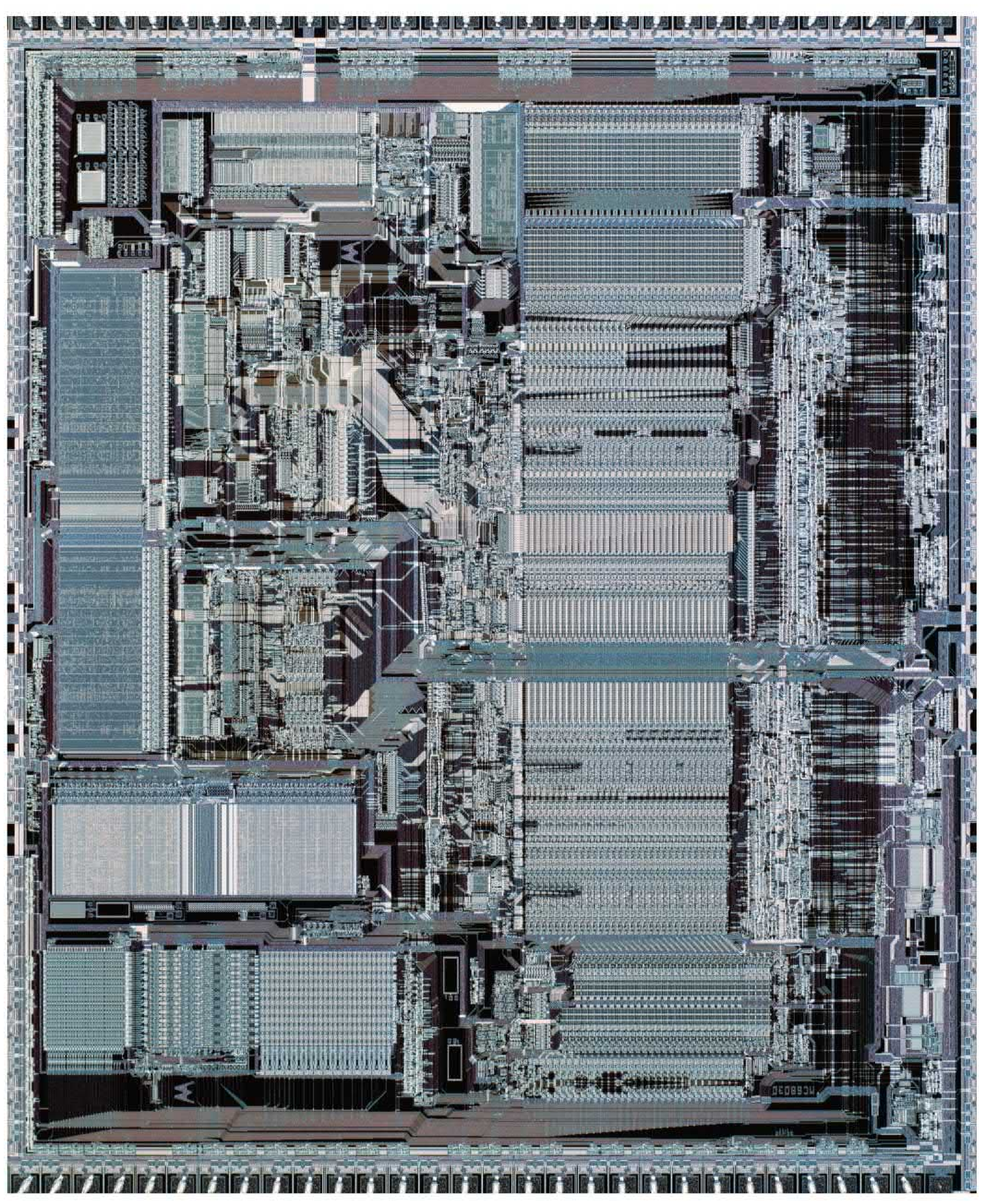
Many managers believe that digital transformation involves a radical disruption of the business, new investments in technology, a complete switch from physical to virtual channels, and the acquisition of tech start-ups.

WHY IT HAPPENS

Digital technology is being applied to almost every part of company value chains, making it difficult for managers to identify priorities.

HOW TO FIX IT

The authors dispel five critical myths about digital transformation and offer executives a better understanding of how to respond to current trends.



ABOUT THE ART

In a series called Computerwelt, the photographer Christoph Morlinghaus reveals the hidden microcosms of microprocessors, each of which measures no larger than a grain of rice. The photos make a technology visible that would otherwise go unnoticed.

STRATEGY

depends on the job you do for customers. If an incumbent can use digital tools to meet customers' needs better than a disruptive new entrant can, it will still prosper.

Take the taxi business. Uber's impact on taxis is one of the most frequently cited examples of digital disruption. The public remembers taxi drivers' striking around the world—notably including in Paris, our hometown—in the face of what seemed to be an existential threat to their livelihoods. But today taxi companies in Paris are thriving.

G7 is a traditional taxi company founded in 1905. It once had a reputation in Paris, as did many other taxi companies, for its drivers' rudeness. Fast-forward to the present: Like Uber, G7 has developed an app that allows customers to book a taxi. The app offers various service levels: sharing, regular cab, green (hybrid or electric), van, and VIP. You can use the app to hail a car from the curb, or you can jump into one standing at the corner, and you can pay the driver with the app using his or her four-digit code.

But G7 differs from Uber in some important ways: Its drivers are better trained, the cars are cleaner, and you can prebook a ride for exactly the time you want it, instead of in a 15-minute window. More important, although a G7 might be slightly more expensive on average than an Uber, it is vastly less expensive when you most need it: Uber imposes surge pricing, multiplying your fare twofold, threefold, or even eightfold, while G7's prices remain constant. It's clear that Uber's arrival forced traditional taxi companies to improve their service: G7 drivers now take etiquette lessons. But it's hard to argue that the advent of digital necessitated a wholesale reinvention of G7's value proposition.

Likewise, the hotel business has been among the industries most threatened by the rise of digital technologies, first from OTA (over-the-air) players like Expedia, next from platforms like Airbnb, and now from search providers like Google. When we interviewed Marriott's CEO, Arne Sorenson, about the impact of digital technologies, he didn't downplay the threat. "The digital forces are clearly very revolutionary and powerful and can be frightening at times," he said. "We are in an absolute war for who owns the customer."

Sorenson emphasized that technology would be a major factor in winning the war: "We have to make sure we are using technology to be more efficient in our operations, deliver service, and create a great loyalty digital platform, but also make sure we have a platform that is big enough and delivers value to our customers so that they book directly with us. We are not going to out-Google Google, but we want to make sure we have a community of folks who can relate to us. It must be through a digital platform. But that platform is about engaging our customers." And that is something Marriott has always done. Although it has launched platforms to compete with Airbnb and drive customers directly to its own site, it's also focusing on what it does best—delivering a great hotel and customer experience. Those who have stayed with Marriott or its sister company Starwood know they're unlikely to get the luxurious mattress and bedding these hotels are famous for at a typical Airbnb.

Understanding that digital transformation does not change the reason your business exists will help you identify the technologies you should focus on. Managers who believe that digital disruption requires wholesale reinvention of the core business end up running in a thousand directions. But if the challenge is simply to better address their customers' jobs to be done, they will most likely focus on the technologies that have the greatest effect on their customers (such as customer experience or relationship synergies) or their core capabilities (such as cost synergies). Your company, just like Maersk, Aeroflot, and G7, can probably continue to serve the same core customers even in the digital era. And the needs of those customers won't change—although digital will certainly provide a better way of catering to them.

MYTH

Digital will replace physical.

REALITY

It's a "both/and."

THERE IS NO doubt that digital often enables the elimination of inefficient intermediaries and costly physical infrastructure. But that doesn't mean the physical goes away entirely. In fact, as has been well documented, many retailers are finding ways to create a hybrid of physical and digital that taps into the advantages of each. And it's not just retailers—the same trend can be seen in many other consumer-facing businesses.

STRATEGY

In retail, Galeries Lafayette provides a classic example. Despite intense competition from online stores, GL recognizes the importance of physical proximity to the customer, which only a brick-and-mortar store can offer. Both models have advantages: Physical helps build an emotional relationship with customers, while digital (especially AI) helps better understand customers' needs. Whereas in the past companies focused too much on the product and not enough on the customer, hybrid models can put the customer at the center of the business.

To ensure that it builds both an understanding of and an emotional connection with customers, the company is seamlessly blending the physical and digital worlds in its new store on the Champs-Élysées. The store will carry a curated selection of luxury items, and it will be staffed by salespeople hired for their ability to interact with visitors to the store, their expertise in fashion and style, and their facility with social media. These staffers, known as personal shoppers or personal stylists, will establish emotional relationships with their customers, making the physical store an initial customer attraction and touch point. Shoppers can then embark on digitally enabled transactions. The new technology will also help salespeople "remember" customers and their preferences and identify individualized perks that will appeal to them.

GL has already gone partway down this road at its flagship Boulevard Haussmann store, where employees are equipped with tablets. Customers come to the store having obtained—through online searches—a lot more information about some products than the salespeople have. The tablets allow employees to quickly browse the online catalogue and become equally well informed.

Shoppers value a physical store visit because they can see and feel actual products. They can reserve items online and try them out in the store without obligation. Alternatively, they can buy products online and simply pick them up in the store. In either case, salespeople must understand how to act like personal shoppers, and the product and customer data they have enables them to do so.

Many digital-first brands are converging on the same path. Bonobos, for example, which was born pure digital, now uses physical stores to let customers try on clothes. After a purchase the clothes are mailed directly from a centrally managed inventory. Warby Parker, another digital native, also now uses physical stores to create welcoming customer experiences. Like GL, these retailers are serving needs that digital meets poorly—creating emotional connections and dealing with the challenges of fitting clothing or eyewear—while using technology to leverage data and achieve cost efficiencies.

We're seeing something similar in the energy sector. Several electric utility companies in Europe have effectively combined the advantages of physical and digital in their connected home systems, which contain smart thermostats and a variety of sensors and detectors. Google and Amazon have entered the market for smart home devices, but utilities have the advantage of engineers (or selected contractors) who back the smart thermostats' value proposition—and customers trust those people to do installation, maintenance, and repair. Some of these companies enable preventive maintenance: If a sensor indicates that a heating system is about to break, the customer is alerted through the thermostat and can schedule an engineer's visit in advance. The same alert helps the engineer understand the problem before the visit and arrive with the right equipment to fix it. This seamless integration of physical and digital can significantly reduce visits and parts used while granting the customer peace of mind.

TUI UK, a travel agency, has also turned to a hybrid of physical and digital. Initially it occupied a very precarious place—its industry is broadly viewed as being disrupted. But as it embarked on a digital transformation, the company discovered that although many customers wanted to make their travel plans digitally, they also wanted to interact with people in retail locations, asking questions and becoming comfortable with complex itineraries.

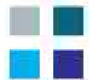
MYTH

Digital involves buying start-ups.

REALITY

It involves protecting start-ups.

OFTEN COMPANIES TRY to access new technologies or ideas by acquiring start-ups and then integrating them. This approach risks killing the start-up's culture and chasing away the talent acquired during its creation. Smart companies prefer to build hybrid relationships with start-ups—strong enough to learn and find synergies but weak enough to avoid destroying the culture. So even though they may own the start-ups, they allow them to operate as semi-independent businesses.



> Smart companies built hybrid relationships with start-ups—strong enough to learn and find synergies but weak enough to avoid destroying the start-ups' culture.

Avnet, a $19 billion global technology solutions provider, is a good example. The company made two important digital acquisitions: Hackster.io, a platform that allows makers from around the world to post their ideas for new products (such as sensors to monitor city noise and pollution levels, augmented reality headsets, and baby oxygen monitors), and Dragon Innovation, a start-up that helps companies bridge the gap between made-for-prototype and industrial-scale electronic products. These companies operate as semi-independent entities and interact with Avnet through Dayna Badhorn, its vice president for emerging businesses. Her role is to protect the acquired companies from the inefficiencies—such as excessive planning and slow product development cycles—of the parent organization while helping Avnet learn agility and the importance of doing quick experiments. Hackster and Dragon Innovation call her their guardian angel.

The importance of a guardian angel is underlined by Galeries Lafayette's experience with its start-up accelerator, Lafayette Plug and Play, in which several big traditional retailers, including Richemont, Carrefour, Lagardère Travel, and Kiabi, are partners. Although GL executives spend a lot of time interacting with start-ups in the accelerator, the company struggled at first to translate such interactions into tangible projects inside GL, because no project leader was assigned to follow through. The situation has improved since GL appointed a manager to fill that role. GL does not buy start-ups from the accelerator (to avoid killing their innovative culture), so having someone to permanently liaise with them helps it maintain close relationships with accelerator members and implement the resulting initiatives. The other corporate members have followed suit, and their uptake of collaborations has improved as well.

In each case a guardian angel fights to take advantage of the best of both organizations, not only helping the start-up hold fast to its mission (which is what motivates much of the talent to stay) but also linking it to the mission of the larger organization while protecting the start-up team from all the bureaucracy and reporting that traditionally eat up company time. Meanwhile, the big company can take full advantage of the start-up's ideas, processes, culture, and technology.

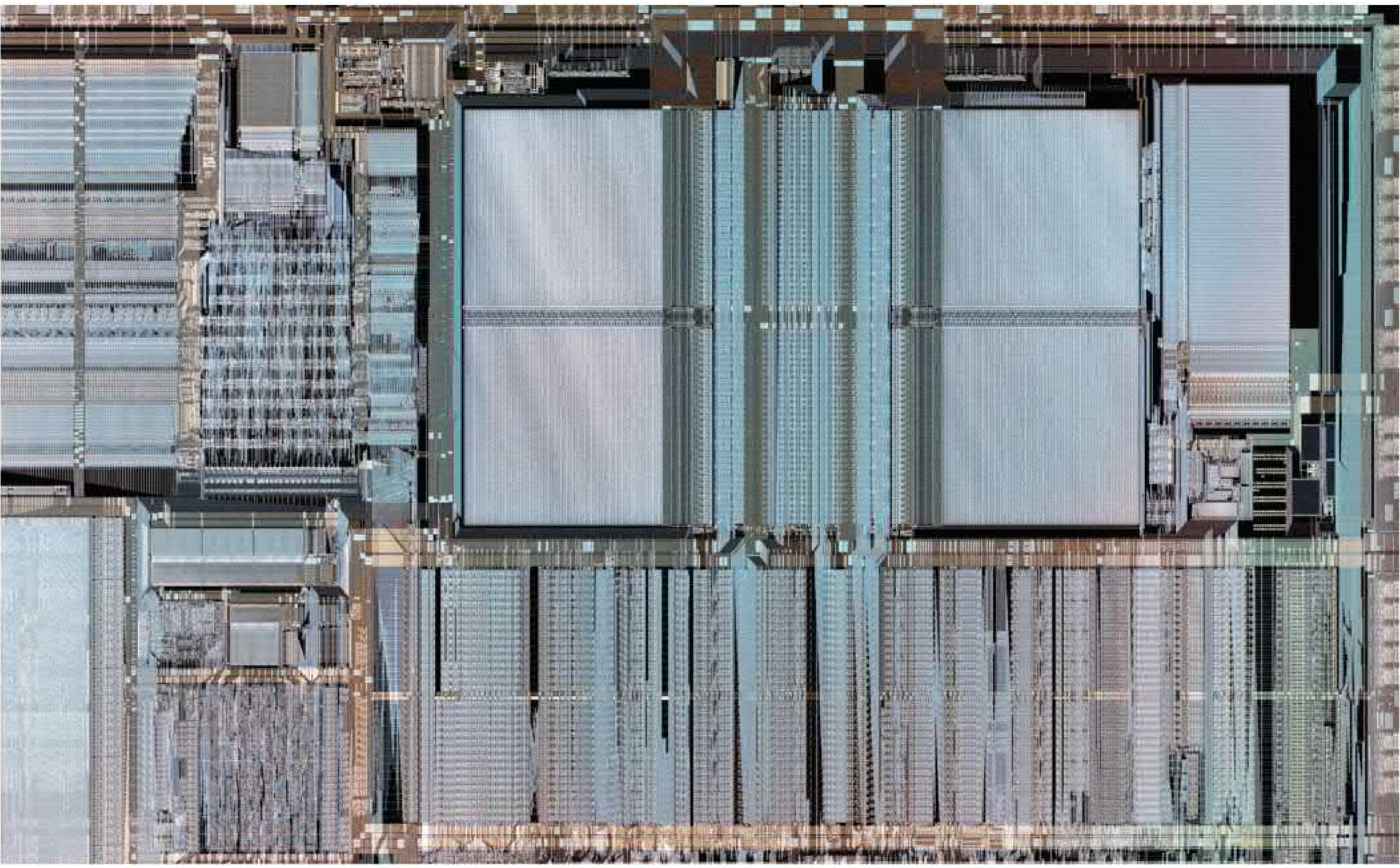
MYTH	REALITY
Digital is about technology.	**It's about the customer.**

MANAGERS OFTEN THINK that digital transformation is primarily about technology change. Of course technology change is involved—but smart companies realize that transformation is ultimately about better serving customer needs, whether through more-effective operations, mass customization, or new offers. Because digital enables—even demands—the connection of formerly siloed activities for this purpose, the company must often reorganize both people and technology.

In practice this may mean changing structure—for example, in situations where a more agile structure is merited, creating internal squads with the capabilities and authority necessary to follow projects from beginning to end. Although a squad is a team, it differs from most big-company teams in being empowered to solve key problems quickly, as an entrepreneur would.

The credit card giant Mastercard has a systematic process for building such squads, overseen by Mastercard Labs. Employees from various functional areas can submit ideas to qualify for three stage awards: Orange Box, Red Box, and Green Box. The Orange Box gives employees a chance to explore their ideas and pitch them. Recipients of this award receive a $1,000 prepaid card and coaching to develop a presentation about solving a specific customer problem. At the Red Box stage people turn an idea into a concept: The team receives $25,000 for testing, prototype development, and research and a 90-day guide outlining the steps needed to refine the concept. The Green Box was designed to create a commercialized product from an official incubation project inside the labs. At this stage team members leave their jobs for six months to work on the project.

One major global bank, ING, teaches an important lesson about getting such squads to work in more-traditional organizational structures. It recognized that to assign the right employees to cross-company initiatives, and to keep them from staying too long on an initiative that should be



cut, it needed to support these intrapreneurs in transitioning between roles. It has developed a set of internal processes called PIE: P for *protect,* meaning that employees who leave their jobs to work on a squad project can return to those jobs if the initiative fails; I for *independence,* meaning that squad members have their own resources and can make their own decisions; and E for *encouragement,* meaning that if the squad is successful, its work will be widely celebrated in the company.

Of course, it must also be OK for these squads to fail. Failures, even relatively late ones, should not jeopardize a career. As ING CEO Ralph Hamers explains, "We have to be honest about failures. We also have to be honest about all that we learned in the process and that by using a different approach, we learned these lessons in a fraction of the time it takes competitors."

There's a framing aspect as well. As the Norwegian telecom giant Telenor (for which Nathan has done consulting) makes its digital transformation, it has experimented with job definitions. Instead of designating individuals as product owners—people who oversee functions and P&L—it now calls them project *managers,* responsible for designing the customer journey. This shift encourages them to operate like mini-CEOs, externally focused on the customer problem and able to work quickly across internal boundaries to deliver a solution.

Finally, it's important to recognize that transitioning to squads can be a painful process. In a radical example of such reorganization, ING eliminated divisions and functions and instead embraced an agile organizational structure with squads tasked to deliver improved customer journeys. When it reorganized, over a weekend, all the employees were fired and had to reapply for their jobs, through the lens of the customer need they solved. With the help of these and similar initiatives, ING plans to reduce its head count in the Netherlands and Belgium by 30%–40% over a five-year period. Not all transitions will be so dramatic, but in most cases some friction is inevitable when jobs are redefined.

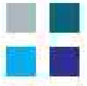
MYTH

Digital requires overhauling legacy systems.

REALITY

It's more often about incremental bridging.

DIGITAL TRANSFORMATION MAY ultimately require radically altering back-end legacy systems, but starting



Experience suggests that attempts to replace multiple complex, mission-critical systems all at once nearly always end in disaster.

with a sweeping IT overhaul comes with great risks. Smart companies find a way to quickly develop front-end applications while slowly replacing their legacy systems in a modular, agile fashion. This can be achieved by building a middleware interface to connect the front and back ends, or by allowing business units to adopt needed solutions today while IT transforms the back end in an ambidextrous manner. Over time the pieces of the legacy system can be decommissioned, but progress in meeting customer needs doesn't have to wait until then.

For example, when TUI embarked on its digital transformation, it faced a difficult challenge: Its business operations in retail, telephone, and online were geographically and operationally separate, and back-end reservations systems in the UK were 35 years old. Technology was critical for the company at the time: The rise of Expedia and other OTA channels was threatening to totally disrupt the travel agency business. In this context it was very tempting for TUI to start its digital journey with a sweeping IT overhaul. But experience suggests that attempts to replace multiple complex, mission-critical systems all at once nearly always end in disaster. Instead, in the words of Jacky Simmonds, who was part of the leadership team, "the key was to envision the ideal customer journey and then see how it could make business sense through a digital lens."

Rather than embark on a complete overhaul, TUI developed a three-year plan to replace its technology, initially working with bespoke solutions to focus on a better customer experience. The company used this time to learn from customers what they wanted in a digital world. It then connected the front-end application to the legacy back end with a middleware interface. Next it divided the back end into modular subsystems and slowly replaced them, adding front-end functionality with each step. Every time the company upgraded a component of the back end or the front end, it first tested it in one market and then iterated the prototype to improve it before working with other business units.

Although TUI decided not to roll its reservations system out more broadly, given the diversity of its markets, a coherent digital strategy allowed the markets to work together, maximizing the investment in technology. The company has enjoyed a decade of steady growth throughout its digitization of the customer journey.

The bridging role of middleware interfaces is particularly apparent in the financial services sector. In 2015 the European Parliament adopted a new Directive on Payment Services (PSD2). One of the objectives of the legislation was to enable third-party developers to build applications and services around a financial institution. If an individual is unhappy with the bank's money-transfer fees, PSD2 makes it easier for that person to use alternative services provided by a third party. Instead of waiting to change the legacy infrastructure to address the challenges of PSD2, institutions such as Deutsche Bank and the Hungary-based OTP have focused on building APIs (application programming interfaces) that allow them to connect external providers, such as TransferWise and the AI-enabled wealth adviser Wealthify, to their legacy infrastructure.

We aren't suggesting that large companies can ignore the need to update legacy systems forever. However, postponing your digital transformation until you can update them fully or all at once is dangerous. If you break the problem into modules and create a middle-layer interface, you can maintain operational stability for the core of the organization while experimenting with satisfying customer needs.

FOR MOST COMPANIES, even those truly threatened by disruption, digital transformation is not usually about a root-and-branch reimagining of the value proposition or the business model. Rather, it is about both transforming the core using digital tools *and* discovering and capturing new opportunities enabled by digital. Each company we have described has incorporated different digital elements in its business model, and not all the changes were disruptive or intrusive. The keys to success have been a focus on customer needs, organizational flexibility, respect for incremental change, and awareness that new skills and technology must be not only acquired but also protected—something the best traditional companies have always been good at.

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The One Thing You Need to Know About Managing Functions: THEY REQUIRE THEIR OWN STRATEGIES

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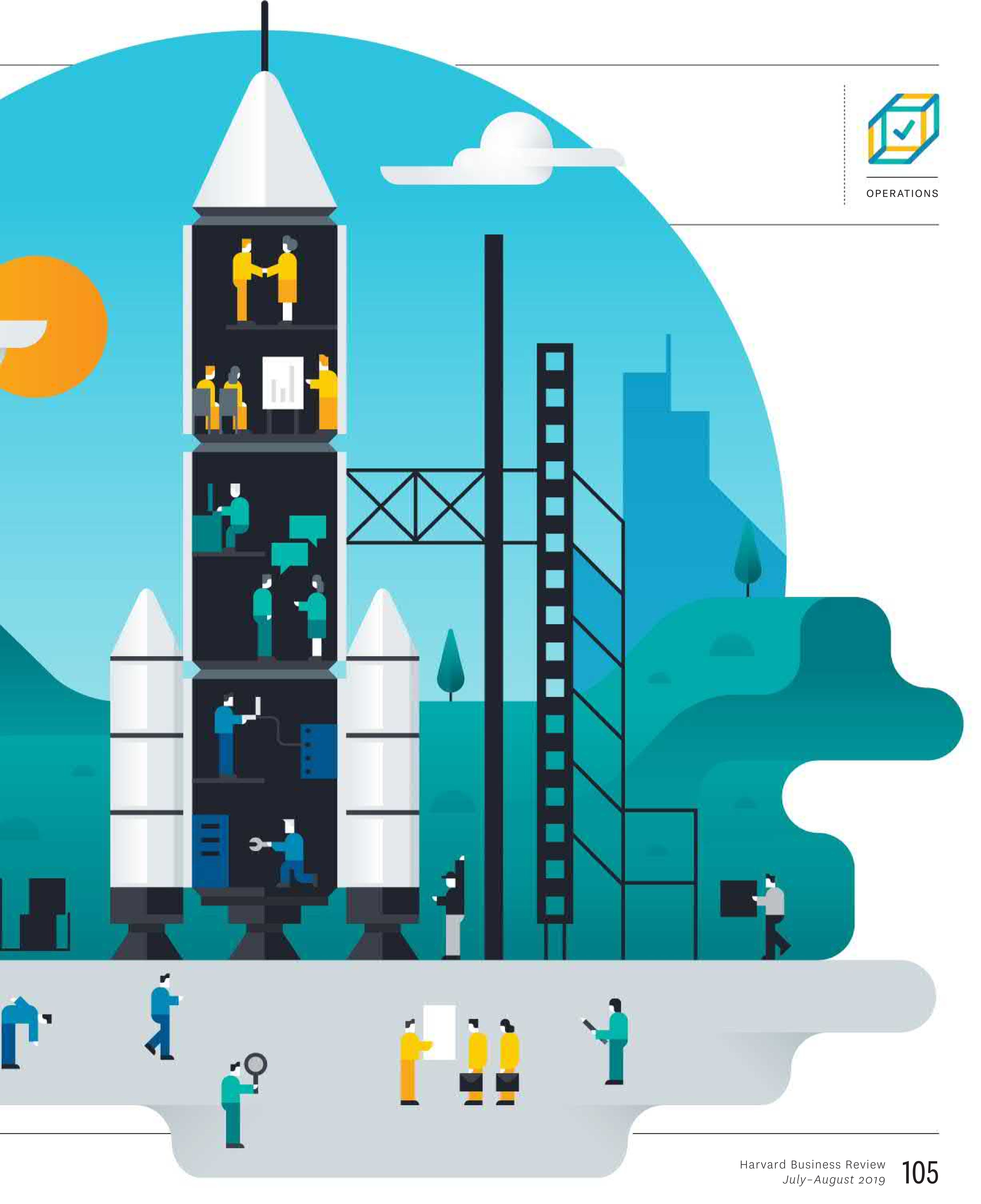


OPERATIONS

Idea in Brief

THE PROBLEM
Line businesses increasingly see corporate functions as a drain on resources, taking capital away from investment in frontline initiatives and eroding their companies' competitive advantage.

WHY IT HAPPENS
Corporate functions typically do not formulate a strategy tailored to the needs of the business. As a result, they end up spreading themselves too thin or overinvesting in best-in-class operations regardless of whether they support their companies' overall strategy.

THE SOLUTION
Leaders should engage in a strategy-making process that starts by asking, What is the implicit current strategy of the function, as reflected in the choices that it makes every day? and then asks, What are the strategic priorities of the rest of the corporation, and is the function critical to them?

"Where should we start?" asked Stephen.

Recently appointed head of innovation at a large, diversified apparel company, Stephen had been tasked with building a culture of innovation across a pretty traditional, operations-focused set of brands. So, at the end of an innovation workshop we led for him, he asked us for advice on the smartest place to get started.

Our answer? With strategy. Begin by thoughtfully articulating the critical choices facing the innovation function. This, we said, would help his team understand where it was headed and how it would get there. He rolled his eyes. "We don't need a strategy for our team," he said. "The brands love us. They know they need us. Creating a strategy would be a waste of time—and we're overwhelmed as it is. In fact, we have more work than we can handle."

And there it was: the very best reason to start with strategy. Stephen's team had more work than it could possibly do. He was trying his best to serve the

company and was struggling to keep up. Inevitably, work was falling through the cracks as his team tried to do everything for everyone. By denying that he needed to make strategic choices as the head of a function—about how his team allocated resources, what it prioritized, what it ignored—Stephen was in fact making a choice. He was choosing not to choose. And as a result, his team was failing to achieve much at all.

It's a dynamic we've seen again and again in our work consulting with and studying dozens of firms (including some mentioned in this article) across a variety of industries. Most companies accept the notion that corporations and business units need strategies. Leaders might not be great at crafting them—or executing on them—but they do at least recognize the value of clearly articulating how their companies and businesses will win in a particular way. For corporate functions—shared service organizations such as IT, HR, R&D, finance, and so on—the need for strategy is less widely understood. In many firms, functions just exist, serving the company in whatever manner and at whatever scale the business units demand.

That is a big mistake, especially given the huge and growing amount of money involved. (See the exhibit "The Rising Cost of SG&A.") If functions do not adopt a strategy consciously, they will almost inevitably end up defaulting to one of two unconscious organizational and cultural models, both of which are likely to result in their becoming a drag on corporate performance rather than a driver of it. In the following pages we'll describe the two unconscious strategies, explain why they are damaging to company performance, and present a strategy-making process that will help functions align with corporate and business strategies.

You Have a Strategy Whether You Like It or Not

There's a secret about strategy that no one tells you: Every organization has one, whether or not it is written down and whether or not it is the product of an official strategic-planning process. It can be deduced from the actions the organization takes because, essentially, strategy is the logic that determines what you choose to do and not do in service of a particular goal. The goal may be implicit. It may have evolved over time. The choices may have emerged without discussion and exploration. The actions may be ineffectual in achieving the goal. But the strategy exists nonetheless.

When Finance decrees that all investments must have a cash payout within seven years, it is making a strategy choice. It is placing a bet that the relatively immediate benefits from a quick return will outweigh the potential benefits that come from making longer-term investments. When IT decides to outsource application development, it is making a strategy choice. It is betting that lowering costs through outsourcing is a more effective way to create value than building applications internally would be. And when HR chooses to standardize hiring practices around the world, it is making a strategy choice. It is choosing to pursue scale advantages from a shared approach rather than benefits (such as agility and adaptation to local culture) of customizing by region.

Does it really matter if such choices are made without an explicit strategy? We believe it does, because it means a function has fallen prey to one of the two damaging strategies:

Do everything the business units want. We call this the *servile strategy,* and it is predicated on the belief that functions serve at the pleasure of the business units. Or, as one CEO recently told us, "Business units do strategy; functions support them." That view feels instinctively right to many managers. A company exists to create products and services for customers, so the business units, which do the creating and serving, rightly drive corporate strategy.

But we should not forget that functions serve customers too: the business units that use their services. Functions that unconsciously adopt the servile strategy try to be all things to all people. As a result, they wind up overworked and underwhelming. They become undifferentiated and reactive, losing their ability to influence the company and access resources. They struggle to recruit and retain talent, because no one wants to work for an ineffectual part of the firm.

A servile corporate function lives under the constant threat of being made redundant. It spreads its resources too widely and thus doesn't serve any business unit particularly well, sometimes prompting units to create their own functional capabilities or to look for a more effective (or at least cheaper) outsourced provider.

Put the function first. The servile strategy produces some miserable outcomes for people working under it, so

> Functions must make clear, focused, and explicit choices aimed at strengthening the capabilities that set their company apart in the marketplace.

it's no wonder that many functional leaders, especially in large organizations, adopt a radically different approach that treats functions and business units as equals in terms of power and importance.

In this *imperial strategy,* leaders put the function's work front and center and pay relatively little attention to how it aligns with the needs of the businesses or the overall strategy of the firm. The IT team creates a center of excellence in machine learning and data analytics—because that's where the action is in IT these days. The risk and compliance team builds a huge apparatus around risk assessment and then looks for ways to insert itself into corporate decision making wherever it can. The finance team builds sophisticated reporting systems that generate mountains of financial data that may or may not be material to the business units' work.

All imperial function leaders we've met claim that their initiatives are great for the company and its businesses, but they can seldom back up this assertion with any evidence beyond pointing to the example set by companies known for excellence in the function's domain: IT benchmarks Google, finance Goldman Sachs, procurement Walmart, and logistics FedEx. And they emulate those firms irrespective of whether their company's strategy resembles that of the benchmark in any way. Meanwhile, frustrated line managers complain that functions divert corporate resources from the units toward activities that make little difference to the company's competitiveness in the market.

The result, unsurprisingly, is a function that serves itself rather than its customers, much as a monopoly business would. And at some level, such functions are monopolies: Business units are often prohibited or strongly discouraged by senior management from using outside vendors for their HR or finance or other services. The trouble is that imperial functions all too easily fall prey to the worst tendencies of traditional monopolies: bloat, arrogance, and overreach. And like most monopolies, they inevitably experience a backlash.

It doesn't have to be like this. Corporate functions can and often do contribute greatly to a company's competitive advantage. Procter & Gamble's customer insights and analytics function, for instance, is critical to helping P&G better understand its customers—a key source of its competitive advantage and a driver of its strategic choices. Similarly, paper and packaging manufacturer WestRock's logistics function plays a central role in driving the innovations in flexible, customized delivery that have given the firm an edge over its competitors.

To follow the lead of these exemplars, functions must eschew unconscious strategies and instead make clear, focused, and explicit choices aimed at strengthening and safeguarding the capabilities that set their company apart in the marketplace.

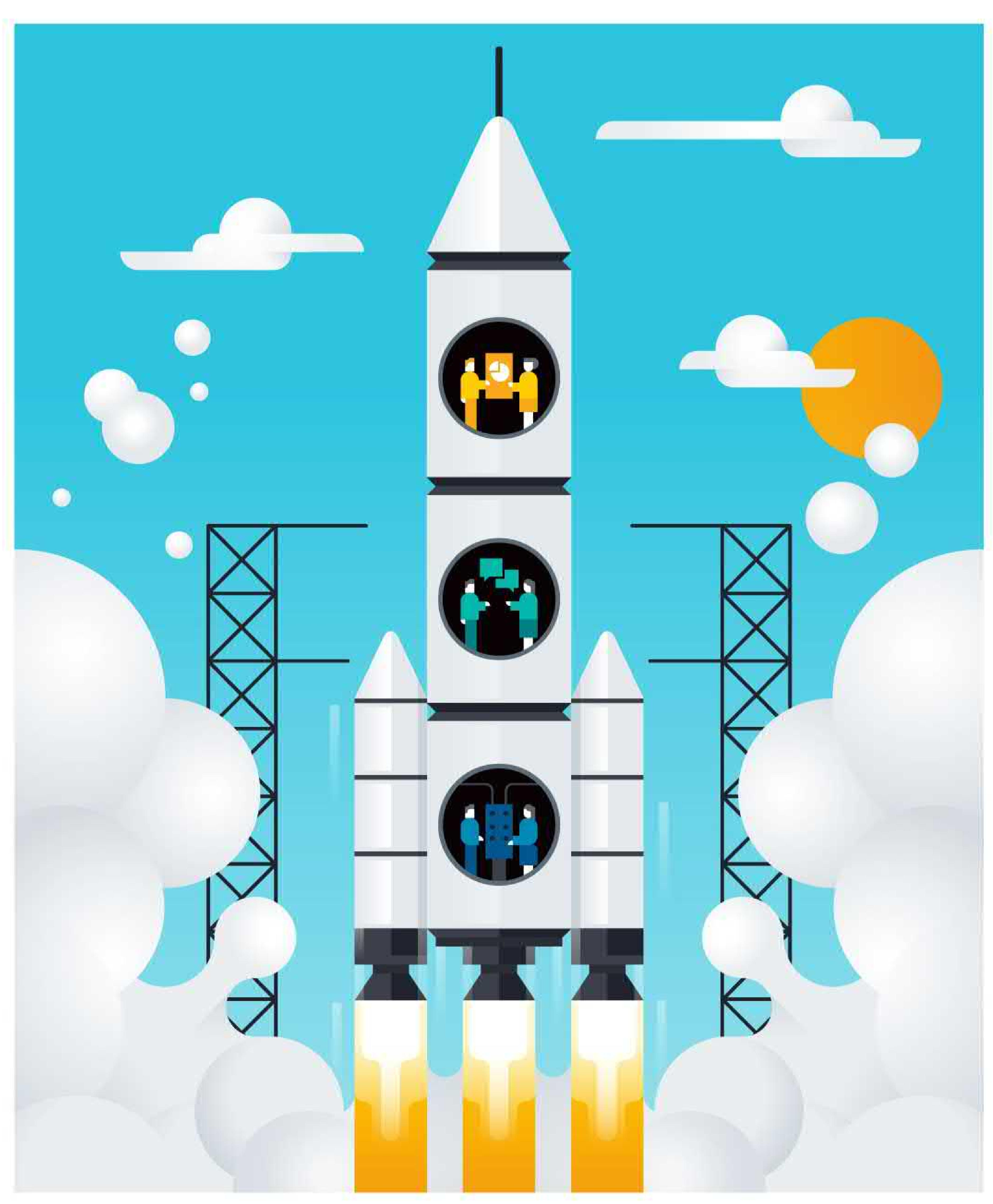
How to Create Effective Functional Strategy

The first two questions a functional leader should explore when putting together a strategy relate to defining the problem: First, What is the implicit current strategy of the function, as reflected in the choices that it makes every day? And second, What are the strategic priorities of the rest of the corporation, and is the function critical to them?

Asking these questions forces functional leaders to confront what is working about their current strategy and what isn't (whether implicit or explicit). Perhaps there are disconnects between their strategy and that of the company, making the function's choices poorly aligned with organizational needs. In trying to serve all parts of the firm the function may be underserving those that are key to its success. Or perhaps the function isn't helping the firm develop the right organizational capabilities to deliver on the corporate strategy.

Important though the exercise is as a first step, do not dwell too much on these questions. There is often a temptation to do a great deal of research—documenting what your organization is doing in detail, what functions in competitors are doing, and so on. Exploring ways to solve a problem is far more valuable than obsessing about it. A reasonable expectation is that a group of smart people, using their existing knowledge, should be able to answer the two questions to a good-enough level after a few hours of discussion. For example, it wouldn't take a lot of deep analysis for a car company's executives to determine whether safety and reliability or branding and design were their company's main challenge.

Once consensus has been reached around the status quo, the next step is to consider alternatives to it. This involves answering another pair of interrelated questions:



Where will we play? For functions, this question is relatively straightforward. Leaders must identify their primary customers inside the firm (which should be the units most important to the firm's overall strategy), the core offering of the function to these customers (which should be closely related to the firm's competitive advantage), and what part of that offering will be outsourced and what part delivered by the function itself.

Let's say that an HR function has identified its main problem as a lack of design creativity across the firm. It might determine that its primary customers are business-unit CEOs, its core value offering is recruiting and developing young designers, and its core internal capability is design talent scouting. It might choose to outsource learning and development to top-flight business and design school partners, and rely on outside agencies for administrative recruiting and training.

In determining where to play, different functions may focus on different parts of the corporate strategy. Consider a digital-platform company pursuing aggressive growth in China and Asia. Its HR function should probably focus on that challenge, but its risk and compliance function might focus more on EU regulations, where policy changes could threaten the company's core business.

How will we win? For corporate or business-unit strategists, determining how to win is relatively straightforward: offer a value proposition to your primary customers that's better than what's offered by companies competing for those customers. General Electric needs to figure out how to provide better value to its business customers than Siemens does; Coca-Cola needs to provide better value to soda drinkers than Pepsi does. In each of these cases, the competitor is easy to identify, and its value proposition and business model can be deduced by observing its products and prices in the marketplace and studying its financial reports.

With functions, the how-to-win question is more challenging. It's not always easy to figure out the relative value to a firm of any given function. Although Verizon can probably do a good job of estimating the value provided by its network function versus T-Mobile's network function, it would most likely have a harder time differentiating between the relative values of the two firms' HR or finance functions. What's more, one company's functions aren't really competing directly with other companies' functions in the same industry. That's because the competing firms may have very different strategies, requiring different capabilities. HR might be hugely valuable for one company, whereas finance is hugely valuable for another. The HR function at the HR-driven company would not want to benchmark HR at the finance-driven company. Functions should compare themselves with functions in other companies only if the companies' strategies are similar. Likewise, it would make no sense for HR and finance to benchmark each other. Often, the appropriate benchmark is an outsourced provider.

The functional team should emerge from its inquiries with a number of possible strategies that answer the questions of where to play and how to win differently from the way the existing strategy does. At this point, the team has to make a choice. It cannot know for sure which of several potential strategies is the right one. But with the slate of possibilities in mind, functional leaders should ask themselves, What would have to be true for each of the strategies to be successful? They should articulate the capabilities and systems required and ask under what conditions the firm should invest in building these capabilities rather than those. With a clear idea of what the enabling conditions are, they can devise tests and experiments to help narrow their options still further.

To illustrate this kind of strategy making, we'll look at talent management at Four Seasons Hotels and Resorts.

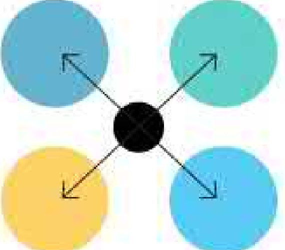
Talent Strategy at Four Seasons

For decades now, the heart of Four Seasons' corporate strategy has been its ability to define luxury as service: to make guests feel welcome, happy, and completely at home. Founder Isadore Sharp, in his 2009 book, points to the company's employees as the driving force of this strategy: "[Our long-term staff] were focused on more than their jobs; they were concerned about guest comfort and their ability to enhance it. And our ability to attract, develop, motivate, and retain such people made our...culture a rare advantage."

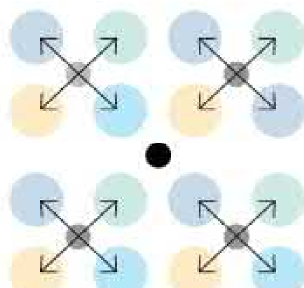
Indeed, Four Seasons' talent function plays a crucial role in producing its competitive advantage. If we look back at what Sharp and the talent team did through our lens of functional strategy, we can see how they defined their problem and the choices they made to solve it.

The Territory That Strategy Left Behind

In the first half of the 20th century, the world's large corporations were almost all organized around functions, including manufacturing, marketing, HR, and finance.

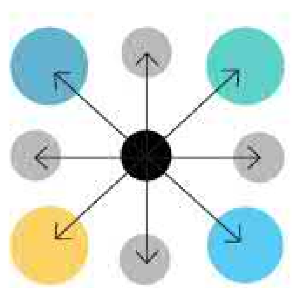


But beginning in the late 1950s and continuing through the 1960s, most shifted to a structure organized around product-centered business units, in response to the need for each product line to have a clear strategy and accountability in order to win against competitive products and brands.



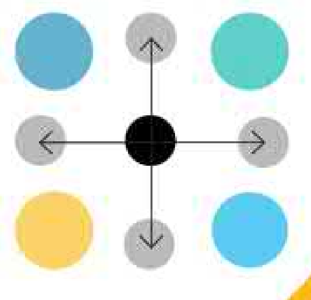
As firms grew in scale and scope, it became unwieldy to have the head of manufacturing, the head of marketing, and the head of sales all juggle their particular piece of each product line. A new corporate structure emerged, in which product-line business units developed their own independent functions. Each business unit or product team now performed its own HR work, financial accounting, research and development tasks, and logistics support services, giving rise to the conglomerate form of business organization popular through the 1970s and 1980s.

Over time, the pendulum swung back, as it became clear that the conglomerate structure failed to add enough value to the businesses to outweigh the costs of maintaining all those individual functions. Corporations began to recentralize many functional activities, enabling greater specialization, efficiency, and consistency in each area.



These centralized functions were purpose-built to create cost efficiencies or to add value in ways that would not occur if the services were performed in a decentralized and smaller-scale way. Purchasing would be cheaper, global recruiting would be more efficient, and R&D would be more effective at scale, the theory went. Marketing, HR, and finance would be more consistent across the businesses.

Unfortunately, through this evolution, the questions of what these functions should (and should not) do and how they should think about strategy were largely left unanswered. The practice of business strategy didn't take shape until the 1960s, when the transition to product-line organizational structures was largely complete. **As a consequence, strategy theory and practice focused entirely on product lines, and the functions were the territory that strategy left behind.**



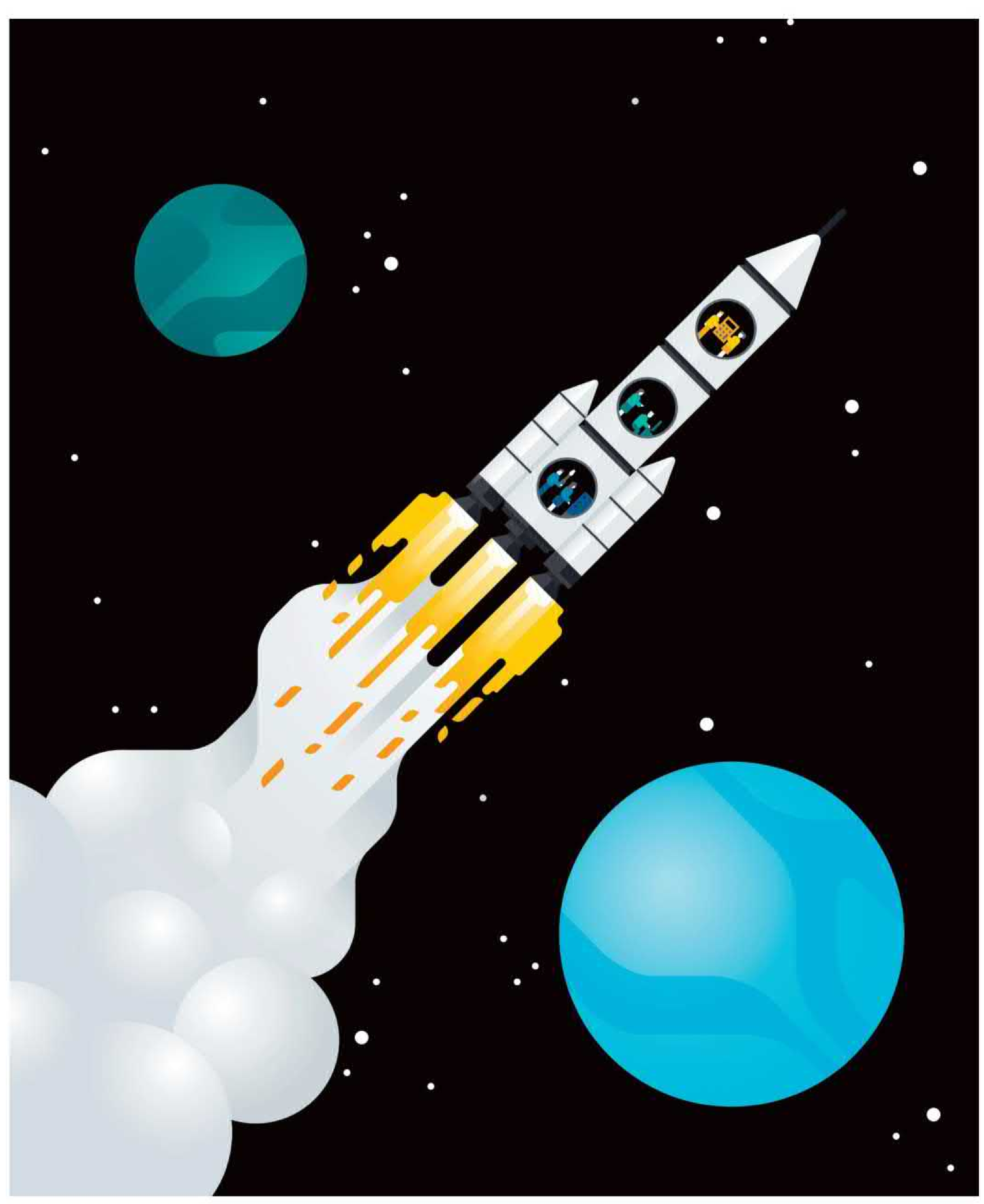
Defining the problem. Labor costs in the hotel business, as in most service-based industries, represent a large share of operating expenditures (currently about 50%). Accordingly, most hotel chains treat labor as a cost to be minimized. Frontline hotel staffers are treated as replaceable cogs in a massive, fast-moving machine. No wonder, then, that according to the Bureau of Labor Statistics, the 2018 annualized employee turnover rate in the industry was 73.8%.

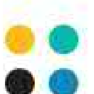
Since turnover of frontline employees is so high, most major chains focus their hiring efforts on getting good general managers (who are likely to stay longer) and then building mechanisms to quickly hire lots of new entry-level employees each year. They rarely invest much in frontline retention because it is seen as a lost cause; the huge turnover rate is treated as an inevitability. Instead they focus on cost-cutting to address labor issues: minimizing staff hours, standardizing to boost productivity, and so on.

When Sharp entered the hospitality business, he saw all these norms in operation. But he slowly began to push back on them. At the time, hotel chains defined luxury largely in terms of space: grand architecture and décor, complemented by highly standardized, obsequious service. Sharp believed that luxury was not just about space but also about how people were treated. And frontline staff would be the key to delivering a new form of service that was warm, welcoming, and capable of filling in for the nurturing support system that guests had left at home and the office.

The standard hotel talent strategy (accepting frontline turnover as inevitable and working to mitigate it; investing in retention and development only for general management staff) would not work with Sharp's new vision for the firm. As the company grew, the talent team needed to make a set of choices that would align with firm strategy and build frontline service capability.

Determining where to play and how to win. The Four Seasons talent team identified the frontline staff as its internal customer and focused on hiring, retaining, and motivating those employees in ways that set it apart from competitors. Rather than hire by résumé or through third-party recruiters, Sharp committed the necessary resources to put candidates through five interviews—the last with the hotel general manager—before they could be hired. This





The Rising Cost of SG&A
To measure the economic importance of functions, we tracked selling, general, and administrative expenses (SG&A) of firms in the Dow Jones 30 Industrials, which provides a good proxy for how much corporate functions cost the modern large American corporation.

process produced a more thoroughly vetted cadre of hotel staff, hired for attitude rather than experience.

The talent team also invested in extending staff tenure, making its entry-level jobs the starting point of a career rather than a dead end. This produced a virtuous circle: If the average tenure at Four Seasons approached 20 years, the talent team could invest 10 times the resources per person in hiring, training, and rewards than could competitors, whose employees tended to stay for a year or less. The result for Four Seasons would be far better trained and more experienced hotel employees, without higher talent costs overall.

Under Sharp, Four Seasons enjoyed happier, more loyal, more capable, and longer-serving workers—enabling it to deliver superior service and earn leading-price premiums. It built rigorous systems to ensure that its service capabilities were always present. Its recruiting and hiring system was formalized and scaled. Its training systems became legendary. Four Seasons thrived under Sharp, becoming the largest and most profitable luxury hotel chain in the world. And its talent strategy was a crucial element of this success.

Building Strategies for Supporting Functions

Not all functional strategies are as directly tied to the competitive advantage of a firm as is the talent function at Four Seasons. In cases where the connection is more tenuous, it is still very important to understand the choices of the function and the role it plays in helping the company win overall. In the simplest terms, supporting functions need to operate in efficient and cost-effective ways that enable the firm to invest in its sources of competitive advantage. If support functions don't make good choices, they put the overall firm strategy at risk.

Consider a typical risk-and-compliance function. For some companies, superior risk assessment and mitigation is a source of competitive advantage. But for most, that is not the case, even though the function is essential to keeping the firm in business. For a typical risk function, the strategy problem can be defined in any number of ways. It might be a matter of standards: How do we ensure our compliance training is sufficient to prevent disaster and keep the company out of the news? Or it might revolve around stakeholder issues: How can we help build the company's reputation with investors? Or, How might we help our managers understand and quantify operating risks?

The function also has choices regarding whom to serve and with what offering. For instance, it can choose to serve frontline employees or the business-unit leaders; the CEO or the board of directors. It may see all those groups as potential customers, but it must determine which is the core consumer with whom it seeks to win. A compliance unit that sees the firm's main risks as health and safety issues, for example, might want to focus on managers running factories. It might choose to focus on providing expertise to managers making operating decisions (about factory layout, say, or choice of equipment to be used) or compliance training for workers.

The how-to-win trade-offs are similar. A compliance function supporting decision makers worried about safety could win by forging trusted relationships with those decision makers, going deep rather than broad, so that it comes to be seen as a reliable partner in high-level decision making. Or it might win by creating individualized online employee compliance training in a high-impact but scale-oriented format, allowing the decision-making manager to increase the frequency of risk-awareness-raising interventions without incurring the significant costs and time involved with conventional training efforts or off-the-shelf training software.

FUNCTIONS DO NOT have to be servants to corporate overlords, nor should they be petty tyrants building their own empires. Like their business-unit counterparts, functions can use strategy to guide and align their actions, to more effectively allocate resources, and to dramatically enhance the competitive value they provide. Just like the rest of the company, they make choices every day, and by developing a coherent strategy to guide them, they can become vital engines of the business.

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Advertisement

Your Supply Chain's Surprising New Role:

Building Customer Trust

Trust is so integral to the implicit contract between buyer and seller that it can be easy to overlook until some negative event throws it into sharp relief. Companies can help build customer trust by injecting a new level of assurance into the supply chain using blockchain technology.

By Sam Ganga & Arun Ghosh

Partner, Operations Advisory, National Leader for Connected Commerce, KPMG LLP

Partner, Operations Advisory, National Leader for Blockchain, KPMG LLP

Customer trust is up for grabs. Amid a seemingly endless parade of data privacy leaks, social media misinformation, and clever counterfeiting of everything from footwear to pharmaceuticals, consumers are searching for brands and businesses they can believe in.

For many, that trust begins at a foundational level: the ironclad confidence that the product they have received is precisely the product they agreed to purchase. For some consumers, this might mean the comfortable assurance that their coffee was sourced from fair trade suppliers, that their lettuce is safe to eat, or that their new golf clubs are not counterfeit. For manufacturers, it might mean the sure knowledge that a key raw material was acquired in full compliance with global trade regulations—backed by the documentation to prove it.

Today's complex global supply networks have made this a high bar, requiring that companies be able to understand and document exactly where, how and by whom every component, subcomponent and raw material in their products has been sourced, altered and transported—right through to final delivery. While supply chains have improved over the past few decades, their controls have not yet evolved to provide this level of visibility, or to accommodate today's increasingly customer-centric business models.

Enter blockchain, the distributed ledger technology that can be used to create an immutable record of provenance. Requiring in many cases a surprisingly modest investment, and able in most instances to sit atop existing information systems, blockchain has the ability to inject a new level of trust into the implicit contract between buyer and seller. It can help businesses document, end to end, exactly what's in their products and where it came from, no matter how many suppliers, manufacturers, distributors, logistics firms, warehouses and retailers have touched it along the way. This information can be made instantly available to customers to whatever degree the enterprise deems necessary, to every member of the supply chain who needs it, and, if necessary, to regulators.

> *"Building on what in many cases will be a surprisingly modest investment, blockchain has the ability to inject a new level of trust into the implicit contract between buyer and seller."*

What's the ultimate payoff? The obvious benefit to first movers is an opportunity to build customer trust, cement customer loyalty and achieve a sustainable competitive advantage. But the rewards go deeper. Supply chains that leverage blockchain technology have the potential to drive a stake into the heart of counterfeiters, both by helping companies weed them out of the supply chain and by allowing consumers to spot fake goods produced by criminal enterprises. These smarter, more transparent supply chains also can help companies and their suppliers avoid the potentially crippling costs of unnecessarily broad product recalls, an all-too-common occurrence for food and drug manufacturers and retailers of those products. And when legitimate concerns with raw materials or components do surface, a blockchain-enabled supply chain will allow businesses to pinpoint the issue in real time and take steps to limit the negative impact.

Blockchain is moving from the lab to the front lines of business. At KPMG, we help companies look at the supply chain from a holistic point of view and then strategically insert blockchain where it adds value.

To learn how we can help improve visibility into your supply chain and build trust in your organization, please visit: read.kpmg.us/blockchain.

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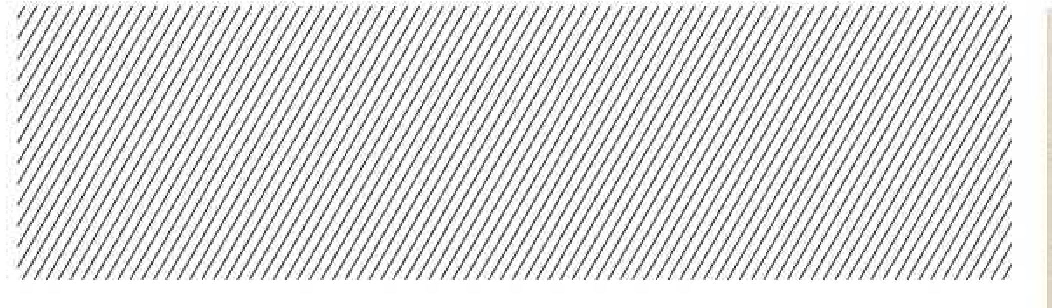

MANAGING PEOPLE

When a Colleague Is *Grieving*

How to provide the right kind of support

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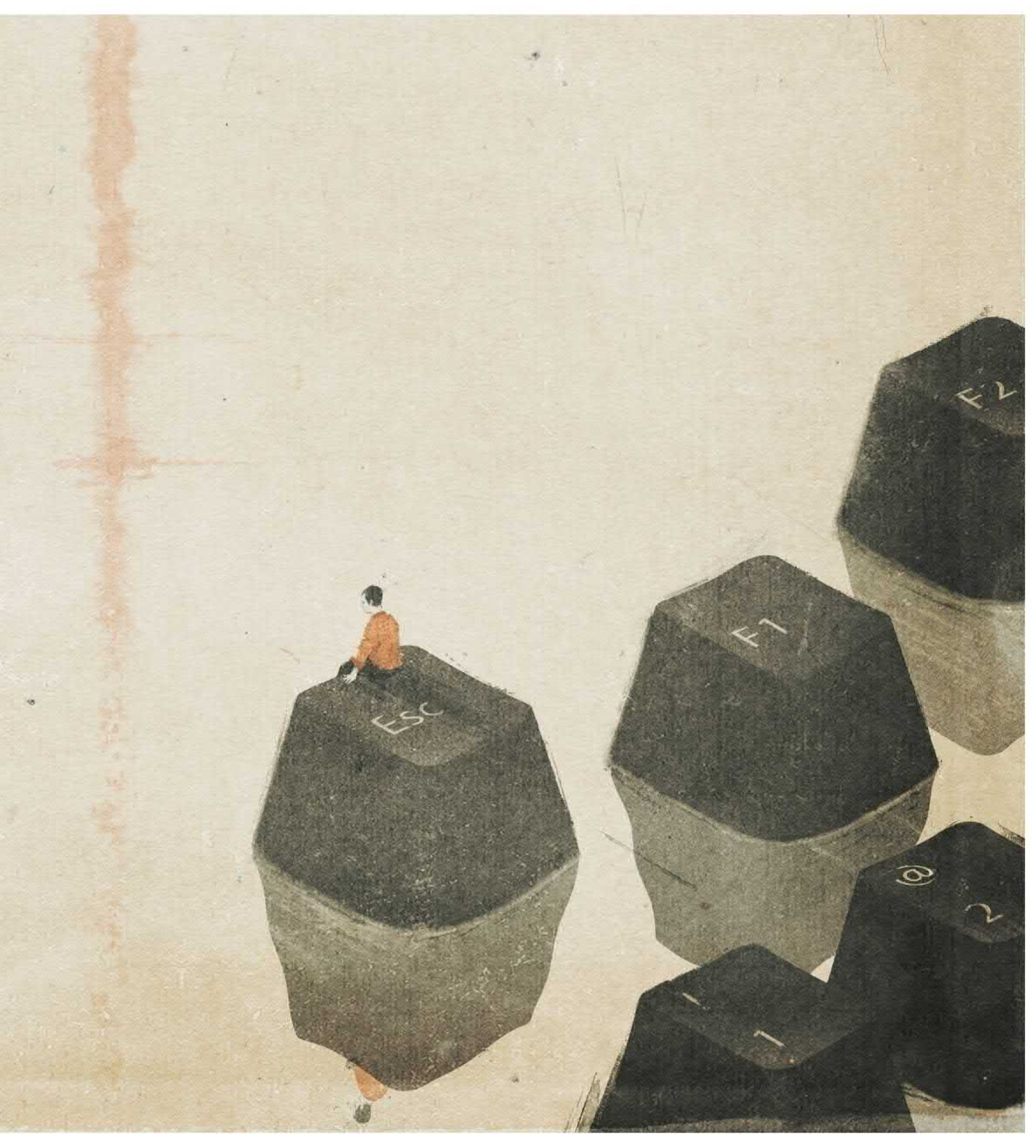
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IDEA IN BRIEF

THE CHALLENGE

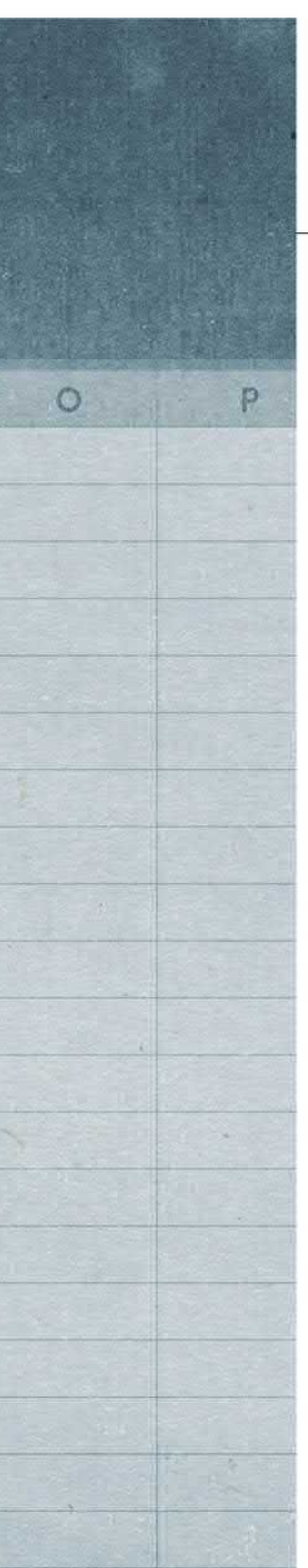
Workplace culture is often inhospitable to the bereaved. Managers need guidance on how to humanely help workers return to productivity.

THE INSIGHT

While rarely unfolding in a neat progression, grief involves three phases: anger, despair, and a slow reinvestment in life. Managers should understand the phases and the most helpful response to each.

THE INTERVENTIONS

Immediately after a death, acknowledging the loss without making demands is the best a manager can do. After grieving employees are back on the job, managers should be patient with inconsistency in performance and attitude. And as workers eventually emerge from mourning, managers should support this opportunity for growth.



Grief is a universal human experience,

yet workplace culture is often inhospitable to people suffering profound loss. “There are many taboos at work,” Laszlo Bock told us, “and death is one of the greatest.” The former Google chief people officer and a cofounder of Humu, a Silicon Valley start-up dedicated to helping executives humanize the workplace, was celebrating Día de los Muertos on the day we spoke. It was November 2, and following a coworker’s suggestion, Humu had adopted the Mexican tradition of honoring the departed. “We have the lace paper flyers in the office, and the candy stalls, and people have put up photos of family members who have passed away,” Bock explained. “We made offerings to their spirits. We’re doing it because we want to make it OK to have conversations about death, to recognize that everybody is human.”

We had reached out to Bock because he is one of the few executives, along with Facebook’s Sheryl Sandberg (who wrote a book, with Wharton professor Adam Grant, inspired by her experience after her husband’s death), who have advocated a more thoughtful approach. While at Google, Bock addressed the taboo of death at work head-on by championing a unique human resources policy that grants the significant other of any employee who passes away 50% of his or her salary for a decade, plus a monthly subsidy for each school-age child, regardless of the employee’s role or tenure. The impact of the policy “was tremendous,” Bock told us. “It speaks to your values, it speaks to your compassion. For employees with terminal illnesses, it was a great source of comfort.” The policy helps managers, too, who no longer have to make ad hoc decisions about how to support the family of deceased team members. But as Bock knew well, the financial distress that very often accompanies grief is only the tip of the iceberg.

Strong time-off policies, sensitive managers, and open conversations also make a big difference for employees in times of mourning. Yet those are rare in the workplace. As psychotherapists, instructors, coaches, and colleagues, we have encountered people struggling privately with death and grief at work, yet seldom have we heard those words spoken in the workplace or seen the topic featured in a management workshop. In researching this article, we spoke with managers, grief experts, executive coaches, and academics, and examined seminal studies, books, and articles on death and mourning. On the whole, we found, managers come to work prepared to celebrate births and birthdays, and

Dealing with the Death of a Coworker

The death of an employee can be particularly challenging for managers. The collective loss will affect many in the organization at once, create palpable emotional upset and a disruption of daily work, and prompt feelings of sorrow, regret, and often shock. A failure by managers to acknowledge and respond to the grief can have significant repercussions, both for those directly affected and for others. A variety of responses can be helpful. In some cases, it may be appropriate to offer employees time off immediately after a coworker's unexpected death, to allow them to process what has happened in the way that feels best for each individual.

The most powerful organizational responses acknowledge the shared nature of the grief and allow bereaved employees to connect with one another. To begin, managers should facilitate informal conversations with team members about the death, acknowledging that work may be disrupted, and encouraging people to speak openly about their feelings. More formally, managers may offer collective rituals, by holding a gathering where employees come together to share memories and feelings, establishing a quiet space where grievers may sit and reflect, or organizing a celebration of the employee's life. Online platforms that allow the sharing of tributes, stories, and photographs are beneficial, especially when workers are geographically dispersed. The impact of compassionate leadership at a time of collective loss goes beyond the employees most immediately affected: Such events, handled well or poorly, can become symbols of an organization's culture that are talked about for years to come.

even to handle illnesses, but when it comes to death, they fall silent and avert their gaze. The default approach is to try to spare the office from grief, leaving bereaved employees alone for a few days and then hoping they'll return expediently to work. This approach makes management complicit in what Julia Samuel, a psychotherapist specializing in bereavement and the author of *Grief Works,* calls a "conspiracy of silence" surrounding death—a conspiracy that, she finds, can do far more harm than loss itself does. It deprives people of the support that work could offer in times of mourning, erodes collegial bonds, and drains working lives and workplaces of meaning.

Companies need a better approach to grief. Obviously, there is value in finding efficient and humane ways to help workers return to productivity, but managers' obligations run deeper. Over the past few decades, as traditional support systems such as the extended family, religious communities, and government institutions have lost influence, the workplace has emerged as a primary domain where people seek to fulfill their spiritual and social (as well as economic) needs. Companies promise employees meaningful work and a sense of community, not just a salary. We make work a pillar of our identity and turn to the workplace for help throughout our lives.

Jean Claude Noel, an executive coach we interviewed for this article, explained that this promise breaks down for people who are grieving at work: "They become isolated at a time when they need connections the most." The result can be "disenfranchised grief," which psychologists define as "a loss that is not or cannot be openly acknowledged, publicly mourned, or socially supported." Stigma associated with suffering, studies find, is the prime culprit, and is most salient for people in leadership roles, prestigious organizations, and competitive workplaces—that is, in roles and environments where employees are supposed to "keep it together." But of course, the stigma surrounding death, like death itself, does not make distinctions of status or wealth. It affects factory workers as much as CEOs. When grief is disenfranchised, the natural withdrawal that accompanies mourning is more intense and lasting, eroding performance in the short term and diminishing commitment and loyalty to the organization in the long term.

The silence that Samuel decries is painfully evident to most people who find themselves bereft and suddenly isolated. It is also not surprising. Death seems to be the undoing of everything we value at work: control, growth, productivity, connections. Death can't be fixed or mastered. It has no care for strategy, talent, or future plans. And so, at work, we have no words for it. Grief, as Sigmund Freud first noted in his seminal paper "Mourning and Melancholia," is work, but we are not in control of it. We can't work on grief; it works on us. At best, and with support, we can work *through* it.

"People have two instinctive responses to death," Samuel explained. "One is to grieve and feel the pain and be sad. The other is to survive, to get on with it, to not be defeated by death." Managers can help employees handle both responses. If managers "build a relationship of trust with a mourning person when they're shattered, they will be a pillar of their recovery." And in time, Samuel noted, "the loyalty they'll get, and the level of work, will far outweigh the input."

How Managers Can Help *Grieving Workers*

Half a century ago, John Bowlby's groundbreaking work on grief identified three phases of mourning: one marked by defiance and anger; one by pain, despair, and disorganization; and one by slow reorganization and reinvestment in life. Bowlby cautioned against assuming that these phases unfold in a progression. Although popular interpretations of David Kessler and Elisabeth Kübler-Ross's five stages of grief paint the process as a steady march forward, researchers have confirmed Bowlby's belief that grief ebbs and flows. The initial, intense sorrow and debilitation usually attenuate over the year following a loss, but grief doesn't then unfold in a neat, linear manner. Mourning workers will experience both progressions and regressions after a loss. That's why managers should understand the three phases and the most helpful response to each.

The void: Be present. In the immediate aftermath of the death of a loved one, or at any point in which grief flares up acutely, acknowledging the loss without making demands is the best a manager can do. Let the griever take the lead. It is important at this stage to ignore the impulse to "fix" that drives most managerial actions. Death is unfixable. Instead, managers should be present and support employees by managing the boundary between them and the workplace. "People are touched by simple things" in the aftermath of loss, Noel, the executive coach, told us, "and you will see what is most useful if you just pay attention." Close colleagues typically will reach out to grieving coworkers, but it is especially important that a manager does. Managers represent the organization, and their demonstration of support is a signal that the workplace cares. David Kessler describes bereavement as "one of the most crucial experiences" a manager and an employee can share and cautions, "They will remember how you handled this."

A manager's presence, through a phone call and, if welcome, a personal visit, goes a long way toward reassuring employees that they are valued and supported. Show that you recognize the loss they have experienced, and find out what they would like you to tell others at work. Sending flowers or a card is a thoughtful gesture, and you might also inquire whether your presence at the memorial service would be appreciated. Don't hesitate to be open with the bereaved about what the policy is for returning to work and whether it might be flexible, and assure them that colleagues will be glad to see them when they do return. While some managers might find it awkward to discuss an employee's return to work in the immediate aftermath of death, the bereaved often long for clarity. At a moment in which life feels like a maelstrom, work can be a life raft of familiar structure and choice.

There is no formula or agreed-upon recommendation for when to return to work. Federal law does not require companies to provide time off, but according to the Society for Human Resource Management, nearly 90% of organizations in the United States offered paid bereavement leave in 2018. In 2016, employees received, on average, four days for a spouse or a child, three for another close family member, and one to two for a more distant member. Although this may give employees time to deal with the practical demands of a death, it is unlikely to be enough for them to process their loss. In their book, *Option B,* Sheryl Sandberg and Adam Grant make a forceful argument that compassionate leave is inadequate at most corporations. In recent years, Facebook and Mastercard have increased theirs to up to 20 days for the loss of an immediate family member. Companies might consider leave-sharing schemes that allow employees to donate vacation time to those in need. These policies are common at many organizations, including Accenture, the National Institutes of Health, and a number of smaller firms. Another possibility is an employee assistance fund (to which coworkers may make contributions that are matched by the company) to help workers cover funeral or other expenses. Managers whose teams include full-time employees working alongside subcontractors, consultants, or freelancers should be mindful that the benefits available to the former will most likely not extend to the latter and could surface or exacerbate feelings of resentment.

Having clear and generous policies in place, Laszlo Bock told us, also ensures that managers are not given too much discretion, which might have the effect of favoring

employees with more-senior roles, longer tenures, or more personal connections in the office. But ultimately, patience and support are what make the difference. Grieving employees tend to complain less about the HR policies themselves, Kessler writes, than about how managers apply those policies and how colleagues treat them when they return.

Samuel concurs. "Workers are often told, 'There's a fixed number of days you're allowed to have off,' which is often three days around the death and then nothing," she told us. "This can backfire. The person feels that they're being treated like a machine." What's more, people process grief differently. Some long to get back to work as a respite from grieving, as a reminder that there is one part of life where they still have some control. Others may need more time, for practical reasons or because they are more overwhelmed by their grief. Some employees may want to bring some of their grief to work, hoping that others will acknowledge it.

Individuals' responses differ with the kind of loss they have experienced—how close they were to the person and the nature of the death itself. Unexpected deaths, violent deaths, and suicides are likely to be more traumatizing. All these factors should be taken into account when agreeing on time off, especially in organizations without a formal policy. And when the employee is ready to return to work, managers play an important role in preparing coworkers, through communication about the returning employee's wishes and perhaps an expert-facilitated workshop on how to deal with grief. Samuel encourages managers to ask bereaved employees what they want and need: "How would you like your colleagues to respond? Do you want to come in for an hour or two and see everybody, so your return is not too overwhelming? Would it be helpful to work half time for a couple of weeks?" Empower grieving employees to choose, and respect their choice—and if they are not sure what would be best, give them some time.

The absence: Be patient. Most workers resume work after a few days or weeks. But grief typically remains intense for months, and as we noted earlier, it can flare up years later. So even when the return to work has been handled sensitively, managers can't assume that everything will go back to business as usual. The person in mourning will continue to be in the grip of intense confusion, exhaustion, and pain. Furthermore, the months that follow the initial shock of loss are often a time of ambivalence. We go back and forth between feeling pain and wanting to move on. Since ambivalence is not always conscious, let alone easy to express, it often manifests as inconsistency. One moment we throw ourselves into a challenging project. The next we can't answer a single email. This inconsistency can be confusing and irritating, not least for the grief-stricken. Alongside the absence of their loved ones, they often begin to notice their own absence.

It is easy, in the midst of such oscillations, to feel that we've "lost it." We want to return to normal, to be who we were before, but we feel that it might not be possible. It is important for managers to realize that grief destabilizes focus, consistency, and drive—the very things we describe as "talent" at work. Inconsistency is normal for some time after a loss, as is a lack of appetite for challenges and change. Neither is a sign that an employee has lost talent or interest in work. Recognizing and managing these behaviors can avert a good deal of misunderstanding and conflict.

"People are very self-critical when they are grieving," Samuel observed, especially those who have been very successful at work and find that working harder does little to assuage the pain of loss. "They often turn against themselves, which is a particularly cruel way of being, but it's very common," she told us. "You don't want your manager to go down the despair route with you. You need him or her to believe in you whilst not putting too much pressure on you. It's a difficult line to take, but by no means impossible to learn. It requires the capacity to listen and to offer people permission to be both a functioning employee and an incredibly sad, grief-stricken human being at the same time."

It is usually a relief to people who are grieving to realize that their managers hold them in the same regard as before but will not have the same expectations for some time. It might even help them accept that while they can't go back to "who they were before," they can be as talented and dedicated after the loss. Institutionally, the policies that help in this phase are those that offer flexibility. Managers might assign people to tasks that are more likely to reinforce their agency or that support their need to tend to other parts of their lives. Managers might allow remote working or flexible work hours for a period, offering an extension of an up-or-out evaluation along with regular reviews to discuss how the employee is coping and whether further accommodation is needed. Flexibility helps people benefit from the structure of returning to work without being overwhelmed. If an employee continues to struggle several months after a loss, a manager might gently suggest that he or she could benefit from consulting a professional. Many companies' employee assistance programs include funding for short-term counseling that can provide valuable support

> “You don’t want your manager to go down the despair route with you. You need him or her to believe in you.”

through the early stages of grief. Inability to sustain regular work duties six months after a loss may be a symptom of “complicated grief,” which is distinct from the usual grief process and requires clinical attention and sometimes a medical leave.

The new beginning: Be open. Plenty of studies and stories document the generative effects of confronting mortality over time with the patient and steady support and caring of others. “A brush with death can lead to a new life,” write Sandberg and Grant, echoing Viktor Frankl’s classic work, *Man’s Search for Meaning.* Referred to as “post-traumatic growth,” these effects include a newfound appreciation of life, a more resilient hope, deeper connections with others, and a resolve to make the most of what one has. Post-traumatic growth does not replace the devastating feelings of loss or the need to grieve. Rather, it reinforces the realization that one has survived and that life is worth living. Whether it involves being more authentic and focused in one’s work, writing a book to break the taboo surrounding loss, or spending more time with family, such growth does not mean forgetting or returning to what was. It involves living fully with the loss.

There is no timeline for the emergence of hope and resolve after loss, but when signs of them appear, managers can nurture them through affirmation and a gentle interest in what employees might be discovering about their attitudes to life and work. This is especially true in the early stages of this phase, when the person might feel some guilt about these new ways of feeling and seeing life. The most helpful managers are not those who captivate employees with a hopeful vision of the future. They are those who listen and support them as they craft a new way forward, carving out space for meaning making in the present.

It may also be helpful for managers to speak about their own experience of loss. That is what Laszlo Bock did when, early in his tenure as Humu’s CEO, he returned to work after his brother’s death. In sharing his experience with everyone at the company, his intent was to reassure his employees—and, perhaps, himself. “I knew [my brother’s death] was going to have an effect on me. I didn’t want them to wonder, What’s wrong with Laszlo? I didn’t want them to worry,” he told us. But his candor had unintended effects. Bock found himself “grateful and surprised to receive an outpouring of support, compassion, and appreciation.” Others who were facing similar struggles saw his openness as permission to speak about them in the workplace. “What I learned as cofounder and CEO was that talking about it made it easier for others to share what they were going through.” He had wanted to spare people. Instead, he freed them up. “If you’re interested in creating an environment where people are willing to talk about loss,” he concluded, “the best way is to model that by doing it yourself.” Research presented in Monica Worline and Jane Dutton’s book *Awakening Compassion at Work* strongly supports this view.

Not every manager, of course, will have had a major experience of loss to turn into an expression of compassion. Even if you haven’t yet been touched by bereavement, you are likely to have endured painful struggles and can draw on those. Jean Claude Noel told us that he found he was more comfortable discussing end-of-life issues with his clients after his own experience fighting cancer. Or you can simply pay attention to the shifts in attitude and focus of bereaved employees, and gently inquire about them. “Over the past few months I’ve noticed that you seem more interested in…” is often a good start. Given space and permission, people will begin to act on their longing for deeper relationships, real conversations, and meaningful work. And given support, they will over time muster the courage to talk openly about how they have grown through loss.

THE THREE CAPACITIES we have described above—to be present in moments of loss, patient with the inconsistency it generates, and open to its growth potential—are not just ways in which you can help mourning employees. They also complement the vision, planning, and guidance that we traditionally expect from managers. In confronting grief, managers help organizations do better. They also develop into leaders who can fulfill their companies’ promise to bring out the best in their workers.

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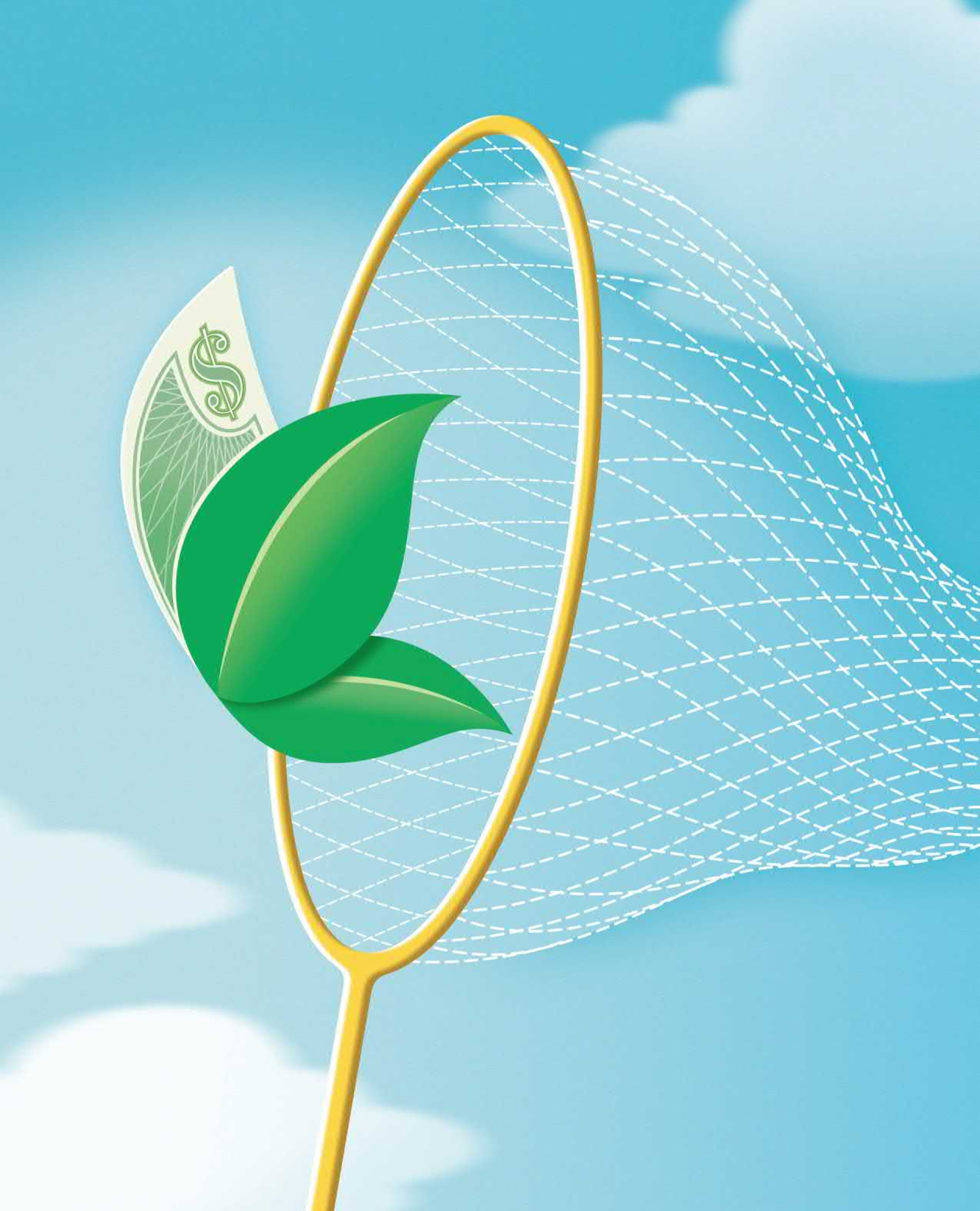

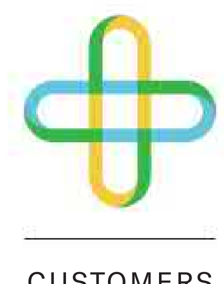

CUSTOMERS

The *Elusive* Green Consumer

People say they want sustainable products, but they don't tend to buy them. Here's how to change that.

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IDEA IN BRIEF

THE CHALLENGE
Most consumers report positive attitudes toward eco-friendly products and services, but they often seem unwilling to pay for them. Insights from behavioral science can help close this gap.

THE SOLUTION
Consider five approaches: use social influence, shape good habits, leverage the domino effect, decide whether to talk to the heart or the brain, and favor experiences over ownership.

THE RESULT
People's desire to conform to the behavior of others—and the habits they develop over time—influence the likelihood that they will consume sustainable offerings. The good news is that sustainable choices often lead to further positive behavior.

On the surface,

there has seemingly never been a better time to launch a sustainable offering. Consumers—particularly Millennials—increasingly say they want brands that embrace purpose and sustainability. Indeed, one recent report revealed that certain categories of products with sustainability claims showed twice the growth of their traditional counterparts. Yet a frustrating paradox remains at the heart of green business:

A major predictor of whether people will install solar panels is simply whether their close-by neighbors have done so.

Few consumers who report positive attitudes toward eco-friendly products and services follow through with their wallets. In one recent survey 65% said they want to buy purpose-driven brands that advocate sustainability, yet only about 26% actually do so.

Narrowing this "intention-action gap" is important not just for meeting corporate sustainability goals but also for the planet. Unilever estimates that almost 70% of its greenhouse gas footprint depends on which products customers choose and whether they use and dispose of them in a sustainable manner—for example, by conserving water and energy while doing the laundry or recycling containers properly after use.

We have been studying how to encourage sustainable consumption for several years, performing our own experiments and reviewing research in marketing, economics, and psychology. The good news is that academics have learned a lot about how to align consumers' behaviors with their stated preferences. Much of the research has focused on public interventions by policy makers—but the findings can be harnessed by any organization that wishes to nudge consumers toward sustainable purchasing and behavior. Synthesizing these insights, we have identified five actions for companies to consider: *use social influence, shape good habits, leverage the domino effect, decide whether to talk to the heart or the brain,* and *favor experiences over ownership.*

Use Social Influence

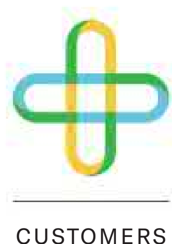
In 2010 the city of Calgary, Alberta, had a problem. It had recently rolled out a program called *grasscycling,* which involves residents' leaving grass clippings to naturally decompose on a lawn after mowing, rather than bagging them to be taken to a landfill. The city had created an informational campaign about the program that highlighted its benefits: Grasscycling would return valuable nutrients to the soil, protect the lawn, and help the soil retain moisture. What's more, this sustainable behavior actually required *less* work from the individual. But initial adoption rates were lower than the city had expected.

One of us (White) advised Calgary to try to change residents' behavior using "social norms"—informal understandings within a social group about what constitutes acceptable behavior. Scores of studies have shown that humans have a strong desire to fit in and will conform to the behavior of those around them. To leverage this motivation, White and her colleague Bonnie Simpson worked with the city on a large-scale field study in which messages were left on residents' doors: "Your neighbors are grasscycling. You can too" and "Most people are finding ways to reduce the materials that are going to the landfill—you can contribute by grasscycling." Within two weeks this simple intervention resulted in almost twice as much residential grasscycling as did the control condition.

Harnessing the power of social influence is one of the most effective ways to elicit pro-environmental behaviors in consumption as well. Telling online shoppers that other people were buying eco-friendly products led to a 65% increase in making at least one sustainable purchase. Telling buffet diners that the norm was to not take too much at once (and that it was OK to return for seconds) decreased food waste by 20.5%. A major predictor of whether people will install solar panels is whether their close-by neighbors have done so. And, in perhaps the most dramatic finding, telling university students that other commuters were ditching their cars in favor of more-sustainable modes of transportation (such as cycling) led them to use sustainable transport five times as often as did those who were simply given information about alternatives.

Sometimes social motivators can backfire, however. If only a few people are engaging in a sustainable behavior, it may appear to be not socially approved of, thus discouraging adoption. In such instances companies can enlist advocates to promote the positive elements of the product or action. Advocates are most compelling when they themselves have undertaken the behavior. One study found that when an advocate related why he or she had installed residential solar panels, 63% more people followed suit than when the advocate had not actually installed panels.

Social norms may also turn off certain consumer segments. For example, some men associate sustainability with femininity, leading them to avoid sustainable options. But if a brand is already strongly associated with masculinity, this effect can be mitigated. Jack Daniel's, for example, embeds sustainability in many aspects of its



business. Taglines such as "With all due respect to progress, the world could use a little less plastic" (accompanied by a row of wooden barrels) and "Even Jack Daniel's waste is too good to waste" link sustainability to quality and great taste. Because the company sells waste products and unused resources to other industries, it sends zero waste to landfills. And whiskey fans can buy used charcoal from the mellowing vats in the form of barbecue briquettes for grilling at home, reaffirming traditional masculine values. All this highlights the company's support for the work ethic, the land and the air, and the community in which Jack Daniel's operates. To avoid losing its standing as a rugged, masculine brand, it has expertly integrated sustainability into its existing branding.

In another example, people who lean right on the political spectrum are sometimes less open to engaging in eco-friendly behaviors because they associate them with a liberal political ideology. In the United States, for example, Republicans were less likely to buy a compact fluorescent light bulb that they knew was more energy-efficient than an incandescent bulb when it was labeled "Protect the Environment" than when that label was missing.

A solution is to make communications resonate with Republicans' political identity—for example, by referencing duty, authority, and consistency with in-group norms. In one field study Republican residents recycled more after being told, "You can join the fight by recycling with those like you in your community. Your actions help us to do our civic duty because recycling is the responsible thing to do in our society. Because of people like you, we can follow the advice of important leaders by recycling. You CAN join the fight!" That appeal didn't resonate in the same way with Democrats, who were more likely to respond to messaging around social welfare. Another solution is to focus on values that everyone shares, such as family, community, prosperity, and security.

Consumers often have negative associations with sustainable product options, viewing them as being of lower quality, less aesthetically pleasing, and more expensive. In one example, when people valued strength in a product—a car cleaner, say—they were less likely to choose sustainable options. One way to offset such negative associations is to highlight the product's positively viewed attributes—such as innovativeness, novelty, and safety. For example, Tesla focuses on the innovative design and functional performance of its cars more than on their green credentials—a message that resonates with its target market. This also helps overcome the concern of some men that green products are feminine.

Social influence can be turbocharged in three ways. The first is by simply making sustainable behaviors more evident to others. In some of Katherine White's research, people were asked to choose between an eco-friendly granola bar (which had the tagline "Good for you and the environment") and a traditional granola bar ("A healthy, tasty snack"). The sustainable option was twice as likely to be chosen when others were present than when the choice was made in private. Other researchers have found similar effects with products ranging from eco-friendly hand sanitizers to high-efficiency automobiles. The city of Halifax, Nova Scotia, found that when residents were required to put their household waste in clear bags, thus making the contents of their trash (which often included items that should have been recycled or composted) visible to the neighbors, the amount of garbage that went to the landfill decreased by 31%.

A second way to increase the impact of social influence is to make people's commitments to eco-friendly behavior public. For example, asking hotel guests to signal that they agree to reuse towels by hanging a card on their room door increased towel reuse by 20%. In a similar study, asking hotel guests to wear a pin symbolizing their commitment to participating in an energy-conservation program increased towel reuse by 40%. And a study aimed at reducing vehicle idle time when children were being picked up at school asked some parents to display a window sticker reading "For Our Air: I Turn My Engine Off When Parked." The intervention resulted in a 73% decrease in idling time.

A third approach is to use healthy competition between social groups. In one example, communicating that another group of students was behaving in a positively viewed way ("We are trying to encourage students to compost.... Recently, a survey...found that Computing Science students are the most effective in composting efforts when compared across the student groups") made business students more than twice as likely to compost

> People like to be consistent, so if they adopt one sustainable behavior, they are often apt to make other positive changes in the future.

their biodegradable coffee cups. When the World Wildlife Fund and its partner volunteer organizations wanted to raise awareness about sustainable actions for Earth Hour, a global lights-off event, they spearheaded friendly energy-saving competitions between cities. The program has spread through social diffusion: It began in Sydney, Australia, in 2007 and now reaches 188 countries, with 3.5 billion social media mentions from January to March of 2018 and lights switched off at almost 18,000 landmarks during Earth Hour 2018.

Shape Good Habits

Humans are creatures of habit. Many behaviors, such as how we commute to work, what we buy, what we eat, and how we dispose of products and packaging, are part of our regular routines. Often the key to spreading sustainable consumer behaviors is to first break bad habits and then encourage good ones.

Habits are triggered by cues found in familiar contexts. For example, using disposable coffee cups (a habit repeated a staggering 500 billion times a year across the globe) may be a response to cues, such as the default cup provided by the barista and a trash bin illustrated with a picture of a cup, both common in coffee shops.

Companies can use design features to eliminate negative habits and substitute positive ones. The simplest and probably most effective approach is to make sustainable behavior the default option. For example, researchers in Germany discovered that when green electricity was set as the default option in residential buildings, 94% of individuals stuck with it. In other cases, making green options—such as reusing towels or receiving electronic rather than paper bank statements—the default increased uptake of the more sustainable option. In full-service restaurants in California, drinks no longer come with plastic straws; customers must explicitly request one. Another strategy is to make the desired action easier—by, for example, placing recycling bins nearby, requiring less complex sorting of recyclables, or providing free travel cards for public transport.

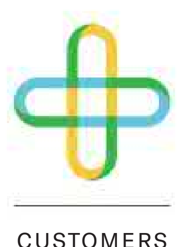
Three subtle techniques can help shape positive habits: using prompts, providing feedback, and offering incentives.

Prompts might be text messages reminding people to engage in desired behaviors, such as cycling, jogging, or commuting in some other eco-friendly way to work. Prompts work best when they are easy to understand and received where the behavior will take place, and when people are motivated to engage in the behavior. In one study just placing prompts near recycling bins increased recycling by 54%.

Feedback sometimes tells people how they performed alone and sometimes compares their performance to that of others. Household energy bills that show how consumers' usage compares with that of neighbors can encourage energy saving. If the behavior is repeatedly performed—driving a car in varying traffic conditions, for example—real-time feedback like what the Toyota Prius offers drivers about their gas mileage can be effective.

Incentives can take any number of forms. In the UK, Coca-Cola has partnered with Merlin Entertainments to offer "reverse vending machines" from which consumers receive half-price entry tickets to theme parks when they recycle their plastic drink bottles. Incentives should be used with care, because if they are removed, the desired behavior may disappear too. Another concern is that they may undermine consumers' intrinsic desire to adopt a behavior. In a study in the *Journal of Consumer Psychology,* "Are Two Reasons Better Than One?," researchers found that combining external incentives ("Save money!") with intrinsic motives ("Save the environment!") resulted in less preference for a sustainable product than did intrinsic appeals alone. The authors hypothesized that this occurred because an external motivation can "crowd out" an intrinsic desire.

Even using these tactics, it is almost always difficult to break habits. But major life changes—such as moving to a new neighborhood, starting a new job, or acquiring a new group of friends—may create an exception, because such changes make people more likely to consciously evaluate and experiment with their routines. One study examined 800 households, half of which had recently moved. Half the participants in each group (half the movers and half the nonmovers) were given an intervention consisting of an interview, a selection of eco-friendly items, and information about sustainability. The movers were significantly more likely than the nonmovers to engage in environmentally friendly behaviors after the intervention.



Leverage the Domino Effect

One of the benefits of encouraging consumers to form desirable habits is that it can create positive spillover: People like to be consistent, so if they adopt one sustainable behavior, they are often apt to make other positive changes in the future. After IKEA launched a sustainability initiative called Live Lagom (*lagom* means "the right amount" in Swedish), it studied the sustainability journey in depth among a core group of its customers. The company found that although people may begin with a single step—such as reducing household food waste—they often move on to act in other domains, such as energy conservation. IKEA observed a snowball effect as well: People would begin with small actions and build to more meaningful ones. For example, buying LED light bulbs might lead to wearing warmer clothing and turning down the thermostat, changing curtains and blinds to decrease heat loss, insulating doors and windows, buying energy-efficient appliances, installing a programmable thermostat, and so on.

It is important to remember that *negative* spillover can occur too: A sustainable action may lead someone to subsequently behave less sustainably. Termed *licensing* by researchers, this occurs when a consumer feels that an initial ethical action confers permission to behave less virtuously in the future. In one example, researchers found that people who had performed a virtual green shopping task were less likely to behave prosocially (in a game they were less likely to help others by allocating resources) than those who had performed a virtual conventional shopping task. In other examples, people use more paper when they can show that they are recycling and use more of a product (such as mouthwash, glass cleaner, or hand sanitizer) when it is a sustainable one. Similarly, car models with increased fuel efficiency may lead people to drive more miles, and more-efficient home heating and cooling systems may lead them to increase usage.

Companies can take steps to lessen the risk of negative spillover. They can ensure that the first sustainable action is particularly effortful, which seems to build commitment. When consumers are asked to make smaller commitments, it is best not to publicize those actions, because that may lead to something researchers call *slacktivism*. In one study, participants who had engaged in token support for a cause that demonstrated to others that they were "good people"—such as joining a "public" Facebook group or signing an online petition—were less likely to engage in a private task later, such as volunteering for the cause. However, those who *privately* joined a Facebook group or signed a petition were more likely to see the cause as reflecting their true values and to follow through. Note that this differs from the earlier example of giving pins to hotel guests who choose energy-efficient options, because in that study wearing a pin was explicitly tied to a commitment to perform a sustainable action. Someone who sees a token initial behavior as engagement in a cause often performs fewer positive actions in the future.

Decide Whether to Talk to the Heart or the Brain

How companies communicate with consumers has an enormous influence on the adoption of sustainable behaviors. When getting ready to launch or promote a product or a campaign, marketers often have a choice between emotional levers and rational arguments. Either can be effective—but only if certain conditions are met.

The emotional appeal. People are more likely to engage in a behavior when they derive positive feelings from doing so. This core precept is often overlooked when it comes to sustainability, for which ad campaigns are likely to emphasize disturbing warnings. Research has found that hope and pride are particularly useful in driving sustainable consumption. Bacardi and Lonely Whale cultivate hope in their collaboration to eliminate one billion single-use plastic straws, and they use the hashtag #thefuturedoesntsuck to promote events and call for consumer action. And when people in one study were publicly praised each week for their energy-efficiency efforts, thus engendering pride, they saved more energy than a group that was given small (up to €5) weekly financial rewards.

Guilt is a more complicated emotional tool. Research by White and colleagues suggests that it can be an effective motivator but should be used carefully. In one experiment, when accountability was *subtly* highlighted (participants were asked to make a product choice in a public setting),

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consumers reported anticipating future guilt if they failed to shop for green products, and 84% chose fair trade options. However, when an *explicit* guilt appeal was used ("How can you enjoy a cup of tea knowing that the people who produce it are not being treated fairly?"), they became angry, upset, or irritable, and only 40% chose the fair trade option. Indeed, an abundance of other research confirms that activating moderate amounts of guilt, sadness, or fear, is more effective than trying to elicit a strong reaction. This research suggests that charity or cause appeals that use particularly emotive images (such as explicit images of suffering children) may not be as effective as less heavy-handed ones.

The rational appeal. In 2010 Unilever launched a campaign to draw attention to the fact that although some palm oil harvesting leads to rain forest destruction, its palm oil is all sustainably farmed. Printed on a photo of a rain forest was the tagline "What you buy at the supermarket can change the world…. Small actions, big difference." The company was leveraging decades-old research findings that people are unlikely to undertake a behavior unless they have a sense of what researchers call *self-efficacy*—confidence that their actions will have a meaningful impact. Thus one key to marketing a sustainable product is communicating what effect its use will have on the environment.

Although information about sustainable behaviors and their outcomes can be persuasive, how the information is framed is critical, especially for products with high up-front costs and delayed benefits. Recent research by one of us (Hardisty) found that consumers who are buying appliances or electronics typically don't think about energy efficiency—and even if they do, they don't care as much about future energy saving as about the up-front price. However, in a field study at a chain of drugstores, labeling the "10-year dollar cost" of energy for each product increased energy-efficient purchases from 12% to 48%. Such labels are effective for three reasons: They make the future consequences more salient, they frame the information in dollars (which consumers care about) rather than energy saving (which they often don't), and they scale up energy costs tenfold.

Indeed, people's tendency to prefer avoiding losses over making equivalent gains—what psychologists call *loss aversion*—can help marketers frame choices by communicating what's at stake. For instance, photos showing how glaciers have receded can be a powerful means of conveying environmental losses associated with climate change. White and her colleagues Rhiannon MacDonnell and Darren Dahl found that in the context of residential recycling, a loss-framed message ("Think about what will be lost in our community if we don't keep recycling") works best when it's combined with specific details about the behavior, such as when to put out the recycling cart, what materials are recyclable, and so forth. That's because people in a loss-framed mindset tend to want concrete ways to deal with a problem.

In addition, messages that focus on local impacts and local reference points are particularly powerful. That's why New York City's recent waste-reduction advertising campaign illustrated that all the garbage thrown out in the city on one day could fill the Empire State Building. Messages that communicate the concrete effects of sustainable consumer behavior change in other ways can also be effective. Tide encourages consumers to take the #CleanPledge and wash their clothes in cold water. Not only is this a consumer

Five Routes to Sustainable Behavior

A variety of approaches can positively affect consumers' product and service choices.

Use social influence

- *Link the desired behavior to relevant social norms*
- *Show that others are engaging in the behavior*
- *Make the behavior public*
- *Create positive associations with the behavior*
- *Foster healthy competition between social groups*

Shape good habits

- *Make sustainable behavior the default*
- *Use prompts and feedback to create positive habits*
- *Use incentives appropriately*
- *Introduce sustainable behaviors during major life changes*

Leverage the domino effect

- *Make the first sustainable action particularly effortful*
- *Encourage meaningful commitments to behavior change*
- *Don't allow consumers to signal that they are "good people" with an initial token act*

Decide whether to talk to the heart or the brain

- *Tap into feelings of hope and pride*
- *Subtly activate feelings of guilt*
- *Frame messages in terms of what can be lost*
- *Offer concrete information and reference local impacts*

Encourage experiences over ownership

- *Consider business models that offer experiences rather than material goods*
- *Think about how to repurpose your products when the consumer is finished with them*

One way to encourage eco-friendly behavior is to build sustainability into how products are used and ultimately disposed of.

commitment, but the campaign communicates clear consequences, such as “Switching to cold water for one year can save enough energy to charge your phone for a lifetime.” Another tactic is giving consumers something tangible to display their support of a brand or a cause and reporting clear outcomes. For example, 4ocean lets consumers know that for every upcycled bracelet they buy from the company, one pound of trash will be removed from the ocean.

Favor Experiences Over Ownership

Along with working to change consumer behavior, some companies have found success with business models that seemingly make consumers more open to green alternatives. In the “experience economy,” companies offer experiential options as an alternative to material goods. For example, Honeyfund allows wedding gift givers to bypass cookie-cutter registries filled with typical household goods and instead contribute to destination honeymoons, gourmet dinners, and other adventures for the bride and groom. Tinggly, whose tagline is “Give stories, not stuff,” also lets consumers buy adventures rather than tangible products as gifts. In addition to the potential sustainability benefit, research shows, giving an experience makes both giver and receiver happier, leads to stronger personal connections, and cultivates more-positive memories.

The sharing economy is enjoying similar success. Indeed, some of the leading growth models in recent years have involved businesses that neither develop nor sell new products or services but instead facilitate access to existing ones—which often means a much smaller environmental footprint. Businesses have sprung up to offer sharing and borrowing for everything from clothing and accessories (Rent the Runway and Bag Borrow or Steal) to vehicles (Zipcar and car2go), vacation rentals (Airbnb), and even on-demand tractors in Africa (Hello Tractor). However, sharing services can lead consumers to choose the easy-to-access option (such as an Uber or Lyft ride) rather than a more sustainable one, such as walking, biking, or taking public transport. Thus it’s worth carefully considering what impact the service a company offers will have on consumers’ ultimate behavior. Lyft has responded to this concern by committing to offset its operations globally, “through the direct funding of emission mitigation efforts, including the reduction of emissions in the automotive manufacturing process, renewable energy programs, forestry projects, and the capture of emissions from landfills,” resulting in carbon-neutral rides for all.

Other companies have won customers over by offering to recycle products after use. Both Eileen Fisher and Patagonia encourage customers to buy high-quality pieces of their clothing, wear them as long as possible, and then return them to the company to be refurbished and resold. Thus one way to encourage eco-friendly consumer behavior is to build elements of sustainability into how products are used and ultimately disposed of.

Making Sustainability Resonate

Despite the growing momentum behind sustainable business practices, companies still strive to communicate their brands’ sustainability to consumers in ways that heighten brand relevance, increase market share, and fuel a shift toward a culture of sustainable living. We have offered a menu of tools—informed by behavioral science—that can help. We recommend that companies work to understand the wants and needs of their target market, along with the barriers and benefits to realizing behavioral change, and tailor their strategies accordingly. We also recommend pilot A/B testing to determine which tactics work best.

Using marketing fundamentals to connect consumers with a brand’s purpose, showing benefits over and above conventional options, and making sustainability irresistible are central challenges for businesses in the coming decades. As more and more succeed, sustainable business will become smart business.

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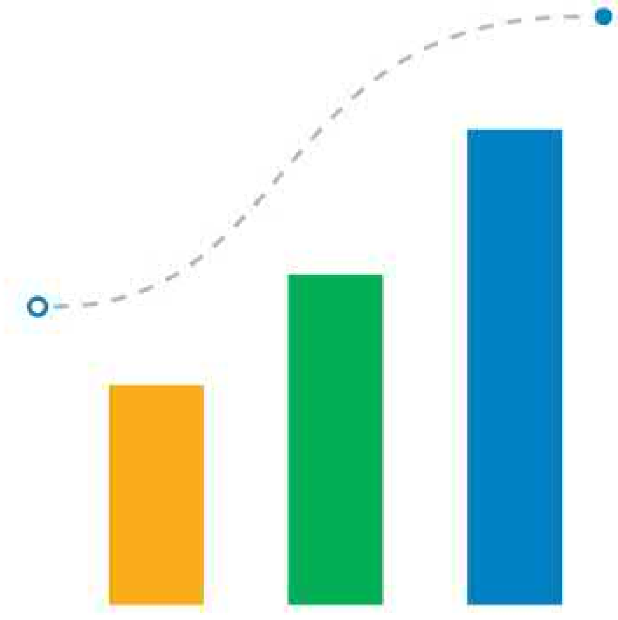

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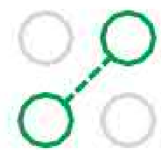
How machine learning powers better marketing

By Cassie Kozyrkov, Chief Decision Scientist at Google Cloud

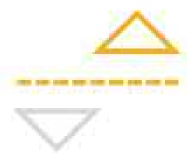
At its core, machine learning is a way to quickly label and analyze huge data sets. People can do this on their own, but a machine helps do it faster and on an infinitely larger scale. In fact, 66% of marketing leaders agree automation and machine learning will enable their team to focus more on strategic marketing activities. Here are four key areas where machine learning can help your marketing become more strategic.



Machine learning can help marketers discover the right audience

Let's say you're trying to market your app, but you're finding that users simply aren't opening it. You wouldn't be the first to encounter this issue: Only 37% of app installs remain in use after seven days. So how can you find the right audience?

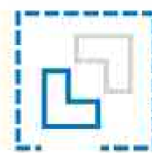
Machine learning can analyze various sources to help you learn which users are most valuable, and which are most likely to download and use your app.



Machine learning helps marketers get creative

Today's consumers expect brands to deliver assistive, highly relevant experiences. And that goes for ads too. Our research has shown us that 91% of smartphone owners bought or plan to buy something after seeing an ad that they described as relevant.

Machine learning can help marketers deliver unique and tailored creative. Responsive search ads mix and match multiple headlines and descriptions to find the best possible combination for each user, simplifying the ad creation process and delivering stronger results.



Machine learning puts the right bid in reach

People are searching more frequently and with more specificity. For marketers, this means that it's more important than ever to land the right bid at search auctions. But that's getting harder: As data grows, marketers face more complexity in analyzing each user's content.

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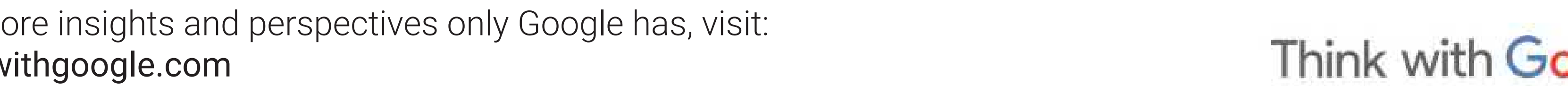

Iron Man, the first movie in the Marvel Cinematic Universe, took in nearly $98 million during its opening weekend.

INNOVATION

MARVEL'S BLOCKBUSTER MACHINE

How the studio balances continuity and renewal

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Black Panther *grossed more than $1 billion within 26 days of its February 2018 release.*

IN JUST A DECADE MARVEL STUDIOS HAS REDEFINED THE FRANCHISE MOVIE.

IDEA IN BRIEF

THE PROBLEM
In the movie business, sequels seldom perform as well as the originals—with critics or commercially. That makes it very difficult to create a franchise.

WHY IT HAPPENS
When making sequels, filmmakers err on the side of caution in balancing continuity with renewal. As a result, they experience diminishing returns.

THE SOLUTION
The Marvel Cinematic Universe, perhaps the most successful franchise of all time, strikes the right balance by (1) selecting for experienced inexperience, (2) leveraging a stable core, (3) continually challenging the formula, and (4) cultivating customers' curiosity.

Its 22 films have grossed some $17 billion—more than any other movie franchise in history. At the same time, they average an impressive 84% approval rating on Rotten Tomatoes (the average for the 15 top-grossing franchises is 68%) and receive an average of 64 nominations and awards per movie. *Avengers: Endgame,* released in the spring, has won rave reviews and generated so much demand that online movie ticket retailers had to overhaul their systems to manage the number of requests.

Kevin Feige, the head of Marvel Studios, offered a deceptively simple explanation in *Variety*: "I've always believed in expanding the definition of what a Marvel Studios movie could be. We try to keep audiences coming back in greater numbers by doing the unexpected and not simply following a pattern or a mold or

a formula." The secret seems to be finding the right balance between creating innovative films and retaining enough continuity to make them all recognizably part of a coherent family.

Achieving that balance is far more difficult than it sounds. Just making a movie successful enough to support a franchise is hard: Six of the eight worst-performing big-budget films in 2017 were meant to start new franchises. And even if the first movie does well, the sequels usually don't: Most franchises see a steady decline in critics' scores after the first movie, which is ordinarily reflected in their commercial performance. The director of *Iron Man,* Jon Favreau, has observed, "It's very difficult to keep these franchises from running out of gas after two [movies]. The high point seems to be the second one, judging by history." Reinforcing this point, Ed Catmull, Pixar's CEO, describes movie sequels as a form of "creative bankruptcy." That may explain why Pixar has produced sequels for only four films.

So far, Marvel has not had that problem. Twenty-two movies in, the organization is still able to renew the notion of what a Marvel movie can be. When *Black Panther* was released, in early 2018, setting box office records, critics described it as a "sea change" and a "royally imaginative standout" that provided "a vibrant but convincing reality, laced with socially conscious commentary." As Ty Burr put it in the *Boston Globe,* "The movie doesn't reinvent the superhero genre so much as reclaim and reenergize it—archetypes, clichés, and all—for viewers hungry to dream in their own skin....The film doesn't feel like the usual corporate franchise contact high but, rather, the work of a singular sensibility." Yet, as other critics commented, the film was still somehow unmistakably Marvel.

How and why does Marvel succeed in blending continuity and renewal? To answer that question, we gathered data on each of the 20 Marvel Cinematic Universe (MCU) movies

INNOVATION

released through the end of 2018, analyzing 243 interviews and 95 video interviews with producers, directors, and writers, and 140 reviews from leading critics. We digitally analyzed the scripts and the visual style of each movie and examined the networks of 1,023 actors and 25,853 behind-the-camera workers from movie to movie. Our analysis of this data suggests that Marvel's success is rooted in four key principles: (1) select for experienced inexperience, (2) leverage a stable core, (3) keep challenging the formula, and (4) cultivate customers' curiosity. In the following pages we will explore these principles, showing not only how Marvel applied them but also how they explain the success of companies in very different domains.

1 SELECT FOR EXPERIENCED INEXPERIENCE

In movies, whom you hire is a big part of what you get. And as the saying goes, "The best predictor of future performance is prior performance." Marvel Studios subverts this maxim in a fascinating way: When hiring directors, it looks for experience in a domain in which Marvel does not have expertise.

Of the 15 MCU directors, only one had experience with the superhero genre (Joss Whedon had helped write the script for the movie *X-Men* and had created a critically acclaimed comic book arc for Marvel). Instead they had deep knowledge in other genres—Shakespeare, horror, espionage, and comedy. They often came from the indie scene. This experience allowed them to bring a unique vision and tone to each film: *Thor: The Dark World* has Shakespearean overtones; *Ant-Man* is a heist film; *Captain America: The Winter Soldier* is a spy movie; *Guardians of the Galaxy* is a giddy space opera. What's more, most of the directors were used to working under tight budgets (their pre-MCU film budgets were about one-seventh the size of their MCU budgets).

A good example is Marvel Studios' first movie, *Iron Man* (2008), which was a double bet on Favreau as director and Robert Downey Jr. as lead actor. Favreau came from an indie background with small but critically acclaimed movies, including *Swingers, Elf,* and *Zathura: A Space Adventure.* He was known for his ability to build interesting characters and for his smart dialogue. He had no experience working on blockbuster superhero action movies, with their dazzling visual technology. Downey had demonstrated his bona fides as a great actor, perhaps most notably in *Chaplin,* but he was equally well known for his relapses into drug abuse and had never been cast as a lead in a major action movie. Each brought experience and inexperience, and as a result, according to the *Iron Man* costar Jeff Bridges, a Hollywood veteran, the production sometimes felt like "a $200 million student film."

But the combination worked. The film critic Roger Ebert described the experience portion of the equation this way: "Tony Stark is created from the persona Downey has fashioned through many movies: irreverent, quirky, self-deprecating, wise-cracking. The fact that Downey is allowed to think and talk the way he does while wearing all that hardware represents a bold decision by the director, Jon Favreau." Ebert went on to illustrate the benefit of Favreau's inexperience with the superhero genre: "A lot of big budget f/x epics seem to abandon their stories with half an hour to go, and just throw effects at the audience. This one has a plot so ingenious it continues to function no matter how loud the impacts, how enormous the explosions."

Marvel has made similar choices for its other movies. *Guardians of the Galaxy* was directed by James Gunn, who had made a name for himself with small-budget horror movies. Gunn successfully cast Chris Pratt, the self-described "pet fat guy" from the television comedy *Parks and Recreation,* as a superhero and built the movie around 1970s songs. Taika Waititi, who came from a background in wacky comedy and character studies and had no superhero genre experience, directed *Thor: Ragnarok.* He made a point of creating distance from the first two Thor movies and pitched the new movie as a sizzle reel overlaid with Led Zeppelin's "Immigrant Song." The *New York Post*'s critic observed, "[Waititi], arriving with a résumé of tiny and wonderful indies, launches one of Marvel's blandest characters on a candy-colored interplanetary romp....It's witty, it's weird and it goes against decades of bloated, overserious comics fare." Critics saw it as bringing a welcome dose of self-parody to the MCU.

Marvel Studios grants directors a large degree of control, especially in areas where they have experience. Favreau, Gunn, and Waititi describe being given surprising freedom and encouragement to make their own thing. In a 2008 interview Favreau said, "We could sit in the trailer with the Marvel guys, with the producers and the actors, and talk about what the scenes should be based on, what we've shot and what we've learned, and there's a flexibility of material, so in a lot of ways there's a lot of freedom to try things different ways...a real sense of freshness and discovery in this project." At the same time, Marvel maintains close control over the blockbuster aspects of the movie, providing a lot of direction

Superhero movies were once seen as the kiss of death for actors with high artistic ambitions.

on special effects and logistics. Feige explained in 2013, "When we bring in the filmmaker, it's to help us do something different with all of those resources." The combination is potent for both parties: Directors see an average surge of 18 percentage points in their Rotten Tomatoes ratings between their previous film and their MCU film.

The movie business is not the only industry to take this approach: Energy companies hire meteorologists to help them move toward sustainable energy solutions; hedge funds have hired top-notch chess players with advanced pattern recognition abilities; consulting firms have renewed their offerings by hiring fashion designers and anthropologists. Cirque du Soleil hired Fabrice Becker, who had won an Olympic gold medal in freestyle skiing for France at the 1992 Winter Olympics, as its creative director. Patagonia's founder, Yvon Chouinard, said in a 1992 profile in *Inc.,* "I've found that rather than bring in businessmen and teach them to be dirt bags, it's easier to teach dirt bags to do business." For Patagonia the "dirt bag" experience—frugally pursuing outdoor sports with a passion—provides deep knowledge of customers, products, and ways to convert others to a sustainable viewpoint.

A good example is provided by Outfit7, one of the fastest-growing multinational family-entertainment companies on the planet, founded by eight Slovenians. It is best known for its worldwide phenomenon Talking Tom, whose apps top the global charts with close to 10 billion downloads. When a group of Asian investors acquired the company, they appointed the 32-year-old Žiga Vavpotič as chairman of the board. Vavpotič had joined Outfit7 in 2014 and claimed never to have downloaded a computer game before. But he did have deep expertise working in NGOs and with social entrepreneurs. The mix of technological inexperience and entrepreneurial experience allowed him to focus on the scaling-up process without getting bogged down in debates about technology.

Few companies are prepared to take this sort of gamble. Research on employee onboarding shows that most either select for experience that overlaps with their existing knowledge base or—even when selecting for experience that does not—become so preoccupied with socializing the new employee that they effectively neuter the value of his or her outside expertise. They're missing a significant opportunity, as Marvel has demonstrated.

2 LEVERAGE A STABLE CORE

To balance the new talent, voices, and ideas it brings into each movie, Marvel holds on to a small percentage of people from one to the next. The stability they provide allows Marvel to build continuity across products and create an attractive community for fresh talent.

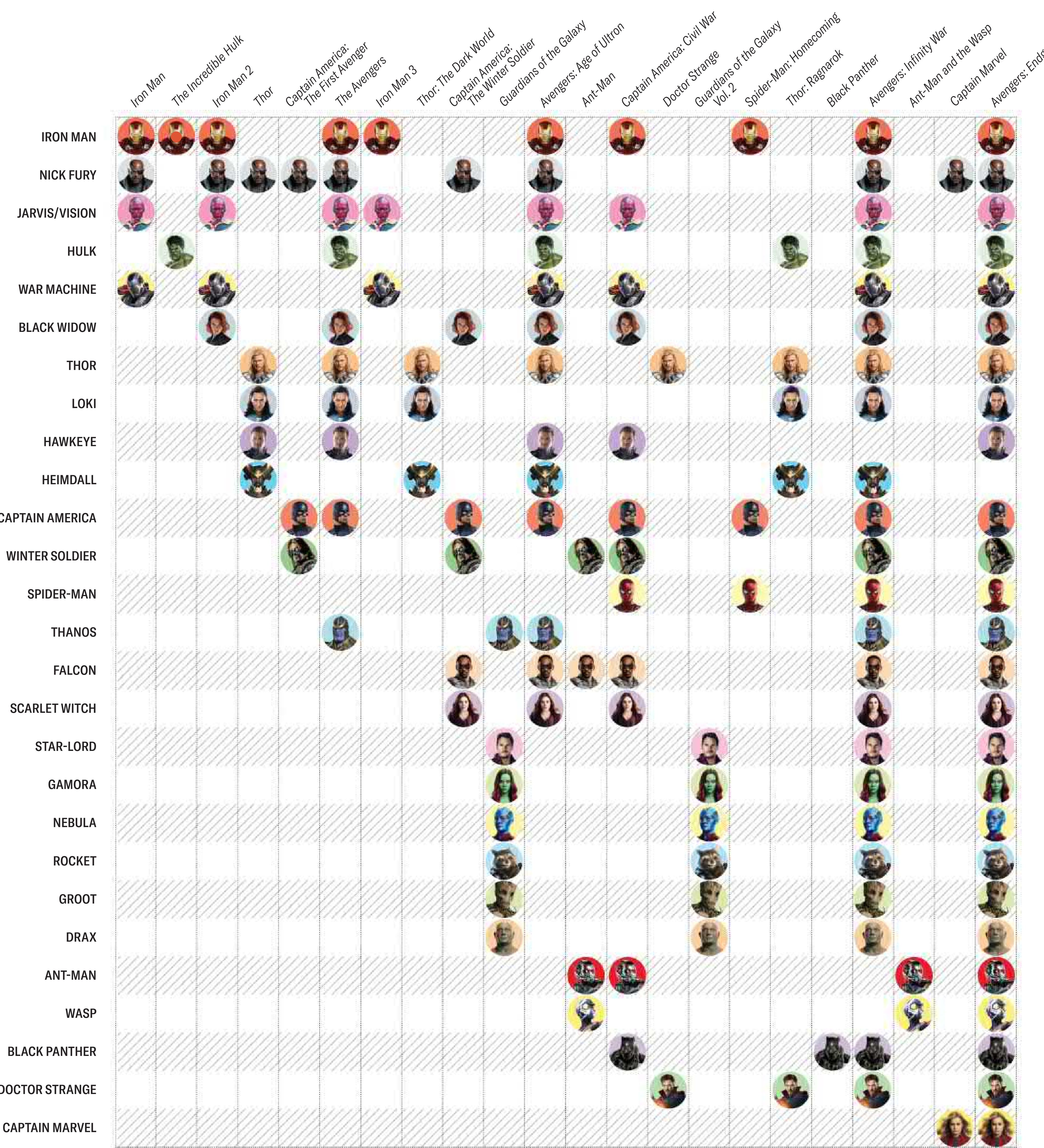
We compared overlap between movies in the staff of the core creative group (typically about 30 people for each film) with overlap in the full crew (about 2,500 people) and found significantly more in the core. On average, about 25% of a core group overlaps from one movie to the next (with a range of 14% to 68%), and the full crew averages an overlap of 14% (with a range of 2% to 33%). Predictably, movies in a series exhibit more core-group overlap: For example, from *Captain America: The Winter Soldier* to *Captain America: Civil War* it was 68%, and from *Iron Man* to *Iron Man 2* it was 55%.

A stable core supports renewal, because it exerts a kind of gravitational effect. People not in the core are keen to join it. For example, superhero movies were once seen as the kiss of death for actors with high artistic ambitions. But Academy Award winners such as Gwyneth Paltrow, Anthony Hopkins, Forest Whitaker, and Lupita Nyong'o have all played roles in the MCU. Cate Blanchett, another Oscar winner, described in a 2017 interview what she liked about joining the MCU: "Very early on, I threw a lot of ideas into the ring with Taika and with the Motion Capture people and the Special Effects crew and then they took [my ideas] and ran with [them]. It's like what if I shot this out? What if I play with my cape? Could stuff come out of that?"

In hindsight, these actors' attraction to the reach and resources of the world's most successful cinematic universe may not seem surprising. But the gravitational pull seems to have been there from the start. Interviewed on the set of the first *Iron Man,* Paltrow said she had "signed in blood" for three movies—something she had never done before. Actors such as Scarlett Johansson, Benedict Cumberbatch, and the leads of *Guardians of the Galaxy* have echoed her reasons for doing so in interviews: They feel invited and empowered to "do their thing," to explore and collaborate in building

The Stars in Marvel's Cinematic Universe

The distribution of key characters across 22 feature films illustrates a balance between continuity and renewal.



nuanced and interesting characters. Yet another Academy Award winner, Brie Larson, signed up for seven movies as Captain Marvel.

Even collaborators who may have had a negative experience with Marvel seem open to returning. Zak Penn, a renowned screenplay writer (who cowrote Steven Spielberg's *Ready Player One*), provides a case in point. Recruited to write the script for *The Incredible Hulk,* he ended up having to fight over screenplay credits with the film's lead actor, Edward Norton. Penn then spent several years writing a screenplay for *The Avengers,* only to have Whedon come on board as the director and subsequently rewrite it from scratch. Many creatives would refuse future collaborations after experiences like those. Yet Penn is reportedly writing a top-secret screenplay for Marvel.

The top soccer clubs in the UEFA Champions League during the past decade have prospered with a similar approach. Barcelona in its period of world dominance (2008–2015) maintained continuity by growing young stars from its own academy and keeping the central line of the team year after year while incorporating new stars (Luis Suárez, Neymar) to complement the core group. Real Madrid had traditionally paid big money to bring in superstars, so-called *galácticos.* After 2003 this strategy backfired as the club repeatedly struggled to reach the final stages of the Champions League. Then the club switched to an approach like Barcelona's, growing a core of young players mixed with stars and intermediate players and a stable management team led by Zinedine Zidane, a former player. Real Madrid went on to win the Champions League an unprecedented three times in a row (2016–2018). Its starting lineup was almost exactly the same each season, making it the most stable top club in all Europe. Stability allowed both clubs to better absorb new supporting players.

An example from a different field is Broken Social Scene, a band that acts more like a "musical collective." It started as a duo, but its albums include collaborating artists from other bands who rotate in and out of Broken Social Scene. For example, the group's second album featured 11 musical artists. Eight years later it released an album that featured 28. The original duo acts as the core, and the other artists act as the periphery.

Business organizations such as 3M and Nestlé embrace a similar strategy. Their classic organizational structures are overlaid with networks of teams, and the networks are monitored to ensure steady evolution—new members enter and others leave. Organizations that preserve the core, revitalize the periphery, and understand relationship networks can enable renewal, dynamism, and flexibility. They can attract an influx of new ideas while enabling continuity by keeping the overall organizational structure almost intact.

KEEP CHALLENGING THE FORMULA

Organizations are often loath to abandon what made a creative product successful. But Marvel Studios' directors all speak about a willingness to let go of the winning ingredients in prior MCU movies. Peyton Reed, the director of *Ant-Man and the Wasp,* spoke in 2018 about how his movie departed from those that directly preceded it (*Black Panther* and *Avengers: Infinity War*): "We wanted to [be] in the crime genre in terms of structure and looking to stuff like Elmore Leonard novels and movies like *Midnight Run* and *After Hours*.... We always knew we were coming out after *Panther* and *Infinity War*.... We all felt like, 'Okay....This feels organic to what we were already doing, but it'll also be a stark contrast to what came before.'"

To determine whether this was more than lip service, we analyzed all the movies in the MCU to see if there was evidence of their being formulaic. Were people really just watching the same movie over and over again?

At first the answer seemed to be yes. All MCU movies deliver superheroes, villains, and a third act featuring climactic battles that often rely heavily on computer-generated effects. Each movie also has a cameo appearance by the late Stan Lee, the writer of many of the original comic books. But a closer inspection revealed something more complex. We experience movies through the drama they generate as well as the visual story they tell. To understand those dimensions, we conducted a computerized text analysis of the script of each movie and a visual analysis of its images. We also analyzed the elements that leading critics singled out as somehow challenging or renewing the superhero movie genre. Our goal was to get a deeper look at whether the movies differed in terms of their dramatic, visual, and narrative elements.

Our script analysis reveals that Marvel movies showcase differing emotional tones (the balance between positive and negative emotion verbally expressed by the characters). For example, *Iron Man 2* contains a lot of humor, including a scene in which Nick Fury tells Iron Man, who is sitting inside a large doughnut that acts as a sign for a diner, "Sir, I'm going to have to ask you to exit the doughnut!" In contrast, the next movie, *Thor,* which centers on Thor's disappointing his father and being cast out of his presence, is darker and sadder.

The movies are also visually different. The largest variations include those from *Captain America: The Winter Soldier* to *Guardians of the Galaxy* to *Avengers: Age of Ultron.* The plots of the first and the third take place on Earth, whereas *Guardians* takes place in space and on alien planets.

Furthermore, the movies that achieve the highest critical (and audience) ratings are the very ones that are viewed as violating the superhero genre. *The Incredible Hulk* and the first two Thor movies are variously described by critics as "boringly formulaic" and "only involving for the very young"; the audience is "hammered with one cliché after the other" and with an exhaustive "visual extravaganza." By contrast, the critics found *Iron Man* notable for introducing realism and unusual depth and authenticity in the main character, *Guardians of the Galaxy* for its refreshing use of 1970s songs and its celebration of misfits, *Doctor Strange* for its artsy visuals and brainy tone, *Spider-Man: Homecoming* for inviting fantasies of neighborhood responsibility rather than intergalactic ultraviolence, and *Black Panther* for its social commentary and characters with political consciousness.

Not only do audiences appear to tolerate Marvel's constant experimentation, but it has become a critical element of the MCU experience: Fans go to the next film looking for something different. In contrast, franchises that have stuck closer to a winning formula run into trouble when they attempt to renew themselves.

Take *Star Wars: The Last Jedi.* It was critically acclaimed for visuals that were strikingly different from those of earlier movies in the franchise and for a willingness to break with the dramatic arc of prior movies. But long-loving fans of the franchise saw these violations as unacceptable—a sacrilege. Consequently, more than 100,000 of them signed a petition on Change.org asking Disney to strike the film from the Star Wars canon. Actors portraying some of the new characters were harassed and bullied online. Star Wars movies had followed a formula that limited directors' ability to offer innovations to the audience. Trying something new led to a backlash because the franchise's fans hadn't been looking for anything new.

What the MCU experience shows is that franchises benefit from continual experimentation. This lesson seems to hold outside the movie business as well. For instance, the Spanish clothing retailer Zara constantly releases short runs of new clothes based on recent trends, often from haute couture fashion houses. Zara's competitors expect their customers to visit two or three times a year, but Zara's customers may visit up to five times as often, because they expect the new offerings to violate the assumptions of the old.

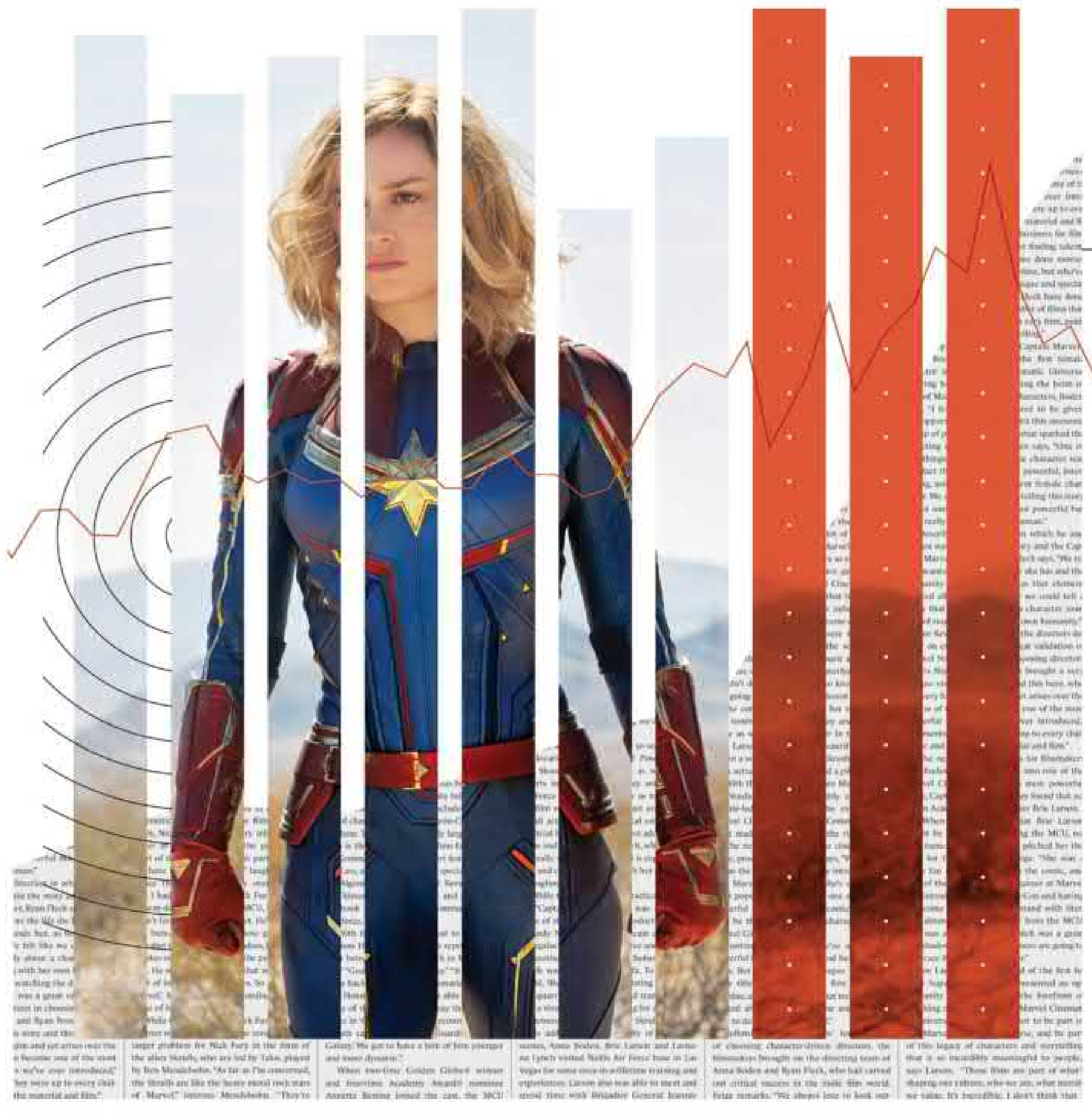
4 CULTIVATE CUSTOMER CURIOSITY

At its best, Marvel Studios provokes an intense interest in characters, plotlines, and entirely new worlds. Its whole universe has the feel of a puzzle that anyone can engage with. Moviegoers become active participants within a larger experience.

Marvel cultivates curiosity in several ways. One is by engaging customers indirectly as coproducers through social media interactions. This approach is rooted in a long Marvel tradition of supporting the growth of fan communities by, for example, including letters columns at the back of comic books. The columns allowed fans to perform in public and creators to respond to fan feedback. Continuing this tradition, Favreau and other Marvel directors make a point of using social media to stay in touch with the hard-core fan base of comic books, picking up insights from chat rooms and message boards.

Marvel systematically builds anticipation for its coming films by putting "Easter eggs" in its current releases that suggest a future product without giving away the story. The most obvious example is its famous post-credits scenes. The first of these was shown at the end of *Iron Man,* where S.H.I.E.L.D.'s Nick Fury, played by Samuel L. Jackson, is introduced, suggesting to fans that Iron Man may be part of a larger universe. The movies also present semiconcealed onscreen elements and references that only die-hard fans will notice—or story lines and character development that play out across several movies and products. For example, the Infinity Gauntlet, a weapon that figures heavily in the 19th film, can be seen in the background in *Thor,* the fourth film. A similarly important weapon, the Staff of the Living Tribunal, was casually introduced in *Doctor Strange* and may foreshadow the presence of a new character—named the Living Tribunal—in future movies. In *Thor: The Dark World* a chalkboard is filled with equations, one of which references a comic book arc about Doctor Strange's trapping the Incredible Hulk, potentially foreshadowing a plot twist.

Devoted comic book fans are given countless other nods, along with hidden and overt references to other movies, internal or external to the universe. Critics and commentators are quick to pick up the more obvious ones, including



Released in March 2019, Captain Marvel*, the highest-grossing female-led movie ever, earned more than $1 billion within three weeks.*

inspirations from *Raiders of the Lost Ark, The Maltese Falcon,* and *Star Wars* in *Guardians of the Galaxy* and the many allusions to James Bond movies in *Black Panther.* For dedicated fans, a host of blogs and specialized sites offer opportunities for much more engagement. *Black Panther* alone has several dozen such sites, where people comment on everything from comic book visuals, an overt reference to the self-lacing sneakers in *Back to the Future Part II,* allusions to African culture, and the significance of the opening scene in Oakland (where the director, Ryan Coogler, grew up, and the group the Black Panthers originated) to subtle (or not) nods to Wales's independence and Trump's wall against Mexico.

Other organizations, too, have grown their innovation universes by curating a sense of mystery and curiosity. The notion of Easter eggs originated in the 1979 video game Adventure and has since expanded to other video games, comics, home media, and software products. Google uses this mechanism to spark playfulness in workers, and it recently celebrated the 20th anniversary of its search engine with a series of nostalgia-inducing Easter eggs.

Nike's Jordan brand generates curiosity with hidden features in each new release of its shoes—Braille dots on the tongue spelling out "Jordan," a window providing a glimpse of a carbon fiber shank, quotations about overcoming failure laser-etched on the sole. Indeed, Nike uses many of the strategies Marvel does—details that link products together, secrecy before product launches, and a broad-based online consumer network that provides feedback and, in Nike's case, allows customers early access to limited-run sneakers.

MOST APPROACHES TO sustaining creativity and innovation focus on building a culture or following a process. Those approaches are useful, but they miss a key fact: In many contexts a successful product imposes constraints on what might follow. The four Marvel Cinematic Universe principles will help companies move beyond those constraints—but they must be applied as a whole. Selecting for experienced inexperience (principle #1) without a strong, sustained commitment to challenging the formula (principle #3) and a stable core crew (principle #2) will mean only that the people you get won't be able to do what you want them to do. Similarly, a lack of commitment to challenging the formula (principle #3) will undermine the potential for cultivating customer curiosity (principle #4): Clever Easter eggs cannot compensate for a formulaic movie or a dull product line. If a company succeeds in firing on all these cylinders at once, it will build a sustainable and ever-renewing innovation engine.

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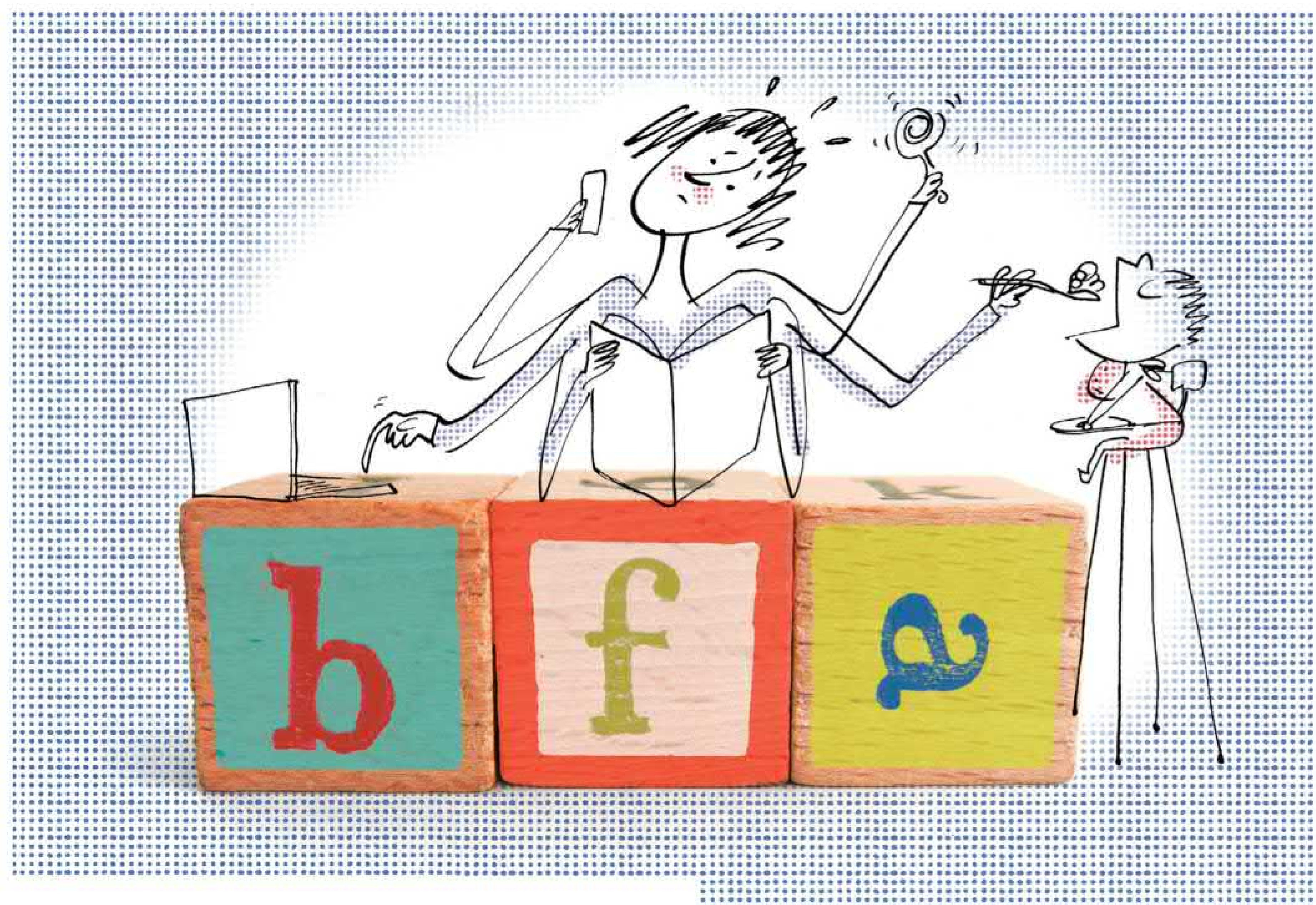


MANAGING YOURSELF

A WORKING PARENT'S SURVIVAL GUIDE

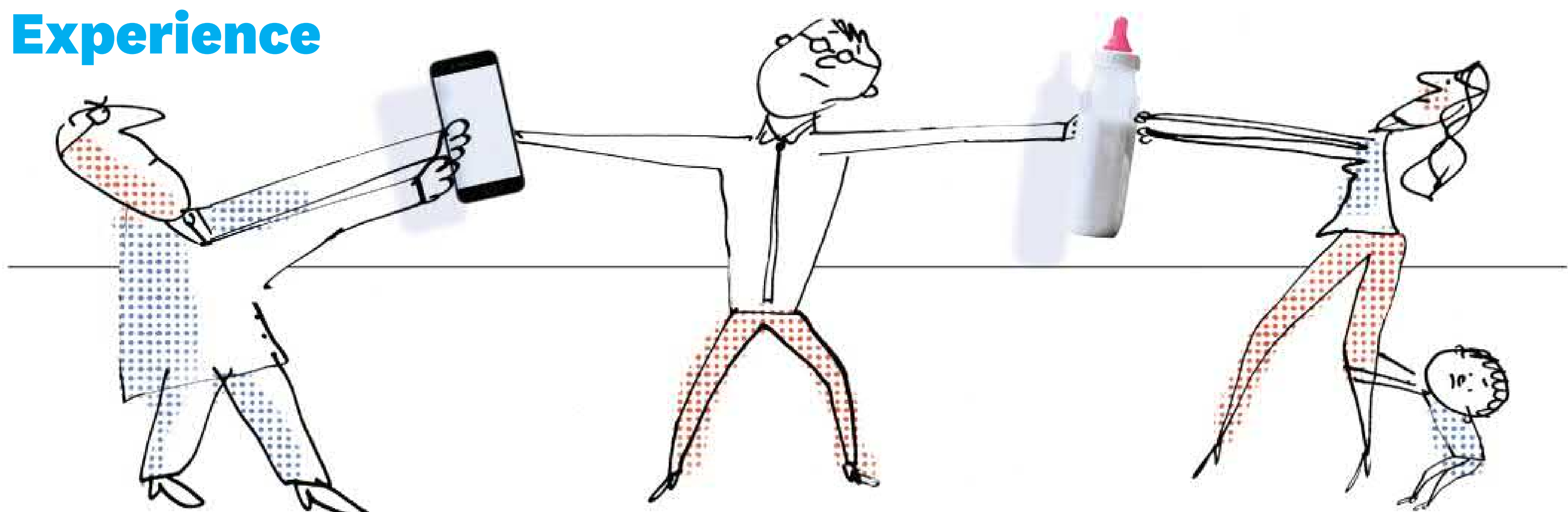
The five big challenges—and how to deal with them

by Daisy Wademan Dowling

JACOB WAS A partner at a respected consulting firm and—to his delight—an expectant father. As the due date loomed, though, he became increasingly apprehensive. How would he and his wife, who worked long hours as a physician, find optimal childcare? Was it possible to use his firm's generous paternity leave without negative judgment from his colleagues and clients? And with his "road warrior" schedule, how could he be a present, loving father to his new daughter?

Gabriela, a venture-capital fundraiser, went to great lengths to balance the needs of sophisticated investors, her firm's partners, and her two small children. But she

Illustrations by SERGE BLOCH



frequently felt overloaded and wondered if her managers looked askance at her trips to the pediatrician's office and preschool. She confessed to some nervousness about her typical 5:30 PM departure from the office ("I never used to leave so early"), and she worried that she wasn't being offered stretch assignments that would lead to promotion.

Connie was a senior IT manager at a consumer-products company and a single mother to a teenage son. She was having a tough time helping him navigate the complex college-admissions process while delivering against tight turnarounds at work. And each late night at the office was a stark reminder of how little time she had left with him at home. Under the strain, Connie found herself becoming snappish at work—which senior management had begun to notice.

Jacob, Gabriela, and Connie—I've changed their names and certain details about them here—are smart, hardworking professionals, deeply committed to their organizations. But they are just as committed to their children. So all three are grappling with what I call the working-parent problem: the enormous task, both logistical and emotional, of earning a living and building a career while being an engaged and loving mother or father.

They're not alone. More than 50 million Americans are juggling jobs and child-rearing—and finding that hard to do. In fact, according to a 2015 study by Pew Research Center, 65% of working parents with college degrees—who have better career and earning prospects than less-educated parents—reported that it was "somewhat difficult" or "very difficult" to meet the simultaneous demands of work and family. And the issue isn't limited to the United States; statistics are equally striking in other countries.

The problem is real and pervasive, and for moms and dads coping with it day to day, it can seem overwhelming. Working parenthood requires you to handle an endless stream of to-do's, problems, and awkward situations. There's no playbook or clear benchmarks for success, and candid discussion with managers can feel taboo; you might worry about being labeled as unfocused, whiny, or worse. Moreover, the problem persists for 18 years or more, without ever getting much easier. Years in, you may still feel as stressed as you did right after parental leave.

Under these conditions, it's normal to get tired, doubt your own choices and performance, and view your life as a constant, high-stakes improvisation. But it doesn't have to be that way. We can all gain more calm, confidence, and control, thereby strengthening our ability to succeed at—and even enjoy—working parenthood.

Over the past 15 years, first as in-house chief of leadership development at two *Fortune* 500 organizations and now as an independent executive coach focused exclusively on working-parent concerns, I've taught and counseled hundreds of men and women, including the three described above, who are struggling to combine careers and children—and I've "been there" as a working mother myself. While the challenges we face are many and vary in detail, the majority fall into five core categories: transition, practicalities, communication, loss, and identity. When people I've worked with recognize this and learn to see patterns in the strains they're facing, they immediately feel more capable and in charge, which then opens the door to some concrete, feasible fixes.

In this article, we'll take a closer look at the core challenges, and then we'll cover a few effective ways to address them. We'll also see how Jacob, Gabriela, and Connie successfully put these ideas into practice—and how you can, too.

UNDERSTANDING THE FIVE CORE CHALLENGES

When facing the pressures of working parenthood, ask yourself: What kind of difficulty am I dealing with? Most likely, it's one or more of the following.

Transition. This challenge occurs when your status quo has been upended and you're scrambling to adapt. Going back to work after parental leave is the classic, visible example.

> The problem of working parenthood persists for 18 years or more, without ever getting much easier.

But working-parent transitions occur regularly, in many different forms. The kids get out of school for the summer and their schedules shift; you hire a new sitter and have to integrate her into your family's routine; as you walk in the door after a business trip, you have to suddenly pivot from professional to caregiving mode.

Practicalities. This challenge consists of all the to-do's and logistical matters, large and small, that consume so much of your days—and nights. Searching for the right childcare, making it to the pediatrician's appointment on time (and then dashing to the pharmacy to pick up the antibiotics), getting the kids fed each evening, and taking an important conference call with a fussy toddler in the background all fall into this category.

Communication. You face this challenge when you've got working-parent matters to discuss and you find yourself at a loss for words or at risk of being misunderstood. Perhaps you are announcing a pregnancy, asking your boss for a flexible working arrangement, negotiating the daycare pickup schedule with your partner, or telling your five-year-old that you'll be traveling for work again. The stakes are high, and your intentions are good. But the honest, constructive conversation you want to have feels frustratingly out of reach.

Loss. This challenge involves a kind of mourning. Maybe the baby took her first steps while you were at work, or you weren't staffed to a career-making project because you made a deliberate decision to work fewer hours. Now you're worried that in trying to combine work and family, you've missed out on what's truly important.

Identity. You experience this challenge when grappling with the inevitable either/or thinking and personal conflict that comes with working parenthood. Will Thursday find you at your son's debate tournament or at the big sales meeting with the new client? Are you a hard charger or a nurturing, accessible parent? Which is right, and which is *you?* You wish you had clearer answers.

SOLUTIONS—AND PREVENTION

As every working parent knows, these challenges are never 100% resolved. They can, however, be preempted, mitigated, and managed. Five of the most powerful ways to do that are by *rehearsing* your transitions; *auditing* your commitments and *planning* your calendar; *framing* your working-parent messages; *using "today plus 20 years" thinking*; and *revisiting and recasting* your professional identity and brand. Let's explore each technique in turn.

Rehearsing. Transitions are inevitable, but they're made easier through practice. For example, if you're returning from parental leave, stage an "as if" morning a few days early: Get the baby ready, do the caregiving handover, and commute as though you're really going to work. If you're switching childcare providers, make the new sitter's first day a dry run while you work from home, available for questions. If you're coming home from a business trip or a long stint at work, take a moment while en route to plan how you'll pivot into parenting: how you'll greet the kids, how you'll spend the evening together.

Run-throughs like these reveal potential snags (drop-off takes longer than you

What Managers Can Do

The greatest force for retaining and engaging working parents? Managers on the front lines. Here are things leaders should know and do to support the mothers and fathers driving their teams' performance.

Understand the demographic. Working parents come in all packages: male and female; biological, adoptive, and foster; straight and LGBTQ; raising children of all ages. All need—and deserve—the same organizational and managerial support.

Demonstrate personal commitment. Keep pictures of your own family, including children if you have them, visible in your workspace. Allow access to your calendar so the team can see your personal obligations. Send a clear message that it's OK to be family-focused and that you yourself are.

Publicize company benefits. The emergency backup care your organization sponsors won't help keep people on the job unless they know about it and know how to use it. Stay current on available resources and make sure working parents in your group are informed, too.

Coach and mentor using open-ended questions. A simple "What do you think it will be like when you return from leave?" or "How are things going?" can launch a productive, solutions-focused conversation.

Minimize beginning- and end-of-day commitments. Schedule internal or elective meetings outside the hours in which parents need to handle caregiving transitions. (You're not lowering expectations for participation—just shifting them.)

Be an informal connector. Introduce the expectant father on your team to colleagues who have taken paternity leave. Host a lunch for parents in the department to swap tips about work travel. People will feel supported and gain practical "what works here" advice.

expected; the sitter doesn't know where to find the extra diapers; you catch yourself mulling over your performance review while putting your first-grader to bed). More important, rehearsing gives you time to iron out the wrinkles. It gets you out of working-parent "improv mode" and provides a comforting sense of "I've got this; I know that what I'm doing works."

Auditing and planning. Like every busy working parent, you're doing more and have a broader range of commitments than ever before. That means that you need to become as mindful and deliberate as possible about where your time and sweat equity are going and why—or risk practical-challenge overload.

Try sitting down with your complete calendar, your to-do list(s), and a red pen. Highlight the commitments, tasks, and obligations you could have put off, handled more efficiently, delegated, automated, or said no to over the past week—and then do the same for the week ahead. If you don't *have* to be at an upcoming meeting, for example, bow out and free up the hour; if you're ordering the same household products each week, set up regular delivery. Be ruthless—and look for themes. Maybe you have a hard time declining volunteer requests from the kids' school, or you routinely run too many revisions on the quarterly budget numbers.

Practically, this exercise can create some much-needed slack in your calendar and shorten your to-do list. Emotionally, it gives you a sense of agency: You're being proactive and taking charge. And the personal insights that come out of it ("I say yes too often"; "I can be a perfectionist") help you make more-conscious judgments about your time and your commitments for the future.

Framing. To make any working-parent communication easier and more effective, think of yourself as putting it inside a frame, defined on four sides by your *priorities, next steps, commitment,* and *enthusiasm*.

Let's say it's a particularly hectic afternoon at work, but you need to duck out of the office for your daughter's ballet recital. Tell colleagues, "I'm leaving now for my daughter's recital, but I'll be back at 3:30. I'll tackle the marketing summary then, so we have a fresh version to review tomorrow. I'm looking forward to getting this in front of the client!" A statement like that will work much better than a sheepish "I'm headed out for a few hours," because it brings listeners into your full professional and personal plan, allays any concerns about progress on pressing work, and showcases your dedication to the team. You've taken control of your own narrative and kept it positive and authentic, while minimizing the chance of misunderstandings.

Using "today plus 20 years" thinking. As a professional, you probably have incentives to focus on the intermediate term: You're rewarded for completing that six-month project, meeting your annual revenue targets, and delivering a compelling three-year strategy plan. But as a working mother or father, that time horizon is emotionally treacherous; it's where much of the working-parent downside sits and where the potential sense of loss looms largest. If you're just back from parental leave, for example, sitting miserably at your desk and missing the baby, it can be crushing to think forward six months or a year.

So try this instead when you're feeling conflicted or confronting the loss challenge: Think very short term and very long term—at the same time. Yes, you do miss the baby terribly right now, but you'll be home to see her in a few hours—and years from now you know you'll have provided her with a superb example of tenacity, career commitment, and hard work. In other words, acknowledge the reality and depth of your current feelings, identify a point of imminent relief, and then project far forward, to ultimate, positive outcomes.

Revisiting and recasting. Most of us have deeply ingrained views of who we are as professionals and how we wish to be known. But it's important to revisit and update the details of those identities and brands after becoming parents. If responsiveness has always been a key part of your identity, for example, now during family dinner you're likely to feel torn: irresponsible if you ignore your smartphone and guilt-ridden as a parent if you check it. What used to be a positive career differentiator has become a classic no-win situation, and you've lost both pride in your professional self and the happy moment of being an engaged mom or dad, eating with the kids.

To be clear, recasting doesn't mean lowering your standards; it means defining important new ones. To help in the process, try completing the following sentences: "I am a working-parent professional who..."; "I prioritize work responsibilities when..."; and "My kids come before work when...." Through this exercise, you may decide that instead of putting so much weight on being responsive, you choose to think of yourself as an efficient, thoughtful, or articulate communicator—and you may vow that barring a work emergency, your kids take precedence during dinner.

PUTTING IT ALL TOGETHER

Remember Jacob, the expectant father? Like most working parents, he was feeling the pressures of multiple core challenges, and he wanted to contain their impact on his upcoming parental leave and eventual return to work. He began by *framing* his conversations with clients: announcing his impending absence, previewing his time out of the office, reiterating his dedication, and describing how his team would see critical advisory projects through. To Jacob's surprise, the message was warmly received; it even allowed him to deepen and personalize several relationships that had previously been all business. Next, after carefully *auditing* his post-leave calendar, Jacob determined that a number of his work meetings in faraway cities could be done remotely, freeing up additional precious time to spend with his little girl. (Later, when he *was* on the road, he reminded himself that the trip was short and the return home would be joyous—and that his career success would help ensure a stable financial future for the entire family.) During his month at home, he and his wife also anticipated and *rehearsed* their caregiving plans, deciding that they would ask for supplemental help from family members on the days she was on call. Several months into working fatherhood, Jacob reported being busier than ever but feeling in charge and on track.

As for Gabriela, she concluded that in trying to be all things to all people, she had taken on too much. *Recasting* her identity as "future partner in the firm and devoted mom" helped her identify commitments that didn't align with either role. She kept all her investor responsibilities, continued leaving the office at the same time, and went to the pediatrician's when needed. But she quietly began cutting back on internal work—such as organizing the firm's annual retreat—and she limited her volunteerism at the kids' school to one event per semester. The professional-recasting process also gave her the time, clarity, and confidence to prepare for effective conversations with her managers, in which she better *framed* her ambitions and desired schedule.

Connie realized that the combination of job pressures and her son's impending departure for college had created new challenges in her working-parent life. Together, we came up with a plan to mitigate the effects on her personally and professionally. After *auditing* her calendar and her to-do's, she delegated several recurring tasks to more-junior members of her team and dedicated the hours saved to a weekly evening outing with her son. When college-application and work deadlines collided, she used *framing* techniques to calmly explain her time out of the office to her colleagues instead of snapping at them, and she used the *"today plus 20 years"* tool to put her situation into perspective. Additionally, when her son was away visiting colleges, Connie *rehearsed* her evenings and weekends as an empty nester. With new habits in place, her stress subsided.

WORKING PARENTHOOD ISN'T easy. It's a big, complex, emotional, chronic, and sometimes all-consuming struggle. But as with any challenge, the more you break it down, the less daunting it becomes. With a clearer view of the issues you're facing, and with specific strategies for managing them, you'll be better able to succeed at work—and be the mother or father you want to be at home.

HBR Reprint R1904L

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ADDITIONAL RESOURCES

"How Working Parents Can Feel Less Overwhelmed and More in Control"
Daisy Wademan Dowling
HBR.org, January 12, 2018

"Managing Parental Leave (Yours or Someone Else's)"
HBR's *Women at Work* podcast, September 24, 2018

"Kids of Working Moms Grow into Happy Adults"
Dina Gerdeman
Harvard Business School's *Working Knowledge*, July 16, 2018

"Working Mothers"
Dear HBR podcast, February 7, 2019

"How Our Careers Affect Our Children"
Stewart D. Friedman
HBR.org, November 14, 2018

"4 Ways Working Dads Can Make More Time for Family"
James Sudakow
HBR.org, April 9, 2019

*HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Hawk Electronics, Inc." (case no. 918521-PDF-ENG), by Richard G. Hamermesh and John Lafkas, which is available at **HBR.org**.*

CASE STUDY
When One Division Makes All the Money but the Other Gets All the Attention

by Richard G. Hamermesh

EAGLE HQ, MONDAY, 8:30 PM

It was the tone of the email that bothered Sarah Chan the most.

It felt like a threat. Alone in her office at the end of a long day, Sarah, the CEO of Eagle Electronics, opened up her laptop to read it again. Jorge Martinez, the president of Eagle's largest and most profitable division, had written:

The board gave you a mandate to revitalize the company, and you've instilled the entrepreneurial spirit we sorely needed. The Disruptive Initiative has repositioned us in the tech sector, and our stock price has increased significantly. Nonetheless, by harvesting cash flow from my unit to lavish funding on your pet projects, I believe you have endangered Eagle's future.

My unit has long been known for selling good products at fair prices and offering top-quality service and support. That is no longer the case. We are now struggling. My best customers are running to the competition, as are some of my top employees. I fear others may soon follow. My division needs $300 million over the next three years, and continued investment after that, to remain competitive.

Given how formal the email was, she couldn't believe he hadn't cc'd anyone. Jorge was well-known in their industry, and she imagined it was only a matter of time before he shared his opinions more widely.

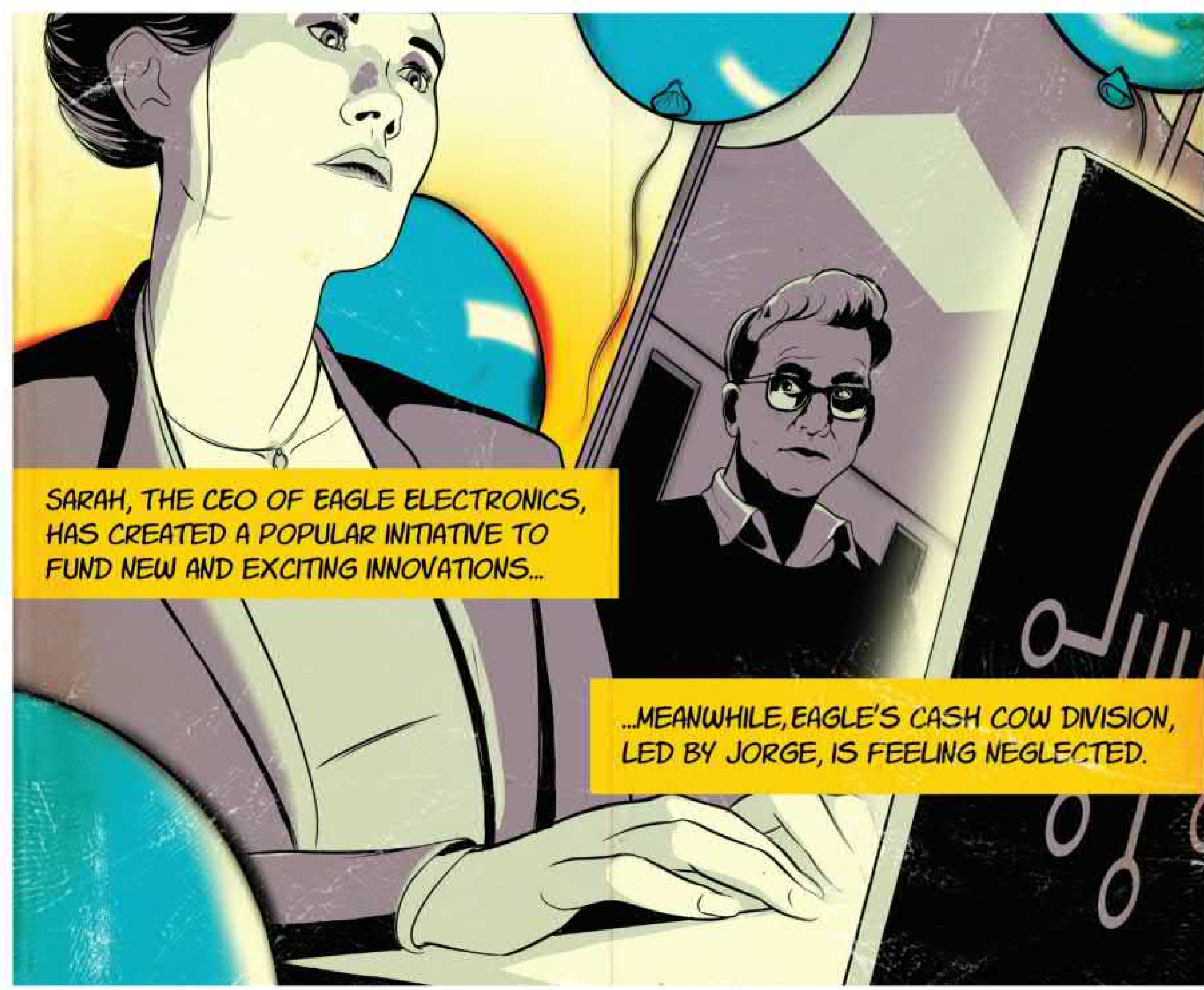
She didn't completely disagree with the facts as he'd laid them out. Founded in the early 1980s, Eagle Electronics originally derived its revenue exclusively from the manufacture and sale of personal computers and peripheral devices. In the early 2000s, it got out of the PC business because the founders realized it couldn't compete with Dell and other firms. But peripherals remained the largest share of the company's revenue and earnings, and Jorge had led that division for close to 10 years, with great success. He was known for his fiscal discipline and for making smart strategic decisions, such as expanding into emerging markets with lower-cost products.

And Sarah had, in fact, been using the cash flow from the peripherals unit to fund new ventures.[1] Soon after being named CEO, in 2012, she had started the Disruptive Initiative unit, an investment model for new-product development.

She'd created it out of necessity when one of her rising-star designers, Jennifer Yu, told her she was leaving to start her own data management software company and asked Sarah if she wanted to be an angel investor. Because she wanted to keep Jennifer, and since there wasn't direct overlap between the start-up and Eagle's portfolio, Sarah proposed that the firm fund the initiative with an option to buy if it developed a minimum viable product and laid out a path to market.[2]

Jennifer did just that, and Eagle bought the venture 14 months later, with Jennifer realizing a significant financial gain. The arrangement became a model for other investments. Employees were allowed to submit product proposals, and if approved, Eagle would fund 75% of the start-up costs. The firm also offered other assistance to help start-ups meet their goals and deadlines. Employees initially left the company to

Illustrations by RYAN GARCIA



work on their ventures, but Eagle had an option to buy within 18 months and often did, folding the employees back into the division that Jennifer now led.

So far, Eagle had invested in 13 ideas, seven of which were still in start-up mode, and five of which had been acquired. Only one had fizzled out.[3]

The initiative had received glowing attention in the financial and technology press. But it was far less popular internally. While much of Eagle's growth was attributable to its acquisitions, integrating the new ventures had been problematic, and profitability varied.[4] Plus, Sarah's time and attention, not to mention the firm's resources, had been so focused on them that the company's bread-and-butter products—all part of Jorge's division—were often ignored. The favored child was suddenly feeling like a stepchild, and that had led to high turnover and morale problems.

As Sarah reread Jorge's email, she winced at his use of the word "endangered." Her intention hadn't been to hurt any part of Eagle. Her goal was to prepare the company for the future. But his comment had hit a nerve. She hadn't yet proved that the new business lines could generate significant profits or dominate their markets. The peripherals unit was Eagle's lifeblood. And she couldn't help wondering whether she had inadvertently damaged it.

EAGLE HQ, TUESDAY, 10:01 AM

CHECKING IN

The next morning, Sarah met with Jennifer to go over her division's P&L. She knew she couldn't divulge exactly what Jorge's email said, but she did want her star employee's perspective. She'd long admired not only Jennifer's confidence but also her ability to think strategically, and the two women had become close. Sarah mentioned that Jorge was upset by what he saw as uneven treatment.

"What else is new?" Jennifer asked, rolling her eyes.

"I know Jorge has had complaints before, but this is different," Sarah said.

Case Study Classroom Notes

1. *According to the BCG growth-share matrix, Jorge's unit is a cash cow: It requires little investment and generates cash.*

2. *Big firms are often seen as too bureaucratic and risk-averse to innovate. But research from Olin Business School reveals that firms with more than 500 employees do nearly six times as much R&D as smaller firms.*

3. *On average, only 25% of VC–backed start-ups return their invested capital. Should Sarah focus on internal research efforts instead?*

4. *Is the new business model likely to become an engine of growth? Or are the integration challenges too daunting?*

5. *Could resentment be coloring Jorge's view of his unit's situation?*

6. *Is Jorge a flight risk? What would it mean for Eagle, and for Sarah, if he left?*

7. *What would be the ramifications for company performance if Sarah funded fewer new ventures and upped Jorge's budget?*

"Is it? He's probably still disappointed that he's not the CEO."

Jorge and Sarah had been the two leading candidates back in 2011 when Eagle's founder-CEO announced he was leaving. Sarah had joined Eagle two years earlier as the head of strategic planning and business development at the same time that Jorge was promoted to head up the peripherals division. The rumors were that Jorge wasn't picked as CEO because he had proven himself invaluable to the unit.[5]

"Whether that's true or not, he's great at his job, so I owe him a hearing."

Jennifer went quiet as Sarah brought up her division's dashboard on her screen so that they could review the numbers together. Performance continued to be mixed. The six ventures were bringing in $340 million a year in sales and $35 million in total earnings before interest and tax. Although the division was no longer loss-making, it represented less than 30% of Eagle's sales. The percentage was moving in the right direction, but the unit struggled with quality issues and cost overruns, which were starting to affect profitability. Sarah and Jennifer spent the hour discussing the most pressing problems and potential solutions.

As they wrapped up, Jennifer said, "I know we're not where we want to be, but with a little more runway we're going to be able to hit our targets. Also," she added, "you'll figure out what to do about Jorge. You always do."

SARAH'S HOUSE, TUESDAY, 6:55 PM

SPINNING OFF

When Sarah got home later that night, her husband, Bo, was chopping vegetables in their kitchen. She handed him her phone and said, "Read this."

Bo paused and scanned Jorge's email. "Oh, brother," he said, picking his knife back up.

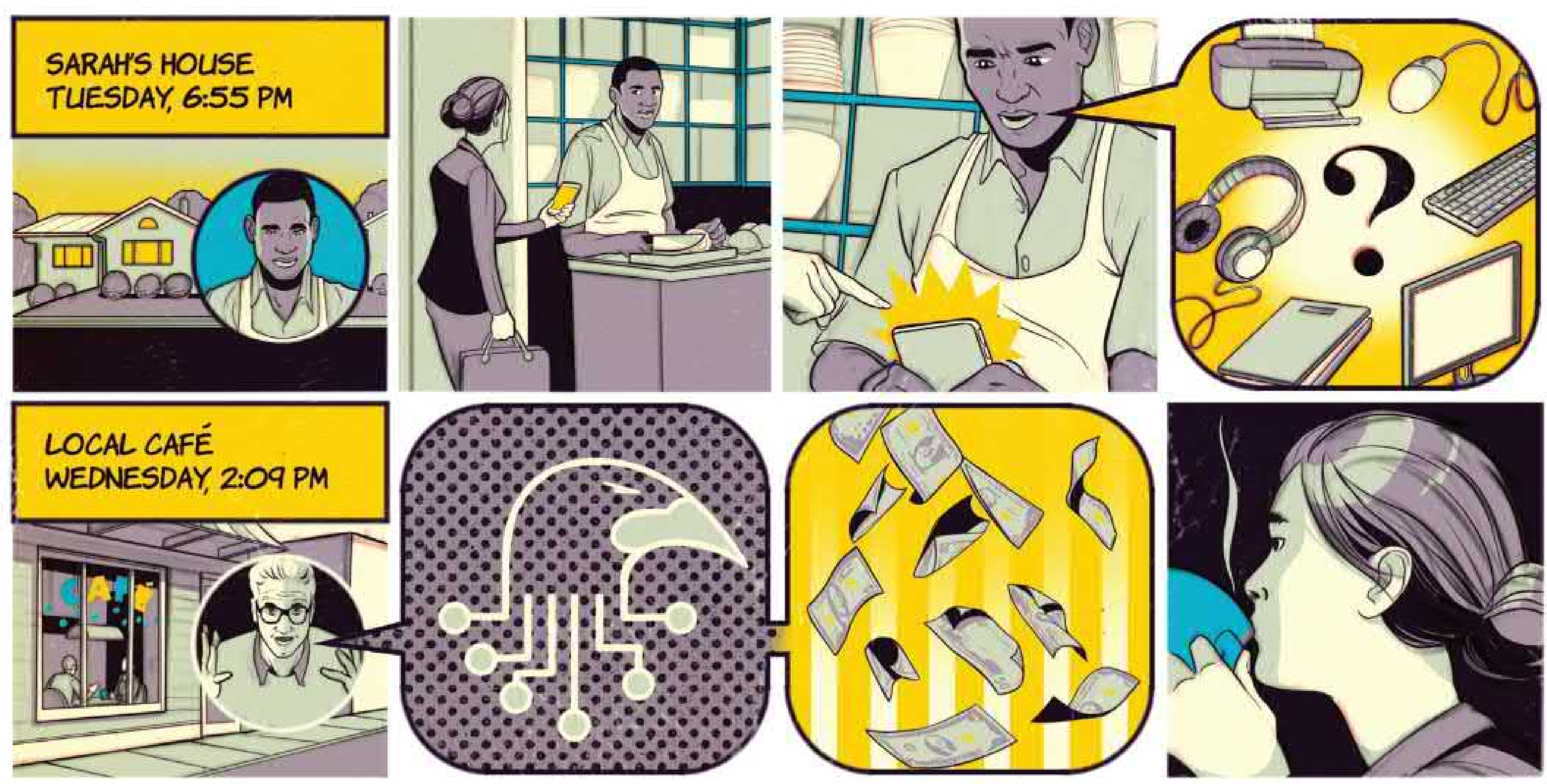
"That's all you're going to say?" Sarah asked, laughing ruefully.

Bo was a venture capitalist and was taking time off before raising capital for his next fund. "What else should I say? He's a grump. Ignore him."

"Ignore him? Bo, this is Jorge we're talking about. I wouldn't put it past him to forward this email to the board in 48 hours if I don't respond. Or quit over this."[6]

"Maybe it's time he goes. Wouldn't you be relieved? He's always resisted change. And Eagle has always been a follower. If you want to lead the market, you're going to have to take some risks. Maybe letting Jorge leave of his own volition is exactly the kind of risk you should take."

"Bo. Jorge *is* the peripherals division, and it accounts for 70%



of sales and 80% of profits. If he leaves, half the staff and most of our customers will follow, taking all that cash with them. I know he and I don't always see eye to eye, but maybe he has a point here."[7]

"Then what's holding you back from making the investment?"

"Dumping money into a mature, low-growth division just seems like the wrong thing to do.[8] That's a recipe to stay exactly where we are, which means continuing to fall behind. We wouldn't be able to make the same level of investments we're making in new products."

"Why don't you just sell the peripherals division and use the cash to fund the products you're excited about? Or spin it off and give Jorge the CEO job he's always wanted?"

Sarah's first reaction was that Bo had lost his mind, but before she could accuse him of that, she reconsidered. Maybe it wasn't such a terrible idea. It'd be hard—maybe impossible—to get the board to agree to it, but it would solve a lot of problems. And she'd finally be running the kind of company she wanted to.

LOCAL CAFÉ, WEDNESDAY, 2:09 PM

NOW OR NEVER

Sarah asked Jorge to meet her at a café a few blocks from the office. Having such a sensitive conversation in the building didn't seem prudent. Either one—or both—of them might lose their cool.

Jorge skipped the pleasantries. "I don't want to negotiate. I've made clear what I need to make my division succeed," he said.

"Three hundred million isn't a small amount—"

"But we have it. You've just got to stop siphoning it off of my division and let me reinvest it in our business."

Sarah and Jorge had been having discussions like this for the past few years, but he seemed more fired up and resolute than he ever had before.

"I won't deny that the growth from the ventures has been impressive over the past five years, but given how things are going over there, that's not going to continue," said Jorge. "I want to be honest with you. I think your affinity for Jennifer—the fact that you see yourself in her—is hindering your judgment here."[9]

Sarah didn't want to believe that, but she wasn't ready to fully deny it either.

"But that's not the point," Jorge continued. "The point is the health of our business. You've got to stop strangling us. You claim that we're not positioned to compete in new product categories, but you don't give us the money we need to do that. You have to see how unfair that

8. The rise of mobile computer devices and falling demand for desktop PCs has negatively impacted the market for computer peripheral equipment, according to Nasdaq.com.

9. Has Sarah unfairly favored Jennifer? Is their friendship affecting her business judgment?

is." The board had been harping on the fact that Eagle had no plans to enter the rapidly growing 3-D printing market, and Jorge had been countering that if the peripherals division had any research budget, it could come up with a compelling product, given its deep experience with printers.

"Have you seen this quarter's engagement results from the pulse survey?" he went on. "I've got a serious talent issue. Two of my best people left last week, and we're fielding calls from customers who are considering other options. It's time to stanch the bleeding."

She understood where Jorge was coming from. He and everyone else in peripherals felt unappreciated—like fallen stars. But she wouldn't be forced into giving them more resources unless she was sure it was the right decision not just for his unit but for the company as whole.

"You know as well as I do that Eagle is done without peripherals," Jorge told Sarah as she paid the bill. "You may be right that someday these ventures will land on a product that will be the revenue engine my unit is now. But that's a long way off—and far from certain. You'll never get there without a strong peripherals division. You know what we need."

RICHARD G. HAMERMESH *is a senior fellow at Harvard Business School.*

Should Sarah reinvest in the core business or focus on new ventures?

THE EXPERTS RESPOND

VIJAY SANKARAN *is the chief information officer at TD Ameritrade.*

Sarah should extend an olive branch to Jorge.

She should say, "Let's spend some time together to figure out the right investment approach for the business."

Jorge's ultimatum might be politically motivated. He may resent Sarah's appointment as CEO and the attention she's paid to the Disruptive Initiative group. But at the end of the day, Eagle can't survive or thrive without a strong peripherals division. And there's no reason Sarah can't continue to invest in the core business while also exploring innovative ideas. Bets on new business models shouldn't come at the expense of the older but still-profitable ones.

Sarah can start by asking Jorge questions: What challenges are facing your

division? Where are the areas for growth? The two should discuss the broader context—capital constraints, competitive pressures—and then dig into the details to come up with a plan together. Sarah shouldn't rest until she and Jorge are aligned on the level of investment and the goals and priorities associated with it. The figure might not be $300 million, but it probably won't be zero.

Sarah should also consider taking a more balanced approach in her leadership. Jorge may be justified in his claim that she has been playing favorites. She needs to learn from that mistake. Also, she should address Jorge's resentment head-on. I've been in situations in which peers and I were vying for a promotion, and I became their boss. Sarah should say, "I get that it must have been tough not to get the job, but you bring a ton of value to the table, and I want to have a productive relationship with you."

As the CIO of TD Ameritrade, I'm responsible for teams that incubate new ideas as well as those that manage our data and analytics ecosystem. Everyone knows I'm excited about the innovation group. But they also know—because I remind them—that we rely on the core business for revenue and profits and intend to be exploratory and agile in those areas, too. Sarah needs to give Jorge and his division the same boost and solicit Jennifer's support. She should encourage Jorge and Jennifer to become not just colleagues but partners who share ideas and best practices. And she should make her investment plan transparent. How much will each unit get, and what are the expected returns? Jorge and Jennifer will have different targets, but everyone should be crystal clear about what they are.

Last, Sarah should proactively explain to her board members the situation with Jorge and what she's doing about it. She should show that she's capable of taking feedback, doing her own due diligence, and adjusting her strategy and management accordingly.

CARINE CLARK *is the CEO of Banyan, a marketing and reputation management software-as-a-service company.*

Sarah needs to show Jorge that she's willing to listen, while also taking a hard line with him.

Ultimately, he needs to put aside his resentment and accept that she is in charge. If he doesn't want to work for her or doesn't agree with her plan for Eagle's future, then perhaps he should leave.

Forward-thinking companies that are fortunate enough to have a cash cow typically use the funds they generate to invest in the future. If Jorge doesn't understand that, he might be stuck in the past—akin to the president of IBM's typewriter division demanding investment at the expense of the desktop computer unit or the executives at Kodak who favored the money-making film business instead of investing in digital.

I've spent most of my career in a tug-of-war with guys like Jorge. At one company where I was the head of marketing, the executive who ran the firm's cash cow wanted me to allocate my budget according to the percentage each division contributed to total revenue. That's an easy way to avoid fights, but it doesn't help you grow. I determined the minimum I had to invest to keep his business growing at a modest rate and spent the rest on new initiatives to make sure we got to market ahead of rivals or new entrants.

Sarah can do the same with Jorge. She shouldn't give him money just because he's demanding it. That might shut him up for a while, but he'll only come back asking for more. Instead, she should sit down with him to understand the problem he's trying to solve and, once they agree on what that is, work to carve out the right investment. At another company where I was the CMO, I dealt with an executive who was insisting that we sponsor the Masters golf tournament. When I sat down with him to figure out why, he explained that he had one customer—on the brink of an enormous contract renewal—who really wanted to go. So we bought two tickets. It was a much cheaper solution.

I'd advise that Sarah start by meeting with Jorge face-to-face and apologizing—for shifting her attention away from his division and for failing to create an environment in which he felt he could thrive. She should assure him that she's committed to his division's being wildly successful.

Next, she'll need to work with him to unpack the problem. Why does he want $300 million? What does he actually need? As they hammer out a plan for investment, they might both be surprised by what it will take to ensure the unit's continued growth.

Sarah should also emphasize that the senior executives across the company need to be aligned on what success looks like and how the firm will get there. As CEO, she will drive the company's strategy, but everyone on her team needs to understand how they map to it and work together to achieve it.

At the same time, Sarah should carefully consider whether she is overestimating the value of Jorge's experience to Eagle. He's been running the peripherals division for 10 years—a lifetime in the tech industry—and while he might have been the right guy to achieve its current success, he might not be the person who can take it to the next level. Innovation has not been his forte, and in rapidly changing segments such as 3-D printing, he's probably already too late to the party.

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Experience

SYNTHESIS

FIXING THE INTERNET

Where it went wrong and how to improve it

by Walter Frick

"HOW DID THE internet get so broken?"

That question anchors season 3 of *Crazy/Genius,* the tech podcast hosted by the *Atlantic*'s Derek Thompson. Its preview trailer runs through a litany of problems linked to the internet, from surveillance to misinformation to algorithmic bias. "What if we just tried turning it off for, like, a week," jokes Vox's Jane Coaston, "just to see what would happen?"

The ill effects of the internet are also examined in a clutch of current books—from *Coders*, by journalist Clive Thompson (no relation to Derek) to *Tools and Weapons,* by Microsoft president Brad Smith and Carol Ann Browne.

In *Coders,* Thompson profiles programmers at social media giants including Facebook, Instagram, and Pinterest and examines their role in making the internet what it is today. Early America was run by lawyers, he observes, and 20th-century America by engineers. Now the coders are in charge. They have played a disproportionate role in creating the major internet platforms, transforming economies, cultures, and governments in the process. That's less than ideal, Thompson believes, because coders are disproportionately young, white men from privileged backgrounds who design products to solve problems in their own lives: "When you have a homogenous cohort of people making software and hardware, they tend to produce work that works great for them but can be useless, or even a disaster, for people in other walks of life."

In *Beyond the Valley,* media studies professor Ramesh Srinivasan extends that critique to include a geographic caveat: "Chinese, Western, and white male interests dominate the content and systems that power the internet, rather than those who reflect the full diversity of us online," he writes. We were promised "an internet that acts as a 'global village'...that creates, or at least supports, equality," but that's an internet "we haven't yet received."

The pursuit of profits—that is, the internet's transition from a noncommercial Eden for

Illustration by TIM BOWER

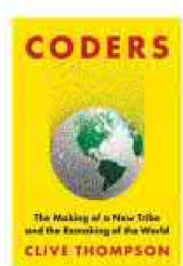
researchers and hobbyists into a bonanza of capitalism—is another force driving things off the rails. The founders of Instagram didn't "actively set out to erode anyone's self-esteem," says Thompson. But the need to continually grow the user base to fuel ad sales—by encouraging people to showcase their best moments in the addictive pursuit of "likes"—overrode concerns about the feelings of inadequacy and the unhealthy fear of missing out that users were reporting. "The money was deforming decisions—what code gets written and why." Srinivasan concurs, pointing out that many of the big tech companies "are branded as public, civic, and virtuous but, in reality, are dominated by a single logic—extending profitability and economic value."

Technologists' relentless focus on efficiency has also led us astray. Coders enjoy automating and optimizing, but "even the programmers themselves can be surprised, and disenchanted, by how their zeal for optimization can produce unexpected and freaky side effects," says Thompson. "Uber flooded the streets...with cars, which was terrific for riders—but less so for drivers, many of whom began to find it harder and harder to piece together a steady living, given the frenetic competition." Srinivasan contends that "efficiency on our consumer platforms can...disturb our sense of security and privacy." Targeted ads are incredibly efficient, for example, but they can also be incredibly creepy.

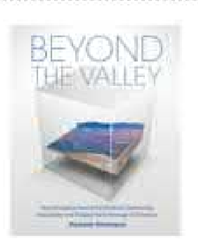
The relentless drive toward optimization relies on an entirely new category of workers who toil behind the scenes. In *Ghost Work,* anthropologist Mary Gray and computer scientist Siddharth Suri explore the lives of people who, using crowdsourcing marketplaces like Amazon Turk, carry out essential online microtasks, such as cleaning up Amazon's databases, filtering harmful content for Google, and labeling data sets to fuel machine learning algorithms. The book reveals that although some internet work is rewarded and celebrated, much of it is poorly compensated and invisible, and takes a sometimes devastating human toll.

Even assuming that, overall, the internet does far more good than harm, it will remain broken unless our institutions, culture, and policies are adapted to make the most of it. And that challenge is only becoming more urgent as more people come online. As technologist Jim Cashel writes in *The Great Connecting,* it took 25 years from the launch of the web browser Mosaic, in 1993, for half the world to come online. But the other half will gain access in the next three to five years. He asks: "What are the major players involved in connecting the planet doing to prepare [for] expanded connectivity?" Cashel's advice boils down to: anticipate, facilitate, mitigate, regulate, and celebrate. To date, there's been too much of the last and too little of all the rest—especially regulation. Cashel calls for an international "digital tribunal" that would help countries coordinate regulatory efforts; at the same time, he supports subsidies to accelerate global broadband deployment.

For Gray and Suri, a first step in fixing the internet is empathy. We all need to recognize what happens behind the scenes of the sites and services we use every day and better understand the consequences of our actions. They recommend that more ghost work platforms take a "double bottom line" approach to their business, balancing profits with concern for and development of their workforce. Srinivasan would like to put more control in the hands of users and argues for spreading a more robust version of digital literacy that includes "the capacity to reflect, analyze, and create" so that more of us can contribute to technological development.



Coders
Clive Thompson
Penguin Press, 2019



Beyond the Valley
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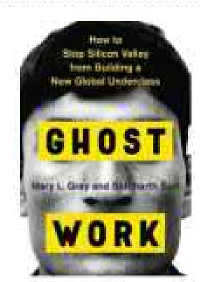
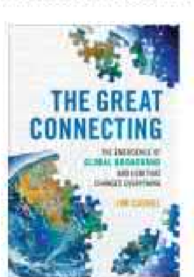
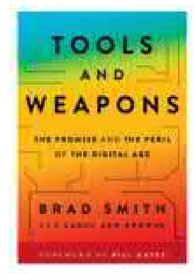


Ghost Work
Mary L. Gray and Siddharth Suri
Houghton Mifflin Harcourt, 2019



The Great Connecting
Jim Cashel
Radius, 2019



Tools and Weapons
Brad Smith and Carol Ann Browne
Penguin Press, 2019

In *Tools and Weapons,* Microsoft's Smith, who is an attorney, puts his hope in the rule of law. "The tech sector cannot address these challenges by itself," he writes. "The world needs a mixture of self-regulation and government action." That means more than just the public sector holding the private one to account; it also works the other way around. To illustrate, Smith points to Microsoft's decision to sue the U.S. government after the NSA issued warrants requiring the company to turn over customer data.

In order to improve the internet, we must fight against the tendency to ignore its tremendous potential. A few years ago, a Reddit user wondered what would be the hardest thing to explain to someone arriving from 50 years in the past. One user answered: "I possess a device, in my pocket, that is capable of accessing the entirety of information known to man," adding: "I use it to look at pictures of cats and get in arguments with strangers."

I love that quote, because it so perfectly captures our inability to put the internet to good use. Surely we can do better.

WALTER FRICK *is the deputy editor of HBR.org.*

SPOTLIGHT

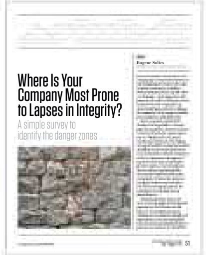
White-Collar Crime

Despite efforts to crack down on illegal activity, crimes like fraud, bribery, embezzlement, and money laundering are rampant in corporations. What steps can leaders take to fix this growing problem? | **page 41**

How to Scandal-Proof Your Company

Paul Healy and George Serafeim
page 42

Recently, white-collar crimes have destroyed huge amounts of shareholder value at companies. When a serious offense is uncovered, a firm can be fined billions, and the damage to sales, stock price, and worker engagement can be even more costly. Ineffective regulations and compliance aren't to blame for misconduct, however. Weak leadership and flawed corporate cultures are. If executives want to fix the problem, they need to take ownership of it—starting by broadcasting the message that crime hurts everyone. What else should they do? Punish violators consistently, recruit managers with integrity, limit opportunities for unethical decision making, and champion transparency throughout their industries.



Where Is Your Company Most Prone to Lapses in Integrity?

Eugene Soltes | page 51

Let's face the facts: No matter how good its controls are, every sizable organization experiences *some* misconduct, and a lot of that misconduct won't get internally reported. To avoid being blindsided, leaders need to set up systems for early detection. A good approach is to gather data by giving employees a simple three-question survey, asking where they've seen questionable behavior, whether they reported it, and if they didn't, why not. The answers will help firms identify areas that are prone to ethical lapses, uncover causes of misbehavior, and devise strategies to nip trouble in the bud.

"We Were Coming Up Against Everything from Organized Crime to Angry Employees"

A conversation with Erik Osmundsen | page 54

When Erik Osmundsen became CEO of Norsk Gjenvinning (NG), Norway's largest waste management company, he believed that the recycling movement spelled huge opportunities for the firm. Unfortunately, like waste management businesses around the world, NG was rife with corruption. In this interview with HBR senior editor Steve Prokesch, Osmundsen describes how he set out to instill ethical practices in his organization and transform it into an industry role model.

What I've Learned About White-Collar Crime

Mary Jo White | page 58

Mary Jo White, the former chair of the U.S. Securities and Exchange Commission and U.S. attorney for the Southern District of New York, has spent 40 years prosecuting (and sometimes defending) white-collar criminals. In this article, she reflects on her experiences and shares her insights about what motivates and deters perpetrators, how to prevent future wrongdoing, and the biggest mistakes companies make when dealing with lapses.

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HOW I DID IT

Match Group's CEO on Innovating in a Fast-Changing Industry

Mandy Ginsberg | page 35

When the author began working at Match, in the mid-2000s, online dating often required monthly fees and endless patience. It was mostly done by middle-aged people sitting at PCs who scrolled through profiles and waited for responses. If they found and connected with someone, they'd often claim they "met through friends" to avoid the stigma that online dating carried.

Since then, significant industrywide shifts in technology and business models have completely changed how people use Match products. Now online dating is done via apps on mobile phones; it has moved from monthly subscriptions to a "freemium" pricing model; and it has been embraced by people in their twenties, who are the dominant users of Tinder and similar brands. Mandy Ginsberg describes what it's like to lead in an industry with such fast innovation cycles and discusses incorporating full-motion video into dating apps—part of an effort to predict whether sparks ignited online will persist as chemistry in real life.

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MANAGING YOURSELF

A Working Parent's Survival Guide

Daisy Wademan Dowling | page 147

If you're passionate about your career—and about being a great mom or dad—you're facing an ongoing struggle for at least 18 years. But you can learn techniques to reduce the stress and successfully balance your professional and family roles.

The author, an executive coach who specializes in helping working parents, suggests that you start by identifying the kinds of challenges you're confronting. There are five core types: those involving *transitions* (such as returning to work after parental leave, or hiring a new caregiver); *practical* challenges (dealing with errands, appointments, and all your other responsibilities); *communication* issues (conversations and negotiations about working-parent matters); feelings of *loss* (fear that you're missing out at work or at home); and *identity* concerns (uncertainty about your priorities and how you define yourself).

To mitigate these challenges, the author recommends five powerful strategies: *Rehearse* to prepare for transitions; *audit* your commitments and *plan* your calendar so that practicalities don't overwhelm you; *frame* your working-parent messages effectively; *use "today plus 20 years" thinking* to put losses into perspective; and *revisit and recast* your professional identity and brand.

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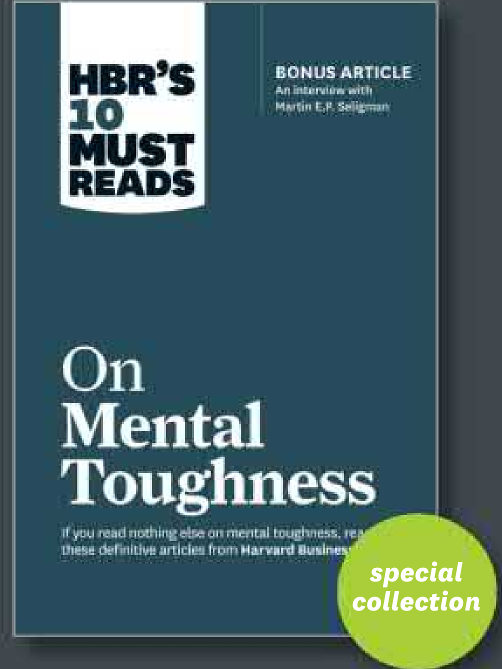
NEED TO TOUGHEN UP AT WORK?



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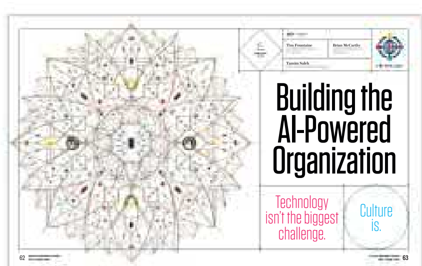

Building the AI-Powered Organization

Tim Fountaine, Brian McCarthy, and Tamim Saleh | page 62

Artificial intelligence seems to be on the brink of a boom. It's now guiding decisions on everything from crop harvests to bank loans, and uses like totally automated customer service are on the horizon. Indeed, McKinsey estimates that AI will add $13 trillion to the global economy in the next decade. Yet companies are struggling to scale up their AI efforts. Most have run only ad hoc projects or applied AI in just a single business process.

In surveys of thousands of executives and work with hundreds of clients, McKinsey has identified how firms can capture the full AI opportunity. The key is to understand the organizational and cultural barriers AI initiatives face and work to lower them. That means shifting workers away from traditional mindsets, like relying on top-down decision making, which often run counter to those needed for AI. Leaders can also set up AI projects for success by conveying their urgency and benefits; investing heavily in AI education and adoption; and accounting for the company's AI maturity, business complexity, and innovation pace when deciding how work should be organized.

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INNOVATION

Nimble Leadership

Deborah Ancona, Elaine Backman, and Kate Isaacs | page 74

Nobody really *recommends* command-and-control leadership anymore. But no fully formed alternative has emerged. So mature companies often struggle to balance the need for innovation with the need for discipline.

The authors studied two exceptions: the new-product-development stars PARC and W.L. Gore. Both companies, they learned, have three distinct types of leaders. *Entrepreneurial leaders,* found at lower levels, create new products and services and move their firms into unexplored territory. *Enabling leaders,* in the middle, make sure the entrepreneurs have the resources they need. And *architecting leaders,* near the top, monitor culture, high-level strategy, and structure.

This system allows both companies to be self-managing to a surprising degree. Employees choose their work assignments and dream up new projects, whose success rests on colleagues' volunteering to join in—making the companies collective prediction markets. And the mechanisms that enable self-management also balance freedom and control: The companies function efficiently and exploit new opportunities even as they minimize rules.

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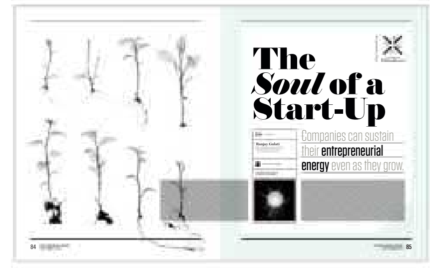
ENTREPRENEURSHIP



The Soul of a Start-Up

Ranjay Gulati | page 84

There's an essential, intangible *something* in start-ups—an energy, a soul. It inspires enthusiasm and fosters a sense of deep connection and mutual purpose. While this spirit persists, engagement is high and businesses keep their edge.

But all too often, companies lose their souls as they mature. Firms add new systems and structures and bring in experienced professionals—and in the process somehow crush their original energizing spirit. In research into more than a dozen fast-growth ventures and 200-plus interviews with founders and executives, the author has discovered how firms can overcome this problem. His work shows that there are three crucial dimensions to a start-up's soul: *business intent,* or a loftier reason for being; unusually close *customer connections;* and an *employee experience* characterized by autonomy and creativity—by "voice" and "choice." All three provide meaning to stakeholders.

Drawing on the experiences of Netflix, Warby Parker, Study Sapuri, and others, this article describes how sizable companies can still protect and nurture the three elements. Doing that is the secret to staying great as you grow.

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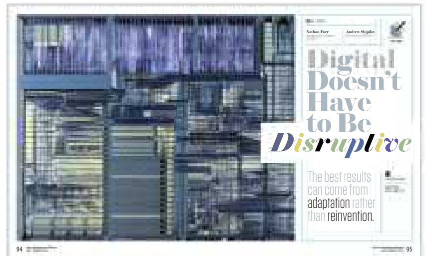
STRATEGY



Digital Doesn't Have to Be Disruptive

Nathan Furr and Andrew Shipilov
page 94

Managers struggle to understand what digital transformation actually means for them in terms of which opportunities to pursue and which initiatives to prioritize. It's not surprising that many of them expect it to involve a radical disruption of the business, huge new investments in technology, a complete switch from physical to virtual channels, and the acquisition of tech start-ups.

To be sure, in some cases such a paradigm shift *is* involved. But the authors' research and work suggest that wholesale disruption is often quite unnecessary. Some companies have successfully responded to the digital challenge by making major changes to their manufacturing processes, distribution channels, or business models, but many others have fared equally well using a more incremental approach that leaves the core value proposition and supply chain essentially unchanged.

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OPERATIONS

The One Thing You Need to Know About Managing Functions

Roger L. Martin and Jennifer Riel
page 104

There's a secret about strategy that no one tells you: Every function has one, whether or not it is written down and whether or not it is the product of an official strategic-planning process. If functions do not adopt a strategy consciously, they almost inevitably end up defaulting to one of two unconscious models, both of which are likely to result in their becoming a drag on corporate performance rather than a driver of it.

Most leaders acknowledge that companies and business units need strategies. But for corporate functions—shared services such as IT, HR, R&D, finance, and so on—the need for strategy is less widely understood. In many firms, functions just exist, serving the company in whatever manner and at whatever scale the business units demand.

In this article, the authors describe the problems of the unconscious strategies and outline a strategy-making framework to help functions strengthen the capabilities that set their company apart.

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MANAGING PEOPLE

When a Colleague Is Grieving

Gianpiero Petriglieri and Sally Maitlis | page 116

Grief is a universal human experience, yet workplace culture is often inhospitable to people suffering profound loss. Managers come to work prepared to celebrate births and birthdays, and even to handle illnesses, but when it comes to death, they fall silent and avert their gaze. The default approach is to try to spare the office from grief, leaving bereaved employees alone for a few days and then hoping they'll return expediently to work.

This article provides guidance on how to humanely help team members return to productivity. Grief rarely unfolds in a neat progression, and managers should understand the phases the bereaved will experience and the most helpful response to each. Immediately after a death, acknowledging the loss without making demands is the best a manager can do. After grieving employees are back on the job, managers should be patient with inconsistency in performance and attitude. And as workers eventually emerge from mourning, managers should support this opportunity for growth.

In confronting grief, managers help fulfill their promise to bring out the best in their employees.

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CUSTOMERS

The Elusive Green Consumer

Katherine White, David J. Hardisty, and Rishad Habib | page 124

Companies that introduce sustainable offerings face a frustrating paradox: Most consumers report positive attitudes toward eco-friendly products and services, but they often seem unwilling to follow through with their wallets. The authors have been studying how to encourage sustainable consumption for several years, performing their own experiments and reviewing research in marketing, economics, and psychology.

The good news is that academics have learned much about how to align consumers' behaviors with their stated preferences. Synthesizing these insights, the authors identify five approaches for companies to consider: use social influence, shape good habits, leverage the domino effect, talk to the heart or the brain, and favor experiences over ownership.

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INNOVATION

Marvel's Blockbuster Machine

Spencer Harrison, Arne Carlsen, and Miha Škerlavaj | page 136

Marvel Studios has redefined the franchise movie, in part by finding the right balance between creating innovative films and retaining enough continuity to make them all recognizably part of a coherent family.

The authors analyzed 338 interviews with producers, directors, and writers and 140 reviews from leading critics. They digitally analyzed each movie's script and visual style and examined its network of actors and behind-the scenes workers. They argue that Marvel's success rests on four principles: (1) selecting for experienced inexperience, (2) leveraging a stable core, (3) continually challenging the formula, and (4) cultivating customers' curiosity.

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> "Fashionable is what's new. But you have to move on within your own space; that's where the challenge is."

VERA WANG

After working as an editor at Vogue and an accessories designer at Ralph Lauren, Wang opened a New York bridal shop and debuted her own line of gowns at age 40. Three decades later her eponymous brand is a global business spanning fashion, beauty, jewelry, and homewares.

Interviewed by Alison Beard

HBR: Why did you decide to strike out on your own as a fashion designer in middle age?

WANG: Perhaps I would have preferred to start at 20 or 30, but I don't think I would have been anywhere near equipped. Even at 40, I wasn't entirely sure I should be doing it. I'd always felt I should learn and earn, and I'd already had two incredible careers—at Condé Nast and Ralph Lauren. Still, I didn't feel very qualified or secure. My father was the reason I did it. When I got engaged, at 39, I was a little beyond the age of most brides and on a quest for a dress. He identified that as an opportunity. He was a businessman, and he saw that bridal came with lower risks: It had low inventory, few fabrics at that time, and, since people will always want to get married, a steady stream of customers, though they don't usually repeat. I didn't know anything about dress design. I didn't feel ready. But my DNA was to find something I felt passionate about, to make a difference, and to work, so that's what I did.

What lessons did Ralph Lauren pass on to you?

Ralph has complete conviction about what his brand stands for. He is not swayed left and right by what goes on. We'd sometimes be in a meeting, and he'd say, "Do not tell me what everyone else is doing. I don't want to know." Ralph sold his take on America to the world, and his teams believed in him. If anyone didn't, the door was right there. When you work with someone who has that kind of vision, you've got to pick up something.

What advice do you give young designers?

It's wonderful to have a dream. But start by working for somebody you respect—or anybody, really—and get paid to learn. Keep your head down, don't get involved in politics, be respectful, do your job, and most of all, be available. There were no hours for me at *Vogue* or at Ralph. Sunday night? No problem. You want to talk to me on Saturday afternoon when I'm with my friends and family? I'm good to go, because I'm grateful that you are asking my opinion and that I can learn from smart, successful people. I was that kind of employee. My goal was to prove that I was the best I could be.

You're both the creative and the business head of your company. How do you balance the two?

I prioritize like mad. I say, "This is first, so everybody get out of my way, and then next, and then next." I'm up against designers who only design; their job isn't the bottom line, leases, insurance, paychecks. When you're an owner, you never forget. People's livelihoods depend on you. So every decision I make, I consider whether it's about my ego or the business reality. This is the civil war in my brain. That said, I think it's equally difficult to be the creator but not have a say in the running of the business. The industry is difficult. There's a lot of competition. And it's fast. My father once told me, "Look, I know you want to be creative. But business is creative." And he's right. To do well, you have to think creatively.

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Photograph courtesy of Vera Wang

For more from Vera Wang, go to **HBR.org**.

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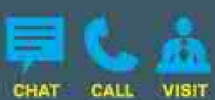

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