Harvard Business Review

Plus: How to win at influencer marketing
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May–June 2024

Ask Smarter Questions

The key to better strategic decision-making

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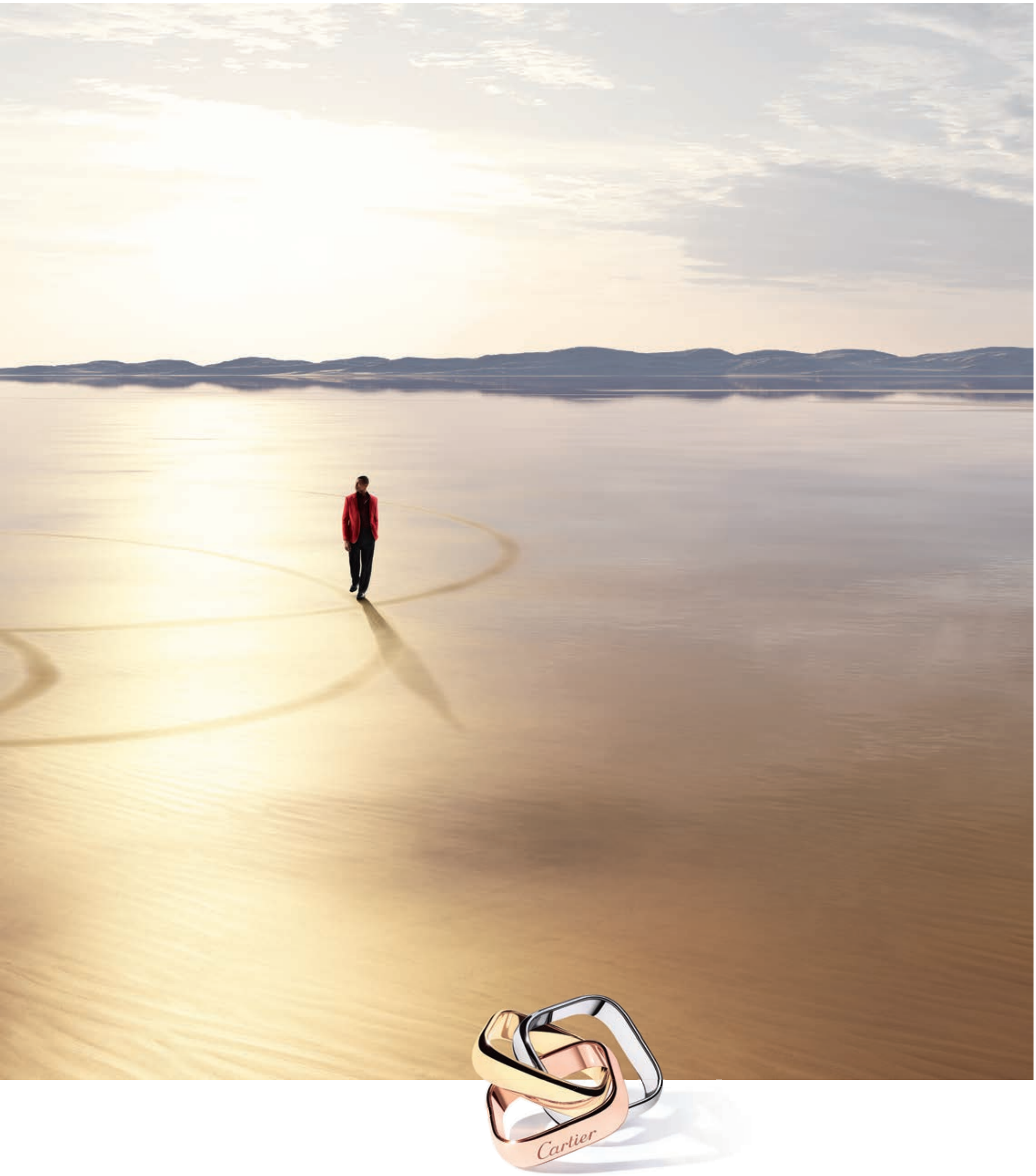
Cartier


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“The influencer industry is an established global force that sometimes behaves like a ramshackle start-up.”

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Michael Brandon Myers

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"Our job was to treat people coming into our facilities as we would want to be treated."
–SYLVANA QUADER SINHA, CEO OF PRAAVA HEALTH

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We're All Influencers Now

Adi Ignatius

Robyn Twomey

I BEGAN MY career in magazines in the pre-influencer era. As editors, we spent most of our time choosing and shaping articles for each edition, and just sort of hoped the ideas would find their way to our readers. We still do the curating and editing, of course, but we now spend considerable time trying to garner attention for what we're publishing. Much of that happens on social media.

Today an organization like ours has editors dedicated to crafting editorial strategy on Instagram, TikTok, LinkedIn, and other social media platforms. When HBR's book publishing division signs new authors, one critical question we ask ourselves is: Do they have the following necessary to get attention for their books? We've all arrived in the influencer era.

On a grander stage, industries such as cosmetics and fashion now rely heavily on influencer marketing. Does your business need to do so as well? In this issue's Spotlight, we examine how brands are navigating this increasingly essential channel. Should you consider enlisting a college athlete influencer? Or perhaps an AI-generated virtual one? And how can you ensure that your influencers behave transparently and authentically?

In one article, authors from Harvard Business School explain how celebrities are increasingly moving beyond endorsing existing brands and are creating their own direct-to-consumer brands, which they market primarily through their own social media. When Kim Kardashian came to HBS last year to speak to a class about how she and her cofounders built the clothing brand Skims, the news went viral—a crisp display of the new power of the influencer.

We hope this issue gets (and holds) your attention.

Thanks for reading,

ADI IGNATIUS
Editor in chief

Contributors

When racial justice protests swept across the United States in 2020, **Dionne Nickerson**, an assistant professor at Goizueta Business School, noticed how many brands issued statements in support of racial equity but did little to market to diverse customers. In this article Nickerson and her coauthors highlight marketing practices that incorporate the needs of historically underrecognized communities. “A certain level of inclusion is within the reach of most brands,” she says. “I hope that this article helps brands consider the needs of these communities throughout the marketing function and not merely as a reaction to societal events.”

114 How Inclusive Brands Fuel Growth

Len Schlesinger, a professor at Harvard Business School, has spent much of his professional life alternating between academia and industry. As vice chairman at L Brands (the former parent of Victoria’s Secret and other labels), he became interested in the direct-to-consumer business model. While cocreating an MBA course on the subject, he began researching the power of celebrity influencers. And when he brought Kim Kardashian to campus as a guest speaker, the news went viral. In this article Schlesinger and his coauthors explain how celebrities have moved beyond endorser or influencer roles to launch brands of their own.

50 What Makes a Successful Celebrity Brand?

“I have studied the influencer industry since before it was an industry,” says University of Pennsylvania research affiliate **Emily Hund**, who authored a 2023 book on the subject. Influencer marketing is at a turning point, she says, due to growing concerns about transparency, authenticity, exploitation, and the never-ending quest for traffic. “This industry must engage in some serious self-reflection,” she says. “What do we want the future to look like? How can we ensure that this industry is a positive presence in the world?” In this article she describes how to achieve the desired outcome.

42 Why the Influencer Industry Needs Guardrails

In September 2020 China’s president Xi Jinping announced that China was committed to achieving carbon neutrality by 2060. Watching from his Shanghai home, CEIBS professor **Shameen Prashantham** sensed immediately that enormous resources would soon flow into the green tech space. Almost four years later, many Western companies are unaware of the strides Chinese companies are making. In this article Prashantham and his coauthor make the case that China and the West have a golden opportunity to collaborate on climate solutions that benefit everyone.

104 To Create a Greener Future, the West Can’t Ignore China

Yan Wang Preston is a visual artist who, after returning to China from the United Kingdom in 2010, noticed that old trees—missing leaves and most of their branches—had been newly planted in urban areas. “Perhaps due to my own situation as a rootless migrant living outside of my homeland, I felt a shared pain toward the old trees,” she says. So she began photographing them. Over several years, the series, *Forest*, expanded to include urban surroundings and human neighbors. “It tells the adaptation stories of the trees and the urban dwellers in the context of China’s mass reforestation effort.”

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IN THEORY

A Better Approach to Mergers and Acquisitions

Far more mergers succeed today than in the past. Here's how to post a win.

TWENTY YEARS AGO, consultants at Bain & Company published a book that explored a dispiriting reality: Although companies spent billions of dollars a year pursuing deals, 70% of mergers and acquisitions wound up as failures. The book, *Mastering the Merger,* was released in the wake of a series of corporate marriages that ended badly, including AOL and Time Warner, Daimler and Chrysler, and Citicorp and Travelers. This wasn't a new phenomenon. Academic studies dating back to the 1970s had concluded that most acquisitions don't play out the way the investment bankers promise. Even among deals that appeared profitable from investors' perspective, Bain's surveys of executives showed that many fell

Illustrations by JUSTYNA STASIK

short of the internal projections made to justify the purchase.

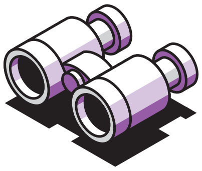
Recently one of the book's authors, David Harding, and two Bain colleagues decided to take a fresh look at the M&A landscape. What they found surprised them. Over the past 20 years, firms have done more than 660,000 acquisitions, worth a total of $56 trillion, with deals reaching a peak in 2021. But the odds of failure have inverted: Today, close to 70% of mergers succeed. Even among the roughly 30% that were less successful, many of the deals still created some value.

What has changed? Bain's deep dive into that question led to four explanations for the turnabout:

Acquiring companies use M&A to pursue a broader range of strategies. In the 1990s and early 2000s, most acquirers were targeting competitors or companies in similar industries, looking to increase scale, lower costs, and gain on rivals. Over the past 20 years, however, companies have taken a broader approach to M&A. They are pursuing deals to develop toeholds in emerging industries or geographies, to make their supply chains more efficient, to take advantage of geopolitical opportunities, to gain new capabilities in areas such as artificial intelligence, and even to find new sources of talent. Often, the strategic rationale focuses on growth opportunities, meaning that companies aren't as reliant on grinding out cost savings, which in the past often proved harder to achieve than predicted.

Acquirers are more sophisticated about due diligence. In the past, most of the due diligence for mergers was conducted on spreadsheets, with a focus on whether the financials made sense. More recently, companies have expanded the types of investigations they conduct before signing a deal. They make cultural assessments to determine how well the people working in the target company will adapt to the norms and values of the acquirer. Formal talent assessments allow acquirers to take a harder look at the capabilities of the people running the target company—and make smarter projections about their ability to make postmerger integration a success. Social media gives acquirers easy access to feedback and commentary from target companies' customers, employees, and former employees. Today, the researchers write, "the best acquirers quickly make themselves authorities on the businesses they are pursuing."

Acquiring companies gain experience and expertise by doing more deals. It's no secret that the more often you do something, the more skilled you become. Over the past two decades, companies have done fewer megadeals and have instead pursued more-frequent and more-modest transactions. That has helped companies get better at the various facets of M&A, including estimating synergies before the deal closes and achieving them during integration. And when a company is doing deals frequently enough, it can justify having a full-time team of specialists who do nothing other than identify targets, negotiate terms, and



conduct due diligence. Over time, that specialization can pay off.

"If you're only doing deals episodically…there simply isn't a platform to have a dedicated team," says Dale Stafford, a leader in Bain's mergers and acquisitions practice. In the past, companies would often pull a disparate group of relatively inexperienced people away from their regular jobs to do due diligence or work on postmerger integration. The advantages of having full-time specialists are obvious. "It's a bit of a volume game: Doing more deals means that you can have dedicated M&A people who acquire more and more experience over time," Stafford says.

Consider the larger Silicon Valley companies. "Some of the tech companies were doing almost a deal a week at the peak," says Suzanne Kumar, a vice president in Bain's M&A practice. "They have fully built-out teams, with different people for due diligence and integration." And the trend extends beyond Silicon Valley. Bain points to Thermo Fisher Scientific and beverage distributor Constellation Brands as examples of firms that have built substantial teams focused on M&A—and given the people leading them a seat at the senior leadership table.

Acquiring companies are better at integration. Integrating two companies is a giant undertaking. Fortunately, the techniques, tools, and technology used to manage large projects have advanced significantly in the past 20 years. (For example, the agile methodology was invented only four years prior to the publication of *Mastering the Merger.*) Additionally, as organizations gain experience by making acquisitions more frequently, they learn what integration tasks they need to prioritize, what areas are likely to be troublesome, and how to make key decisions more efficiently. "We cringe a little when we reread our integration advice from 20 years ago," the researchers write, because the field has advanced so much since then.

The overall increase in M&A has been rewarded by investors. Twenty years ago, even though the majority of acquisitions were unsuccessful, the researchers found, companies that made frequent deals showed higher shareholder returns—a sign that investors preferred companies that were willing to take these risks. Since then, this phenomenon has increased. Companies that are frequent acquirers (doing at least one acquisition a year) earn double the returns earned by companies that rarely or never do deals.

Moving from a 70% M&A failure rate to a 70% success rate over 20 years is significant, but as the deals continue, an important question has arisen: Has the success rate reached a plateau, or is there potential for the gains to keep increasing?

"The vast majority of companies are not frequent acquirers, so they are just starting on this journey and haven't really created that repeatable model yet," Kumar says. For that reason, the researchers are hopeful that the success rate can increase even further.

HBR Reprint F2403A

ABOUT THE RESEARCH *"How Companies Got So Good at M&A," (Bain white paper, by David Harding, Dale Stafford, and Suzanne Kumar)*

IN PRACTICE

"We're Not Looking at Fixer-Uppers"

Chris Koch *has been CEO of Carlisle Companies, an Arizona-based building-products company, since 2016. Carlisle has acquired 24 companies in deals totaling $3.5 billion since he took the helm—a continuation of its long-standing growth-by-M&A strategy. Koch spoke to HBR about rising M&A success rates. Edited excerpts of the conversation follow.*

Looking back, do you recall learning that M&A is fraught with failure?

It's something we were indoctrinated in as MBA students in the 1990s. I remember someone teaching us: "The first rule of acquisitions is that most fail. There are no good acquisitions." I've learned that depends partly on how you define failure. Some acquisitions may look successful because they increased earnings, but they failed to meet the internal projections used to justify the deal. In those cases, you would probably have been better off allocating that capital elsewhere.

Has the way you do M&A changed?

Years ago, we had a very small corporate staff, so our M&A

process was decentralized, and most of the ideas for acquisitions and due diligence came out of the operating divisions. Today due diligence is handled by a larger team at corporate, and it's much more thorough. We have become much more process oriented, as opposed to approaching each acquisition as a one-off. We also have clearer principles for the kinds of companies we'll acquire and the kinds we won't.

What type of companies do you look for?
First, we look for companies that have organic growth opportunities on a stand-alone basis. We're not looking at fixer-uppers. We bring in third-party researchers and consultants to do additional investigative work into the economics of the business. Second, we look for hard synergies—raw material savings, factory consolidation opportunities, reduced corporate costs. We want to see substantial savings if we bring the companies together, and we really dig into that during due diligence. Third, we create a detailed integration playbook with dates, milestones, and goals. Investors expect to see results from an acquisition immediately, so it's important to demonstrate progress quickly. We also look more deeply at the human element—the people at the target company. We used to assess the leaders on whether they could run their own business. Now we look at whether they can be leveraged across our organization and become a bigger part of Carlisle.

Can you describe an acquisition that you rejected because of what you found during due diligence?
We were going to acquire a company in Europe and went right up to the eleventh hour with it. Part of the rationale for the deal was cost savings from factory improvement—something that is fairly straightforward to achieve in the United States. We sent people from our corporate leadership team to Europe to do on-site due diligence, and the more we looked at it, the more we realized that local regulations and labor practices would make those savings hard to achieve. When you added in that risk, the return went down, and it didn't get over the hurdle.

Does the industry the acquisition is in matter?
We've found that the closer the acquisition is to your core, the better you understand the business and the potential synergies. That helps de-risk the deal. The further you get from your core, the more uncertainties there are and the greater the risk. That's why we do a lot of smaller, bolt-on acquisitions that open up a new channel, a new geographic area, or access to a new technology.

As a CEO, how much time do you personally spend on M&A?
A significant amount. I'm looking at deal flow. I'm deeply involved in evaluating the deal model for proposed acquisitions. I ensure that resources are available for due diligence. It's a substantial part of my job because M&A is an important part of our strategy.

Photograph by CASSIDY ARAIZA

THE GENDER PAY GAP

Women Now Negotiate More Than Men

It's widely believed that one reason women earn less than men is that they shy away from asking for higher pay. According to a new study, that explanation no longer holds water.

The researchers asked several hundred people to estimate the share of recent male and female graduates of an MBA program who had negotiated about their pay on their first job offer. On average, participants guessed that 64% of men but only 47% of women, on average, had done so. The researchers then examined exit surveys from a university career-management office that had asked 900 recent MBAs whether they had negotiated their offers. The real-world data sharply contradicted the participants' assumptions: Some 54% of women and 44% of men had tried to better their offers. A survey of nearly 2,000 of the program's alums found a similar pattern: More women than men reported having asked for higher pay. They were more likely than the men to say that their negotiations had failed, however, and they ended up earning 22% less, on average.

Examining prior studies, the researchers found that for many years men did negotiate pay at higher rates than women did, but the difference disappeared in the 1990s and began to reverse in the early 2000s. Members of both sexes bargained more with their employers, but the increase was especially pronounced among women, to the point where they overtook men.

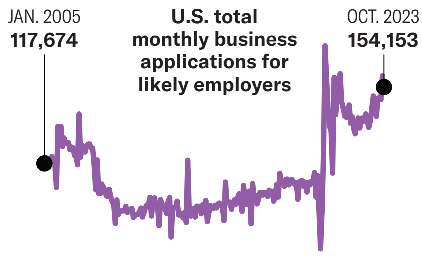
The mistaken notion that women still avoid negotiation has far-reaching consequences. The two final studies in the series showed that it undermines support for legislation intended to promote equity in pay by forbidding employers from considering people's salary histories. "The positive stereotype of male negotiators legitimizes their success as well-deserved and justified," the researchers write. "The negative stereotype of female negotiators suggests [that] their plight is well-deserved."

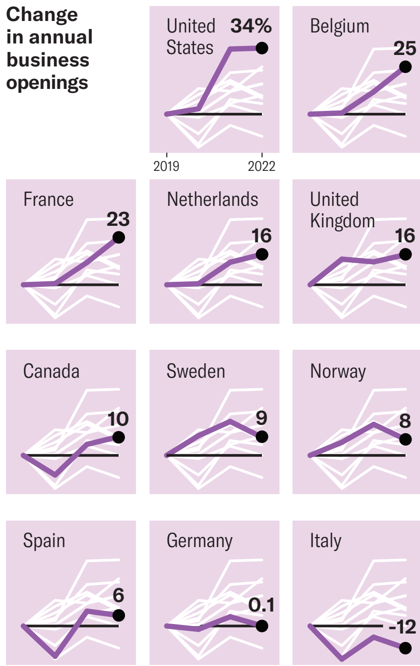
ABOUT THE RESEARCH *"Now, Women Do Ask: A Call to Update Beliefs About the Gender Pay Gap," by Laura J. Kray, Jessica A. Kennedy, and Margaret Lee* (Academy of Management Discoveries, *2023)*

ENTREPRENEURSHIP

Start-Ups Are Surging More in the U.S. Than in Other Countries

Despite recession concerns, total monthly applications for new U.S. businesses surpassed 154,000 in October 2023. Some 356,000 more new businesses opened in the U.S. in 2022 than in 2019, a 34% increase.





Source: "How the Pandemic Rebooted Entrepreneurship in the U.S.," by Kenan Fikri and Daniel Newman (HBR.org, 2024)

PEOPLE ARE MORE WILLING TO GET MENTAL HEALTH SUPPORT AFTER PEERS DO

Researchers found that employees who learned about a colleague's experience with peer-support services for mild anxiety and stress were 8% more likely to access the program themselves. The odds went up by 6.6% when employees learned about a colleague using the services to cope with an abusive relationship.

Research by MoreThanNow et al.

MARKETING

Get More Traction for Your Referral Program

While many organizations offer rewards to customers who refer friends, few such programs get stellar results. One recent study, for example, found that even among highly satisfied customers, the average referring rate is only 29%. New research points to an easy-to-implement remedy. Across two field studies and six laboratory experiments in a wide range of contexts, people were more likely to promote businesses to others when it was clear to everyone that both parties would benefit from the referral.

In the first study, 371 people who had made at least one purchase from a small U.S. fish-taxidermy company were offered a discount of up to $100 for each referral that resulted in a purchase. In some cases the invitation that participants forwarded to their referees mentioned only that the friend would get a discount when signing up. In others the invitation stated that the referrer, too, would get one. The referral rate was 5% among the first group and 14% among the second group—and the second group generated 665% more revenue. A similar pattern occurred when the product was a package of tutoring sessions offered to the parents of Chinese students and in lab experiments involving memberships to a coffee shop, subscriptions to a meal delivery service, and participation in the mobile games Angry Birds 2 and Pokémon Go.

Psychologists divide interpersonal relationships into two broad types: friendships, or communal relationships in which benefits are extended without any expectation of reciprocal gain, and exchange relationships, or businesslike arrangements in which givers are looking to receive something of comparable value. Having surveyed participants at the close of the experiments, the researchers say that disclosing the referrer's reward makes solicitations feel more compatible with communal norms and mitigates people's discomfort about mixing friendship and financial gain. But there are exceptions: The benefit from disclosure was lessened when the referrer stood to gain more than the referee (a violation of communal norms), when the referrer's reward was framed as coming from the referee's purchase rather than from the company coffers (making the offer seem exploitative, although the distinction is merely semantic), and when the offer was pitched as a communal activity to begin with ("It will be more fun if you join!").

Surveying 45 referral programs across nine industries, the researchers found that only seven used invitations that told referees about the referrer's reward. "The most basic practical implication of our research is that marketers should adopt disclosure because, contrary to [their] expectations, [it] should help, rather than hurt, campaign effectiveness," the researchers write.

ABOUT THE RESEARCH *"I Will Get a Reward, Too: When Disclosing the Referrer Reward Increases Referring," by Minzhe Xu, Zhihao Yu, and Yanping Tu (Journal of Marketing Research, 2023)*

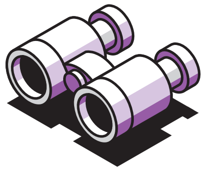
ARTIFICIAL INTELLIGENCE

When It Comes to Chatbots People Usually Prefer Robots to Animals

Kittens and puppies are cute, but think twice before you make one the face of your AI. Studies of more than 1,500 U.S. residents shows that in most cases people prefer products that have humanoid avatars to those that look like animals.

In one study, researchers introduced participants to two versions of Taylor, an AI chatbot: One looked like a humanoid robot and the other like a tiger. Participants were asked to rate how likely they were to use each version of the bot (on a scale of 0 to 100, with 100 being the most likely to adopt) for proofreading assistance. The humanoid version received an average score of 68; the tiger a score of 55.

"We have observed a growing trend among companies…that employ zoonotic designs (animal-like appearances) to perform tasks traditionally completed by humans, such as transcribing meeting notes and providing customer



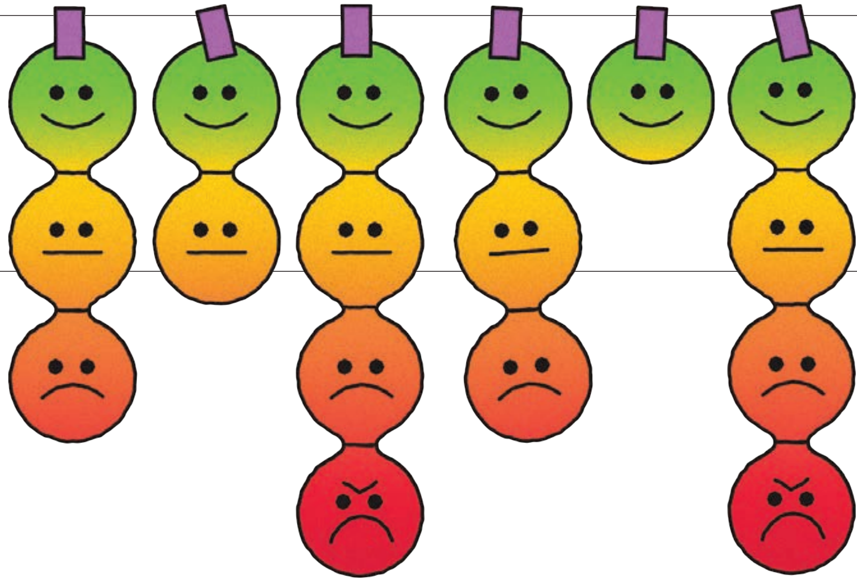
services," the researchers write. "However, our findings suggest that consumers are less inclined to adopt these services when they are delivered by zoonotic...AI."

To better understand why and when participants prefer humanoid bots to animal bots, the researchers replicated the experiments with different tasks. In one, they compared the participants' likelihood to use Taylor for physical fitness help. In that experiment, the humanoid advantage disappeared: Participants gave the tiger version of Taylor an average score of 46; the robot received a score of 45.

Participants were also asked whether they'd use Jasper, a bot designed to resemble either a robot or a cheetah, to serve either as a proofreader or as a running coach. When asked about their likelihood to adopt the bot for proofreading help, participants gave the robot version an average score of 68 and the cheetah a score of 60. Conversely, when asked how likely they were to use Jasper as a running coach, the cheetah version prevailed, receiving a score of 50 compared with 45 for the robot.

The researchers conclude that people prefer humanoid bots for tasks traditionally associated with humans. They prefer bots that look like animals for tasks that are associated with the animal's natural skill set—and, the researchers add, for tasks that users consider to be enjoyable.

ABOUT THE RESEARCH *"Beyond Humans: Consumer Reluctance to Adopt Zoonotic Artificial Intelligence," by Sara-Maude Poirier et al.* (Psychology & Marketing, *2023)*



HUMAN RESOURCES

Companies Often Solicit Employee Feedback but Seldom Act on It

Managers know that suggestion boxes, town halls, and surveys are excellent ways to gather employee feedback. Unfortunately, most don't seem to realize that implementing the feedback is also important. In a 2023 survey of 3,500 U.S.-based workers, only 34% said they thought their companies would act on feedback they provide.

The disconnect between the feedback and positive change significantly decreased employee fulfillment and business results. Almost 70% of the survey respondents said they were unengaged and didn't feel a meaningful connection to their job. That's a problem, the researcher says, because those who reported being energized and excited about their work were 31% more likely to stay at their organization and 31% more likely to go above and beyond. Perhaps more important, they were 15% more productive than their less-fulfilled peers.

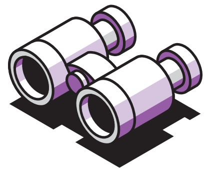
Managers and HR professionals who solicit employee feedback but have trouble implementing it may benefit from three recommendations, the researcher says. First, they should focus on solving process roadblocks rather than on employee-engagement tactics. For example, 40% of survey respondents said they would rather have difficult processes fixed than receive more career development opportunities.

Second, HR should coach managers on engaging employees. A survey of chief human resources officers (CHROs) conducted several months prior to the study revealed that out of 12 corporate actions meant to engage employees, managers were responsible for 10 of them. Yet only 19% of CHROs said they believed their managers knew how to act on the feedback resulting from those activities.

Finally, organizations should promote and be transparent about the ways in which they are soliciting, collecting, and using employee feedback to improve engagement. "Using the blanket term 'engagement' may be helpful for project planning, but it's not helpful for employees," the researcher adds. "Companies have an opportunity to rebrand these activities in a way that feels much more relevant and employee-centric."

ABOUT THE RESEARCH *"Employee Engagement: Close the Action Gap to Drive Business Outcomes," by Jen Priem (Gartner white paper, 2023)*

IDEAWATCH



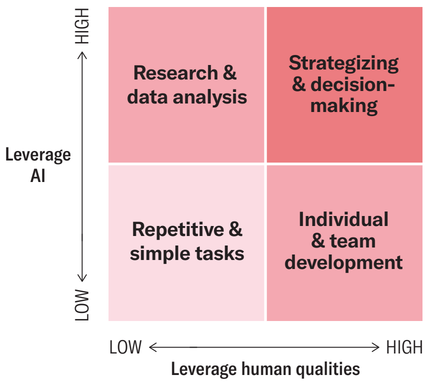
ABUSIVE BOSSES MAKE PEOPLE NOT WANT TO HAVE CHILDREN

Three studies found that people with abusive managers are 10% to 22% less likely to want to have children than other employees are. "The 'Life' Consequences of Abusive Supervision: How Abusive Supervision Diminishes Employee Procreation," by Feng Qiu et al.

AUTOMATION

A Guide for AI-Human Collaboration

Some activities benefit from heavy AI use, and others require a human touch. The lower-left quadrant consists of rote tasks that could be easily automated or done by low-skilled workers. Activities in the upper-right quadrant require a combination of AI and complex human capabilities.



Source: "The Best Leaders Can't Be Replaced by AI," by Rasmus Hougaard, Jacqueline Carter, and Rob Stembridge (HBR.org, 2024)

PRODUCT PACKAGING

When Less Is More

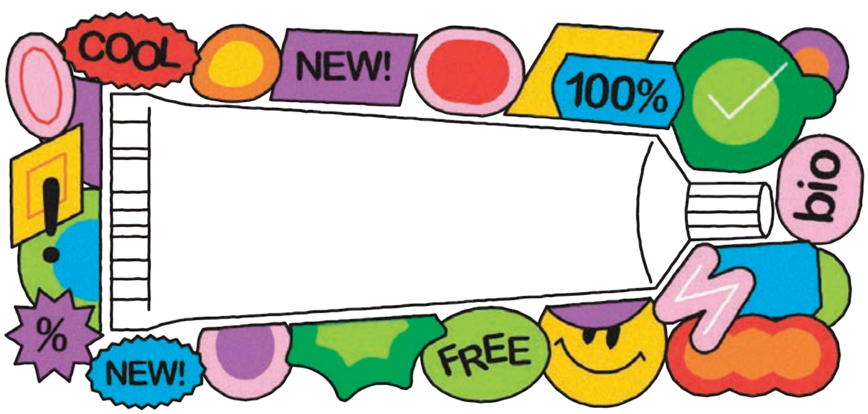
Packaging designers often combine a variety of elements—text, illustration, color—in complex designs meant to attract consumers' attention. In many cases, according to a new series of studies, they'd get better results from a simpler approach.

In the first study, the researchers worked with data from the U.S. supermarket chain Kroger. They gathered all product images across four consumable categories—shampoo, deodorant, crackers, and cereal—along with each product's name, brand, retail price, and weight. Independent research assistants rated the images on complexity of design. Mapping the ratings against each product's price per ounce showed that the simpler the package was, the higher the product's unit price—suggesting that people are willing to pay more when items are presented simply.

In the first of several subsequent experiments, the researchers created simple and complex packages for trail mix and showed one or the other to each of 362 university students. The students indicated the highest amount they would pay for the snack, reported whether they thought it contained few or many ingredients and how pure they believed it to be, and rated the package on attractiveness and simplicity. Those who saw the simple design were willing to pay more, even though they were less likely than people who saw the complex design to award high marks on attractiveness. The simple design got higher scores on purity, and participants believed the product contained fewer ingredients. Repeating the experiment with a different item—hand lotion—yielded similar results, as did asking participants what they thought others would be willing to pay.

"Simplifying packaging design may be an efficient way...to convey product information independent of text," the researchers write. Managers should note some mitigating circumstances, they add. Additional experiments showed that the boost from a simple design was less pronounced when the product's ingredients were highlighted on the package; consumers then had no need to make inferences about purity. It was also less pronounced for store brands, because people assumed that the simple design reflected low investment in the product overall. And when participants wanted indulgent rather than healthful items, complex packaging elicited a higher willingness to pay—so managers "may want to avoid simple designs...if they want to signal that their products are tasty," the researchers say.

ABOUT THE RESEARCH *"Symbolically Simple: How Simple Packaging Design Influences Willingness to Pay for Consumable Products," by Lan Anh N. Ton, Rosanna K. Smith, and Julio Sevilla (*Journal of Marketing*, 2023)*



— *Mergers and Acquisitions* —

In an era of technological change, the business landscape has become intensely competitive, prompting organizations to turn to mergers and acquisitions as strategic tools for enhancing shareholder value. However, engaging in M&A activity is not a low-risk endeavor— executives must know how to navigate this landscape.

When you attend **Mergers and Acquisitions**, an executive education program from the University of Chicago Booth School of Business, you'll gain an interdisciplinary approach to successfully executing mergers, acquisitions, and corporate restructuring with an analytical framework. You'll learn from the same faculty who teach in our highly ranked MBA and Master's degree programs how to navigate deal-making complexities with confidence and strategic foresight.

This program will be held at the Gleacher Center in downtown Chicago from July 15—19, 2024.

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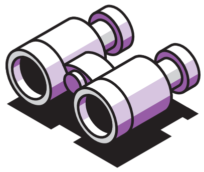
Contact us at +1.312.464.8732 or exec.ed@chicagobooth.edu for a consultation.

IDEAWATCH



REMOTE WORK

The More Lucrative the Job, the Greater the Flexibility

Since the Covid-19 pandemic, remote-work opportunities have steadily increased—but not for everyone. To determine which roles most often allowed employees to work from home, researchers used machine learning to study more than 250 million job postings across five English-speaking countries. The findings were clear: The higher the pay associated with the job, the greater the freedom to work remotely.

Fewer than 3% of job postings with a salary of less than $30,000 offered at least one day per week of remote flexibility, the researchers found. Roughly 10% of jobs that offered $60,000, 20% of those that offered $100,000, and 30% of those that offered $200,000 allowed at least some remote work. Researchers also found links between education, experience, and remote work. Fewer than 2% of jobs that required a high school diploma offered remote-work opportunities. That figure rose to 6% for jobs requiring an associate's degree and 15% for a bachelor's degree. Job postings requiring master's degrees and PhDs listed remote work as an option 27% and 29% of the time, respectively.

Location matters too, the researchers found. English speakers actively pursuing remote work would be best served by moving to the UK, where 18% of open jobs offer it. They'd be wise to avoid New Zealand, where only 8% of job postings offered remote options.

ABOUT THE RESEARCH *"Remote Work Across Jobs, Companies, and Space," by Stephen Hansen et al. (National Bureau of Economic Research working paper, 2023)*

CAREER DEVELOPMENT

Which Companies Are Top Talent Incubators?

Following in the footsteps of GE, one of the best-known exporters of effective leaders, McKinsey, Google, and Microsoft are now considered the three top global producers of talent. That's according to a survey of 853 executives in midsize to large companies in January and February 2023. Five of the top-25 talent incubators are technology firms, the most of any industry.

Most frequently mentioned companies (*Denotes a tie)	Industry
1 McKinsey	CONSULTING
2 Google	TECHNOLOGY
3 Microsoft	TECHNOLOGY
4 Unilever	CONSUMER PACKAGED GOODS
5 Procter & Gamble	CONSUMER PACKAGED GOODS
6 Amazon	TECHNOLOGY
7 Apple	TECHNOLOGY
8 GE	INDUSTRIAL
9 Deloitte	ACCOUNTING/CONSULTING
10 Accenture	CONSULTING
11 Nestlé	CONSUMER PACKAGED GOODS
12 Goldman Sachs	FINANCIAL
13* PwC	ACCOUNTING/CONSULTING
13* Siemens	INDUSTRIAL
15 IBM	TECHNOLOGY
16 BCG	CONSULTING
17 JPMorgan	FINANCIAL
18* Johnson & Johnson	PHARMACEUTICAL
18* Pfizer	PHARMACEUTICAL
20* Bain & Company	CONSULTING
20* Harvard University	EDUCATION
20* PepsiCo	CONSUMER PACKAGED GOODS
20* Shell	ENERGY
24 Citibank	FINANCIAL
25* Bosch	INDUSTRIAL
25* EY	ACCOUNTING/CONSULTING
25* KPMG	ACCOUNTING/CONSULTING

Source: "What Makes a Company Great at Producing Leaders?" by Sarah Abbott, Robin Abrahams, and Boris Groysberg (HBR.org, 2023)

COMPILED BY HBR EDITORS | SOME OF THESE ARTICLES PREVIOUSLY APPEARED IN DIFFERENT FORM ON HBR.ORG.

The 2023 HBR Prize

The HBR Prize, judged by an independent panel of business and academic leaders, commends outstanding articles published each year in *Harvard Business Review.* Previously called the HBR McKinsey Award, it was established in 1959 to recognize groundbreaking management thinking.

FIRST PLACE

Reskilling in the Age of AI

SEPTEMBER–OCTOBER 2023

As the pace of technological change increases, millions of workers may need to be not just upskilled but *re*skilled—a profoundly complex societal challenge that will sometimes require them to both acquire new skills and change occupations entirely. Companies have a critical role to play in addressing this challenge. The authors, **Jorge Tamayo**, **Leila Doumi**, **Sagar Goel**, **Orsolya Kovács-Ondrejkovic**, and **Raffaella Sadun**, interviewed leaders at some 40 organizations around the world that are investing in large-scale reskilling programs. In this article they synthesize what they've learned.

THE FINALISTS

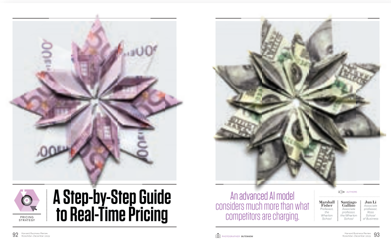
Beware a Culture of Busyness

MARCH–APRIL 2023

Once upon a time, leisure was a sign of prestige. Today busyness is the new status symbol. In this article **Adam Waytz** explores both the downsides of busyness (employee turnover, reduced engagement, absenteeism, and impaired health) and the reasons for our obsession with it. He also presents strategies for breaking away from this fixation.

The High Cost of Neglecting Low-Wage Workers | MAY–JUNE 2023

Many companies blame outside factors for their trouble finding and retaining frontline workers. **Joseph Fuller** and **Manjari Raman** argue that the real problem lies in six big mistakes companies themselves have long been making, in such basic areas as hiring, career development, and mentoring. They offer some practical suggestions for how leaders can do better, for their workers and their organizations.



A Step-by-Step Guide to Real-Time Pricing | NOVEMBER–DECEMBER 2023

In today's fast-paced world of digital retail, the ability to revise prices swiftly has emerged as a decisive differentiator for companies. In this article **Marshall Fisher**, **Santiago Gallino**, and **Jun Li** describe a process for dynamic pricing that focuses on building computer models that consider not just competitor pricing but also product availability and customer behavior to recommend optimal pricing in real time.

The Judges

Jill Avery
Senior lecturer, Harvard Business School

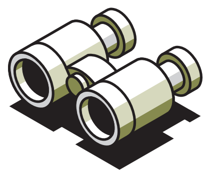
Claudio Fernández-Aráoz
Former partner, Egon Zehnder

Hubert Joly
Former CEO and chairman, Best Buy

Mihnea Moldoveanu
Professor, Rotman School of Management

Karthik Ramanna
Professor, University of Oxford

Stefan Thomke
Professor, Harvard Business School



Columbia Business School's **Bruce Kogut** and two colleagues—Harvard Business School's Fabrizio Dell'Acqua and Yeshiva University's Patryk Perkowski—studied the impact of artificial intelligence on team functioning. They asked 110 two-person teams to play 12 rounds of *Super Mario Party*'s *Dash and Dine*, a video game in which players must collect ingredients for a recipe. After the first six rounds of play, one member of some teams was replaced by an intelligent agent. Over the next six rounds, those teams gathered, on average, three fewer ingredients than teams that continued as originally configured. **The conclusion:**

When AI Teammates Come On Board, Performance Drops

Professor Kogut, DEFEND YOUR RESEARCH

KOGUT: Prior studies have already explored the impact of artificial intelligence on individual and firm productivity, but we wanted to understand how AI affects organizational teams internally. After all, most work is done in teams. We were curious about the consequences of adding intelligent agents to teams, and not just for the people interacting directly with those agents. We also wanted to see what impact it had on the behavior and attitudes of colleagues who observed those interactions.

HBR: Why did you use *Super Mario Party* for your experiment? Wouldn't something corporate, like a data-entry task, have been a more logical choice? Video games are more cognitively demanding than your run-of-the-mill office task. They're also more motivating; who doesn't like Mario? *Dash and Dine* had a lot of advantages for our purposes. It's not hard to play, and many people have some experience with the Super Mario Bros. video games, although most of the subjects in the experiment had never played this particular one. The tasks involved depend on coordination and teamwork rather than only individual experience, and the game has built-in AI that we could easily tap to replace some of the players.

How did the experiment work? We started by having each participant play four one-minute rounds on their own. From the results we developed a skills index and determined each person's baseline level of play. Next we placed pairs of two-person teams in a room with a large-screen TV, a Nintendo Switch console, and four joysticks; each pair of teams constituted a "firm." Players had to work with their partners to retrieve fruits and vegetables from a table at the bottom of the screen. They also had to work with the other team in their firm to make sure their on-screen characters didn't crash into one another. It was a lot of fun.

What happened when you introduced the AI players? The AI players proved themselves far superior to the human ones in the rounds of individual play. On average they collected 7.5 ingredients per round, whereas the human players collected just 6.4—a difference of 17%. Only 3% of the human players outperformed the AI players. In fact, even in their worst rounds, the AI players outperformed 30% of the human players.

Illustration by AGATA NOWICKA

> We learned that AI causes team sociability to fall, and that lessens members' motivation, effort, and trust.

The team results were a different story. In the initial round after the AI players came on board, teams including an AI member retrieved 8% fewer ingredients, on average, than teams that had kept their original members did. The difference in performance shrank in half in the next four rounds and disappeared in the final one. But even if it's short-lived, a 4% dip in performance is significant—especially if you think about it from the perspective of a large enterprise with multiple AI projects in the works.

If the AI players were so much better, why did their teams do so much worse? Despite the AI's superior individual performance and the fact that bonuses were paid to the entire team if it performed well, 84% of respondents preferred to play with their human teammates. From surveys conducted at the midpoint and end of the experiment, we learned that AI causes team sociability to fall, and that lessens members' motivation, effort, and trust.

How do you know the decrease in performance wasn't simply a result of teams' being disrupted, whether by a new AI player or a new human one? One of the most intriguing things we found was that all-human teams playing alongside an AI-and-human team also saw drops in performance in the first round after the teammate change. In fact, those drops contributed equally to their firms' overall decrease in productivity. We call this the spillover effect. It's similar to what happens in an organization when an employee departs and established collaborative practices are shaken up. Things change: Routines and processes are disrupted, which harms performance. The same was true in the experiment. However, the introduction of an AI player uniquely extended this disruption to the adjacent all-human teams. Those teams, despite not undergoing a direct change, encountered vicarious challenges in adapting to the new AI-influenced dynamics within the interconnected environment.

Can managers guard against the spillover effect? They can mitigate the detrimental effects of introducing AI to team environments by partnering AI only with their most-skilled workers. The weaker the players on a human team in our experiment, the more that team suffered when given an AI member. The highly proficient players were better able to integrate new AI players, whether the player was on their own team or the adjacent team. The adept players' teams actually gathered slightly more ingredients after gaining an AI teammate. So companies looking to introduce AI to teams might start with employees who are skilled enough to make the best use of automation. In other words, high-skilled humans and intelligent agents working together are high performing.

Managers have a major role to play in understanding why skilled humans and intelligent agents working on teams together are so productive and how this learning can help less-capable colleagues work effectively with AI partners.

Interview by **Juan Martinez**
HBR Reprint F2403B

HOW I DID IT

The CEO and Founder of Praava Health on Reimagining Care in an Emerging Market

by Sylvana Quader Sinha

My obsession with health care in Bangladesh started with my mother's appendicitis.

It was 2011, and I had come from my home in New York City to Dhaka, Bangladesh's capital city, to attend a cousin's wedding. When my mom complained of a debilitating pain in her side, my family rushed her to the hospital. However, the care she received—and the care we witnessed other patients getting (or not)—was awful. We had to chase doctors to get them to examine her, and even then none gave us straight answers. Scans and tests took ages, nursing was downright lackadaisical, and most terrifying, her surgery was delayed and then botched. Eventually, after her condition worsened, we took her to Bangkok, where doctors ordered a second surgery. A year later she needed a third, in Virginia, owing to complications from the original procedure.

Even as I pursued my career in law and foreign policy back in the United States, the experience stuck with me. After visiting a top Bangladeshi hospital, in one of the world's fastest-growing economies, we had to leave the country to get quality care. Why?

I soon realized that this was not just a problem but an opportunity: to build a new and better system of health care

Photograph by WEBB CHAPPELL

for Bangladesh that would be grounded in international best practices, patient-centric, and affordable. I threw myself into learning about the industry and the country, which, as a Bangladeshi born and raised in America, I'd visited but never lived in. In 2015 I drew up a business plan and began to court investors, jump through regulatory hoops, hire a founding team, and work to outline a clear mission, a set of values, and a corporate culture. In 2018 we opened our first state-of-the-art medical center in Dhaka. We called the company Praava Health—combining the words *pran* ("life") and *aava* ("beam") to suggest the beam of life.

Today more than 600,000 patients trust Praava Health for their care, making it larger than most U.S. health care systems. We are a household name in one of the world's megacities. Through our "click-and-brick" platform, we guarantee 15-minute appointments in a country where 48 seconds is the average for a consultation. Our Net Promoter Score is consistently over 80, higher than that of most *Fortune* 500 companies. We are nearly cash-flow positive on a corporate basis, and MBA students and health care practitioners around the world study our business model. We owe this success to all the members of the Praava team, who bring our vision to life and earn the trust of our community, one patient at a time.

FOUNDATIONS

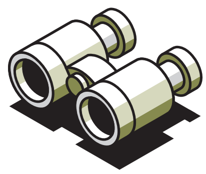
I'm not the first entrepreneur in my family. In 1954, when Bangladesh was still East Pakistan, my paternal grandfather, Hamidur Rahman Sinha, founded a pharmaceutical company that is now the country's oldest and one of its most successful. Like me, he wasn't a scientist or a doctor or a pharmacist, but he had a vision. At the time, 80% of the drugs on the regional market were counterfeit. He built a business that manufactured quality medicines, constantly warning, "If we ever cheat the consumer, it will be the end of us." He died when I was 16; I have often wished he were still around to advise me.

His son, my father, grew up in what is now Bangladesh but came to the United States in 1964 as a scholarship student. He expected to study chemistry and then return home to help run the family business. However, after the war for Bangladeshi independence broke out, he decided to stay in America and become a professor. On a visit back to Bangladesh he met my mother, and they soon married. They settled in Roanoke, Virginia, where my brother, sister, and I spent our childhood. Occasionally our family traveled to Bangladesh when we were young, and those visits sparked my interest in economic development.

Health care was a big part of our lives from early on, because my brother was quite sick from birth, needing surgery within hours of his delivery and then suffering from inexplicable skin issues, asthma, and seizures for the first years of his life. Doctors didn't always take my mother's concerns seriously, but she finally found a pediatric immunologist at Johns Hopkins who could help. That was an early lesson in the power of patient-centered health care—and the perseverance required to find it.

After graduating from Wellesley College, in 1999, I worked as a consultant at PwC before pursuing a joint graduate degree at Columbia Law School for a JD and at Harvard Kennedy School for a master's in international development. My education solidified my belief that the private sector is the most sustainable form of development. I spent five years at a New York law firm, and in 2007 I joined the Obama campaign as an external foreign-policy adviser. I felt strongly that the people setting U.S. policy regarding other parts of the world should experience them, so instead of joining the president's administration when he won the 2008 election, I moved to Afghanistan with the World Bank, then to Thailand with the United Nations, then to Qatar with BCG, and finally back to Afghanistan with the U.S. Institute of Peace. I had some extraordinary experiences, but I missed the accountability and the pace of the private sector, so I returned to my legal career in the United States.

After a few years, however, I found myself longing for more-creative work and a more direct impact on people's lives. The experience of my mother's appendicitis still haunted me. And because of my connection to Bangladesh, a country of 170 million, I knew it was making tremendous progress. Described as a "basket case" by Henry Kissinger when it gained independence in 1971, it had by the early 2010s become one of the world's fastest-growing economies and had reduced the share of citizens living below the poverty line from 40% in 2005 to less than 30% by 2010, all while creating a dynamic, growing middle class of 40 million plus and progressing to "middle income" status according to the World Bank,



> In countries like Bangladesh, the leading cause of mortality is not lack of access to care but inadequate care.

leading the World Economic Forum to call it "the next Asian tiger." Bangladesh was growing at a faster pace over a longer period of time than even China. It boasted a GDP per capita higher than India's and a GDP of more than $300 billion, putting it on track to be one of the world's 30 largest national economies by 2030.

This was a market that needed quality health care. In August 2014 I decided to see whether I could build something to tackle that challenge.

INVESTIGATING THE PROBLEM

I had a lot to learn about the country, its health care system, the business and systems of the industry around the world, and entrepreneurship. At first my research was self-funded. I went on a global listening tour, meeting Bangladeshi patients and practitioners and leveraging networks across Asia, the United States, Europe, Latin America, and beyond to study health care business models. I met anyone who was willing to teach me something.

Over the years, I had heard other health-care horror stories from my Bangladeshi relatives. Once my aunt and her daughter had gone together to a private Dhaka hospital for routine mammograms, and the clinicians told my cousin they'd found a concerning spot requiring investigation. But when she went for a follow-up in Bangkok, her scans were clear, and she realized that the Bangladeshi mammographers had mixed up her and her mother's results. My aunt had breast cancer that demanded a full mastectomy. Some time later, when the same aunt was cancer-free but suffering from joint pain, doctors in Dhaka scanned her bones, determined that they were full of tumors, and prescribed intensive radiation. But when she sought a second opinion abroad, the true diagnosis proved to be osteoporosis, requiring a course of treatment very different from radiation, which would only have made matters worse.

As I talked with more people in Bangladesh, I found that such stories were all too common. People consistently told me that they didn't trust the health care system. I discovered two primary reasons. First, the quality of care in both the public and private systems varied greatly, partly because the government lacked the capacity to regulate it. In fact, across low- and middle-income countries like Bangladesh, the leading cause of mortality is not lack of access to care but inadequate care. Second, demand exceeded supply. As in other emerging markets, health spending in Bangladesh was growing at an annual compound rate of 10%, outpacing the economy. With the public system understaffed and overstretched, private facilities were left to fill the gap, but they were costly, focused on episodic care, and driven by incentives that pushed doctors to hospitalize patients and order unnecessary tests and drugs.

The opportunity to have an impact was compelling. Access to trustworthy health care is a human right and something Bangladesh's citizens deserved. The financial opportunity was also evident: Across Asia entrepreneurs in other growing economies with similar supply-demand imbalances had scaled up thriving systems with two to three times the market valuations of similar businesses in the United States. I became increasingly convinced that I could develop a better alternative for Bangladesh—one that would create more accountability in the system and challenge all the country's providers to do better.

IMAGINING A NEW MODEL

By the spring of 2015 I had a 100-page business plan and a financial model for a vertically integrated health-care system that would be centered on high-quality primary care and family medicine—the bedrock for patient trust—while including secondary and specialist care; outpatient procedures; in-house, world-class lab and imaging diagnostics; and a pharmacy that procured only directly from manufacturers. It would be supported by Bangladesh's first fully integrated hospital information system, its first patient app, and tools such as telemedicine and an e-pharmacy to improve accountability, quality control, efficiency, and access. The idea was to be the first call and most trusted resource for any medical issue and to help patients manage their health in a way that would prevent hospitalizations.

We raised $1.4 million in our first round of funding, at the end of 2015, and have secured more than $15 million since, all from angel investors. I began to build a global advisory council to bring lessons learned in health care and emerging-market entrepreneurship to Bangladesh. This group now includes Omar Ishrak, MD (Intel, Medtronic); Esther Dyson (23andMe, Wellville); David Petraeus (retired U.S. Army

In the Praava lab, from left: Mahbubur Rahman, the lab director; Sinha; and Shafiul Azam, the molecular lab supervisor

Courtesy of Praava Health

general, KKR); Rushika Fernandopulle, MD (Iora Health, One Medical); and Jeremy Lim, MD (Oliver Wyman, Amili).

I started recruiting seasoned professionals to Praava before I could even afford to hire them. Among them were Mahbubur Rahman, a clinical biochemist with deep experience running world-class labs, who became our laboratory director, and Zaheed Husain, an eminent cancer immunologist who had spent 30 years at Beth Israel Hospital and Harvard Medical School and would set up Bangladesh's first molecular cancer diagnostics PCR lab at Praava. Simeen Akhtar, a Bangladeshi physician and an expert in quality management who had practiced medicine all over the world, agreed to come out of retirement to be our chief medical officer, while Sabrina Imam, a software engineer with more than a dozen years of experience at IBM and recent stints in health tech, signed on as our IT director. Sawsan Eskander, one of a handful of trained actuaries in Bangladesh with extensive experience in health insurance, joined as our chief innovation officer. Kutub Uddin Kamal, a former journalist who had never previously worked in health care but is now our head of patient experience, joined because of a passion for changing the system. All were frustrated with the current state of medicine in Bangladesh and wanted to be part of making Praava a reality.

Success would require more than just a business plan, capital, and a team, however. So in August 2015 I took the biggest leap: permanently relocating to Dhaka. I was all in.

I knew the transition would be challenging, because I was neither an insider nor a total outsider; I was a "third culture kid." Even today I'm the only American-born Bangladeshi I know in Dhaka who moved there for any reason other than marriage. But my vision was so clear that I wasn't worried. I surrounded myself with a strong local team and a global army of supporters to build the bridges we needed.

As I met with potential investors, prospective hires, and government officials, they peppered me with understandable questions. What were my motives? Was I in it for the long haul? Why did I—a 37-year-old Bangladeshi American—think I could solve this big problem? No one said, "Who do you think you are?" but some were certainly suspicious and occasionally ageist, sexist, and anti-foreigner. Still, being underestimated and flying under the radar allowed me to focus on the work. To those who were open to it, I patiently explained my vision, my intentions, and the kind of company I wanted to build, and I won over everyone I needed to. I'm also grateful to the people who challenged me, because facing their questions better prepared me for what was ahead.

About a dozen city and national government agencies would regulate the sort of health care company we were creating, and we had to build relationships to ensure that we could secure the numerous permits and licenses required to operate. The processes were transparent but tedious. Later we developed a strict code of conduct and anti-corruption, antibribery, and whistleblowing policies to protect our team and investors.

COALESCING AROUND VALUES AND CULTURE

In the spring of 2017 I convened Praava's fledgling team of 20 to define our organizational purpose, values, and culture. A spirited brainstorming session

A Praava family doctor meets with her patient.

Courtesy of Praava Health

produced our vision ("We envision a world-class health care system that puts patients first"), mission ("We aspire to be your trusted partner in health"), and core values: service, my Praava, integrity, listening, and excellence. (See the sidebar, "SMILE: Praava's Five Values.")

For us, investing in culture is more than a feel-good activity; it is a business strategy. As we mapped out patient journeys, renovated what would become our flagship Dhaka clinic, drafted our brand guidelines, and readied ourselves for patients, we also developed an intensive hospitality-training program to connect everyone to the patient experience we were imagining. Every one of our first 65 Praava employees—from security guards to doctors to software engineers—attended the first training session, in August 2017. We shared health experiences and sometimes emotional stories about loved ones who had died owing to misdiagnosis, personal suffering and pain, and unethical practices condoned by other management teams.

That was a powerful reminder of why we were launching Praava. Our job was to treat people coming into our facilities as we would want to be treated in the same circumstances. We ended that day with an inspiring video on empathy. On the second day we watched a TED Talk on patient experience and then broke into smaller groups to brainstorm how each of us might bring Praava's five values to life in our various roles. Then, on the third day, each group performed skits illustrating both a poor health care experience and how it could have been improved—a nice way to encourage creative collaboration and relationship building among colleagues from different departments. (Six years later I still conduct these sessions once a quarter as a core part of employee onboarding.)

In February 2018 we officially opened Praava's medical center in Dhaka—a one-stop shop for outpatient health care, with 19 consultation rooms, an advanced laboratory setup, basic to advanced imaging services, and a pharmacy. Within a few months our patient app—Bangladesh's first—was live. For the most part we got our product-market fit exactly right from the start. We were offering trustworthy, integrated, tech-enabled health care that the country hadn't seen before.

From day one we asked patients, Did our medical professionals listen to you? Did they answer your questions? Were they empathetic? Praava managers and team leaders meet weekly to review all patient feedback. We spend about five minutes on the positive comments and the rest of an hour on the ambivalent or negative ones, trying to learn and adapt and improve our work accordingly. Science is not perfect, and neither are the doctors and the staff at Praava, but when we make a mistake, we hold ourselves accountable and try to prevent similar incidents in the future.

In the early days we spent very little on marketing. Each patient we served became an ambassador and a word-of-mouth marketer, and the patients kept flowing in. In November 2018, in our 10th month of full-fledged operations, our flagship unit broke even.

However, with aspirations to build smaller clinics as spokes around Dhaka and eventually scale up a similar model in cities across the country, we still had work to do. I knew that staying focused on values and culture would position us best for expansion. In 2019 we embarked on a formal initiative to create a culture deck. First we surveyed 30 culture documents from companies around the world that had frameworks we admired. Then we talked with employees across all our groups to understand how their work aligned with our corporate goals and culture and what they loved about working at Praava. Simultaneously we launched a companywide survey. All those learnings plus details of our five values went into the culture deck that we now use alongside the hospitality training to onboard hires and refresh existing teams.

This might seem like a lot of energy for a start-up to invest in culture. But I believe it helps us ensure that all who

SMILE: Praava's Five Values

Praava's mission, vision, and values grew out of a spirited brainstorming session with its founding team.

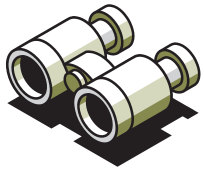
Service
Praava is a safe place that offers a warm welcome and personalized services.
→ I am respectful and ready to work together to create the best care.
→ I practice safe behaviors in everything I do and take action to always put safety first.
→ I project a positive image and energy.

My Praava
I am accountable for an important part of Praava, no matter how big or small.
→ I am engaged and dedicated to making Praava the best it can be.
→ I am constantly learning and improving.
→ I am always challenging myself and my team members to do better.
→ I speak up to ensure that Praava lives up to our promises.

Integrity
Praava means care that I and my patients can trust.
→ In every interaction—with my team members, patients, and community—I am honest, trustworthy, and transparent.
→ I respect the privacy of my team members and patients.
→ I use my time and resources wisely.

Listening
Compassionate care starts with listening to our patients and each other.
→ I listen with empathy so that I can act effectively.
→ I am courteous and respectful to all.

Excellence
Praava is setting a whole new standard for patient-centered care.
→ I perform my role efficiently so that patients get the most out of their visits.
→ I go above and beyond to exceed patients' expectations.



work at Praava are on the same page about who we are and, as a result, can be trusted to act in line with our values no matter what decisions they need to make. That's especially important for frontline workers, who constantly face unpredictable scenarios and personalities.

Our response to the Covid-19 pandemic was a case in point. Our team rose to the moment largely thanks to our investments in culture, and I couldn't have been prouder. Initially we faced a terrible cash crunch: We couldn't pay anyone for two months. But by the end of March 2020 we were the first private facility to partner with the government on telemedicine and offer it to our patients, and by May 2020 we had launched our e-pharmacy. That same month we were entrusted with being one of the first private providers to process Covid tests, and in June we received a public grant for a remote-care management tool that resulted in a two-thirds reduction in hospitalization rates. Like health care systems everywhere, we were initially stretched thin and had long wait times for our call center and care. But everyone worked tirelessly around the clock to serve every patient who needed us.

THE ROAD AHEAD

Over the past few years we have harnessed the goodwill we earned during the pandemic and continued to grow. We have stayed true to our vision and values and are excited about the future. Data from the more than half a million patients we've served shows that they are less likely to be hospitalized than those treated elsewhere. Among our in-house doctors, we have a 0% attrition rate: Once physicians come to work at Praava, they don't leave. Our lab is one of only seven in the country that meet international standards, and it also processes samples collected from hospitals and doctors across more than half of Bangladesh's 64 districts. We have more than 2,000 corporate clients who offer Praava access to their employees. They include local conglomerates; multinationals such as Unilever, Mastercard, and Chevron; and institutions such as the World Bank, the U.S. embassy, and a dozen UN agencies, and they account for more than 20% of our revenue. We're seeking capital for expansion into more areas of Dhaka and then the rest of the country and beyond. We have seen larger players, such as BRAC (the Bangladesh Rural Advancement Committee, now known as Building Resources Across Communities) and private hospitals, start to copy our model in Dhaka—competition we welcome if it helps more Bangladeshi patients get access to high-quality health care.

Launching a start-up in an emerging market is the hardest thing I've ever done, but it's also undeniably my greatest privilege. In founding Praava, I was able to leverage my experiences and networks to bring health care to Bangladesh in a way that I was uniquely committed to. I am proud that we've built a company with rock-solid values, a cohesive culture, and a dedicated team, and that we never brought in investors who would push us away from our initial mission and vision. We want Praava to be available to all of Bangladesh's 170 million people. We also hope to see our model deployed in the many other emerging markets where high-quality health care is desperately needed.

Strangers frequently approach members of our team in Dhaka to thank us for building the company. That only fuels our impatience to bring quality care to more patients. We are just getting started.

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Spotlight

Winning at Influencer Marketing

Illustrations by **DAVID MILAN**

SPOTLIGHT

Winning at Influencer Marketing

Why the Influencer Industry Needs Guardrails

And how to professionalize a maturing practice

AUTHOR
Emily Hund
Research affiliate, Annenberg School

OVER THE PAST 20 years the social media influencer industry has grown from nothing into a pervasive global force that has completely rearranged the way information and culture are conceived, produced, marketed, and shared. Commercial sectors such as fashion, beauty, and travel led the way, but nonprofits, government services, and political campaigns are increasingly joining in, hoping to harness the seemingly more authentic medium of influencer marketing.

For the most part, influencer marketing has worked: At the end of 2023 the global industry was worth some $21 billion, according to Influencer Marketing Hub. Surveys conducted by the Keller Advisory Group and Adobe reported that 27 million Americans and 300 million people globally consider

Photographs by LANDON NORDEMAN

themselves content creators. And according to HubSpot, roughly 88% of marketers that had already tried influencer marketing planned to increase or maintain their spend. It is difficult to imagine an organization or a consumer today who is exempt from contending with the realities of a world shaped by influencers. Surveys from Nielsen, Reuters, and others illustrate this striking reality: People trust influencers; social media users get news from influencers more often than from journalists; people believe that brands are better positioned than governments to solve social problems; and becoming an influencer is a top career aspiration for many young people.

But the industry has several major problems. It is an established global force that sometimes behaves like a ramshackle start-up, with little professional cohesion and inconsistent consequences for unfair play. My research over the past decade has revealed a number of internal contradictions. The influencer industry is a space for both entrepreneurship and exploitation, connection and harassment, truth and falsehood, self-expression and harm, encountering new ideas and finding comfort in familiar biases. Today the industry stands at an existential turning point. Those working within it—brands, marketers, influencers, and social media companies—have a responsibility to shape a future that prioritizes, incentivizes, and protects buyers, sellers, and influencers. We must all ensure that unethical behavior is punished; expectations, pay, and desired outcomes are standardized; and creators are given the same rights and protections as other professional marketers.

In this article I discuss how the influencer industry became an unregulated market and how we can begin to provide guardrails to prevent influencer and brand misuse.

HOW DID WE GET HERE?

The influencer industry was born of a particular historical moment, amid a perfect storm of factors in the 2000s. Software such as WordPress and Blogger made self-publishing accessible to anyone in the world with a computer. Facebook, YouTube, Tumblr, Twitter (now X), and others normalized the phenomenon of "regular" people creating content for the internet. First-generation social media companies introduced themselves as more authentic and democratic than the establishment—a shrewd move in an era of waning public trust in mass media and government—and promised connection and empowerment. That strategy continues to guide them today.

The 2008 financial crisis and the ensuing Great Recession propelled the industry's growth. Within one year tens of millions of workers lost their jobs. Unemployed and underemployed people flocked to blogging and social media to try to showcase their expertise, to network, and to let people know they were still there. That's what made the seeming authenticity of early creators so potent. They were, for the most part, people "just like us"—struggling amid economic and professional precarity, toying with new technology, trying to connect with others—at a time when people were seeking alternatives to the faceless institutions that had let them down. And an entire generation coming of age at the time watched, learned, and reoriented their relationship to work.

Advertising and marketing professionals, who also felt the pressure of economic turmoil, began to monetize the relationships between early influencers and their followers—audiences that were far more targeted than those of larger media companies. And, crucially, influencers weren't governed by journalistic standards. Paying for coverage with cash or free products was suddenly something brands could do. Sponsored content was born.

Marketers launched countless ventures in this new medium, aimed at making the process of identifying, selecting, and pricing influencers more efficient. Throughout the 2010s I followed along as this cottage industry rapidly expanded. RewardStyle, dedicated in the early days to making blogs and Instagram shoppable, became a leader in affiliate marketing and now generates more than $4 billion in annual sales for its brand partners. Digital Brand Architects pioneered the influencer-management model and has arranged industry-changing deals for creators such as the blogger and fashion designer Aimee Song and the organization experts behind the Home Edit. Meanwhile, Fohr, Dash Hudson, IZEA Worldwide, and other agencies have created a range of tools and processes to increase the volume and precision of influencer campaigns.

SOLVING THE INDUSTRY'S PROBLEMS

While the industry has developed into a sophisticated, albeit chaotic, space, The influencer industry is a space for both entrepreneurship and exploitation, connection and harassment, truth and falsehood, self-expression and harm.

IDEA IN BRIEF

THE PROBLEM

Influencer marketing is a global force with huge potential for both positive and negative social impact. Influencers, brands, and social media companies that mislead the public could ruin an industry reliant on credibility.

THE CAUSE

The industry is built on precarity, with little professional cohesion and inconsistent consequences for unfair play.

THE SOLUTION

Marketers must build teams of trustworthy professionals. They must commission work that prioritizes quality and integrity over virality. And the industry as a whole should develop trade organizations and unions to protect influencers, marketers, and the public.

it has done so largely outside the confines of regulatory or professional oversight. Its lack of boundaries opens the door for multidirectional exploitation. Marketers, brands, influencers, and platform companies all have opportunities to exploit one another to varying degrees of harm. Platforms are at the helm, able to control what types of content are prioritized, with no mandate for transparency. Brands can pay unpredictably and unfairly. Marketers can obscure metrics, discriminate against creators, or allow unsavory actors into dealmaking spaces, as happens in election seasons when super PACs and activist groups hire influencers through commercial marketplaces. Creators can misrepresent themselves, their expertise, and their business dealings.

Few systems are in place to guard against bad-faith actors' taking advantage of the industry's mechanisms. Safeguarding the industry is critically important because of what it sells: the very idea of "realness." Allowing our understanding of authenticity to be warped and misused, and personal narratives to become vectors for lies and misdirection, will have serious consequences.

The three primary challenges facing the influencer industry all revolve around the lack of guardrails and regulation in what is still a nascent marketplace. What happens when influencers lie? Who gets in trouble when companies take advantage of influencers who endorse their products? And how can we make the industry sustainable and productive for everyone involved?

Next I will discuss each of the industry's central challenges and provide an overview of what we must do to modernize the influencer industry as a whole, with protections for both consumers and workers at the center.

DON'T: Let bad behavior go unpunished
DO: Build a team of trustworthy professionals

Under Federal Trade Commission guidelines, influencers who are paid promoters are expected to provide "clear and conspicuous" disclosure of any and all relationships involving an exchange of goods, whether cash or free products. The FTC's Disclosures 101 details what this should look like in practice. Yet the consequences for running afoul of such rules are wildly uneven both within the United States and around the world.

The Securities and Exchange Commission fined Kim Kardashian $1.26 million in 2022 after she failed to disclose her paid relationship with

Trunk Archive

EthereumMax, a crypto company she promoted in an Instagram post. The SEC also banned her from promoting cryptocurrency for three years. Because she is one of the highest-profile celebrities in the world, Kardashian was an easy "get" for regulators. But far too much sponsored content and far too many influencers exist for government agencies to effectively oversee them all.

Similar stories have played out repeatedly over the past decade. Federal agencies have gone after Lindsay Lohan, DJ Khaled, and Naomi Campbell—sometimes more than once—for failing to properly disclose the commercial relationships behind their social media posts. More recently the FTC has signaled an expansion of its approach, issuing warning letters to the trade associations American Beverage and the Canadian Sugar Institute along with a dozen high-profile nutrition influencers. Meanwhile, millions of other influencers' posts escape review.

It thus falls to brands and marketing agencies that work with influencers to ensure their authenticity, which can require significant technological, legal, and managerial resources. Getting it wrong can be damaging. Beyond regulatory issues, working with influencers who fail to disclose their relationships puts brand equity at risk. Plenty of brands have earned a reputation for being all marketing and no substance when it became clear that they prioritized a quick sale over integrity of the product or the message. (A number of wellness products, such as diet teas and supplements, come to mind.)

Many tools and agencies are available to help brands find, vet, price, and hire influencers. Most of them make compelling promises to simplify and streamline the process. But research has shown that in the quest for efficiency, marketing platforms may blunt nuance, fail to surface relevant creators, or unfairly disadvantage others. The marketer should ask critical questions during the sales process. How do these agencies rank qualitative areas such as authenticity and credibility? Why might an influencer be red-flagged or banned from the marketplace or agency? Is internal oversight of partnerships facilitated on the platform or through the agency, and if so, how is it conducted?

Marketers must also consider the impact of the social team, whether in-house or with an agency, on the entire influencer process. The industry has been around long enough to give rise to a wealth of professionals with a decade or more of experience. And a strong point of view—a critical understanding of the industry and a stance on how to help it evolve—can compensate for a lack of formal training among younger workers. When building a team, look for a thoughtful perspective as well as experience.

Nycole Hampton, the senior director of content and marketing at GoodRx, has identified an issue in influencer marketing: the tendency to hire people who love influencers but may not actually understand the industry. "They think it's this sexy job, this easy job, because they're already on social media," she says. "But this is a really important function that should not live in a silo."

Indeed, in-house influencer-marketing teams sometimes experience condescension from colleagues who dismiss influencer work as superficial or transactional. But internal teams have the potential to be a brand's best tool, because they understand the brand and relevant stakeholders best. Influencer strategy can and should be connected to companywide strategy and given the forethought and scaffolding that any organizational effort needs to be successful. As the influencer industry becomes larger, more expensive, more visible, and more socially consequential, you must plan for the long term and educate your teams accordingly.

DON'T: Be vague about your intentions or the influencer's credibility
DO: Create a clear, mutual set of expectations

In 2023, amid allegations that the Chinese ultrafast fashion company Shein used forced labor in dangerous working

Roughly 13 million people in the United States call social media content creation their full-time job—about the same number as are in the manufacturing sector.

environments, the company paid U.S.-based influencers to tour its facilities. The resulting content was excoriated in the press as corporate propaganda. One influencer, who had no journalistic background or training but called herself "an investigative journalist," praised the working conditions and posted multiple videos glamorizing the brand. Sharp audiences knew her behavior was out of line with the norms and expectations of professional journalism. But brand-influencer relationships like this demonstrate the lack of clarity about what exactly an influencer's job is.

Writer, community leader, court jester, content machine, storyteller, technical editor: these are just a few of the terms that influencers and brand executives have used to describe the influencer's role to me. Depending on their background and topic niche, influencers may perform many overlapping jobs. But that doesn't mean the role eludes definition.

History shows that earlier media industries such as newspapers, broadcasting, and advertising also faced existential questions during their development—and the way leaders answered those questions had a long-range impact on the future of democracy, culture production, and self-expression. People working in the influencer industry must now confront a central question: What is our purpose? Is it entertainment, advertising, reporting, activism, personal connection, or something else?

The consequences of this uncertainty are manifest in the lack of shared expectations around how to select, price, cast, and use influencers—or who even counts as an influencer. Roughly 13 million people in the United States call social media content creation their full-time job—about the same number as are in the manufacturing sector. Yet professional cohesion is scant around what the work looks like or is worth.

An excellent example of the disconnect between brands, influencers, and consumers was brought to light in late 2023, when Italian regulators announced a fraud investigation into the influencer Chiara Ferragni. Ferragni, who has almost 30 million followers on Instagram, had endorsed a Christmas cake in 2022 made by the Italian food company Balocco. According to Ferragni's and Balocco's posts, proceeds from the cakes, which cost three times as much as a normal Balocco cake, would go to a children's hospital. But after the campaign, for which Ferragni earned more than €1 million, no such donation was made, according to Italy's antitrust authority. In December 2023 the authority fined her €1 million and Balocco €420,000 for misleading consumers.

Governments have begun to build an equitable industry through regulation. The United Kingdom and France, for example, have introduced transparency laws designed to protect influencers, brands, and consumers alike. In 2023 France passed what it hailed as the most comprehensive influencer regulation in the world, requiring influencers to have a written contract for every payment or gift of a certain value. They must clearly state in the post if it is sponsored. Some things, such as tobacco and betting, are banned from any promotion at all. France also has rules requiring transparency around drop shipping (whereby a business accepts orders without keeping inventory on hand), a popular income stream for influencers. In 2021 France enacted legislation aimed at protecting child influencers the way child actors and models are protected. It regulates the number of hours that children under age 16 may work in a week, requires that their earnings be protected in a bank account until age 16, and enshrines their "right to be forgotten"—meaning that platforms must honor their requests for content to be taken down.

The UK was one of the first countries to apply advertising laws to influencers. Since 2008 it has been illegal in that country for brands and influencers to post paid content without a disclaimer. And in 2022 the UK's Competition and Markets Authority published guidelines relating to ads and paid promotions by influencers. According to one guideline, social media platforms must give users tools to label commercial content.

But government agencies and watchdog groups can do only so much. The influencer industry is a global force, and the stakes for influencers vary according to local, national, and regional laws and cultures. Ultimately, social media content creation will become a "regular" job—another role in our ever-expanding global media landscape. Bringing stability to both expectations and payment infrastructures is necessary for long-term sustainability. Contracts should always include clear compensation terms and schedules, along with the assumption of compliance with applicable laws and regulations. More broadly, the industry needs formal gatherings and internal communications to share best practices, set standards for dealmaking and disclosure, and hear about participants' pain points. (More on this in a moment.)

DON'T: Chase clicks
DO: Selectively commission work that aligns with your values

The influencer industry doesn't work if platforms and brands do not incentivize quality content. Creators bear the brunt of the industry's pervasive uncertainty: They must spend a significant amount of time navigating changing content norms, new platforms and tools, uneven contracts, high expectations for audience engagement, and the blowback that can come with being a public figure with few professional protections. Many leaders on both the brand and influencer sides want transactional relationships to go by the wayside, and for good reason. Longer-term professional relationships that focus on a genuine alignment of values and goals rather than virality and content quantity tend to be more gratifying for everyone involved.

At the same time, platforms and some brands pressure more people to think of themselves as creators, with diminishing returns. In such a crowded market, millions of self-identified creators make less than $2,000 a year, according to the Keller Advisory survey. The same survey found that one-third of all creators, and nearly half of full-timers, report burnout from the demands of creating content. Most would like the nature of their brand collaborations to change.

Brian Lindo, a food and lifestyle content creator with 379,000 Instagram followers at this writing, points to his work with PepsiCo and its Dig In campaign as an example of mutually beneficial influencer-brand collaboration. Dig In shines a spotlight on Black-owned restaurants that historically may not have gotten much press. "This campaign is a door to help tell a story," Lindo says. "[PepsiCo] gave me this platform to say, hey, go do some research on your own, leverage your following, crowdsource, and figure out if there are restaurants that need highlighting."

Tiffaine Stephens, the PepsiCo senior marketing manager for Dig In, explains, "You have to be out there and have your feet on the street to understand what's happening. Only work with people who have built credibility and knowledge and have insight about problems and how they can use their voices."

If the Dig In campaign goes viral, great. But the goal of the initiative is to tell honest, compelling stories that align PepsiCo with positive community outreach. Providing influencers with campaign briefs and goals is still a necessary part of the process, but brands should look for influencers they can trust to tell a story in their own honest way, backed up by expertise and community connections. A large following or a viral TikTok does not an influencer make. Get to know the person behind the account as you would any other work colleague. Influencers can become a core part of your social strategy, used across the organization.

IF PRECARITY AND a lack of boundaries cause much of the industry's woes, professionalizing the industry is the answer. People working in it are optimistic about what lies ahead. Let's translate that optimism into a clear, prosocial vision of the future, with defined roles and expectations for everyone involved internally, and a better public understanding of the industry. Its fate lies in the community and solidarity among those working within it.

We can learn from other cultural industries. Influencers, marketers, and agencies should draft and implement a professional code of ethics like the one maintained by the Society of Professional Journalists. They should form a robust trade organization like, for example, the Council of Fashion Designers of America, to educate the public, award quality and innovative work, and provide support for early-career workers. We saw in the summer of 2023 how the unions SAG-AFTRA and the Writers Guild negotiated and codified industrywide standards for pay and working conditions in Hollywood. The differences between influencers and Hollywood workers blur more as time passes, from the basic setup of their work—on a project basis, sometimes as individual contributors and sometimes as part of a team, typically in collaboration with large corporations that control the methods of distribution—to the role they occupy in the hearts and minds of their fans. Influencers might take a cue from the success of Hollywood unions, either by starting their own or by joining SAG-AFTRA.

Whether through unionization or some other form of professionalization, pay equity, platform transparency and accountability, and protection of influencers' rights should remain front and center.

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EMILY HUND *is the author of* The Influencer Industry: The Quest for Authenticity on Social Media *and a research affiliate in the Center on Digital Culture and Society at the University of Pennsylvania's Annenberg School for Communication.*

What Makes a Successful Celebrity Brand?

Stars are using their influencer status to launch their own products and capture more profits for themselves.

AUTHORS

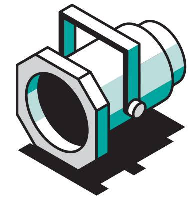
Ayelet Israeli
Associate professor, Harvard Business School

Jill Avery
Senior lecturer, Harvard Business School

Leonard A. Schlesinger
Professor, Harvard Business School

Matt Higgins
Executive fellow, Harvard Business School

Illustrations by DAVID MILAN



IN RECENT YEARS Ryan Reynolds and George Clooney earned more money from selling their liquor brands, Aviation American Gin and Casamigos tequila, than from their movie deals. Serena Williams and Maria Sharapova, retired from sports, now generate significant earnings through the sale of their apparel and skin care lines, S by Serena and Supergoop. Rihanna and Dr. Dre make millions selling their own brands of cosmetics and lingerie and headphones, respectively.

Celebrity endorsements of existing brands have been a part of marketing strategy for decades. But in a world where celebrities have built enormous social media followings and have become effective influencers, many stars are making a pivot: Instead of endorsing or serving as an influencer for other companies' products, they are launching their own brands to profit from their renown.

For every juggernaut celebrity brand, however, many more have crashed and burned—even those of some major stars. To be successful, the founders of these brands must identify potential strategic advantages, turn them into competitive advantages, and develop expertise in areas vastly different from the ones in which they earned their fame.

In this article we introduce a framework for building a successful celebrity brand, derived from field research we did while writing case studies about Kim Kardashian's Skims shapewear and David Chang's Momofuku Goods line of packaged foods. We also highlight the common pitfalls.

THE EVOLUTION OF CELEBRITIES AS MARKETERS

Endorsement deals often require a celebrity to make promotional appearances and use or wear the products in public as well as to appear in ads. For celebrities, endorsements provide ancillary income; for brands, they offer an opportunity to raise awareness and attract buyers. The common wisdom, backed by volumes of academic research, is that brands succeed when they attach themselves to an appealing endorser who is credibly expert in a given area and appears trustworthy.

With the rise of social media, celebrities have become influencers as well as endorsers, posting promotional material on their own channels. To be attractive to brands, influencers must have a sizable and loyal audience. Traditionally, the influencers with the largest audiences were celebrities in highly visible fields, such as acting, musical performance, and sports. More recently social media has allowed ordinary people to become influencers by posting engaging content that goes viral. For example, MrBeast (who began amassing followers at age 13 by posting video game content) has more than 241 million subscribers on YouTube, and Khaby Lame (a Senegal-born Italian whose videos mock life hacks) has more than 161 million followers on TikTok.

Influencer marketing has advantages for brands: As more people try to avoid intrusive advertising, those browsing social media are increasingly willing to accept marketing messages from influencers they admire and rely on for advice. Consumers who make purchases as a result may be more committed to the brand because it signals their fandom and their perceived parasocial relationship with the celebrity.

Celebrities shifting from simple endorsement deals to influencer deals must be able to attract millions of followers, create engaging content, mix day-to-day (unpaid) posts with promotional messaging, and recommend the brand in ways that feel unscripted and authentic. Because this work entails higher-order skills and sustained daily effort, brands richly compensate celebrity influencers.

Why have celebrities now begun to imagine, launch, manage, and promote their own brands? First, the ubiquity of social media influencers has led consumers to seek authenticity in advertising—and they perceive more of it in a celebrity-owned brand. Second, social media (particularly with the use of video) has opened a direct line of communication between celebrities and their fans. Third, e-commerce and direct-to-consumer (DTC) brands allow much faster development and distribution of new products and thus higher margins. Fourth, while existing brands may use endorsements or influencers as one part of a larger marketing strategy, celebrity brand owners can rely heavily on their own social media, dramatically lowering marketing costs for a cost advantage over existing brands.

WHAT MAKES A CELEBRITY BRAND SUCCESSFUL?

Kim Kardashian is a ubiquitous reality-TV star and celebrity. As of the end of 2023 she had 363 million followers on

Instagram, 75 million on X (formerly Twitter), 35 million on Facebook, and 9 million on TikTok. She has done traditional endorsements of brands such as Balenciaga and OPI nail polish, and she served as a paid influencer on her social media platforms, promoting Dolce & Gabbana, among others. As she began thinking about creating her own brand, she recognized a market need: Traditional women's shapewear (the category pioneered by Spanx) didn't work well for her body type. In 2019 Kardashian launched Skims to fill that need. She serves as the brand's creative director and aesthetic muse; a cofounder, Jens Grede, serves as CEO. They positioned Skims as a solutions-oriented brand with an eye toward body type and skin tone inclusivity. Since its founding it has expanded into other apparel categories, including underwear, loungewear, sleepwear, and activewear. In 2023 Skims was valued at $4 billion, with the majority of its products sold DTC through the company website.

David Chang is a well-known chef with restaurants in New York City, Toronto, Las Vegas, and Los Angeles. He is also a television personality, a podcast host, and a best-selling author. Although Chang's social media following is far smaller than Kardashian's (1.7 million on Instagram, 345,000 on X, and 271,000 on TikTok), his followers tend to be serious foodies who are highly engaged with his content. Like Kardashian, Chang has done traditional endorsements (for Audi) and served as a paid influencer (for Impossible plant-based meat substitutes). In the fall of 2020, after months of restaurant closures due to the Covid-19 pandemic, Chang's restaurant group, Momofuku, launched its first line of consumer packaged goods, Momofuku Goods, selling sauces exclusively DTC through the company website. Since then Momofuku Goods has introduced a variety of products, including noodles, seasoned salts, chilis, and sauces, which are now also available at retailers such as Target and Whole Foods.

Our in-depth analysis of Skims and Momofuku Goods, along with observation of a range of other celebrity brands, has enabled us to identify four key principles for making celebrity brands successful.

Have a strong social media following. This is an obvious precondition for success. As we will discuss, it's not just the number of followers but the depth of engagement that sets successful brands apart. Some celebrities prefer to maintain privacy. For example, the actors Jennifer Lawrence, Chris Pine, and Emma Stone have no public social media accounts. And some have philosophical objections to social media. Scarlett Johansson, who has no public social media accounts, is a prime example. She has stated that social media is not good for her mental health ("I have enough anxiety"). When Johansson founded the skin care brand the Outset, in 2022, in part because of her own struggles with acne, she realized the importance of creating a digital place for followers to engage with her and with the brand. She began posting content (exclusively about the brand) on the Outset's social media accounts. The Outset's Instagram account has 300,000 followers. (Meanwhile, an Instagram account dedicated to Johansson and managed by a fan has more than 4 million followers.) Celebrity founders who eschew personal social media may choose to minimize DTC as a channel and instead rely more heavily on third parties to sell their products. The Outset can be found at major retailers, including Sephora, whereas Skims achieved its success relying solely on DTC distribution.

Craft a good fit between celebrity and product category. Advertisers have always tried to select endorsers and influencers who feel right for the brand. Those people must seem natural and credible when recommending the product. If the collaboration seems inauthentic, consumers won't be persuaded to buy.

The same is proving true for celebrity brands. Celebrities typically are known for something: a field of expertise, a clear point of view, a distinct aesthetic, or a particular lifestyle. Harnessing that and transferring it to the brand in a manner that seems consistent with the celebrity is key to success. Momofuku leverages Chang's culinary point of view to create products that consumers readily and naturally associate with Chang, such as noodles and "chili crunch." Skims' designs reflect Kardashian's minimalist aesthetic and love of earth tones as well as celebrating her famous figure.

Hulk Hogan provides a contrasting case study. Hogan, who wrestled professionally on and off from 1977 to 2003, has experimented (and failed) with several celebrity brands. Some of his early forays were in the food business—where, consumers perceived, he had no specific expertise or point of view.

Pastamania was a fast-food restaurant that closed within a year. Hulkster Cheeseburgers were microwavable sandwiches that were discontinued shortly after launch. Hulk Hogan Thunder Mixer was a blender that failed to gain traction with consumers. More recently Hogan launched a health-and-wellness cannabis brand, one he created to deal with chronic back pain that he incurred during his wrestling career. This brand, more in line with his source of fame, may be a better match for moving his celebrity from wrestling to a salable consumer product.

Find or develop a superior product. Even the most beloved celebrity will have a difficult time supporting a subpar product line. Although the celebrity's name and endorsement might sell to a consumer once, repeat purchases will be difficult to earn.

Sometimes celebrities and their representatives search existing products to identify a high-quality offering that's suitable for a partnership and then rebrand it. Aviation American Gin, for instance, was created in 2006 by a team of distillers in Portland, Oregon, who worked with a local bartender. It won acclaim for its unique flavor profile—one that is less dominated by juniper, as English gins typically are, and has notes of French lavender, orange peel, cardamom, coriander, sarsaparilla, and anise seed. The brand was a dozen years old when Ryan Reynolds bought a minority stake and began aggressively promoting it in ads and on social media, turning it into a celebrity brand. Two years later the owners sold it to the liquor giant Diageo for $610 million.

In other cases the celebrity is personally and intensively involved in developing the product from scratch. When launching Momofuku Goods and Skims, Chang and Kardashian invested substantial time, effort, and funds to deliver exceptional products to consumers. Momofuku's secret culinary lab was established to experiment with proprietary ingredients for the restaurants long before the launch of its consumer products, and Chang leveraged that strategic asset to develop new and exciting offerings for retail sale. The company's initial product launches sold out quickly, and consumers' reviews have been overwhelmingly positive. Similarly, the Skims team carefully studied and tested each product category prior to launch. For example, before releasing the Skims line of bras, designers spent three years developing them and an additional year conducting fitting trials with consumers of various shapes. Kardashian herself tries on hundreds of new products each year to ensure that they are up to her personal high standards. (She often posts images from these try-on sessions on social media, sparking demand.) Skims' initial products were extremely popular, and currently they have earned more than 115,000 four- and five-star reviews.

When a product lacks distinction, however, consumers tend to notice. In 2007 Donald Trump launched Trump Steaks, delivering frozen beef by mail. Consumers immediately complained about the poor value proposition, and within two months the steaks were selling at deep discounts. Although Trump enjoyed widespread awareness and popularity, and his brand had proved successful on real estate and casinos, his name was not enough to compensate for an inferior and overpriced food product.

When thinking about the level of personal involvement they want during product development, celebrity

Fans and followers need to feel that they have a personal relationship with the influencer. A deeply engaged following is as important as a large number of followers.

founders should be aware that some members of the public are skeptical about stars' commitment to their brands—a cynicism that stems in part from a long history of endorsements by celebrities who lacked loyalty to the products. For example, Oprah Winfrey advertised a Microsoft Surface tablet but was seen publicly using an Apple iPad; David Beckham advertised Motorola phones and publicly used an Apple iPhone; and Brad Pitt was featured in advertising for Chanel No. 5 and later admitted that he never wore it. Along with ensuring the quality of a product and investing in its development, celebrities must commit to actually using it.

Be actively engaged with, and listen to, followers. For influencer marketing to be effective, fans and followers need to be engaged with and feel that they have a personal relationship with the influencer. As noted, a deeply engaged following is as important as a large number of followers. Celebrity brand owners drive this engagement by peppering their social feeds with persuasive messages that deliver resonant and relevant information, emotional value, and entertainment.

Chang, whose social media includes cooking demonstrations and tutorials, uses Momofuku products in videos and also occasionally promotes new products not of his own design, to help maintain credibility with his followers and earn their trust. For Kardashian, whose social media accounts have always included photos of herself with friends and family, sharing photos of her circle wearing Skims products seems natural. She often wears Skims when she appears in other forums across social media. And she used her followers as a focus group, seeking their feedback before launching the Skims bra line, which enabled her to learn about customers and allowed customers to feel they were a part of the brand.

CREATING MOMENTUM

The ability to craft engaging storytelling through their various channels significantly reduces customer acquisition costs for celebrities. That is especially critical in an era when DTC brands are struggling with the high price and declining return on investment of digital advertising on platforms such as Facebook, Instagram, and TikTok.

Chang creates new dishes in his restaurants, touts his expertise on television, writes cookbooks, and translates that content into consumer products. The restaurants, the television shows, and the press allow him to offer a clear point of view to followers all over the country (even in places remote from his restaurants), which made creating a food brand that can deliver to followers everywhere very sensible. His continual engagement in these forums helps increase the momentum.

Kardashian, too, combines online and offline behavior to power her success. She and her family have been reality-TV fixtures for 16 years, and she routinely features Skims products on their show. Although most of its sales are through the website, Skims opened pop-up shops in key locations in 2023, allowing for more-personal engagement with the brand (and with Kardashian) and increasing awareness. Kardashian deeply understands pop culture moments and has found ways to embed them in Skims campaigns: She routinely features well-known celebrities in ads, and she has signed partnerships with the U.S. Olympic team and the National Basketball Association. She posts these offline moments on her social media, creating additional exposure and virality beyond her immediate followers.

These principles also apply to the new version of celebrities—those born on social media, who earn their status by being online influencers and building credibility and engagement with their audiences. They develop branded products to monetize their influence without relying on sponsorships or endorsements. One example is Emma Chamberlain, who started a YouTube channel in high school that amassed more than 12 million followers. Known for her penchant for coffee, she launched a DTC brand in 2020, Chamberlain Coffee, which continues to grow and is now also available at Target and other retail locations.

As a counterexample, consider Beyoncé's athleisure brand, Ivy Park, which is lagging because it doesn't observe some of these principles for success. The overall brand aesthetic is sporty, which may seem out of step with the singer's more glamorous, high-fashion image. Reviews suggest that the product is not sufficiently differentiated from competitor brands. And although Beyoncé's Instagram account has more than 318 million followers, she posts about Ivy Park less frequently than more-successful celebrity founders do about their brands.

Observers speculate that in contrast to Kardashian, Beyoncé is a private person whose appeal comes in part from remaining mysterious. Instead of using her own influence, she sends free products to other celebrities and influencers in hopes that they will wear Ivy Park and engage with consumers. That's better than nothing, but by limiting her direct engagement and promotion, she's distancing herself and her celebrity from the brand.

WHAT CAN GO WRONG?

Celebrity brands get attention—and that can cut both ways. Consumers may be skeptical about the brands, especially if the stars behind them are controversial or polarizing. Kardashian has millions of followers—but also millions of detractors. Sometimes it seems that people enjoy nothing more than tearing down a celebrity—and if that celebrity has launched a brand, it may get caught in the crossfire.

An example is Gwyneth Paltrow's Goop lifestyle brand, which has been a financial success by any measure: It has raised $70 million in venture funding, and in 2020 it was valued at $250 million. At the same time, Paltrow is often ridiculed for promoting what many see as "health quackery"—unproved alternative health practices, energy healing, and other scientifically questionable wellness claims. In 2023 she mused publicly about wanting to sell her Goop stake in a few years, and some argue that the company's valuation would be higher if it had steered away from promoting health and wellness products that invite skepticism.

Similarly, the model Miranda Kerr's cosmetic company, Kora Organics, was criticized for the quality of its products, which have allegedly caused skin irritation and breakouts. Tom Brady's apparel brand, Brady, was launched relatively recently. It has been criticized as overpriced and appears to have achieved little traction. Jessica Alba's the Honest Company has faced multiple complaints and a lawsuit about the quality of the products, the ingredients used, and claims made by the company. (At the same time, the company now trades publicly, with a market cap of more than $270 million in early 2024, and at one point Alba's personal stake was worth more than $100 million—far more than she could make from acting.)

In addition to ongoing scrutiny, celebrity brands face the risk that the celebrity will be involved in a scandal or a legal or ethical transgression, reflecting poorly on the brand. For example, Kardashian's ex-husband, the controversial rapper Kanye West (now Ye), who developed the Yeezy clothing and sneakers line for Adidas and was an influencer for many other brands, saw most of his deals disappear after he made a series of racist and anti-Semitic remarks.

When a celebrity is merely an endorser of a brand rather than an owner and creator of it, such scandals may be more easily overcome, because the tie between the celebrity and the brand is more easily severed. (For instance, many brands moved away from Tiger Woods after his 2009 car crash and sex scandal but carefully reengaged as the controversy receded.) Consumer research finds that brands that respond quickly by detaching from an influencer after a personal scandal show more-positive share performance than do those that respond slowly or not at all. However, when the brand is owned by and deeply associated with the celebrity, it is harder to mitigate this risk. If a brand has grown and can establish meaning above and beyond the celebrity, managers should consider some distancing from the star to avoid any possible future negative impact.

IT'S CLEAR FROM these examples that if celebrity brands are to soar in the era of influencer marketing and social media, they need at minimum a deeply engaged following, a genuine fit between the celebrity and the product, a superior product, and a strong two-way engagement with fans and followers. Without those, not all the fame in the world will help a celebrity brand fly.

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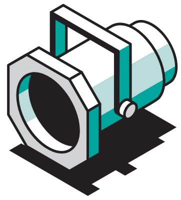
AYELET ISRAELI *is the Marvin Bower Associate Professor of Business Administration at Harvard Business School.* **JILL AVERY** *is a senior lecturer in business administration and the C. Roland Christensen Distinguished Management Educator in the marketing unit at Harvard Business School.* **LEONARD A. SCHLESINGER** *is the Baker Foundation Professor at Harvard Business School, where he serves as chair of its practice-based faculty.* **MATT HIGGINS** *is an executive fellow at Harvard Business School, a cofounder of RSE Ventures, and the author of* Burn the Boats: Toss Plan B Overboard and Unleash Your Full Potential. *He is also an investor in companies mentioned in this article, including Momofuku, Skims, and the Outset.*

Lil Miquela earns an average of $2 million a year posting content for leading brands.



Should Your Brand Hire a Virtual Influencer?

Relying on AI-generated personalities can be a low-risk, high-engagement strategy.

AUTHORS

Serim Hwang
Assistant professor, Sungkyunkwan University

Shunyuan Zhang
Assistant professor, Harvard Business School

Xiao Liu
Associate professor, Stern School of Business

Kannan Srinivasan
Professor, Tepper School of Business

WHEN THE MEAL-KIT delivery company HelloFresh wanted to promote its latest line of healthful menu items, it made an increasingly popular choice: It hired an Instagram lifestyle influencer. Jenna Kutcher is a Minnesota-based mother of two who has more than a million followers, and as part of a 21-day challenge, she and 15 other influencers hired by the brand posted recipes and photos of meals they made using HelloFresh, each tagged #RefreshWithHelloFresh. The campaign produced 461 influencer posts and generated 5.5 million impressions, with 20% of the influencers' followers mentioning HelloFresh on Instagram—a clear success.

Results like that helped influencers earn some $21 billion in 2023. But such partnerships are not without potential pitfalls. Influencers' credibility is built on trust, which can prove delicate. Sometimes a post is perceived as inauthentic, or the influencer exhibits off-platform behavior that's not aligned with the image or values of the brand being promoted. And as influencer marketing grows, so do examples of promotional relationships that caused disillusionment and regret.

In 2017, for example, Adidas Originals created an Instagram ad featuring Kendall Jenner as its brand ambassador. Detractors argued that there was nothing "original" about Jenner: "[Has she] really faced it all? What could a bourgeois like [her] have possibly faced?" In late 2023 China's "Lipstick King" Li Jiaqi, a pioneer among fashion and cosmetic influencers with 76 million followers, publicly lost his temper with one who complained about the price of eyeliner, excoriating the commenter for not working hard enough to grow his income. The incident prompted a backlash and a tearful public apology by Li. When Chriselle Lim, a fashion and beauty influencer, collaborated with Volvo on posts promoting the carmaker's eco-friendly product line, critics highlighted the disconnect between the green promotion and Lim's high-consumption, materialistic lifestyle.

Those incidents raise a question: Can you hire an influencer whose careful behavior and reliable image limit the risk of undercutting the promotional message? Yes, you can.

Lil Miquela is a social media influencer who has 3.5 million followers on TikTok and another 2.7 million on Instagram. Since her debut, in 2016, she has earned an average of $2 million a year posting content on behalf of brands including Dior, Calvin Klein, and BMW. Lil Miquela is far less likely than traditional influencers to say or do something scandalous, because she's

Studies have shown that organic Instagram posts by a virtual influencer tend to receive more likes and positive emojis than do the posts of human influencers.

a computer-generated image, programmed and controlled by a marketing company.

Although human influencers still vastly outnumber virtual influencers, the latter are becoming more common. According to one survey, 52% of U.S. social media users already follow a virtual influencer, and that percentage is higher globally. Brands including Prada, Cartier, Disney, Puma, Nike, and Tiffany use virtual influencers to promote their products. In this article we draw on our academic research and studies by others to examine how brands should choose between a human influencer and a virtual one. We also offer insights that brands can use when developing their influencer marketing strategy.

MEASURING THE PROS AND CONS

To understand the advantages and disadvantages of human influencers and virtual influencers, we focus on five factors: *engagement, reach, diversity, reputation risk,* and *cost*.

Engagement. To learn how consumers react to virtual as opposed to human influencers, we conducted research on the way followers engage with posts from each type. We collected marketing content posted by 551 human influencers and 13 virtual influencers, all sponsored by 112 brands. Most of the brands are in the fashion and beauty segments, with a handful representing technology, travel and lifestyle, health care, or other industries. The content, which included more than one million posts, was put online between June 2014 and December 2020. Some of it was sponsored, and some was organic. We measured how much followers liked and commented on various types of influencer content.

Prior studies have shown that when a virtual influencer (whether anime-like or humanlike) creates organic Instagram posts, they tend to receive more likes and more positive emojis than do the posts of human influencers. Research by Chen Lou of Nanyang Technological University and colleagues identified what drives consumers to engage more with virtual influencers, including the novelty of interacting with computer-generated imagery (CGI) and the different aesthetic it represents. In addition, consumers exposed to virtual influencers' posts show greater willingness to share their favorable experiences with others.

In our research we focused on sponsored posts—the kind marketers arrange and pay for. When we compared paid posts by virtual influencers with their organic content, we found that followers showed 13.3% more engagement with paid than with nonpaid posts, whereas sponsored posts by human influencers garnered 2.1% less engagement, on average, compared with the same influencers' organic content. Among the industries we studied, the fashion and beauty sector was especially hospitable to sponsored posts by virtual influencers—and also showed more resistance to sponsored posts by human influencers: Virtual influencers' paid posts in that sector drew 16.3% more engagement than did their organic content, on average, while human influencers' paid posts drew 2.3% less engagement than their unpaid postings.

The engagement data shows a clear upside to using virtual influencers.

Reach. Brands choose to use big-name celebrities as influencers for a reason: Celebrities have lots of followers, which increases exposure for their products. In December 2020 the average number of followers for human influencers in our study was about 2.8 million, whereas the average number for virtual influencers stood at about 1.1 million.

In academic research about influencers, the number of followers and consumer engagement have an inverted U-shape relationship—that is, influencers with relatively higher or lower numbers of followers create less engagement than influencers with moderate followings do. That suggests that brands needn't necessarily be put off by virtual influencers' smaller audiences. Our research found that when a brand is not widely known, the number of followers an influencer has doesn't play a big role in how much engagement a piece of sponsored content sparks. Among the fashion brands in our sample, for instance, we found that lesser-known brands such as Misbhv and Moschino achieved greater engagement in response to sponsored virtual-influencer posts than did more-established brands such as Burberry, Chanel, Dior, and Louis Vuitton.

Diversity. Modern brands want to be inclusive, and that requires partnering with influencers who represent a variety of demographics. Human influencers are not a particularly diverse group. Marketers in certain segments, such as fashion and beauty, say the majority of influencers in their field are female and white. When we used an AI program to try to detect the racial background of

Top: Blu promotes XanaDew, his own virtual energy drink brand, which sponsors his YouTube series. Bottom: Lil Miquela collaborated with BMW in its global campaign to launch the all-electric iX2.

Top: Cory Strassburger; bottom: Chris Nolte-Kuhlman

the 551 human influencers in our study, it estimated that 68% were white, 11% were Latino/Hispanic, 10% were Black, 8% were Asian, 1% were Middle Eastern, and 1% were Indian. In theory, brands could try to hire from those shallow pools, but they may face other complications: The influencers may already have deals with competing brands, or be promoting so many other brands that they're not taking new clients, or be so geographically distant that it is logistically challenging to work with them, or have an aesthetic that doesn't align with what the brand wants, or have accents or speak languages that may be difficult for the brand's target market to understand. Thus brands have begun looking to virtual influencers to achieve diversity.

When marketers are creating an influencer with computer graphics, they have no constraints on race, gender, or other characteristics. As an example of how extreme the diversity can get, one virtual influencer, named Blu, is fashioned as an extraterrestrial creature orbiting Earth in his spaceship, the *Xanadu*. Companies show imagination in building their own influencers by seeking the optimal combination of demographics, behavioral traits, and personality characteristics.

Ralph & Russo, a British fashion house, successfully used a virtual influencer to launch its 2020–2021 couture collection. The company designed Hauli, a tall Black virtual model. Her name comes from the Swahili words for strength and power. The campaign showed images of her posing at the Taj Mahal, the Great Wall, and other wonders of the world—places where conducting a photo shoot with a human influencer would be difficult (and expensive). The combination of an African influencer and a global context proved successful. The promotion achieved 19.4 million views worldwide, and the company estimated the value of the media exposure at $65.1 million.

Reputation risk. Human influencers periodically become embroiled in scandal or notoriety. Brands try to manage this risk, but it is ever present. Virtual influencers, devoid of the autonomy that typically accompanies human behavior, mitigate it.

Nars, a French cosmetics and skin care company, turned to virtual influencers after such a scandal. In 2018 the YouTube beauty influencer Manny Mua and others were featured in a group photo giving the finger to and denigrating a rival beauty influencer named

Jeffree Star. The post created a backlash that the influencer media labeled Dramageddon. Mua lost a large portion of his followers, and Nars severed ties with him. The following year Nars launched a trio of virtual influencers—Maxine, Chelsea, and Sissi—who behaved the way their computer handlers programmed them to. Not surprisingly, their content has been drama-free.

Cost. Put simply, human influencers are more expensive than virtual influencers. For instance, a human influencer with a million-plus followers might charge a brand more than $250,000 per post. The company that created Lil Miquela, currently the most popular virtual influencer, charges only $9,000. Because virtual influencers are cheaper—and don't have travel expenses that must be covered—brands can hire larger numbers of them.

MAKING THE CHOICE

The concept of virtual influencers is just a few years old, so academic research is only beginning to understand how and why consumers react to this form of marketing. Nonetheless, our research and close observation of the field's evolution suggest four principles to help guide brands in their choice.

Recognize consumers' desire for novelty. When it comes to endorsers and influencers, some brands find value in stability and longevity. For example, Tiger Woods's recently dissolved relationship with Nike lasted 27 years. In the social media era, however, many consumers crave something new and different. Brands that rely on familiar celebrities risk being perceived as stale or uninteresting. People scroll social media quickly, and it takes something unusual to make them pause. Indeed, research has shown that one reason consumers follow virtual influencers is that they are unexpected and previously unknown. Although betting on a virtual influencer may require a leap of faith, marketers should realize that human influencers may be perceived as overexposed or past their prime.

Look at the data. Our research involved studying more than a million pieces of content over six years and doing statistical analysis. That level of research may not be feasible for every brand, but a fundamental analysis of social media data is both achievable and essential. Are your competitors' brands using virtual influencers? If so, how do consumers appear to be engaging with that content versus posts by human influencers, and how is that changing? Are brands in your industry using more virtual influencers over time? Engagement data is public and easily accessible on Instagram and other platforms. Brand managers should collect and study the data relevant to their category.

Embrace a portfolio approach. Brands typically do not rely on either human or virtual influencers, or on any individual within either category. Instead they choose a mix of influencers. In a recent study we looked at whether human influencers are being replaced as brands find success with virtual influencers. We discovered that brands that embrace virtual influencers continue to use human influencers as well, but they typically switch to different ones.

Experiment, measure, and learn. Because virtual influencers represent a lower-cost marketing opportunity, brands can treat the choice to hire them as an experiment. They can deploy a virtual influencer or two and then closely watch engagement and results. They should calculate the return on investment and compare it with alternatives, including other virtual influencers, human influencers, and other kinds of marketing. The influencer industry is mature enough to have standard KPIs and metrics for judging performance, and brands can embrace this methodology as they evaluate decisions about influencer marketing.

AS CONSUMERS SPEND less time on traditional media and more time on social media, influencer marketing is likely to become even more important for brands. Because it remains fairly new, fewer rules and established practices exist, which creates opportunities for innovation. Our research suggests that virtual influencers offer distinct advantages over traditional influencers. The success brands are having with them should inspire companies to be open to additional innovations as they embrace social media marketing.

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SERIM HWANG *is an assistant professor of marketing at SKK Graduate School of Business at Sungkyunkwan University in Seoul.* **SHUNYUAN ZHANG** *is an assistant professor in the marketing unit at Harvard Business School.* **XIAO LIU** *is an associate professor of marketing at NYU's Stern School of Business.* **KANNAN SRINIVASAN** *is the H.J. Heinz II Professor of Management, Marketing, and Business Technologies at Carnegie Mellon's Tepper School of Business.*

Gallery Stock

How Marketers Choose College Athlete Influencers

Here are the characteristics that matter most.

Photograph by **BRIAN FINKE**

AUTHORS

Kimberly A. Whitler
Associate professor, Darden School of Business

Graham Twente
Consultant, EY

SINCE 2021 MCDONALD'S, Microsoft, PepsiCo, Berkshire Hathaway, Amazon, Unilever, and other leading companies have done something that was never before possible: They have paid U.S. college athletes to act as product endorsers and influencers. Until a Supreme Court ruling that year, paying college athletes was forbidden under the rules of the National Collegiate Athletic Association (NCAA). In the aftermath of the Court's ruling, the NCAA adopted a policy that enabled more than 520,000 student athletes to monetize their names, images, and likenesses by signing what have become known as NIL deals. Although no definitive count exists of athletes who have signed such deals, 278 students (40% of varsity athletes) at Texas Tech had been sponsored as of 2022. In just a few years marketers have already spent more than $1 billion on such endorsements. For individual athletes these deals can be lucrative. Consider Paige Bueckers, a University of Connecticut basketball player, whom Gatorade chose as its first sponsored college athlete. Bueckers is expected to earn more than $1 million while playing college basketball.

College athletes are especially attractive as endorsers and influencers for

> Sponsorship deals with college athletes allow brands to tap into the loyal and passionate relationships that fans (especially alumni) have with university sports teams.

several reasons. Brands hope that their age will make them effective at engaging and connecting with a younger audience. Their sponsorship deals cost less than those of professional athletes. They allow brands to tap into the loyal and passionate relationships that fans (especially alumni) have with university sports teams. And by signing them, brands can build a relationship that may extend into Olympic and professional sports careers.

These relationships come with risks, however. Misbehavior and scandal can threaten celebrity endorsers, and college students may be even more likely to behave in ways that cause negative publicity. Therefore marketers work to identify and partner with those whose character suggests they represent a low risk. Such due diligence can take a variety of forms, but one important element is scrutinizing the content of the athletes' social media posts—especially because social media is often a primary channel through which athletes will promote their brands.

To understand what companies look for in college athletes, we relied on observed behavior—the patterns that athletes who have been chosen for sponsorship by top companies exhibit in their social media posts. We identified 64 college athletes hired as influencers by the 100 companies with the best reputations according to the 2022 Axios Harris Poll. We then analyzed the Instagram posts of those athletes and identified 20 characteristics, including the number of followers, the number and pace of posts, whether posts were about the athlete's sport, whether posts were about the athlete or others, whether posts were sexualized, whether images were posed or candid, and so forth. Wherever possible, we used objective measures or established methods of assessing images.

Our analysis revealed five insights that may be useful as marketers consider their own best practices for sponsoring college athletes—and as college athletes produce social media content that may maximize their odds of receiving sponsorship offers.

High follower counts aren't essential. Perhaps surprisingly, few athletes sponsored by the top brands had a high number of followers compared with other types of influencers. Only 29% had more than 100,000 followers. In fact, 59% had fewer than 50,000 followers, 14% had from 2,000 to 5,000, and 3% had fewer than 2,000. Many athletes not chosen by the top brands have more followers than those who were chosen. Apparently, brands select athletes for the strength of their image: who they are and what they represent.

Jonathan Cotten is a leading franchisee of the Good Feet Store, a national retailer of arch supports. When he decided to sponsor college athletes as part of his company's marketing plan, he paid little attention to follower counts. Instead he sought "strong character" in someone he trusted would fit with the values of the company. To gauge character, Cotten and his executive team looked at players' social media posts, had conversations with players, and even talked to the parents of several athletes. While considering whether to spend money on college athlete influencers, Cotten decided that the biggest potential cost was not the payment to the athlete but the reputational risk if the athlete behaved in ways (whether during the sport or not) that reflected poorly on his brand. He eventually signed several University of Virginia athletes with little regard for the size of their followings: Yonta Vaughn, a women's basketball player, had fewer than 2,000 followers; Skylar Dahl, a rower, fewer than 1,300; and Isaac McKneely, a men's basketball player, fewer than 16,000.

When we asked Cotten why he was willing to choose influencers with relatively small followings, he said that when he and his team identify the right kind of athlete, they are willing to begin by promoting the relationship on the company's own social media platforms, rather than relying on the athlete's platform. They are betting that the influencer's following will grow over time. Our research indicates that Cotten is not alone in his thinking. If follower count was a priority for big brands, the profile of athletes chosen for sponsoring would be different.

It's not just football and basketball. Historically only football and men's basketball have generated substantial revenue, media exposure, and game attendance in the United States. An early effort to track NIL deals focused on those two sports, because it was assumed that marketers would concentrate on them when choosing sponsors. But the people chosen by the top 100 companies include athletes from golf, gymnastics, hockey, lacrosse, soccer, and other sports. In fact, about 50% of sponsored athletes came from sports other than football or men's basketball. Clearly, the value of an athlete's brand extends beyond the revenue associated with a sport. Consider Matthew Boling, a track-and-field athlete at the University of Georgia who partners with Dunkin' Donuts. Boling's social media posts include images of him in competition, training with teammates, and ordering Dunkin' coffee. Boling emphasizes excellence on and off the track—an attractive position for the company.

It's not about striking a pose. If you've spent time looking at college athletes' posts, you'll have seen that many of them share predominantly posed images. Often their feeds are filled with what look like professional modeling photos: The camera is aimed straight at the athlete, who is alone in the picture. In contrast, more than half the images posted by the athletes in our study are natural and unposed.

Consider Blake Corum, a running back on the 2023 national champion University of Michigan football team, who has worked with Subway (and a number of other brands not among the top 100). His social media is full of photos of him working out, playing football, talking in the middle of a team huddle, walking past Michigan fans, and so forth. More than 80% of the Instagram photos featuring Corum in our study were candid rather than posed. They make him appear more natural and authentic (and less self-centered) than others, and prior research indicates that audiences react more positively to candid photos than to posed ones in online contexts.

The mix of posts leans toward sports. Athletics are not everything in the life of a college athlete. And because most college athletes today have been active on Instagram and other social media platforms since their early teenage years, they've grown up posting both sports and nonsports content, such as photos from parties, concerts, milestones, or activities with friends. However, the athletes in our study have started to shift away from personal content and toward sports-oriented content in their Instagram accounts. That makes sense. The brands are choosing to pay them because of their involvement in sports. Among the Instagram images of college athletes with NIL deals, 48% featured sports content. The proportion of sports content goes up among college athletes who transition to the pros as well. Sixty-three percent of the postings of professional athletes sponsored by the top brands were sports-focused. It's not clear whether brands are encouraging this or the athletes are simply mimicking their peers. But the difference is striking—and when we speak with student athletes about shaping their own brands to appeal to corporate sponsors, we suggest that they emulate the pros and keep the ratio of sports to nonsports content high.

The chosen athletes avoid suggestive imagery. College students often post sexualized images of themselves. When we asked college athletes who post suggestive content why they do so, they said that such posts typically increase their followings; and in their view, gaining a lot of followers is the primary goal of their social media efforts. However, our research found that 85% of the athletes chosen as influencers by top brands never posted sexualized imagery or content. Among the 15% who did post such content, just two out of 21 photos, on average, were suggestive. That makes sense. Although brands hope that college athlete influencers will reach young audiences, the top brands are also targeting parents, grandparents, and others who may be put off by such content.

FOR BRANDS THAT are allocating marketing budgets to college athletes, the obvious question is, How well are those expenditures paying off? It's hard to say. Sports marketing's return on investment can be especially difficult to measure. (One of us, Kimberly, once oversaw the laundry brand Tide's partnership with NASCAR. She tried to quantify the return with a variety of methods, such as assigning value to stronger business relationships with retailers, with limited success.) That's compounded by the fact that NIL deals didn't even exist three years ago. But signing college athletes costs so much less than signing professional athletes that a good ROI seems likely—especially given the possibility of forging a long-lasting relationship with a potential Michael Jordan *before* the athlete reaches the pinnacle of his or her career. Future research will illuminate how to maximize a brand's odds of success with this new marketing channel.

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KIMBERLY A. WHITLER *is the Frank M. Sands Sr. Associate Professor of Business Administration at the University of Virginia's Darden School of Business and a coauthor of* Athlete Brands: How to Benefit from Your Name, Image & Likeness. **GRAHAM TWENTE** *is a former senior research manager at the Darden School of Business and currently a member of the data and analytics technology consulting staff at EY in Washington, DC.*

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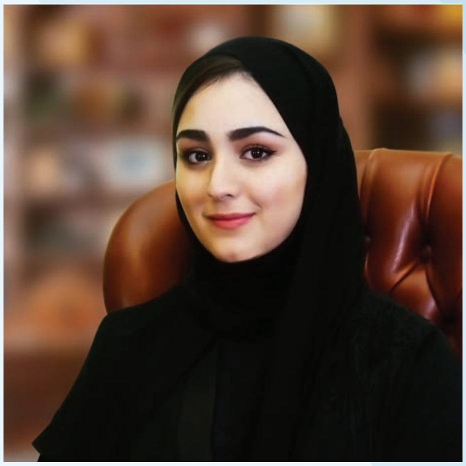
Al Faleh Educational Holding is a leading group that provides educational services of the highest quality in the state of Qatar. The Holding delivers a comprehensive portfolio of industry-led academic programmes and initiatives. The Holding became the first listed company to launch Qatar Venture Market in April 2021. Following the continued growth, the Holding successfully moved to the Main Market in January 2024.

Al Faleh is the first woman-led Qatari public shareholding company chaired by Dr Sheikha Aisha Bint Faleh Al Thani.

Forging a partnership with the University of Aberdeen, Al Faleh introduced the first British university offering undergraduate and postgraduate degrees within the State of Qatar. The University of Aberdeen is a 528-year-old Scottish university and consistently ranked within the top universities in the world.

Sheikha Aisha Bint Faleh Al Thani



Sheikha Anwar Bint Nawaf Al Thani

In recognition of its growth and the success, Sheikha Anwar Bint Nawaf Al Thani, Chief Executive Officer of Al Faleh Educational Holding, was featured in Forbes Magazine amongst the 100 most powerful businesswomen in the Middle East 2024. AFG College with the University of Aberdeen is set to move to a new $100 million purpose-built campus that will house a space dedicated to research.

“True transformation calls for breakthrough thinking and pushing beyond current practices.”

“TRANSFORMATIONS THAT WORK,” PAGE 86

Features

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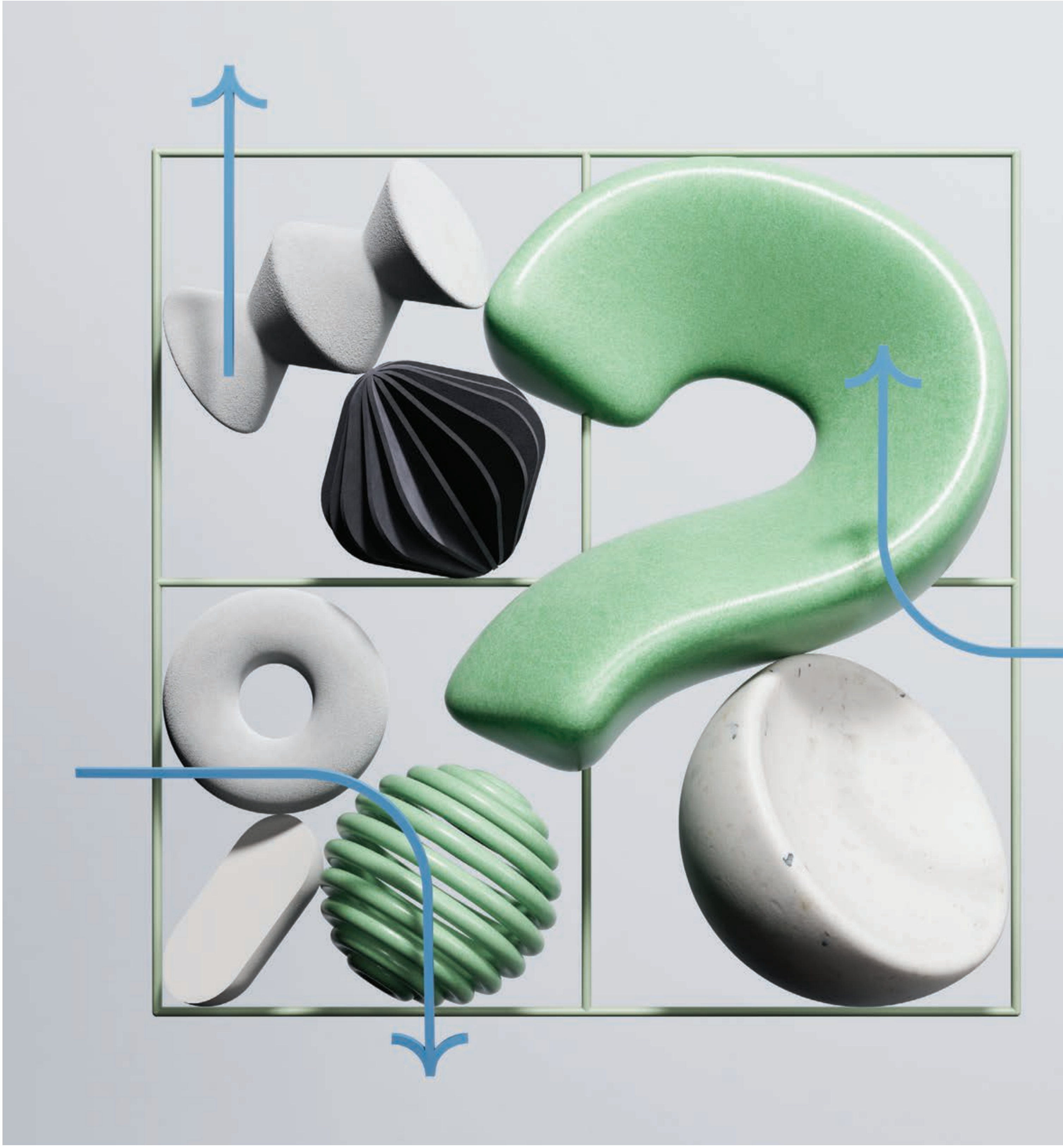

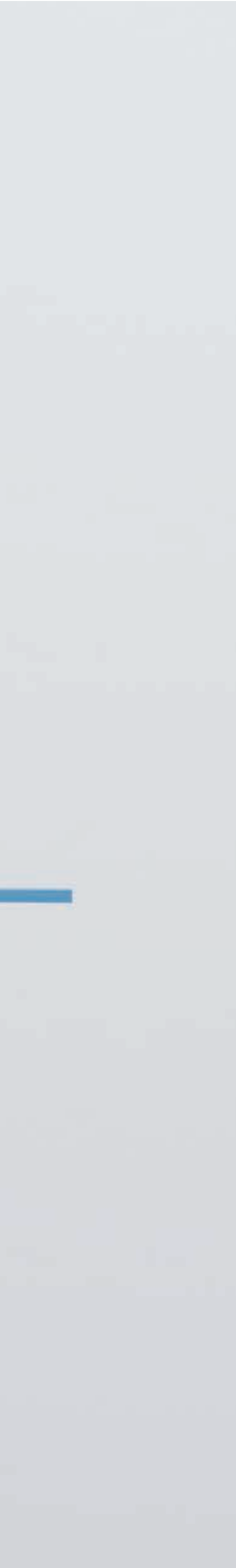

INTERPERSONAL SKILLS

The Art of Asking Smarter Questions

These five techniques can drive great strategic decision-making.

AUTHORS

Arnaud Chevallier
Professor, IMD Business School

Frédéric Dalsace
Professor, IMD Business School

Jean-Louis Barsoux
Term research professor, IMD Business School

ILLUSTRATOR
NÚRIA MADRID

IDEA IN BRIEF

THE SITUATION
With organizations of all sorts facing increased urgency and uncertainty, the ability to ask smart questions has become key. But business professionals aren't formally trained in that skill.

WHY IT'S SO CHALLENGING
Managers' expertise often blinds them to new ideas. And the flow of questions can be hard to process in real time, so certain concerns and insights may never be raised.

THE REMEDY
Strategic questions can be grouped into five domains: investigative, speculative, productive, interpretive, and subjective. By attending to each, leaders and teams are more likely to cover all the areas that need to be explored—and they'll surface information and options they might otherwise have missed.

As a cofounder and the CEO of the U.S. chipmaker Nvidia, Jensen Huang operates in a high-velocity industry requiring agile, innovative thinking.

Advances in AI have caused a seismic shift from a world in which answers were crucial to one in which questions are. The big differentiator is the ability to craft smart prompts.

Reflecting on how his leadership style has evolved, he told the *New York Times,* "I probably give fewer answers and I ask a lot more questions....It's almost possible now for me to go through a day and do nothing but ask questions." He continued, "Through probing, I help [my management team]... explore ideas that they didn't realize needed to be explored."

The urgency and unpredictability long faced by tech companies have spread to more-mature sectors, elevating inquiry as an essential skill. Advances in AI have caused a seismic shift from a world in which answers were crucial to one in which questions are. The big differentiator is no longer access to information but the ability to craft smart prompts. "As a leader, you don't have the answers; your workforce [does], your people [do]," Jane Fraser, Citi's CEO, told *Fortune* magazine. "That's completely changed how you have to lead an organization. You have to unleash the creativity....The innovation isn't happening because there's a genius at the top of the company that's coming up with the answers for everything."

Indeed, leaders have embraced the importance of listening, curiosity, learning, and humility—qualities critical to skillful interrogation. "Question-storming"—brainstorming for questions rather than answers—is now a creativity technique. But unlike lawyers, doctors, and psychologists, business leaders aren't formally trained on what kinds of questions to ask. They must learn as they go. (See "The Surprising Power of Questions," HBR, May–June 2018, among others.)

It's not a matter of asking lots of questions in hopes of eventually hitting on the right ones. Corinne Dauger, a former VP of creative development at Hermès, told us, "In a one-hour meeting, there are only so many questions you can ask....So where do you want to spend the time? When you're asking one question, you're not asking another." If any one line of questioning dominates, it inevitably crowds out others. Leaders must also watch for complacency, diminishing returns, avoidance of sensitive topics, and stubbornness.

In our research and consulting over the past decade, we've seen that certain kinds of questions have gained resonance across the business world. And in a three-year project we asked executives to question-storm about the decisions they've faced and the kinds of inquiry they've pursued. In this article we share what we've learned. We offer a practical framework for the types of questions to ask in strategic decision-making and a tool to help you assess your interrogatory style.

The Great Unasked Questions

Before we lay out our framework, we want to emphasize one point above all: The questions that get leaders and teams into trouble are often the ones they fail to ask. These are questions that don't come spontaneously; they require prompting and conscious effort. They may run counter to your and your team's individual or collective habits, preoccupations, and patterns of interaction.

The late scholar and business thinker Sumantra Ghoshal once said that leadership means making happen what otherwise would not. In the realm of inquiry a leader's job is to flush out information, insights, and alternatives, unearthing critical questions the team has overlooked. You don't need to come up with the missing questions yourself, but you do need to draw attention to neglected spheres of inquiry so that others can raise them.

All this is harder than it may sound, for two reasons. First, you may be hampered by your expertise. Your professional successes and deep experience may have skewed your approach to problem-solving. (See "Don't Be Blinded by Your Own Expertise," HBR, May–June 2019.) It can be hard to escape the gravitational pull of such conditioning unless you take a hard look at your question habits. Second, the flow and diversity of questions can be hard to process in real time, especially amid heated exchanges. Often it's only after the fact that you realize certain concerns or options were never raised.

Our research reveals that strategic questions can be grouped into five domains: *investigative, speculative, productive, interpretive,* and *subjective.* Each unlocks a different aspect of the decision-making process. Together they can help you tackle key issues that are all too easy to miss.

INVESTIGATIVE

What's Known?

When they are facing a problem or an opportunity, effective decision-makers start by clarifying their purpose—asking themselves what they want to achieve and what they need to learn to do so. The process can be fueled by using successive "Why?" questions, as in the "five whys" sequence devised by managers at Toyota. Successively asking "How?"

can also help you transcend generic solutions and develop more-sophisticated alternatives. Investigative questions dig ever deeper to generate nonobvious information. The most common mistake is failing to go deep enough.

It sounds like a straightforward process, but lapses are surprisingly common. In 2014 a failure of investigation led a team at the French rail operator SNCF to neglect an essential piece of data during its €15 billion purchase of 1,860 regional trains. No one thought to ask whether the platform measurements were universal. They weren't. The trains proved too wide for 1,300 older stations—a mistake that cost €50 million to fix. The Spanish train operator Renfe discovered a similar oversight in 2021: The 31 state-of-the-art commuter trains it had ordered were too big to pass through some tunnels in the mountainous areas they were meant to serve. The problem was detected before the trains were built, but delivery was significantly delayed.

SPECULATIVE

What If?

Whereas investigative questions help you identify and analyze a problem in depth, speculative questions help you consider it more broadly. To reframe the problem or explore more-creative solutions, leaders must ask things like "What if…?" and "What else…?" The global design company IDEO popularized this approach. It systematically uses the prompt "How might we…?"—coined by Min Basadur when he was a young manager at P&G—to overcome limiting assumptions and jump-start creative problem-solving.

Consider how Emirates Team New Zealand's innovative catamaran won international sport's oldest extant trophy, the America's Cup, in 2017. Crew members pedaled stationary bikes to generate power for the vessel's hydraulic systems rather than turning handles, as was customary. Many observers assumed that the breakthrough question had been "What if we used leg power instead of arm power?" That wasn't a new suggestion, however. Other competitors had considered and rejected the idea, unwilling to hamper crew members' ability to move around the boat. One team had even tried it.

The team from New Zealand went a step further, asking, "What else could a pedal system allow?" It could free up crew members' hands, the team realized, and the boat's hydraulic systems could then be operated with handlebar controls. That distributed the crew's roles more evenly and allowed multiple maneuvers to be executed quickly. The boat could be sailed more precisely and aggressively, leading to an upset win over Oracle Team USA.

PRODUCTIVE

Now What?

Productive questions help you assess the availability of talent, capabilities, time, and other resources. They influence the speed of decision-making, the introduction of initiatives, and the pace of growth.

In the 1990s the CEO of AlliedSignal, Larry Bossidy, famously integrated a focus on execution into his company's culture. He insisted on rigorously questioning and rethinking the various hows of executing on strategy: "How can we get it done?" "How will we synchronize our actions?" "How will we measure progress?" and so on. Such questions can help you identify key metrics and milestones—along with possible bottlenecks—to align your people and projects and keep your plans on track. They will expose risks, including strains on the organization's capacity.

The top team at Lego neglected productive questions when responding to the rise of digital toys in the early 2000s. The toymaker tried to diversify its way out of trouble, introducing several products in rapid succession. The initiatives themselves weren't necessarily misguided, but each meant a stretch into an adjacent area, such as software (LEGO Movie Maker), learning concepts (LEGO Education), or clothing (LEGO Wear). Collectively they far exceeded the company's bandwidth, and Lego suffered record losses in 2003. The following year the incoming CEO, Jørgen Vig Knudstorp, shared his diagnosis of the problem with the board: "Rather than doing one adjacency every three to five years, we did three to five adjacencies every year." He later told the MIT professor David Robertson, "Suddenly we had to manage a lot of businesses that we just didn't understand. We didn't have the capabilities, and we couldn't keep up the pace."

INTERPRETIVE

So, What…?

Interpretive questions—sensemaking questions—enable synthesis. They push you to continually redefine the core issue—to go beneath the surface and ask, "What is this problem really about?" Natural follow-ups to investigative, speculative, and productive questions, interpretive questions draw out the implications of an observation or an idea. After an investigative question, you might ask, "So, what happens if this trend

Investigative questions dig ever deeper to generate nonobvious information. The most common mistake is failing to go deep enough.

continues?" After a speculative question, "So, what opportunities does that idea open up?" After a productive question, "So, what does that imply for scaling up or sequencing?"

Interpretive questions come in other forms, too: "What did we learn from this?" "How is that useful?" "Are these the right questions to ask?" In an interview on *The Tim Ferriss Show,* Daniel Ek reflected on what he considered his chief role as the CEO of Spotify: "It's almost always back to purpose—like, Why are we doing things? Why does it matter? How does this ladder up to the mission?"

A decision-making process should always circle back to interpretive questions. They provide the momentum to move from one mode of inquiry to another, and they convert information into actionable insight. Even solid analyses are ineffectual if you fail to make sense of them. Ten years ago we worked with the top team at a high-end European car manufacturer. When we brought up Tesla's recently released all-electric sedan, some of the engineers laughed. "There's a seven-millimeter gap between the door and the chassis," one said. "These people don't know how to make a car."

That was a serious error of sensemaking. By focusing on a technical imperfection, the automaker failed to spot the car's revolutionary appeal and missed the urgent competitive questions it should have raised.

SUBJECTIVE

What's Unsaid?

The final category of questions differs from all the others. Whereas they deal with the substance of a challenge, it deals with the personal reservations, frustrations, tensions, and hidden agendas that can push decision-making off course. Volocopter's CEO, Dirk Hoke, once told us, "When we fail, it's often because we haven't considered the emotional part."

The notion of people issues as a competitive advantage gained prominence in the aviation industry in the early 1980s. Herb Kelleher, then the CEO of Southwest Airlines, recognized that the customer experience could be dramatically improved by putting employees first and empowering them to treat people right. SAS's CEO, Jan Carlzon, transformed the Scandinavian airline by "inverting the pyramid" to support customer-facing staffers in "moments of truth." (See "The Work of Leadership," HBR, December 2001.) In both cases the

What's Your Question Mix?

The questions below are taken from the self-assessment we use with executives and their teams. Our wording here is very direct to avoid ambiguity, but you'll want to be more diplomatic in practice. Reflect on the five sets of questions and think about which ones come most naturally to you and which feel less comfortable, rating them on a scale of 1 (not part of my repertoire) to 5 (one of my go-tos). Compare the totals for each section and focus your attention on the lowest-scoring sets.

Investigative

What happened?	1 2 3 4 5
What is and isn't working?	1 2 3 4 5
What are the causes of the problem?	1 2 3 4 5
How feasible and desirable is each option?	1 2 3 4 5
What evidence supports our proposed plan?	1 2 3 4 5
TOTAL	______

Speculative

What other scenarios might exist?	1 2 3 4 5
Could we do this differently?	1 2 3 4 5
What else might we propose?	1 2 3 4 5
What can we simplify, combine, modify, reverse, or eliminate?	1 2 3 4 5
What potential solutions have we not considered?	1 2 3 4 5
TOTAL	______

Productive

What is the next step?	1 2 3 4 5
What do we need to achieve before taking it?	1 2 3 4 5
Do we have the resources to move ahead?	1 2 3 4 5
Do we know enough to proceed?	1 2 3 4 5
Are we ready to decide?	1 2 3 4 5
TOTAL	______

Interpretive

What did we learn from this new information?	1 2 3 4 5
What does it mean for our present and future actions?	1 2 3 4 5
What should be our overarching goal?	1 2 3 4 5
How does this fit with that goal?	1 2 3 4 5
What are we trying to achieve?	1 2 3 4 5
TOTAL	______

Subjective

How do you really feel about this decision?	1 2 3 4 5
What aspect of it most concerns you?	1 2 3 4 5
Are there differences between what was said, what was heard, and what was meant?	1 2 3 4 5
Have we consulted the right people?	1 2 3 4 5
Are all stakeholders genuinely aligned?	1 2 3 4 5
TOTAL	______

> Team members may fail to share misgivings simply because no one else is doing so—a social dynamic known as *pluralistic ignorance.*

role of managers became to coach and support—not monitor and control—frontline staff. They learned to ask their *internal* customers, "How can I help?"

If you neglect this mode of questioning or fail to push hard enough in it, your proposed solution might be undone by subjective reactions even though your analysis, insights, and plans are sound. British Airways is a cautionary example. In 1997 it was the world's leading carrier of international passengers, but surveys showed that it was viewed as staid and stuffy. So CEO Robert Ayling and his team decided to boost the airline's global image by replacing the British colors on the planes' tail fins with ethnic designs by artists from around the world.

The designs were visually striking, but the top team badly misgauged employees' and customers' emotional reactions. The staff was distressed that a £60 million rebrand had been undertaken amid ongoing cost-saving measures. British business travelers—the airline's core customers—were strongly attached to the national branding and antagonized by its removal. And as if to underline the error, Virgin CEO Richard Branson announced that his planes would proudly "fly the flag." BA's new designs were withdrawn two years later, and the misjudgment contributed to Ayling's ouster.

Team members may be reluctant to explore emotional issues unless the leader provides encouragement and a safe space for discussion. They may fail to share misgivings simply because no one else is doing so—a social dynamic known as *pluralistic ignorance.* Leaders must invite dissenting views and encourage doubters to share their concerns.

Balancing Your Question Mix

We created a tool to help people assess their questioning styles and gave it to 1,200 global executives. Although the combined results showed an even distribution among the five styles we've described, individual answers revealed major imbalances. One category or another was barely on the radar of more than a third of the executives. And follow-up interviews showed that many leaders were overly attached to the types of questions that had brought them success. They relied on those at the expense of other kinds of inquiries.

Assess your current question style. Self-awareness is an essential first step, of course, toward correcting or compensating for weaknesses. For insight into your questioning preferences and habits, you can take an abridged version of our self-assessment (see the sidebar "What's Your Question Mix?"). After you've identified your strong points and weaknesses, three tactics can improve your mix. You can adjust your repertoire of questions; change your emphasis to reflect evolving needs; and surround yourself with people who compensate for your blind spots.

Adjust your repertoire. Having established which types of questions you are most and least comfortable asking, you need to create a better balance. One way to begin is to remind yourself of the five categories before your next decision-making meeting and ensure that you're considering all of them. The CHRO at a large tech company we worked with had us display the framework throughout an important company program.

You can also try out questions from your weak or missing categories in a few low-stakes situations. That will help you understand how things you're not accustomed to asking can open up a discussion. Steven Baert, a former chief people and organization officer at Novartis, described his process on *The Curious Advantage* podcast. "Previously [I focused on] listening to fix," he told the host. "'You have a problem. I need a few points of data from you so I can solve the problem.' [But now] I'm practicing listening to learn."

There's another step involved in adjusting your repertoire: You may need to discard some types of questions that served you well in the past. This point was captured in a *Financial Times* profile of Erick Brimen, CEO of the investment group NeWay Capital, who describes himself as a stubborn, goal-oriented micromanager. "The lesson I've been learning," he said, "is to let go of the 'how to get there' and to focus on 'where we are going.'"

Change your emphasis. Your question mix is a moving target, especially if you're now in a new role, company, or industry. As you take on bigger responsibilities, for instance, you'll face increasingly complex challenges, not just because they have more components but also because you're allowed to take larger leaps. Reflecting on her own trajectory, Patricia Corsi, the chief marketing, digital, and information officer at Bayer Consumer Health, told us, "As your career progresses, you're offered riskier moves, into jobs you've never done, domains you don't know, and

challenges you've never experienced....[People] gamble on your ability to ask the questions that will help you learn."

With every job change, you face a challenge to adapt. The question mix that previously worked for you and helped you land your new role might now lead you astray. We spoke with Larry Dominique when he was adjusting to his new position as the SVP and head of Alfa Romeo and Fiat North America. "Drawing on my experience as an engineer, I'll go deeper into costs, resources-management efficiency, and customer satisfaction," he told us. But he recognized the danger of playing only to his established strengths: "I have to remind myself that my real value as a leader is to provide the big picture and to move beyond the questions that are comfortable for me."

Find others who can compensate. As previously noted, you don't need to come up with all the questions yourself; it should be a team effort. José Muñoz, the global president and COO of Hyundai Motor Company, sometimes delegates the questioner role. "The person who asks the question should be the one who's best equipped," he told us. "As the boss, I might invite someone on my team to continue a line of questioning." After completing his self-assessment, Robert Jasiński, then the managing director of Danone in Romania, said, "I'll pay more attention to what I value the least [the speculative category]. And if someone on my team is a good creative thinker, I'll do a better job of listening to what they have to say."

As a leader, you're responsible for noticing missing perspectives and giving people a chance to contribute. Gilles Morel, the president of Whirlpool Europe, Middle East, and Africa, told us, "I need to make space for the people who aren't like me to ask these questions that I'm not good at asking." But getting everyone to contribute may not be easy. A change of leadership style to a more inquisitive approach can feel threatening. And the same query may elicit either vital input or defensiveness, depending on how it's phrased. One HR specialist finds that "Why?" questions sometimes trigger resistance and that a simple change to "How come...?" gets better results. David Loew, CEO of the biopharmaceutical company Ipsen, told us, "If you start asking closed or loaded questions, such as 'Why have you done it like this?,' it can feel like a police interrogation. That creates an unsafe space, and unease spreads to the rest of the team."

At least as important as the words used are the perceived attitude and intention of the questioner. The question "Is everyone OK with that?," for example, can be heard as either a genuine invitation to share reservations or an attempt to shut down the discussion. "When I ask searching questions, I make it clear that it's OK if you don't have an answer, or if you don't have one right away," Charles Bouaziz, CEO of the medical technology group MTD, told us. "Your tone often matters more than the question. People sometimes assume you're testing them." Problems of interpretation are exacerbated in virtual meetings, where intention is harder to assess; you can't be sure how your question has landed. "Without the full body cues of in-person meetings, leaders have to lean even more strongly into asking the right questions, and listening for misunderstandings or trigger points," Lisa Curtis, the founder and CEO of Kuli Kuli Foods, wrote in *Inc.* magazine.

You'll need to educate your team about the various kinds of questions and the importance of attending to all of them. Some of the most successful executives we know always start conversations with new people by creating a safe space and demonstrating openness and vulnerability. They operate in what Marilee Adams, the author of *Change Your Questions, Change Your Life* and the founder of the Inquiry Institute, calls "learner mode," as opposed to "judger mode." The former is expansive and focuses on assumptions, possibilities, solutions, and meaningful action. The latter is reactive and shortsighted and focuses on discovering who's to blame.

But even when the entire team contributes, there's no guarantee that all five kinds of questions will be covered, especially in high-stress situations. Team members may have a shared blind spot. If that's the case, try assigning one question type to each member—at least until the group's collective repertoire is reasonably well balanced.

To Gilles Morel, the end goal is clear. "I want to create a questioning muscle within the team," he has said. "I need to set the stage so that my curiosity is amplified by the curiosity of others. Their questions should stimulate my questions." His remarks echo Jensen Huang's belief that leadership involves "getting everybody to ask and answer questions."

BY PINPOINTING THE strengths and weaknesses in your interrogatory styles and considering the five types of questions we've outlined, you and your team can make smarter strategic decisions. You'll be more likely to cover all the critical areas that need to be explored—and you'll surface information, insights, and options you might otherwise have missed.

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ARNAUD CHEVALLIER *is a professor of strategy at IMD Business School, where* **FRÉDÉRIC DALSACE** *is a professor of marketing and strategy and* **JEAN-LOUIS BARSOUX** *is a term research professor.*

TALENT MANAGEMENT

PHOTOGRAPHER XAN PADRÓN

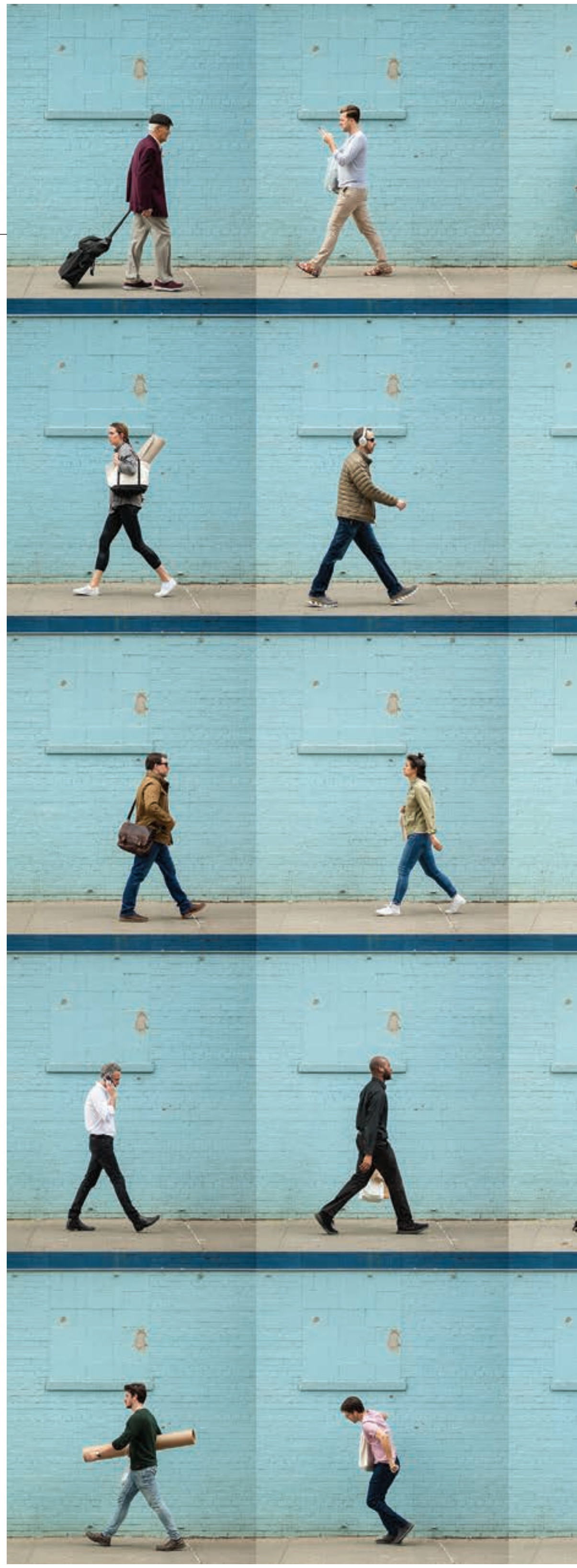
Highly Skilled Professionals Want Your *Work** But Not Your *Job*

Freelancers are in huge demand today, and they know it. It's time for new rules of engagement.

AUTHORS

Diane Gherson
Senior adviser, Boston Consulting Group

Lynda Gratton
Professor, London Business School



IDEA IN BRIEF

THE CHALLENGE

As highly skilled professionals increasingly choose freelance work over in-house employment, companies are struggling to recruit and retain the talent they need to transform their offerings, processes, and infrastructures.

THE IMPLICATION

A new model for how work gets done is taking hold, one that blends in-house and freelance talent. In particular, the role of the manager is changing, along with the skills needed to respond to the very different needs, goals, and interests of these two groups.

THE LESSONS

This article looks at successful efforts to manage the blended workforce at companies such as Microsoft, M&C Saatchi, and Mars and lays out some of the most helpful lessons they have learned.

ABOUT THE ART
Xan Padrón's series Time Lapse *combines individual photographs to create a larger portrait of all the movement and changes that happen in even the smallest corners of a city.*

Marta, the CTO at a sporting goods company, scans her operating metrics and flinches at the continued "red" status of her team's technical capability.

The board is concerned that upstart competition is nibbling away at market share, so Marta is under intense pressure to help the company move faster to market by implementing more-sophisticated digital and conversational AI capabilities. But her in-house talent lacks the deep expertise and experience necessary to transform the company's offerings, processes, and data and security infrastructures, and her recruitment team has been unable to pry away top professionals from tech firms, despite making generous offers.

Taking stock, Marta (a composite character we've drawn from numerous interviews) reluctantly acknowledges that she needs to tap the freelancer market. She recognizes that this is not a stopgap measure and that a major shift in how work gets done is underway. But she has qualms. How can she properly prepare her team for the issues this new blended workforce will unleash?

At almost every company we talk with, managers are facing the same recruiting challenge. They simply do not have the talent they need in-house, and they're unable to persuade highly skilled professionals to come on board full-time. As a result, companies are embracing the freelance model more than ever before. "To stay competitive in our manufacturing, digital, and veterinary services," says Michele Cefola, the global vice president of talent acquisition at Mars, "we must continually attract people with the latest skill sets." This is particularly true for tech and digital experts, her colleague Jeremy Andrulis, the vice president of talent, told us. "And people with the most sought-after skills are more than likely to be freelancers." He went on to explain why this works for Mars: "Freelancers tend to jump from one project to another. That's essentially what we're paying for—their accumulated experiences and the fresh external perspectives they bring."

Peter Fasolo, the chief human resources officer (CHRO) at Johnson & Johnson, also remarked on the change in worker preferences: "Without question, there has been a huge shift. Many of the individuals we're looking to attract—in technology, data sciences, machine learning, blockchain, and the internet of things—have a different mindset now. They want more-flexible working arrangements."

Talented workers have sought flexible work for some time, but it's only recently that the downsides traditionally involved in freelancing have been addressed. Independent work used to be an unreliable source of income that was heavily dependent on personal networks, but today job-matching platforms—such as Upwork and Fiverr—can instantly match highly skilled candidates with employers' needs. Some platforms are hyperspecialized, such as A.team and People Analytics, which serve engineers and data scientists. Technology also now provides administrative and other support to independent workers, whether it's virtual fractional accountants, tax apps, or AI for managing email and calendars.

Today at least 36% of the U.S. workforce has chosen to work as contract, freelance, temporary, or gig workers, according to an extensive study conducted by McKinsey in 2022. Upwork's December 2023 study of 3,000 professionals put the number at 38%, or 64 million workers. Of these, one-third were earning more than $150,000 a year, and just over half were providing knowledge services—such as computer programming, marketing, IT, and business consulting. Significantly, 52% of Gen Z workers and 43% of Millennials were freelancers in 2023. And the shift is catching on globally: Gartner predicts that independent workers will make up 35% to 40% of the global workforce by 2025.

TALENT MANAGEMENT

Integrating and managing what we call the "blended workforce" will be one of the main managerial challenges in the years ahead. We've recently interviewed executives at leading companies that are experimenting with how best to bring freelancers into their organizations. In this article, we'll lay out some of the most helpful lessons they've learned and what all this bodes for the future of the enterprise.

THE CHALLENGES OF A BLENDED WORKFORCE

Let's return to Marta as she wrestles with her concerns about hiring freelancers for her digital and AI projects. She and her team have worked hard to create a culture of inclusion, collaboration, ownership, and continuous learning. Will skilled freelancers live by these values and help maintain this culture? A colleague recently told her that a freelancer at his company took screenshots of an internal CEO video and posted them online. "It felt like an onlooker eavesdropping on our family dinner conversation and posting our squabbles," the colleague said. And what of skills transfer? How will Marta avoid developing a problematic dependence on outside talent over time—and how can she make sure her own employees' skills don't atrophy?

Marta is also concerned about her ability to manage freelancers without the formal authority over employees that is traditionally invested in company managers. She recognizes that managing freelance workers will require a different set of skills; they're specialists, after all, and she'll need to evaluate them strictly on project deliverables, rather than on their contribution to overall performance. She also knows that she can't rely on the (often unspoken) leverage of pay increases or enhanced career opportunities to motivate them and manage their performance.

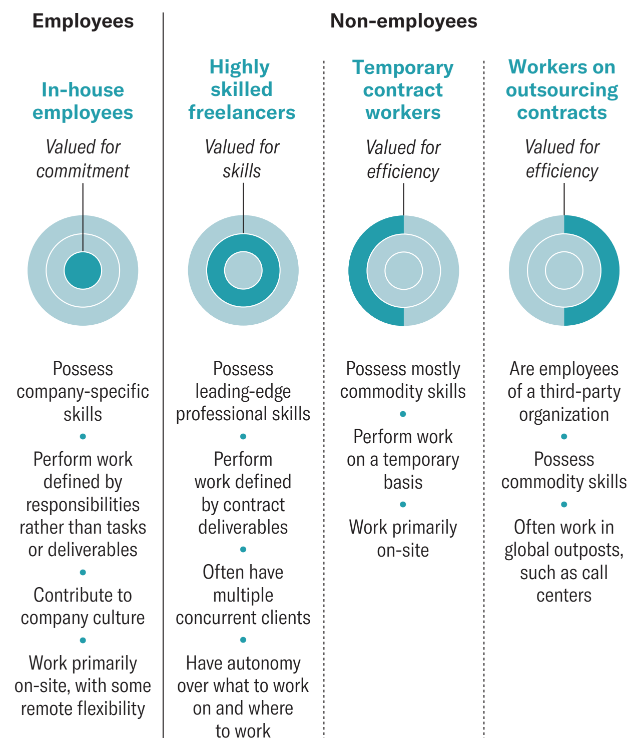
Finally, Marta wonders if her full-time team members will stay committed once they see the autonomy granted to freelancers, who can more easily decline extra work or inconvenient demands. How will they react, say, to a freelancer calling in to join a team stand-up that they've been told they must attend in person? How will they feel when freelancers are given a pass on pitching in when crises arise? How will Marta keep everyone in various work arrangements appropriately engaged?

EMERGING MANAGEMENT PRACTICES

Many of the leaders we talked with initially tried to manage freelancers the same way they've long managed other temporary workers: by relying on a contract agency for staffing and then maintaining a transactional relationship with the workers that focused on specific deliverables, with minimal investment by the company in developing an emotional connection with them. But they soon learned that force-fitting the model they use for temporary staff needs doesn't work well for freelancers. That's not surprising. The role of traditional contractors is staff augmentation: They add capacity on a temporary basis and perform outsourced, noncore work as employees of a third party. But when the purpose is not augmentation but innovation, firms need a different approach—one that fully integrates expert freelancers into a highly cohesive team. (See the exhibit "The Emerging Blended Workforce.") To that end, forward-looking companies are starting to develop new practices.

The Emerging Blended Workforce

Increasingly, the new workforce will consist of an inner circle of employees and outer circles composed of a range of independent workers. Each group has different attributes and contributes to the organization in different ways.



J&J's purpose, values, and credo critically shape how work is done, so the company gives freelancers the same in-depth introduction that it gives to employees.

They help freelancers understand and embrace company culture. Options abound for how to do this. Johnson & Johnson, for example, recognizes that its purpose, values, and credo critically shape how employees interact and how work is done, so the company gives freelancers the same in-depth introduction that it gives to employees. The software giant Salesforce onboards employees and freelancers together using its Culture in a Box process, which asks workers to commit to one another and to their deliverables as a team. Freelancers receive in-depth training on company values and work processes, including the disciplined use of project tools to manage workflows and facilitate communication.

At the M&C Saatchi Group, where one business has been experimenting with staffing all nonmanagement positions with freelancers, the introduction to company culture starts even earlier—at the interview stage. Mark Dickinson-Keen, the company's chief people officer, told us, "The majority of the interview time is spent sharing how our freelance model works, helping them understand what they can expect from the business, and checking that they are truly ready to work in this way. It is very much a two-way process."

They follow rigorous practices to retain institutional knowledge. A common concern with hiring freelancers is that when they leave, they'll take the valuable skills and knowledge they've accumulated with them. Companies are handling this in several ways: by engaging in disciplined project-hygiene practices, using shared project-management tools (such as Asana, Moovila, or Smartsheet), and assigning full-time employees to take responsibility for end-to-end critical project deliverables. In some highly digitized workplaces, such as at J&J, the internal knowledge-management systems are facilitated by AI, enabling skills transfer and corporate knowledge management without the need for extra process steps or human effort. "We try to ensure that all the data sits in what we call the 'operating room,'" says Fasolo. "It's a digital workspace where we can track critical project data in one place. It's visible to everyone—employees and freelancers—and managers can observe the flow of work and intervene to adjust workloads, reprioritize tasks, and solve bottlenecks in real time."

Where skills transfer is of lesser concern, companies can adopt a complementary workforce strategy: In-house employees develop generalist skills and are augmented on an as-needed basis by highly specialized freelancers. At Mars, freelancers return periodically to conduct tune-ups on the products and services they helped develop.

They adopt a "sponsor" mindset to guide freelancers' performance. Managers know that it's critical to provide their employees with feedback and help them progress in their careers while motivating them to contribute to company performance. When it comes to freelancers, though, managers should take a different tack, focusing on shaping challenging work assignments and creating an environment that allows freelancers to meet their professional goals during their stints with the company. Roshni Haywood, the global head of HR at HSBC Digital Business Services, told us, "A key motivator for skilled freelancers to join us is the opportunity to work on a major digital transformation at a legacy bank."

At J&J, the role of "sponsor" is formally defined, with a specific job description and a training program. The role differs from the supervisory relationship that a manager has with in-house employees: It is designed to forge a bond between the freelancer and the company and is aligned with the local legal and regulatory frameworks for independent work. Sponsors acknowledge freelancers' desire to work autonomously and to gain a range of experiences. "Sponsors ensure that the freelancers are not only executing their tasks," Fasolo told us, "but are also advancing their broader professional development. We ask our freelancers to share their aspirations, and we support them in their journey. We believe that if we are their partner in the advancement of their professional development, everybody wins."

They leverage digital workflows and build trust to manage changes in project needs. One dilemma with bringing in freelancers is that although their work is determined by a fixed contract, a company's project needs will inevitably change. Saatchi resolves this issue with digital workflows. Dickinson-Keen describes it this way: "First, we redesigned the operational processes of how work gets done; then we rebuilt the workflow system to have more of a real-time pulse on what everyone's doing. It sounds controlling, but it's smart workflow management." This enables Saatchi to have more visibility into how the workload and hours are distributed. "To digitize workflow, we have to quantify tasks and streamline operational workflows," he adds. "It requires strong management of time and output daily."

A Fragile Equilibrium

As highly skilled freelancers are increasingly integrated into the core of the workforce, managers will need to understand how their capabilities, needs, and ambitions complement—and diverge from—those of in-house employees.

	HIGHLY SKILLED FREELANCERS	EMPLOYEES
What workers value most	• New experiences • Autonomy • Flexibility • Learning • Variety	• Steady and satisfying work • Belonging and inclusion • Professional relationships • Benefits • Upward mobility
What companies need from them	• Specific project deliverables • Cutting-edge expertise • Diverse cross-industry experience • Adherence to company values	• Ability to adapt to diverse and changing business demands • Availability in times of crisis • Dedication to sustaining company culture • Commitment to continuous upskilling

When freelancers are working on multiple projects at different companies simultaneously, as they often are, it can be tricky for managers to gauge their availability and bandwidth. Delegation and traditional control mechanisms are off-limits for freelancers, so managers must invest in mutual trust building. Employers need to trust that their freelancers will tell them if they are occupied with another significant project, and workers should be able to trust that they'll be informed in advance if projects are accelerated or put on hold. As Dickinson-Keen told us, "It's not about controlling the worker's time or choices but understanding and managing expectations. It's about keeping commitments and ensuring both parties are aware of the work availability."

As more work devolves from fixed jobs into a series of projects, managers are applying this approach even when working with full-time employees. For example, the introduction of internal talent marketplaces for project gigs enables full-time employees to fluidly move into roles that tap their skills and experience while still formally reporting to their people managers. As we wrote in "Managers Can't Do It All" (HBR, March–April 2022), at some companies, especially those using agile methods, managers no longer "own" the in-house talent but instead are project managers—scoping and budgeting a project, determining skills requirements, and contracting with workers for their time and energy.

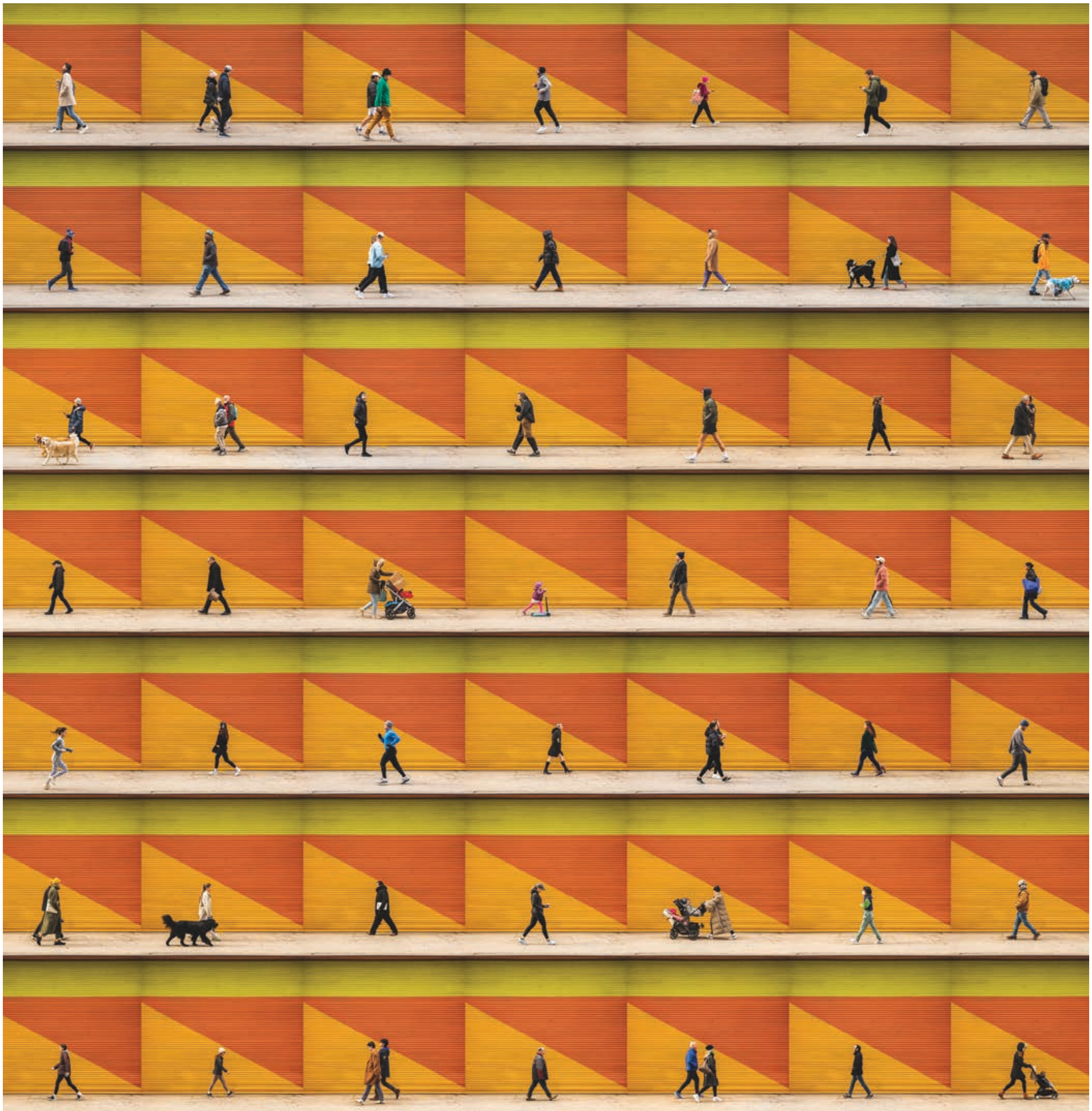
WHAT DOES THIS MEAN FOR IN-HOUSE EMPLOYEES?

The influx of skilled freelancers into the workplace is a phenomenon in gestation, but at the moment, we've arrived at an equilibrium. Both freelancers and employees have a deal that matches their preferences. Employees get the stability of a job, relationships at work, a sense of belonging, the promise of upward mobility, and benefits. For their part, skilled freelancers can earn six-figure incomes while working when they wish, without the hassles of a commute, dealing with a difficult boss, navigating bureaucracy, or taking on less-than-fulfilling work.

But this equilibrium is increasingly fragile, with much riding on the continued engagement and performance of in-house employees. Those workers bear the brunt of jumping in when the unexpected happens. More than ever, employers count on them to keep the business running smoothly and do the right thing to achieve the outcomes the company needs. In-house employees are prized as much for their willingness to show up and pitch in as they are for their skills. (Indeed, already 71% of employees say that their job description no longer matches the work they're actually doing, and 24% say their organizations have begun to drop job titles.)

This is happening at a time when employees are demanding more and tolerating less. A 2023 HP study of 15,600 workers in 12 countries found that expectations have changed dramatically since the pandemic. In particular, organizations will need to address unhealthy relationships at work in order to retain valued employees. For example, 83% of employees said they would take a pay cut to be happier at work. According to a 2023 study by the American Psychological Association, 64% of U.S. employees characterize their workplaces as "toxic," citing behavior such as disrespectful and noninclusive treatment. This is often missed in company engagement surveys that focus on aggregate scores covering a range of topics such as pride in and connection with the company and satisfaction with management and employee programs. In 2022, Microsoft decided to abandon its annual "engagement"

The focus on well-being is part of a shift away from industrial-era policies and toward more flexibility in time and place of work and better employee benefits.



TALENT MANAGEMENT

survey when managers realized that it consistently generated very positive feedback despite reports that employee well-being was suffering in some areas. They decided to dig deeper into areas where people were clearly struggling. Their more frequent survey measures how much employees are "thriving," which they define as "being energized and empowered to do meaningful work."

This focus on well-being is part of a shift away from industrial-era policies and toward more flexibility in time and place of work and better employee benefits. Recent examples of such enhancements include sabbaticals, expanded bereavement and family leave, four-day work weeks, and paid time off for volunteerism.

Employees are also demanding that their companies demonstrate alignment, in word and in deed, with their personal social and environmental concerns. Increasingly, they are making career choices based on those criteria. According to a 2022 IBM survey, more than two-thirds of employees said they would be more likely to apply for and accept a job with an organization that they considered to be environmentally conscious. Nearly half of respondents (48%) also said they'd be willing to accept a lower salary from an organization that they perceived as environmentally sustainable. In ways that could not have been predicted even two decades ago, many companies are now working hard to show how they are serving a higher purpose.

Looking ahead, we see two key challenges for companies. First, as newer generations increasingly choose freelance work, they may put the full-time employment model at risk. Research shows that the primary downside for freelancers is the lack of employee benefits, but at 38% of the U.S. workforce, freelancers are capable of exercising their considerable voting power to push for improvements in social benefits, among them universal health care as an alternative to the employer-sponsored model. If companies do not substantially enhance the in-house offer in response to such changes, the full-time employment model may start to crumble.

Second, companies may also be in danger of developing a concentration of risk-averse individuals in their in-house workforces. A lot of the employees who choose full-time employment do so because they like the security of benefits and steady work. That does not bode well for the quality of the in-house leadership pipeline. Perhaps the Saatchi experiment of hiring only freelancers for nonmanagerial roles is a harbinger of the future: With an eye toward attracting people with an entrepreneurial mindset, that business unit offers in-house managers a profit-sharing program.

WHERE DOES ALL this leave Marta? To start, she makes it a priority to upskill her current managers so that they can better handle a blended workforce. She develops a manager playbook and a training program that ensure that employment laws are observed and that teams comprising both employees and freelancers are engaged and working well. She knows this won't be easy. She acknowledges that many employees are increasingly reluctant to be available on demand, and she still has managers who lead through "command and control," especially when a project is under stress.

Marta decides to enlist her management team to create an initiative to address those issues. Working with HR, the team identifies pain points in the workplace and comes up with ways to keep core employees motivated, especially now that they are working side by side with freelancers who have full autonomy, great flexibility, and higher pay. First steps include improved time-off policies, a clearer flexible-work framework, core collaboration hours, and a more generous recognition program for in-house employees. The team looks at creative compensation arrangements to bolster employees' incentive to deliver needed business outcomes. Marta also establishes a "give back" day each quarter at local high schools to strengthen employees' connection with the company's sports and fitness purpose and to nourish their desire to make a societal impact.

She recognizes that none of her efforts will bear fruit in a toxic work environment. She decides to publish the results of her department's employee-sentiment survey. She adjusts key performance indicators to hold her managers accountable for the climate in their units and looks into AI-powered tools to help managers detect patterns indicative of low psychological safety and to pinpoint and address negative or harmful behaviors.

It will take time for Marta—and all of us—to navigate this new terrain. For now, we've entered a period of profound reassessment in which smart companies must rethink the role and skills of the manager—and how organizations address the demands of the modern workplace.

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DIANE GHERSON *is the former chief human resources officer of IBM, a director of Kraft Heinz, and a senior adviser at Boston Consulting Group.* **LYNDA GRATTON** *is a professor of management practice at London Business School and the founder of HSM Advisory, a future-of-work research consultancy. Her most recent book is* Redesigning Work: How to Transform Your Organization and Make Hybrid Work for Everyone *(Penguin Business, 2022).*

ORGANIZATIONAL TRANSFORMATION

Transformations

AUTHORS

Michael Mankins
Partner, Bain & Company

Patrick Litre
Partner, Bain & Company

That Work

Lessons from companies that are defying the odds

PHOTOGRAPHER **RICK SALAFIA**

ORGANIZATIONAL TRANSFORMATION

IDEA IN BRIEF

THE PROBLEM

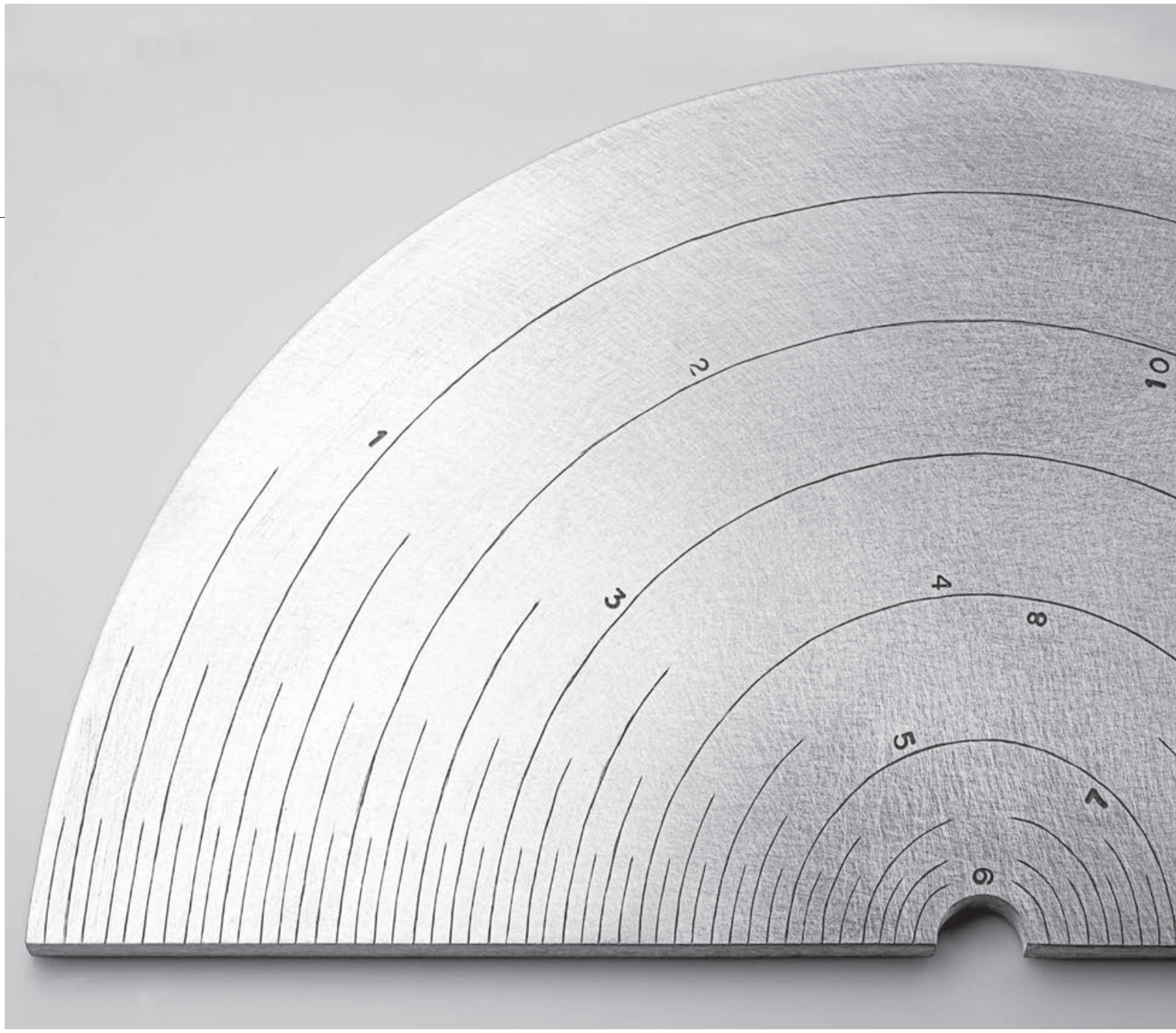
Although companies frequently engage in transformation initiatives, few are actually transformative. Research indicates that only 12% of major change programs produce lasting results.

WHY IT HAPPENS

Leaders are increasingly content with incremental improvements. As a result, they experience fewer outright failures but equally fewer real transformations.

THE SOLUTION

To deliver, change programs must treat transformation as a continuous process, build it into the company's operating rhythm, explicitly manage organizational energy, state aspirations rather than set targets, drive change from the middle out, and be funded by serious capital investments.



Nearly every major corporation has embarked on some sort of transformation in recent years. By our estimates, at any given time more than a third of large organizations have a transformation program underway. When asked, roughly 50% of CEOs we've interviewed report that their company has undertaken two or more major change efforts within the past five years, with nearly 20% reporting three or more.

ABOUT THE ART

Rick Salafia creates fantastical and nonsensical measuring instruments out of aluminum alloy to explore how we quantify and conceive of the unmeasurable.

Unfortunately, most transformation programs aren't all that transformative. Though they typically start with great fanfare—complete with big announcements and proclamations of wholesale change—most fail to deliver. Our research indicates that only 12% of major change programs produce lasting results. Too often, leadership accepts disappointing outcomes and moves on, only to launch another program in a few years' time. One prominent U.S. bank, for example, has initiated three substantial restructuring programs in the span of just four years, yet all of them have fallen flat.

It doesn't have to be this way. Over the past two decades we've worked with dozens of companies that have effectively transformed their businesses and studied hundreds of others that have attempted to. Our analysis has revealed six important differences between the programs that worked and those that didn't. In this article we'll explain why so many ambitious change initiatives come up short and outline the steps that leading companies are taking to defy the odds and realize the full promise of transformation.

Underwhelming Results

In late 2023, Bain & Company completed the second of two comprehensive surveys of 300 large companies worldwide that had attempted transformations. The first survey had taken place a decade earlier. The participating companies included both Bain clients and nonclients. The findings (see the exhibit "Transformation Efforts Are Still Missing the Mark") highlighted two concerning trends.

Less failure, but not more success. In the 1990s John Kotter and other scholars identified the most common reasons for ineffective transformation attempts—notably, a lack of urgency, insufficient leadership, limited vision, poor communication, and a shortage of "quick wins." Many companies have taken steps to avoid those pitfalls, often seeking outside advisory support. As a result, companies are experiencing fewer outright failures in their transformation endeavors. If we define "failure" as achieving less than half of what leadership aimed for, then only 13% of recent transformation programs can be labeled as such. That's a significant improvement from the 38% rate observed in 2013 and can be attributed to lessons learned over the years.

But there's a catch. Despite the decline in outright failures, success rates have not risen. If "success" is defined as meeting or exceeding leadership's expectations, then only one in eight transformations can be considered successful—and that rate has remained constant since 2013.

An acceptance of mediocrity. The percentage of transformation programs with so-so outcomes—that is, those that achieved more than 50% but less than 100% of their targets—increased from 50% in 2013 to 75% in 2023. Instead of pushing their organizations to deliver more, many senior leaders seem to settle for improved but still unexceptional performance. While that reaction is understandable, it often signals to employees that if they wait long enough, the status quo will be restored. Worse, it breeds cynicism that undermines the success of future change efforts.

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Six Critical Practices

Clearly, the prevailing approach to transformation in most companies is not yielding the desired results. It's time for a new model—one incorporating six practices that our research has shown are key to successful programs.

1 **Treating transformation as a continuous process.** Most transformation efforts are structured as discrete programs—with a clear beginning and end. Top management sets an ambitious goal, defines a series of initiatives designed to meet it, assigns leaders to manage the change, and then monitors performance until the program is complete. It's an approach inspired by the work of the psychologist Kurt Lewin, who believed that the process of change entails (1) creating the perception that a change is needed, (2) moving toward the new desired behavior, and (3) solidifying that new behavior as the norm. This became widely known as the "unfreeze-change-refreeze" model.

Although that model may have made sense when most business transformations were transitory—that is, a temporary deviation from "normal"—or if the change involved managing the implementation of, say, a new enterprise resource planning system, it's not well suited to deliver major change in today's highly dynamic environment. Most companies are (or should be) in a state of constant transformation. It's simply no longer possible to refreeze and step aside. The most successful efforts recognize that transformation must be continuous and orchestrate their programs accordingly.

Dell Technologies is a case in point. When Michael Dell took the company private, in 2013, he knew he wanted to transform the PC maker into a broad-based leader in infrastructure technology. He also recognized that to do so he needed his team to keep stretching to drive the next level of performance.

Starting in 2014, Dell's executive leadership meetings centered on what was referred to as the Dell Agenda. This agenda amounted to a backlog of the most critical issues the company was confronting at the time and, by implication, the most important changes Dell had to make to transform successfully. Some issues, such as the need to simplify Dell's product portfolio and transition from a made-to-order to a made-to-stock approach, pertained to day-to-day operations. Others, like defining a new go-to-market structure for the company's direct sales force, were organizational in nature. Finally, many, such as determining how to strengthen the company's position in the rapidly growing, high-margin storage segment, involved strategic opportunities.

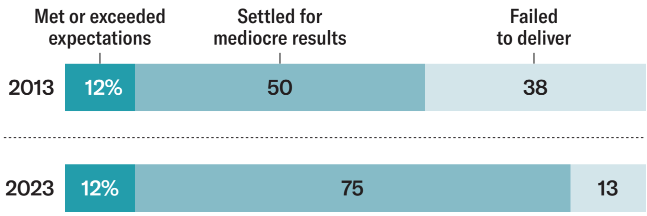
What made the Dell Agenda particularly noteworthy was its evergreen nature. When an issue was successfully resolved, it was removed, and a new issue took its place. This ongoing process of addressing operational, organizational, and strategic issues produced extraordinary results. From 2014 to 2023, Dell Technologies experienced a dramatic increase in market value, achieving more than 10-fold growth. The surge in value was a testament to the company's newly established leadership positions in areas such as commercial PCs, servers, storage solutions, and other critical infrastructure technologies.

2 **Building transformation into the company's operating rhythm.** Too often transformations are viewed as separate from company operations and handled by a distinct program-management office. In most instances, however, working on both should be considered part of every manager's day job.

Consider the approach Alan Mulally took to successfully lead the transformation of Ford Motor Company from 2006 to 2014. Shortly after taking the helm, he introduced a rigorous business plan review (BPR) process, which involved weekly meetings with the entire senior leadership team. The BPR played a pivotal role in aligning the team around a compelling vision and a comprehensive strategy known as One Ford.

Transformation Efforts Are Still Missing the Mark

In 2013 and 2023, Bain & Company conducted surveys of the transformation initiatives of 300 large companies worldwide. The companies included both Bain clients and nonclients. The results reveal that despite everything companies have learned from research on what derails change programs, very few transformation efforts achieve their goals.



> Our research shows that if an organization tries to change more than two primary routines simultaneously, the odds of failure increase dramatically.

The BPR ingrained the implementation of One Ford into the company's operating rhythm. As Mulally noted, "Everyone knew the plan, the status against that plan, and all the areas that needed special attention. Everyone was working together to change the reds to yellows and greens."

Under One Ford the company divested itself of Aston Martin, Jaguar, Land Rover, and Volvo. It terminated its passenger-vehicle joint venture with Mazda and discontinued the Mercury brand. Ford also streamlined its vehicle platforms and standardized components across its models, which resulted in significant cost savings and improved product quality. The proceeds from asset sales and the savings from restructuring, along with external financing, were channeled into creating a "balanced business" of cars, trucks, and SUVs. The company revitalized its iconic brands, including the Ford F-150 pickup and the Mustang, transforming itself from a near-bankrupt relic into an industry leader.

During Mulally's tenure, Ford rebounded from a $12.7 billion loss to a $6.3 billion pretax profit. Though its stock price fell during the global financial crisis, it shot up 800% from its low point, and when Mulally left it was nearly double what it had been when he started.

3 Explicitly managing organizational energy.

Transformations fizzle when they consume more energy than they generate. That's why their tendency to continually disrupt the work routines of the same group of individuals is problematic. Over time that group may start to ignore further requests for change or even actively resist them. Our research shows that if an organization tries to change more than two primary routines simultaneously, the odds of failure increase dramatically. For example, consider a scenario in which a company's sales force is asked to sell in newly defined territories while also promoting an expanded portfolio of products and services. In such a situation it's highly likely that sales productivity will drop. Still, despite its importance, organizational energy is rarely managed effectively during transformations.

In successful programs leaders explicitly identify the employees and functions that will be most impacted by each aspect of the initiative and ensure that no group is expected to alter multiple routines at once. Changes are carefully sequenced to limit disruption and prevent widespread organizational fatigue. Success is recognized and rewarded along the way to build energy and enthusiasm for the effort.

Take the transformation of Virgin Australia. In April 2020, just a few months into the Covid-19 pandemic, the company entered voluntary administration as a bankrupt carrier. That September, Virgin was acquired by the U.S. private equity firm Bain Capital (an entity entirely separate from our firm), and by the end of November, Jayne Hrdlicka had been appointed CEO. Under her leadership the company reorganized itself as a much leaner, midmarket carrier. Once it had turned the corner it expanded its fleet by 60%, hired thousands of new employees, opened many new routes, and completely reimagined its customers' experience. Such massive changes could have caused debilitating disruptions had leadership not been meticulous about managing organizational energy.

At the start of the process, every aspect of Virgin Australia's overhaul was carefully sequenced. The airline made significant investments in new planes and technology, restructured its head office, revamped its marketing and sales function, bolstered its procurement team's capabilities, and introduced new customer-service innovations. Virgin's leadership assessed how each change would affect employees and consciously scheduled the hundreds of initiatives involved to avoid overburdening any one part of the organization at any one time. Unnecessary or lower-priority efforts were put on hold, either temporarily or permanently, freeing up organizational bandwidth. Leadership applied a simple rule of thumb: Prioritize the changes that were most crucial to passengers and deemphasize or eliminate those that weren't. The strategic staging and focus allowed Virgin Australia to move quickly without exhausting its people.

Hrdlicka and her team also actively engaged the organization throughout the transformation, tapping into Virgin Australia's unique "Virgin Flair" culture. They encouraged employees to contribute new ideas for making Virgin "the most-loved airline in Australia." Great ideas were celebrated, and the inclusive approach injected passion and energy into the team's work, significantly accelerating the pace of change. Frontline staff and executives shared in the success of the transformation, receiving bonuses and other financial rewards in recognition of their contributions to the turnaround.

ORGANIZATIONAL TRANSFORMATION

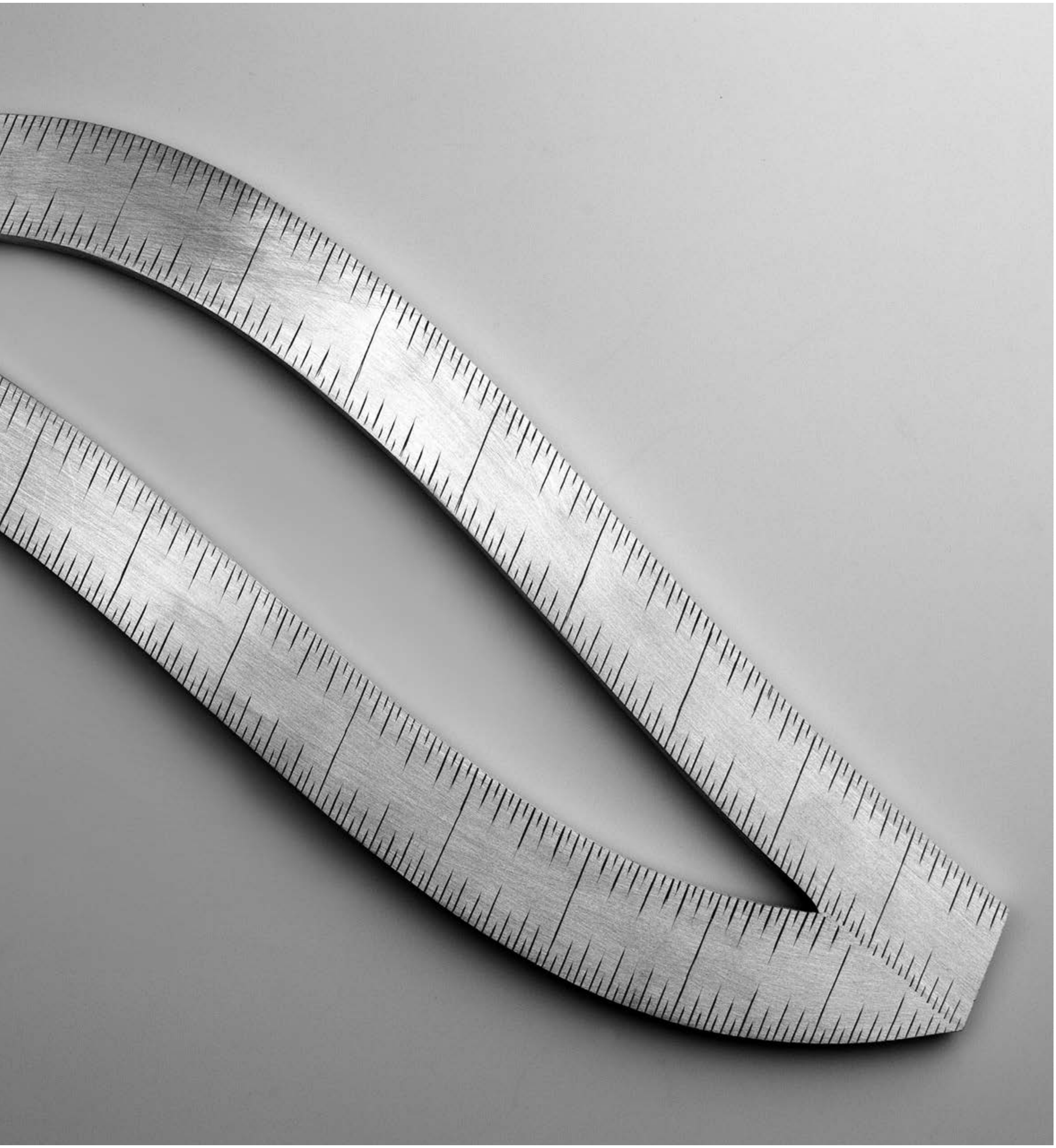
4 **Using aspirations, not just targets, to stretch management's thinking.** In typical transformation efforts, especially turnarounds and restructurings, the initial step involves examining external benchmarks. These are then used to set top-down targets for cost and head count reductions, and the organization is tasked with figuring out how to meet them. While that approach may appear rigorous and data-driven, it seldom sparks transformative thinking. Relying on benchmarks tends to confine "the art of the possible" to what others have already achieved, effectively setting the bar too low.

True transformation calls for breakthrough thinking and pushing beyond current practices, often with the help of new technology. Consider Adobe, the $18 billion developer of software for creative services professionals. In 2011, when it declared its intent to shift its entire product line to the cloud, the strategy was deemed unusually ambitious, if not revolutionary. There were few benchmarks that Adobe could refer to—only the aspiration of fundamentally reshaping the company's business model.

Shantanu Narayen, Adobe's CEO, challenged his management team to reinvent the company. Historically, Adobe's formula of selling software like Photoshop to creative professionals at attractive prices had been highly successful. However, Narayen recognized that clinging to the past would not be a winning business strategy. Drawing on his extensive knowledge of the industry and the company, he set the goal of transitioning 100% of Adobe's products to a web-based subscription model. The company would be among the first to adopt the software-as-a-service (SaaS) approach.

This bold ambition unified and motivated everyone at Adobe. Every facet of the business had to grapple with the question, How do we need to do this differently? Transitioning to the cloud significantly affected the company's product development, operations, and go-to-market strategies. For instance, Adobe had traditionally introduced new features whenever a new software version was released, typically every 18 to 24 months. But in the cloud, products could be continuously updated, tested, and released, necessitating a more agile and scrum-based approach to product development.

In addition, Adobe had to invest in cloud-based components that would facilitate seamless downloads of products because customers still needed to have many applications



> In our study nearly all failed transformations were underfunded. Many leaders tried to finance them through cost-cutting measures. That strategy typically fell short.

on their desktops. And the way that Adobe engaged with its customers had to change. Its value proposition was reorganized around delivering high-quality service, not merely introducing new features. Aspects of it like uptime, availability, disaster recovery, and security all became pivotal. Much closer collaboration among the functional groups contributing to the overall customer experience, including product management, engineering, marketing, and IT—which all had previously operated separately—was also required.

Adobe continues to transform itself, lately by harnessing breakthroughs in generative AI. In 2023 alone the company introduced 100 new features and updates for its software, including many advanced AI-powered tools. It has expanded Firefly, its AI product line, with three new image generators. Beyond the "wow factor," the wide range and high quality of these innovations have firmly established Adobe as the leading maker of creative tools for professionals.

The results have been truly impressive. Since Narayen became the CEO, Adobe's market value has shot to more than $250 billion from just $24 billion—and the company's average annual total shareholder return has been more than 15%. This compares very favorably with the tech-heavy Nasdaq's TSR of just under 9% in the same period. What's more, Adobe's transformation has reshaped the entire software landscape. Nowadays nearly every software company, ranging from Autodesk to Microsoft, has followed Adobe's pioneering lead.

5 **Driving change from the middle out.** Most transformation programs are top-down: Upper management sets targets and relies on lower organizational levels to figure out how to meet them. Initiatives are then typically executed from the bottom up. While this approach can yield effective ways to cut waste, it rarely produces lasting results. Why? Because enduring improvement requires changes in both the work being done and how it is accomplished. Cross-company intelligence and deep experience are needed to identify those changes, and that calls for a "middle-out" approach.

Senior executives frequently are too far removed from day-to-day operations to understand what truly needs to change. Consequently, top-down solutions tend to be superficial or at least short-lived. Frontline managers, meanwhile, often lack the contextual understanding to challenge existing processes, and so trim around the edges rather than propose major changes. But midlevel executives tend to have enough experience to see the shortcomings in current operations—and aren't so close to the ground that they get lost in the weeds.

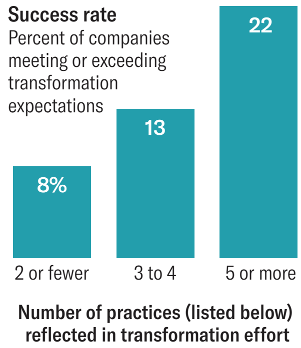
Amgen, the $27 billion global biopharma company, is a case in point. In 2013 its CEO, Bob Bradway, and his team set out to reshape the company, which was more than 30 years old and grappling with the expiration of the patents on several of its most successful drugs. The goal was to reposition Amgen as an agile, patient-centered powerhouse capable of developing groundbreaking drugs quickly.

For each transformation initiative, Bradway and his team selected two midlevel leaders—a VP-level "initiative lead" and a director-level "initiative liaison." These leaders were to make the transformation effort their primary focus. Their selection was rigorous: A "draft," coordinated by the chief transformation officer and the chief human resources officer, was conducted by the CEO and all his direct reports. Eligible executives had to be among the highest rated at Amgen, with proven ability to tackle the most-pressing challenges.

Once the initiative leads and liaisons were in place, teams with the necessary capabilities and expertise were assembled. Leadership emphasized the importance of assigning

Good Practices Lead to Better Outcomes

Across Bain & Company's 2023 sample of transformations, efforts that incorporated at least three of six key practices reported higher rates of success than efforts that incorporated two or fewer. The success rate of efforts that incorporated at least five practices was even higher.



Treating transformation as a continuous process	Building it into the company's operating rhythm	Explicitly managing organizational energy	Using aspirations, not just targets, to set expectations	Driving change from the middle out	Accessing substantial external capital from the start

the best talent to each transformation initiative. This ensured that the teams had the skills to drive meaningful change quickly. Soon the transformation process became a vehicle for testing and developing the next generation of leadership within the company. Many of the initiative leads and liaisons have since moved into senior roles at Amgen.

The middle-out approach surfaced better solutions at Amgen. The team overhauling the company's critical process-development capability offers a great example. Its breakthroughs included such fundamental changes as the consolidation of 17 functions into seven, the closure of five sites, the integration of 25 disparate systems into one new platform, and the implementation of three new cycle-time-reduction processes across the company. Its efforts were a significant departure from previous transformation initiatives at Amgen, which had typically led to modest changes to established practices and processes.

The results have been impressive. From 2013 to 2022 the company doubled the number of approved medicines in its portfolio—from 13 to 27. Many more of its drugs are blockbusters. In 2013, Amgen had only three drugs that generated $1 billion or more in sales. By 2022 it had nine. Significantly, the transformation is still ongoing, with Bradway and his team constantly pushing Amgen to greater heights, as evidenced by its $28 billion acquisition of Horizon Therapeutics.

6 **Accessing substantial external capital from the start.** Transforming a business is often expensive. Mulally borrowed $24 billion to fund Ford's transformation in 2006, and Michael Dell invested more than $60 billion to turn Dell into a leader in infrastructure technology in 2017.

In our study nearly all failed transformations were underfunded. Many leaders tried to finance them through cost-cutting measures. While that strategy may sound appealing, it typically falls short. Efficiency gains and waste reduction alone usually can't provide enough financial resources.

In contrast, nearly all successful transformations tapped the capital markets. External capital played a crucial role in fueling T-Mobile's growth from 2013 to 2020, for instance. Shortly after John Legere took the reins as CEO in 2012, he and his team acknowledged that a substantial investment was required to pull off the turnaround the company needed. At the time, T-Mobile lagged far behind Verizon and AT&T, with only a third of the wireless subscribers of either carrier. One major problem was that T-Mobile had not supported the iPhone when it became ubiquitous. "Before I joined T-Mobile it was the fastest-shrinking wireless company in America," Legere told *Investor's Business Daily.*

Avoiding the common mistake of relying solely on internal cost-cutting measures, Legere and his team decided to borrow $7 billion to initiate a comprehensive transformation. They set out to redefine T-Mobile as the "uncarrier" by eliminating hated industry practices that benefited carriers but harmed consumers. The company started including taxes and fees in its price quotes to eliminate surprises for customers. Unlimited service became standard, and contracts and global roaming charges were abolished. The iPhone was integrated into the T-Mobile network, and the company invested heavily in acquiring spectrum to enhance coverage. Finally, T-Mobile secured an additional $19 billion to fund its $66 billion acquisition of its U.S. telecom rival Sprint in 2020.

Though the transformation required significant investment, the returns were extraordinary. From 2013 to 2019 (Legere's last full year as CEO), the company's earnings soared 1,000%. Subscriber numbers more than doubled, from 33 million to 86 million. That growth far outpaced that of AT&T and Verizon over the same period. The share price of T-Mobile also rose by more than 400% during Legere's tenure, significantly outperforming the S&P 500's 150% gain. During that time T-Mobile's performance even surpassed Apple's.

TRANSFORMATION PROGRAMS OFTEN promise breakthrough results, but most never realize them. The successful ones adopt an approach that fundamentally differs from the approach at other companies. Their leaders view change as a continuous process, integrating it into the company's operating rhythm. They understand that organizational energy is a scarce resource and manage it diligently, and they keep the focus on driving the transformation from the middle out. Never forgetting that major change requires major investments, they secure external capital early (and often). In short, successful transformations employ a transformative strategy—a must for companies aiming for enduring success in today's ever-changing world.

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MICHAEL MANKINS *is a leader in Bain & Company's Organization and Strategy practices and is a partner based in Austin. He is a coauthor of* Time, Talent, Energy: Overcome Organizational Drag and Unleash Your Team's Productive Power *(Harvard Business Review Press, 2017).* **PATRICK LITRE** *leads Bain's Global Transformation and Change practice and is a partner based in Atlanta.*

ILLUSTRATOR
KIRSTEN ULVE

HUMAN RESOURCE MANAGEMENT

HR's New Role

In this tight labor market, cost cutting is out. Championing employee concerns is in.

AUTHORS

Peter Cappelli
Professor, Wharton School

Ranya Nehmeh
HR specialist

FROM WORLD WAR II THROUGH 1980 the focus of the human resources function was advocating for workers—first as a way to keep unions out of companies and later to manage employees' development in the era when all talent was grown from within. Then things changed. Driven by the stagflation of the 1970s, the recession of the early 1980s, and more recently the Great Recession, HR's focus increasingly shifted to relentless cost cutting. Decades of slack labor markets made slashing HR expenses easy because it was hard for people to quit. Pay and every kind of benefit, including training and development, got squeezed. Work demands went up, and job security fell.

Now the pendulum has swung sharply the other way. The U.S. unemployment rate has been below 4% for five years, with the exception of the Covid shutdown period. Productivity growth has lagged, with the 2010s being the worst decade for it in modern times. That, along with slow growth in the labor force, will probably keep the job market tight for some time. Meanwhile, overwork, fear of layoffs, lack of advancement opportunities, and worries of being replaced by technologies like artificial intelligence have created an epidemic of workplace stress in the United States. Evidence that companies have hit the limits of lean staffing includes the remarkable Kaiser Permanente strike of 2023, which was the largest health-care labor dispute in U.S. history, and pharmacists' walkouts and sick-outs at CVS and Walgreens. In all those disputes one of the main worker demands was that the companies staff open positions.

HR's focus on minimizing personnel costs was not a problem when job markets were cool. But now keeping positions filled and preventing employees from burning out or becoming dissatisfied are the priorities. To meet the fundamental challenge of hiring and retaining good people, HR needs to return to its traditional role of taking care of employees. It must play a lead role in persuading top management to treat employees better and to change company policies on pay, training, layoffs, vacancies, outsourcing, and restructuring.

More Talk Than Action

In a slew of C-suite surveys, including those conducted by the Conference Board, CEOs ranking the importance of stakeholders place employees even higher than shareholders. They also say that talent, especially acquiring it, is the most critical factor affecting their business. Yet so far little has changed in the way that companies manage their workforces. Real wages are still barely keeping up with inflation; weekly earnings actually declined slightly in 2022 and did not grow at all in the first three quarters of 2023. Promotions are rare, with only 4.5% of employees receiving one within two years of being hired, according

IDEA IN BRIEF

THE PENDULUM SWING
For decades, when U.S. labor markets were slack, HR focused on cost cutting, which meant squeezing employees' pay, benefits, and training. But now that labor markets are tight, the challenge is to retain workers.

THE NEW PRIORITIES
HR must focus on keeping positions filled and preventing employees from burning out or becoming dissatisfied.

HR'S NEW ROLE
The HR function must educate leaders about the true costs of turnover, address employee anxiety about AI and restructuring, lobby for investments in training, rethink how contract workers and vendors are used, and strengthen diversity, equity, and inclusion efforts.

> If leaders realized that the true cost of turnover is often a multiple of an employee's annual salary, they would immediately demand changes.

to an ADP Research Institute analysis of the careers of 51 million U.S. workers. A 2022 McKinsey survey found that a lack of career development and advancement was the most common reason people gave for quitting a job. A dearth of training and feedback from supervisors and two other cost-cutting practices, "hoteling" (not giving workers a permanent office or cubicle and making them reserve one when they need it) and open office layouts, have also contributed to employee discontent.

Then there are the repeated restructurings that have become a way of life at large companies. The constant changes raise employees' stress levels and take a big toll on their mental health. That not only pushes up health-care costs but also increases turnover and undermines employee engagement, performance, and productivity, as well as firms' ability to recruit.

It's understandable why breaking old habits is hard. Telling leaders that the approach they've been following for 40 years—and the one thing investors seem to understand about human capital ("cut it!")—is all wrong does not seem like a career-building move. Nonetheless, HR executives can—and must—make the case to their CEOs and operating executives that the old way is no longer working and that their companies need to change direction.

Make True Costs Clear

One critical step HR can take to get the C-suite to alter course is to show leaders what the costs of current practices really are and illustrate the value of human capital. To that end, HR should provide a dashboard that includes metrics on turnover and what it costs the company, information on why employees are quitting, and figures on vacancies filled from within. It should also include data on employees' well-being, such as absenteeism rates, incidents of new illnesses and disabilities, use of employee assistance programs, and levels of commitment and engagement. Those things all can have a significant impact on firms' success, but since they don't show up in any single financial accounting category, they have to be pulled out and highlighted for the C-suite. Corporate leaders often are unaware of the reality in their workplaces. A long-running MetLife survey, for example, has found that while 83% of top managers say that their employees are "financially healthy," only 55% of employees feel that way. And in their research Joseph Fuller and Manjari Raman of Harvard Business School have found that C-suite executives believe they routinely implement career advancement practices that their employees say never happen.

To supply leaders with good information, HR must get control of data from company vendors. Many firms can't see how well their hiring practices work, because their applicant-tracking-system vendors have all the data about job candidates and their performance-appraisal vendors have the data on how hires are doing. Businesses should require that their data be delivered to them in usable, compatible formats and, if not, that the vendors themselves do analyses for companies on demand.

Perhaps the single most important piece of information that most leaders lack is what turnover actually costs. When we've tested groups of CEOs about this, we've found that they have no idea. Unfortunately, HR leaders often don't know either, or the figure they use is completely off: Most cite the cost as $4,000 an employee, which is simply an estimate of the marginal administrative costs of hiring a new person. It ignores things like training expenses, new hires' lower initial performance, and the time coworkers have to spend interviewing candidates. If leaders realized that the true cost of turnover is often a multiple of an employee's annual salary, knew what the value of the firm's best employees was relative to that of average employees, and understood that 29% of people who have just been promoted quit (perhaps because 39% of employers routinely fail to give promoted employees more pay), they would immediately demand changes. It's one thing to tell leaders that treating employees well is the right thing to do and that it supports the company's environmental, social, and governance goals. It's another to be able to add that the failure to do it costs the business in question an extra $10 million each quarter.

Ten years ago, driven by better information on the true costs of turnover and how the retention and performance of frontline workers affect operational and financial results, Walmart embarked on an ambitious change program. (See "'The Right Thing to Do,'" HBR.org, December 7, 2017, and "'You've Got to Set Your People Up to Succeed,'" May–June

When earnings fall, cutting head count deep and early leads to worse financial performance because of the difficulty of staffing up again.

2023.) Among other moves, it increased pay, improved benefits, invested more in training, and redesigned jobs and schedules.

At Neiman Marcus, Eric Severson, the chief people officer, spearheaded a similar transition by persuading the rest of the C-suite that the retail chain was investing too little in human capital. He presented top management with data on the costs of turnover and the benefits of retention and leveraged "voice of the customer" tools from marketing to find out what drove turnover and successful hiring. On the basis of that information, the company introduced generous paid parental and family leave for all its associates, which was rare in retail but would be especially valuable to its mainly female workforce, and allowed many jobs to continue to be remote after the pandemic. Severson also got the company to stop outsourcing recruiting by showing that it could be done better and more cheaply in-house.

Such companies are the exception, however. At thousands of firms, a lack of information continues to drive job cuts and decisions to put off filling open positions. Executives announce restructurings and layoffs because they think investors like them. But even when these sweeping plans aren't carried out, they panic employees, causing them to freeze up and start looking for jobs elsewhere. Recent evidence has shown that cutting head count deep and early, the typical advice when earnings fall, leads to worse financial performance because of the difficulty of staffing up again. (Meta and other tech companies that had layoffs in early 2023 in response to investor pressure announced hiring plans a few months later.) And research by Ciao-Wei Chen and Laura Yue Li of the University of Illinois at Urbana-Champaign shows that leaving positions open also can have significant costs. They found that a one-standard-deviation increase in the length of job vacancies was associated with 5% to 6% lower quarterly returns on assets.

Better information on the true costs of such actions might change senior management's decisions. HR can easily close the gap by sharing the right data with leaders.

Address Employee Stress

HR should establish standard, credible metrics for employee stress and discuss them alongside financial and production numbers. But the priority should be on reducing the causes of stress, not monitoring it or alleviating its symptoms. Implementing wellness programs to help employees manage stress is like building trauma centers to deal with car accidents.

One huge cause of stress is uncertainty. That's why HR should encourage leaders to communicate their plans more proactively with employees. If employees don't know what's in the works, they'll make up their own stories, which are practically guaranteed to be worse than the reality.

Two of the things they're most anxious about these days are technological change and restructuring.

Fear of AI. Perhaps the biggest worry across workplaces is whether new forms of AI will eliminate jobs. That was one of the main concerns prompting the 2023 Hollywood strikes by screenwriters' and actors' unions, which succeeded in getting studios to place boundaries around the use of AI to replace human talent. HR needs to calm the furor by communicating to the organization, "We're just figuring out how these tools can be used. In the past it has taken decades for new technologies to be fully embraced, and virtually none has lived up to the hype." In fact, the evidence so far suggests that generative AI, which has produced widespread worker fear, will be more likely to enhance jobs in the near term than eliminate them. (See "How to Capitalize on Generative AI," HBR, November–December 2023.) It's particularly important to be clear that the company has no secret plan to replace people with AI. In addition, it's smart to engage employees in evaluating AI's potential uses, because doing so helps reduce their stress and increases learning in the process.

The restructuring threat. Company efforts to reorganize to adapt to the changing business environment are another major source of workplace stress. The shift to "green" products, for instance, was one of the main issues in the 2023 United Auto Workers strike, which ended with the union's securing protections for employees from restructuring resulting from the transition to electric vehicles.

Throughout the business world, companies see the ability to restructure quickly as the key to long-term success. Yet without employee support, change efforts fail. Lately that support has been harder for companies to come by. Gartner's Cian O Morain and Peter Aykens note that a survey conducted by their company found that employee

willingness to get behind new initiatives plunged from 2016 to 2022. (See “Employees Are Losing Patience with Change Initiatives,” HBR.org, May 9, 2023.)

We believe that if leaders fully understood the effects of reorganizations on mental health, turnover, and job performance, they would limit them or go about them in different ways. While many new organizational structures are unlikely to last, all too often they involve changes that cannot be easily reversed, such as laying off employees and hiring new ones.

Find Better Ways to Be Dexterous

When companies do restructure, they should avoid simply moving from one rigid architecture to another, redrawing boxes on the org chart and reassigning employees to new managers. A smarter approach is to compartmentalize change by creating smaller P&L units that grow or shrink based on needs in a company’s target markets. AIG was famous for entering markets by creating new companies to go after them and then shutting those ventures down if the markets became unprofitable. That was no doubt painful—but not as painful as restructuring the entire corporation first to chase a new market and then again to exit it. Two other companies that have taken a similar approach are the French infrastructure company Vinci and Haier, the Chinese multinational maker of home appliances and consumer electronics.

The downside to decentralizing around autonomous P&Ls is a loss of synergies, but there are remedies for that. ING, for instance, inspired by tech companies’ agile models, loosely groups small multidisciplinary teams into larger collectives for the purpose of coordinating bigger tasks. When a project finishes, the team assigned to it disbands. Functional experts in legal, finance, and operational risk are not assigned to teams but can be called on to help out and give objective advice. The system can flex to meet new demands, but job titles and reporting arrangements do not change.

Business leaders should also rethink how contract employees and vendors are used. Almost 50 years ago, Charles Handy and John Atkinson argued that contractors should do the peripheral work that shifts when business needs and strategies change, allowing the core of the business and its employees to remain stable. In recent decades companies have done just the opposite and have resorted to using contract workers and to outsourcing entire core functions, such as IT, to drive down operating costs. In many cases that was a mistake because the vendor couldn’t deliver or, worse, went out of business.

Rebuild the Internal Labor Market

One effective way for companies to increase flexibility and reduce employee anxiety is to retrain workers and give them opportunities to transfer into promising areas of the organization. HR can play a central role in making the case for those practices.

Despite the fact that training is necessary to grow talent from within, companies invest remarkably little in it. A survey conducted in 2020 by MIT’s Paul Osterman suggests that the average U.S. employee gets only a half day of training per year—and that includes training of any kind, from compliance with new administrative practices to safety training.

The dearth of training translates into fewer opportunities to move up. Indeed, one of the most astonishing characteristics of the contemporary workplace is how little career advancement there is. Research suggests that only 10% to 20% of job vacancies are filled by current employees. And like the McKinsey study we mentioned earlier, a Pew Foundation survey found lack of advancement to be a substantial cause of turnover: Sixty-three percent of people who’d left their jobs in 2021 cited it as a reason for quitting. Lateral moves are even rarer than upward ones: Only 1% of U.S. employees move laterally to different businesses and operations in a given year, according to data from the Society for Human Resource Management.

The benefits of retraining are enormous because it prevents companies from replacing good employees with people with different skill sets, who often have to be paid more. Some companies have realized this. Several years ago, IBM offered some employees who were about to be restructured out of jobs the option of taking severance or moving into roles requiring new skills that they would receive training in for one day a week on their own time—a way of sharing the costs with them. This approach had a huge

Internal job markets not only cost very little but also save enormous amounts of money by reducing turnover and the need to hire from the outside.

payoff—including better productivity, better employee fit, and lower turnover—and saved twice as much money as the retraining cost. In 2019 PwC committed $3 billion to retraining and promised its workforce of 275,000 that all employees who agreed to undergo it, even those whose roles were eliminated by automation, would have a job with the company, though it might not be the same job.

Internal job markets help current employees move to new positions in their organizations where the growth is and where they can learn new skills. They not only cost very little but also save enormous amounts of money by reducing turnover and the need to hire from the outside. Though internal job markets date back to the dot-com days of 1995 to 2000, they were scaled down after the Great Recession under pressure from line managers who didn't want to let their good employees leave them, even if it was for better jobs in the same organization. Now these programs are being revived, often under the name "talent marketplace." (See "How to Design an Internal Talent Marketplace," HBR, May–June, 2023.)

HSBC says its talent marketplace was critical to its transformation into a digital-first bank. Unilever's former CEO Alan Jope praised its revamped internal job market, Flex Experiences, for helping the company rearrange talent in a way that allowed it to weather the pandemic and become more agile. A few years ago Flex expanded into matching employees with learning opportunities on projects, particularly those with ESG objectives. Since 2018 Unilever has reallocated 500,000 employee hours toward more than 4,000 business-critical projects, improving overall productivity by 41% in the process. Seventy percent of the assignments in those projects were cross-functional, helping employees build skills that will make the organization even more agile.

Strengthen DEI Efforts

A final area where HR can take the lead is diversity, equity, and inclusion. The "equity and inclusion" components, which get less attention, are where HR advocacy for employee interests is especially needed. Improving equity involves making the treatment of employees and the distribution of opportunities fairer, offering opportunities on a clear and meritocratic basis, reducing favoritism, and tying rewards to actual performance in a straightforward way—all changes that reduce perceived injustices, which can create enormous stress for employees. Increasing inclusion comes down to creating an atmosphere of tolerance and helping employees with their individual challenges.

A work environment in which employees feel safe being who they are encourages people to speak up and inspires a sense of pride and belonging. Those positive feelings translate into hard work and increased employee loyalty. Employers who get DEI right are far more able to attract talent because it widens the pool they can access, particularly among younger people.

RESPONDING TO A long-term change like the shift from slack to tight labor markets usually takes a great deal of time. But no one wants to be at the end of the line of companies reacting to an important inflection point. The question is, Who will be at the front of the line? Over the past 40 years companies have built HR practices and operating cultures based on the notion that squeezing employment costs and HR resources had little downside. Some of the cost cutting was indirect—by not filling vacancies and letting the remaining employees figure out how to get additional work done—and some was direct, like shrinking training and development budgets. That model is no longer working, yet companies continue with it out of inertia and because costs like turnover, unstaffed positions, and disengaged employees have no line item in the financial accounting systems of enterprises in the United States and many other countries. (See "How Financial Accounting Screws Up HR," HBR, January–February 2023.) To change harmful, outdated practices, HR will have to provide business leaders with that vital information.

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PETER CAPPELLI *is the George W. Taylor Professor of Management at the Wharton School and the director of its Center for Human Resources. He is the author of several books, including* Our Least Important Asset: Why the Relentless Focus on Finance and Accounting Is Bad for Business and Employees *(Oxford University Press, 2023).* **RANYA NEHMEH** *is an HR specailist working on topics related to people strategy, human capital, leadership development, and talent management and is the author of* The Chameleon Leader: Connecting with Millennials *(2019).*

ENVIRONMENTAL SUSTAINABILITY

To Create a Greener Future, the West *Can't* Ignore China

Four ways for companies to safely engage

AUTHORS

Shameen Prashantham
Professor, China Europe International Business School

Lola Woetzel
Senior partner emerita, McKinsey & Company

PHOTOGRAPHER YAN WANG PRESTON


中国工商银行
HOTEL

ENVIRONMENTAL
SUSTAINABILITY

IDEA IN BRIEF

THE OPPORTUNITY

Fighting climate change is a promising area for engagement between Western companies and China. After all, China is responsible for 27% of global emissions and offers a vast market for green tech.

THE CHALLENGE

Geopolitical strains, the disruption of business relationships by the Covid pandemic, and domestic Chinese policies all make engagement complex.

THE SOLUTION

To engage effectively with China, consider forming coalitions for safe technological development, forging local partnerships for market access, and insourcing innovative technology.

ABOUT THE ART
British Chinese artist Yan Wang Preston spent eight years investigating the politics of urban reforestation in Chinese cities such as Chongqing, which transplanted thousands of saplings and mature trees into ready-made forests.

In THE CURRENT geopolitical landscape, marked by escalating tensions between Western nations and China, it's a challenge to identify potential areas of collaboration between East and West that would yield mutual benefits and foster trust. But fighting climate change is one. Climate change is a problem that affects every nation, and it cannot be solved without China's involvement because the country contributes 27% of global emissions, according to the World Bank.

On the surface, working together on climate change seems like a win-win. China aims to drastically reduce its carbon footprint, and collaborating with international groups is key to reaching this goal. But the reality is complicated. Many businesses hesitate to work closely with China because of geopolitical tensions and concerns about transparency, particularly after the Covid-19 pandemic. The pandemic also disrupted important business relationships; many foreign experts left China in its wake, weakening ties between Chinese and international businesses. What's more, Western governments (particularly the United States) are now reversing years of policy and taking steps to isolate themselves from China politically and economically.

China offers a vast market for Western-developed climate solutions. And businesses have an opportunity to integrate China's own advances in climate-related technologies.

All images © Yan Wang Preston, from *Forest* series (2010–2017)

These tensions have real consequences. For example, Bill Gates's TerraPower, an advanced nuclear-energy project, had to stop working with China because of restrictions by the U.S. government. And numerous solar projects in the United States that involve China are on hold, awaiting government review. These are just two examples of the growing pressure companies face externally when dealing with China.

Of course, other obstacles—such as strict rules about money and business ownership, complex supply chains, intrusive digital-data laws, competition from fast-growing Chinese companies, and preferential legal protections for Chinese firms—have been imposed on Western companies by China. In fact, many businesses have started to question whether the Chinese market is as great a prize as they had hoped: Changing demographics and high debt threaten the once-meteoric growth of China's domestic economy. Some companies are exiting China entirely. In 2021, for example, Siemens Gamesa left the Chinese onshore wind market because of frustrations over perceived advantages for local companies.

Despite these hurdles, opportunities for Western and Chinese collaboration on climate change are promising. As Western-trained experts deeply embedded in China, we've witnessed firsthand the potential for productive engagement. In this article we dissect the complexities of the current climate-change opportunity in China and present practical strategies for businesses that are ready to enter the market.

A Twofold Opportunity

The first thing we explain to Western business leaders wishing to engage with China on climate change is that the opportunity is twofold. First, China offers a vast potential market for Western-developed solutions. The Chinese government has set ambitious targets in this area, aiming to peak carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060. Those goals create significant opportunities for firms with cutting-edge technologies. Take, for example, Bosch Thermotechnology and its hydrogen-fueled heating systems, which could garner a significant share of China's clean-technology market (worth an estimated $500 billion). The opportunities for Bosch Thermotechnology are broad and include hydrogen production, carbon capture, sustainable aviation fuels, green urban infrastructure, and the reduction of methane emissions from livestock.

Second, businesses have an opportunity to integrate China's own advances in climate-related technologies. Chinese firms have excelled at replacing traditional energy sources, directly with solar power and indirectly through the production of electric vehicles and battery technology. Chinese companies have made these advances partly in response to government incentives to develop clean technologies and other innovations. Multinationals with extensive supply chains in China can tap into areas where Chinese firms have a competitive edge and use their innovations to become more sustainable themselves.

Strategies for Engaging with China on Climate Change

So how can Western multinationals confidently move forward given the size of the opportunity and the risks? We recommend four strategies, each of which involves partnering in some way, particularly with local companies.

1

Make sustainability a global theme. Companies that have made sustainability a priority will find significant advantages in China. Their products will attract more demand from Chinese customers, and they'll attract reputable partners that are also striving to become more sustainable. In addition, Chinese regulators are more likely to favor and protect the intellectual property of companies that invest in environmental sustainability. Perhaps most important, companies that are sustainability leaders will be better positioned to address any China-related concerns that their global customers, partners, regulators, and investors have. Because they've made sustainability central to their value proposition, their stakeholders will have confidence that they will address associated risks. They will trust that these companies' engagement with China will be consistent with their strategic purpose and intent.

Consider Apple. Decarbonization is a key global strategy for the company. In Latin America it's working to combat deforestation, and in advanced markets it encourages consumers to practice clean-energy charging. Apple actively promotes green practices in its global supply chain, including in China, where a significant portion of its supply chain is based and where substantial decarbonization expertise exists.

To be credible to stakeholders outside China, however, it's imperative for Apple (and other Western multinationals) to rigorously address risks associated with forced labor concerns in China. Investors are increasingly scrutinizing environmental, social, and governance issues, placing them on par with climate concerns. Companies need comprehensive strategies that address both environmental and social governance risks. Those strategies must be an integral part of their operational calculus and ensure compliance with relevant legislation, such as the U.S.'s Foreign Corrupt Practices Act.

Microsoft is another global company with a broad and credible commitment to sustainability that has engaged with China on climate change. The Microsoft Climate Research Initiative involves multidisciplinary researchers from Western universities (such as MIT) and Chinese ones (such as Tsinghua). Precisely because sustainability is so central to Microsoft's value proposition for investors, the company has been able to mount a broad-based effort to bring in multiple partners from outside China, thus reducing the China-specific risk element for non-Chinese investors, partners, and regulators.

This approach isn't just for corporate giants: Small players that make sustainability core to their strategy and values can also engage effectively with China. LanzaTech, a U.S.-based company specializing in carbon-recycling technology, is a prime example. Its unique microbial gas-fermentation process mitigates carbon emissions in the manufacturing of numerous products. That makes large emerging markets such as China and India (where it works with the state-owned Indian Oil Corporation) of direct strategic relevance.

Companies with strong sustainability credentials may also benefit by getting their home governments to help them foster partnerships with China. Innovation Centre Denmark in Shanghai, for instance, facilitates collaborations between Danish companies and Chinese initiatives like the Sustainable Packaging Project, which aims to make China's packaging sector more green. This project, which includes tackling plastic waste in China's food delivery industry, could be beneficial to many Chinese companies, such as Alibaba's Ele.me. The involvement of the Danish government not only helps address apprehensions investors may have regarding business ventures in China but also helps Danish companies reach their goals of operating on a global scale.

2 **Form or join coalitions to find safe spaces for technological development.** In the competitive Chinese market, Western firms can benefit greatly from taking a "strength in numbers" approach to mitigate risks. By building coalitions or joining consortia of global and local like-minded peers, companies can create (or get access to) safe spaces where they can explore technology and market possibilities in China and beyond. When companies pool their specialized skills and resources, they're better equipped to grow. And they're less likely to develop unsustainable conflicts, because they share a commitment to work together in good faith, despite ongoing geopolitical tensions. Although consortia always run the risks of free riders and complex bureaucracies, these groups can exert more influence and incorporate more parties and perspectives than any one company could alone, allowing for greater experimentation, learning, and action. Additionally, there is no way to guarantee that a company is immune to regulatory scrutiny and pressure, but coalitions can build greater transparency in dealings with regulators and can provide opportunities for local players to be brought into joint efforts—without harming coalition members' prospects for operating as robust competitors. One example is the coalition behind the Low Carbon Patent Pledge. It includes companies such as Meta and Microsoft, which invited the Chinese giant Alibaba to join, and promotes the sharing of eco-friendly technologies among members.

The previously mentioned LanzaTech also has benefited from being in a coalition. In China, LanzaTech found a market that believed in its technology. So it adopted a strategy of partnering with reputable companies in the steel and petroleum industries there. Those partners accelerate the deployment of LanzaTech's technology and, because of their prominence and stability, mitigate the risk that other parties might not fulfill their contractual obligations. The petroleum giant Sinopec became a strategic investor, and LanzaTech developed demonstration plants with steel majors Shougang Group and Baowu. Shougang and LanzaTech formed a joint venture—Beijing Shougang LanzaTech New Energy Technology—with participation from the Japanese corporation Mitsui and investors such as Beijing-Hebei Cooperation Green Industry Investment Fund and Shanghai Dehui Group and its New Zealand partner, TangMing Group. Involving additional global players demonstrated that the technology partnership would meet global standards of governance and risk management. Working with premier local companies allowed the venture to take advantage of China's adeptness at speed and scale and build three new plants in the time it took LanzaTech to build just one in Europe.

By building coalitions of global and local like-minded peers, Western companies can create safe spaces to explore technology and market possibilities in China and beyond.

LanzaTech capitalized on its strong sustainability technology proposition to mitigate its risk by contributing a license rather than intellectual property. (If a transferring joint-venture partner does not have a majority stake in the JV, it will effectively lose control over IP rights. To limit those risks, an exclusive license is preferable to a transfer of IP rights.) LanzaTech retained global distribution rights for any know-how and IP developed jointly with its partners—for example, for extending the ethanol value chain into fiber production.

Start-ups, too, can take advantage of the benefits of being in a coalition. For instance, Iceland's Carbfix, which turns carbon dioxide into stone, is working with Tencent's CarbonX program, a combined accelerator and digital-capability-building program dedicated to exploring next-generation low-carbon technologies. It's also working with Frontier, a nearly $1 billion advance market commitment, which aims to guarantee future demand for carbon-removal technologies, thereby sending a strong demand signal to firms working on them to accelerate progress and enhance supply. (McKinsey, where one of us, Woetzel, is a partner emerita, orchestrated the Frontier partnership with Stripe, Alphabet, Shopify, and Meta.) These two coalitions provide Carbfix with market access and an opportunity to tap into thinking both in China and globally regarding carbon capture. Participating in CarbonX helps Carbfix reduce the risk of being in China through engagement with Tencent, a leading Chinese company with a solid reputation for IP protection and itself a participant in many global carbon alliances. Moreover, the Frontier initiative creates additional allies outside China, as it works by using global technical and commercial experts to make purchases from high-potential carbon-removal companies on behalf of buyers.

Some consortia are started by Chinese companies. Tencent's Global Carbon Neutral Technology Alliance, for instance, shares carbon neutrality patents and technologies for free and includes competitors like Alibaba and Microsoft. Other consortia are international, like the Science Based Targets initiative launched by the UN Global Compact. This initiative offers a platform for setting science-based net-zero targets and includes Chinese firms such as Longi Green Energy, Jinko Solar, and JDLogistics.

Western businesses can also find support through international chambers of commerce in China. For example, the British Chamber of Commerce in Shanghai helps businesses collaborate on environmental, social, and governance issues. (One of us, Prashantham, serves as a volunteer adviser.) A notable effort is its ESG China Awards, which recognize companies having a positive ESG impact in China and are open to both local and international businesses operating in China. As a British diplomat in Shanghai explains, it offers businesses peer support and the opportunity to share experience, knowledge, and expertise. He notes, "We endeavor to help to develop an ecosystem of force for ESG best practices in China and the global market."

3

Forge partnerships with local companies for market access. Instead of building consortia, Western companies can set up company-to-company partnerships in China by combining their technical expertise with the manufacturing and marketing prowess of local partners. Of course, certain industries in China require foreign companies to have a local partner to operate—particularly in sectors that the government considers to be strategically important or sensitive. But even when partners aren't mandated, Western companies can adopt a partnering approach in order to take advantage of the demand for international green technology in China while mitigating market access risk (as opposed to global technology risk, which the coalition strategy helps mitigate). Proactive and robust partnerships between international and domestic companies can help meet the demand for climate-relevant offerings and help international companies scale up. These partnerships, moreover, need not hew to the traditional joint-venture structure.

Consider Logan Energy, a Scottish start-up with expertise in hydrogen energy. Because of its interest in clean and renewable energy, China is an ideal geography for Logan Energy to scale up in. The company has teamed up with Henan Lanxing Power Equipment, a seasoned player in China's power-transmission sector. This collaboration blends Western technical skills with the marketing reach of a Chinese firm.

Such partnerships are more likely to succeed when there are "bridging" executives—Western-trained Chinese professionals who bring a more balanced and equitable approach to ventures. They play a helpful role not only by smoothing cross-cultural communication between executives of the two companies but also by assuaging each party's concerns about the other's competence and ethics. They help each party understand more clearly the capabilities and limitations of the other by explaining them in understandable language, literally and figuratively. At Logan Energy, for example, Yuxuan Zhang is a member of the leadership team. With his help, the joint venture has already secured an investment of more than $1 million, and there are high hopes for rapid growth in the post-Covid era.

Multinationals like Honeywell have also embraced the direct partnership approach. Its Sustainability Research Institute Low Carbon Center encompasses a fusion of Honeywell's cutting-edge technologies that focus on developing and implementing low-carbon solutions tailored to the Chinese market. For instance, Honeywell is introducing

> The complex landscape of China's business environment and geopolitical tensions poses significant challenges. But the urgency of the climate crisis demands global engagement.

innovative products like aviation fuel made from waste cooking oil. To address market access risk, it requires a reliable and steady supply of raw materials in the local market. And so the company works closely with local partners to ensure that its supply chain and operations within China are strong.

4 **Insource technology.** It's outdated to think of China only as a massive market for Western solutions; the country is already an innovation powerhouse in its own right. Companies should look to China to insource new technology, particularly in areas like solar power and EV batteries.

AB InBev, a beer producer that embraces sustainability, illustrates how climate-relevant technology can be insourced in China. Operating as Budweiser APAC in China, the company has looked for technological innovations from local start-ups. It has established a partnering mechanism called 100+ Accelerator, which is a platform run in collaboration with Impact Hub Shanghai (a third-party specialist in connecting corporations with social enterprises). Through it, start-ups can pitch solutions that relate to Budweiser APAC's areas of sustainability focus, such as smart agriculture, water stewardship, circular packaging, and climate action.

That's how a collaboration began with the Chinese start-up Yushuo Energy. Yushuo recovers EV batteries from electric cars and trucks, giving them an extended lease on life after they've been discarded—typically after five to eight years. The refurbished batteries can then be used in on-site renewable-energy storage systems. Budweiser APAC partnered with Yushuo and installed a storage unit at its brewery in Suqian, Jiangsu. Later, in collaboration with the World Bank's Sustainability Fund, Budweiser installed an even larger unit at its brewery in Foshan, Guangdong.

It is not only large multinationals that are insourcing sustainability-relevant innovations from China. Some young Western companies are too. Allbirds, a Silicon Valley–based company with ties to New Zealand, makes shoes from sustainable materials. Itself an expert in identifying and incorporating materials that have a low carbon footprint, such as sugarcane and tree fiber, Allbirds partnered with a leading Chinese electric car company, Nio, in an effort to access new ideas in China. Although a nonobvious partner for a shoe company, Nio devotes a lot of effort to developing sustainable materials for use in the interiors and seats of its vehicles. The two companies collaborated to develop a limited-edition shoe using one such material. The response from the market was enthusiastic. Moreover, the initiative allowed Allbirds to enhance its brand awareness among Nio's customer base, which overlaps with its own target market segments.

If a company's stakeholders (including governments in important markets) have strong reservations about adopting Chinese technology, then at a minimum, China offers the scope to scout for next-generation green technology that can be developed in-house or with partners elsewhere. While geopolitical uncertainties involving China continue to dominate headlines and stakeholders weigh national security interests, many green innovations, such as the ones used by Budweiser APAC, offer fertile opportunities for advancement, testing, and implementation—without giving rise to national security concerns.

THE COMPLEX LANDSCAPE of China's business environment and geopolitical tensions poses significant challenges for Western companies. However, the urgency of the climate crisis demands innovative solutions and global engagement. Companies must adopt a pragmatic approach, balancing the risks and opportunities of engaging with China. We have outlined a range of strategies that involve partnering in one form or another, in particular with local companies. The planet doesn't care about our politics. A spirit of engagement and mutual benefit, rather than isolation and suspicion, will be key to unlocking the vast potential of the Chinese market and making significant strides in the global fight against climate change.

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SHAMEEN PRASHANTHAM *is a professor of international business and strategy at China Europe International Business School and the author of* Gorillas Can Dance *(Wiley, 2021).* **LOLA WOETZEL** *is a senior partner emerita of McKinsey & Company in Shanghai, and until recently, was the global leader of its Cities Special Initiative and the Asia-based director of the McKinsey Global Institute.*

DIVERSITY & INCLUSION

How *Inclusive* Brands Fuel Growth

They unlock new sources of value by meeting the needs of under-recognized customers.

AUTHORS

Omar Rodríguez-Vilá
Professor, Goizueta Business School

Dionne Nickerson
Assistant professor, Goizueta Business School

Sundar Bharadwaj
Professor, Terry College of Business

PHOTOGRAPHER
BOBBY DOHERTY

DIVERSITY & INCLUSION

IDEA IN BRIEF

THE OPPORTUNITY

Research shows that the perception of inclusion can materially change customers' likelihood to purchase and willingness to recommend products and services.

THE PROBLEM

Despite the many business and societal benefits of marketplace inclusion, there is a systematic lack of it across industries.

THE APPROACH

This article presents a framework for increasing marketplace inclusion in three areas: seeing the market, *which is about market definition, market intelligence, and strategies for growth;* serving the market, *which involves developing products, packaging, and other commercial practices; and* being in the market, *which looks at advocacy and the customer experience.*

Mattel's inclusion strategy coincided with a period of significant growth. Barbie revenues increased 63% from 2015 to 2022—before the boost from the film.

Greta Gerwig's *Barbie* grossed more than $1 billion at the box office in about two weeks. Only 53 films have ever hit that mark (adjusted for inflation). The 2023 movie, which features themes of women's empowerment, multiculturalism, and inclusiveness, was a divergence from the narrow social and demographic representation of the original tall, thin, white doll that Mattel introduced in 1959.

Years before the movie phenomenon, leaders at Mattel had grown concerned that perceptions of Barbie were out of sync with the demographic trajectory of its domestic market. The company conducted in-depth research to understand how customers felt about the famous doll and to determine whether more-inclusive Barbies presented a strong market opportunity. The findings led to an expansion in the diversity of the dolls and in Mattel's overarching customer strategy. In 2016, the company expanded the So in Style line of Black dolls to include more skin tones, eye colors, and hair types, and also introduced Barbies with a range of body types.

While adoption was slow at the start, Mattel's leaders went on a road show armed with market data to help retailers create the right commercial environment for the more inclusive offerings—one in which diverse dolls were featured prominently, rather than on a bottom shelf. Eventually, the in-store environment began to change, and so did sales. Today, Barbie comes in 35 skin tones, 97 hair types, and nine body types. Mattel's Hispanic, red-haired Barbie became a bestseller. The company also has dolls representing people with disabilities, both physical and cognitive. For example, it developed a doll with Down syndrome in collaboration with the National Down Syndrome Society. Mattel's inclusion strategy affected all areas of the brand—product design, distribution, and commercial activities—and coincided with a period of significant growth. Barbie revenues increased 63% from 2015 to 2022—before the boost from the film.

Barbie's evolution illustrates that marketplace inclusion can help brands capture untapped markets. Mattel's combination of market orientation, business practice transformation, and intentional representation is at the core of what it takes to become an inclusive brand, which we define as one that serves the needs of historically underrecognized communities (HUCs) in ways that help a brand win and make its customers feel seen. In studies we've conducted over the past two years, we found that the perception of inclusion can materially change customers' likelihood to purchase and willingness to recommend products and services. For example, in one study of the sportswear market, purchase intent among Black customers increased from 17% to 40% as their perceptions of brand inclusion increased. We also found that perceived inclusion played a primary role in purchase decisions for 87% of consumers who identify as nonbinary, 61% of Black consumers and plus-size consumers, 63% of Gen Z consumers, and 38% of white consumers.

Despite inclusion's many benefits, we find a systematic lack of it in the marketplace. We measured the level of inclusion in more than 10,000 posts on Instagram, TikTok, and Facebook by the 50 most valuable brands in the United States from 2021 to 2022, evaluating the extent to which different skin colors, body types, hair types, and physical abilities were present. The results revealed a consistent prevalence of people with lighter skin, smaller body types, straighter hair, and no visible disabilities—a representation that was consistent across industry sectors. We then applied the Simpson's Diversity Index—which measures the probability that two people chosen at random will be from different racial and ethnic groups—to the people shown in the posts. The diversity index of the social media content was 41%, a level similar to the diversity index of the U.S. population in 2000, according to U.S. census data. The 2020 census revealed a score of 61%, meaning that the diversity reflected in our study was 23 years behind the makeup of the actual population.

Over the past three years, we have worked with Bridge, a trade organization focused on operationalizing inclusion, to study the journey of nearly 40 companies. We analyzed the impediments and enablers they encountered and the business practices they adopted in making their brands more inclusive. Drawing on that research, we created a framework for increasing marketplace inclusion that focuses on three areas: *seeing the market,* which is about incorporating inclusion into market definitions, market intelligence, and strategies for growth; *serving the market,* which involves developing and adapting products, packaging, and other commercial practices to address the needs of specific underrecognized communities more effectively; and *being in the market,* which looks at customer experience and corporate advocacy. In this article, we explore how to use the framework to gauge your company's level of marketplace inclusion, identify areas of strength and weakness, and define actions to expand inclusion in ways that contribute to growth.

WHERE COMPANIES GO WRONG

To attract the interest of a so-called "general market," brands commonly associate their products with cultural standards of beauty, success, and so on. We call this approach the exclusivity paradigm for demand generation. The positioning of Victoria's Secret in the mid-2000s is a classic example. Its models, store experience, events, and product design were all focused on a white, Western standard of beauty. Using one cultural standard to appeal to a general market is often seen as more efficient than seeking to associate with multiple standards, and Victoria's Secret used the strategy for many years to build a customer base among women who found that beauty standard relevant.

While simple to adopt, the exclusivity paradigm has major limitations. First, it alienates segments of customers who do not see themselves, their preferences, or their ambitions reflected in the products. The result is a self-imposed barrier to expansion. Second, the aggregate effect of brands' adopting similar standards to compete results in the overrepresentation of some segments and the invisibility of others, which can damage the emotional well-being of underrecognized communities.

Marketplace inclusion is a different paradigm for competition that increases brand relevance for a diversity of people. Savage X Fenty, which was founded by Barbados-born recording artist Rihanna, is an example of achieving growth by adopting the marketplace inclusion paradigm. Fenty's products, designs, models, and store experience feature women of a wide range of races, body types, and beauty standards and use realistic and unaltered photography that contributes to a more natural and accessible image. Fenty Beauty followed a similar path with products for all skin colors. Rather than focusing on one standard, it allows customers to find their own standard among its offerings, helping them feel understood, seen, and respected. From its launch in 2018 through 2022, Fenty reported annual growth rates of 150%. In 2022, Victoria's Secret countered by unveiling a new, more inclusive identity, product, and store experience.

THE BRAND INCLUSION FRAMEWORK

Our research into dozens of companies across industries, all of which actively pursue marketplace inclusion with varying levels of success, sheds light on the systematic and structural changes needed to become an inclusive brand.

Consider Sephora, a global cosmetics retailer. DEI was not absent from its management approach, but under the leadership of George-Axelle Broussillon Matschinga, vice president of diversity and inclusion, the U.S. team wanted to embed inclusion into the way it approached the market. In 2019 Sephora commissioned its Racial Bias in Retail study to understand the shopping experience of Black, Indigenous, and People of Color (BIPOC) customers across the industry. The findings were surprising. Three in five

BIPOC customers did not feel welcome in many beauty retail environments, causing them to leave the stores. More than 60% of customers said they would not return to a store where they felt unwelcome. BIPOC customers reported experiencing in-store discrimination at a rate three times that of non-BIPOC shoppers. Sephora used this research to define a specific goal for inclusion centered on transforming the experience of BIPOC customers.

Serving the market more inclusively required a broad organizational response. Sephora developed training programs on DEI, implicit bias, and cultural sensitivity to equip employees with inclusive skills. It also significantly increased the hiring of BIPOC store managers and staff to ensure that the shopping environment accurately represented customer diversity. The company pledged to buy 15% of its products from Black-owned businesses, rebalanced its portfolio of offerings to increase the availability of products for all skin tones, and expanded its Accelerate program, which helps BIPOC-owned start-ups grow their brands.

Finally, Sephora adjusted aspects of its engagement practices to be more inclusive. It created guidelines for external communications, including new diversity standards for casting, social media content, production, branding elements, and partner selection, to ensure that the company's engagement efforts were representative of and relevant to its diverse base of customers. Sephora shared the research at industry forums, which ultimately led to the signing of a charter by a coalition of 28 companies to create a more inclusive and representative retail environment. Collectively, the actions led to the adoption of marketplace inclusion as one of Sephora's strategic imperatives. The results are telling: Sephora has seen a twofold increase in revenues since it started the initiative.

Let's now look at the framework in more detail.

HOW TO SEE THE MARKET

This area focuses on opportunity mapping, market intelligence, and market definition. To become an inclusive brand, you must make the needs of historically underrecognized communities part of the regular investigation and configuration of market opportunities. That requires a comprehensive understanding of the composition of your current customer base, the HUCs you want to target, and how the segments fit into your brand ecosystem. For instance, Yin Woon Rani, the CEO of the trade organization MilkPep, made inclusion one of the core values guiding its understanding of the market on behalf of the nation's dairy farmers. She imposed strict sample quotas for conducting market research to ensure that market intelligence efforts facilitated an in-depth understanding of the needs of HUCs.

In defining your market, it is also critical to specify your brand's inclusion goals. Inclusion can mean different things to different people, and organizations must be careful to avoid ambiguity that can lead to misalignment. Measuring how various communities perceive your brand's level of inclusion can help. For example, we conducted a study of how historically recognized consumers (mainly white, mid-size body type, and binary gender) perceived marketplace inclusion in the sportswear industry. We compared their perceptions with those of consumers from underrecognized communities: mainly Black, plus-size body type, and nonbinary gender orientation. The results show that even inclusive brands have areas where they can improve. Nike, for example, was considered one of the most inclusive brands in the industry, with 80% of customers in our study describing it as an inclusive brand—but it fared significantly worse with customers in need of plus sizes, who reported experiencing lower levels of inclusion across all brands, including Nike. Findings like these can help brands define their specific goals for inclusion.

To gauge how well your company sees the market for inclusion, consider three questions:

→ Have you articulated a clear business case for marketplace inclusion that balances moral imperatives and the business opportunity?

→ Are HUCs robustly represented in market research design, sample collection, and segmentation studies to generate an in-depth understanding of their needs and preferences?

→ Does your brand incorporate specific inclusion goals when defining its customer base?

HOW TO SERVE THE MARKET

This area of the framework focuses on the design, market execution, and measurement of products and services. We find it to be the most difficult step to take, but it is essential for brands that view inclusion as a source of competitive advantage. It involves designing new products, developing new services, and other commercial activities that improve your product-market fit with underrecognized communities.

Consider the market context that led to the creation of Bevel grooming products. Since the Gillette Sensor was introduced, in 1990, multiblade razors have been the standard for

Inclusion can mean different things to different people, and organizations must be careful to avoid ambiguity that can lead to misalignment.

a good shaving experience. In the mid-2000s new competitors such as Dollar Shave Club and Harry's raised millions to challenge Gillette's leadership by disrupting the price of razors and the process of buying them. But they kept one feature consistent—multiple blades. And that's a great option unless you are one of the millions of men globally who have coily or curly hair. For those customers, using multiblade razors creates ingrown hairs, leading to irritation and uncomfortable facial bumps. With each additional blade, the incumbent brands enhanced the shaving experience of men with straight hair and moved further away from the needs of men with other hair types. Still, Gillette frequently used men with coily or curly hair in its advertising. That amounted to diversity without inclusion, because those consumers did not get good results from multiblade razors. Their alternatives were suboptimal given that single-blade razors tend to be of lower quality and depilatory creams can irritate the skin and have undesirable side effects. Some male consumers simply grew beards and avoided shaving altogether, effectively exiting the market.

In 2013, Tristan Walker, a Stanford MBA, founded Walker & Co., the parent company behind Bevel, a shaving and skin care brand for men with coily or curly hair. Like many entrepreneurs, he saw a market gap where others did not. Like leaders of inclusive brands, he was motivated to reduce the inequity that resulted from the gap. With the launch of Bevel, Walker awakened the industry to the value of serving a historically underrecognized community. The brand he started and eventually sold to Procter & Gamble for close to $50 million acquired a deep following and cultivated a sense of respect and belonging among many customers.

Consider also the financial industry, which has a mixed record on serving HUCs. Some fintech providers are redesigning service offerings in ways that provide greater access to products among HUCs. Peer-to-peer lending (for example, LendingClub and Upstart), savings apps (Acorns and SoFi), and robo-advisers (for example, Betterment) are just a few areas that have increased market inclusion among lower-income communities by addressing barriers such as extensive documentation, high minimum-balance requirements, and limited access to financial-literacy education.

Serving the market is also about mass customization of product features in ways that address the needs of underrecognized groups. For example, Microsoft, in collaboration with organizations such as AbleGamers Charity and the Cerebral Palsy Foundation, designed the Xbox Adaptive Controller to make the product accessible for people with limited mobility. Its success has led competitors such as Logitech to follow suit.

To determine whether your company is serving the market in an inclusive way, ask these questions:

→ Does your brand regularly measure inclusion in the customer base across different consumer communities?

→ Are your brand's inclusion goals part of the inputs guiding the creation of new products and services?

→ Do your brand's inclusion targets influence marketing decisions such as setting budgets, distributing and pricing products, and defining partnerships?

HOW TO BE IN THE MARKET

The third dimension of the framework covers activities related to how a brand shows up in the market, specifically in managing the customer experience, communication channels, and brand advocacy efforts. These are often the most visible areas of action and the easiest to implement. They include redesigning stores, for example, weighing in on current events and social issues, and promoting the adoption of inclusive practices across an industry.

Although critical in creating an inclusive brand, these activities also carry great reputational or financial risk if they're not designed in ways that reflect an understanding of underrecognized communities. Consider Target, a brand that has consistently embedded inclusion into many aspects of its customer experience. It is common to see models with Down syndrome and physical disabilities and diverse body types and races represented in Target stores. In its support for the LGBTQ+ community, the retailer has taken its inclusive engagement beyond simple messages of support—such as those often posted by brands during Pride Month—into the selection and presentation of offerings. For example, it stopped organizing its toy products by gender and instead organized them by age and type of play. This change provided a more inclusive in-store and

online experience for transgender or gender-nonconforming children and their parents.

However, the sale of some products directed at LGBTQ+ guests enraged a different segment of customers. In 2023, the company faced boycotts by conservative groups, and employees were threatened by shoppers who trashed displays and products specifically tied to Pride Month. During the customer backlash, Target experienced a 14% drop in share value, and it attributed a 5% sales decline in the second quarter of 2023 to the boycotts. To contain the situation, Target stores in more-conservative cities moved Pride displays to the rear aisles and pulled some gender-nonconforming merchandise from their shelves entirely, which angered LGBTQ+ activists. Lesson: Inclusive customer experiences require not only an understanding of the needs of various segments of your customer base but also preparation for and mitigation of conflicts among them.

In addition to designing more-representative experiences, inclusive brands find direct and indirect ways of promoting inclusivity across their industries. An example is the Delta Air Lines Faces of Travel program. Over the past several years, a team at Delta built a large database of inclusive travel images for use in marketing campaigns and materials across the organization, driven by the realization that the images available in stock photographs or search engines were not reflective of the diversity of today's travelers. Delta partnered with Adobe Stock to launch the program with the goal of increasing the representation of people of diverse races, ages, sexual orientations, gender identities, religious beliefs, and physical abilities. Similarly, the marketing team at Google launched an inclusive marketing tool kit with a public-facing website that consolidates guidance on how to develop more-inclusive content across industries. Through those actions, Delta and Google are making initial strides toward provoking and enabling change in their industries.

To evaluate your brand inclusion when showing up in the market, consider these questions:

→ Is the development of customer experiences for your brand guided by insights, expert partners, and technologies that ensure effective representation of your target HUCs?

→ Do your goals for brand inclusion influence the selection of communication channels, influencer partners, publishing schedules, and algorithms used for media management?

→ Is your brand acting in the market, sharing its views, or designing new practices in ways that promote inclusion across the industry?

MANY LEADERS HAVE embarked on bold efforts to align their organizations more closely with their diversity, equity, and inclusion ambitions. However, many DEI actions, while essential, do not translate into higher levels of marketplace inclusion as experienced by customers.

Inclusive brands are intentional in defining their customer base, developing product offerings, and taking action in the market in ways that serve historically underrecognized communities. By serving the needs of HUC consumers, they unlock new sources of business value. At the same time, they cultivate inclusivity in the market and nourish a greater sense of representation, respect, and belonging in our society.

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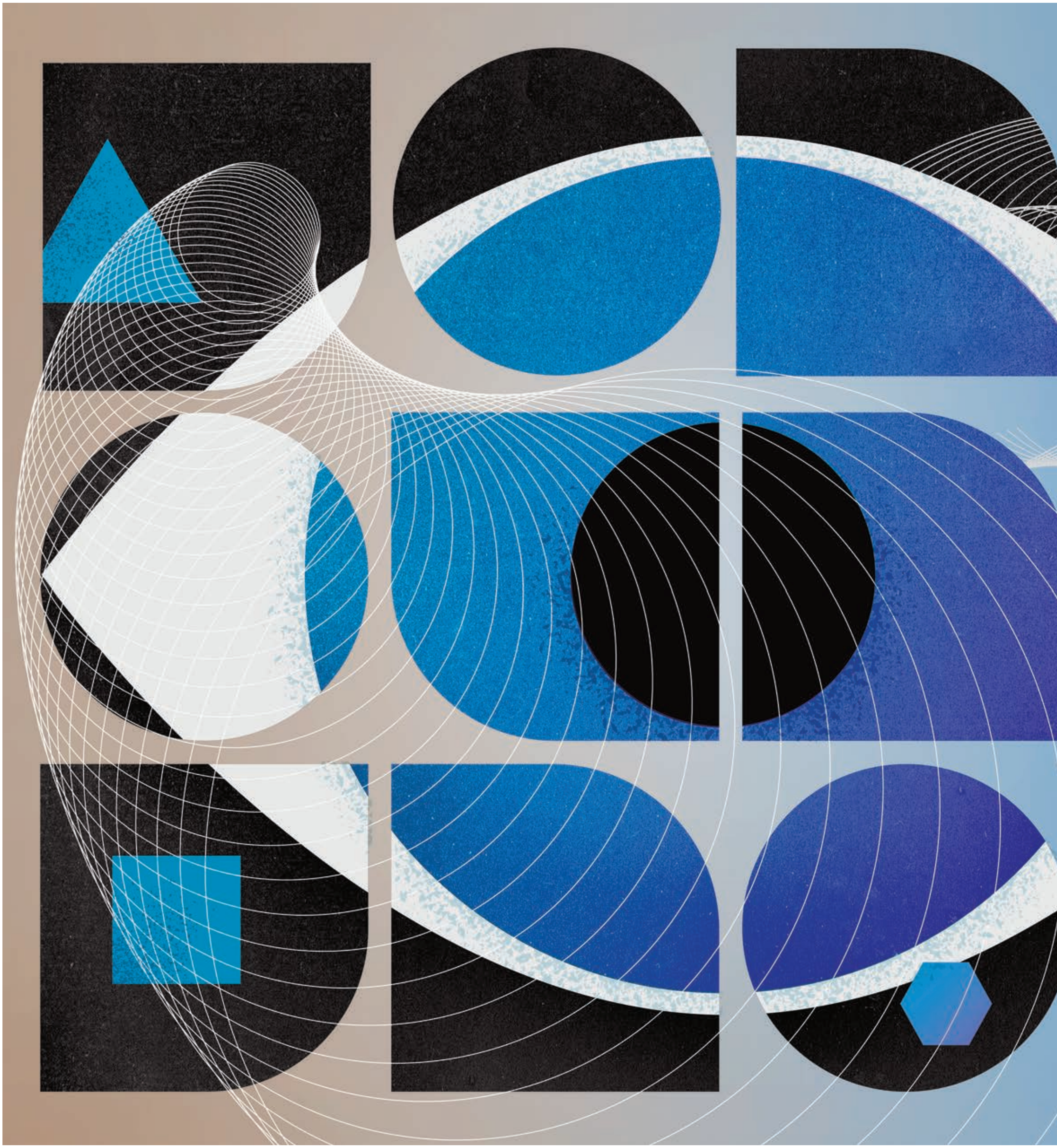
OMAR RODRÍGUEZ-VILÁ *is a professor of marketing practice at the Goizueta Business School at Emory University and the academic director of education at its Business & Society Institute.* **DIONNE NICKERSON** *is an assistant professor of marketing at the Goizueta Business School.* **SUNDAR BHARADWAJ** *is the Coca-Cola Company Chair and Professor of Marketing at the University of Georgia's Terry College of Business.*



AUTHOR
David De Cremer
Dean, Northeastern University

ILLUSTRATOR
CHAD HAGEN

AI & MACHINE LEARNING

For Success with AI, Bring Everyone On Board

When you include rank-and-file employees, you'll improve your overall performance.

AI is intimidating your employees. As machines increasingly perform intellectually demanding tasks that were previously reserved for humans, your people feel more excluded and less necessary than ever. And the problem is getting worse.

According to the market research company Vanson Bourne, 80% of organizations say that their main technological goal is hyperautomation—the end-to-end automation of as many business processes as possible. Executives have a tendency to pursue that goal without any feedback from their employees—the people whose jobs, and lives, will be most affected by achieving it. But my decades of research into the enterprise adoption of emerging technologies has proved one thing time and again: The savviest leaders prioritize participation by the rank and file throughout the adoption process.

When employees are excluded from that process, they become averse to working with AI, never develop trust in its capabilities, and resist even the positive changes that come from using it. Nonetheless, done correctly, human-AI collaborations represent the most promising way of working. They may not always be the fastest, cheapest, or easiest way to introduce and use artificial intelligence, but the alternative, which excludes workers, is no alternative at all. Consider one example, from researchers at New York University's Center for Cybersecurity. The research team used Copilot, a tool developed by GitHub to generate code automatically, to produce 1,692 software programs with no input from human coders. Forty percent of those programs had critical security flaws.

In this article I examine what keeps leaders from including rank-and-file employees in AI projects, how they should model inclusive behavior, and what your organization must do to develop employee-inclusive AI practices. Those practices can make your long-term performance more likely to improve and your employees more likely to be happy, productive, and engaged.

IDEA IN BRIEF

THE PROBLEM

When employees are excluded from the adoption process, they become averse to working with AI, never develop trust in its capabilities, and resist even the positive changes that come from using it.

THE CAUSE

Eighty percent of organizations say their main technological goal is hyperautomation—the end-to-end automation of as many business processes as possible. Executives often pursue that goal without feedback from employees—the people whose jobs and lives will be most affected by achieving it.

THE SOLUTION

AI transformation requires constant human-to-human connection across business disciplines. Including rank-and-file employees in AI projects will make your long-term performance more likely to improve—and your employees more likely to be happy, productive, and engaged.

It's AI's ability to learn that results in comparisons to human intelligence. But too many business leaders assume that AI can take over almost any job from humans.

Becoming Comfortable with AI

You can't bring everyone into the AI adoption process if you're not heavily involved yourself. But business leaders often ask me how they can guide an AI-based transformation when they have no personal expertise with the technology.

Business leaders don't have to be AI experts. They only need to be AI-savvy enough to recognize the technology's benefits for the organization and its stakeholders. Once AI has been deployed, leaders must learn to empower and drive human-AI collaborations. For example, they should be able to identify opportunities for AI integration in everyday workflows and to anticipate its potential advantages for teams and projects associated with the technology. In short, learning must be part of their ongoing AI leadership.

Some executives in my advanced leadership classes have wondered aloud whether they need to become professional coders to be effective leaders. What they need is not coding expertise but a foundational understanding of the technology.

The Basics of AI

Most managers know that AI tools are computational systems that have autonomous learning ability. They understand that AI can learn from large datasets and engage in pattern recognition and problem-solving. They've probably already seen it used in a variety of organizational applications: scanning the résumés of job applicants, evaluating employee performance, optimizing task scheduling, managing inventory, and automating repetitive tasks so that employees can explore new ideas and promote innovation rather than count widgets. It's AI's ability to learn—using algorithms to process new data and change its computation of information based on that data—that results in comparisons to human intelligence. But too many business leaders implicitly assume that AI can take over almost any position from humans.

The reality is that AI cannot think like a human, and it isn't all that creative. First, it generates no novel ideas; its ideas exist in the datasets that are fed into it. Not even the most sophisticated AI systems can infer *meaning* from learning, as humans do. They cannot draw analogies, and they cannot appreciate cultural and contextual nuances. Whereas humans can extract the deeper meanings and intricate nuances of business conversations, AI cannot tell when what is said is contradictory to what is meant. For example, it will interpret "You're serious about this offer?" as a simple request to confirm what is being offered. Most humans will understand that the other party is unhappy with what is being offered.

Business leaders who are just AI-savvy enough recognize that the technology can do much to improve work efficiency and the overall functioning of an organization. They must also recognize that it cannot entirely replace humans and, most important, it cannot do our thinking for us.

Three Ways AI Can Alienate Employees

Once you've become comfortable with your ability to discuss and champion AI adoption, you'll need to generate enthusiasm throughout the rank and file—not an easy process. To be an effective leader, you must understand why AI causes a rift between your workers and management and find ways to bridge the gap between what they're feeling about it and what you'd like them to feel. And you'll need to prevent the territorialism and tribalism that can occur when one group controls AI and another doesn't even understand it.

Here are three common reasons for workers' alienation.

Employees lose autonomy and become cynical. Not long ago a colleague of mine applied for a credit card at her bank. The employee helping her entered all her information into a computer program, which ran an algorithm to determine whether she qualified. My colleague, who earns a good living and has good credit, was surprised when the employee informed her that the algorithm had decided she did not qualify for the card. When she asked for an explanation, he replied that the decision was fact-based and automated, so he could not add much to it. Eventually he mumbled that he was not a machine, so why should she expect him to understand the algorithm's decision? That comment revealed that the employee did not feel in control of his job, was clearly demotivated, and had no intention of trying to make the algorithm's decision comprehensible to my colleague. The result was poor customer service and a missed business opportunity.

When you automate easy tasks but leave difficult and emotionally demanding ones to humans, you negatively affect the well-being of your workers. A 2021 study from Georgia State University revealed that the more automation is introduced in the workplace, the worse employee health and job satisfaction become.

Employees don't understand AI and resist it. People generally prefer to work with and receive advice from humans rather than AI. You should be aware of this bias and recognize that employees will respond emotionally rather than rationally to the technology—even when it has proved to be superior to humans.

If you want to make AI adoption inclusive, you must position yourself as both a mediator and a facilitator in human-AI interactions. You need to ensure that your employees receive adequate support and training to interact effectively with AI systems and to create opportunities for them to turn to a human if those interactions go wrong. If they feel truly included in how you plan to work with AI, they will be less averse to it.

A failure to be inclusive may even lead to active resistance. For example, when workers at Amazon's packing facilities were "supervised" by AI algorithms, they became more injury-prone. They were forced to meet high productivity targets, with few if any opportunities to take a break, and could be indiscriminately fired for not hitting their targets. Frustrated, they signed petitions and gathered outside their warehouses, united by the rallying cry *"We are not robots!"* Indeed, as one employee succinctly put it, "[Productivity is] all they care about. They don't care about their employees. They care more about the robots than they care about the employees."

If you want to avoid resistance from your employees when introducing AI, you must push them out of their comfort zone while ensuring that they understand why you're doing so. They should know how you plan to take care of them during this transition. You'll need to exercise patience, because it will take time and effort for workers to become familiar with AI and see how it can help them in their jobs.

AI creates business silos. In addition to eliciting resistance, AI adoption can undermine inclusiveness by entrenching silos in your organization in three ways. First, because the deep expertise required to understand and operate AI systems is often found only in tech teams, employees in other departments (such as HR, operations, and marketing) may have difficulty interacting with AI. But they need the know-how to make use of it in ways that are meaningful to their own business goals. Second, data ownership and access can be a contentious issue between departments. AI systems rely heavily on data for training and decision-making, but individual teams may have their own data repositories and be unwilling or unable to share data with others. Third, the impact AI has will vary across teams: Some may find it more useful than others do, and some may see it being used to automate their tasks more than the tasks in other departments. When different teams feel more or less threat (or benefit) from the adoption of AI, they may turn to siloed behavior, avoiding collaboration and information sharing to protect their own interests.

Employee resistance often creates an organization in which experts in AI and those in business work separately. People mentally shut down and live within the realm of their own expertise. And when AI is adopted differently across silos, resources may be duplicated or underutilized, limiting leaders' ability to scale up the technology across the organization. Teams may collect, store, and manage data independently, resulting in inconsistencies, redundancy, or incomplete datasets. That can hinder your ability to leverage the full potential of your data. When departments operate in isolation, cross-functional collaboration and interdisciplinary problem-solving become impossible. It will be your job as an inclusive leader to stress the importance of collaboration and push for the implementation of technological and organizational solutions, such as centralizing data for analysis in cloud-based tools.

To address all these challenges, you need to adjust your organization's culture.

A More Effective and Inclusive Model for AI

As a business leader, you have to make people feel like full-fledged members of your organization—empowered to work like human beings while collaborating with AI in every automated process. AI can quickly produce code for new programs, for example, but human employees are needed to fix any security flaws and other glitches.

An inclusive approach will make employees feel in control of the adoption process, reduce aversion to the technology, and increase trust in it. Those outcomes will help integrate it more efficiently in your employees' workflow and will enhance the likelihood of creating value across the organization (rather than establishing only siloed, and thus minor, effects). To achieve them, the organization must consistently follow four practices.

Recognize that employees will respond emotionally rather than rationally to artificial intelligence—even when it has proved to be superior to humans.

> Successful human-AI collaborations cross disciplines. Your tech and business experts should not retreat to their separate corners, literal and virtual.

Create space and time for social connection. When working with AI, people have to spend a lot of time in front of computer screens communicating with machines. That limits their interaction with other humans. A 2022 poll by the Pew Research Center revealed that a major concern people have about the presence of artificial intelligence in their lives is that it isolates them from other humans. As a leader, you have an important responsibility to foster the social connections of your employees, which you can do through events and online communities within and outside the organization. Digital underwriters, for example, often issue insurance policies without even meeting applicants. They could be asked to have weekly meetings with other underwriters and with the people who built the AI system they use to discuss possible improvements. Uber now allows its drivers, who are under constant algorithmic supervision and feel dehumanized as a result, to telephone other people in the organization when they need help or have a question.

The *Fortune* 500 dairy company Land O'Lakes provides an excellent example of how to free employees from the solitude of working with AI. It began its AI transformation in 2017, when it sought to partially automate commodity forecasting and propensity modeling. Company leaders prioritized speaking with the rank and file about the expected challenges, helping establish a common understanding of the project's possibilities and limits and assuring people that the company wasn't pursuing tech for the sake of tech. Teams coordinated across departments, but company leaders also conducted weekly people-to-people check-ins with every business unit to address any challenges, emotional or procedural, that may have arisen. That approach was crucial to the success of Land O'Lakes' AI transformation. Employees were given opportunities to voice concern, to question tactics, and to raise anything else that might be on their minds.

Make tech and nontech teams collaborate. As an AI-savvy leader, you know that successful human-AI collaborations cross disciplines. Your tech and business experts should not retreat to their separate corners, literal and virtual. So build diverse teams that work together to adopt AI. For example, business experts can explain to tech experts what goals must be achieved, and tech experts can make suggestions regarding which AI systems will be needed. Meanwhile, HR can familiarize employees with the AI system they'll be using and the skills they'll require, and operational staffers can focus on integrating the entire human-AI workflow into the organizational setup.

To lead such diverse teams and bring them together, you must communicate in ways that unite rather than divide people, allowing for and integrating multiple perspectives and identifying roadblocks that may complicate or prevent collaboration. As a business leader, you can start by explaining the organization's needs to your tech and business teams and then outline how the tech experts will become part of the business process to achieve the desired results. Try to establish a common language and understanding for both groups regarding how to approach challenges, recognize patterns, break big problems down into smaller ones, and find a shared work method. Without that common language, your teams may fail to cohere, and the inclusive culture you've tried to develop may dissipate.

In one of my consulting projects I watched the chief technology officer of a global financial institution present the company's new tech strategy. Just a few minutes in, the CEO interrupted. He said he didn't understand anything the CTO was saying and pressured him to present his message in three simple bullet points. It was embarrassing for the CTO. The tech team retrenched. IT departments stopped trying to talk to top executives. The CEO lost credibility with senior executives, who realized he wouldn't be capable of guiding the bank through its AI-adoption project. He hadn't become AI-savvy, didn't connect AI to the purpose of the company, and, worst of all, had not developed the inclusive mindset needed to translate from the CTO to the business and back. Needless to say, the project failed. The CEO left the company the following year.

When done properly, mixing teams can fundamentally improve not only a company's technology but also its overall culture. In 2017 the agricultural equipment maker CNH Industrial's leadership team decided it wanted to create a host of AI-powered automation capabilities. It also wanted to connect customers with internal and external partners and promote CNH as a service-oriented business.

The executives began the transformation process by speaking with employees from its commercial vehicle unit, industry-specific vehicle units, IT, and operations. Digital advisers and a new digital team were created within CNH's existing IT organization to support ongoing strategy, implementation, and execution. By establishing cross-disciplinary teams and keeping them involved throughout the process, CNH was able to quickly adopt (or retire) experimental approaches. It lowered the barriers between developers and business owners, and it allowed for real-time feedback on scheduled work.

Constantly develop your own leadership skills. Making your employees feel included in your AI adoption project requires that you account for their uncertainty and discomfort when dealing with AI. As an AI-savvy leader, you should be seen as open to listening to their concerns. My research indicates that employees are indeed more willing to trust and engage with AI if their leaders are humble and demonstrate that openness.

Consider Satya Nadella, the CEO of Microsoft, who is a master at using empathy to foster inclusion. One of the first things he did when he was appointed CEO, in 2014, was to persuade his employees that no matter how successful Microsoft had been in the past, they should stay open to new ideas and other ways of working. Asking them to think differently required courage, but it also showed the importance of being humble—unafraid of receiving feedback from others. A humble attitude in a leader encourages employees to interact regularly with experts in different departments to understand and relate to the diverse perspectives at work in the organization.

You must also guide employees in their understanding of AI. For human-AI interactions to be truly collaborative, employees need strong frameworks for thinking about how to work with smart machines. In airline safety, for example, pilots need more training to fly planes with collaborative autopilot systems. That's because, as Captain Shem Malmquist, a veteran safety and aviation accident investigator, told *Wired* in 2022, they "must have a mental model of both the aircraft and its primary systems, as well as how the flight automation works" to manage issues that could turn into catastrophic crashes. Only when employees have a clear model of their own strengths and weaknesses, and those of their AI tools, will they understand how AI can augment their work.

Reward workers for being human. Employees want you to tell them how you see their role in the human-AI collaborative process. They also want to know how they will be rewarded for the value that collaboration creates. For humans and AI to work together successfully, you need to establish clear guidelines for who is credited with what. Otherwise your employees may feel that you've downplayed their contribution and attributed the project's success largely to the AI.

To ensure that employees feel included, let them share in the rewards that come with the value that AI creates. Emphasize that in your view, humans are crucial to the performance of AI and therefore deserve appropriate acknowledgment. Even just a companywide email recognizing and celebrating someone's accomplishments can go a long way toward boosting morale.

AI ADOPTION IS a complex process that requires everyone involved to learn, question, and collaborate. How your company approaches it will depend on the level of your employees' technological acumen, your budget, and many other critical factors. But the approach I recommend is one that any company can take to optimize the process.

It should begin with managers' learning just enough about AI to feel confident communicating its importance to their teams. Then you need constant human-to-human connection among cross-disciplinary business units as well as meetings at which everyone feels free to speak openly. Such gatherings provide excellent opportunities for managers to show vulnerability, communicate their own questions, or even just listen to venting among colleagues. When your transformation is underway, and your business is focused on optimizing AI rather than simply implementing it, you should reward your employees for their uniquely human contributions. If they don't feel valued and respected, your transformation attempt will certainly fail.

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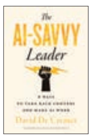

DAVID DE CREMER *is a professor of management and technology at Northeastern University and the Dunton Family Dean of its D'Amore-McKim School of Business. He is the author of* The AI-Savvy Leader: 9 Ways to Take Back Control and Make AI Work *(Harvard Business Review Press, 2024), from which this article is adapted.*

DECISION-MAKING & PROBLEM-SOLVING

Make Decisions with a VC Mindset

The key is to embrace risk, disagreement, and agility.

AUTHORS

Ilya A. Strebulaev
Professor, Stanford Graduate School of Business

Alex Dang
Venture builder and digital adviser

PHOTOGRAPHER DAEHYUK IM

DECISION-MAKING & PROBLEM-SOLVING

ABOUT THE ART
Daehyuk Im's series Up & Up *takes a minimalist view of the amusement park rides on Coney Island.*

VENTURE INVESTORS ARE THE hidden hand behind the most innovative companies surrounding us. According to research conducted by one of us (Ilya), venture capitalists were causally responsible for the launch of one-fifth of the 300 largest U.S. public companies in existence today. They have played an essential role in unlocking the power of the internet, the mobile revolution, and now artificial intelligence in all its forms. Apple, Google, Moderna, Netflix, Airbnb, OpenAI, Salesforce, Tesla, Uber, and Zoom—these firms disrupted entire industries despite initially having fewer resources and less support and experience than their mature, successful, cash-rich competitors. All these businesses could theoretically have emerged from within an established company—but they didn't. Instead, they were financed and shaped by VCs. Indeed, we estimate that three-quarters of the largest U.S. companies founded in the past 50 years would not have existed or achieved their current scale without VC support.

The question is, Why? What makes small and nimble venture firms from Silicon Valley, Berlin, and Beijing so good at finding and funding start-ups that go on to achieve tremendous success and drive innovative trends? What skills do venture firms have that experienced, networked, and powerful large corporations lack? And most important, are those skills replicable?

For the past decade, we have studied the most successful venture investors, analyzing how they make decisions and interviewing and surveying hundreds of their top leaders. We have also studied corporations, conducting numerous experiments focused on decision-making and working with many firms on their corporate innovation and venture efforts.

We've found that the way successful VCs make decisions is different from the way traditional corporations do: They use what we call *the venture mindset*. One of its hallmarks is a high level of comfort with failure. VCs expect up to 80% of their investments to fail. This is a feature—not a bug—of their business model. The investment thesis is that even if 19 of 20 start-ups fail, one investment will be a home run and cover the losses from all the failures combined—and then some. In other words, home runs matter; strikeouts don't.

VCs don't worry about protecting capital from failures and losses. They fear missing out on an opportunity that might change the destiny of a company or an entire sector. As Alex Rampell of venture firm Andreessen Horowitz (a16z) told us, "In the VC world, errors of omission are much more damaging than errors of commission." Bill Gurley of Benchmark Capital echoed that sentiment in a *Vox* interview: "If you invest in something that doesn't work, you lose 1x your money. If you miss Google, you lose 10,000x your money," he said. VCs don't seek common denominators; they look for outliers.

It's more important than ever for large companies to understand how VCs operate. The playbook of steady, incremental growth served corporations well for decades, but the era of stability and continuity is coming to a close. Longevity of incumbents has diminished dramatically: Only one in six of the companies on the inaugural 1955 *Fortune* 500 list remains on it today. In the late 1970s, the firms on the S&P 500 had been on that list for 35 years, on average; by 2019, the average tenure was closer to 20 years. And rapid advances in technology mean that even the most stable industries risk being upended by start-ups that can reach scale on ever-faster timelines.

Today, few companies are safe from disruption. Established firms are frequently competing directly with fast-moving VC-funded newcomers, whose approach to decision-making and innovation draws from the styles and methodology used by their investors.

Our research reveals that the venture mindset is characterized by several key principles: the individual over the group, disagreement over consensus, exceptions over dogma, and agility over bureaucracy. Guided by these principles, VCs speed up decision-making and prevent groupthink from torpedoing unconventional opportunities. In this article, we offer guidance for understanding when and how incumbents should wield the VC mindset to spur innovation—and secure their survival.

VCs don't worry about protecting capital from failures and losses. They fear missing out on an opportunity that might change the destiny of a company or an entire sector.

IDEA IN BRIEF

THE OPPORTUNITY

Venture capitalists' unique approach to investment and innovation has played a pivotal role in launching one-fifth of the largest U.S. public companies, demonstrating the power of the venture mindset.

THE CHALLENGE

Traditional companies often struggle to replicate the success of venture firms because of their aversion to risk and failure and their preference for consensus and stability.

THE SOLUTION

When faced with market changes or disruptive technology, big companies should adopt the venture mindset, prioritizing the individual over the group, disagreement over consensus, exceptions over dogma, and agility over bureaucracy.

> VCs realize that sometimes just a single person at the table may understand the potential of a big idea—and that person must be heard.

DECISION-MAKING & PROBLEM-SOLVING

WHEN TO ADOPT THE VC MINDSET

Embracing failure might be the VC mantra, but established corporations need to be more strategic about risk-taking. They have operations that they need to protect and can't "bet the farm" on a single idea. A simple rule: For routine decisions in a predictable environment, the venture mindset isn't needed. But in times of high uncertainty and disruption, corporations must think like VCs and be poised to make bold decisions.

Suppose a firm is planning to launch a modified version of an existing product or is conducting a feasibility study for a mine expansion. The level of uncertainty is reasonably low for such initiatives, underlying assumptions follow linear rather than exponential laws, and discounted cash flow numbers are readily estimated. Thus, the tenets of the venture mindset, which are focused on questioning everything, are not necessary or even helpful.

In contrast, suppose a firm is developing a radically new product or service line, is reallocating budget from traditional marketing to digital and social media campaigns, or is considering acquiring a digital start-up in response to a threat from disrupters. Risky moves like these hold enormous potential—but they are often rejected in traditional corporate settings because they don't easily generate the level of consensus required among various department heads and stakeholders to win approval. These are exactly the type of situations when corporations need to be fearless or, as Rampell put it to us, "conviction must beat consensus."

At Greylock Partners, the VC firm that backed Airbnb, Coinbase, Facebook, and many others, partners can wildly disagree but still trust one partner who insists on doing a deal. This rule arguably made Airbnb possible: After hearing the pitch by the company's founders, Reid Hoffman recounts in his podcast, his fellow investors were opposed to the idea. Understanding that universal approval often meant an idea was too obvious, he held firm despite the opposition.

Of course, the magnitude of an investment influences the level of caution that corporations should have. This is true even at VC firms. For extra-large commitments, VC investors ratchet up the level of consensus required. At Founders Fund, a prominent VC firm, partners are free to cut checks for smaller investments, which are often very early stage and thus are the most uncertain, if they can convince just one other partner out of seven that the idea is promising. As the investment size grows, however, the number of partners needed for approval also rises. Unanimity is never a requirement, though—even the largest investments can proceed with just five out of seven partners signing on.

At corporations, sponsors of extra-large projects must be mindful that risking everything on one investment is unacceptable. Even VCs tend to spread their capital across multiple ideas and have checks and balances in place. So corporate managers should garner support by testing their idea on a smaller scale or cultivating other internal advocates.

Let's now look more closely at the principles leaders can use to integrate the VC mindset into their organizations.

THE INDIVIDUAL OVER THE GROUP

VCs look for contrarian ideas because those are the ones that deliver outsize returns. They realize that sometimes just a single person at the table may understand the potential of a big idea—and that person must be heard. This is why VCs care so much about designing an environment that lets every individual in the room share opinions, concerns, and competing perspectives. At successful VC firms, individuals are not trumped by the group.

Promoting this principle, even loudly, isn't enough, however. Specific mechanisms and processes are required because, without them, groups tend to converge on a single idea almost immediately, often without even noticing that they're doing so. This well-known phenomenon is especially pervasive at large corporations.

One of us, Ilya, leads a course at Stanford where rapid convergence happens regularly. Students are split into "VC partnership" teams and asked to decide whether to invest in a slate of real-world start-ups. The start-ups are at the VC funding stage at the time of the class, so nobody knows which of them will ultimately succeed. Students review pitch decks, grill the founders, conduct due diligence, and then discuss with their teams which start-ups they want to fund. Ninety percent of the time, teams reach agreement among all six members on which ventures they want to back. Even when individuals make counterarguments, their voices are usually ignored, and consensus is reached quickly.

The surprise comes when the results of the various teams are revealed. Groups almost always evenly split on their assessments, with half the teams believing that a given start-up is a clear winner and half certain that it is a loser. Confronted with the results, students realize that they might have ignored contradictory perspectives within their groups and jumped to a consensus opinion too quickly.

Are experienced managers different from MBA students? During the Covid-19 pandemic, our corporate innovation workshops shifted to Zoom, offering a unique window into decision-making within large organizations. This virtual environment allowed us to enter breakout rooms and observe team discussions. And we saw the same pattern: Teams quickly came to consensus on decisions, especially when influenced by a senior member or a perceived expert.

We've known about the perils of groupthink since Irving Janis's foundational 1972 study of military disasters. Social psychologists such as Daniel Kahneman have since studied various tactics for improving group decision-making. But overcoming groupthink is tough, and most organizations have failed to crack that nut. VCs use three tactics to avoid this pitfall.

Keep teams small. Many VC partnerships have only three to five partners. Even when you include junior team members, discussion groups still tend to be intimate and informal. This approach is frequently used by tech companies. Think of Amazon, where meetings with more than 10 participants are quite rare. Communication in smaller teams is faster and clearer, and there is greater accountability. The setup not only streamlines decision-making but also ensures that diverse perspectives—crucial for innovative outcomes—are heard and considered.

Ask for feedback in advance. Many VC firms, such as Emergence, one of the first investors in Zoom, ask team members to share their position on an investment opportunity in advance of meetings. Each participant reads the investment memo ahead of time and submits an opinion independently, before hearing the opinions of others. This strategy applies not only to investment decisions. Google's policy is to ask members of an interview committee to record their comments on each candidate individually, before they meet to discuss whom to make an offer to.

To debias thinking even further, some VC firms make the advance feedback blind. When participants receive all the feedback to review prior to the discussion, they still don't know what the senior partner thinks.

Juniors speak first. Often, junior investment team members do most of the hands-on research: talking to customers, conducting reference calls, analyzing the market, preparing the investment memo. So they have unique insights into many aspects of an opportunity, which they should be encouraged to share. To provide fresh perspectives on customers, companies may want to consider bringing junior employees to management board meetings. Gucci and AccorHotels did exactly that when they created shadow boards composed of Millennials to help them get closer to their customers.

Allowing junior employees to speak first can also counteract entrenched power dynamics. People tend to pay immediate attention and defer to the most senior person in the room, so the best approach is to keep executives silent and let others take the floor—whether in a boardroom, a VC meeting, or the Oval Office. "You're the boss. You talk last" is the advice of Jeff Bezos, himself a venture-backed founder who adopted many of the best practices of the VC mindset at Amazon. "Let everyone else talk so that they don't get swayed by your opinion."

With these three rules in place, you increase the chances that every voice in the room will be heard. But this is only the first step. You also need to manage expectations about reaching agreement.

DISAGREEMENT OVER CONSENSUS

How does the performance of VCs that allow some disagreement about proposed investments compare with that of VCs that require unanimous approval? Ilya and his colleagues studied 700 VC firms and their IPO rates—that is, the percentage of their portfolio companies that go public, a key indicator of success—and found that firms with high IPO rates were less likely to adhere to a unanimity rule in decision-making. Those requiring unanimous approval often performed worse, particularly in highly uncertain environments with many unknowns. Research reveals that firms whose investors don't force themselves to get on the same page tend to outperform others.

Unlike VC firms, corporations are prone to seeking consensus. Media stories recounting agonizingly long decision-making processes abound. Consider the British broadcaster BBC, where six or more meetings were required to make most decisions. Or Mattel, where under previous leadership, managers regularly sat through presentations of hundreds of slides as decisions dragged on and on.

To develop a venture mindset, senior leaders should consider two specific mechanisms from the VC tool kit.

Assign a devil's advocate. To ensure that opposing views are heard, many VC partnerships make it a standard practice to assign the role of contrarian to one person or to a small team. For example, a16z often designates a "red team" of people who are tasked with arguing against a deal. Similarly, when Warren Buffett contemplates Berkshire Hathaway's biggest acquisitions, he hires two advisers: one to support a case for the investment and the other to make the case against it. By letting disagreement flourish, companies ensure that more time is spent weighing both sides of the most controversial ideas.

Invoke a "consensus minus x" rule. To further fuel a shift in mindset, cultivate a tolerance for some degree of unresolved opposition when moving forward with an idea. Many VC firms have a version of the "consensus minus one" or "consensus minus two" rule, in which a decision is allowed go through even if one or two skeptics remain unconvinced, as long as the proponents are sufficiently enthusiastic.

At Venrock—the firm behind Intel, Apple, and DoubleClick—partners vigorously debate every deal, and then the partner who initially presented the idea makes the final investment decision unilaterally. "Our investors always ask me, 'How does your investment committee work?'" Venrock's partner Bryan Roberts told us. "Well, we don't have an investment committee. No voting. At all." All partners provide their perspective, question the lead partner's judgment, and play devil's advocate. But the decision is ultimately in the hands of one partner.

If nobody opposes a decision or raises critical issues, that often means that people in your organization are not motivated to ask tough questions. Silence in the room does not always mean consent; rather, it may be a harbinger of disaster. As Alfred P. Sloan of General Motors once said at a meeting, "Gentlemen, I take it we are all in complete agreement on the decision here?" Hearing no objections, he continued, "Then I propose we postpone further discussion of this matter until our next meeting, to give ourselves time to develop disagreement." He understood that perhaps the most alarming sign is no disagreement at all.

DECISION-MAKING & PROBLEM-SOLVING

EXCEPTIONS OVER DOGMA

If silence occurs too often, it is probably time to revisit the rules and introduce more exceptions. Even when an idea is rejected, VCs make room for individuals to find ways to keep it alive. To institutionalize the belief in exceptions, VCs make two practices standard.

Encourage alternative paths. Zoom may never have become the reality of our daily lives if one VC firm hadn't believed in allowing exceptions to the rules. Qualcomm Ventures, Zoom's early backer, initially rejected the opportunity to invest in the start-up. Most of the team found the idea too controversial and risky: Cisco, Skype, and Google were all already in the teleconferencing space. However, the Qualcomm team had three strong believers in the Zoom idea: Nagraj Kashyap, Patrick Eggen, and Sachin Deshpande. They took advantage of a work-around that allowed them to make a relatively small seed investment that didn't require the full team's approval.

Similarly, the company that launched PowerPoint may not have become successful if not for Dick Kramlich. His colleagues at the VC firm NEA declined to put more money beyond the initial investment into the company that created the tool. But in a break from usual practice, NEA allowed Kramlich to open his own wallet and become an angel investor. It was a risky bet, but when Microsoft acquired the enormously successful company, in 1987, it worked out pretty well for him and NEA.

Institute an anti-veto rule. When Kashyap left Qualcomm Ventures to set up M12, the venture arm of Microsoft, he denied himself veto power. The team was welcome to go against him and invest in a deal if he didn't like it. He could not veto the decision. However, he reserved the right to move forward with an investment even if everybody else was against it, calling it anti-veto power. The aim was to help unconventional opportunities secure funding. Consider M12's investment in the game-based learning platform Kahoot. Many were skeptical about it, and the team voted the investment down. Kashyap went ahead with it anyway. When Kahoot went public, in 2021, the returns on the deal exceeded the total capital of all investments M12 had made that year.

This practice has also been key to success at Venrock, where every partner can make investments even if the rest are skeptical. Without this, the Dollar Shave Club, a successful grooming company, may not have existed. The reasoning behind the approach is clear, according to Nicolas Sauvage of TDK Ventures. "We are not in the business of averages but in the business of extremes," he told us. "Truly innovative ideas and companies are rarely cookie-cutter ones. So as not to miss them, no one—including me—has a veto right over what our investment directors want to proceed with."

AGILITY OVER BUREAUCRACY

Almost nothing is worse for a start-up founder than waiting months for a response from venture investors. And nothing could be worse for VCs than losing out on a great deal to competitors who move more quickly. So smart venture investors have made their processes superagile. For instance, FJ Labs can't promise to invest in your ideas (indeed, 97% of pitches are rejected), but it guarantees a response within two weeks. By moving so quickly, it was able to invest in Coupang and Rappi, popular apps in Korea and South America, respectively.

In our experience, similar decisions within traditional firms take months and involve many people from disparate parts of the organization. Bureaucracy creates decision paralysis—and for innovation, moving slowly and being indecisive is a death sentence. Take IBM and its corporate innovation entity, Fireworks Partners. The fund was launched with fanfare but didn't survive even three years before disappearing. What is astounding, as Josh Lerner of Harvard Business School found, is that some of the first investment opportunities proposed to the fund were still in the internal review process when IBM gave up on the entire Fireworks venture.

What is the cure for analysis paralysis? VCs have three answers.

Set ambitious timelines. The only way to find out if an idea will skyrocket or fail is to try it. Spending months debating possible outcomes won't dramatically reduce the risk. NFX, the Silicon Valley–based firm and investor in DoorDash, Lyft, and Trulia, sets its bar for speed exceptionally high. It makes this promise to founders on its website: an initial response in four business days; a decision in nine days; money in the bank in three weeks. Note that NFX, like other VC firms, does not commit to seeing the project through no matter what. It gets in the door quickly by writing the first (and often a sizable) check but reserves the right to pull out at future investment stages. Speed does not imply a bias for yes, of course. According to Ilya's research, VCs close the deal on only one of every 101 opportunities they consider, on average. But being picky doesn't mean you can afford to be slow.

Imagine how such speed could transform many corporations. Ilya and his Stanford research fellow Amanda Wang

> The only way to find out if an idea will skyrocket or fail is to try it. Spending months debating possible outcomes won't dramatically reduce the risk.

conducted a study of more than 160 VC arms of large corporations around the globe. A comment from one of the interviews summed up a common sentiment: "Quite honestly, if something came to us completely fresh with a six-week deadline…I wouldn't ruin our reputation by pretending we could do it. I'd say, 'This is for someone else.'" Lack of speed is one reason many of the best start-ups don't bother knocking on the doors of corporate venture entities—and why many corporate investment arms don't reach their fifth birthday.

It may seem that VCs have an advantage in being agile because of their small size, but even very large organizations can act fast. McDonald's rolled out its instant delivery offering in a matter of weeks, having sensed the threat posed by delivery apps from other fast-food chains and new entrants. Amazon, which has more than one million full-time employees, managed to launch its Prime Now service in just 111 days. WeChat, an app with more than one billion users today, was once a side project of the giant tech company Tencent, but seven engineers launched it in just a few months.

Avoid many approval layers. VCs tend to be small, but it's their streamlined operating model that is even more important than size in their ability to move fast. In VC firms, once a partner decides to invest in a start-up, the deal can quickly be finalized. But their corporate counterparts, according to the Stanford research, tend to use a two-tier decision-making process, often requiring additional approval by a committee outside the team. Syndication calls, premeetings, and corporate politics immediately seep in. The number of bosses included at each stage does more than slow down the process. It also makes decisions "regress to the mean"—that is, to safer and less controversial proposals.

To avoid that problem, companies such as Amazon, Google, and Netflix give more decision-making rights to their executives and let them decide what to invest time and money on. As with VCs, the charter and goals are carefully defined, but after that the individuals can make investment calls themselves without jumping through bureaucratic hoops.

Don't clutter the funnel. Innovation dies in the bureaucratic swamp. What you need is a deal flow. Consider JLabs (Johnson & Johnson's incubator), which reviews thousands of applications for collaborative partnerships and accepts only a small fraction of them. To carefully review and process so many opportunities, J&J must be disciplined about decluttering its funnel. It can't leave opportunities sitting there for extended periods.

Some companies maintain a broad slate of projects, many of them with high-level champions, but fail to significantly advance any of them. Indeed, in our work with large companies, we have found it common for senior executive teams to have the same discussions about the same initiatives in successive meetings, without ever coming to a clear resolution. That makes it hard for new ideas to gain traction or receive adequate attention from decision-makers, who might be preoccupied with revisiting existing proposals.

LARGE, INCUMBENT CORPORATIONS are often worthy of admiration. Who could fail to stand in awe of FedEx and its incredible logistics network or admire Toyota for its pioneering advances in manufacturing efficiency and reliability? But what works well in centrally controlled environments may not succeed in times of uncertainty or disruption. As we have seen, the traditional corporate approach can be costly: Former stalwarts GE, Kodak, Sears, Nokia, and Nortel all experienced serious—sometimes fatal—challenges because of disruption in their industries.

In contrast to slow-moving businesses, VCs are not consensus seekers. They love arguing, fighting for their view of the future, hearing new perspectives, and kicking ideas around. "There are no firm rules in the venture capital business," VC investor Reid Dennis once said, "except that there are no firm rules." Our research, however, suggests that VCs do have a playbook, full of creative and successful practices, that decision-makers everywhere can use to emulate an industry that has backed the most innovative companies in the world.

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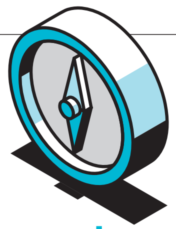
ILYA A. STREBULAEV *is the David S. Lobel Professor of Private Equity and a professor of finance at the Stanford Graduate School of Business. He is also the founder of the Stanford GSB Venture Capital Initiative and a research associate at the National Bureau of Economic Research.* **ALEX DANG** *is a venture builder and a digital strategy adviser. He was a partner at McKinsey and EY and launched numerous businesses at Amazon. They are the authors of* The Venture Mindset *(Portfolio/Penguin Random House, 2024), from which this article is adapted.*



Experience

Advice and Inspiration

MANAGING YOURSELF

Advice for the Unmotivated

How to reignite your enthusiasm for work

by Robin Abrahams and Boris Groysberg

IN VIRTUALLY EVERYONE'S career, there comes a time when motivation and interest vanish. The usual tasks feel tedious. It's hard to muster the energy for new projects. Though we go through the motions of being good employees or managers, we're not really "there." We become ghosts or zombies: the working dead.

Boston University's William Kahn first diagnosed this problem as *disengagement* in the 1990s, and three decades later it's still rampant. According to the most recent Gallup polling, only 23% of people around the world are engaged at work. (While that's a record high, it's a pretty dismal one.) A full 59% are not engaged—that is, they "put in the minimum effort required" and are "psychologically disconnected from their employer"—while 18% are highly disengaged and deliberately acting against their organizations' interests. A recent American Psychological Association survey likewise found woefully negative attitudes among workers: In it 31% were emotionally exhausted, 26% felt unmotivated to do their best, 25% felt "a desire to keep to themselves," and 19% reported irritability or anger toward colleagues and customers.

We all have witnessed this phenomenon—as customers encountering

Illustrations by OLIVIA FIELDS

> It’s important to take time to step back and objectively analyze your situation and feelings. You need distance and perspective to make wise choices.

checked-out baristas and unhelpful retail clerks, and as colleagues and bosses dealing with underperforming, apathetic team members. But what happens when you yourself start to feel dead at work?

This year we posed that question to HBR readers and HBS executive-education program participants. We heard back from nearly 90 of them, from countries around the world. They described feeling powerless, anxious, and depressed; suffering from insomnia; struggling to perform; having intense impostor syndrome; and repressing their authentic selves at work. But disengagement isn’t just unpleasant to experience. It can also lead to self-defeating behaviors—cynicism, social withdrawal, and learned helplessness—that prevent people from making positive changes in their lives.

Most advice on how to address this problem is aimed at managers and organizational leaders who have the power to influence the factors that promote engagement. However, it is possible for individuals to take steps to sustain their motivation or recover it, even after a period of deep disengagement and even in the most stultifying of jobs. As one HBR reader, Mason, the CEO of a talent agency, put it, motivational valleys are “a natural part of the professional journey and can last from a few hours to a few months—and affect you no matter how high or low you sit on the org chart. But there are ways out of the rut.”

After synthesizing research on workplace motivation and experimenting with various strategies, we’ve developed a four-step process for reenergizing yourself. It isn’t about creating a relentlessly upbeat “rainbows and lollipops” view of work. Many people disengage for understandable reasons, including underlying problems in their teams or organizations that need to be dealt with at some point. Our process, which we call DEAR—for *detachment, empathy, action,* and *reframing*—is meant to interrupt the cycle of numbness and paralysis and restore your sense of agency so that you’re able to effectively address such challenges.

DETACHMENT

Though this may sound like a counterintuitive first step for overcoming disengagement, it’s important to take time to step back and objectively analyze your situation and feelings. When people are unhappy—at work or in general—they interpret events and information negatively. Bad things appear worse than they are, as if they’ll last forever. And they seem to always be happening to you no matter what you do.

You need distance and perspective to make wise choices; otherwise you’re merely reacting, in a fight-or-flight kind of way. One of the biggest career mistakes people make, for example, is “running from and not to”—taking a new job purely to escape the old one. The following detachment practices can help free you from the cognitive distortions that cloud your decision-making.

Reflect and then break away. At the end of your workday, review what went well and felt meaningful to you. This practice has been shown to improve people’s moods and engagement. Then mentally disconnect from work, perhaps with a physical ritual like straightening your desk, putting your laptop in a closet, or signing out of your office email account. Try not to think about work at all for the rest of the night, to allow yourself time to restore your mental energy. Research reveals that this enhances well-being and reduces exhaustion, improving your resilience the following day.

Meditate. Research from Herbert Benson of the Benson-Henry Institute at Massachusetts General Hospital shows that 10 to 20 minutes of extremely simple meditation twice a day produces a relaxation response that improves both physical and mental health and reduces the fight-or-flight response. You don’t need to follow any complicated techniques; just set aside the time to concentrate on an image or a repeated phrase while either sitting still or moving rhythmically. When distracting thoughts intrude, strengthen your focus.

Move your body. A considerable body of research shows that exercise—even a single session—reduces stress and improves mood and cognitive function. Physical movement replenishes your psychological energy, which will help you reengage at work. Even a brief stretch or walk around the office—or better yet, outside—can make a difference. Some activities can serve multiple purposes: Practices such as yoga or tai chi can be combined with meditation; sports, outdoor activities, and exercise classes can be opportunities to socialize.

Think in the third person. Odd as it might sound when people refer to themselves this way, doing so—at least in your thoughts—can be surprisingly helpful. Studies show that when people

> Helping others is one of the best ways to feel empowered and make work more meaningful. Interestingly, it has been shown to lessen burnout more than receiving help does.

use their names, titles, or a third-person pronoun instead of "I" or "me" in their inner monologues, they're better able to control their thoughts, feelings, and behavior under stress. This technique helps trick the brain into viewing your problems as if they were someone else's—which are always less anxiety-inducing than your own.

Several people who responded to us wrote about the power of detaching. "Doing less at work gave me space to discover that my lack of motivation was influenced by other things," said Marta, a team leader in the Polish office of a U.S. IT company. "I spent a lot of time working on myself. I figured out what motivates me, and now I do enjoy my job again."

Jacki, a project management director for a biotech company, had left two previous jobs because of feeling disengaged. When she noticed signs of waning motivation in her current work, she turned to reflection rather than recruiters, arranging to take three weeks of paid short-term disability leave. "I realized that I needed to reset the spiral," she said. "I went to therapy and did a lot of thinking and journaling to identify what was causing the issue."

Mason likewise told us that deep introspection and establishing clear boundaries between his work and his personal life helped him recharge professionally. "It's easy to fall into the trap of overworking when trying to regain engagement," he said. But he found that setting and sticking to a specific work schedule, avoiding email during off hours, getting a good night's sleep, spending time on leisure pursuits such as DJing and pickleball, and taking staycations or even just short breaks were more effective ways to boost his motivation back at the office.

EMPATHY

When you're feeling unmotivated at work, you might beat yourself up for your lack of interest and ambition. But compassion toward yourself is crucial for reengagement. It's also important to resist the impulse to withdraw from your manager and colleagues. We all have psychological needs—for social interaction, intellectual satisfaction, positive regard from others, feelings of accomplishment. And one of the most effective ways to meet those needs is to help others meet theirs.

Practice self-care. Do you feel you're just a cog in the machine at work, an interchangeable human resource being deployed to achieve the organization's goals? If so, remind yourself that your thoughts, feelings, and values matter—and honor them by being kind to yourself. The people who responded to our email and social media call did this with a range of rituals such as starting the day with a really good cup of coffee, playing energizing music, and finding a therapist to see regularly.

Treat people as people. No matter how you're feeling, you can always improve your interactions with colleagues and customers by making eye contact, observing social niceties, and appreciating the contributions of each person. A hallmark of disengagement is depersonalization, or feeling less than fully human. Fight it by recognizing the humanity of others. For example, Manjunathan, an automotive-parts warehouse manager and consultant in Bengaluru, India, told us that his trick for regaining motivation is to simply pay more attention to his subordinates' "impeccable workmanship."

Ask questions. Empathy requires curiosity about other people. Observe their behavior, listen to what they say, ask questions, and pay attention to their responses. Try to understand the differing views and knowledge of your constituencies—your customers, bosses, and peers in other departments. Deliberately seeking out new perspectives increases intellectual engagement, builds workplace relationships, and can lead to new insights on how to change or redesign an unrewarding job.

Look for friends. Try to find people you actually like at the office. One of Gallup's 12 elements of employee engagement is "I have a best friend at work," and the organization reports that it is an undeniable predictor of better performance. So seek out people you connect personally with and try to build real friendships. The idea is to make work a more enjoyable, interesting place to be even if the job itself is frustrating or deadening.

Help others. This is one of the best ways to feel empowered and make work more meaningful. It can be done as part of your job or in smaller, "extracurricular" ways, such as organizing the office refrigerator, explaining the email system to a new hire, or mentoring a less-experienced colleague. Engaged employees tend to be good workplace citizens, but you don't need to feel engaged to assist other people. Interestingly, providing help has been shown

to lessen burnout more than receiving help does.

Nearly everyone who shared stories with us about losing and regaining motivation emphasized the importance of empathetic connections. Patricia, an administrator at a university in Mexico, told us that during periods of low engagement she makes a point of acknowledging and rewarding others' good work (as well as her own). Anna, a health care professional in Canada, said that she books coffees, lunches, and check-ins with coworkers, including those she doesn't know. Giavana, who works in the food industry, reaches out to clients and does extra briefings and meetings with them. Tim, the chief technology officer of an IT company in the Netherlands, said he engages in "*gemba* walks"—the Japanese practice of touring the workplace—which allow him to "communicate more with colleagues, celebrate their successes, and express gratitude." And Mason described initiating conversations with colleagues, mentors, industry peers, and his therapist, who offered not just fresh insights, new perspectives, and practical solutions but also "a sense of camaraderie and understanding, which in itself can be a significant motivator."

ACTION

Research shows that disengaged employees act out: They seek escape through drinking or drugs; spend excessive amounts of time surfing the internet or taking care of personal business at work; and often behave unprofessionally. (Randstad USA found that 40% of disengaged workers played pranks on coworkers.) But that rebellious energy can be channeled in more-productive ways, both small and big.

Tackle the little stuff. Research shows that when you make progress on even minor, mundane tasks, your mood improves—as do the chances that you'll be able to accomplish bigger jobs. Our HBS colleague Teresa Amabile calls this "the power of small wins," which her study of workers' daily diaries shows are a key driver of engagement. So, though best practice might be to tackle your most important work first thing in the morning, those lacking motivation might want to tick some easy-to-complete items off their to-do lists first instead.

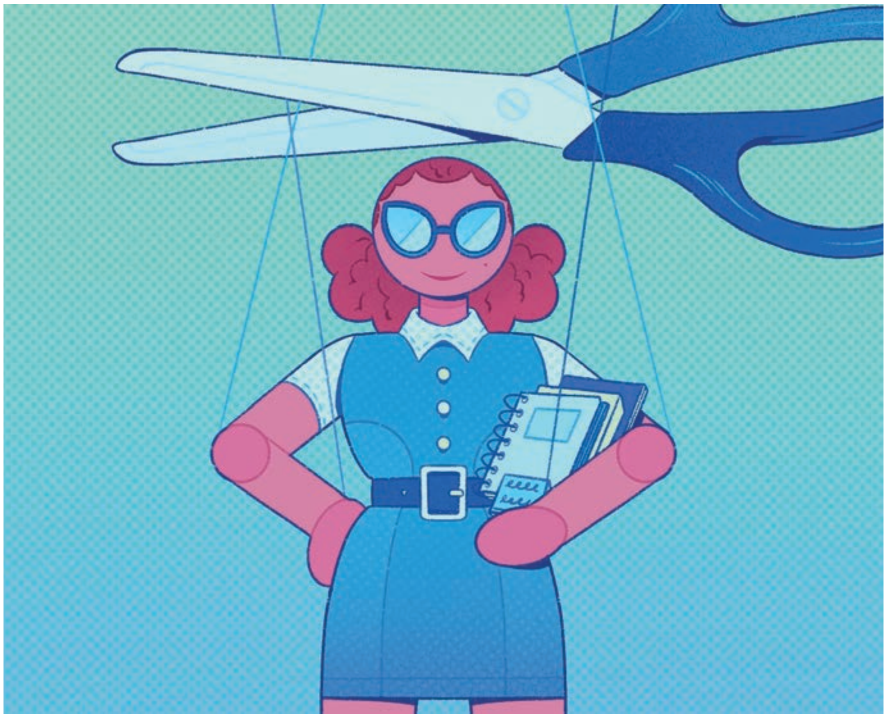
Invest in outside activities. Multiple studies show that rewarding nonwork activities actually make people better—less distracted, more energized—at unsatisfying jobs. Disengagement and engagement tend to transfer from one setting to another. Hobbies, volunteer jobs, and "side hustles" can give you a sense of empowerment and reconnection that carries over to your work. If your job is failing to provide meaning and satisfaction, finding those things elsewhere can make it feel more tolerable.

Job craft. Many workers have some freedom to redefine their jobs to match their strengths and passions, an activity organizational psychologists refer to as "job crafting." It can be additive (vying for more-interesting responsibilities or better resources) or subtractive (trying to minimize your load or the emotional or cognitive impact of the work). Be strategic: Narrowing your focus to mission-critical tasks may be necessary to keep your performance in the acceptable range and help reduce stress, but it can block the kind of curiosity and relationship building that could get you out of a rut.

Gamify. Even the most meaningless tasks can become strangely motivating if you turn them into a puzzle or a competition, as the makers of various tracking apps—such as Streaks and Habitify—can attest. So play mental games to engage your competitive drive. Give yourself time limits and gold stars if you achieve goals. The games don't always have to be about rewarding productivity—if it takes Buzzword Bingo to keep you awake during a mind-numbing meeting, so be it. If you can find colleagues willing to play along, that's even better.

Pretend. Research shows that simply imagining that you're someone else can enhance your performance, at least in the short term. In one study, people asked to envision themselves as "eccentric poets" exhibited more creativity than those asked to envision themselves as "rigid librarians." Children who were told to make believe they were superheroes persevered longer at a boring task and showed improvements in executive function. (Batman is no quitter!) Like taking alternative perspectives or thinking in the third person, asking yourself how a favorite mentor or fictional character would handle a situation can interrupt negative mental-feedback loops. It can also reconnect you with your more playful, imaginative side.

Dress the part. Studies indicate that clothing can help you get into character at work. For example, research subjects who wore doctors' lab coats performed better on tasks demanding attention than did subjects who were told they were wearing painters' coats or who merely saw a doctor's coat. In the superhero study, children wore capes to help them get into their roles. And when a Japanese train-cleaning company changed its employee uniforms from drab, "invisible" jumpsuits to brightly colored ones, workers felt more noticeable and perceived their jobs to have higher status. (They were transformed from janitors to hosts.) Given



the rise of remote work and increasingly casual office attire, three-piece suits or pearls and heels may not be appropriate. But you can still have dedicated work clothes that make you feel professional and confident and convey that self-perception to others.

Danira, a Luxembourg-based lawyer, takes simple actions to get herself going when she's feeling unmotivated. "I start with little tasks that require no complex thinking or preparation—for example, cleaning my desk, bringing books back to the office library, ordering office supplies, booking a table for lunch," she told us. "Accomplishing them gives me satisfaction, which often triggers the desire to accomplish bigger tasks."

Others described taking bigger steps to reengage. For example, Mason, the talent agency CEO, enrolled in an online course, which eventually led him into a part-time degree program. After Jacki, the biotech manager, came back from her leave, she negotiated to take on more and different work assignments and to be relocated to an office where she would feel less isolated. Manjunathan, the Indian warehouse manager, said that he teaches aspiring professionals how to use Microsoft Excel and Google Sheets on the side "as a passion."

REFRAMING

You can reframe your thinking about work in two ways. First, by asking yourself who you are in your job, and second, by considering what role your job plays in your life.

Examine your work identity. Many of us have informal roles at work—for example, teacher, visionary, logistics person. Which ones do you play? Which do you like and feel authentic and comfortable in? Try coming up with a title that describes your unique role or work style—a simple intervention that has been shown to help employees recognize the more meaningful and rewarding elements of their jobs.

Look at the big picture. Concentrate on the higher-order purpose of your work. This is the classic "one man is laying bricks, the other is building

> Research shows that simply imagining that you're someone else can enhance your performance.

a cathedral" mindset shift, and it really does work. Multiple studies have shown that people can perform unpleasant or boring tasks better and longer when they understand how those tasks are connected to a larger goal. Instead of the how and what—the process of a task—focus on the why, the reason for doing it. Filling out forms doesn't feel rewarding, but winning a grant for your organization will.

Consider how others benefit from your work. This is one of the most effective ways to reframe your job. You may help others inherently by doing your work or perhaps by being your family's breadwinner, for example. A vast body of research has shown that this focus can help motivate people through disagreeable tasks. In one study high school students reminded of the "self-transcendent" reasons for their education (for instance, that they would be able to make the world a better place) showed sustained improvement in difficult classes. People with challenging jobs—telemarketers, trash collectors, orderlies—found more meaning in them and did them more efficiently when they thought about how their work benefited others. As the study authors put it, "Prosocial trash men do not find trash more appealing, but they collect it more effectively."

Corey, a recruiter in Canada, told us that during a recent spell of disengagement he worked to see negative experiences as opportunities. "For example," he said, "when leadership set impossible expectations, I would think, *How would I do it better if I were a manager?* and *Would a reasonable person be satisfied with my work?* In going through that, I realized that my love for my responsibilities, my field, and my contributions was always present."

Mason tries to recast mundane tasks as stepping stones toward his larger objectives and career goals. Anna, the health care worker, asks herself, How do I matter? "Understanding your unique strengths and how you can add value helps," she explained. Laura, a welfare officer at a UK university, focuses on the students she's counseling: "I ask them what has been most helpful about our sessions or what they'll take away from the conversations we've had," she said. "And then it hits me: My work is useful. I am helping young people in their life's journey. And—bang!—my motivation is back."

EVEN IF YOUR job is not what you want it to be, the steps we've described here can help you reengage at work. All these things—giving yourself distance, acting empathetically, channeling your energy productively, and reframing your thoughts about work—will improve your mental health, make you better at your job, and increase the odds that something good will happen in your professional future.

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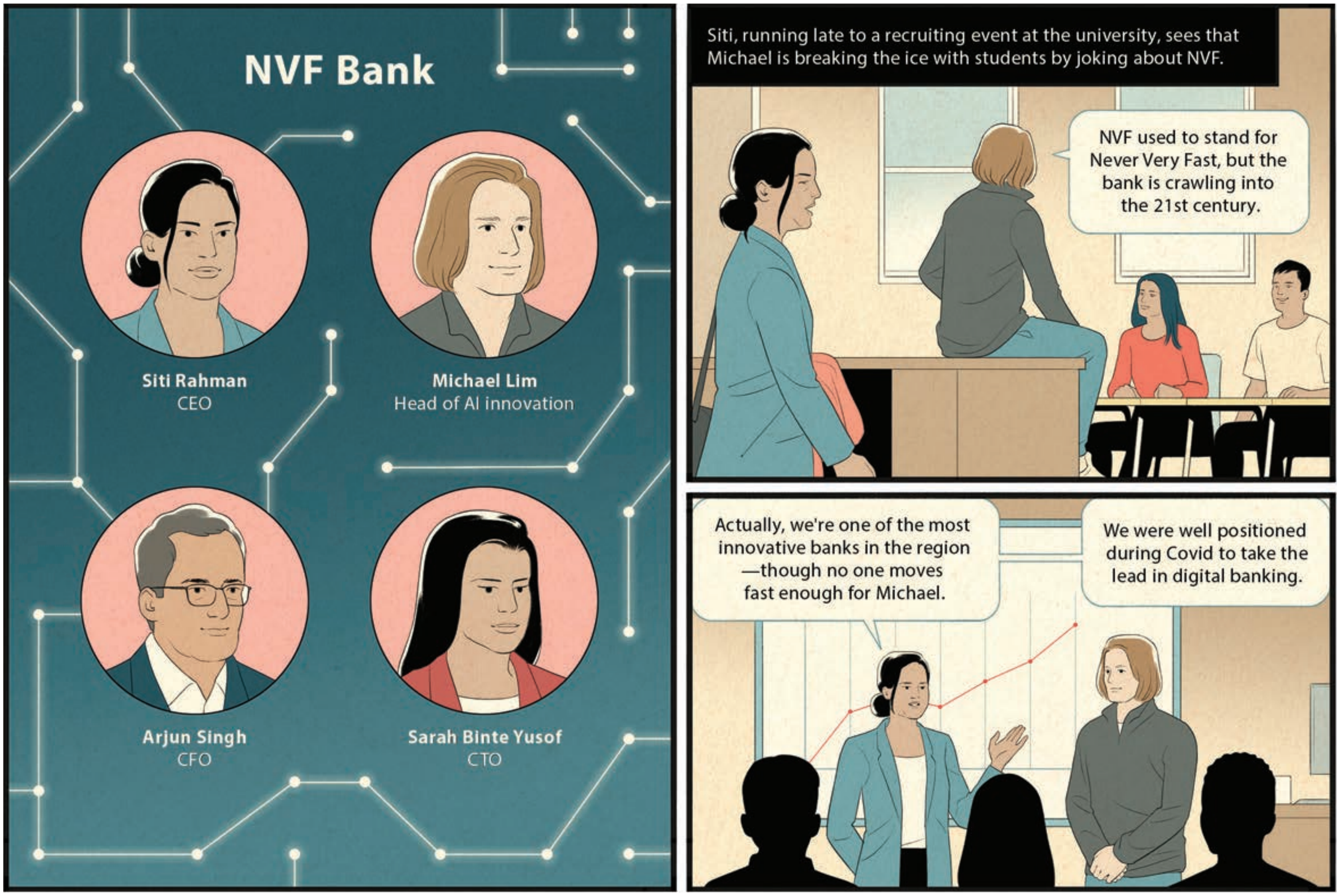
ROBIN ABRAHAMS *is a research associate at Harvard Business School.* **BORIS GROYSBERG** *is a professor of business administration in the Organizational Behavior unit at Harvard Business School and a faculty affiliate at the school's Race, Gender & Equity Initiative. He is the coauthor, with Colleen Ammerman, of* Glass Half-Broken: Shattering the Barriers That Still Hold Women Back at Work *(Harvard Business Review Press, 2021).*



Case Study
How Aggressively Should a Bank Pursue AI?

by Thomas H. Davenport and George Westerman

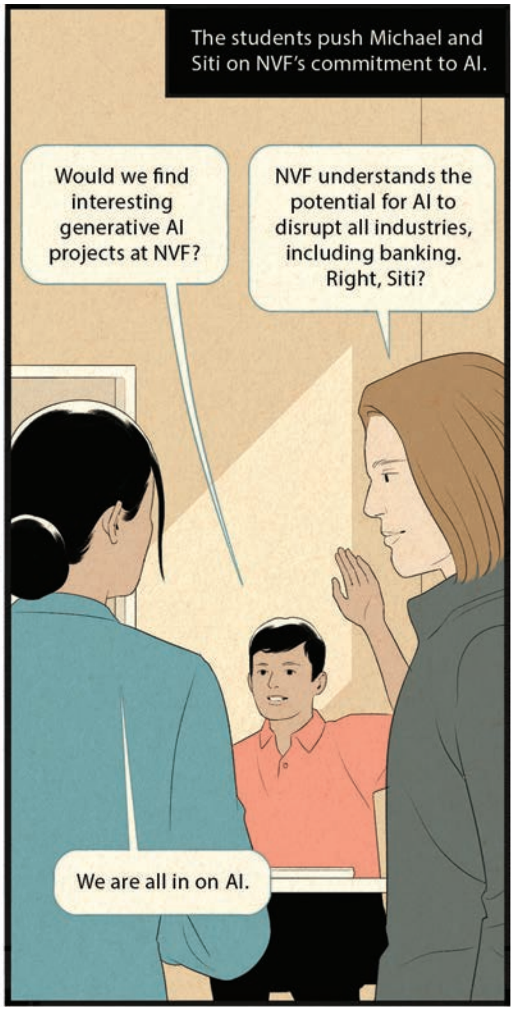
HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts.

SITI RAHMAN, THE CEO OF Malaysia-headquartered NVF Bank, hurried through the corridors of the university's computer engineering department. She had directed her driver to the wrong building—thinking of her usual talent-recruitment appearances in the finance department—and now she was running late. As she approached the room, she could hear her head of AI innovation, Michael Lim, who had joined NVF from Google 18 months earlier, breaking the ice with the students. "You know, NVF used to stand for Never Very Fast," he said to a few giggles. "But the bank is crawling into the 21st century."

"Actually," Siti said, entering the room, "we are one of the most innovative banks in the region, though no one moves fast enough for Michael."

Michael laughed, but Siti made sure he saw her look of rebuke as she walked to the front of the room. In recent weeks, Michael had been agitating for a huge investment in artificial intelligence, and tensions had developed between Michael and pretty much everyone at the bank other than people in his department.

Illustrations by **ANUJ SHRESTHA**



Siti took a deep breath and gazed out at the students. "More than a decade ago, NVF began a digital transformation," she began. She clicked on a slide showing the first phase, from 2009 to 2014, when the bank achieved a 10% CAGR in income and 15% in net profit. "We achieved this by investing with discipline," she explained. "We green-lit back-office AI and digital projects with low risk and clear ROIs—ways to predict ATM cash-outs, identify high-performing sales executives at risk of attrition, detect fraudulent financial activity, and so on."

Her next slide was a collage of various global banking awards that NVF had collected in the past year. "We were well positioned during Covid to take the lead on digital banking," Siti says. "And the future is very bright."[1]

The moment she finished talking, a hand shot up at the back of the room. "What you've described is business intelligence and legacy machine learning. Most of us here are more interested in generative AI. Would we find interesting projects at NVF to work on?"

Siti smiled with the smooth, unruffled charm that had helped her handle investors, journalists, and board members throughout her career. "At NVF you'll find people much like yourselves—we've hired more than 400 experts in technology and AI from some of the world's leading tech companies. Like Michael, who came to us from Google."

The student's hand shot up again. "I'm sorry, but you haven't answered my question. Would we be working on generative AI?"[2]

Michael stepped forward. "Look, NVF understands the potential for AI to disrupt all industries, including banking," he said. "We as a bank are all in on AI. Right, Siti?"

Siti nodded, with only the faintest trace of a grimace on her face. "That's right, Michael. We are all in on AI."

THE HUMAN TOUCH

"Good afternoon, Siti," Arjun Singh said in his deep baritone as Siti entered his office with a smile on her face. NVF's CFO, Arjun had been at the company for 40 years, having started as a controller at one of the bank's first branches. He and Siti had a close relationship, and he treated her with avuncular kindness.

"Arjun, you know why I'm here," she said with a twinkle in her eye. "I'm coming to ask you for some pocket money. We need to up our investment in AI."

"How much are we talking about?" Arjun replied.

"I don't know yet. Michael is building the proposal with Sarah," Siti said, referring to Sarah Binte Yusof, NVF's chief technology officer. "But it will probably have a substantial impact on our balance sheet for the next few years."

"Siti, you know I support you," Arjun said. "And I'm no fuddy-duddy. I've seen what these LLMs can do. But I also remember how impressive it was when IBM's Watson won *Jeopardy!*"

Siti winced at the memory. Shortly after Watson's game-show success, NVF had launched a highly publicized program with IBM to help wealth-management customers with investing advice—and it failed. The technology couldn't make sense of charts and graphs. Such an impressive technology overall, Siti reflected, but that weakness had sunk the whole project.

"I fear we are chasing the next hype cycle," Arjun went on. "We've been well served by investing only in AI that offers a solid ROI and managing to that ROI."[3]

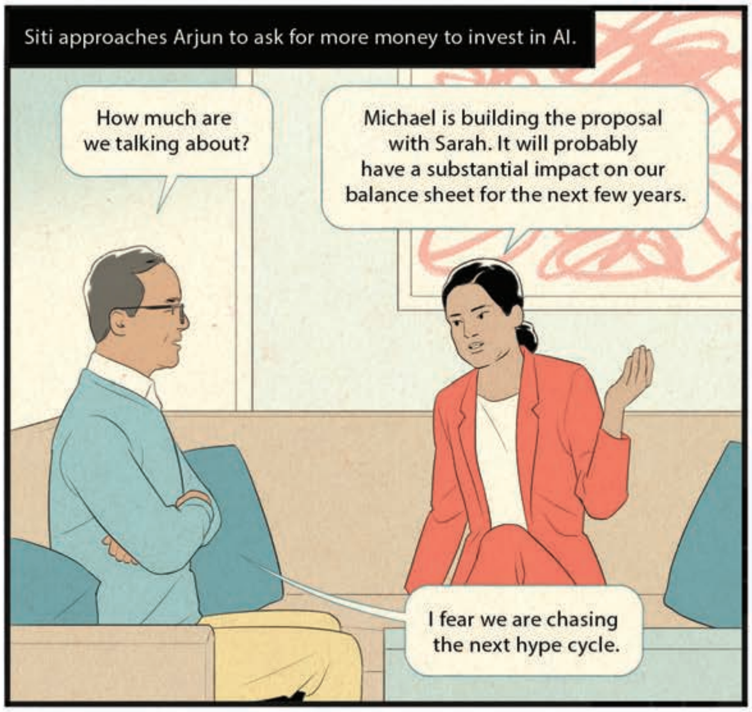
Arjun paused. "I'm sorry," he said. "I'm racing ahead. Tell me, what is the optimistic case?"

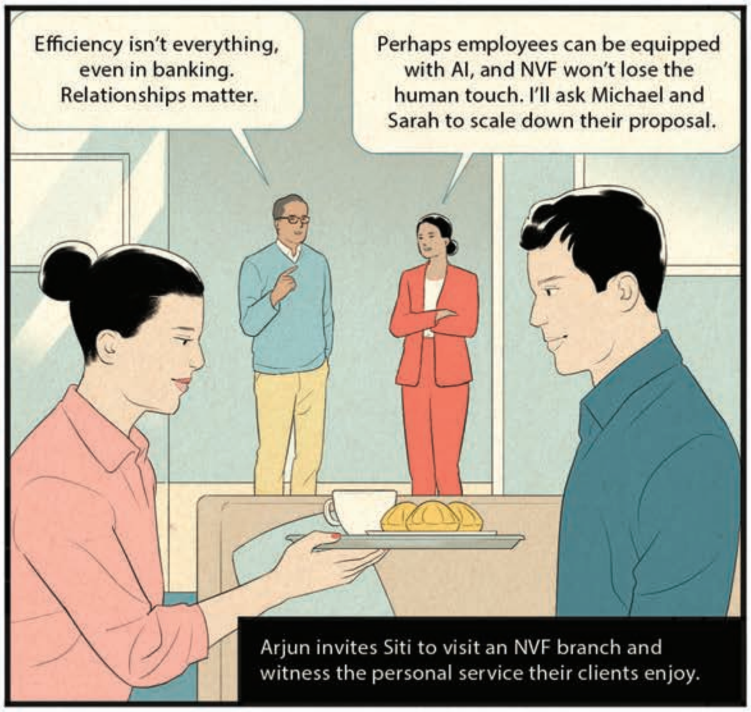
Case Study Classroom Notes

1. *A 2023 report by McKinsey found that increased productivity from AI could equal an additional $200 billion to $340 billion annually for the banking industry if the use cases were fully implemented.*

2. *What sort of guarantees should NVF be willing to make to recruit the best talent? How important is it for a large traditional organization to have market-leading (and potentially high-priced) technical talent?*

3. *In a 2019 survey by MIT Sloan Management Review and BCG, seven of 10 companies reported that their AI efforts had had minimal or no impact.*





4. Research shows that when customers use ATMs more and tellers less, their overall level of satisfaction with their bank goes down.

5. Michael's plan seems to focus on reducing head count. How could NVF use AI to make existing staff more productive and creative? What are the possibilities in the banking industry?

"We would become a truly AI-first bank: The first touch for every customer will be a computer. Our people will be reserved for the toughest problems and our highest-value customers, or customers wishing to pay for the human touch.[4] Our virtual advisers could interact in any language with our customers. We would offer concierge-level services at low-end prices."

"I'm not sure I'd want that in a press release," Arjun responded. "But what is the payoff?"

"Here's an early estimate," Siti continued, handing Arjun a document that contained a series of bullet points: reduce call-center head count by 80%, reduce wealth-management staff by 90%, reduce and repurpose branches.[5]

Arjun scanned the paper. "Siti, assuming all this is possible, do we even want this for our bank? I'm not sure that this would please either our customers or our employees. Or our regulators, for that matter."

Siti raised an eyebrow. "Arjun, I don't want to step into your territory, but I don't think I need to point out that 30% of our cost is in our branch network and another 20% is in upkeep of our legacy IT systems. The savings could be enormous. And this technology is not Watson. The new LLMs can handle charts and graphs—as deftly as many of the CPAs and MBAs in your department."

"Will you take a walk with me?" Arjun asked. "I want to show you something." The duo took the elevator down to the NVF branch on the ground floor of the office building. Arjun pointed to one of the glass-paneled rooms where a personal banker was meeting with a client. Through the glass, Siti could see that the bank officer was serving tea and a bite-size Malay sponge cake to the customer—part of the service ritual of all in-person meetings at the bank.

"I see people come into the bank," Arjun said. "Their shoulders are slumped, and their eyes are glued to their phones. They look harassed and grumpy. And then they meet with our financial advisers or our tellers, and they leave with their heads up, smiling. I know this is sacrilege for a CFO to say, but efficiency isn't everything, even in banking. Relationships matter. The human touch matters."

"You old softy," Siti teased. "Look, maybe this doesn't need to be an either-or situation. Humans equipped with AI can be better wealth managers, credit analysts, and call-center reps, and NVF won't lose the human touch. Maybe I should ask Michael and Sarah to scale down their proposal."

"Yes," Arjun replied. "Your CFO thinks that's a very good approach."

THE PROPOSAL SHOWDOWN

Later that day, Siti met with Michael and Sarah in her office. As she perused the full business plan, Michael was practically twitching with nervous energy.

The plan outlined an ambitious and transformative strategy:

• Talent acquisition: Aim to have 10% of NVF staff be AI experts by the end of 2024, with 90% of all employees well-versed in AI capabilities and applications.

• Data infrastructure: Upgrade cloud computing and expand data storage and processing capabilities.

• Algorithm training data: Procure large, diverse datasets vital for training advanced LLMs.

• Strategic acquisitions: Purchase AI start-ups or fintech firms possessing novel AI technologies or unique datasets.

• Customer-facing processes: Use traditional and generative AI extensively throughout wealth management, customer-relationship management, branch operations, and so on.

• Real estate rationalization: Shed or repurpose many customer-facing branches and offices.

The goal was to handle 95% of all customer interactions digitally within four years, slash operational costs per account by 40%, and initially deploy the technologies in smaller markets before introducing them in Kuala Lumpur and Singapore.[6]

The price tag? Fifteen billion ringgit (about US$3 billion) over five years. The estimated cost savings and anticipated new revenue from higher regional and, later, global market share would pencil out at 40 billion MYR over five years. But Michael and Sarah admitted this was a best-guess estimate.[7]

Michael broke the silence. "This technology isn't just a generational leap; it's a pivotal moment in human history. We need an investment to match the gravity of the moment."

"Let me stop you," Siti interjected. "Before we dive into this, I want you to come back with another option—one that doesn't move as aggressively and that keeps the human interaction at the center of our business."

"No," Michael replied.

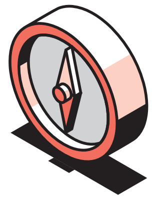
"No?"

"Look, I came here to revolutionize the industry," Michael said. "I'm not interested in doing this half-heartedly."

Sarah jumped in. "I think what Michael is trying to say is that he feels—we feel—like we don't have a choice. If we don't move quickly, one of our competitors will."

6. *Is there a risk of backlash on a plan that may lead to mass job losses? How will NVF communicate the plan and keep employees engaged? How will the transformation affect employees' willingness to participate in process changes or suggest improvements?*

7. *What are the challenges in estimating ROI in such technology projects? How much ROI certainty is required?*



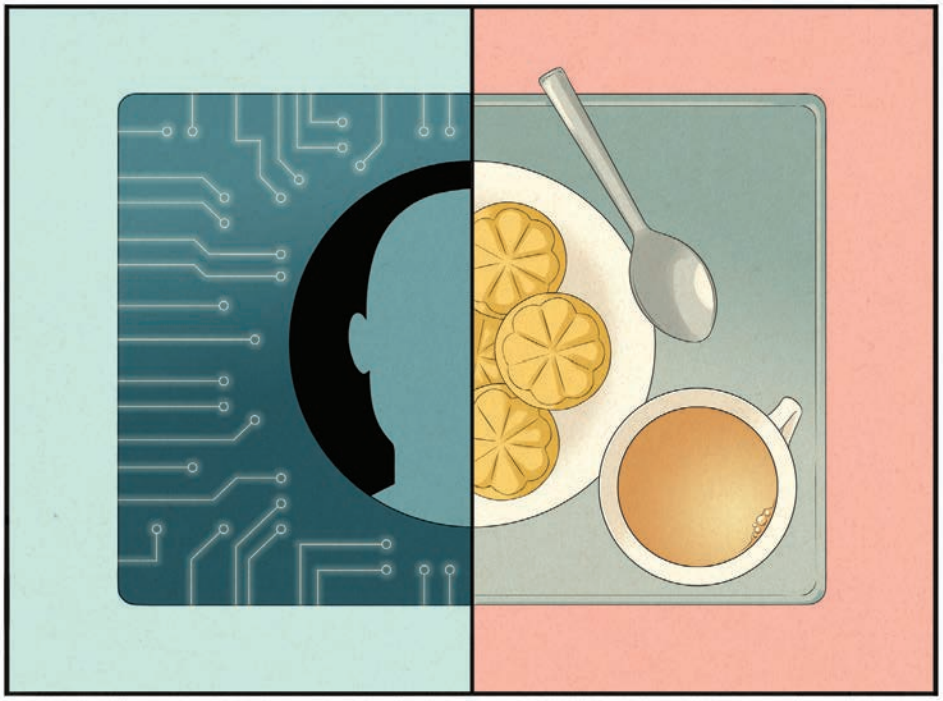
Siti assessed Michael. If he were to leave, it would be a huge blow—indicating to the press, competitors, investors, and talent that NVF isn't serious about AI. And all the talent Michael had brought on board would become flight risks.

"Microsoft is pouring $13 billion into generative AI," Sarah said. "To lead in our sector, we should be ready to invest at least a quarter of that. Just consider the possibility of AI-driven real-time translation. The first bank to master that will have a significant edge in the global market."

Siti was struck by the enormity of the decision. A 15 billion MYR investment over five years—60% more than the annual 1 billion MYR NVF was currently spending on IT—was more than just a financial commitment; it would be a strategic pivot. It would announce that NVF was willing to compete with digital-native companies—a step that Siti had argued was necessary but had not yet taken. It felt like a point of no return, a true test of NVF's resolve to become a leader in AI.

"I'll need to give this some thought," she said.

THOMAS H. DAVENPORT *is the President's Distinguished Professor of IT and Management at Babson College and a coauthor of* All In on AI *(HBR Press, 2023).* **GEORGE WESTERMAN** *is a senior lecturer at MIT Sloan School of Management and a coauthor of* Leading Digital *(HBR Press, 2014).*



Should Siti accept Michael and Sarah's proposal to boldly embrace AI? The experts respond.

NOEMIE ELLEZAM-DANIELO *is the chief digital & AI strategy officer at Société Générale.*

Before Siti decides, she needs to solve an organizational problem.

The technology team shouldn't be the only drivers of NVF's AI strategy—not least because Michael and Sarah seem more interested in attracting top IT talent and keeping up with big tech players than achieving NVF's core business goals. Siti should gather a cross-functional group of senior NVF executives, including business heads as well as tech leaders, to create an AI strategy that's really customer-centric.

Different options could then emerge. The team might choose to give Michael leeway to launch a stand-alone AI-led digital bank to take positions on a new market or customer segment. Or it might prefer to integrate those efforts within NVF's existing value proposition, boosting both employee productivity and customer satisfaction. Either way, Siti needs to stay disciplined and green-light only those investments that show a clear ROI. That doesn't mean they should all be small, incremental projects. NVF could look for large bets in back-office areas—for example, in verification of customers' identities, a resource-intensive process that could be made much more efficient with AI.

Arjun is right to focus on the customer, but he's wrong to assume that customers' wants and needs are uniform. Their behaviors vary across geographies and demographic groups. In France, for example, less than 20% of sales in banking are digital; in the United Kingdom it's more than 50%. Although the stereotype is that young people like online tools while older customers want human interaction, research shows that preferences depend more on the type of task. An AI-bank is a data-driven bank, equipped to analyze customer's behaviors precisely and adapt product and service offers consequently.

Siti must foster an AI-savvy leadership culture at NVF. She must also ensure that its AI efforts serve business and customer needs, are understood and embraced by employees, and bolster the bank's overall corporate strategy.

SASTRY DURVASULA
is the chief information & client services officer at TIAA.

Siti should certainly agree to some of what Michael is proposing.

Every company needs an executive who is willing to challenge the status quo and shake things up. If Blockbuster or BlackBerry had had a "Michael," they might have had a greater chance of success. NVF needs this kind of disruption to compete with its existing competitors and new digital-native players.

But before she decides exactly what or how much to fund, Siti needs to sit with Michael, Sarah, and Arjun and get aligned on goals. Michael should know that NVF won't just throw money at shiny new tech; it will invest only in projects that advance the company toward its strategic goals. Arjun must realize that NVF has to evolve; incremental projects with traditional ROIs won't cut it in the midst of a big shift in the banking industry. As leaders, they have the responsibility to come to an agreement and are accountable for getting their peers' buy-in on a common strategy.

Customers know what they like today, but they don't always know what they will want tomorrow. NVF needs to invest in AI—in a way that supplements rather than replaces Arjun's prized in-person customer service—to set itself up for the future.

It's important for everyone at NVF to recognize that these new AI tools are more powerful than ever and much more user-friendly. That will make upskilling the bank's staff and converting customers a lot easier. Michael and Sarah's goal of 95% digital interactions within four years seems overly ambitious, but that's the right direction to be headed in. Especially in Asia, Covid-era restrictions on face-to-face interactions prompted a big migration to digital banking. Indian street vendors now take mobile payments, so we've surely reached a tipping point.

As NVF strives to become a hub of banking innovation, the narrative should be about both human and digital evolution. The company needs more than a huge monetary investment and technological leap. There's a massive culture shift involved. The whole team should embrace an AI-led future of not just greater efficiency but also new opportunities and roles for employees and better service for customers. Being able to execute quickly, manage risks, and pivot based on market learnings is key.

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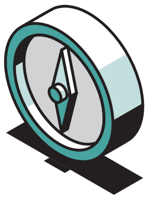

SYNTHESIS

What Can Business Learn from Art?

How to focus on accomplishment over achievement

by Scott Berinato

LOOKIT, I DON'T know what they titled this essay, but I'll bet it says something about art over there, and your first instinct, as someone seeking serious business content, may be to flip the page or scroll by. But I beseech you: Read on. If you made it to this sentence, I know you harbor at least a scintilla of curiosity, so I will now reward you with a secret that all those hardos who mock soft topics aren't privy to: Understanding how art gets made, and why, is a path to accomplishment and mastery—yes, even in the corporate world.

I've considered this in my own work of writing, editing, and advising on information design and data visualization, but a few new books and, surprisingly, a TV show have helped me crystallize why those of us in business need to learn from the arts—instead of being allergic to the idea. Last point first: The allergy stems from a misunderstanding of the artistic process. Most of us think of it in divine terms: mythic and miraculous, thus neither instructive nor useful. The artist ponders until lightning strikes, and out comes *Gatsby* or *Guernica*.

In ***The Work of Art,*** the former *New York* magazine editor Adam Moss acknowledges the power of that notion but then deletes it. His book mixes interviews of more than three dozen artists (writers, painters, composers, comedians, designers) with images of their work and, crucially, their work in progress. We see sketches that inform Frank Gehry's whirly architecture; pages of Stephen Sondheim's lyrics, well worked over; and even a text message thread in which the music producer Thomas Bartlett solicits collaborators. This is arduous, disheveled, iterative work—as messy as building a business case.

The creatives also talk about problem solving, communication, and collaboration—skills I'm told are very helpful in workplaces, too. So you start to see that you can learn from art and artists. What they're doing isn't so different

Illustration by TANG YAU HOONG

from what you're trying to do. Hell, Kara Walker even shares part of the PowerPoint she presented to the group that commissioned a sculpture from her. Art is basically product development. Or, as one composer says, it's "more like being a carpenter than like being God….What we do is a craft." The product—whether it's a mural, a song, a dance, or a joke—may seem miraculous, but its creation is not. It was born from the same effort you might put in to find mastery in your own work.

Mastery is the obsession of the *New Yorker* writer Adam Gopnik in ***The Real Work.*** He excavates seven traits that define the highest achievement, from performance to intention to action and more, and tells moving stories from realms as varied as baking, dancing, boxing, and driving. In an engaging set piece, Gopnik explains what magicians mean when they talk about "the real work": the "accumulated craft, savvy, and technical mastery that makes a magic trick great." It's not who does the trick first, or who does it best, necessarily, but who did the work to master it.

In delving into how hard it is to do the real work in any pursuit or profession, he exposes why mastery is elusive. When he describes the dizzying complexity of putting on a Broadway musical, for example, it's not hard to apply his description to any business context: "A seven-person creative team of equals is called war." And yet, that's what it takes to launch a show, and people do it because when they nail it, the thrill is unparalleled—and what they've put into the world matters. "We all know the real work in whatever field it is we've mastered," Gopnik writes. "It's shorthand…for the difference between accomplishment and mere achievement."

He carries this sentiment into a tiny, 60-page companion tome, ***All That Happiness Is,*** in which he explains that achievement is merely completing a task, the reward for which is often another task, whereas accomplishment is "the engulfing activity we've chosen, whose reward is the rush of fulfillment, the sense of happiness that rises uniquely from absorption in a thing outside ourselves." He notes, too, that accomplishment is egalitarian. "Every enterprise, every job, every short-order recipe—everything we do can be done more or less beautifully." Whether it's plumbing or building rockets or leading a team, the real work involves some artistry.

Is your work about artful accomplishment? Probably not. Gopnik notes that "our social world conspires to denigrate… accomplishments in favor of the rote work of achievement." This is in part why mastery (and happiness) feels out of reach for many.

I thought of this while binge-watching the long-running British TV series ***Grand Designs.*** The show follows people over several years as they attempt to build bespoke homes. The host, Kevin McCloud, trained in design and architecture, gets the homeowners to lay out their vision, strategy, budget, and timeline early on (and sometimes can barely hold back a laugh at their confidence). Much goes wrong, and viewers get to revel in those travails, while anyone who sees the world through a management lens recognizes all the tropes: poor process, conflicting visions, bad compromises, sunk costs, and so on. Then, about two-thirds through, you recognize that these people aren't just trying to achieve the task of building a house; they are trying to accomplish a feat of architecture. McCloud hails the nobility of the pursuit, however it turns out, and as an observer, you acquire a grudging fondness for the enterprise. Maybe you wish you could accomplish something like that.

Businesses and businesspeople could be more like the *Grand Designs* homeowners, or the teams behind Broadway musicals, or Frank Gehry, or magicians. But first they'd have to turn away from the maniacal focus on achievement: Hit the numbers. Grow the bottom line. Get the promotion. The whole idea of stakeholder capitalism is that companies ought to have grander designs, and I suspect we all know this. Our favorite case studies are about leaders and organizations really trying to accomplish something. Sometimes, as with Steve Jobs or Oprah, we might even suggest they're artists in their own way. But in our minds they're outliers, possibly myths.

Earlier I glibly compared art to product development, but that wasn't entirely fair or accurate. The process of creating art may look like your plans for an innovative new offering, or your attempt to devise a growth strategy, or even your effort to build a profoundly effective financial model. But those are just achievements. Artists, craftspeople, are striving for accomplishment. I suspect you want to, too. After all, you didn't flip past this little essay. And in that small act you've already done a bit of the real work.

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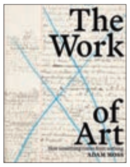
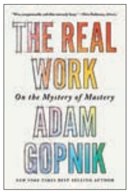


The Work of Art
Adam Moss
(Penguin Press, 2024)



The Real Work
Adam Gopnik
(Liveright, 2023)

All That Happiness Is
Adam Gopnik
(Liveright, 2024)

Grand Designs
Naked Television
(UK Channel 4)

SCOTT BERINATO *is a senior editor at HBR.*

Executive Summaries
May–June 2024

SPOTLIGHT

Winning at Influencer Marketing

Over the past 20 years the social media influencer industry has completely rearranged the way information and culture are conceived, produced, marketed, and shared. This month's Spotlight package looks at how brands are responding.

page 41

Each article in this Spotlight is available as a single reprint. The complete Spotlight is also available as a package.
HBR Reprint R2403B

Why the Influencer Industry Needs Guardrails

Emily Hund | page 42

The author argues for an industry in which unethical behavior is punished; professional expectations, pay, and desired outcomes are standardized; and creators are given the same rights and protections as other professional marketers. **HBR Reprint** S24031

What Makes a Successful Celebrity Brand?

Ayelet Israeli et al. | page 50

Celebrities have shifted from endorsing established brands to being influencers for established brands to drawing on their influence to create brands themselves. The authors examine what it takes to make celebrity brands work. **HBR Reprint** S24032

Should Your Brand Hire a Virtual Influencer?

Serim Hwang et al. | page 56

Followers respond more favorably to sponsored posts by virtual influencers versus those by humans, costs are lower, and creating an influencer from scratch allows marketers to introduce more diversity. **HBR Reprint** S24033

How Marketers Choose College Athlete Influencers

Kimberly A. Whitler and Graham Twente | page 61

The authors' research findings: Athletes' image and quality of social media posts are more important than their follower counts, posts should feature sports more than personal content, and sexy imagery should be avoided. **HBR Reprint** S24034

HOW I DID IT


HOW I DID IT

The CEO and Founder of Praava Health on Reimagining Care in an Emerging Market

by Sylvana Quader Sinha

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The CEO and Founder of Praava Health on Reimagining Care in an Emerging Market

Sylvana Quader Sinha | page 34

Although the author's grandfather founded the largest pharmaceutical company in Bangladesh, she never expected to follow in his footsteps. Raised in Roanoke, Virginia, she studied international development and law before working first as a corporate lawyer and then in the Obama administration. But when her mother fell seriously ill during a family wedding in Bangladesh—and Sinha discovered how difficult it was to get access to quality health care in that country even for well-off, well-connected families—she found a new mission. She developed a business plan for a state-of-the-art, full-service primary-care facility in Dhaka, Bangladesh's capital city, and moved there—where she'd never lived before—to launch it. She focused on hiring a great team and building a culture around the distinctive service they would offer. Five years later, Praava Health has served 600,000 patients, is cash-flow positive, and continues to grow.

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MANAGING YOURSELF


Experience

Advice and Inspiration

MANAGING YOURSELF

Advice for the Unmotivated

How to reignite your enthusiasm for work

by Robin Abrahams and Boris Groysberg

142

Advice for the Unmotivated

Robin Abrahams and Boris Groysberg
page 142

Employee disengagement is rampant in the workplace. We've all experienced it as customers encountering unhelpful retail clerks and as colleagues dealing with apathetic teammates. But what happens when you yourself feel dead at work?

This article describes what you as an individual can do to sustain your motivation or recover it, even in the most stultifying of jobs. After synthesizing research on this challenge and experimenting with various strategies, the authors have developed a process for recharging yourself called DEAR.

The first step is to *detach* and objectively analyze your situation so that you can make wise choices about it, instead of reacting in a fight-or-flight way. At day's end, review what went well at your job and then mentally disconnect from it to give yourself a break. Meditation and exercise can help you do that and will improve your mood and cognitive function. Next, show *empathy.* Practice self-care, make friends, recognize the accomplishments of others, seek their views, and help them. Research shows that this combats burnout. Third, take *action:* achieve small wins, invest in rewarding outside activities, redefine your responsibilities, and turn uninteresting tasks into games. Ask yourself how someone you admire would behave in your situation, and dress in a way that projects confidence. Last, *reframe* your thinking: Focus on the informal roles you enjoy at work, your job's higher-order purpose, and how others benefit from your work. All these techniques will improve your mental health and increase the energy you bring to your job—even if it is not what you'd like it to be.

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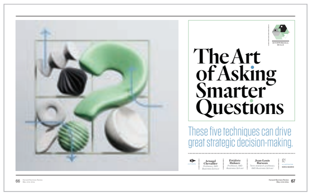
Features

INTERPERSONAL SKILLS

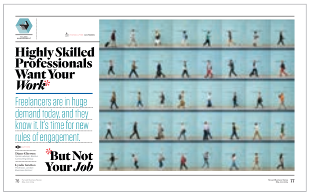


The Art of Asking Smarter Questions

Arnaud Chevallier, Frédéric Dalsace, and Jean-Louis Barsoux | page 66

With organizations of all sorts facing increased urgency and unpredictability, being able to ask smart questions has become key. But unlike lawyers, doctors, and psychologists, business professionals are not formally trained on what kinds of questions to ask when approaching a problem. They must learn as they go. In their research and consulting, the authors have seen that certain kinds of questions have gained resonance across the business world. In a three-year project they asked executives to brainstorm about the decisions they've faced and the kinds of inquiry they've pursued. In this article they share what they've learned and offer a practical framework for the five types of questions to ask during strategic decision-making: *investigative, speculative, productive, interpretive,* and *subjective.* By attending to each, leaders and teams can become more likely to cover all the areas that need to be explored, and they'll surface information and options they might otherwise have missed. **HBR Reprint** R2403C

TALENT MANAGEMENT



Highly Skilled Professionals Want Your Work—But Not Your Job

Diane Gherson and Lynda Gratton | page 76

Companies today are facing a big talent-management challenge. They simply do not have the capabilities they need in-house to transform their offerings, processes, and infrastructures—and they're increasingly unable to persuade highly skilled professionals to come on board full-time, despite making attractive offers.

In many fields—particularly technology, data sciences, and machine learning—the people with the most sought-after skills are freelancers. Integrating and managing a new "blended workforce" will be one of the main managerial challenges in the years ahead. Force-fitting the model used for temporary staff onto highly skilled freelancers won't work, however. Firms must fully integrate these professionals into a highly cohesive internal team.

This article looks at successful efforts to manage the blended workforce at companies such as Microsoft, M&C Saatchi, and Mars and lays out some of the most helpful lessons they have learned. **HBR Reprint** R2403D

ORGANIZATIONAL TRANSFORMATION

Transformations That Work

Michael Mankins and Patrick Litre | page 86

More than a third of large organizations have some type of transformation program underway at any given time, and many launch one major change initiative after another. Though they kick off with a lot of fanfare, most of these efforts fail to deliver. Only 12% produce lasting results, and that figure hasn't budged in the past two decades, despite everything we've learned over the years about how to lead change.

Clearly, businesses need a new model for transformation. In this article the authors present one based on research with dozens of leading companies that have defied the odds, such as Ford, Dell, Amgen, T-Mobile, Adobe, and Virgin Australia. The successful programs, the authors found, employed six critical practices: treating transformation as a continuous process; building it into the company's operating rhythm; explicitly managing organizational energy; using aspirations, not benchmarks, to set goals; driving change from the middle of the organization out; and tapping significant external capital to fund the effort from the start. **HBR Reprint** R2403E

HUMAN RESOURCE MANAGEMENT

HR's New Role

Peter Cappelli and Ranya Nehmeh | page 96

Though the human resources function was once a strong advocate for employees, in the 1980s things changed. As labor markets became slack, HR shifted its focus to relentless cost cutting. Because it was hard for employees to quit, pay and every kind of benefit got squeezed. But now the pendulum has swung the other way. The U.S. unemployment rate has been below 4% for five years (except during the Covid shutdown), and the job market is likely to remain tight. So today the priorities are keeping positions filled and preventing employees from burning out. Toward that end HR needs to focus again on taking care of workers and persuade management to change outdated policies on compensation, training and development, layoffs, vacancies, outsourcing, and restructuring.

One way to do that is to show leaders what the true costs of current practices are, creating dashboards with metrics on turnover, absenteeism, reasons for quitting, illness rates, and engagement. It's also critical to prevent employee stress, especially by addressing fears about AI and restructuring. And when firms do restructure, they should take a less-painful, decentralized approach. To increase organizational flexibility and employees' opportunities, HR can establish internal labor markets, and to promote a sense of belonging and win employees' loyalty, it should ramp up DEI efforts. **HBR Reprint** R2403F

ENVIRONMENTAL SUSTAINABILITY

To Create a Greener Future, the West Can't Ignore China

Shameen Prashantham and Lola Woetzel | page 104

Fighting climate change is a promising area for engagement between Western companies and China. However, geopolitical strains, the disruption of business relationships by the Covid pandemic, and domestic Chinese policies all make engagement complex. In this article the authors examine the complexities of the current climate-change opportunities in China and present practical strategies for businesses ready to enter the market.

There is a twofold opportunity, they explain. First, China offers a vast market for Western-developed solutions. The Chinese government has set ambitious targets, aiming to achieve carbon neutrality by 2060. That goal creates significant opportunities for firms with cutting-edge technologies. Second, businesses have an opportunity to integrate China's own advances in climate-related technology.

The authors go on to outline four strategies, all of which involve partnering in some way. They advise companies to make sustainability a global theme, to join or form coalitions to find safe spaces for technological development, to forge partnerships with local companies for market access, and to insource technology.

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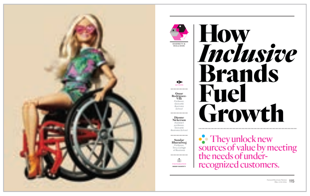
DIVERSITY & INCLUSION



How Inclusive Brands Fuel Growth

Omar Rodríguez-Vilá, Dionne Nickerson, and Sundar Bharadwaj | page 114

Years before the *Barbie* movie phenomenon, leaders at Mattel became concerned that consumer perceptions of the famous doll were out of sync with demographic trends. The company conducted in-depth research to understand how customers felt about Barbie and to determine whether more-inclusive versions presented a strong market opportunity. The findings led to a new inclusion strategy that affected all areas of the brand—product design, distribution, and commercial activities—and coincided with a period of significant growth. Barbie revenues increased 63% from 2015 to 2022—before the boost from the film.

Research shows that in most industries the perception of inclusion can materially change customers' likelihood to purchase and willingness to recommend products and services.

This article presents a framework for increasing marketplace inclusion in three areas: *seeing the market,* which is about market definition, market intelligence, and strategies for growth; *serving the market,* which involves developing products, packaging, and other commercial practices; and *being in the market,* which looks at advocacy and the customer experience.

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AI & MACHINE LEARNING

For Success with AI, Bring Everyone On Board

David De Cremer | page 124

AI is intimidating employees. As machines perform intellectually demanding tasks that were previously reserved for human workers, people feel more excluded and less necessary than ever. The problem is only getting worse. Eighty percent of organizations say their main technological goal is hyperautomation—or the complete end-to-end automation of as many business processes as possible. Executives often pursue that goal without feedback from employees—the people whose jobs, and lives, will feel the greatest impact from automation.

In this article the author examines what keeps leaders from involving rank-and-file employees in AI projects, how they should model inclusive behavior, and what organizations must do to develop employee-inclusive AI practices. Those practices will make companies more likely to improve long-term performance—and to keep their employees happy, productive, and engaged.

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DECISION-MAKING & PROBLEM-SOLVING

Make Decisions with a VC Mindset

Ilya A. Strebulaev and Alex Dang | page 132

Venture capitalists' unique approach to investment and innovation has played a pivotal role in launching one-fifth of the largest U.S. public companies. And three-quarters of the largest U.S. companies founded in the past 50 years would not have existed or achieved their current scale without VC support.

The question is, Why? What makes venture firms so good at finding start-ups that go on to achieve tremendous success? What skills do they have that experienced, networked, and powerful large corporations lack?

The authors' research reveals that the venture mindset is characterized by several principles: the individual over the group, disagreement over consensus, exceptions over dogma, and agility over bureaucracy. This article offers guidance to traditional firms in using the VC mindset to spur innovation.

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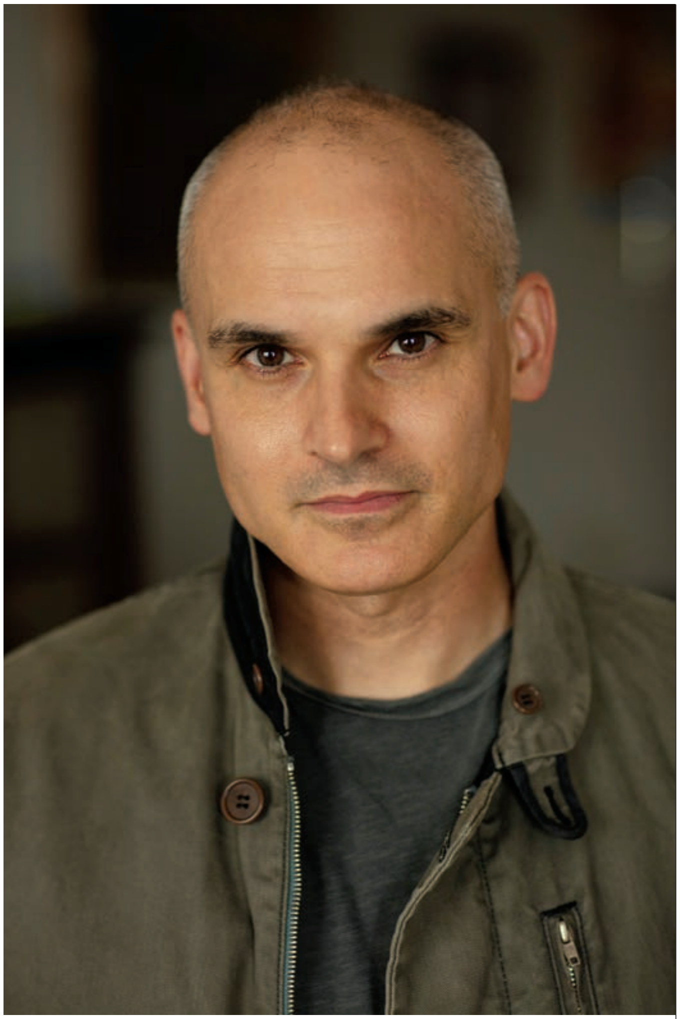
"Faced with rejection—many years of manuscripts being turned down—the answer was always in the work itself. There's nothing else I would rather do."



Pascal Perich

Hernan Diaz

In his novel Trust*, which won the 2023 Pulitzer Prize, Diaz offered four contrasting perspectives on early-20th-century U.S. capitalism—a treatment that modern-day readers found deeply resonant. The author, who was born in Argentina, raised in Sweden, and now lives in the United States, says he likes to experiment with different voices and "mess with" American mythology. A longtime professor and academic editor, he published his first novel,* In the Distance, *a Pulitzer finalist, at age 44.* Trust *was his second.* **Interview by Alison Beard**

HBR: How did your multicultural, multilingual upbringing inform your career and work?
DIAZ: I'm very alert to language. That was the largest effect of growing up in Spanish and Swedish, and then acquiring English. Together they form a semantic mosaic that lets you see with greater sharpness. The musicality of language is also important, and when you speak more than one language, you're more attuned to the melodies. One of the main things I'm trying to do as a writer is erase myself, inhabit an other. Perhaps this slipping and sliding between cultures has helped me in that regard.

Can executives who need to consider perspectives across cultures and functions learn from novelists?
I'm loath to instrumentalize literature. Its beauty is that it's useless, which I value in a society of universal exchange, where everything is meant to be traded. But the first thing is, of course, empathy. Literature enables us to imagine what it feels like to be someone else, and if you can do that, kindness, respect, and decency will most likely follow. Also imagination: to broaden your horizons and contemplate something larger than you. There's an assumption that learning takes place only with genres more anchored in the epistemological standards of science, the law, journalism. The truth of fiction is in showing us how we experience the world with emotional depth. To know the complexity, consciousness, connectedness, and finitude of being human, you go to fiction.

***Trust* is partly a takedown of the high-flying financier. Was that intentional?**
Yes, but I didn't want some cartoonish, cigar-chomping, pin-striped, top-hatted capitalist buffoon. I wanted a character with true heart, moral complexity, and values, even if I don't happen to agree with them. Some people actually love that character, Andrew Bevel. They believe he's doing the right thing and admire him.

The women in *Trust* are smart but hidden behind the scenes. Is that still a problem in business?
Yes. If you look at who's sitting at boardroom tables or think about equal pay, it is very clear. What happened was, as I read about the history of finance, I saw that the accounts included zero women. That's not hyperbole. Zero. I had to wonder about this silencing—or deliberate erasure—of half the population from financial life and thus economic and political power. That's why the book became so much about voice and had a polyphonic structure. I wanted to consider who had been gagged and who had been given a megaphone and why.

That four-part structure was innovative but risky.
Yes. Terrifying but worth it, because the form was inherent to the content. It wasn't a gimmick or a flashy display of whatever verbal dexterity I might have. It was the way that story had to be told.

Are you a full-time writer now?
I asked for a leave of absence to write a book and to see whether I dare to be one.

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