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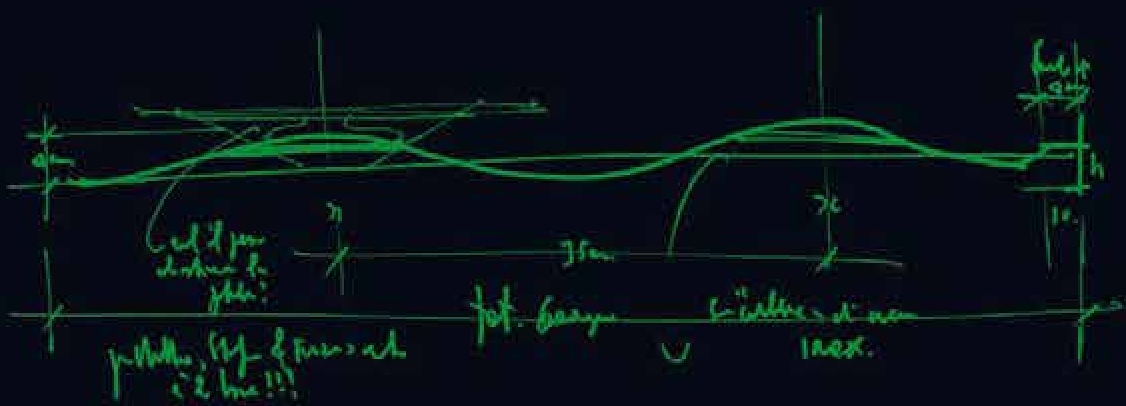

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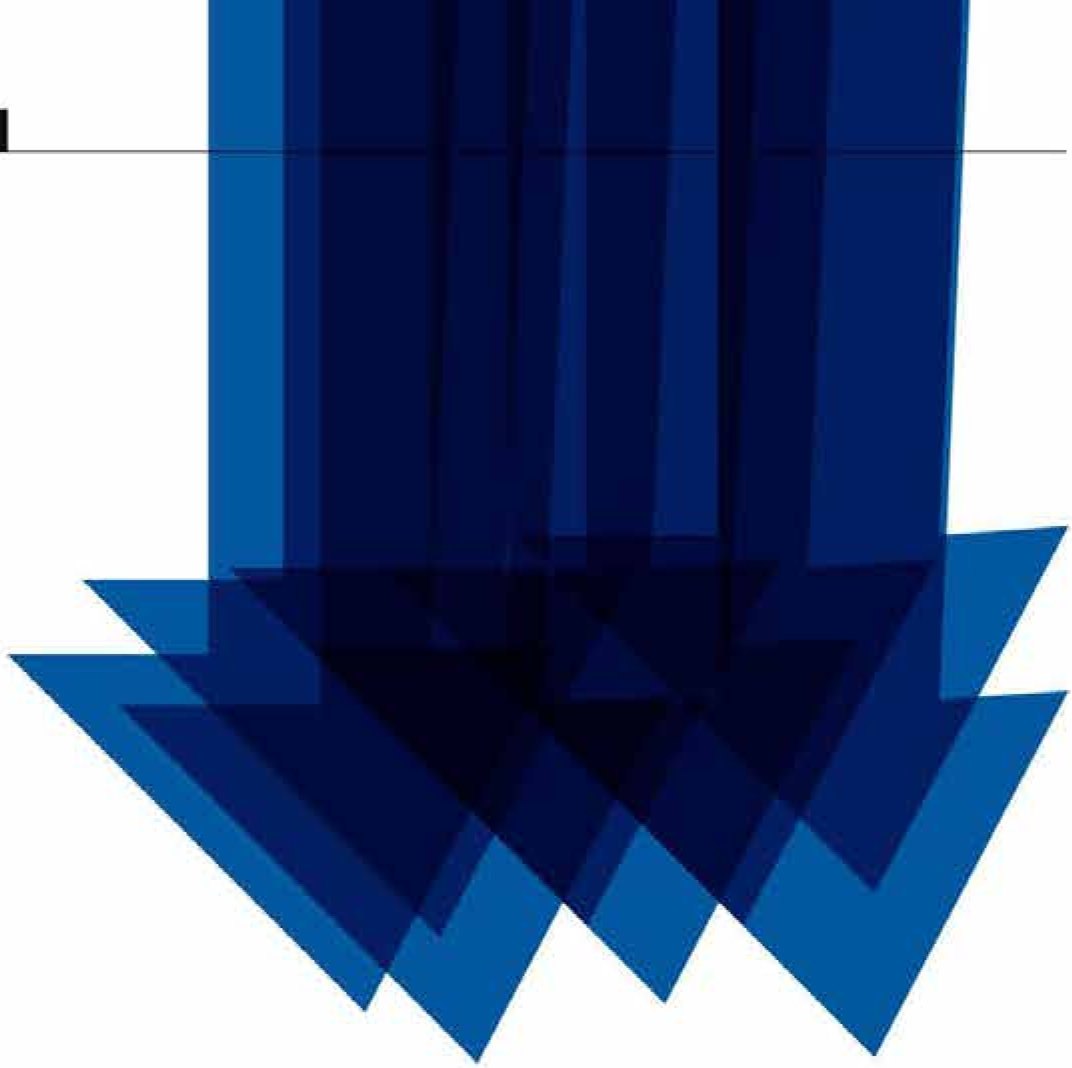
JANUARY–FEBRUARY 2018



SPOTLIGHT
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FROM THE EDITOR

CEOs STEP INTO THE FRAY

Adi Ignatius (right) with Harvard Business Review Group's creative director, James de Vries

Once upon a time, CEOs steered away from political controversy. Who could blame them? Weighing in on divisive topics could alienate as many potential customers as it might win over. That's not to say that corporate leaders were apolitical. They and their organizations have long been active in the process—supporting PACs and lobbying to shape rules and regulations that directly affect their businesses.

Now all bets are off. Social upheaval and government paralysis, particularly in the United States, are spurring CEOs to speak out on an array of contentious subjects. Such leaders as Tim Cook of Apple, Marc Benioff of Salesforce, and Kenneth Frazier of Merck have advocated for causes that aren't obviously related to their companies. Among the issues they're taking on: LGBTQ rights, immigration, racism, and the environment. As Ronnie Chatterji of Duke's Fuqua School of Business and Mike Toffel of Harvard Business School note in "The New CEO Activists" (page 78), this newfound boldness is often born of personal conviction.

But some CEOs, say Chatterji and Toffel, also are joining the debate because the changing business climate demands it of them. Today their shareholders, employees, partners, and customers expect them to take a stand. Though it's hard to tease the strands of motivation apart, what's clear is that as more CEOs assert their views, more will be emboldened to follow. In addition, the failure to speak out on divisive questions can now be viewed as its own kind of statement and provocation. As Chatterji and Toffel argue, "Increasingly, CEO activism has strategic implications: In the Twitter age, silence is more conspicuous—and more consequential." For corporate leaders, being apolitical may soon be impolitic.

ADI IGNATIUS, EDITOR IN CHIEF

CHRISTOPHER CHURCHILL

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As a young bank teller **Dennis Campbell** had to follow nonsensical directives from bosses who were out of touch with the realities on the front line. That triggered his interest in empowering employees, who he believes can have a huge effect on customer satisfaction and company performance. In this issue he and coauthors John Case and Bill Fotsch describe how to realize workers' potential by creating "good jobs" that offer ownership, accountability, and skills in exchange for engagement.

118 FEATURE
More Than a Paycheck

Patty McCord, former chief talent officer of Netflix, has long argued that many so-called best practices in talent management make little sense. Her peers, who largely rejected her message at first, are starting to come around. "When I used to say these things in speeches to HR people, half the audience would look like they wanted me to shut up and go away, and the others would look confused, like they sensed I might be right but weren't really sure," she says. "But today I often see a third of the people in the audience shaking their heads in agreement. That's progress."

90 FEATURE
How to Hire

When **Ronnie Chatterji** was a senior economist for the White House Council of Economic Advisers during the Obama administration, he started to notice a change in the relationship between business leaders and the government. The turning point, he says, came in 2015, when Apple's CEO, Tim Cook, slammed a new Indiana law that Cook argued would allow discrimination against gays and lesbians. Since then it's become increasingly common for CEOs to speak out on thorny social and political issues that were once taboo for business leaders—a phenomenon that Chatterji and coauthor Mike Toffel explore in their current feature.

78 FEATURE
The New CEO Activists

Paul Kremer's body of work is nothing short of diverse. The Houston-based artist is best known for minimalist acrylic paintings that often feature stark shapes and high-contrast colors—a deliberate reference to the color-field movement of the 1950s. He's also gaining renown for his complex, large-scale digital collages, which he says are meditations on the information age.

70 FEATURE
Can MOOCs Solve Your Training Problem?

In the course of his long-term study of talent management, **Boris Groysberg** has seen that certain kinds of cultures are more apt to produce individual stars while others are more focused on teams. During his work on high-performing organizations, he's observed something else about culture: that it can make or break strategy execution. He believes that culture can be managed for the strategic benefit of an organization—a thesis he and coauthors Jeremiah Lee, Jesse Price, and J. Yo-Jud Cheng lay out with meticulous logic and evidence.

44 SPOTLIGHT
The Leader's Guide to Corporate Culture

Harvard Business Review

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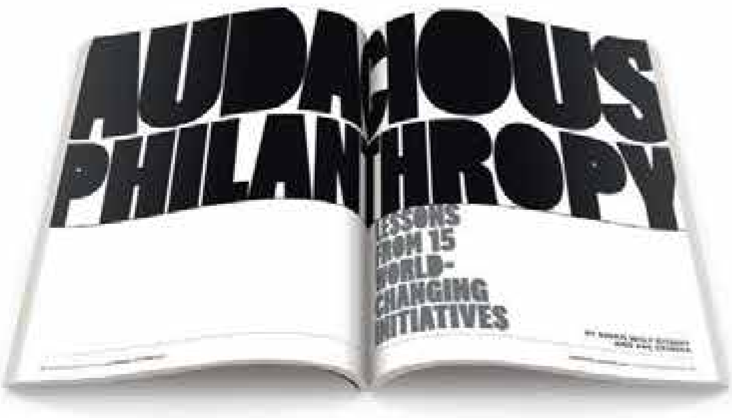

HOW TO SWING FOR THE FENCES

HBR ARTICLE BY **SUSAN WOLF DITKOFF** AND **ABE GRINDLE,** SEPTEMBER–OCTOBER

Private philanthropists have played a leading role in some of the biggest social-impact success stories of the past century. They've helped to end apartheid in South Africa, to virtually eradicate polio globally, and to launch a universal 911 service in the United States (for starters). Today's donors aspire to achieve similarly audacious goals, but many aren't seeing transformative results. Ditkoff and Grindle look at 15 breakthrough initiatives and reveal five elements that increase the odds that a philanthropic endeavor will succeed.

This article was motivating. I'm a trustee of a small health-care foundation, and it helped me realize the need to network with others in my situation. One element not discussed, however, is the role that education—especially early education—plays in shaping the perception of big issues. Consider efforts to discourage tobacco use, where the focus on reaching children has been most effective. I know that my children, now grown with their own offspring, look upon smokers with disdain, an attitude that was instilled in them in elementary school 25 years ago. Now if we could do the same thing with other issues…
Robert Phillips, chair, board of trustees, Headwaters Health Foundation of Western Montana

This was a thoughtful piece on scale and risk in philanthropy. I found the key overarching themes to be relevant to discussions in foundation boardrooms. My constructive criticism: Several of the examples cited rely upon good science or good data as the foundation for meaningful change. But in the age of fake news, when science and data are disregarded, how can they help philanthropy scale? Take helmet safety policy in countries like Vietnam. What happens when the science of helmet safety is belittled as "government overreach?" Isn't this what we're facing with climate change and gun control in the United States now?
Robert K. Ross, MD, president and CEO, The California Endowment

The authors respond: *We agree with the main point raised by the highly respected Dr. Ross. Today's climate—in which good science and good data are dismissed by some people as mere "opinion"—is indeed dangerous to our country's overall social fabric as well as to specific initiatives aimed at the public good. Unfortunately, this isn't a completely new phenomenon; several initiatives we studied, particularly those that faced strong and entrenched opposition (for example, the anti-tobacco, marriage equality, and anti-apartheid movements), contended with attacks on mainstream science. Those change efforts required not only a strong fact base but also substantial investments to build support for their good science and good data, including investments in grassroots advocacy and engagement, polling and message testing, and tech-savvy public-awareness media campaigns. Without similar support, today's problems will continue to get lost in the fog that is being created to obscure them.*

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THE BEST-PERFORMING CEOs IN THE WORLD, 2017

HBR ARTICLE BY **HARVARD BUSINESS REVIEW STAFF,** NOVEMBER–DECEMBER

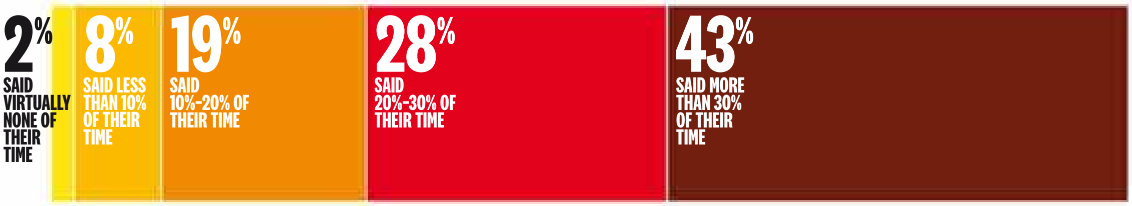
More than 15 years ago Jim Collins, the author of the best seller *Good to Great,* introduced the flywheel as a business metaphor. A company achieves excellence, he wrote, by "relentlessly pushing a giant, heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough." The power of momentum is evident in HBR's 2017 ranking of CEOs—100 leaders who have delivered top results on both financial and environmental, social, and governance measures during their entire tenures, which average 17 years.

This ranking reveals that the best-known companies don't always have the best CEOs. Some famous CEOs are in rather modest positions on it. The top CEOs lead companies that are in developing industries and are not necessarily the biggest players. It's also interesting that a significant number of these leaders do not have MBAs.
Edgar Gomes, director, Explosão de Energia

I fully agree with HBR's argument that a CEO cannot be ranked #1 simply on the basis of profit and especially not at the expense of corporate social responsibility. CSR is growing in importance, especially among Millennials. They are interested in supporting businesses and businesspeople that contribute to the world in a positive way. A lot of these companies are going to see a huge shift as the Baby Boomer generation grows older.
Lexi Sauder, title agent, Premier Settlements

HBR SURVEY

Q: How much time do you spend on "bureaucratic chores" (for example, preparing reports, attending meetings, complying with requests, securing sign-offs, or interacting with staff functions such as HR)?



SOURCE "DO YOU KNOW HOW BUREAUCRATIC YOUR ORGANIZATION IS?" BY GARY HAMEL AND MICHELE ZANINI

[redacted]

MANAGING OUR HUB ECONOMY

HBR ARTICLE BY **MARCO IANSITI** AND **KARIM R. LAKHANI,** SEPTEMBER–OCTOBER

Our global economy has begun to revolve around a small number of "hub" firms—digital superpowers like Apple, Alphabet/Google, Amazon, and Facebook—which control access to billions of consumers and their information. As these organizations expand their reach, value and power will become concentrated among a few major players. This has dangerous implications for economic equality and social stability.

Whether we shop online or in brick-and-mortar stores, almost everything we purchase and do leaves behind digital bread crumbs that can be mined by analytics to predict how and what we will spend our income on. The hub companies are positioned to take advantage of this, and that's unlikely to change. With Amazon, Alibaba, and Walmart, it will be interesting to see where this ends up. Unless we "undigitize"—pull the plug and go off the grid—we will all become part of this new system. Welcome to the new strange world.
Kevin McBrien, assistant vice president, Leidos

Though this may be beyond an introductory article's scope, the piece suggests but fails to examine the primary impact this economy has on consumption and its causes.

I believe that the central change agent will be the internet of things, which will transform cities, factories, refineries, electrical grid systems, hand tools, and even consumer goods into world-sensing and data-producing nodes on a scale beyond the imagination of science fiction.
Michael Moon, CEO, GISTICS

[redacted]

BEING THE BOSS IN BRUSSELS, BOSTON, AND BEIJING

HBR ARTICLE BY **ERIN MEYER,** JULY–AUGUST

When misunderstandings arise among members of global teams, it's often because managers conflate attitudes toward authority and attitudes toward decision making. However, the two are different dimensions of leadership culture, says Meyer. She describes four types of cultures—consensual and egalitarian; consensual and hierarchical; top-down and hierarchical; and top-down and egalitarian—and the corresponding expectations about leadership in each.

Fascinating insight about global leadership. Several times, I've found myself working with foreign partners and wondering if it was worth all the effort to fill the gap between cultures. It was only when I started looking at differences as a distance to be crossed with a bridge rather than a gap to be filled that I started being a "functioning" leader.
Mirko Grewing, project management principal, Backbase

I have a comment about behaviors in the top-down egalitarian quadrant, where I, coming from the United Kingdom, ought to be most comfortable. I sometimes wonder if managers in this quadrant use the norms you describe as a cover for failing to take the time to really think through the issues they're responsible for. Being a "facilitator, not a director," can be a smoke screen for those who either can't intellectually grasp the issues or believe that the more people they go around talking to, the more productive they must be, even though they don't actually understand what's going on. This is a warning to myself as much as to others, of course!
Nick Major, director, technical operations, Sekisui Diagnostics

As an Australian who has worked a lot in China and Southeast Asia, I can vouch for the advice that when you're leading across cultures, you need to be specific that you require input and suggestions, and you need to do this often. The part I struggled most with was the managing-up aspect: If people are brought in as experts, how do they contribute effectively within a very hierarchical culture, when they're not superior to those they're advising?
Glenn Vassallo, cofounder and CTO, SmartShepherd

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Harvard Business Review
Idea Watch

JANUARY–FEBRUARY 2018

“SORRY” IS NOT ENOUGH

Customer satisfaction depends on creative problem solving, not empathy. *Plus* Why outsider CEOs diminish innovation, the limits of charisma, the ubiquity of bad data, and more

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Negative Feedback Rarely Leads to Improvement

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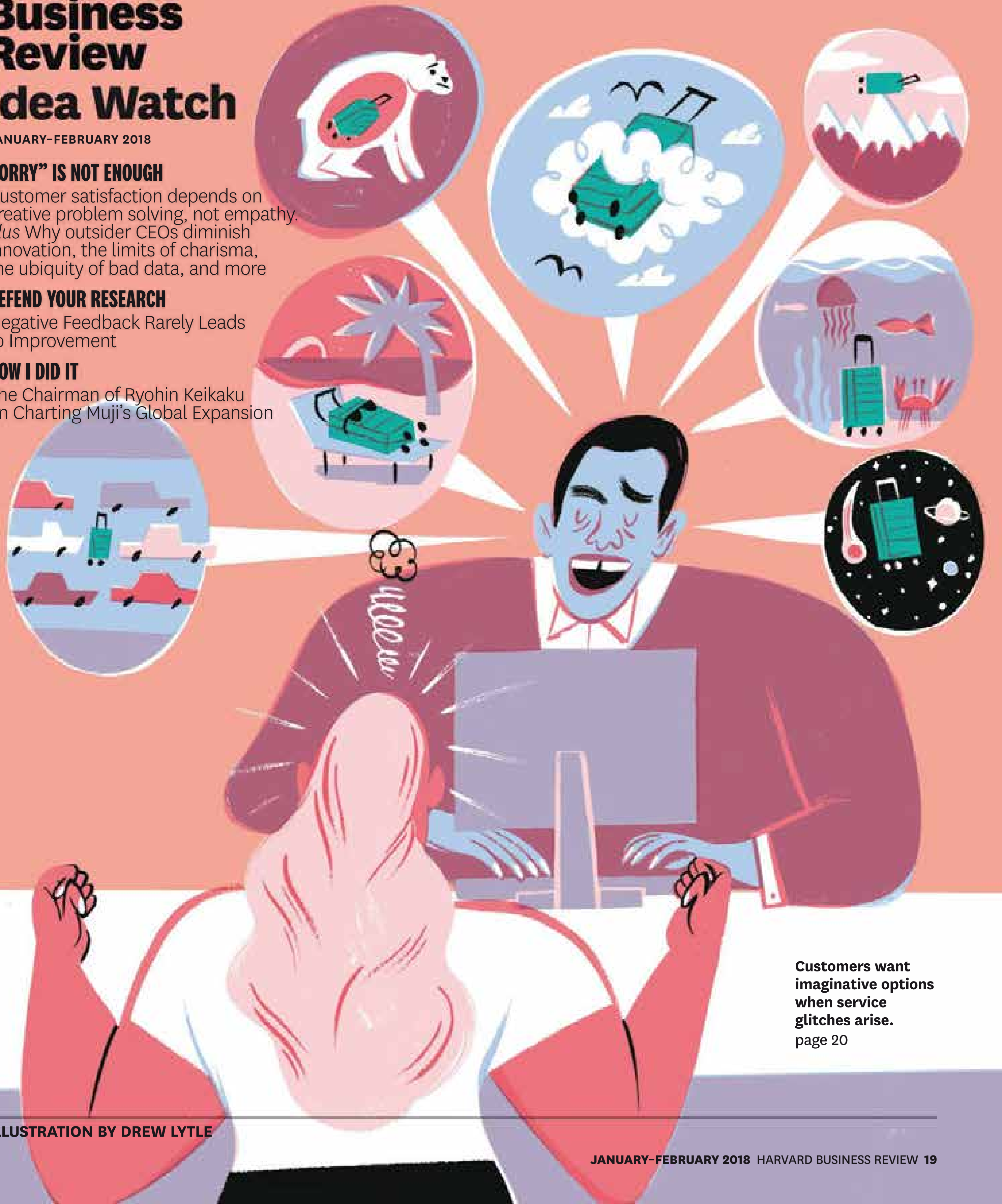


Customers want imaginative options when service glitches arise.
page 20

ILLUSTRATION BY DREW LYTLE

CUSTOMER SATISFACTION DEPENDS ON CREATIVE PROBLEM SOLVING, NOT EMPATHY.

"SORRY" IS NOT ENOUGH

It's the first rule of customer service: When something goes wrong, apologize. In many cases, the apologies continue throughout the interaction as an employee goes the extra mile to convey empathy and concern. But surprising new research shows that approach can backfire: An apology that extends beyond the first seconds of an interaction can *reduce* customer satisfaction. Employees should instead focus on demonstrating how creatively and energetically they are trying to solve the customer's problem—that, not warmth or empathy, is what drives satisfaction.

Researchers reached these insights via a novel study that allowed them to observe exactly what happens when a customer rep is confronted with an unhappy customer. Although many companies record customer interactions, privacy concerns generally prevent them from sharing the results with researchers. However, a team led by Jagdip Singh, of Case Western Reserve, obtained and analyzed 111 videos filmed at customer service desks at U.S. and UK airports for a reality TV show (the producers had had the customers sign privacy waivers). The clips depict employees dealing with passengers who have lost bags, missed flights, or suffered other indignities of air travel. "For the first time we were able to go beyond surveys or after-the-fact interviews and get direct access to the way these interactions happen in real life," says Singh.

The researchers coded employees' words and phrases, evaluating whether the reps were engaged primarily in "relational work" (by being empathetic, apologizing, or trying to forge a personal connection) or in "problem-solving work" (by focusing on finding solutions). They also examined facial expressions to identify when employees were showing "positive affect"—for example, by smiling. The study reached two broad conclusions. Employees who expressed a great deal of empathy or tried to appear bright and cheerful did a poor job of satisfying customers, especially if this relational work extended beyond the first moments of the conversation. And customers cared less about the actual outcome (for example, whether a missing bag was quickly located) than about the process by which the employee tried to offer assistance. "It's not about the solution—it's about how you get there," Singh says.

To explain these counterintuitive findings, the researchers point to leadership studies that have found a trade-off between perceptions of warmth and perceptions of competence. They hypothesize that the same phenomenon exists in service recovery: If employees project a lot of warmth, customers perceive them to be less competent. When analyzing the videos, the researchers divided the customer interactions into three phases: *sensing* (in which the employee asks questions to try to understand the issue), *seeking* (in which the employee brainstorms and explores potential solutions), and *settling* (in which the employee works with the customer to choose the solution that will provide the best outcome). In many of the encounters, reps kept apologizing or making small talk throughout all three phases, but their attempts at warmth seemed only to heighten customers' frustration. "Saying 'I'm sorry for this—the same thing happened to my sister' makes the customer feel that the employee is not really paying attention to the problem, and customers see it as a distraction," says Singh. In fact, the research suggests that continuing to apologize after the first seven seconds of such a conversation will most likely backfire.

After those opening seconds, the researchers say, employees should focus on energetically and creatively exploring a range of potential solutions to the problem. This brainstorming phase, more than anything else, is what customers will use to assess the encounter—and the more ingenuity an employee shows, the better.

To more fully understand the results of the video study, the researchers conducted a follow-up lab

IN PRACTICE

"CLIENTS CARE ABOUT SOLUTIONS, NOT APOLOGIES"

As the chairman and senior managing director of Accenture's Australia and New Zealand businesses, Bob Easton oversees activities ranging from strategy consulting to business-process outsourcing. All involve interacting with clients under stress. Easton recently spoke with HBR about the limits of empathy in dealing with customers. Edited excerpts follow.

Why does this research interest you? I've been with Accenture for 20 years, on the front lines delivering services to our largest clients. People think of "frontline service workers" as employees at a call center or an airline desk, but if you talk to customers and solve problems, this research applies to you. I'm a senior executive, and I'm definitely a frontline service worker, so I've been experimenting with the research in my client interactions.

How? We're all trained to apologize when something goes wrong—and the desire to do so is almost instinctive. Lately, though, I've avoided words like "apologize" and "sorry." Instead, I'll say something like, "I acknowledge the problem, but you probably want us to move immediately into finding options to solve it, so let's start talking about the options." This goes against our instincts, but it's very effective. Clients care less about the apology and more about how quickly and effectively you present options and solutions.

The research shows that satisfaction depends less on the actual solution than on the effort and creativity shown in finding it. Does that surprise you? It resonates with me. I recently had 21 days of travel in which I took 16 flights. On the next-to-last one, late at night, the airline lost my bag. The customer service person seemed to do nothing to solve the problem, and even though the bag arrived early the next morning—a good outcome—it was frustrating. In another instance of a lost bag, a customer service rep walked with me to various places to look for it. Her effort was obvious. This time the bag showed up much later—a worse outcome—but because the rep had tried really hard to find it and involved me in the process, I was less upset.

Can you retrain workers to behave this way, or do you need a different kind of employee? Most people can be retrained, but it takes more than that—it also takes data and artificial intelligence. Consider another example, in which your flight is delayed. Imagine that the frontline employee says, "I see that you've been delayed three times on this route before, and on two of those occasions you opted to drive. So I've rented you a car. I've also booked you a seat on the last flight tonight, and I've reserved a room at your usual hotel and booked a seat on the first flight tomorrow. Which option works best for you?" That's creative problem solving, but it can't be done without immediate access to smart systems.

PHOTOGRAPHY BY JAMES HORAN

CONTINUED FROM PAGE 20

experiment using 568 people who had flown in the previous two years. Each participant listened to a scripted recording of an airline customer-service interaction involving a lost bag or a missed flight. In every instance the resolution was fairly negative—for example, a distressed passenger was told she would not receive her suitcase before a job interview that afternoon, leaving her with nothing appropriate to wear. The encounters varied according to the precise words and process used by the frontline employee: Some employees used relational language, while others were more focused on solving the problem. The participants were asked to assign a customer service rating (on a one-to-seven scale) as if they had been the passenger. The results showed that customer satisfaction was highest when the employee had offered a variety of solutions, such as several options for routing a bag to the customer's final destination, even if the outcome wasn't ideal.

This research may lead companies to focus less on the personalities of frontline workers and more on the problem-solving process workers employ. A recent study by researchers at CEB identified seven common personality types of customer reps, finding "Controllers"—outspoken, opinionated reps who are inherently driven to direct customers toward a solution—to be the most effective type (see "Kick-Ass Customer Service," HBR, January–February 2017). But Singh's research suggests that companies may benefit more from teaching employees to find imaginative answers to service problems than from refining their hiring profiles.

Not surprisingly, the study has sparked interest among hotel, restaurant, and travel-oriented companies; all operate in logistics-intensive industries where problems are rife and the consequences of a service failure can be significant. Singh says that companies have begun asking for suggestions about words or phrases employees can use to convey that they are energetically trying to solve a customer's problem. But it's impossible to script these encounters, he says—indeed, part of what makes service recovery so difficult is that it requires improvisation, because aspects of every issue are unique. So instead of obsessing over the perfect language to use, employees should learn to dive in. "Just get into the task and generate interesting options for the customer—that makes all the difference," Singh says.

HBR Reprint F1801A

ABOUT THE RESEARCH "Frontline Problem-Solving Effectiveness: A Dynamic Analysis of Verbal and Nonverbal Cues," by Detelina Marinova, Sunil K. Singh, and Jagdip Singh (*Journal of Marketing Research,* forthcoming)

SAY THIS, NOT THAT

Participants in a lab experiment listened to an audio simulation of an airline rep helping a passenger whose bag was lost. In one scenario the rep focused on problem solving; in the other the rep emphasized "relational" language. Participants rated the problem-solving rep higher.

	PROBLEM-SOLVING REP	"RELATIONAL" REP
AGENT	Hi! How are you doing?	Hi! May I help you?
CUSTOMER	I came on the 6 AM flight from New York via Atlanta, but my checked baggage is not here.	
	Let me check this right away. May I have your boarding pass and baggage tag?	I am so sorry and am happy to help. May I have your boarding pass?
	Sure.	
	I see that there was a weather-related delay. Your baggage did not make the Atlanta flight due to insufficient connection time.	I apologize for the inconvenience. Your baggage did not make the Atlanta flight and is not here. I am so sorry for—
	That's unacceptable. I have a job interview at 1 PM, and my baggage has all the materials.	
	Let me see what I can do to get it here for you as soon as possible.	I am so sorry for your troubles. I wish I could be more helpful. In your situation—
	This is so unfair!	
	I understand. Let me see how to get your bag here at the earliest… OK, I have a few options. I can have your bag on the next direct flight, at 2:25 PM, and delivered by 5:30 PM.	I know how you feel. I was in a similar situation once. I understand how stressful it is for you. Your bag would be on the flight arriving at 2:25 PM and delivered to you by 5:30 PM.
	That won't work. I need my bag before my 1 PM interview.	
	OK. Once the bag arrives, I can expedite delivery for a $25 fee, which I will waive, but you still won't get the bag till 3:30 PM. If that doesn't work I have some other options.	I am sorry that this won't work. Unfortunately, weather-related delays are hard to predict. That is why we advise passengers to not pack their important materials in the checked baggage. I apologize for the inconvenience.
	Why can you not get my bag on an earlier flight?	
	Yes, an earlier option I have is an Atlanta–Houston connection that will get your bag in Miami by 1:47 PM. If I expedite, you will have it by 2:30 PM.	My sincere apologies for the delay. I wish I could be more helpful. There are no direct flights from Atlanta that arrive in Miami before 2:25 this afternoon.
	That does not help. I have my interview at 1 PM. I guess I do not have much choice. The 2:25 PM direct flight will have to do.	
	Great. Please complete this claim form with a delivery address.	Great. Please complete this claim form with a delivery address.
	OK. Here it is.	
	Your baggage will arrive on the 2:25 flight, and we will call you before delivering. Have a good day.	Your baggage will arrive on the 2:25 flight, and we will call you before delivering. Have a good day.

SOURCE DETELINA MARINOVA, SUNIL K. SINGH, AND JAGDIP SINGH

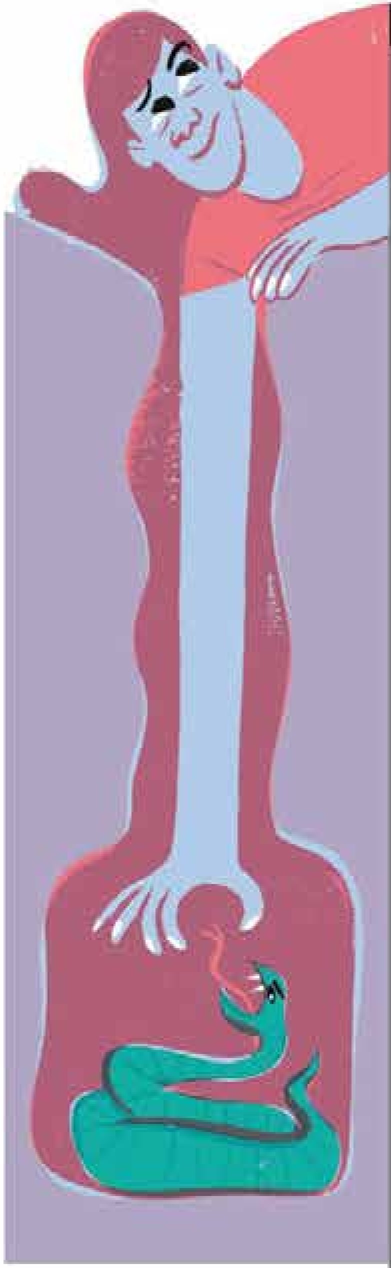
R&D

OUTSIDER CEOs REDUCE INNOVATION

One reason many companies struggle to grow is a decline in research and development productivity, sometimes known as RQ; one researcher recently estimated that over the past 40 years, RQ has dropped by an average of 65%. When she and colleagues interviewed chief technology officers about the subject, they heard a persistent complaint: A change in leadership—in particular, having a CEO come on board from outside the company—led to changes in the firm's approach to R&D. They decided to test the validity of the complaint and explore factors that might affect the severity of the decline.

The researchers looked at a broad sample of U.S. firms, examining financial performance, CEO identity, and RQ from 1992 to 2003. They confirmed that RQ typically dips in the years following an outsider CEO's appointment; outsiders tend to reduce R&D spending and try to rationalize it financially (with a focus on return on investment) instead of strategically. The researchers also found that the CEO's background matters: Chief executives who had held the top job elsewhere and ones coming from firms with high RQs were associated with relatively small drops in RQ, while CEOs hired from other industries precipitated steeper declines. "The results suggest that inside CEOs are better at managing innovation because they are more likely to have the requisite domain expertise to drive growth from R&D," the researchers write. ■

ABOUT THE RESEARCH "Outside CEOs and Innovation," by Trey Cummings and Anne Marie Knott (working paper)



FIRMS LED BY A CEO WITH A LAW DEGREE WERE INVOLVED IN SIGNIFICANTLY LESS LITIGATION THAN OTHERS, ACCORDING TO A 20-YEAR STUDY OF 3,500 CEOs AND 70,000 LAWSUITS.

"LAWYER CEOS," BY TODD HENDERSON ET AL.

DECISION MAKING

CONSUMERS ARE TOO TRUSTING ABOUT UNDISCLOSED INFORMATION

Say that you're choosing a surgeon for an upcoming procedure, and data on patient mortality is posted on the profiles of all your candidates but one. You would assume that the missing information is unfavorable and cross that doctor off your list—wouldn't you?

According to a new study, maybe not. In a series of lab experiments involving 1,700 people tasked with evaluating or choosing physicians, participants were overly forgiving of missing information. In one experiment focused on ratings of physician trustworthiness, the researchers established three conditions for a missing rating: Some subjects were told it had been randomly removed, others that the doctor "had not provided" it, and still others that the doctor "had refused to provide" it. Only the third group showed any sensitivity to the missing data. In another experiment, participants who were told that a doctor had refused to provide her score were significantly more likely to choose her than participants who were told that her score was low.

These results run counter to what's predicted by game theory, which holds that people will interpret missing information in the worst possible light. "We can't count on people to notice or make the correct inferences about missing information," the researchers write. "Consequently, we recommend that those selling goods and services should be mandated to disclose any information that is relevant and valuable to consumers' decision making." ■

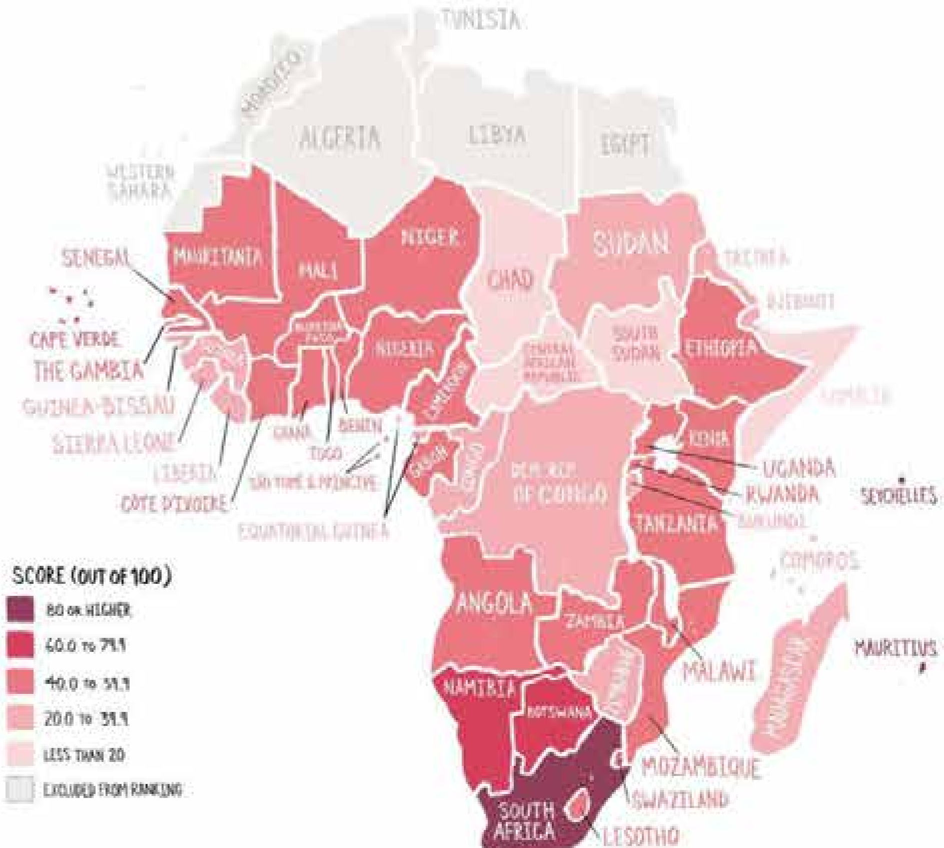
ABOUT THE RESEARCH "Disclosure and the Dog That Didn't Bark: Consumers Are Too Forgiving of Missing Information," by Sunita Sah and Daniel Read (working paper)

STOCK ANALYSTS IN REGIONS EXPERIENCING BAD WEATHER WERE NEARLY 5% LESS LIKELY TO UPDATE FORECASTS AFTER AN EARNINGS ANNOUNCEMENT THAN ANALYSTS EXPERIENCING BETTER WEATHER. THE RESEARCHERS THEORIZE THAT WEATHER-INDUCED LETHARGY ACCOUNTS FOR THIS EFFECT.

SOURCE "DO WEATHER-INDUCED MOODS AFFECT THE PROCESSING OF EARNINGS NEWS?" BY ED DEHAAN, JOSHUA MADSEN, AND JOSEPH D. PIOTROSKI

MARKETS
LOOKING BEYOND GDP

Multinationals have increased their investments in Africa in recent years, hoping to tap into a growing pool of middle-class consumers. But although consumer spending power in the region rose from $470 billion in 2000 to more than $1.1 trillion in 2016, some companies' African businesses are underperforming. That's partly because headline economic indicators, such as per capita GDP growth, are misleading. In many of the fastest-growing African markets, average purchasing power remains very low, because economic growth has not led to well-paying jobs. Instead, it has created a small elite class; the poor population remains large and has little spending power. For a better measure of purchasing power, researchers at the Frontier Strategy Group—an information and advisory services partner to senior executives in emerging markets—developed the Consumer Class Conditions Index (CCCI), which utilizes data on employment conditions, welfare, social exclusion, health, education, economic diversification, business environments, and quality of governance. The CCCI scores markets according to how easily wealth filters through society—and gives a better indication of which African countries have a broad swath of consumers able to make purchases on a regular basis. ■



SOURCE FRONTIER STRATEGY GROUP

LOGISTICS
HOW TO IMPROVE "PICKER" PERFORMANCE

Before the advent of online retailing, most warehouses shipped pallets of goods to retail stores. Today e-commerce fulfillment centers ship individual items to homes, which has increased the challenge facing "pickers"—the workers who must locate the goods. This task is especially time-consuming because many retailers, including Amazon and Zappos, use "chaotic" storage systems, in which dissimilar items are grouped together to save space. Although some retailers deploy robots to help with the process, picking remains a labor-intensive chore and typically accounts for more than half of online retailers' warehouse operating expenses.

Most warehouses try to control costs by using algorithms to reduce pickers' travel time, sending the worker who is closest to an item to retrieve it. New research suggests a better tactic. Analyzing nine months' worth of data from a women's apparel retailer whose warehouse contains 180,000 items and ships 20,000 items a day, the researchers found that experienced pickers are much more efficient than other workers at sorting through bins of items. They estimate that companies can boost productivity by up to 10% by deemphasizing walking distance and instead sending their most seasoned pickers to the highest-density bins—those containing the most varied mishmash of items. One implication: Because experience matters even for this relatively low-skill task, retailers should consider moves to reduce turnover, such as raising wages and improving working conditions. ■

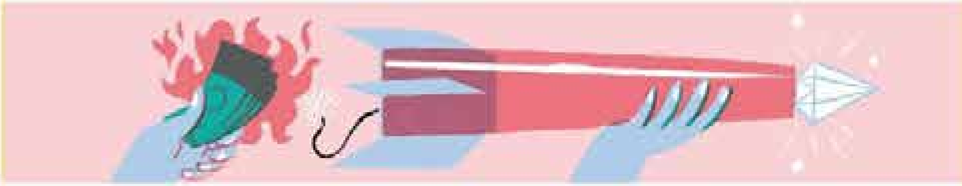
ABOUT THE RESEARCH "The Effects of Searching and Learning on Pick-Worker Performance," by Robert J. Batt and Santiago Gallino (working paper)

I didn't talk for a very long time
Jacob Sanchez
Diagnosed with autism
Lack of speech is a sign of autism. Learn the others at autismspeaks.org/signs.
AUTISM SPEAKS
Ad Council

$1

WHEN ONE CITY RAISED ITS MINIMUM WAGE BY $1, RESTAURANTS AVERAGING 3.5 STARS ON YELP BECAME 14% MORE LIKELY TO CLOSE, BUT THE FAILURE RATE OF RESTAURANTS WITH FIVE-STAR RATINGS WAS UNCHANGED.

SOURCE "SURVIVAL OF THE FITTEST: THE IMPACT OF THE MINIMUM WAGE ON FIRM EXIT," BY DARA LEE LUCA AND MICHAEL LUCA



NEW PRODUCTS
WHY MANAGERS PREFER TO LAUNCH UPSCALE GOODS

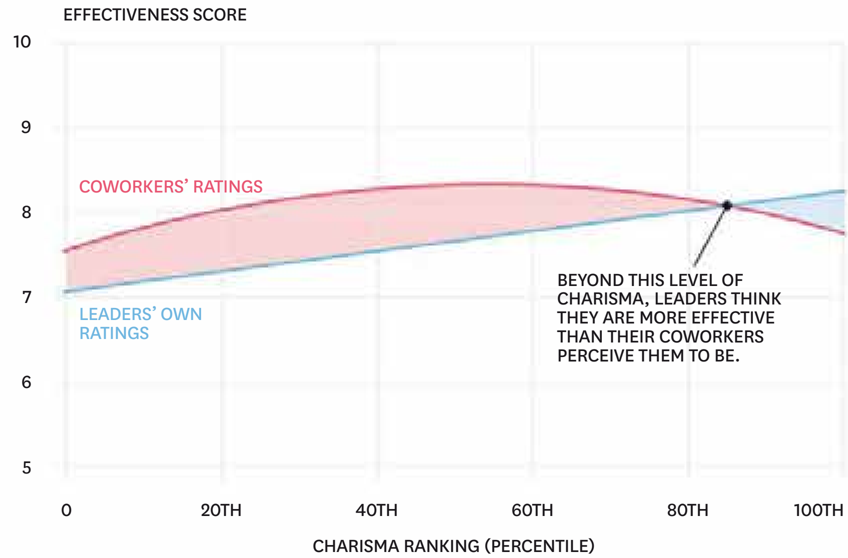
By now companies understand that disruptive innovations typically begin with low-end goods that improve incrementally over time—but they remain reluctant to invest in down-market innovations. A new study identifies one cause: implicit managerial bias fueled by the evolutionary drive to show high status when in groups.

The researchers conducted three experiments to document and explore this bias. In one, more than 200 executives were asked to choose between high-end and low-end innovations whose inherent characteristics should not justify a bias; the upscale offering won. In another, managers were asked to allocate a $10 million investment between a high-end and a low-end project and, subsequently, to choose one of the projects to invest in; they gave more than $6 million to the high-end project and chose it by a margin of four to one. The researchers also examined 2,312 consumer products launched in 2009 and 2010 and found that 82% were priced above the average for the category, suggesting that they were high-end. "The implicit high-end bias is present across different geographies and age groups; it is largely independent of personal characteristics including decision-making styles, risk attitudes, materialism or altruism," the researchers write. "The high-end bias appears deeply ingrained into human decision-making systems, likely [due to] evolutionary processes that reward high status." ■

ABOUT THE RESEARCH "The High-End Bias: An Irrational Preference of Decision Makers for High-End over Low-End Innovations," by Ronny Reinhardt et al. (working paper)

LEADERSHIP
A LITTLE CHARISMA GOES A LONG WAY

Charismatic leaders can inspire others to perform better, and it would seem to follow that the more charisma a leader has, the more effective he or she will be. But new research reveals limits to the more-is-better theory. Researchers asked 306 leaders to rank themselves on charisma, using a common personality test, and to rate their effectiveness as leaders on a 10-point scale; they also asked coworkers to rate the leaders' effectiveness (on average, 14 people assessed each leader). The more charismatic the leader, the higher the self-reported effectiveness—but when charisma reached the 60th percentile (slightly more than average), coworkers' ratings of effectiveness began to decline. Although it's hard to define "too much" charisma, several traits may be red flags, including overconfidence, narcissism, and manipulative behavior. The findings suggest that leaders should be aware that being highly charismatic may have drawbacks and should consider things such as 360-degree evaluations, coaching, and development programs to enhance self-awareness and self-regulation. ■



SOURCE "THE DOUBLE-EDGED SWORD OF LEADER CHARISMA: UNDERSTANDING THE CURVILINEAR RELATIONSHIP BETWEEN CHARISMATIC PERSONALITY AND LEADER EFFECTIVENESS," BY J. VERGAUWE ET AL. (*JOURNAL OF PERSONALITY AND SOCIAL PSYCHOLOGY*, 2017)

ENTREPRENEURSHIP
WHY FOUNDERS QUIT—AND HOW THEIR COMPANIES FARE

Start-ups need to worry about the impression they're making on investors, potential customers, and other stakeholders, so when a founder quits, they often gloss over the exit. A new study digs beneath the euphemisms and happy talk to examine what prompts departures and how they affect the company. After observing 29 firms for several months, the researchers focused on 10 exits, five of which they characterized as "friendly" and five of which were "hostile." They analyzed company documents and publicly available data and interviewed exiting and remaining founders along with third parties such as investors, mentors, and employees.

In all cases the exit process began with performance issues—a founder was seen as not putting in sufficient effort or obtaining desired results. In some cases negative feelings among the other founders ensued, which in turn sometimes caused fault lines within the team or prompted the involvement of investors or other external players. The stronger the departing founder's emotional attachment and sense of ownership, the more likely the exit was to be hostile. And that factor—the level of animosity—proved vital to a company's short-term fortunes.

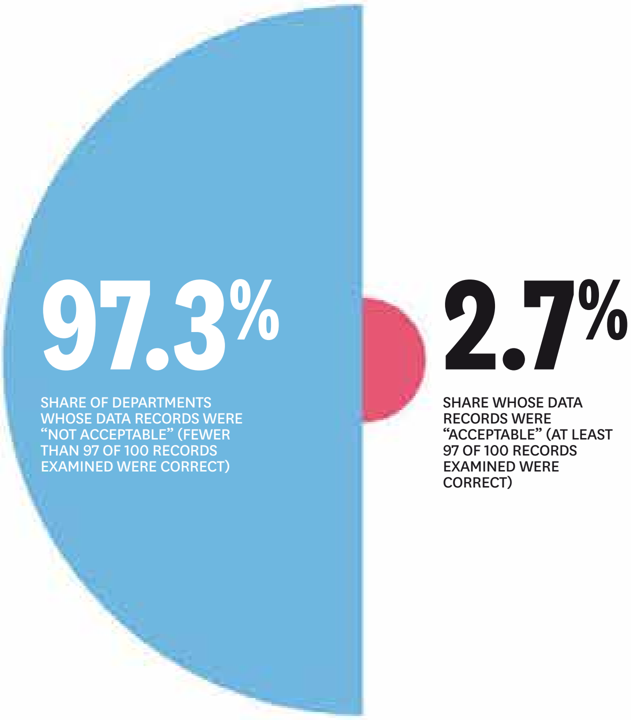
In friendly exits, even founders who were forced out remained professional, tried to preserve personal ties with the team, and negotiated exit terms with an eye toward the firm's well-being (rather than mere self-interest), allowing the firm to keep its focus on moving the venture forward. In hostile exits, founders bogged down in negotiations and legal issues and suffered stress and uncertainty, often costing the company months of progress and lessening the emotional engagement of remaining members.

A silver lining did emerge: Teams that survived exits of either kind appeared to learn from the departures, adjusting their processes and structures to mitigate future conflicts and taking extreme care when adding new team members. "Founders should clearly and openly communicate their performance expectations to other team members to ensure that all…are capable of and willing to meet these expectations," say the researchers, who suggest that "romantic relationship metaphors can help to understand entrepreneurial team processes." ■

ABOUT THE RESEARCH "Dynamics of Co-Founder Exits in Entrepreneurial Teams," by Rieke Dibbern et al. (working paper)

DATA
GARBAGE IN...

Bad data wastes time, increases costs, weakens decision making, angers customers, and makes it difficult to execute any sort of data strategy. Managers know that some portion of the data they collect is inaccurate—but how much? To determine that, researchers had 75 managers in an executive education program analyze the most recent 100 data records processed by their departments. On average, 47% of the records contained critical errors, and less than 3% of the sample was deemed "acceptable." The managers were shocked by these results, and many undertook root cause analysis in an effort to understand the problem. Given the high cost of decisions that are based on bad data, efforts to reduce inaccuracies are likely to pay off quickly. ■



SOURCE TADHG NAGLE, THOMAS C. REDMAN, AND DAVID SAMMON

HARVARD BUSINESS REVIEW JULY–AUGUST 1961

"I am convinced that the restricted stock option is a powerful incentive to good management and an important contributor to economic progress—and that it can be made to serve still better the broad goals of our society."

"STOCK OPTIONS ARE IN THE PUBLIC INTEREST," BY HENRY FORD II

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

DEFEND YOUR RESEARCH

Paul Green, a doctoral candidate at Harvard Business School, and two colleagues studied field data from a company that used a transparent peer-review process and also gave its 300 employees some say in defining their jobs and, thus, over whom they worked with. The researchers' analysis revealed that critical appraisals from colleagues drove employees to adjust their roles to be around people who would give them more-positive reviews. The conclusion:

NEGATIVE FEEDBACK RARELY LEADS TO IMPROVEMENT

MR. GREEN, DEFEND YOUR RESEARCH

GREEN: When people in this organization received what we call "disconfirming feedback," they would try to move away from the coworkers who had offered it, and they would look for new and different relationships. And the more negative feedback they received, the further the employees would go to forge new networks.

My colleagues—Francesca Gino and Bradley Staats—and I also replicated this result in a lab study where we gave subjects feedback, ostensibly from a partner, on a short story they had written. People who received negative feedback, we found, were far more likely to seek a new partner for their next task than those who received confirming feedback.

HBR: Could you actually map this pattern in the company with the transparent peer reviews? Yes. If the relationship was discretionary—that is, if people didn't have to work together—the person who got the negative feedback would usually just disappear from that social network. If the employees had to work together, the recipient of the feedback would look out in the organization for other people to connect with to offset the feedback. They'd form more relationships with people in different departments or other offices. We call this "shopping for confirmation."

Shopping can be fun. In this case, it seems like it's psychologically necessary. Even though the negative feedback is supposed to help, it's perceived as a threat. Shopping for confirmation is grounded in the idea that a positive view of one's self requires social connections that help us sustain that view. If we don't have them, we'll look for them.

Are you saying that negative feedback doesn't work? It doesn't provide the sustenance we need to maintain a positive view of ourselves. And that's the ultimate irony. The idea behind performance appraisals, and feedback in general, is that to grow and improve, we must have a light shined on the things we can't see about ourselves. We need the brutal truth. There's an assumption that what motivates people to improve is the realization that they're not as good as they think they are. But in fact, it just makes them go find people who will not shine that light on them. It may not be having the intended effect at all.

WHEN PEOPLE RECEIVED CRITICISM FROM PEERS, THEY LOOKED FOR OTHER, "CONFIRMING" RELATIONSHIPS.

Feedback that's always positive seems reasonably useless, though. Because the assumption is that feedback will motivate us to perform a certain way. All we're saying is that while it may do some of that, it motivates us to do other things, too, like find friends who won't give us negative feedback. People come to work with many motivations. I'm not saying they won't want to improve if they find out they're weak in something. But they also need to know that they're valued and that their contributions are generally positive. We put employees in a position to deal with dueling motivations: I need to feel I'm valuable, and I need to improve. And we don't do a good job reconciling them with our feedback mechanisms.

Should we bookend negative feedback with positive feedback, then? No. That's not a great strategy. It's not about itemizing the feedback and saying, "You did this well. You do this poorly. You did this well. You do this poorly." It's about accompanying negative feedback with validation of who people are and of their value to the organization. And it's not even about providing it all the time. People just need to feel valued.

So what we need to do is offer broader affirmations about employees' inherent goodness and value? Yes. In another lab study, we gave subjects a set of negative feedback similar to the feedback in the creative-writing exercise but also gave them an opportunity to self-affirm by asking them to write for 10 minutes about the values that were most important to them. When we did that, the shopping-for-confirmation effect almost disappeared completely.

We should be able to craft a performance appraisal process to work in a similar manner. Feedback will motivate someone to improve probably only if this broader affirmation genuinely exists. This makes sense if we think about it in the context of personal relationships. Quite often I get disconfirming feedback from my spouse.

IN A LAB STUDY, SUBJECTS WHO GOT NEGATIVE FEEDBACK FROM A PARTNER WERE MORE LIKELY TO ASK FOR A NEW PARTNER.

I can relate to that. But never once has it made me shop for confirmation or say, "I need to end this relationship." Because the feedback she's giving me is in the context of a broader, relatively positive and confirming relationship.

Do managers buy into your hypothesis here? I think they have to. Peer-review mechanisms are in place in more than 50% of organizations, and they're ubiquitous at large companies. And I'd argue that the assumptions being made about what feedback inspires are very naive. There's more going on than we think when we tell someone they don't do something well and need to do it better. People are complex. The logic of negative feedback alone closing the gap between my view of myself and how others see me—it's not at all that simple.

NEGATIVE FEEDBACK IS A PSYCHOLOGICAL THREAT AND LEADS TO ANXIETY AND DEPRESSION.

Is shopping for confirmation an innate drive? Can we decide not to do it? I doubt it. As I said, negative feedback manifests itself as a psychological threat. And over the last two to three decades, a body of research has shown that that kind of threat has not only behavioral consequences but physical ones as well: Lethargy. Anxiety. Depression. I think we can't help reacting to it by doing something that will make us feel better. Whether it's conscious or not, we don't know. It's probably a little of both, but it's such a fundamental, deep-seated drive to want a circle of people around us that will prop us up. And we'll go to great measures to create that circle if we have to.

What we see in the data is that current feedback systems trigger this reaction of constructing a surrounding group that will protect us from experiencing critical input. It's the definition of an echo chamber. So feedback not only doesn't work but leads to social formations that will prevent it from ever working.

Does any of this apply to what's happening with the news and social media, where we seem to surround ourselves with like-minded content? This is a little outside our study's context, but I think what we see on the national political stage is remarkably similar. People tend to identify very strongly with their political views. There's plenty of evidence that they will flee sources that disconfirm those beliefs and seek a more hospitable and confirming environment.

But any form of echo chamber ultimately weakens us. If you surround yourself with those who constantly prop you up, you're willfully being blind to any aspect of yourself, or your political or social identity, that might need improvement. In political, social, and work realms, the people who thrive will be those who can sit down and engage with the threatening views of others and then take those insights and honestly try to apply them.

Do you want to do more research on feedback mechanisms? Absolutely. We want to understand how all this works so that we can craft better mechanisms. I think it starts with creating a confirming environment and confirming relationships, where feedback of all kinds won't lead to this threat state. An awful lot about organizations just doesn't lend itself to such an environment: Competition for promotions. Negative financial results. Downsizing. These put up walls between people. We want to build structures without so many walls. It's hard to do. But it's solvable. We've taken one step.

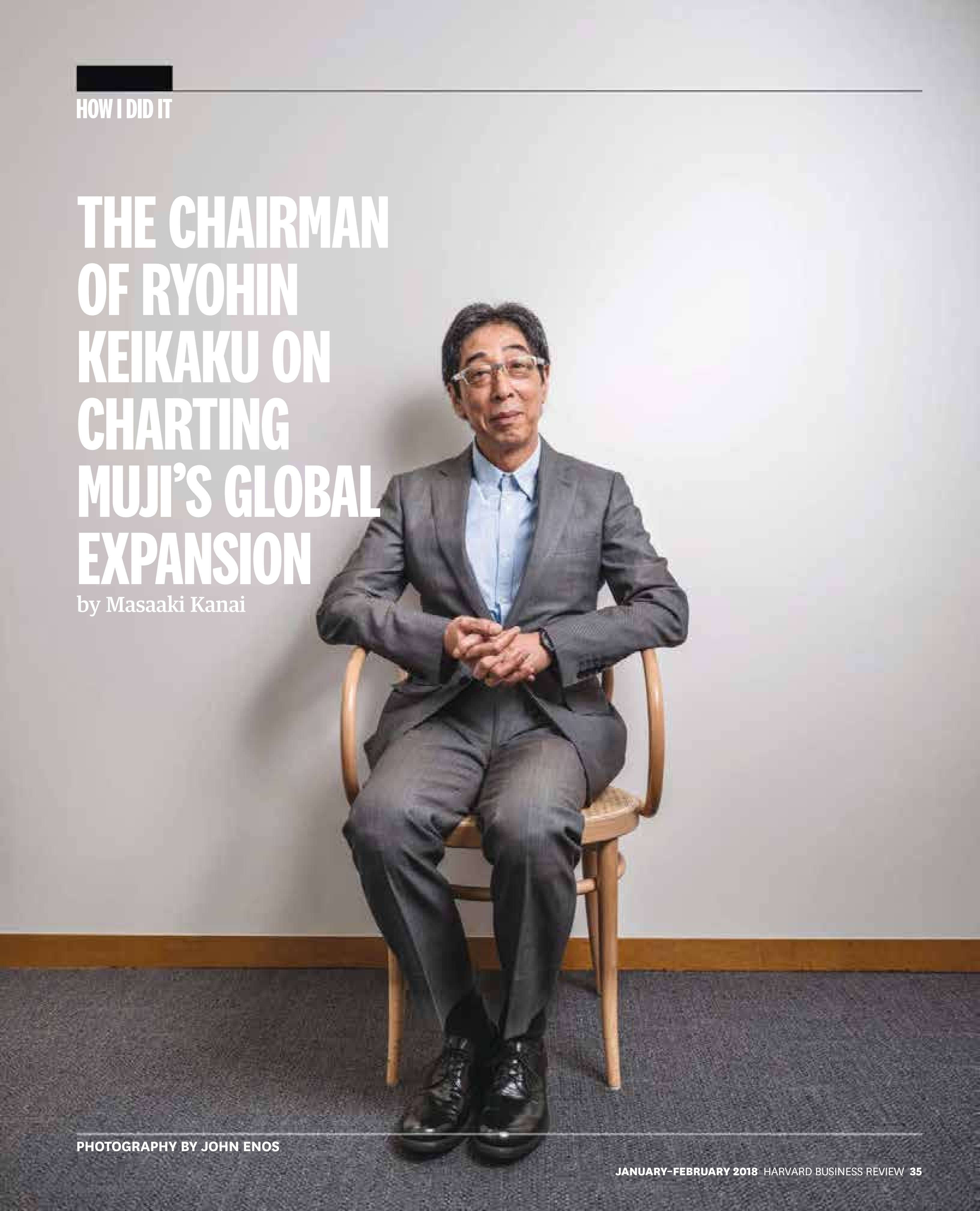
I have to say, your performance in this interview was subpar. I was hoping for better. Let me talk to another editor there. I'd bet they'd think it was pretty good.

Interview by **Scott Berinato**
HBR Reprint F1801B

HOW I DID IT

THE CHAIRMAN OF RYOHIN KEIKAKU ON CHARTING MUJI'S GLOBAL EXPANSION

by Masaaki Kanai



PHOTOGRAPHY BY JOHN ENOS

When executives at Seiyu, a subsidiary of the Japanese retail company Saison Group, launched Mujirushi Ryohin (Muji) as a proprietary line of housewares, food, and apparel, in 1980, the idea was to manufacture and sell beautiful, inexpensive products—without decoration or excessive design—that every Japanese consumer might need. Indeed, the name Mujirushi Ryohin means "no-brand quality goods."

In the beginning, the priority was not to grow the business but to realize the concept. However, we were convinced that we would find demand for our no-brand brand—its products and values—beyond Japan.

In the late 1980s we tested the waters: Muji participated in an exhibition of Japanese products in London and sparked a great deal of interest from British retailers. Although Harrods was the first to ask about carrying the line, my predecessors declined, believing that its business culture wasn't a good match. Instead we launched a joint venture with Liberty, a more design-focused UK department store. And that partnership emboldened us. We discovered a new goal: spreading our ethos of good, affordable, sustainable design throughout the world.

Ordinarily, when a company sees evidence of foreign demand for its products, it tries to expand quickly. But we had no emerging competitors at the time, and a lack of experienced personnel and stable corporate systems forced us to be more circumspect. So we started to venture abroad in a careful, deliberate manner.

In 1991, a year after Muji was transferred from Seiyu to the newly formed Ryohin Keikaku, we opened stand-alone stores in London and Hong Kong. But we waited until 1998 to launch elsewhere in Europe and until 2005 to enter mainland China, even though it had emerged years before as the world's most important retail market. In 2007 we opened our first U.S. store.

OUR PRODUCTS ARE LONG-LASTING. WE WANT TO ENSURE THAT OUR STORES ARE TOO.

As a still-small company, we maintain this slow and steady pace in part through our financial discipline: Within a given region we will open a new store only after the existing ones are running profitably, and we don't spend money on advertising. We want to understand a country and its retail landscape, work out any operational kinks, and build a reputation through word of mouth before we expand within it. Our products are long-lasting. We want to ensure that our stores are too.

And over the past three decades we've discovered that there is, in fact, a large market for Muji around the world. We've continued to grow domestically, with 418 stores in Japan, but today we have nearly as many—403—in 27 countries throughout Europe, North America, Australasia, and the Middle East. Under the corporate umbrella of Ryohin Keikaku, which listed on the Tokyo Stock Exchange in 1998, Muji remains a Japanese company. But we are proud to call ourselves a global brand.

INTERNATIONAL BEGINNINGS

I joined Seiyu in 1976 and transferred to Ryohin Keikaku in 1993. Having worked my way up through the household division, I was always interested in bringing what Muji offered to the rest of the world. But the learning curve was, of course, steep.

Our initial foray into Britain—the joint venture with Liberty—didn't satisfy us. That wasn't because the products didn't sell; they did. The problem was strategic misalignment. We had quite a clear vision for how to properly introduce and deploy Muji abroad, and we thought we could leverage Liberty's resources. But ultimately we decided that a stand-alone shop that we could operate in a hands-on fashion would be the best way to present our concept to customers. We retained Liberty as a partner and local expert and opened a store on Regent Street, near Oxford Circus, in 1991. We had only 155 square meters, but our offerings, with their unadorned, unbranded, monochromatic design, were unique, and the store became extremely popular.

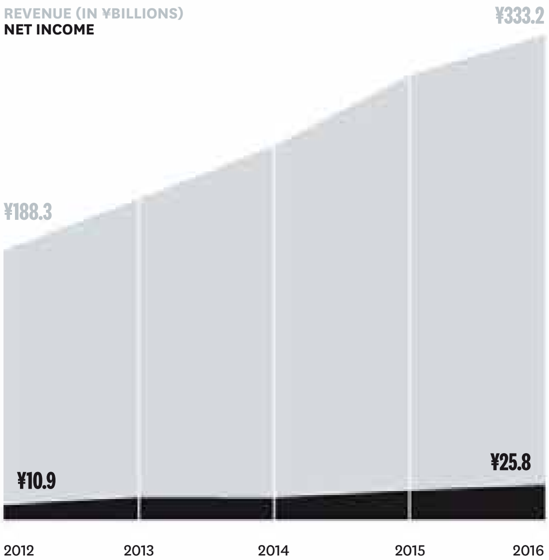
We made some missteps, however. At first we sent over Japanese buyers who were highly proficient in the English language and efficiency oriented. But we soon learned that they weren't entirely effective: Although they supplied the store with best-selling products, they did not tell the local staff how to plan the mix of goods and the floor displays in the Muji way. So the store turned out quite different from what we had expected.

Having only recently become an independent company, Ryohin Keikaku was still operationally weak. Seiyu and Saison Group had done some exporting, but no executives with relevant experience had been transferred to our offshoot, so we had to rely heavily on Liberty for administration and logistics. That eventually led to difficulties. Its managers had their own business to run; we weren't their top priority. And we were forced to incorporate our high operating costs into our prices, so the "inexpensive" part of our concept was missing.

Still, the customer response continued to be encouraging. So in 1994 we ended the partnership with Liberty and created a European subsidiary to run the

RYOHIN KEIKAKU FACTS & FINANCIALS

FOUNDED 1989
HEADQUARTERS TOKYO
NO. OF LOCATIONS 870
NO. OF EMPLOYEES 16,195



SOURCE RYOHIN KEIKAKU

first London store, then the second and the third, and eventually our first in continental Europe: Muji Saint Sulpice, in Paris.

At the time, we had no clear strategy or standards for where to expand. We just looked for urban shopping areas that appeared to be full of people who were likely to buy Muji. These educated guesses proved fruitful, paving the way for further growth in Europe several years later.

EXPANDING IN ASIA

We were also expanding closer to home—in fits and starts—during the 1990s, not just in Japan but elsewhere in Asia. We opened our first Hong Kong store, also with a local partner, at about the same time as the London one, in 1991. Our sales exceeded plan from the first year, and over the next four years we expanded to several more sites in the city. In 1995 we looked to another Asian travel hub: Singapore. We established another joint venture and opened a store in Bugis Junction. In both cases the local partners were either connected to or selected by Seiyu, the parent company at the time.

Although customers in these markets liked what we offered, and our revenues were strong, we had problems similar to those we faced in the UK. The Asian partnerships weren't profitable, and since we and our partners were struggling to thrive in Japan's still-stagnating economy, we decided in 1998 to withdraw from both Hong Kong and Singapore.

We weren't absent for long, however. In 2000 my predecessor, Tadamitsu Matsui, was appointed president of Ryohin Keikaku and set about cleaning up Muji's organization and operations. By 2001 we were financially stable enough to revisit our pan-Asian ambitions. We established a Hong Kong subsidiary in 2001 and began to open stores again, at a rate of about two a year. In 2003 we did the same in Singapore, and in 2004 we established Muji Korea. (We also resumed European expansion at that time, with licensing deals in Scandinavia and the creation of Muji Italia.)

Then came our entry to mainland China. In the early 2000s we began to notice that although we had registered our logo and brand in the country, other companies were using it—the same letters, the same Japanese characters—to sell cheap, colorful, and poorly designed products that looked nothing like ours. One of these fakers had 14 stores, some of them in Hong Kong.

As someone who'd lived and breathed our brand for 20 years and was at that point a managing director overseeing merchandising, advertising, promotions, and sales at Ryohin Keikaku, I was hurt every time I saw one of them. We couldn't have a whole country of consumers believing that this was Muji. We litigated, but we weren't sure the Chinese courts would come down on our side, so we decided to take matters into our own hands: We would bring the real Muji to China. We opened a Shanghai store in 2005.

Quality control was still a concern, however, especially as we considered the vast geographic expanse of the Chinese market. With stores spread so far apart, we couldn't send our Japanese executives and salespeople to oversee all of them; we'd have to rely on local managers. So when I was appointed president of Ryohin Keikaku, in 2008, one of my first priorities was to ensure that the Muji experience—from walking into a store to buying and using our products—would feel exactly the same no matter where you were in the world.

We created a department to set rules for store design, layout, and merchandising. We began to give all frontline staff members the same training and to bring many locally hired store managers to our offices in Tokyo for instruction. We streamlined our distribution, accounting, and merchandising so that we could all share the same data. And although we now manufacture and sell more than 7,000 items, we do no customization or adaptation for particular countries or regions.

I like to say that Muji goods should be like water: of universal appeal. And I believe that this adherence to a uniform vision and execution has been the key to our success in recent years, not just in mainland China and Hong Kong, where we now have 200 and 17 stores respectively, but also in other overseas markets.

MUJI'S EXPANSION

STORE OPENINGS AROUND THE WORLD

JAPAN

1983

FIRST DIRECTLY MANAGED MUJI STORE OPENS

UNITED KINGDOM

1991

HONG KONG

SINGAPORE

1995


FRANCE

1998


KOREA

2003

TAIWAN

ITALY

2004

1983	JAPAN
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	UNITED KINGDOM, HONG KONG
1992	
1993	
1994	
1995	SINGAPORE
1996	
1997	
1998	FRANCE
1999	
2000	


GERMANY

2005


SPAIN

2006


UNITED STATES

2007


PHILIPPINES

2010

AUSTRALIA

2013

CHINA


MALAYSIA

2012


UNITED STATES

2015

TWO MORE FLAGSHIPS: SHANGHAI HUAIHAI 755 AND MUJI FIFTH AVENUE, NYC


INDIA

2016

2001	
2002	IRELAND
2003	KOREA
2004	TAIWAN, ITALY, SWEDEN
2005	CHINA, GERMANY
2006	SPAIN, THAILAND
2007	UNITED STATES
2008	
2009	INDONESIA
2010	PHILIPPINES, POLAND, PORTUGAL
2011	
2012	MALAYSIA
2013	AUSTRALIA, KUWAIT, UAE
2014	CANADA
2015	SHANGHAI, FIFTH AVENUE, NYC
2016	SAUDI ARABIA, INDIA, BAHRAIN
2017	

IMAGES PROVIDED BY RYOHIN KEIKAKU

THE U.S. MARKET

Even as our international growth ramped up elsewhere in the mid-2000s, we approached the U.S. market with some trepidation. First, it's a long distance from Japan. Second, the culture of consumer litigation scared us. For example, I remember hearing a story (perhaps an urban legend) at the time we were discussing our U.S. debut about a man who had tried to dry his wet cat in a microwave and had sued the microwave manufacturer for damages! How could any B2C business survive in an environment like that?

> **IN PLACES THAT HAVE A SURFEIT OF STUFF TO BUY, WE THINK OUR PRODUCTS CAN BE PARTICULARLY USEFUL.**

Of course, in a global context, we knew how important the U.S. market would be to us—not just for the additional revenue but also to spread our no-waste ideals as far as possible. In places that have a surfeit of stuff to buy and many retailers trying to sell you more and more, we think our products can be particularly useful.

New York City was an obvious first destination, and we chose SoHo for its young, hip vibe, opening in 2007. Having gotten a feel for the Manhattan market, we've since launched five more stores in and around the area. We also tested and then expanded in California: Santa Monica, San Jose, Hollywood, and Palo Alto. In 2017 we opened in Boston. Ten stores in 10 years may seem slow, but we are committed to taking our time, developing stores when we are ready.

So far, we've focused on urban or university areas and places where our e-commerce sales are strong. But mature U.S. markets like the ones we've entered are challenging for many reasons. Because our manufacturing is still mainly in Asia, we're shipping our goods across an ocean to get to these outlets. However, in five to 10 years, as our U.S. footprint grows, we hope to make some items—such as our home storage systems—in the Americas. In addition, because rent, labor, and construction costs are high, especially in areas with unions, we can't build big stores and offer as many products as we'd like to, or sell them as cheaply. But we try to overcome this through expert curation: We pride ourselves on selecting the perfect subset of our products for each location.

Competition in these cities remains fierce, and we're somewhat hampered by the fact that we don't advertise—another pillar of our no-frills philosophy. Still, we've found that we can rely on the quality of our products and salespeople and customer word of mouth to stand out from the crowd. One way we've accomplished this is by bringing new retail concepts to the American market. For example, in our New York flagship, on Fifth Avenue, we incorporated a create-your-own essential oil and an embroidery service.

A COUNTERPOINT TO COMMERCIALISM

How did we manage all this international expansion while growing domestically in a still-weak economic climate? For one thing, consumers have always regarded Muji as value for money, so we performed better than most in the Japanese downturn. We've experimented with various categories in our home market—for example, we now have cafeterias, houses, and campsites, which have proved popular. Today we're also looking at smaller, more remote areas of the country where once-thriving shopping districts are now ghost towns; we call them "shutter streets," because all the stores are closing up their windows. We believe that by putting a Muji store or café in those areas, we might just be able to revitalize them.

Abroad, we continue to move cautiously, when the time is right. We stick to our policy of adding stores only when existing ones in the country or region are running profitably, and we trust the intelligence we get from our local managers. We have three regional managers—for Europe and North America; East Asia (China, Hong Kong, South Korea, and Taiwan); and southern and western Asia and Oceania (Australia, India, Indonesia, Malaysia, the Middle East, the Philippines, Singapore, and Thailand)—to whom country heads report. Regional directors propose new locations in store-planning committee meetings, which Muji's president, Satoru Matsuzaki, and I (now as chairman) attend. Final decisions are made there, on the basis of guidelines we formalized in 2003. Some of our newest markets include Saudi Arabia, Bahrain, and India, where we opened our first stores in 2016.

Operations outside Japan now account for 35% of our business, and we intend to keep expanding globally. However, our aim is not to grow as large as we can. It is to be tenacious in our quest to deliver on the Muji promise and to be of use in the lives of people around the world. That is our definition of business success, conceived as a counterpoint to over-the-top commercialism. We want to make good, long-lasting products accessible to as many consumers as possible and to start meaningful conversations about the importance of sustainability.

In our most recent strategic plan, we highlighted the Japanese word *kanji-ii-kurashi*. It's difficult to translate into English, but essentially it means living as part of a community, simply, conscientiously, and in harmony. We'd like to see this idea penetrate both the most populous and the most remote areas of the world.

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Leading Culture

"Culture can fluidly blend the intentions of top leaders with the knowledge and experiences of frontline employees."

PAGE 44

The Leader's Guide to Corporate Culture

HOW TO MANAGE THE EIGHT CRITICAL ELEMENTS OF ORGANIZATIONAL LIFE

BY BORIS GROYSBERG, JEREMIAH LEE, JESSE PRICE, AND J. YO-JUD CHENG

Strategy and culture are among the primary levers at top leaders' disposal in their never-ending quest to maintain organizational viability and effectiveness. Strategy offers a formal logic for the company's goals and orients people around them. Culture expresses goals through values and beliefs and guides activity through shared assumptions and group norms.

Strategy provides clarity and focus for collective action and decision making. It relies on plans and sets of choices to mobilize people and can often be enforced by both concrete rewards for achieving goals and consequences for failing to do so. Ideally, it also incorporates adaptive elements that can scan and analyze the external environment and sense when changes are required to maintain continuity and growth. Leadership goes hand-in-hand with strategy formation, and most leaders understand the fundamentals. Culture, however, is a more elusive lever, because much of it is anchored in unspoken behaviors, mindsets, and social patterns.

For better *and* worse, culture and leadership are inextricably linked. Founders and influential leaders often set new cultures in motion and imprint values and assumptions that persist for decades. Over time an organization's leaders can also shape culture, through both conscious and unconscious actions (sometimes with unintended consequences). The best leaders we have observed are fully aware of the multiple cultures within which they are embedded, can sense when change is required, and can deftly influence the process.

Unfortunately, in our experience it is far more common for leaders seeking to build high-performing organizations to be confounded by culture. Indeed, many either let it go unmanaged or relegate it to the HR function, where it becomes a secondary concern for the business. They may lay out detailed, thoughtful plans for strategy and execution, but because they don't understand culture's power and dynamics, their plans go off the rails. As someone once said, culture eats strategy for breakfast.

It doesn't have to be that way. Our work suggests that culture can, in fact, be managed. The first and most important step leaders can take to maximize its value and minimize its risks is to become fully aware of how it works. By integrating findings from more than 100 of the most commonly used social and behavioral models, we have identified eight styles that distinguish a culture and can be measured. (We gratefully acknowledge the rich history of cultural studies—going all the way back to the earliest explorations of human nature—on which our work builds.) Using this framework, leaders can model the impact of culture on their business and assess its alignment with strategy. We also suggest how culture can help them achieve change and build organizations that thrive in even the most trying times.

DEFINING CULTURE

Culture is the tacit social order of an organization: It shapes attitudes and behaviors in wide-ranging and durable ways. Cultural norms define what is encouraged, discouraged, accepted, or rejected within a group. When properly aligned with personal values, drives, and needs, culture can unleash tremendous amounts of energy toward a shared purpose and foster an organization's capacity to thrive.

Culture can also evolve flexibly and autonomously in response to changing opportunities and demands. Whereas strategy is typically determined by the C-suite, culture can fluidly blend the intentions of top leaders with the knowledge and experiences of frontline employees.

The academic literature on the subject is vast. Our review of it revealed many formal definitions of organizational culture and a variety of models and methods for assessing it. Numerous processes exist for creating and changing it. Agreement on specifics is sparse across these definitions, models, and methods, but through a synthesis of seminal work by Edgar Schein, Shalom Schwartz, Geert Hofstede, and other leading scholars, we have identified four generally accepted attributes:

Shared. Culture is a group phenomenon. It cannot exist solely within a single person, nor is it simply the average of individual characteristics. It resides in shared behaviors, values, and assumptions and is most commonly experienced through the norms and expectations of a group—that is, the unwritten rules.

Pervasive. Culture permeates multiple levels and applies very broadly in an organization; sometimes it is even conflated with the organization itself. It is manifest in collective behaviors, physical environments, group rituals, visible symbols, stories, and legends. Other aspects of culture are unseen, such as mindsets, motivations, unspoken assumptions, and what David Rooke and William Torbert refer to as "action logics" (mental models of how to interpret and respond to the world around you).

Enduring. Culture can direct the thoughts and actions of group members over the long term. It develops through critical events in the collective life and learning of a group. Its endurance is explained in part by the attraction-selection-attrition model first introduced by Benjamin Schneider: People are drawn to organizations with characteristics similar to their own; organizations are more likely to select individuals who seem to "fit in"; and over time those who don't fit in tend to leave. Thus culture becomes a self-reinforcing social pattern that grows increasingly resistant to change and outside influences.

Implicit. An important and often overlooked aspect of culture is that despite its subliminal nature, people are effectively hardwired to recognize and respond to it instinctively. It acts as a kind of silent language. Shalom Schwartz and E.O. Wilson have shown through their research how evolutionary processes shaped human capacity; because the ability to sense and respond to culture is universal, certain themes should be expected to recur across the many models, definitions, and studies in the field. That is exactly what we have discovered in our research over the past few decades.

As someone once said, culture eats strategy for breakfast.

EIGHT DISTINCT CULTURE STYLES

Our review of the literature for commonalities and central concepts revealed two primary dimensions that apply regardless of organization type, size, industry, or geography: people interactions and response to change.

Understanding a company's culture requires determining where it falls along these two dimensions.

People interactions. An organization's orientation toward people interactions and coordination will fall on a spectrum from highly independent to highly interdependent. Cultures that lean toward the former place greater value on autonomy, individual action, and competition. Those that lean toward the latter emphasize integration, managing relationships, and coordinating group effort. People in such cultures tend to collaborate and to see success through the lens of the group.

Response to change. Whereas some cultures emphasize stability—prioritizing consistency, predictability, and maintenance of the status quo—others emphasize flexibility, adaptability, and receptiveness to change. Those that favor stability tend to follow rules, use control structures such as seniority-based staffing, reinforce hierarchy, and strive for efficiency. Those that favor flexibility tend to prioritize innovation, openness, diversity, and a longer-term orientation. (Kim Cameron, Robert Quinn, and Robert Ernest are among the researchers who employ similar dimensions in their culture frameworks.)

By applying this fundamental insight about the dimensions of people interactions and response to change, we have identified eight styles that apply to both organizational cultures and individual leaders. Researchers at Spencer Stuart (including two of this article's authors) have interdependently studied and refined this list of styles across both levels over the past two decades.

Caring focuses on relationships and mutual trust. Work environments are warm, collaborative, and welcoming places where people help and support one another. Employees are united by loyalty; leaders emphasize sincerity, teamwork, and positive relationships.

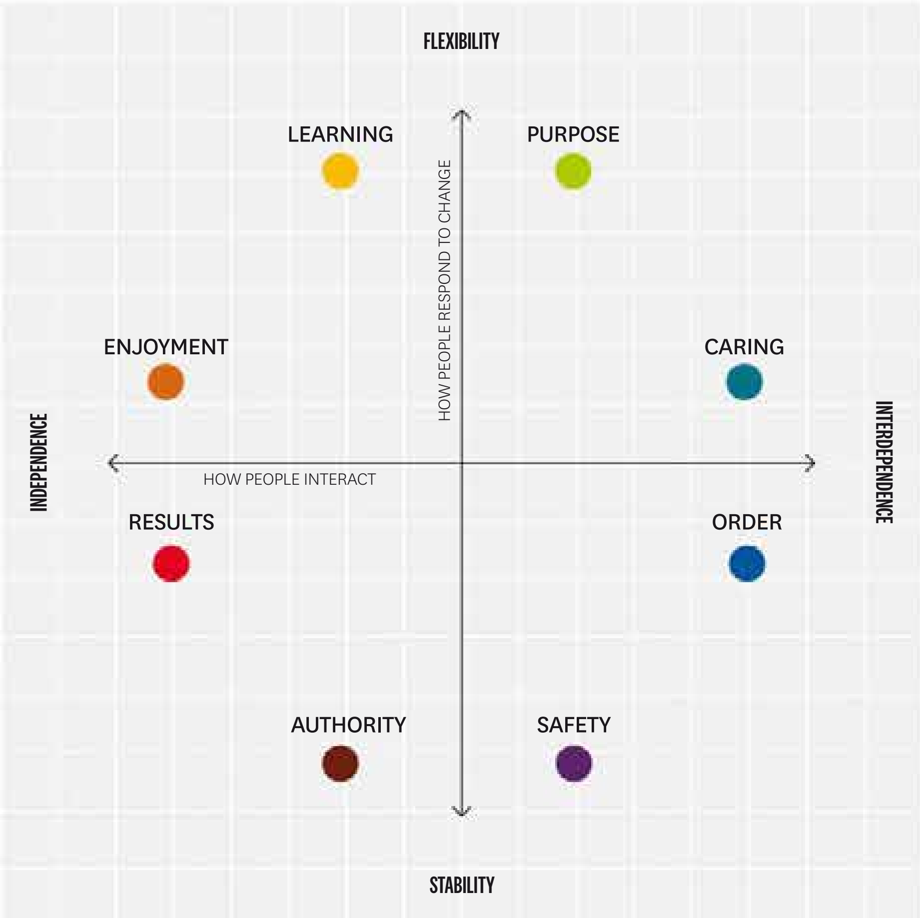
Purpose is exemplified by idealism and altruism. Work environments are tolerant, compassionate places where people try to do good for the long-term future of the world. Employees are united by a focus on sustainability and global communities; leaders emphasize shared ideals and contributing to a greater cause.

Learning is characterized by exploration, expansiveness, and creativity. Work environments are inventive and open-minded places where people spark new ideas and explore alternatives. Employees are united

INTEGRATED CULTURE THE FRAMEWORK

On the basis of decades of experience analyzing organizations, executives, and employees, we developed a rigorous, comprehensive model to identify the key attributes of both group culture and individual leadership styles. Eight characteristics emerge when we map cultures along two dimensions: how people interact (independence to interdependence) and their response to change (flexibility to stability). The relative salience of these eight styles differs across organizations, though nearly all are strongly characterized by *results* and *caring*.

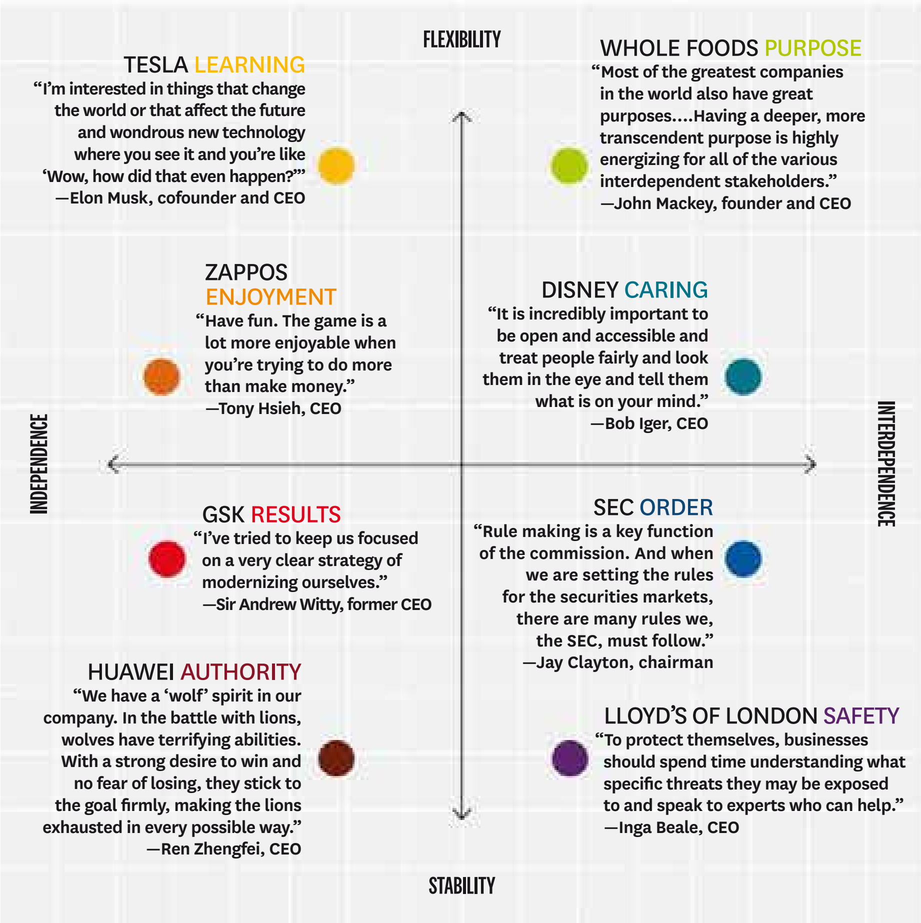
The spatial relationships are important. Proximate styles, such as *safety* and *order,* or *learning* and *enjoyment*, will coexist more easily than styles that are far apart on the chart, such as *authority* and *purpose,* or *safety* and *learning*. Achieving a culture of *authority* often means gaining the advantages (and living with the disadvantages) of that culture but missing out on the advantages (and avoiding the disadvantages) of a culture of *purpose*.



SOURCE SPENCER STUART

INTEGRATED CULTURE LEADER STATEMENTS

Top leaders and founders often express cultural sentiments within the public domain, either intentionally or unintentionally. Such statements can provide important clues to how these leaders are thinking about and leading their organizations' cultures.



by curiosity; leaders emphasize innovation, knowledge, and adventure.

Enjoyment is expressed through fun and excitement. Work environments are lighthearted places where people tend to do what makes them happy. Employees are united by playfulness and stimulation; leaders emphasize spontaneity and a sense of humor.

Results is characterized by achievement and winning. Work environments are outcome-oriented and merit-based places where people aspire to achieve top performance. Employees are united by a drive for capability and success; leaders emphasize goal accomplishment.

Authority is defined by strength, decisiveness, and boldness. Work environments are competitive places where people strive to gain personal advantage. Employees are united by strong control; leaders emphasize confidence and dominance.

Safety is defined by planning, caution, and preparedness. Work environments are predictable places where people are risk-conscious and think things through carefully. Employees are united by a desire to feel protected and anticipate change; leaders emphasize being realistic and planning ahead.

Order is focused on respect, structure, and shared norms. Work environments are methodical places where people tend to play by the rules and want to fit in. Employees are united by cooperation; leaders emphasize shared procedures and time-honored customs.

These eight styles fit into our integrated culture framework (see the exhibit "Integrated Culture: The Framework") according to the degree to which they reflect independence or interdependence (people interactions) and flexibility or stability (response to change). Styles that are adjacent in the framework, such as *safety* and *order,* frequently coexist within organizations and their people. In contrast, styles that are located across from each other, such as *safety* and *learning,* are less likely to be found together and require more organizational energy to maintain simultaneously. Each style has advantages and disadvantages, and no style is inherently better than another. An organizational culture can be defined by the absolute and relative strengths of each of the eight and by the degree of employee agreement about which styles characterize the organization. A powerful feature of this framework, which differentiates it from other models, is that it can also be used to define individuals' styles and the values of leaders and employees.

Inherent in the framework are fundamental trade-offs. Although each style can be beneficial, natural constraints and competing demands force difficult choices about which values to emphasize and how people are expected to behave. It is common to find organizations with cultures that emphasize both *results* and *caring,* but this combination can be confusing to employees. Are they expected to optimize individual goals and strive for outcomes at all costs, or should they work as a team and emphasize collaboration and shared success? The nature of the work itself, the business strategy, or the design of the organization may make it difficult for employees to be equally *results* focused and *caring.*

In contrast, a culture that emphasizes *caring* and *order* encourages a work environment in which teamwork, trust, and respect are paramount. The two styles are mutually reinforcing, which can be beneficial but can also present challenges. The benefits are strong loyalty, retention of talent, lack of conflict, and high levels of engagement. The challenges are a tendency toward groupthink, reliance on consensus-based decisions, avoidance of difficult issues, and a calcified sense of "us versus them." Leaders who are

THE PROS AND CONS OF CULTURE STYLES

Every culture style has strengths and weaknesses. The table below summarizes the advantages and disadvantages of each style and how frequently it appears as a defining culture characteristic among the companies in our study.

CULTURE STYLE	ADVANTAGES	DISADVANTAGES	RANKED 1ST OR 2ND
CARING Warm, sincere, relational	Improved teamwork, engagement, communication, trust, and sense of belonging	Overemphasis on consensus building may reduce exploration of options, stifle competitiveness, and slow decision making	63%
PURPOSE Purpose driven, idealistic, tolerant	Improved appreciation for diversity, sustainability, and social responsibility	Overemphasis on a long-term purpose and ideals may get in the way of practical and immediate concerns	9%
LEARNING Open, inventive, exploring	Improved innovation, agility, and organizational learning	Overemphasis on exploration may lead to a lack of focus and an inability to exploit existing advantages	7%
ENJOYMENT Playful, instinctive, fun loving	Improved employee morale, engagement, and creativity	Overemphasis on autonomy and engagement may lead to a lack of discipline and create possible compliance or governance issues	2%
RESULTS Achievement driven, goal focused	Improved execution, external focus, capability building, and goal achievement	Overemphasis on achieving results may lead to communication and collaboration breakdowns and higher levels of stress and anxiety	89%
AUTHORITY Bold, decisive, dominant	Improved speed of decision making and responsiveness to threats or crises	Overemphasis on strong authority and bold decision making may lead to politics, conflict, and a psychologically unsafe work environment	4%
SAFETY Realistic, careful, prepared	Improved risk management, stability, and business continuity	Overemphasis on standardization and formalization may lead to bureaucracy, inflexibility, and dehumanization of the work environment	8%
ORDER Rule abiding, respectful, cooperative	Improved operational efficiency, reduced conflict, and greater civic-mindedness	Overemphasis on rules and traditions may reduce individualism, stifle creativity, and limit organizational agility	15%

NOTE SUM OF PERCENTAGES IS GREATER THAN 100 BECAUSE STYLES WERE COUNTED AS DOMINANT IF THEY WERE RANKED 1 OR 2 OVERALL.

more focused on *results* and *learning* may find the combination of *caring* and *order* stifling when they seek to drive entrepreneurship and change. Savvy leaders make use of existing cultural strengths and have a nuanced understanding of how to initiate change. They might rely on the participative nature of a culture focused on *caring* and *order* to engage team members and simultaneously identify a *learning*-oriented "insider" who has the trust of his or her peers to advocate for change through relationship networks.

The eight styles can be used to diagnose and describe highly complex and diverse behavioral patterns in a culture and to model how likely an individual leader is to align with and shape that culture. Using this framework and multilevel approach, managers can:

- Understand their organization's culture and assess its intended and unintended effects
- Evaluate the level of consistency in employees' views of the culture
- Identify subcultures that may account for higher or lower group performance
- Pinpoint differences between legacy cultures during mergers and acquisitions
- Rapidly orient new executives to the culture they are joining and help them determine the most effective way to lead employees
- Measure the degree of alignment between individual leadership styles and organizational culture to determine what impact a leader might have
- Design an aspirational culture and communicate the changes necessary to achieve it

THE LINK BETWEEN CULTURE AND OUTCOMES

Our research and practical experience have shown that when you are evaluating how culture affects outcomes, the context in which the organization operates—geographic region, industry, strategy, leadership, and company structure—matters, as does the strength of the culture. (See "Context, Conditions, and Culture," page 56.) What worked in the past may no longer work in the future, and what worked for one company may not work for another.

We have arrived at the following insights:

When aligned with strategy and leadership, a strong culture drives

positive organizational outcomes. Consider the case of a best-in-class retailer headquartered in the United States. The company had viewed its first priority as providing top-notch customer service. It accomplished this with a simple rule—Do right by the customer—that encouraged employees to use their judgment when providing service. A core HR training practice was to help every salesperson see customer interactions as an opportunity to create "service stories that become legendary." Employees were reminded to define service from the customer's perspective, to constantly engage customers with questions geared toward understanding their specific needs and preferences, and to go beyond their expectations.

In measuring the culture of this company, we found that like many other large retailers, it was characterized primarily by a combination of *results* and *caring*. Unlike many other retailers, however, it had a culture that was also very flexible, *learning* oriented, and focused on *purpose*. As one top executive explained, "We have freedom as long as we take good care of the customer."

Furthermore, the company's values and norms were very clear to everyone and consistently shared throughout the organization. As the retailer expanded into new segments and geographies over the years, the leadership strove to maintain an intense customer focus without diluting its cherished culture. Although the company had historically focused on developing leaders from within—who were natural culture carriers—recruiting outsiders became necessary as it grew. The company preserved its culture through this change by carefully assessing new leaders and designing an onboarding process that reinforced core values and norms.

Culture is a powerful differentiator for this company because it is strongly aligned with strategy and leadership. Delivering outstanding customer service requires a culture and a mindset that emphasize achievement, impeccable service, and problem solving through autonomy and inventiveness. Not surprisingly, those qualities have led to a variety of positive outcomes for the company, including robust growth and international expansion, numerous customer service awards, and frequent appearances on lists of the best companies to work for.

Selecting or developing leaders for the future requires a forward-looking strategy and culture. The chief executive of an agriculture business was planning to retire, spurring rumors about a hostile takeover. The CEO was actively grooming a successor, an insider who had been with the company for more than 20 years. Our analysis revealed an organizational culture that strongly emphasized *caring* and *purpose*. As one leader reflected, "You feel like part of a large family when you become an employee at this company."

The potential successor understood the culture but was far more risk-averse (*safety*) and respectful of traditions (*order*) than the rest of the company. Given the takeover rumors, top leaders and managers told the CEO that they believed the company needed to take a more aggressive and action-oriented stance in the future. The board decided to consider the internal candidate alongside people from outside the company.

Three external candidates emerged: one who was aligned with the current culture (*purpose*), one who would be a risk taker and innovative (*learning*), and one who was hard-driving and competitive (*authority*). After considerable deliberation, the board chose the highly competitive leader with the *authority* style. Soon afterward an activist investor attempted a hostile takeover, and the new CEO was able to navigate through the precarious situation, keep the company independent, and simultaneously begin to restructure in preparation for growth.

Cultural dynamics represent one of the greatest yet most frequently overlooked factors in postmerger performance.

In a merger, designing a new culture on the basis of complementary strengths can speed up integration and create more value over time. Mergers and acquisitions can either create or destroy value. Numerous studies have shown that cultural dynamics represent one of the greatest yet most frequently overlooked determinants of integration success and postmerger performance.

For example, senior leaders from two merging international food retailers had invested heavily in their organizations' cultures and wanted to preserve their unique strengths and distinct heritages. An assessment of the cultures revealed shared values and areas of compatibility that could provide a foundation for the combined culture, along with important differences for which leaders would have to plan: Both companies emphasized *results, caring,* and *order* and valued high-quality food, good service, treating employees fairly, and maintaining a local mindset. But one operated in a more top-down manner and scored much higher on *authority,* especially in the behavior of leaders.

Because both companies valued teamwork and investments in the local community, the leaders prioritized *caring* and *purpose*. At the same time, their strategy required that they shift from top-down *authority* to a *learning* style that would encourage innovation in new-store formats and online retailing. As one senior leader said of the strategic aspiration, "We need to dare to do things differently, not play by the old rule books."

Once they had agreed on a culture, a rigorous assessment process identified leaders at both organizations whose personal style and values would allow them to serve as bridges to and champions for it. Then a program was launched to promote cultural alignment within 30 top teams, with an emphasis on clarifying priorities, making authentic connections, and developing team norms that would bring the new culture to life.

Finally, structural elements of the new organization were redesigned with culture in mind. A model for leadership was developed that encompassed recruitment, talent assessment, training and development, performance management, reward systems, and promotions. Such design considerations are often overlooked during organizational change, but if systems and structures don't align with cultural and leadership imperatives, progress can be derailed.

In a dynamic, uncertain environment, in which organizations must be more agile, *learning* gains importance. It's not surprising that *results* is the most common culture style among all the companies we have studied. Yet during a decade of helping leaders design aspirational cultures, we have seen a clear trend toward prioritizing *learning* to promote innovation and agility as businesses respond to increasingly less predictable and more complex environments. And although *learning* ranks fourth within our broader database, small companies (200 employees or fewer) and those in newer industries (such as software, technology, and wireless equipment) accord it higher values.

Consider one Silicon Valley–based technology company we worked with. Though it had built a strong business and invested in unique technology and top engineering talent, its revenue growth was starting to decline as newer, nimbler competitors made strides in a field exploding with innovation and business model disruption. Company leaders viewed the culture as a differentiator for the business and decided to diagnose, strengthen, and evolve it. We found a culture that was intensely *results* focused, team based (*caring*), and exploratory (a combination of *enjoyment* and *learning*).

After examining the overall business strategy and gaining input from employees, leaders aimed for a culture that was even more focused on *learning* and adopted our framework as a new language for the organization in its daily work. They initiated conversations between managers and employees about how to emphasize innovation and exploration. Although it takes time to change a culture, we found that the company had made notable progress just one year later. And even as it prepared for an impending sale amid ever greater competition and consolidation, employee engagement scores were on the rise.

A strong culture can be a significant liability when it is misaligned with strategy. We studied a Europe-based industrial services organization whose industry began to experience rapid and unprecedented changes in customer expectations, regulatory demands, and competitive dynamics. The company's strategy, which had historically emphasized cost leadership, needed to shift toward greater service differentiation in response. But its strong culture presented a roadblock to success.

We diagnosed the culture as highly *results* oriented, *caring,* and *order* seeking, with a top-down emphasis on *authority.* The company's leaders decided to shape it to be much more *purpose*-driven, enabling, open, and team based, which would entail an increase in *caring* along with *learning* and *purpose* and a decrease in *authority* and *results.*

This shift was particularly challenging because the current culture had served the organization well for many years, while the industry emphasized efficiency and *results.* Most managers still viewed it as a strength and fought to preserve it, threatening success for the new strategic direction.

Cultural change is daunting for any organization, but as this company realized, it's not impossible. The CEO introduced new leadership development and team coaching programs and training opportunities that would help leaders feel more comfortable with cultural evolution. When people departed, the company carefully selected new leaders who would provide supporting values, such as *caring,* and increased the emphasis on a shared *purpose.* The benefits of this strategic and cultural shift took the form of an increasingly diverse array of integrated service offerings and strong growth, particularly in emerging markets.

FOUR LEVERS FOR EVOLVING A CULTURE

Unlike developing and executing a business plan, changing a company's culture is inextricable from the emotional and social dynamics of people in the organization. We have found that four practices in particular lead to successful culture change:

Articulate the aspiration. Much like defining a new strategy, creating a new culture should begin with an analysis of the current one, using a framework that can be openly discussed throughout the organization. Leaders must understand what outcomes the culture produces and how it does or doesn't align with current and anticipated market and business conditions. For example, if the company's primary culture styles are *results* and *authority* but it exists in a rapidly changing industry, shifting toward *learning* or *enjoyment* (while maintaining a focus on *results*) may be appropriate.

An aspirational culture suggests the high-level principles that guide organizational initiatives, as at the technology company that sought to boost agility and flexibility amid increasing competition. Change might be framed in terms of real and present business challenges and opportunities as well as aspirations and trends. Because of culture's somewhat ambiguous and hidden nature, referring to tangible problems, such as market pressures or the challenges of growth, helps people better understand and connect to the need for change.

Select and develop leaders who align with the target culture. Leaders serve as important catalysts for change by encouraging it at all levels and creating a safe climate and what Edgar Schein calls "practice fields." Candidates for recruitment should be evaluated on their alignment with the target. A single model that can assess both organizational culture and individual leadership styles is critical for this activity.

Incumbent leaders who are unsupportive of desired change can be engaged and re-energized through training and education about the important relationship between culture and strategic direction. Often they will support the change after they understand its relevance, its anticipated benefits, and the impact that they personally can have on moving the organization toward the aspiration. However, culture change can and does lead to turnover: Some people move on because they feel they are no longer a good fit for the organization, and others are asked to leave if they jeopardize needed evolution.

Use organizational conversations about culture to underscore the importance of change. To shift the shared norms, beliefs, and implicit understandings within an organization, colleagues can talk one another through the change. Our integrated culture framework can be used to discuss current and desired culture styles and also differences in how senior leaders operate. As employees start to recognize that their leaders are talking about new business outcomes—innovation instead of quarterly earnings, for example—they will begin to behave differently themselves, creating a positive feedback loop.

Various kinds of organizational conversations, such as road shows, listening tours, and structured group discussion, can support change. Social media platforms encourage conversations between senior managers and frontline employees. Influential change champions can advocate for a culture shift through their language and actions. The technology company made a meaningful change in its culture and employee engagement by creating a structured framework for dialogue and cultivating widespread discussion.

Reinforce the desired change through organizational design. When a company's structures, systems, and processes are aligned and support the aspirational culture and strategy, instigating new culture styles and behaviors will become far easier. For example, performance management can be used to encourage employees to embody aspirational cultural attributes. Training practices can reinforce the target culture as the organization grows and adds new people. The degree of centralization and the number of hierarchical levels in the organizational structure can be adjusted to reinforce behaviors inherent to the aspirational culture. Leading scholars such as Henry Mintzberg have shown how organizational structure and other design features can have a profound impact over time on how people think and behave within an organization.

PUTTING IT ALL TOGETHER

All four levers came together at a traditional manufacturer that was trying to become a full solutions provider. The change started with reformulating the strategy and was reinforced by a major brand campaign. But the president understood that the company's culture represented the biggest barrier to change and that the top leaders were the greatest lever for evolving the culture.

The culture was characterized by a drive for *results* followed by *caring* and *purpose,* the last of which was unusually strong for the industry. One employee described the company as "a talented and committed group of people focused on doing good for the planet, with genuine desire, support, and encouragement to make a difference in the community." Whereas the broader culture was highly collaborative, with flat decision making, leaders were seen as top-down, hierarchical, and sometimes political, which discouraged risk taking.

The top leaders reviewed their culture's strengths and the gaps in their own styles and discussed what was needed to achieve their strategic aspirations. They agreed that they needed more risk taking and autonomy and less hierarchy and centralized decision making. The president restructured the leadership team around strong business line leaders, freeing up time to become a better advocate for the culture and to focus more on customers.

The top team then invited a group of 100 middle managers into the conversation through a series of biannual leadership conferences. The first one established a platform for input, feedback, and the cocreation of an organizational change plan with clear cultural priorities. The president organized these managers into teams focused on critical business challenges. Each team was required to go outside the company to source ideas, to develop solutions, and to present its findings to the group for feedback. This initiative placed middle managers in change roles that would traditionally have been filled by vice presidents, giving them greater autonomy in fostering a *learning*-based culture. The intent was to create real benefits for the business while evolving the culture.

The president also initiated a program to identify employees who had positive disruptive ideas and working styles. These people were put on project teams that addressed key innovation priorities. The teams immediately began improving business results, both in core commercial metrics and in culture and engagement. After only one year employee engagement scores jumped a full 10 points, and customer Net Promoter Scores reached an all-time high—providing strong client references for the company's new and innovative solutions.

IT IS POSSIBLE—in fact, vital—to improve organizational performance through culture change, using the simple but powerful models and methods in this article. First leaders must become aware of the culture that operates in their organization. Next they can define an aspirational target culture. Finally they can master the core change practices of articulation of the aspiration, leadership alignment, organizational conversation, and organizational design. Leading with culture may be among the few sources of sustainable competitive advantage left to companies today. Successful leaders will stop regarding culture with frustration and instead use it as a fundamental management tool.

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ABOUT THE RESEARCH

We undertook a comprehensive study of organizational culture and outcomes to explore the link between them. We analyzed the cultures of more than 230 companies along with the leadership styles and values of more than 1,300 executives across a range of industries (including consumer discretionary, consumer staples, energy and utilities, financial and professional services, health care, industrials, and IT and telecommunications), regions (Africa, Asia, Europe, the Middle East, North America, Oceania, and South America), and organizational types (public, private, and nonprofit). We diagnosed those cultures using online survey responses from approximately 25,000 employees together with interviews of company managers.

Our analysis highlighted how strongly each of the eight styles defined the organizations in our study. *Results* ranked first, and *caring* second. This pattern is consistent across company types, company sizes, regions, and industries. *Order* and *learning* ranked among the third and fourth most common styles in many cultures.

Culture appears to most directly affect employee engagement and motivation, followed by customer orientation. To model its relationship to organizational outcomes, we assessed employee engagement levels for all the companies using widely accepted survey questions and arrived at customer-orientation scores with an online questionnaire. In many cases we also documented top leaders' individual styles and values.

We found that employee engagement is most strongly related to greater flexibility, in the form of *enjoyment, learning, purpose,* and *caring.* Similarly, we observed a positive relationship between customer orientation and those four styles plus *results.* These relationships, too, are surprisingly consistent across companies. We also found that engagement and customer orientation are stronger when employees are in close agreement about the culture's characteristics.

Our research was influenced by the work of countless scholars in this field, many of whom are mentioned in this article. In addition, we stand on the shoulders of giants such as David Caldwell, Jennifer Chatman, James Heskett, John Kotter, Charles O'Reilly, and many, many others who have inspired our thinking.

What's Your Organization's Cultural Profile?

Before you begin an initiative to shape your organization's culture, it's important to explore where it is today. This worksheet and the questions that follow can help you formulate a preliminary assessment of your culture and get the conversation started.

Consider how your organization currently operates, what is valued, how people behave, and what unifies them. Partner with a colleague and independently rate each statement according to how well it describes your organization.

Add the two ratings in each row and then rank the eight styles. The higher the total, the stronger the match.

Compare your rankings with your colleague's and discuss the following questions:

What do you like most about the current culture?

What behaviors and mindsets might you evolve?

How effective are your organization's leaders at role modeling the culture?

What are the characteristics of people who are most successful in your culture?

When new people don't succeed in your culture, what is the most common reason?

ON A SCALE OF 1–5, RATE HOW WELL EACH OF THESE STATEMENTS DESCRIBES YOUR ORGANIZATION.

1 = NOT AT ALL WELL 2 = NOT VERY WELL 3 = SOMEWHAT WELL 4 = VERY WELL 5 = EXTREMELY WELL

THE ORGANIZATION IS FOCUSED ON:	THE ORGANIZATION FEELS LIKE:	TOTAL
COLLABORATION AND MUTUAL TRUST 1 2 3 4 5	A BIG FAMILY 1 2 3 4 5	CARING
COMPASSION AND TOLERANCE 1 2 3 4 5	AN IDEALISTIC COMMUNITY OR CAUSE 1 2 3 4 5	PURPOSE
EXPLORATION AND CREATIVITY 1 2 3 4 5	A DYNAMIC PROJECT 1 2 3 4 5	LEARNING
FUN AND EXCITEMENT 1 2 3 4 5	A CELEBRATION 1 2 3 4 5	ENJOYMENT
ACHIEVEMENT AND WINNING 1 2 3 4 5	A MERITOCRACY 1 2 3 4 5	RESULTS
STRENGTH AND BOLDNESS 1 2 3 4 5	A COMPETITIVE ARENA 1 2 3 4 5	AUTHORITY
PLANNING AND CAUTION 1 2 3 4 5	A METICULOUSLY PLANNED OPERATION 1 2 3 4 5	SAFETY
STRUCTURE AND STABILITY 1 2 3 4 5	A SMOOTHLY RUNNING MACHINE 1 2 3 4 5	ORDER

TO SEE AN EXPANDED VERSION OF THE ASSESSMENT, GO TO THIS ARTICLE AT HBR.ORG.

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How to Shape Your Culture

First you must identify culture targets. The best ones have some attributes in common: They align with the company's strategic direction; they're important to execute; and they reflect the demands of the external business environment. A good target should be both specific and achievable. For example, "We value our customers" can create ambiguity and lead to inconsistent choices regarding hiring, developing leaders, and running the company. A better version might be "We build genuine and positive relationships with customers; we serve our customers with humility; and we act as ambassadors for our rich brand heritage."

TO SET A CULTURE TARGET:

UNDERSTAND THE CURRENT CULTURE

Examine your culture—the company's founding and heritage, its espoused values, subcultures, leadership style, and team dynamics. (Use the worksheet on the preceding page to start the conversation.)

Identify your culture's strengths and examine its impact on your organization today. Interview key stakeholders and influential members of the organization as needed.

CONSIDER STRATEGY AND THE ENVIRONMENT

Assess current and future external conditions and strategic choices and determine which cultural styles will need to be strengthened or diminished in response.

Formulate a culture target according to which styles will support future changes.

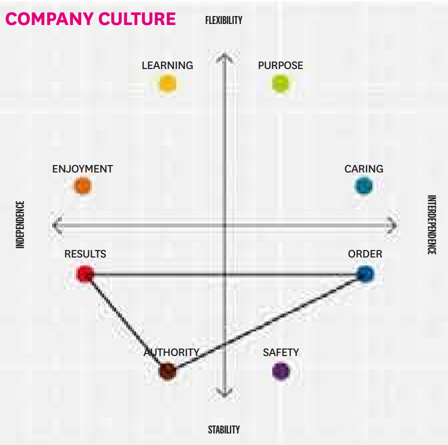
FRAME THE ASPIRATION IN BUSINESS REALITIES

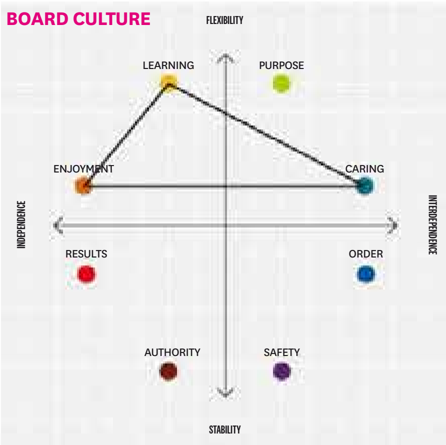
Translate the target into organizational change priorities. It should be framed not as a culture change initiative but in terms of real-world problems to be solved and solutions that create value.

Focus on *leadership alignment, organizational conversations,* and *organizational design* as the levers to guide the culture's evolution.

ONE COMPANY'S EXPERIENCE

One large company used its search for a new director as an opportunity to bridge a problematic gap between the company's culture and the board's culture. To accomplish this, the leadership first diagnosed the two cultures along with its aspirations for the new director.





Whereas the company was highly *results* oriented and focused on *order,* discipline, and execution, the board was far more *learning* oriented, exploratory, inquisitive, and focused on *enjoyment*. A director who was *results* driven and curious would help bridge the two cultures.

Two years after an individual with the desired style was brought in, the board and the management team reported more-effective strategic planning activities and improved company performance.

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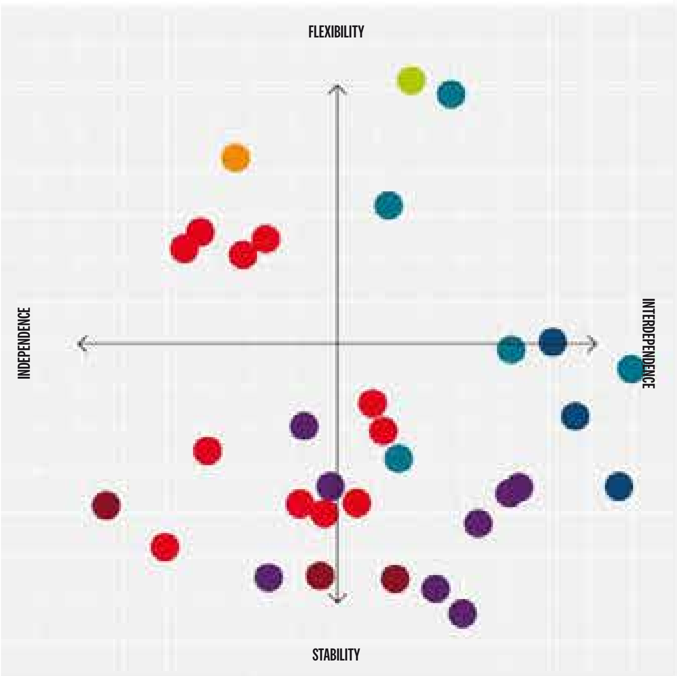
Convergence Matters

When we compared employees' views on their organization's most salient cultural attributes, two types of organizations emerged: *low convergence* (employees rarely agreed on the most important cultural attributes) and *high convergence* (views were more closely aligned). In the two examples below, each dot represents one employee.

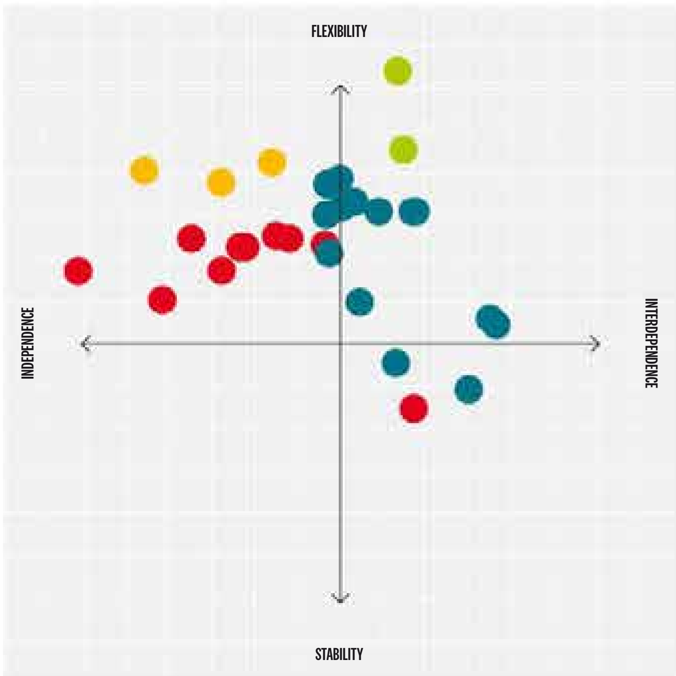
Note that in the low-convergence organization, seven of the eight cultural attributes were cited as most important, and every quadrant is represented. That means employees viewed their company in varying and often opposite ways. Some saw a *caring* organization, for example, while others saw one that emphasized *authority*.

Why is high convergence important? Because it correlates with levels of employee engagement and customer orientation. However, if the culture you have is not the one you want, high convergence will make it harder to change.

COMPANY A: LOW CONVERGENCE



COMPANY B: HIGH CONVERGENCE



RESULTS SAFETY ENJOYMENT LEARNING CARING ORDER AUTHORITY PURPOSE

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Context, Conditions, and Culture

Context matters when assessing a culture's strategic effectiveness.

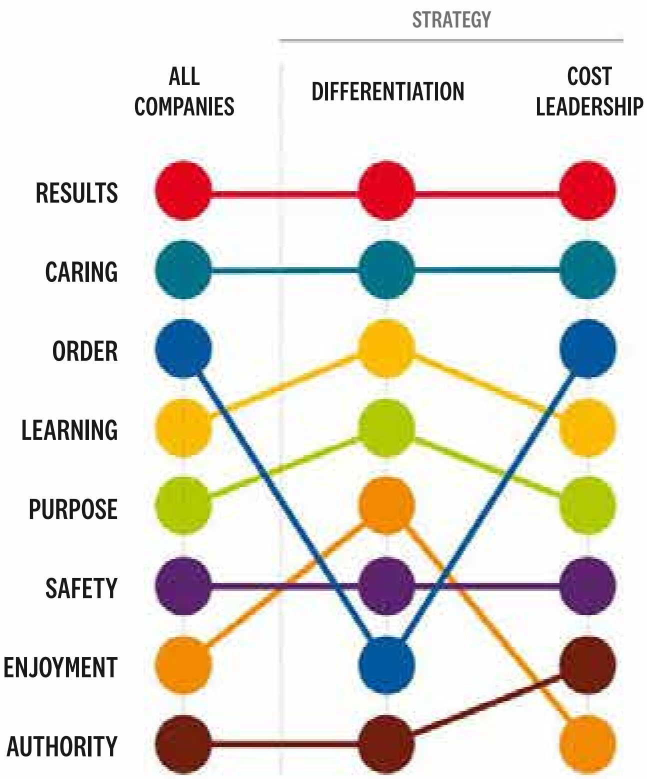
Leaders must simultaneously consider culture styles and key organizational and market conditions if they want their culture to help drive performance. Region and industry are among the most germane external factors to keep in mind; critical internal considerations include alignment with strategy, leadership, and organizational design.

Region. The values of the national and regional cultures in which a company is embedded can influence patterns of behavior within the organization. (This linkage has been explored in depth by Geert Hofstede and the authors of the GLOBE study.) We find, for example, that companies operating in countries characterized by a high degree of institutional collectivism (defined as valuing equity within groups and encouraging the collective distribution of resources), such as France and Brazil, have cultures that emphasize *order* and *safety*. Companies operating in countries with low levels of uncertainty avoidance (that is, they are open to ambiguity and future uncertainty), such as the United States and Australia, place a greater emphasis on *learning, purpose,* and *enjoyment*. Such external influences are important considerations when working across borders or designing an appropriate organizational culture.

Industry. Varying cultural attributes may be needed to address industry-specific regulations and customer needs. A comparison of organizations across industries reveals evidence that cultures might adapt to meet the demands of industry environments.

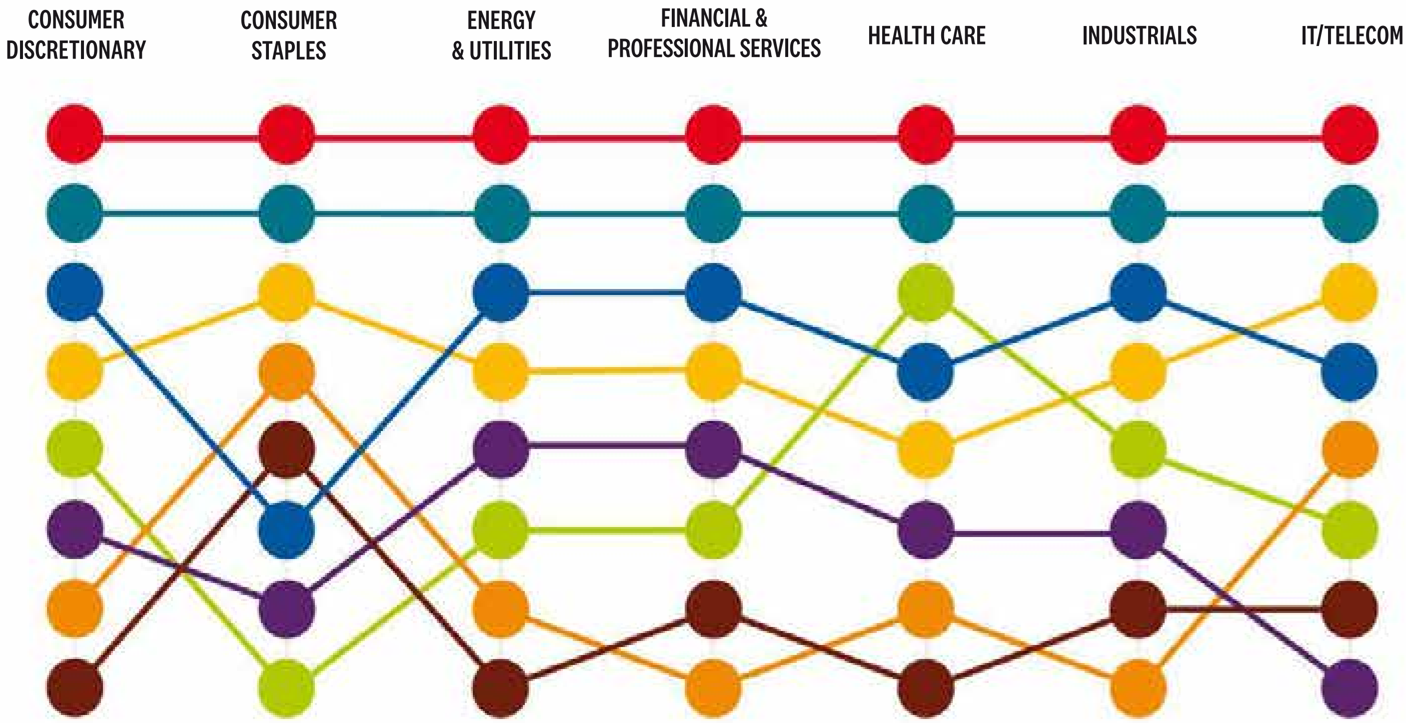
Organizational cultures in financial services are more likely to emphasize *safety*. Given the increasingly complex regulations enacted in response to the financial crisis, careful work and risk management are more critical than ever in this industry. In contrast, nonprofits are far more purpose-driven, which can reinforce their commitment to a mission by aligning employee behavior around a common goal.

CULTURE STYLES RANKED BY STRATEGY AND INDUSTRY



Strategy. For its full benefit to be realized, a culture must support the strategic goals and plans of the business. For example, we find differences between companies that adopt a differentiation strategy and companies that pursue a cost leadership strategy. Although *results* and *caring* are key cultural characteristics at both types of companies, *enjoyment, learning,* and *purpose* are more suited to differentiation, whereas *order* and *authority* are more suited to cost leadership. Flexible cultures—which emphasize *enjoyment* and *learning*—can spur product innovation in companies aiming to differentiate themselves, whereas stable and predictable cultures, which emphasize *order* and *authority*, can help maintain operational efficiency to keep costs low.

INDUSTRY



BASED ON AN ASSESSMENT OF 230+ COMPANIES (INDUSTRY) AND A SUBSAMPLE OF 25 COMPANIES (STRATEGY)

Strategic considerations related to a company's life cycle are also linked to organizational culture. Companies with a strategy that seeks to stabilize or maintain their market position prioritize *learning*, whereas organizations operating with a turnaround strategy tend to prioritize *order* and *safety* in their efforts to redirect or reorganize unprofitable units.

Leadership. It is hard to overestimate the importance of aligning culture and leadership. The character and behaviors of a CEO and top executives can have a profound effect on culture. Conversely, culture serves to either constrain or enhance the performance of leaders. Our own data from executive recruiting activities shows that a lack of cultural fit is responsible for up to 68% of new-hire failures at the senior leadership level. For individual leaders, cultural fit is as important as capabilities and experience.

Organizational design. We see a two-way relationship between a company's culture and its particular structure. In many cases, structure and systems follow culture. For example, companies that prioritize teamwork and collaboration might design incentive systems that include shared team and company goals along with rewards that recognize collective effort. However, a long-standing organizational design choice can lead to the formation of a culture. Because the latter is far more difficult to alter, we suggest that structural changes should be aligned with the desired culture.

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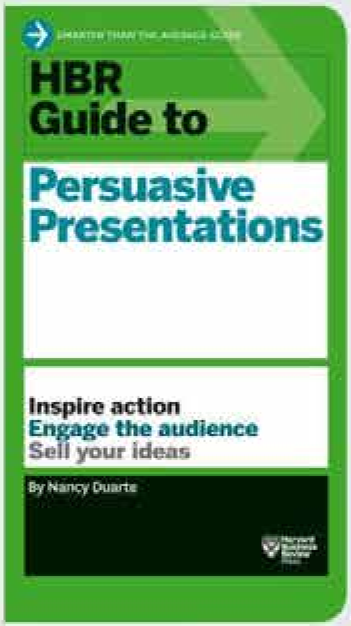

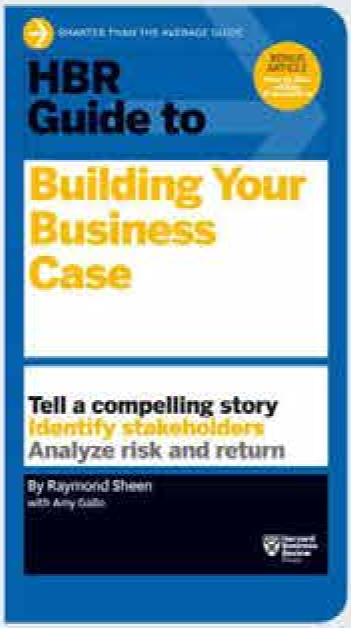

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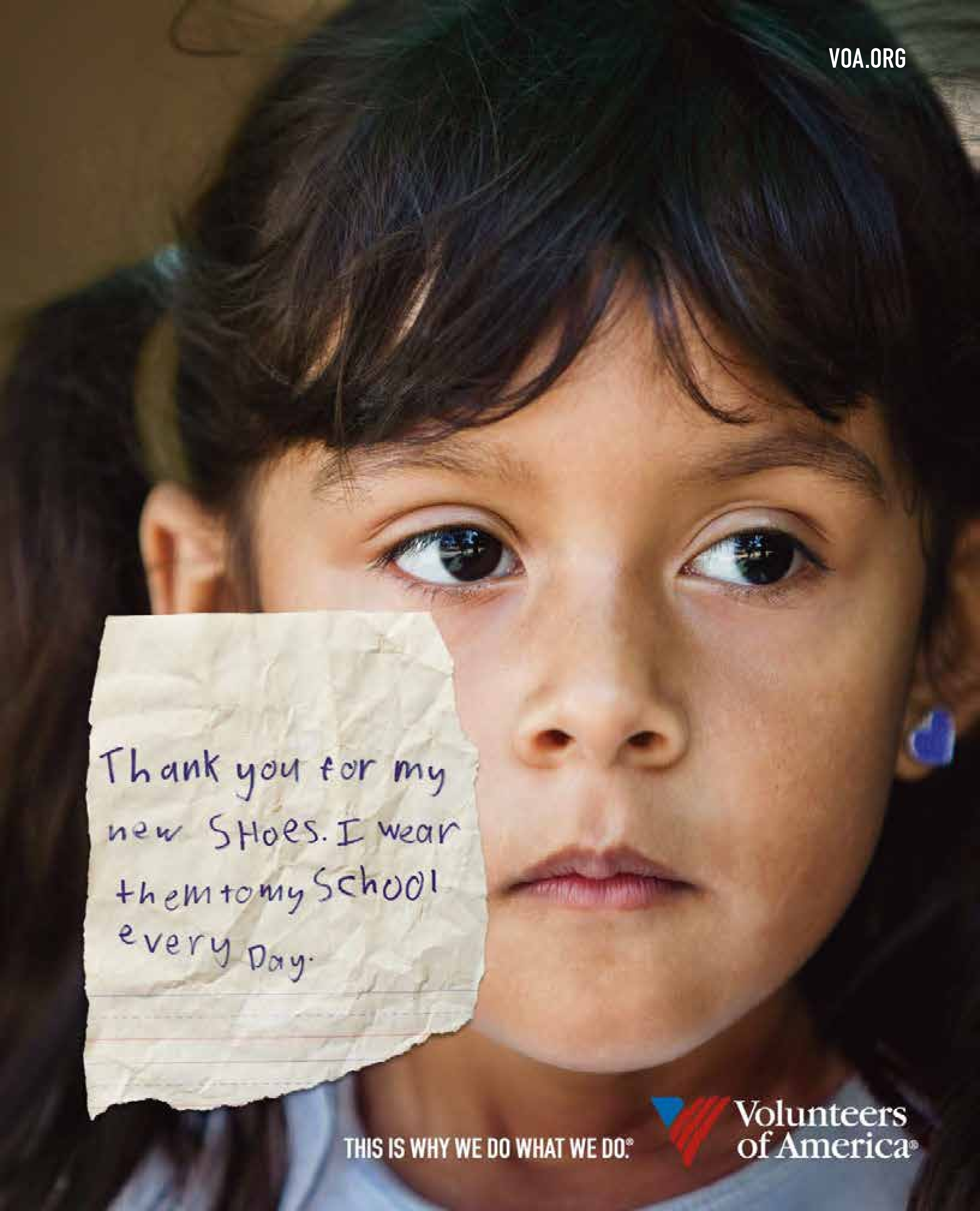
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Ownership and learning can compensate for the loss of job security.

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ADS THAT DON'T OVERSTEP

How to make sure you don't take personalization too far

by Leslie K. John, Tami Kim, and Kate Barasz

The internet has dramatically expanded the modern marketer's tool kit, in large part because of one simple but transformative development: digital data. With users regularly sharing personal data online and web cookies tracking every click, marketers have been able to gain unprecedented insight into consumers and serve up solutions tailored to their individual needs. The results have been impressive. Research has shown that digital targeting meaningfully improves the response to advertisements and that ad performance declines when marketers' access to consumer data

ILLUSTRATION BY KYLE T. WEBSTER

is reduced. But there is also evidence that using online "surveillance" to sell products can lead to a consumer backlash. The research supporting ad personalization has tended to study consumers who were largely unaware that their data dictated which ads they saw. Today such naïveté is increasingly rare. Public outcry over company data breaches and the use of targeting to spread fake news and inflame political partisanship have, understandably, put consumers on alert. And personal experiences with highly specific ads (such as one for pet food that begins, "As a dog owner, you might like...") or ads that follow users across websites have made it clear that marketers often know exactly who is on the receiving end of their digital messages. Now regulators in some countries are starting to mandate that firms disclose how they gather and use consumers' personal information.

IN BRIEF

THE CHANGE
The widespread sharing and collection of personal data online has given marketers unprecedented insight into individual consumers, enabling them to serve up solutions finely targeted to each person's needs. But there is also evidence that this practice can lead to a consumer backlash.

THE DIGITAL DILEMMA
Marketers need to understand when personalized ads will be met with acceptance or annoyance. Social scientists already know a lot about what triggers privacy concerns, and these norms can inform marketers' actions online.

THE INSIGHT
Consumers dislike two techniques: using information obtained on a third-party website rather than the site on which the ad appears; and using inferred information about the consumer (for instance, about a pregnancy). Understanding their objections can help companies create ads that honor consumers' privacy expectations.

This throws a whole new dynamic into the mix: How will targeted ads fare in the face of increased consumer awareness? On one hand, awareness could increase ad performance if it makes customers feel that the products they see are personally relevant. Supporters of cookies and other surveillance tools say that more-relevant advertising leads to a more valuable, enjoyable internet experience. On the other hand, awareness could decrease ad performance if it activates concerns about privacy and provokes consumer opposition.

The latter outcome seems more likely if marketers continue with a business-as-usual approach. One study revealed that when a law that required websites to inform visitors of covert tracking started to be enforced in the Netherlands, in 2013, advertisement click-through rates dropped. Controlled experiments have found similar results.

Some firms have done better than others in anticipating how customers will react to personalization. Amazon features shopping ads throughout its site, making product recommendations based explicitly—and often conspicuously—on individual users' search data, without seeming to draw any consumer ire whatsoever. However, in a now-infamous example, when Target followed a similar practice by creating promotions that were based on individual shoppers' consumption data, the response was not so benign. The retailer sent coupons for maternity-related products to women it inferred were pregnant. They included a teenager whose father was incensed—and then abashed to discover that his daughter was, in fact, expecting. When the *New York Times* reported the incident, many consumers were outraged, and the chain had a PR problem on its hands. Similarly, Urban Outfitters walked back the gender-based personalization of its home page after customers complained. "We saw customer frustration at being targeted outweigh any benefit," Dmitri Siegel, the marketing executive in charge of the initiative, concluded in an interview with the *Times*.

For the consumer who prefers relevant ads over irrelevant ones (an ad-free experience is not realistic in today's ad-supported web landscape), it's important that marketers get the balance right. Digital marketers need to understand when the use of consumer data to personalize ads will be met with acceptance or annoyance so that they can honor consumers' expectations about how their information should be used. The good news is that social scientists already know a lot about what triggers privacy concerns off-line, and new research that we and others have performed demonstrates that these norms can inform marketers' actions in the digital sphere. Through a series of experiments, we have begun to understand what causes consumers to object to targeting and how marketers can use personalization while respecting people's privacy.

THE PRIVACY PARADOX

People don't always behave logically when it comes to privacy. For example, we often share intimate details with total strangers while we keep secrets from loved ones. Nevertheless, social scientists have identified several factors that predict whether people will be comfortable with the use of their personal information. One of these factors is fairly straightforward—the nature of the information. Common sense holds that the more intimate it is (data on sex, health, and finances is especially sensitive), the less comfortable people are with others knowing it.

A second, more nuanced factor involves the manner in which consumers' personal information changes hands—what social scientists call "information flows." One such norm is, to put it colloquially, "Don't talk about people behind their backs." While people may

be comfortable disclosing personal information directly (what scientists call "first-person sharing"), they may become uneasy when that information is passed along without their knowledge (what we term "third-party sharing"). If you learned that a friend had revealed something personal about you to another, mutual friend, you'd probably be upset—even though you might have no problem with both parties knowing the information. It can also be taboo to openly infer information about someone, even if those inferences are accurate. For example, a woman may inform a close colleague of her early-term pregnancy, but she'd likely find it unacceptable if that coworker told her he thought she was pregnant before she'd disclosed anything.

In our recent studies we learned that those norms about information also apply in the digital space. In our first study, we collected a list of common ways in which Google and Facebook use consumers' personal data to generate ads. We then asked consumers to rate how acceptable they found each method to be, and—employing a statistical technique called factor analysis—identified clusters of practices that consumers tended to dislike, which mirrored practices that made people uncomfortable off-line:

- obtaining information outside the website on which an ad appears, which is akin to talking behind someone's back
- deducing information about someone from analytics, which is akin to inferring information.

Next, we wanted to see what effect adherence to—or violation of—privacy norms would have on ad performance. So we divided participants in our study into three groups. In a simulation of acceptable, first-person sharing, one group first browsed a website; on that same site we later displayed an ad accompanied by the disclosure "You are seeing this ad based on the products you clicked on while browsing our website." In a simulation of unacceptable, third-party sharing, another group browsed a website and then visited a second site, where we displayed an ad accompanied by the disclosure "You are seeing this ad based on the products you clicked on while browsing a third-party website." The final group served as a control; like the other groups, these participants engaged in a browsing task and were then shown a targeted ad, but without a message. In all groups, we measured interest in purchasing the advertised product as well as the likelihood that participants would visit the advertiser's website. Additionally, to understand how these three ad scenarios affected consumers' attitudes, we asked all participants which they valued more: the personalization of ads or the privacy of their data.

We found that when unacceptable, third-party sharing had occurred, concerns about privacy outweighed people's appreciation for ad personalization. Those attitudes in turn predicted interest in purchasing, which was approximately 24% lower in the group exposed to unacceptable sharing than in both the first-party sharing and the control groups—a clear indication of backlash.

INTEREST IN PURCHASING DECLINES WHEN CONSUMERS REALIZE THEIR INFORMATION IS BEING SHARED IN WAYS THEY DISLIKE.

We then conducted a similar test using declared (acceptable) versus inferred (unacceptable) information. After completing an online shopper profile, one group saw an ad that was accompanied by the disclosure "You are seeing this ad based on information that you provided about yourself." After filling out the same form, a second group of subjects saw an ad but were told, "You are seeing this ad based on information that we inferred about you." A final control group saw the ad without any disclosure. The group that viewed the ad generated through inferences showed 17% less interest in purchasing than the other groups did—even though the ads were exactly the same across groups. In sum, these experiments offer evidence that when consumers realize that their personal information is flowing in ways they dislike, purchase interest declines.

MITIGATING BACKLASH

But it's not all bad news. Three factors can increase the upside of targeted ads for both marketers and consumers. Taking them into account will help marketers provide personalized ads that inform consumers of products they want and need but in a way that feels acceptable.

Trust. A common practice that advertisers currently use to preempt targeting backlash is to offer voluntary ad transparency. Many now display an AdChoices icon, a blue symbol indicating that the accompanying ad has been tailored to the individual recipient's characteristics. In some cases, consumers can click on the icon to find out why the ad has been displayed to them. In 2014, Facebook introduced a similar "Why am I seeing this ad?" feature on its site.

Such disclosure can be beneficial when targeting is performed in an acceptable manner—especially if the platform delivering the ad is otherwise trusted by its customers. In one experiment conducted with Facebook users, we first asked participants how much they trusted the social media company. Next, we directed them to find the first advertisement in their Facebook news feed and read its accompanying transparency message. We asked them to indicate whether the message conveyed that the ad had been generated using first- or third-party information and using declared or inferred information. Then we inquired about how interested they were in purchasing the advertised product and engaging with the advertiser in general (by, say, visiting its website or liking its Facebook page). Overall, ads from unacceptable flows performed worse than those from acceptable flows. However, trust enhanced consumers' receptiveness: People who trusted Facebook and saw ads based on acceptable flows expressed the highest interest in purchasing the product and engaging with the advertiser.

We also found that when trust was high, disclosing acceptable flows actually boosted click-through rates. In a set of field experiments, we partnered with Maritz Motivation Solutions, which runs redemption websites for loyalty programs such as airline frequent-flier programs, a context in which consumer trust tends to be high. These sites use the same technology as the large e-commerce sites, except that the currency is points instead of money. In one experiment, when we revealed first-party sharing by telling shoppers that an advertisement was based on their activity on

the site, click-through rates increased by 11%, the time spent viewing the advertised product rose by 34%, and revenue from the product grew by 38%.

Control. Central to many privacy concerns is the loss of control. Consumers may not object to information being used in a particular context, but they worry about their inability to dictate who else might get access to it and how it will be used down the line.

In a novel experiment, MIT's Catherine Tucker partnered with a nonprofit that advertised on Facebook. The nonprofit targeted 1.2 million Facebook users with calls to action such as "Help girls in East Africa change their lives through education." For half those users, the ad was also personalized, openly invoking an attribute that a user had revealed on Facebook. For example, an ad might read, "As a fan of Beyoncé, you know that strong women matter," if a user had liked the popular singer on Facebook. Midway through this experiment, Facebook instated new privacy features that gave users more control over their personal information (without changing the attributes that advertisers could use to target people). The social media platform allowed people to keep their connections private and to manage their privacy settings more easily. Before this policy change, the personalized ads did not perform particularly well; if anything, users were slightly less likely to click on them than on generic ads. After the change, however, the personalized ads were almost twice as effective as the generic ones. In other words, when consumers are given greater say over what happens with the information they've consciously shared, transparently incorporating it can actually increase ad performance.

In another experiment we showed participants a targeted advertisement, systematically varying the disclosures appearing alongside it. With one group of participants, the ad was accompanied by a message saying that (unacceptable) third-party information had been used to generate it. A second group of participants saw the same transparency message—plus a prompt reminding them that they could set their ad preferences. A third group simply saw the ad. Purchase interest was lower in the first group than in the last group. However, in the second group—consumers who were reminded that they could dictate their ad preferences—purchase interest was just as high as in the group that had seen no message. In other words, reminding consumers that they can meaningfully control their privacy settings buffered any backlash to unacceptable data collection. However, there was also a fourth group in this experiment—whose reactions unfortunately highlight the potential for consumers to be misled. This group's members also received the ad transparency message and a prompt about managing their information. This time, however, participants were merely reminded that they could choose their profile picture. Purchase interest in this group, too, was just as high as in the group that had seen no message.

Control over personal data is becoming increasingly important in today's online world, where protracted, multilayered data collection is now common. For instance, data brokers aggregate all kinds of personal information—from platforms like Facebook as well as internet shopping sites, store loyalty programs, and even credit card companies. Therefore, as targeted advertising becomes more sophisticated and specific—and consumers' awareness of the ways in which their privacy may be compromised grows—offering people meaningful control over their information will likely improve ad performance.

Justification. Revealing why personal data has been used to generate ads can help consumers realize the upside of targeted ads. In one experiment by Tiffany Barnett White of the University of Illinois and her colleagues, a personalized ad by a movie rental company that invoked users' physical locations backfired, but its performance improved when the copy explained why the physical location was important: The consumer was eligible for a service not available in all places. A commitment to provide justification can also foster appropriate use of data. If you have difficulty coming up with a good reason for the way you use consumers' data, it should give you pause.

WHEN IT COMES TO PERSONALIZED ADS, THERE'S A FINE LINE BETWEEN CREEPY AND DELIGHTFUL.

GUIDELINES FOR DIGITAL MARKETERS

When it comes to ad personalization, there's a fine line between creepy and delightful, so it could be tempting to conclude that the safest approach is to keep people in the dark—to obscure the fact that personal information is being used to target consumers, especially when advertising products of a more sensitive nature. Indeed, that's what Target reportedly tried after its pregnancy promotion scandal: It started arbitrarily inserting coupons for random items in its mailings to expecting mothers, so the baby-products ads would look incidental and less conspicuous. It might also be tempting to manipulate consumers by giving them meaningless opportunities to feel in control that create a false sense of empowerment.

While such tactics may work in the short term, we believe they are ultimately misguided. Even setting aside the potential ethical issues, deceit erodes trust if it is discovered. And as our experiments show, trust enhances the positive effects of using personal information in ways consumers deem acceptable. Research into other areas also suggests that trust has spillover benefits. For example, with Bhavya Mohan and Ryan Buell, one of us (Leslie) has done research on pricing—another area where concealment and manipulation can boost profits in the short term—showing that when firms are transparent about the variable costs involved in producing a good, their consumers' trust grows and sales rise. Finally, it's doubtful that concealment will remain a viable tactic; consumers are becoming savvier, and regulators are pressuring companies to reveal their data-collection practices. An offline analogue may be useful here as a guide: You might gain temporary advantage by deceiving a friend, but the damage if the deception is discovered is deep and lasting. Relationships are stronger if they are honest.

So what suggestions would we make to digital marketers looking to maximize the potential of ad targeting? We offer five:

1 **Stay away from sensitive information.** In particular, try to avoid using anything about health conditions, sexual orientation, and so on. Google, for example, doesn't allow advertisers to target on the basis of sexual interests or "personal

hardships." Similarly, Facebook recently updated its policies, preventing advertisers from basing their targeting on personal attributes such as race, sexual orientation, and medical conditions. This move presents challenges to companies that sell sensitive goods—which may want to avoid targeting altogether. Rather, such firms should consider finding their customers in ways that don't involve using personal data—by advertising on websites those customers are likely to visit, for example.

2 Commit to at least a minimum amount of transparency. There is a wide spectrum between concealment and full disclosure, with many acceptable points between the two. As a general rule of thumb, we suggest that marketers at least be willing to provide information about data-use practices upon request. Such disclosures should be clear and easily accessible. This is one of the purposes of the AdChoices icon; interested consumers can click on it to learn why they are seeing an ad (or to opt out of targeted advertising), but the icon isn't disruptive to consumers who are less privacy-sensitive. Simply having it on a website can be beneficial and in and of itself can foster trust. However, if a transparency initiative fails to deliver on its promise—by, for example, offering confusing or opaque explanations for why an ad is being shown—its value to the consumer will erode. A genuine commitment to disclosure may also serve as a kind of organizational prophylactic against abuse, by ensuring that employees understand that data practices must always be customer-centric and ethical. As the saying goes, sunlight is the best disinfectant.

3 Use data judiciously. Data collection opens up all sorts of innovative and clever insights into customers, but again we counsel restraint. Consumers react poorly when personal information is used to generate a recommendation or an advertisement that feels intrusive or inappropriate. Conversely, they will give advertisers more leeway if they are delighted by recommendations. For example, Stitch Fix, the subscription-service clothing retailer, knows a lot about its customers, including information people typically prefer to keep private, such as their weight and bra size. But this information is extremely useful to the site's service of curating a package of clothing pieces that suit the customer, delivered to her doorstep. Because Stitch Fix's use of personal information is appropriate and helpful, it doesn't feel invasive.

Consumers may even be willing to forgive unacceptable data collection if they benefit from it in a compelling way. For example, the dating app Tinder tells a user how many Facebook friends he has in common with a given prospect, making it clear that third-party sharing is occurring, which would usually result in a backlash. However, in this case the sharing is clearly valued by users, so they seem to accept the practice.

4 Justify your data collection. We also suggest that marketers explain why they are collecting personal information—and how it will generate more appropriate and useful ads. This is especially true when it might not be obvious to consumers why a given piece of information is necessary. LinkedIn justifies its data usage policy as follows: "We use the data that we have about you to provide, support, personalize and make our services (including ads) more relevant and useful to you and others." Such disclosures can also act as a mission statement of sorts for employees—again helping to prevent abuse.

5 Try traditional data collection first. Marketers should not forget that they can (and should) still gather information from customers the old-fashioned way—without digital surveillance. While Stitch Fix draws a great deal of inferences about consumers' preferences from their online behavior, it also makes extensive use of surveys in which consumers can reveal at will their tastes and physical attributes. Other firms that rely heavily on making accurate recommendations to customers—such as Amazon and Netflix—also give consumers an opportunity to directly state their preferences. Supplementing less-transparent ways of using consumers' information with more-open ones can decrease feelings of invasiveness. More important, it can also provide a richer picture of the customer, facilitating even better recommendations. Of course, gathering data directly from consumers is costly and may sometimes be impractical (for one, response rates to consumer surveys are notoriously low). But if they have to resort to third-party information, marketers can give consumers meaningful control over how it will be used. For example, both Google and Facebook let users have considerable say about the ways they can be targeted.

THERE'S STILL A LOT we don't know about how people respond to online data collection and ad targeting, and norms around privacy may change over time as young digital natives become consumers and technology further penetrates our lives. For the time being, applying norms from the off-line world can help companies predict what practices consumers will accept. In the end, all ad targeting should be customer-centric—in the service of creating value for consumers.

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CAN MOOCs SOLVE YOUR TRAINING PROBLEM?

BY MONIKA HAMORI

Companies say they want their people to learn and grow, but in practice they're skimping on training, often leaving it to individuals to manage their own development. In a recent survey I conducted, more than one-third of 1,481 employed learners—mostly managers and knowledge workers taking online courses—said they had received no training from their organizations in the previous 12 months. Things look even worse if you consider what's happening in the workforce more broadly. In the United States the proportion of people who received employer-funded training decreased from 21% in 2001 to 15% in 2009 (the most recent data available). And business cycles weren't to blame: The decline was steeper in boom periods than during recessions.

That means a lot of people who want to become better at their jobs are fending for themselves. Organizations could change that—and offset the drop in formal training—by encouraging and supporting enrollment in MOOCs (massive open online courses), which are readily available and relatively inexpensive on platforms such as Coursera and EdX. Since they came on the learning scene, in 2008, MOOCs have gradually shifted toward offering content that is relevant to the world of work. Course topics range from machine learning and Java programming to communication and leadership. Given that employees are already using MOOCs to acquire professional skills and improve their career prospects on their own, companies have an untapped opportunity to harness this kind of learning in the service of organizational goals.

Some companies realize this and have started to team up with MOOC providers to enhance employee training. AT&T, GE, L'Oréal, and Marks & Spencer are prominent examples. Others, such as McKinsey, Microsoft, and Tenaris (a tube supplier for the energy industry), are even producing their own content—on management, computer science, engineering, finance, and so on—for public consumption. Unfortunately, however, few organizations are making the most of MOOCs to develop people. About 67% of the employed learners I surveyed said that they would apply their new knowledge and skills in their current jobs or companies (and 27% said they planned to use them exclusively there), but only 5% received financial help from their employers, 8% percent got time off to study, and 4% had the coursework included in their performance evaluations. So most people were basically left to their own devices.

Take, for example, Sara, an Italian Millennial working at a company in China. She's a senior product manager, making progress toward a six-month marketing specialization on Coursera. She thinks that the knowledge she'll gain will greatly benefit her in her job, since she manages brands and makes decisions about how to position new product lines. Although she has worked in marketing for more than two years, her educational background is in chemistry, so she is using her courses to fill some important knowledge gaps, such as how to calculate demand for a product and design a distribution channel. But she hasn't told her manager she's taking the courses, despite their relevance to her job and the costs she's absorbing on her own. She says that he would not support her development, especially because she's not planning to stay with the company long term.

If her company knew what she was up to, it could steer her learning and reap more of the benefits—with minimal investment. Compared with face-to-face training, MOOCs offer many advantages: The fees are lower, there are no travel costs, and the courses are less disruptive to day-to-day work. They provide content produced by elite universities that's often unavailable from local providers. Most MOOCs may be started at any time, and many are broken down into short modules, so they're valuable for just-in-time skill acquisition. MOOCs also enable employers to provide development support in areas that are highly specialized or peripheral to individuals' core jobs without having to worry about economies of scale. Although academics who study learning haven't reached a consensus about course quality (it's difficult to measure), learners typically feel that MOOCs are meeting their developmental needs.

In light of all this potential, why have organizations been so slow to embrace MOOCs? Here I'll draw on data from more than 28,000 learners in 127 countries as well as survey and interview results to answer that question and to offer insights into how companies can better capitalize on this form of learning.

ILLUSTRATION BY PAUL KREMER

WHY FIRMS AREN'T REAPING THE BENEFITS

One of the main reasons so many companies fail to capitalize on MOOCs' training potential is a lack of awareness: They simply don't know that their people are taking the courses on their own. It's not that most employed learners are planning to jump ship and hiding the evidence—just one-fifth of those surveyed said they enrolled in MOOCs solely in the hope of finding a new job or starting a business. Rather, many people look at these courses as part of their self-directed career development, whether they have a clearly defined plan or are working toward broader objectives, such as maintaining their overall employability and keeping their skill set up-to-date. As one marketing manager at a consumer goods company in Russia put it, "I consider it my private thing, because I am investing not only in my day-to-day work but also in my future." Some people are afraid that they'll appear uninvested in their current roles if they show any interest in exploring a different path. Others worry that their bosses may think their courses are frivolous. As a result, companies aren't fully informed about their employees' capabilities and career goals. Managers don't know what skills their people are building—or what their ambitions for personal growth are.

Companies also don't seem to recognize MOOCs as a viable substitute for formal training. Employers that already invest in talent development by bringing in outside trainers, for example, or creating their own programs are the ones most likely to provide support for online courses. About 20% of employed learners in my survey who had received formal training at work in the past year also received financial assistance or time off for MOOCs. Compare that with just 8% of those whose companies provided no training. And you might think that large, resource-rich companies would offer more help than others, but that is not the case. The people at firms with fewer than 50 employees were twice as likely as those in companies with more than 10,000 to receive time off for MOOCs.

In interviews, when learners who received no support for their MOOC coursework were asked why, the most common answer was that their employer does not invest in learning and development at all. They often said that their companies prefer to hire skills from the outside market and that management considers performance improvement to be the employee's responsibility, not the organization's. Many learners also felt that their companies were reluctant to fund employees' development, fearing that they'd then lose those skills to competitors.

In companies that do use MOOCs for talent development, offerings are often ad hoc, limited to a few individuals, a team, or a small group. And most employees are unaware of fellow learners in the organization, which inhibits the sharing of knowledge and resources. Why are these efforts so isolated and sporadic? Largely because people hear about MOOCs through noncorporate channels, such as recommendations from friends or ads they encounter online. "The MOOC in our organization was absolutely an accident," said an IT manager working in an Indian office of a Japanese multinational. "About three years ago, my boss heard about [a MOOC provider on the radio] while driving, and he signed up for a data science course to see how it would go. He was pretty impressed."

By failing to leverage MOOCs, companies are missing out on an effective way to increase employee commitment, especially for young high potentials. In an earlier study, I found that young, highly skilled managers considered training very important for their career development: Out of 14 practices, they ranked it third, behind high-stakes assignments and support from senior leadership and ahead of mentoring, coaching, and job rotation across functions or regions. Yet they also said training represented one of the biggest gaps between what they valued and what they actually received from their employers. That can have a negative impact on citizenship behaviors, such as helping colleagues, and can increase counterproductive behaviors, such as taking undeserved breaks and failing to perform essential tasks.

My research also shows that employees who enjoy organizational support for MOOCs are much less likely to want to use what they've learned to look for jobs at other companies. That may be partly because their employers tend to provide other career development support as well, making people want to stick around. Still, the correlation is worth noting. Self-sponsored learners are more than twice as likely as those who receive organizational support to see the acquired knowledge as a stepping-stone to a new employer.

IN BRIEF

THE PROBLEM

Though many people now acquire work-related skills through MOOCs (massive open online courses), they often do so without the support or knowledge of their employers. Companies are missing an opportunity to offset the steep decline in formal training and boost worker engagement—with minimal investment.

THE SOLUTION

By encouraging people to enroll in MOOCs, providing study time, and even serving as surrogate instructors, managers can enhance team members' development. Having employees pilot courses for one another helps ensure relevance and quality. And tracking completion reinforces the value of learning while increasing the odds that people will finish.

5%

Just 5% of employed learners receive financial support from their companies for their online coursework.

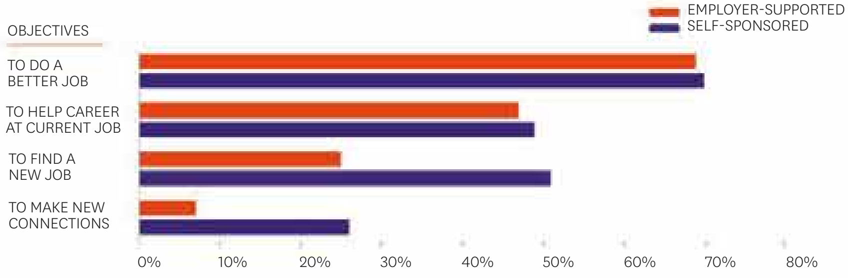
When employers provide financial support for workers' MOOCs, completion rates rise from 15% to

58%.

They are also much more likely to want to connect with other learners for networking purposes. (See the exhibit "Learning as a Retention Tool.")

LEARNING AS A RETENTION TOOL

When MOOC learners enjoy some form of support from their employers—financial assistance, time off, and so on—they are less likely to use the knowledge to look for work elsewhere.



SOURCE A SURVEY OF 1,481 EMPLOYED MOOC LEARNERS, CONDUCTED BY THE AUTHOR WITH SUPPORT FROM THE BBVA FOUNDATION

USING MOOCs TO DEVELOP TALENT

Once organizations recognize the opportunity, how can they begin to leverage MOOCs for workforce development? My research suggests several guiding principles and best practices.

Senior leaders must support learning and development efforts more broadly. All organizational training initiatives—whether online or traditional—need backing from top management in order to thrive. By believing in and investing in talent development, executives create a culture of learning, enabling managers throughout the company to secure the resources necessary to develop their teams. This may seem obvious, but it isn't common practice. Learning and development should be a strategic priority, even when leaders face hard choices about cutting costs. Because MOOCs provide a lot of value for very little money, and because they're less disruptive to busy schedules than traditional courses are, they make it easier for senior leaders, especially those in tough or unpredictable environments, to maintain their commitment to learning.

Managers and peers are the best champions of MOOCs. Once a culture of learning has been established at the top, managers at all levels should ensure that it takes root throughout the organization. According to my research, it is line managers who typically initiate and help implement MOOC-based training. HR and corporate learning departments usually have little to do with it (though they may ask people to share information about useful courses they've discovered).

That approach makes sense. Line managers have the domain expertise to guide course selection for the development of job-relevant skills. They are also well positioned to support individuals' self-directed learning within work hours: They can balance workloads so that people will have time to study.

In the past, employees received most of their training in corporate programs or in outside workshops and seminars sponsored by the company. But today many learning opportunities come directly from MOOC providers; it's easy for individuals to search for, enroll in, and try out courses on their own. If employed learners believed that these efforts would be appreciated and supported by their managers, they'd be more forthcoming about the courses they're taking and those that might benefit their colleagues. One of the learners I interviewed, a U.S.-based integrated marketing manager in higher education, said, "I brought my boss a course description [and pointed out] that this would help our office justify the kind of work that we are doing to the rest of the organization." Targeted recommendations like this from employees who understand the company's goals and dynamics is a much better way to gauge usefulness than are online reviews from users in different environments.

Piloting improves relevance. While learners generally appreciate having some flexibility in choosing their MOOCs, they admit that too much may lead them to take courses that lack relevance to their work or fall short of quality expectations. As a result, they may feel that they've wasted time and money. Learning and development departments can help people do some basic vetting: Does the MOOC have a clear course description and a set of learning objectives? Was it created by a reputable university or company? Is it hosted on one of the major MOOC platforms?

Often, however, it's not easy to tell how applicable a course will be to an organization or a role until someone actually completes it. That's why it can be useful to have a team member try it out and report back before others sign up. In my research, I found that when courses were piloted by coworkers—or when team members simply rated and commented on courses they'd completed and shared evaluations with one another—course choices were more on-target overall, and people were more likely to acquire the skills they were seeking.

Companies can use MOOCs to develop broader competencies—not just skills for core jobs. While all the MOOCs covered in my research focused on marketing, only 40% of the employed learners I surveyed had marketing roles, and just 15% worked in sales. The rest worked in functions such as operations and supply chain, R&D, and finance.

The learners from nonmarketing functions said they took the MOOCs because doing their jobs required knowledge across disciplines. For instance, a data analyst wanted to understand brand and product management concepts because one of his clients planned to launch new products in Asia. A programmer who provided technology support for an insurance

Training represents one of the biggest gaps between what young employees value and what they actually receive from their employers.

company's marketing team needed to get up to speed on pricing fundamentals.

Organizations have little to lose and much to gain by broadening their employees' competencies this way. It leads to higher-quality interactions across departments, and it helps people with different functional backgrounds communicate more effectively.

Managers can serve as surrogate instructors. In traditional training programs, instructors help people navigate the material and explain concepts in greater depth when questions arise. MOOCs, in contrast, require self-directed learning. It's up to each learner to decide how much time to spend on a module or topic, for instance, or whether to study all the topics in a course or just a few. MOOCs offer limited opportunities to interact with instructors or other learners, and most of that interaction happens asynchronously—that is, a question may be answered several hours or days after it was asked.

Managers can remedy these problems by providing informal guidance before and during the courses, making learning easier and improving completion rates. One Asia-Pacific area head at a U.S. multinational is especially good at doing this. Before his subordinates took a four-week MOOC on channel management, he told them, "Pay more attention to weeks one and two, which are more relevant to us....I am not forcing you to read about retailing, because we are not in this business line." That focused their attention and allowed them to use their study time more efficiently.

Because MOOCs are not tailored to specific organizations, managers have a role to play in helping people reflect on what they've learned and putting the concepts into context. For instance, the Asia-Pacific manager led a session after his group completed the first two weeks of the channel management MOOC: "I pulled the entire team into the meeting room and asked, 'What have you learned from these modules? How will you relate them to your job?'" He essentially created a makeshift classroom. "Some senior staff could relate the theory from the course to their work well," he said, "so I wanted to give them an opportunity to foster peer learning." With that support, his team members could enjoy the flexibility of MOOCs—completing the modules at their own pace—while benefiting from live interaction. And because they knew they'd be discussing the material with their team, they had an extra incentive to absorb it.

Employers should track MOOCs in performance reviews. A comprehensive study of more than 200 MOOCs shows that about 15% of the people who enroll actually earn a certificate of completion. That's low. However, the percentage goes way up when companies consider MOOC coursework in performance evaluations. Only 4% of employed learners in my survey had MOOCs included in their annual reviews, but half of those respondents finished their courses. The only learners with a higher completion rate were those who received financial support from their employers—58% of them made it the whole way through. Factors such as the learner's educational level, the relevance of the material to his or her job, and course design features were much less significant.

One pitfall of tracking course completion—the easiest and most common way to capture learning in evaluations—is that it may shift learners' focus from absorbing knowledge to passing exams. One organization I studied prevents this by asking people to pick the most important takeaway from each course and devise a plan for how they are going to implement that in their job. The purpose of the exercise is not to create a formal performance goal; rather, it is to deepen understanding and help people apply course concepts to their work.

IF SARA IS a typical Millennial employee, she will have to acquire new skills throughout her career—research suggests that she will switch jobs more than 10 times in her working life. Even if she stays in marketing, the content of her job will dramatically change over time, as jobs increasingly blend different sets of skills, and technological competencies are often in the mix. Modular MOOCs are well suited to helping employees like Sara develop—more so than universities, which may be too slow to adapt traditional offerings to the constantly evolving requirements of the marketplace and may require many years of study.

It's clear that MOOCs are playing an important role in individuals' development. The question is whether more employers will support them. Doing so would benefit employees and organizations alike. But most employed learners are now making the journey on their own.

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Broadening employees' competencies helps team members work across silos and communicate more effectively.

THE NEW CEO ACTIVISTS

A PLAYBOOK FOR POLARIZED POLITICAL TIMES

BY AARON K. CHATTERJI AND MICHAEL W. TOFFEL

PHOTOGRAPHY BY DAN SAELINGER

IN BRIEF

THE SITUATION
More and more CEOs are taking a stand on divisive social issues—a dramatic departure from tradition.

THE REASON
They're frustrated with the growing political turmoil and paralysis in the government. Stakeholders, furthermore, are starting to expect corporate leaders to speak out.

THE UPSHOT
CEO activism can have unintended consequences. In this article, the authors look at recent examples of such advocacy and piece together a playbook for executives.

When we first started studying CEO activism, three years ago, we never imagined how significant this phenomenon would become. At the time a small but growing band of executives were taking public stands on political and social issues unrelated to their companies' bottom lines. Since then, controversies over laws affecting transgender people in North Carolina, police shootings in Missouri, and executive orders on immigration have drawn increasing numbers of CEOs into contentious public debates. More recently, the White House's withdrawal from the Paris climate accord, response to the clash between white supremacists and counterprotesters in Charlottesville, Virginia, and decision to rescind Deferred Action for Childhood Arrivals have galvanized many U.S. corporate leaders to speak out and take action.

Of course, corporations have long played an active role in the U.S. political process. They lobby, make contributions to candidates, and fund political action committees and campaigns on various issues in an effort to shape public policies to their benefit. But CEO activism is something new. Until recently, it was rare for corporate leaders to plunge aggressively into thorny social and political discussions about race, sexual orientation, gender, immigration, and the environment. The so-called Michael Jordan dictum that Republicans buy sneakers too reminds executives that choosing sides on divisive issues can hurt sales, so why do it? Better to weigh in on what traditionally have been seen as business issues, such as taxes and trade, with technocratic arguments rather than moral appeals.

But the world has changed. Political partisanship and discourse grow ever more extreme, and the gridlock in Washington, D.C., shows no sign of easing. Political and social upheaval has provoked frustration and outrage, inspiring business leaders like Tim Cook of Apple, Howard Schultz of Starbucks, and Marc Benioff of Salesforce—among many others—to passionately advocate for a range of causes. "Our jobs as CEOs now include driving what we think is right," Bank of America's CEO, Brian Moynihan, told the *Wall Street Journal*. "It's not exactly political activism, but it is action on issues beyond business."

The world is taking notice. CEO activism has gotten lots of media attention lately, and public relations firms are now building entire practices around it. While this phenomenon has largely been confined to the United States, there's little reason to doubt that it could develop into a global force. We believe that the more CEOs speak up on social and political issues, the more they will be expected to do so. And increasingly, CEO activism has strategic implications: In the Twitter age, silence is more conspicuous—and more consequential.

All this activity raises big questions that we will attempt to address: Does CEO activism actually change hearts and minds? What are the risks and potential rewards? And what is the playbook for corporate leaders considering speaking out?

WHY CEOS SPEAK UP

CEOs are weighing in on controversial topics for several reasons. Some point to their corporate values to explain their advocacy, as BOA's Moynihan and Dan Schulman of PayPal did when taking a stand against a North Carolina law requiring people to use the bathrooms corresponding with the gender on their birth certificates, which became a referendum on transgender rights.

Other CEOs argue that companies should have a higher purpose beyond maximizing shareholder value—a concept that has been gaining traction in the business world. As Benioff told *Time*, "Today CEOs need to stand up not just for their shareholders, but their employees, their customers, their partners, the community, the environment, schools, everybody."

And for many leaders, speaking out is a matter of personal conviction. David Green, the founder and CEO of Hobby Lobby, a family-owned chain of crafts stores, cited his religious beliefs when opposing the Obamacare requirement that health insurance for employees include coverage for the morning-after pill among all other forms of birth control.

CEO ACTIVISM HAS GOTTEN LOTS OF MEDIA ATTENTION LATELY, AND PUBLIC RELATIONS FIRMS ARE NOW BUILDING ENTIRE PRACTICES AROUND IT.

Some leaders have commented that a greater sense of corporate purpose has become important to Millennials, whether they be employees or customers. Indeed, research from Weber Shandwick and KRC Research finds that large percentages of Millennials believe that CEOs have a responsibility to speak out on political and social issues and say that CEO activism is a factor in their purchasing decisions.

Sometimes leaders point to multiple motivations. "I just think it's insincere to not stand up for those things that you believe in," Jeff Immelt, the former CEO of GE, has said. "We're also stewards of our companies; we're representatives of the people that work with us. And I think we're cowards if we don't take a position occasionally on those things that are really consistent with what our mission is and where our people stand."

THE TACTICS OF CEO ACTIVISTS

Though they're motivated by diverse interests—external, internal, and deeply personal—activist CEOs generally employ two types of tactics: raising awareness and leveraging economic power.

Raising awareness. For the most part, this involves making public statements—often in the news media, more frequently on Twitter—to garner support for social movements and help usher in change. In such statements business leaders are communicating to stakeholders where they stand on a whole slate of issues that would not have been on the CEO's agenda a generation ago. For example, Goldman Sachs's CEO, Lloyd Blankfein, and Biogen's former CEO George Scangos have spoken out publicly on government policies that affect the rights of LGBTQ individuals. On the socially conservative side of the spectrum, Chick-fil-A's CEO, Dan Cathy, has denounced gay marriage.

In some cases, several CEOs have worked together to raise awareness. For example, days before the United Nations climate-change-agreement negotiations took place in Paris in late 2015, the CEOs of 14 major food companies—Mars, General Mills, Coca-Cola, Unilever, Danone Dairy North America, Hershey, Ben & Jerry's, Kellogg, PepsiCo, Nestlé USA, New Belgium Brewing, Hain Celestial, Stonyfield Farm, and Clif Bar—cosigned an open letter calling on government leaders to create a strong accord that would "meaningfully address the reality of climate change." Similarly, nearly 100 CEOs cosigned an amicus brief to encourage federal judges to overturn Trump's executive order banning citizens from seven Muslim-majority countries from entering the United States.

Collective action can have greater impact than acting alone. Take what happened with Trump's economic councils. Though Merck's CEO, Kenneth Frazier, received a lot of press when he resigned from the president's American Manufacturing Council in response to Trump's remarks blaming white supremacists and counterprotesters equally for the violence in Charlottesville, it was only after CEOs jumped ship en masse from that group and from Trump's Strategic and Policy Forum that the president disbanded both councils—a move that was widely viewed as a defeat for Trump.

Leveraging economic power. Some of the more powerful cases of CEO activism have involved putting economic pressure on states to reject or overturn legislation. For example, in response to Indiana's Religious Freedom Restoration Act (RFRA), which some viewed as anti-LGBTQ, Bill Oesterle, then the CEO of Angie's List, canceled its planned expansion in Indianapolis, and Benioff threatened to halt all Salesforce employee travel to the state. Other leaders joined the protest, including the president of the National College Athletic Association, Mark Emmert, who suggested that the bill's passage could affect the location of future tournaments and that the association might consider moving its headquarters out of Indianapolis. Under pressure, then-governor Mike Pence approved a revised version of the law, which forbade businesses from denying service to customers because of their sexual orientation.

In response to North Carolina's bathroom law, Schulman canceled PayPal's plans for a new global operations center in Charlotte, which would have created more than 400 skilled jobs. As many other CEOs followed suit, the potential damage mounted: The Associated Press has estimated that the bathroom law controversy will cost the state more than $3.76 billion in lost business over a dozen years.

Companies and their leaders also wield economic power by donating to third-party groups that promote their favored causes. To help fight Trump's immigration ban, for example, the car-sharing company Lyft pledged $1 million to the American Civil Liberties Union, which is challenging the ban in court. In response to the Charlottesville protest and Trump's reaction to it, James Murdoch, the chief executive of 21st Century Fox, donated $1 million to the Anti-Defamation League, a group that fights bigotry.

How effective are these approaches? The trend of corporate leaders taking a public stand on issues not necessarily related to their businesses is relatively new, so there's little empirical evidence of its impact. But we do have limited anecdotal evidence that it can shape public policy—as it did in the case of Indiana's RFRA. When legislators passed a similar religious freedom bill in Georgia, threats to stop filming in the state from leaders of many studios and networks—including Disney, CBS, MGM, and Netflix—and similar kinds of warnings from Benioff and other CEOs were seen as instrumental in moving the governor to veto it. And leaders of the National Basketball Association, NCAA, and Atlantic Coast Conference have been credited with forcing North Carolina to revise its bathroom law.

To move beyond anecdotal evidence, we set out to investigate in a scientific, rigorous way whether CEOs can help win public support for policies, thus

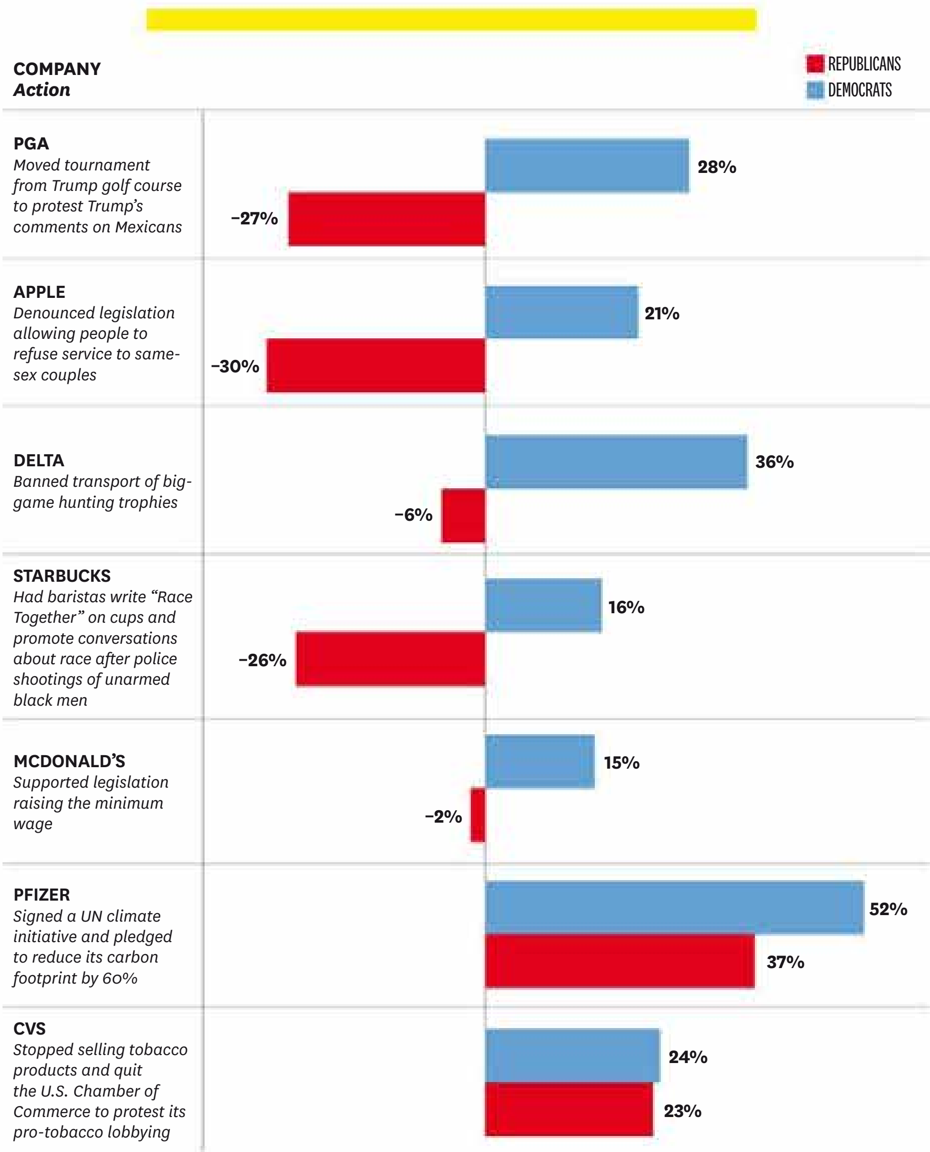
HOW CEOS RESPOND: THREE TYPES OF TACTICS

TRADITIONAL	NONCONFRONTATIONAL Lobby behind the scenes Contribute to campaigns Communicate internally with employees Do nothing
ACTIVISM	RAISING AWARENESS Issue a statement or tweet Write an op-ed Seek to spur public action via trade associations
	EXERTING ECONOMIC INFLUENCE Relocate business activities Pause business expansion Fund political and activist groups

A POLARIZED RESPONSE

Democrats and Republicans can have very different reactions to corporate activism.

The chart below shows how each company's stance on a social issue affected its overall favorability ratings with Democrats and Republicans. The percentages indicate the net change in support from members of each party in response to the activist stance.



SOURCE "BUSINESS & POLITICS: DO THEY MIX?" THIRD ANNUAL STUDY, JANUARY 2016, A SURVEY OF 803 U.S. ADULTS BY GLOBAL STRATEGY GROUP

affecting legislators' votes and whether governors sign or veto bills. Our findings demonstrate that CEOs can indeed play an important role in shaping the public's views on political and social issues. (See the sidebar "Our Research: Does CEO Activism Influence Public Opinion?") Moreover, as we'll discuss, we find that when CEOs communicate a stance on such issues, it can spur like-minded consumers to purchase more of their products.

THE RISKS AND POTENTIAL REWARDS

In today's politically charged atmosphere, mere affiliations with political leaders or causes can be risky. A few weeks into Trump's term, Under Armour's CEO, Kevin Plank, faced criticism after referring to the president as "a real asset for the country" in an interview. One of his star pitchmen, the Golden State Warriors player Stephen Curry, expressed his displeasure publicly. The hashtag #BoycottUnderArmour began appearing on Twitter, and other Under Armour endorsers, including ballerina Misty Copeland, echoed Curry. The company had to take out a full-page newspaper ad clarifying Plank's comments and stating his opposition to Trump's immigration ban. But that response did not stop Under Armour's stock from being downgraded as one analyst wondered whether the gaffe would "make it nearly impossible to effectively build a cool urban lifestyle brand in the foreseeable future."

CEO activism has sometimes led to charges of hypocrisy. For example, a few conservative websites have criticized Benioff and Cook for denouncing religious freedom laws while Salesforce and Apple continue to do business in countries that persecute LGBTQ individuals. And some activism efforts have come off as clumsy: Consider the widespread ridicule that greeted Howard Schultz's Race Together campaign, in which Starbucks baristas were instructed to write that phrase on all drink cups in an effort to combat racism.

On the other hand, activism can burnish a corporate leader's reputation. In the aftermath of the violence in Charlottesville, the CEOs who resigned from Trump's economic councils (a group that included Plank) were widely praised. The applause for Merck's Frazier, the first to step down, was particularly effusive. "Mr. Frazier, thank you for your courageous stand," tweeted U.S. representative Keith Ellison. The Anne Frank Center for Mutual

Respect was even more emphatic, tweeting "A HERO: Ken Frazier."

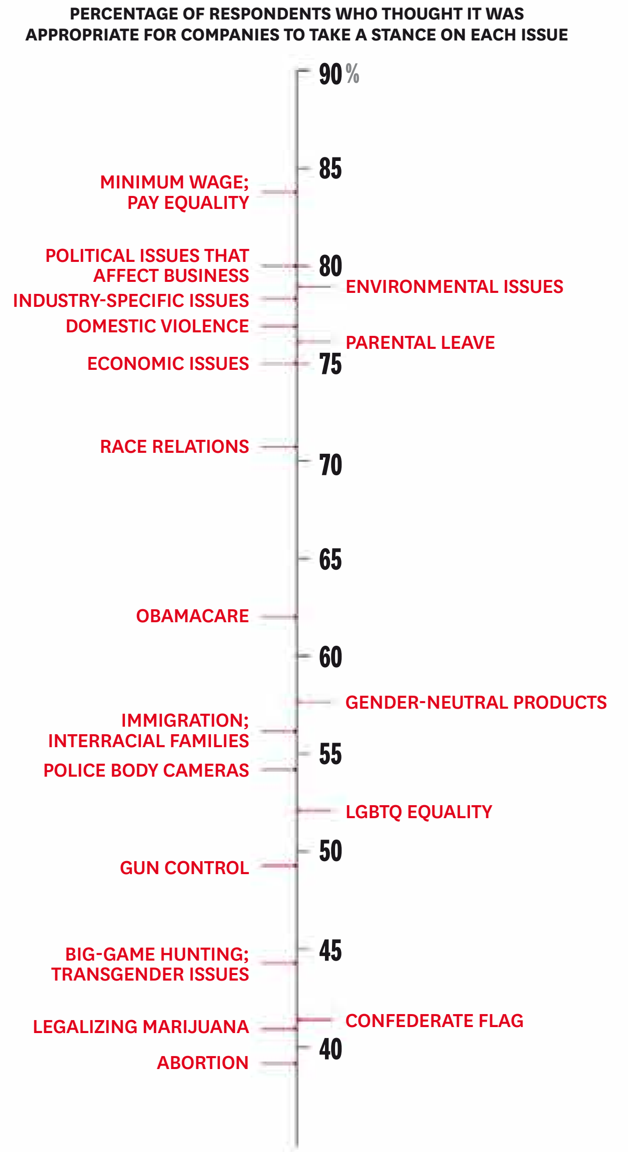
This controversy also highlighted the risk of silence, which may be viewed as a sign of tacit approval. The *New York Times* and CNBC published lists of which CEOs remained on the president's various economic councils, with CNBC noting that "with each new resignation, those left on the council faced increased scrutiny." Oracle's CEO had similarly been put on the spot when a group of workers from that company launched a petition urging their employer to join numerous other companies in opposing Trump's immigration ban. Their effort attracted national attention, with *USA Today* observing, "More than 130 tech companies—from Apple to Zynga—have signed the amicus brief. Oracle and IBM have not."

Still, CEOs should keep in mind that reactions to activism can cut both ways. While Benioff's advocacy has been widely praised, he admitted to CBS News that Colin Powell, the former secretary of state and a retired four-star general—and now a Salesforce director—warned him: "The farther you go up the tree, the more your backside is going to be exposed, and you'd better be careful." After Chick-fil-A's Cathy spoke out against gay marriage, the chain faced consumer picket lines and a boycott—but also a countervailing "Chick-fil-A Appreciation Day," which attracted large crowds of customers. Indeed, in a Weber Shandwick survey 40% of respondents said they would be more likely to purchase from a company if they agreed with the CEO's position, but 45% said they'd be less likely to if they disagreed with the CEO's view.

We conducted our own experiment to assess the influence of CEO activism on U.S. consumers' behavior. In it, we asked a nationally representative group of respondents about their intent to buy Apple products in the near future. To some, we first provided a statement describing CEO Tim Cook's opinion that Indiana's religious freedom bill was discriminatory against LGBTQ individuals; to others, we provided a generic statement about Cook's management philosophy. To the rest, we provided no statement at all; we simply asked about purchasing intent. We randomly deployed these three conditions and received 2,176 responses. The people in the group exposed to Cook's activism, we found, expressed significantly higher intent to buy Apple products in the near future than those in the other two groups. Learning about Cook's activism increased intent to purchase among supporters of same-sex marriage but did not erode intent among its opponents. These results indicate that CEO activism can generate goodwill for the company but need not alienate those who disagree with the CEO. But this most likely does not apply to all companies. Apple products are especially sticky, so while Cook's remarks might not provoke a backlash against iPhones, other business leaders should consider whether the political makeup of their consumers and the nature

IS IT APPROPRIATE TO TAKE A STAND? WHAT CONSUMERS THINK

A Global Strategy Group survey showed that Americans tend to approve of corporate activism on economic issues more than activism on social issues.



SOURCE "BUSINESS & POLITICS: DO THEY MIX?" THIRD ANNUAL STUDY, JANUARY 2016, A SURVEY OF 803 U.S. ADULTS BY GLOBAL STRATEGY GROUP of their products might lead to a different result. It's critical for every CEO to proceed thoughtfully.

THE CEO ACTIVIST'S PLAYBOOK

Drawing on our empirical research and interviews with CEO activists and their stakeholders, we have developed a guide for leaders who are deciding whether to speak out and how.

What to weigh in on. Smart CEO activists typically choose their issues; the issues do not choose them. To avoid being blindsided by a news story or awkwardly weighing in on a topic they know little about, CEOs should sit down with their executive teams, including their chief communications officers, and decide what issues matter to them and why. This discussion should include reflection on why championing the selected causes would have greater social impact than championing other causes. (On occasion, however, there's no time for this kind of deliberation, such as when corporate leaders felt they quickly needed to make it clear they had no tolerance for racism after Charlottesville.)

Executives must balance the likelihood of having an effect and other potential benefits—such as pleasing employees and consumers—against the possibility of a backlash. As part of this assessment, CEOs should explicitly consider how their statements and actions will be received in a politically polarized atmosphere.

ACTIVISM IN ACTION

CORPORATE LEADER	ISSUE	ACTION TAKEN
MARC BENIOFF *CEO, Salesforce*	**Antidiscrimination**	**In 2015, Benioff tweeted his opposition to Indiana's Religious Freedom Restoration Act and suspended corporate travel to the state; he later spoke out against North Carolina's bathroom bill and developed a reputation for rallying other business leaders to speak out.**
DAN CATHY *CEO, Chick-fil-A*	**Same-sex marriage**	**In 2012, Cathy publicly opposed same-sex marriage on a radio show; his corporation's foundation also donated to anti-LGBTQ organizations.**
DAVID AND BARBARA GREEN *Cofounders, Hobby Lobby*	**Health care/ religious freedom**	**The Greens filed a highly publicized lawsuit in 2012 to oppose Affordable Care Act–mandated birth control coverage.**
PETER LEWIS *Late chairman, Progressive Insurance*	**Marijuana decriminalization**	**In 2011, Lewis wrote an opinion piece for *Forbes* supporting decriminalization; he also donated $3 million to marijuana legalization campaigns.**
JOHN MACKEY *CEO, Whole Foods Market*	**Health care**	**In 2009, Mackey wrote an editorial criticizing the Affordable Care Act.**
PAUL POLMAN *CEO, Unilever*	**Climate change**	**Polman has delivered many public speeches supporting government policies to address climate change.**
JIM ROGERS *Former CEO, Duke Energy*	**Climate change**	**In 1990, Rogers (as CEO of Public Service Indiana, which eventually became part of Duke Energy) testified before Congress in support of Clean Air Act amendments; he later lobbied Congress to support climate change legislation.**
HAMDI ULUKAYA *CEO, Chobani*	**Refugee crisis**	**In 2014, Ulukaya pledged to donate $2 million to refugees. He also hired refugees to work at Chobani's manufacturing plants and wrote an op-ed for CNN in support of refugees.**

SOURCE MICHAEL W. TOFFEL, AARON K. CHATTERJI, AND JULIA KELLEY, "CEO ACTIVISM (A)," HARVARD BUSINESS SCHOOL CASE 617-001, MARCH 2017

OUR RESEARCH: DOES CEO ACTIVISM INFLUENCE PUBLIC OPINION?

Some of the experiments we conducted investigated whether and how CEO activism might affect public opinion. In one, we developed a survey asking people if they supported or opposed Indiana's Religious Freedom Restoration Act (RFRA), at a time when the controversy over it was still very much in the news. In some cases, we first told them that many were concerned that the law might allow discrimination against gays and lesbians. In other cases we attributed those concerns to Apple's CEO, Tim Cook; to Bill Oesterle, who was then CEO of Indiana-based Angie's List; or to the mayor of Indianapolis.

The market research company Civic Science deployed our survey on the hundreds of third-party websites (newspapers, entertainment sites, and so on) with which it partners, gathering 3,418 responses from across the United States. Among those in the baseline condition, who were not told of any discrimination concern, 50% of respondents favored the law—evidence of how split the country is on such legislation. Support for the law dipped to about 40% among respondents who answered the question after being presented with discrimination concerns, regardless of who expressed them—a CEO or a politician—or even if they weren't attributed to anyone in particular.

These results imply that public opinion, at least in this study, was shaped more by the message than by the messenger. There are two ways to interpret this: You can infer that CEOs have no special ability to influence public opinion. After all, their statements had no more effect than politicians' or unattributed statements. On the other hand, the results show that CEOs can be as persuasive as political leaders. CEOs can attract media attention, especially when they speak out on contentious social and environmental issues that are not obviously connected to their bottom lines, which heightens their authenticity. Given that CEOs can sway public opinion, we assume that they can shape public policy, too.

Our study went a bit further to see whether CEO activism would affect people differently depending on their preexisting policy preferences. We found that Cook's discrimination remarks further eroded (already-low) RFRA support among same-sex marriage advocates but had no impact on the much more pro-RFRA views of same-sex marriage opponents. It's important to be aware of whose opinions CEO activism is likely to shift—and whose are likely to be unmoved. In fact, recent research has found that CEOs' political endorsements can significantly affect the campaign contributions of their employees, which suggests that CEO activism might be especially influential with a CEO's own employees.

A 2016 Global Strategy Group report shows that when companies are associated with political issues, customers view this connection through the lens of their party affiliation. (See the exhibit "A Polarized Response.") According to the study, twice as many Democrats viewed Schultz's Race Together campaign positively as viewed it negatively, but three times as many Republicans viewed it unfavorably as viewed it favorably. Cook's advocacy for gay marriage produced similar responses. Championship of less divisive issues, such as parental leave and STEM education, however, is more likely to improve the brand image of the CEO's company among both Democrats and Republicans, the study showed.

CEOs should also consider the extent to which the public believes a CEO voice is appropriate on a given topic. The Global Strategy Group study found that Democrats and Republicans both thought it was fitting for companies to take public stances on economic issues like minimum wage and parental leave. However, there was much less consensus about the appropriateness of weighing in on social issues such as abortion, gun control, LGBTQ equality, and immigration. (See the exhibit "Is It Appropriate to Take a Stand? What Consumers Think.")

Immigration has proven a particularly complex issue, as the experiences of Chobani's CEO, Hamdi Ulukaya, and Carbonite's CEO, Mohamad Ali,

IMPLICATIONS FOR DEMOCRACY

CEO activism may be giving businesses and their leaders even more influence in a political system in which their money can already buy access to power. Some people, including North Carolina's lieutenant governor, who supported the bathroom bill while facing an onslaught of CEO activism, have gone further, characterizing it as corporate bullying. One Georgia state senator, who sponsored that state's religious freedom bill, lamented, "Marc Benioff is the ringleader for big-business CEOs who use economic threats to exercise more power over public policy than the voters who use the democratic process." From this perspective, CEO activism can be viewed as endangering democracy's ideal that each citizen should have an equal say in influencing policy outcomes.

There is of course another angle on this that considers CEO activism within the current environment of political influence. As we've noted, CEO activism is an unusually transparent way for corporate leaders to try to affect policy—in contrast to behind-the-scenes efforts to work with legislators, trade associations, and think tanks.

Because CEO activism is highly visible, employees, customers, and the media can decide how to respond to it. There is also a political divide here. (To be sure, certain controversies transcend politics.) Some progressives have been appreciative of recent CEO activism while decrying the activities of business leaders like the Koch brothers. As a result, many conservatives see a double standard at play. Most of the CEO activists have been espousing liberal views, but it remains to be seen how widespread activism from conservative business leaders would be received.

illustrate. Immigrants to the United States themselves, both publicly opposed the Trump administration's restrictions. Both have been praised for their stances, but Ulukaya was also threatened and his company faced a boycott, while Ali's remarks prompted no discernible backlash. This difference could be attributed to Ulukaya's focus on the moral need to provide job opportunities for refugees, whereas Ali placed more emphasis on immigrants as job creators whose work also benefits native-born citizens. It's important to note, however, that while speaking out on controversial topics might provoke an adverse reaction, it is also likely to attract media coverage, which increases the opportunity for a CEO's views to be heard in the first place.

To influence public policy, the message has to be authentic to both the individual leader and the business. There should be a compelling narrative for why *this* issue matters to *this* CEO of *this* business at *this* time. The issue selection is also a crucial time to "get smart" about the underlying details. CEOs can quickly get in over their heads if they start speaking publicly about complex issues and are pressed by knowledgeable journalists and commentators. Because the credibility of business leaders rests on the perception that they make decisions after careful analysis, CEO activists can be effective only if they really understand the issue under debate.

When to weigh in. Once the issue is selected, the CEO activist has to understand if there are key moments when speaking out might actually make a difference. Is it while a piece of legislation is being considered, or is it afterward?

We have observed that a CEO activist's chances of blocking a particular policy are typically better than his or her chances of reversing legislation that has been enacted. As we have seen with the Republican Party's efforts to repeal the Affordable Care Act in recent months, the U.S. legislative system was designed to be slow moving and deliberative. This institutional feature makes it difficult not only to pass sweeping new legislation but to repeal existing laws as well.

Also, consider the news cycle. As we noted earlier, being the first CEO to quit one of the president's economic councils earned Frazier (and Merck) significant positive media coverage. When other CEOs quit in rapid succession over the next 48 hours, their stories were lumped together. Frazier's actions will likely be remembered more than those of the CEOs who followed him. Of course, there was a downside to all the attention: President Trump struck back directly at Frazier, tweeting an insult and citing Merck's responsibility for high drug prices. To date, there's no evidence that this has hurt Merck's business.

How to weigh in. CEO activism differs from traditional corporate engagement in politics precisely because it is visible and high profile. The CEO needs to decide whether he or she wants all that attention or if the cause would be better advanced by a coalition of CEOs. More than 160 CEOs and business leaders chose to sign a letter by the Human Rights Campaign opposing the North Carolina bathroom law. In taking this approach, they mitigated the risk of consumer backlash and amplified the newsworthiness and thus the impact of their activism. Collective action can also make it more difficult for critics to target individual corporate leaders and thus can be perceived as less risky. But it is slower by design and is likely to be less effective in associating a particular leader and corporate brand with a particular cause.

CEOs also may choose not to weigh in at all. Some leaders may feel that they do not understand the issue well enough, hold an unpopular view, or simply want to focus on other areas. All of those are credible reasons to hold back. But executives should expect that employees, the media, and other interested parties may ask why the CEO has not spoken out, and should be ready to explain the rationale.

The inside game. It's a good idea to make sure that internal stakeholders are aligned with CEO activism—or at least aware of it ahead of time. When Frazier was considering resigning from Trump's economic council, he reached out to his board members, who subsequently defended his decision and praised his courage and integrity. Our interviews suggest that not all CEOs consult with their directors or employees before taking public stands, which may imperil their efforts.

Though CEOs first have to decide whether they're speaking for themselves or their organizations, they should recognize that any statements they make will nonetheless be associated with their companies. We have seen almost no CEOs successfully separate themselves from their firms in this way. Given that, we advise setting up a rapid response team composed of representatives from the board, investors, senior management (including the chief communications officer), and employees to act as a kitchen cabinet on CEO activism. Seeking broad consensus across the organization could prevent CEO activism from being timely, which is often critical to attract attention to a message, but if the CEO can at least inform his or her cabinet about what to expect and why, it should greatly reduce the risk that key stakeholders will be unprepared for any backlash.

Predicting the reaction and gauging the results. CEO activists should prepare thoughtful responses to those who disagree with them. After Target modified its bathroom policy to accommodate transgender customers, hundreds of thousands of people signed a petition in protest. The literature tells us that when easy alternatives to a product or service are available, boycotts are more effective. Target is particularly vulnerable in this regard. Thus it's not surprising that the retail chain, which has many stores in politically conservative areas of the United States, has taken action to assuage the criticism by spending $20 million creating single-occupancy bathrooms in its stores. On the other hand, Nordstrom's customer base of affluent urban women did not threaten to abandon the upscale department store chain when President Trump attacked it for distancing itself from Ivanka Trump's apparel line.

Companies generally lack good data on the political beliefs of their customers, but this information would be useful in assessing potential reactions to CEO activism. CEOs and their companies are likely to know more about the political beliefs of their employees and can better predict their responses, however. Will employees rally to the cause or go public with their disapproval—as more than a thousand IBM employees did after CEO Virginia Rometty met with President Trump?

CEO activism also risks a backlash from politicians. Trump has tweeted his disagreement with numerous companies and their management decisions, marshaling millions of Twitter followers and creating public relations headaches. CEOs and their teams should be gaming out the likely response from supporters and critics in their own organizations, the media, and the political sphere.

It's imperative to hold postmortems, too, and answer the question: Did I make a difference? Metrics to assess the impact of activism should be established ahead of time, whether they be retweets, media mentions, public opinion polls, or actual policy shifts. Big swings in public opinion are rare, so it makes sense to set realistic goals, track intermediate outcomes, and measure progress over time.

CEO ACTIVISM COULD become a first-order strategic issue. As more and more business leaders choose to speak out on contentious political and social matters, CEOs will increasingly be called on to help shape the debate about such issues. Many will decide to stay out of the fray, but they should still expect to be peppered with questions from employees, the media, and other stakeholders about the hot-button topics of day.

We believe CEOs need a playbook in this new world. To effectively engage in CEO activism, they should select issues carefully, reflect on the best times and approaches to get involved, consider the potential for backlash, and measure results. By following these guidelines, CEO activists can be more effective on the issues they care about most.

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FURTHER READING

"Why Apple's Tim Cook and Other CEOs Are Speaking Out on Police Shootings"
Aaron K. Chatterji
Fortune, July 16, 2016

"Do CEO Activists Make a Difference? Evidence from a Quasi-Field Experiment"
Aaron K. Chatterji and Michael W. Toffel
Working paper, July 2017

"Starbucks' 'Race Together' Campaign and the Upside of CEO Activism"
Aaron K. Chatterji and Michael W. Toffel
Harvard Business Review
March 24, 2015

"The Power of C.E.O. Activism"
Aaron K. Chatterji and Michael W. Toffel
New York Times, April 1, 2016

"Is It Safe for CEOs to Voice Strong Political Opinions?"
Leslie Gaines-Ross
Harvard Business Review
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"Business & Politics: Do They Mix?"
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Annual studies, 2013–2016

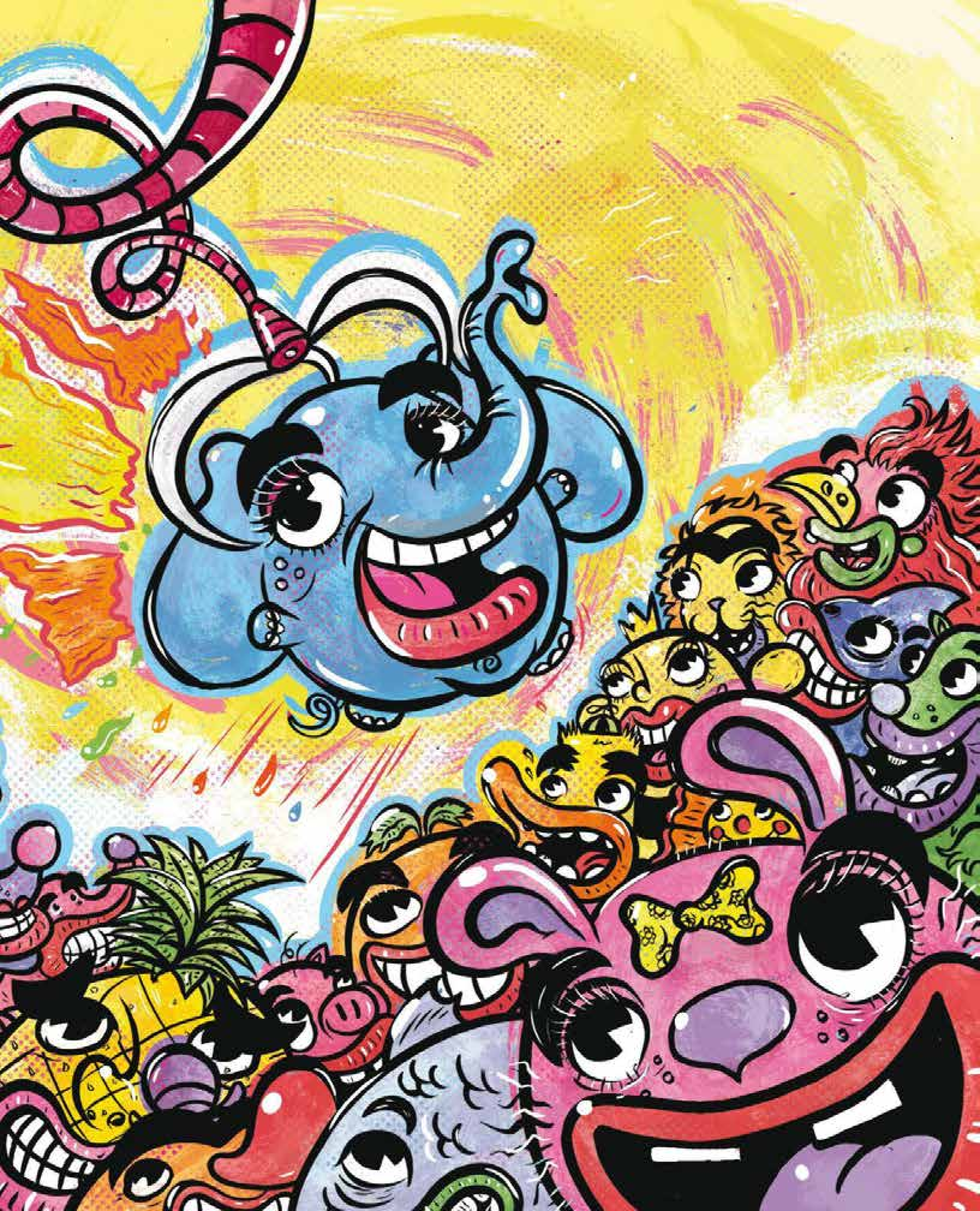
"The Dawn of CEO Activism"
Weber Shandwick, with KRC Research, 2016

HOW TO HIRE

Chances are you're doing it all wrong.

by Patty McCord

ILLUSTRATION BY SPENCER AFONSO



I REALLY DISLIKE

the term "A player." It implies a grading system that can determine who will be best for a position. HR people always ask how Netflix, where I served as chief talent officer from 1998 to 2012, managed to hire only A players. I say, "There's an island populated exclusively by A players, but only some of us know where it is."

IN BRIEF

THE PROBLEM
Most companies approach hiring with faulty assumptions and poor practices. They believe talent is fixed rather than contextual. They fail to create real partnerships between recruiters and hiring managers. And they rely too much on salary surveys and rigid compensation formulas.

THE SOLUTION
Dig beneath the résumé. Ensure that recruiters deeply understand the business and are not viewed as support staff. Don't obsess over "culture fit"; assess whether candidates can drive growth and address pressing challenges. Calculate the real value they can bring to the company and the comp package required to get them to sign on.

In truth, one company's A player may be a B player for another firm. There is no formula for what makes people successful. Many of the people we let go from Netflix because they were not excelling at what we were doing went on to excel in other jobs.

Finding the right people is also not a matter of "culture fit." What most people really mean when they say someone is a good fit culturally is that he or she is someone they'd like to have a beer with. But people with all sorts of personalities can be great at the job you need done. This misguided hiring strategy can also contribute to a company's lack of diversity, since very often the people we enjoy hanging out with have backgrounds much like our own.

Making great hires is about recognizing great matches—and often they're not what you'd expect. Take Anthony Park. On paper he wasn't a slam dunk for a Silicon Valley company. He was working at an Arizona bank, where he was a "programmer," not a "software developer." And he was a pretty buttoned-up guy. We called Anthony because in his spare time he'd created a Netflix-enhancing app, which he had posted on his website. He came in for a day of interviews, and everyone loved him. When he got to me, late in the day, I told him he would be getting an offer. He seemed overwhelmed, so I asked if he was all right. He said, "You're going to pay me a lot of money to do what I love!" I did wonder how he'd fit in with the high-powered team he was joining; I hoped it wouldn't burn him out.

A few months later I sat in on a meeting of his team. Everyone was arguing until Anthony suddenly said, "Can I speak now?" The room went silent, because Anthony didn't say much, but when he did speak, it was something really smart—something that would make us all wonder, *Damn it, why didn't I think of that?* Now Anthony is a vice president. He's proof that organizations can adapt to many people's styles.

In this article I'll describe what I've learned about making great hires during my 14 years at Netflix and in subsequent consulting on culture and leadership. The process requires probing beneath the surface of people and their résumés; engaging managers in every aspect of hiring; treating your in-house recruiters as true business partners; adopting a mindset in which you're always recruiting; and coming up with compensation that suits the performance you need and the future you aspire to. My observations may be especially relevant to fast-growing tech-based firms, whose rapid innovation means a continual need for new talent. But organizations of all types can benefit from taking a fresh look at their hiring and compensation practices.

PROBE BENEATH THE SURFACE

At Netflix we had to be creative about where we searched for talent, because we often needed people with rarefied technical skills. When we began looking for big data experts, for example, no one even really knew what "big" meant. We couldn't just search résumés and do keyword matching. We had to think about all the different kinds of companies—many were insurance or credit card companies—that handled masses of data. What's more, our recruiting team lacked the in-depth knowledge to assess people's technical skills.

Our best recruiter of technical people was Bethany Brodsky. She knew virtually nothing about technology before coming to Netflix, but she was great at understanding our business and the root problems we had to solve. She also understood that a candidate's approach to problem solving was more important than previous experience.

One of Bethany's best interviews was with someone working at Lawrence Livermore—a government research center focused on nuclear science. This was when Netflix was beginning to stream on Xbox, Roku, and TiVo. When interviewing candidates, Bethany would tell them we had signed up a million subscribers in just 30 days on one of those devices and ask which one they thought it was. TiVo was taking off then, so most people said, "TiVo, for sure." But this candidate asked whether any conditions were attached to getting a Netflix subscription on any of the devices. She told him that Xbox subscribers needed a gold membership. He reasoned that it must be Xbox, because its users were already willing to pay a premium. He was right, and she knew he was our guy.

I had a similar "aha" moment when I interviewed Christian Kaiser, who was managing a group of 25 programmers at AOL. I had tried to hire quite a few people from his group, because they were doing the kind of technical work we needed. But they all wanted to stay at AOL. Netflix was a much sexier place to work, so I was perplexed. When I asked them about it, they would say, "I have the most amazing boss!

Making great hires is about recognizing great matches—and often they're not what you'd expect.

He's the best communicator I've ever known. I can't bear the thought of leaving him." I told my recruiters, "Go get that guy."

Christian wasn't what I'd expected. He had a thick German accent, and he stuttered. This was the great communicator? On top of that, he was clearly nervous. Our conversation was painful for him and for me. But when I asked him to explain, in simple terms, the technical work he was doing, he was transformed. He still stuttered, but he gave me a riveting explanation, and I realized, *That's it! He's great at making really complicated things understandable.* We hired him, and he's been an amazing team builder.

We always tried to be creative about probing people and their résumés. Bethany once decided to analyze the résumés of our best data-science people for common features. She found that those people shared an avid interest in music. From then on she and her team looked for that quality. She recalls, "We'd get really excited and call out, 'Hey, I found a guy who plays piano!'" She concluded that such people can easily toggle between their left and right brains—a great skill for data analysis.

ENGAGE MANAGERS FULLY

Many companies rely on outside recruiters. Netflix was growing so quickly that we opted for a different strategy: We formed an internal team of experienced recruiters. The sad truth is that most companies treat recruitment as a separate, nonbusiness, even non-HR function, and many young companies outsource it. Building a talented team of internal recruiters was a substantial investment, but I could make an irrefutable business case for doing so: I could clearly show what the return would be from eliminating headhunter fees. We saved bundles of money over time.

Your HR chief should understand the details of your business, how you earn your revenue, who your customers are, and your strategy for the future.

The technical nature of our business meant that managers needed to be highly engaged in the hiring process. But that should be required at all companies. Every hiring manager should understand the company's approach to hiring and how to execute on it, down to the smallest detail.

Our recruiters' job involved coaching our hiring managers. The recruiters created a slide deck to use with each manager, one-on-one. They would ask, "What does your interview process look like? What does your interview team look like? What is your process for having candidates come in?" People don't have to approach interviewing or recruiting in the same way, but we insisted that they have a plan and not just improvise.

In the end, the manager would make the hiring decision. Team members provided input, and my team and I also weighed in. But the ultimate responsibility was the manager's, as was the performance of the team he or she was building.

All this should be modeled from the top. Bethany once worked with our CEO, Reed Hastings, to fill a director-level position. They met on a Thursday morning to discuss what type of candidate they needed. Friday afternoon Reed e-mailed her to say he had sent messages to 20 prospects he'd found on LinkedIn and had gotten three responses. He'd interviewed one via Skype, really liked him, and wanted him to come in on Monday.

When hiring managers are as engaged as Reed was, recruiters up their game even more. After getting Reed's e-mail, Bethany was determined to find someone even better. (We ended up hiring Reed's guy, and Reed gloated about it for years.)

TREAT RECRUITERS AS BUSINESS PARTNERS

For the approach I'm describing to work, recruiters must be considered vital contributors to building the business. They need to deeply understand the needs of the business, and hiring managers need to treat them as business partners.

Getting the two groups to work together optimally may require holding hiring managers' feet to the fire. One day I heard one of my best recruiters complain about a new executive: "He doesn't return my calls or e-mails. I send him résumés, but he doesn't respond. I'm frustrated, because we really need to build him a great team." I walked up to her and said, "I think you need to work with someone else. I'll take care of this." Then I sent him an e-mail saying I had reassigned his recruiter: "I've put her on another project, because you appear to have a methodology for hiring and don't seem to need her help. Let us know when we can step in and assist. Love, Patty."

Within minutes he was at my desk, fuming. "What the hell?" he demanded. I asked him, "Is it true that she set up two meetings with you and you canceled?" He snapped, "I'm a busy guy. I'm doing the work of 10 people." I asked, "Is it true that she sent you a number of qualified candidates and you didn't respond? It's your job to build the team, not hers. By the way, there are three people who are delighted that she's not spending time on you. She's a great partner; she could really make this work for you. But if you don't need her, that's cool." Realizing that he did need the recruiter to help grow his team, he changed his tune and began treating her with respect.

It infuriates me when hiring managers dismiss the value of good HR people. Usually when I asked managers why they weren't engaging more with recruiters, they'd say, "Well, they're not that smart, and they don't really understand what's going on in my business or how the technology works." My response would be "Then start expecting—and demanding—that they do!" If you hire smart people; insist that they be businesspeople; and include them in running the business, they'll act like businesspeople.

On occasion I even advise companies to hire a businessperson, not an HR specialist, to run HR. Just like any other department or division head, your HR chief should understand the details of your business, how you earn your revenue, who your customers are, and your strategy for the future.

ALWAYS BE RECRUITING

At Netflix we had a saying: "Always be recruiting!" Candidates came from everywhere—from professional conferences, from the sidelines of a kids' soccer game, from conversations on airplanes. But certain fundamentals were strictly enforced. The interview and hiring process gives a powerful first impression about how your company operates, for good or bad. So I had an ironclad rule that if people saw a stranger sitting alone at headquarters waiting for an interview, they should stop and say, "Hi, I'm ___. Are you here for an interview? Let's look at your schedule, and I'll help you find the next person." If I was late coming to meet with a candidate and said, "Sorry—I hope someone talked to you," he or she would say, "Six people talked to me."

Recruiting was so important that interviews trumped any meeting a hiring manager was scheduled for, and they were the only reason people could miss our executive staff meetings. Candidates are evaluating you, just as you're evaluating them. People forget that. Our goal was to have every person who came for an interview walk away wanting the job. Even if we hated candidates, we wanted them to think, *Wow, that was an incredible experience. It was efficient, it was effective, it was on time, the questions were relevant, everyone was smart, and I was treated with dignity.* I would tell people, "Even if this person isn't the right fit, we might love his next-door neighbor."

We acted as quickly as possible once the decision was made: no running the hire by two levels of management, the compensation department, and HR. My team worked directly with hiring managers to determine compensation, title, and other details.

Recruiters laid the groundwork; managers made the offers. Speed and efficiency often meant we could land candidates who were interviewing with other great companies.

SET COMPENSATION THAT MAKES SENSE *FOR YOU*

Competitive salaries are obviously needed to lure top talent. Every business would like to mark its salaries to the market, but that can be challenging. There are amazingly sophisticated resources to tap for salary information; industry surveys cover every domain and give elaborate breakdowns by level. But jobs are not widgets, and neither are people. Roles are specialized in ways that survey descriptions cannot account for, and a candidate may have skills, such as good judgment and collaborative prowess, that can't be measured by surveys.

Say you need a software engineer. Do you want a senior programmer fluent in the best new techniques in search engine development? And this person will be managing a staff of five? Oh, and this person also needs to understand online advertising systems well enough to work with marketing on an online advertising strategy? A survey is not going to tell you how much such a person is paid currently—or should be paid *by you.*

Compensation departments spend gobs of time comparing descriptions and adjusting for other factors. However, that process gives you only a baseline understanding of the market landscape. How many people with those qualifications are available? To get the person you want, you often need to throw your calculations away and respond to actual market demand.

But market demand may not in itself be an adequate guide, because it reflects the present moment, and hiring should be about the future. The prevailing compensation system is often behind the times; it's based on the historical value of what employees have produced rather than on their potential to add value in the future.

Imagine that your recruiter manages to find a software engineer with all the credentials you need, and your team loves her, but she has an offer from your main competitor that's $35,000 more than what you were prepared to pay. In determining what to offer, consider the difference it might make to the future of your business if you bring her in rather than settle for your second choice—who may be a distant second, and whom it will take three months to hire because you'll keep looking for someone with the skills and talent of your first choice. How much added revenue might that great first choice produce? Might she ensure that you beat your competitor on the launch of a fabulous new search system—especially if she gets started now rather than three months down the road? How much ad revenue might she bring in by improving your targeting? What about the value of her management experience—might a key member of her team who gets an offer from another firm decide to stay because she's a great leader? And what about the value to you of her not working for your competitor, particularly if your domain is undergoing rapid innovation?

Current market demand and salary surveys can't help you calculate these future gains. I'm not saying there's *no* value to benchmarking, but I advise forgoing elaborate calculations based on what other companies are paying right now; that's comparing apples and oranges. It's better to focus on what you can afford to pay for the performance you want and the future you're heading toward.

Once you've made an offer and hired someone, you need to keep assessing compensation. I learned this during a period when Netflix was losing people because of exorbitant offers from our competitors. One day I heard that Google had offered one of our folks almost twice his current pay, and I hit the roof. He was a really important guy, so his manager wanted to counter. I got into a heated e-mail exchange with his manager and a couple of VPs. I wrote, "Google shouldn't decide the salaries for everybody just because they have more money than God!" We bickered for days. They kept telling me, "You don't understand how good he is!" I was having none of it.

But I woke up one morning and thought, *Oh, of course! No wonder Google wants him. They're right!* He had been working on some incredibly valuable personalization technology, and very few people in the world had his expertise. I realized that his work with us had given him a whole new market value. I fired off another e-mail: "I was wrong, and by the way, I went through the P&L, and we can double the salaries of everybody on this team." That experience changed how we thought about compensation. We realized that for some jobs we were creating expertise and scarcity, and rigidly adhering to internal salary ranges could harm our best contributors, who could make more elsewhere. We decided we didn't want a system in which people had to leave to be paid what they were worth. We also encouraged our employees to interview elsewhere regularly. That was the most reliable and efficient way to learn how competitive our pay was.

People often tell me, "We can't pay top dollar. That was great for Netflix, because the company was booming. But we're not growing that way, and we don't have the margin." Fair enough. Maybe it's not possible to pay top of market for every position. In that case I suggest identifying the positions with the greatest potential to boost your performance and paying top dollar to fill them with the very best people you can get. Think about it this way: What if by paying top of market you could bring in one supremely talented person who could do the job of two people or add even more value than that? Consider the 80/20 rule about sales teams: that 20% of your salespeople will generate 80% of your revenue. It may apply to other employees. I've seen a similar effect on team after team.

Another objection I often hear to hiring star performers at top pay is that their salaries will be much higher than those of their teammates. Managers at Netflix used to complain about that. Say we wanted to bring in someone whose salary would be twice that of everybody else on the team. Department heads would sometimes ask, "Does that mean I'm paying people half of what they're worth?" I'd say, "Well, is this new person going to be able to move us faster, maybe even twice as fast? And when we hire him, who on your team could take his place at his former company?" The answers were usually "Yeah, we'll be able to move much faster" and "None of them could replace him, because they don't have his experience."

Jobs are not widgets, and neither are people. A candidate may have skills that can't be measured by salary surveys.

This focus on the value-add of an individual star is especially important when a company is scaling up. I recently got a call from a CEO whose company employs 150 people. He said it would be growing to 300 and asked my advice on getting there. I said, "That's a precise number of people. What's it based on?"

He said his company would need to do twice as much work. I asked would the new people be doing the same kinds of work as the current staff, or would there be new things? Would the company be launching a product line? And if teams were getting bigger, might he need more-experienced managers? Did twice as much work mean reaching twice as many customers? If so, he would have to ramp up customer service. But that might not mean hiring twice as many reps; maybe outsourcing would be better. Then I asked the question I've found to be the most thought-provoking in these consultations: "Instead of 150 new people, are you sure you don't want 75 people whom you pay twice as much because they have twice as much experience and can be higher performers?"

I've found that if you focus intently on hiring the best people you can find and pay them top dollar, chances are your business growth will more than make up for what you spend on compensation.

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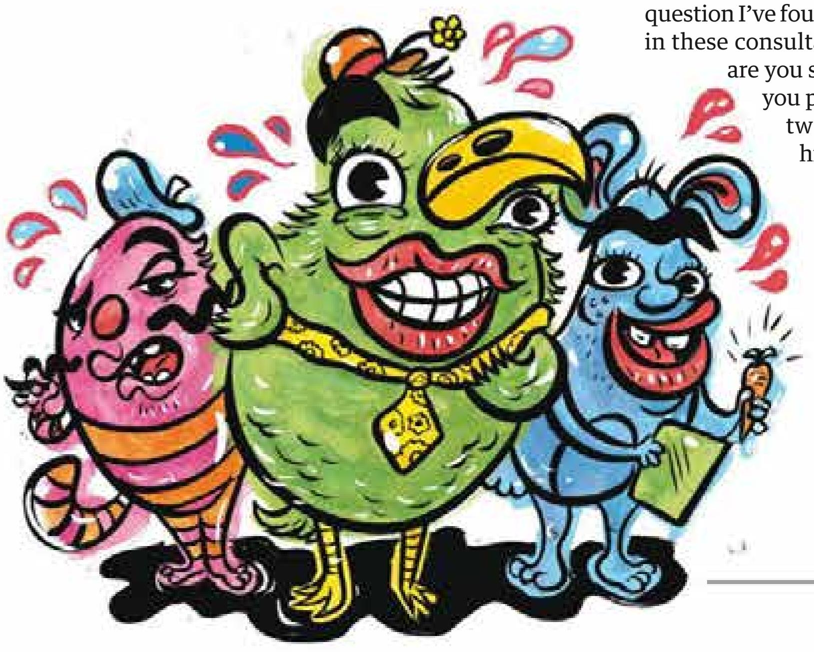

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FINDING YOUR COMPANY'S SECOND ACT

How to survive the success of a big-bang disruption

BY LARRY DOWNES AND PAUL NUNES

ILLUSTRATION BY CHRIS BUZELLI

IN BRIEF

THE QUESTION
Why do so few companies achieve successful second acts? Too often they grow incredibly quickly and then cool off almost as fast. The average life span on the S&P 500 has fallen from 67 years in the 1920s to 15 years today.

THE ANSWER
New products quickly saturate markets; sales spike early and then plummet. Digital components rapidly make products obsolete. Following management mantras about strategic focus, executives limit their organization's assets to those necessary to complete a single mission—and then struggle to find a second successful revenue source.

THE SOLUTION
The authors identify common attributes of companies that risk an existential crisis and argue that several tactics can avert one: abandoning hot products before they run out of steam, evolving to build platform or service offerings rather than products, and acquiring disruptive companies before the original business is upended.

IN JULY 2016 A PANDEMIC BROKE OUT.

Tiny monsters known as Pokémon suddenly appeared all over the world, threatening to use their fantastic powers to do battle in parks, on city blocks, and in homes. Fortunately, a dedicated volunteer force quickly arose to subdue them, using little-known technology embedded in smartphones to capture and domesticate the creatures.

Pokémon Go was the first big success in what will most likely be a potent run of new multiplayer smartphone games that use augmented-reality technology, which overlays digital images on real-world environments. It was also what we have described as a "big-bang disrupter," a new product that reigns largely uncontested for a period of success that is often shorter than one would expect from traditional market dominators. (See "Big-Bang Disruption," HBR, March 2013.)

In the case of Pokémon Go, that period was only a few months. In its first week 7.5 million players downloaded the game. At its peak, just one week later, 28.5 million played for an average of 1.25 hours a day. But 10 weeks later the game had largely run its course. Pokémon Go lost 15 million players in just a month.

By the end of the summer the beasts were gone, along with about $6.7 billion in value for Nintendo, which co-owns the characters that were licensed to Niantic, the developer. Imagining that the $35 million of revenue from players in the first month would continue, investors added $23 billion to Nintendo's market capitalization, which fell back to earth by August.

Pokémon Go is hardly the only phenomenon that simply ended. Big-bang disrupters such as Fitbit, GoPro, Zenefits, and TiVo scaled up incredibly quickly and then cooled off almost as fast. That's because they weren't ready with their next innovation. Companies in that situation may be caught not only with nothing to recapture shrinking revenue but also with their resources committed to a now-faded product. Rapid and total collapse is often the result.

This dramatic rise and even more dramatic fall reminds us of F. Scott Fitzgerald, who famously wrote, "There are no second acts in American lives." Fitzgerald was referring to the stunning brevity of success in the booming movie industry of the early 20th century, but the same observation is even more applicable to many of today's hottest businesses.

The good news is that the early demise of so many young enterprises makes it easier to study the underlying causes of modern business failure and their remedies. Using a database of more than 300 big-bang disrupters across multiple industries, we have uncovered important lessons about how to achieve a successful second act.

Though our focus here is on the moment of crisis for start-ups, failure to raise the curtain on a second act isn't a problem for big-bang disrupters alone. Even the most respected and successful companies in the world today rarely survive their first crisis, whenever it arrives. The average life span of companies on the Standard & Poor's 500 has fallen from 67 years in the 1920s to just 15 years today. According to Richard Foster, an executive in residence at the Yale Entrepreneurial Institute, in 2020 as many as three-quarters of companies in the index will be companies that were unheard of in 2010.

This shortened life cycle is primarily the result of rapidly spreading digital disruption in industries largely untouched by the first wave of internet transformation—including manufacturing (disrupted by 3-D printing and the internet of things), agriculture (drones and sensors), transportation (autonomous vehicles), and professional services (artificial intelligence). Even if second-act crises are most acute among start-ups, incumbents would do well to understand why they occur and how to avoid them.

WHY THE SECOND-ACT CRISIS EXISTS

Accelerating technological improvements have changed the speed with which new innovations penetrate markets. Graphed over time, the market adoption of innovations now resembles a dramatic shark fin—a dangerously deformed version of Everett Rogers's classic bell-curve model of diffusion. (See the exhibit "The Shark Fin of Adoption.") Rogers's five distinct market segments have been reduced to two: trial users, who help develop the product, and everybody else. Disruptive products, and often the businesses created to promote them, rise rapidly, only to stall and fade away almost as fast.

Two forces have compressed Rogers's bell curve. The first is near-instant saturation by new products in a growing number of markets—initially in consumer goods and software, but increasingly in digitally enabled durable and industrial goods. The spread of information through social media and other digital channels has dramatically lowered transaction costs for consumers evaluating potential purchases, resulting in what we call "near-perfect market information." Buyers are thoroughly informed about your product—including what other buyers like and dislike about it—at launch (and sometimes even before). Everyone who wants the product will adopt it immediately. Rogers's other segments never arrive: Any holdouts simply wait for a better, cheaper product to be introduced by you or a new entrant.

In 2016, for example, Tesla presold nearly 400,000 Model 3s in the first two weeks of the car's highly anticipated unveiling, most of them in the first three days. But that didn't mean, as it might once have, that armies of buyers—Rogers's early and late majorities—were waiting in the wings. Most buyers showed up at the product announcement. Consistent with the shark fin, the pace of new orders slowed dramatically by week three. Since then only about 200,000 have been added to the queue. Filling orders will take time (shipments won't begin until late 2017), but that is simply backlog, not new demand.

The second compressing force is the rapid obsolescence of digital components, which are increasingly fundamental in every company's products and services. Continued improvements in the price, performance, size, and power utilization of these components lead to ever-shorter cycling of new versions and innovations. The speed with which consumers and businesses replace pretty much everything is now determined by the dramatic pace of technological transformation rather than the orderly evolution of industry standards.

THE SEVEN HABITS OF HIGHLY VULNERABLE ENTERPRISES

With each new buying opportunity, consumers can and often do switch to even better alternatives. So why are so many start-ups slow to recognize the shark fin and the danger it poses to their sustainability?

In studying companies that faced second-act crises, we found that the leading cause of premature death was, ironically, that their executives had enthusiastically embraced the latest management ideas. In the name of concepts such as "design thinking," "lean," and "agile" development, they focused resources and creativity on making first-generation products as compelling as possible—on delivering a superior if not "delightful" customer experience for each user. But in the process, they ended up limiting the assets of the organization to those necessary to complete a single mission.

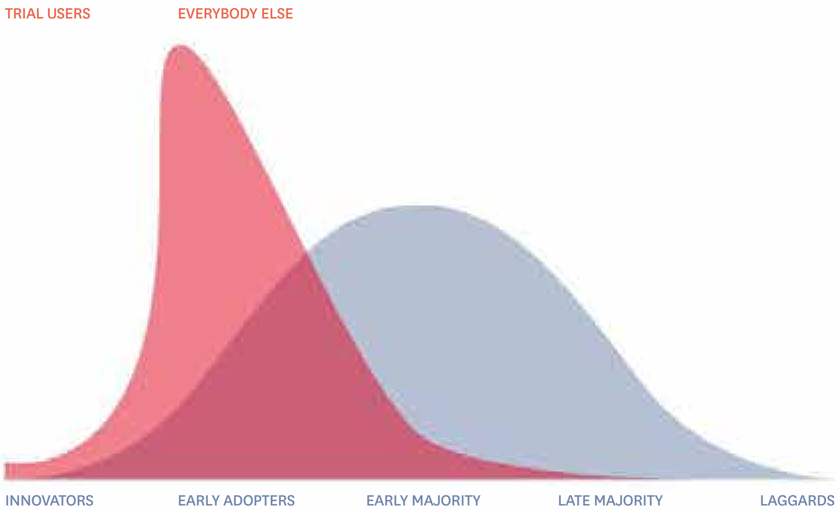
To be sure, even in the era of big-bang disruption, managers need to stay focused on business fundamentals, including careful management of fixed costs, capital assets, product inventory, and human resources. But an inflexible obsession with a single product or a single customer segment leads more often than not to a second-act crisis.

Our research has identified seven common errors that explain why even some enormously successful companies have failed to launch more than one big-bang disruption. Comparing those organizations with the relatively small subset of companies that have avoided these errors, we've also found strategies that help businesses achieve a second act while they still can—which is almost invariably at the very moment of success with a new venture.

1. The company is too lean. The American entrepreneur and author Eric Ries advises start-ups to launch a minimum viable product and then iterate rapidly on the basis of intense customer interaction and feedback generated through social media and other low-cost channels. Although the lean start-up approach has found great favor in both new and old enterprises, companies fail when they devote all their resources to a single product—the first act. That's

THE SHARK FIN OF ADOPTION

In the past, technology adoption generally happened in predictable stages. Innovators and early adopters were in the vanguard, followed by a much larger group of mainstream customers and then by a smaller group of laggards. Recently this pattern has been compressed into two short stages.



SOURCE EVERETT ROGERS (BELL CURVE)

because market saturation occurs faster all the time, resulting in the rapid downward slope of the shark fin.

Some companies tragically mistake that decline for a failure to satisfy users, triggering what Ries calls a "pivot"—a "structured course correction" in product design. But if the market has simply moved on and is waiting for the next innovation, pivoting isn't going to help. Management must organize a new team to begin the cycle from scratch *before* saturation. Otherwise the company will enter a death spiral, trying to serve the incremental needs of a dwindling number of once-enthusiastic customers and surviving, if at all, by being acquired by a more diversified company, often at a fire-sale price.

Consider the lean methodology acolyte Groupon, which continues to pivot around its core innovation of "social shopping," whereby consumers leverage scale to negotiate discounts from merchants. Despite strong indications that enthusiasm for social shopping was fleeting, Groupon remained singularly focused on proving the concept, methodically tweaking its interface, acquiring its failing competitor LivingSocial, and halfheartedly expanding group buying into travel. Meanwhile, inattention to basics has led to ballooning operating expenses and run-ins with the SEC over embarrassing accounting errors both before and after its 2011 IPO; since then the company has lost nearly 90% of its value.

It isn't just strict adherents of the lean philosophy that risk missing the market forest owing to an obsession with customer trees. Makers of smartphone software apps, which have a rapid life-and-death cycle, frequently become anchored to product development that focuses on solving the wrong problem. Zynga, the wildly successful game developer of FarmVille and other hits, barely survived the shark fin of its social drawing and guessing game Draw Something, which jumped to 16 million players in a matter of weeks, only to fade quickly over the next few months as the company belatedly scrambled for a replacement.

2. The company's capital structure is built to fail. One area where lean can still be good is corporate finance. Private companies and start-ups bootstrapped with funding from the founders or their friends and family have the most flexibility to shift strategy and resources to the next product when the time comes—even if that time is sooner than anyone would like. Angel and venture capital investors, so-called "smart money," likewise appreciate the dangers of overreliance on a single product and often nudge management toward a second act.

But the trend of sudden market saturation encourages companies to raise substantial outside capital for production and expansion much earlier in the process than was once the case. Start-ups may feel forced to turn to crowdfunders or other investors who offer little value beyond money. Or, worse, they may take on nonequity debt. A deeply leveraged capital structure works only during times of extraordinary growth. If markets contract even modestly, traditional creditors quickly become anxious, encouraging or even forcing retrenchment at the precise moment when investment in innovation is critical to survival and future expansion.

One-act companies also take on other long-term encumbrances before they need to, limiting future flexibility. Although start-ups generally don't have union contracts, pension commitments, or other trappings that may hold back older companies, they frequently do have excessive operating expenses, such as catered lunches, generous leave policies, free day care, and leased office space in high-end properties. These costs are just as dangerous, especially when markets change suddenly.

3. The company has lost its head. In the typical Silicon Valley pattern, venture investors give visionary entrepreneurs considerable freedom to

COMPANIES FAIL WHEN THEY DEVOTE ALL THEIR RESOURCES TO A SINGLE PRODUCT—THE FIRST ACT.

run their organizations, often haphazardly, until product launch. But once the company has garnered real customers, investors quickly push for experienced management—or "adult supervision"—to take over day-to-day operations. (See "When Founders Go Too Far," by Steve Blank, HBR, November–December 2017.) Yahoo's Jerry Yang and Twitter's Evan Williams, for instance, ended up in engineering roles that were too constraining. Without the means or the encouragement to continue innovating, founders soon quit, often to launch other start-ups, taking their most trusted colleagues along with them.

Investors in a start-up frequently fund the founder's next venture, so for them the departure of the visionary may mean little more than a change of address. But for the company left behind, the second-act problem becomes acute. Experienced managers focus on improving the original product, which is often the target of sudden competition from new entrants with ready access to the same component technologies and no commitment to a business model that may have outlived its usefulness.

In response, the company doubles down on its existing strategy, increasing its chances of being stranded when the market moves on. Google's investors saw the risk in time and brought the founders back into leadership roles before the company had become reliant on unsustainable growth in search advertising. Apple famously rehired Steve Jobs for a second and even more glorious incarnation of the company after his seasoned replacement failed to launch new products that consumers wanted. Yahoo, meanwhile, stumbled through a succession of CEOs poorly fitted for the task of reinventing the company, leading investors to look for an exit.

4. The company is overserving investors. Public investors and the research analysts who advise them can be even more conservative than creditors. Beloved start-ups that cash in on IPOs find themselves stymied by investors who say they want more disruption but pummel the company's stock price and management when profits don't show up fast enough. Second acts are postponed as managers respond to investors' demands.

Management teams at companies including Snap and Blue Apron, for example, are already struggling to balance a dynamic strategy with the demands of the public market after recent and possibly premature IPOs. And although many factors contributed to the difficulties of the business networking disrupter LinkedIn, which went public in 2011, the company's repeated failure to generate the kind of revenue that Wall Street expected led to a collapse of its stock price five years later. That made LinkedIn an attractive takeover target for Microsoft, which believed it could restore LinkedIn's lost luster—but at the cost of the company's independence.

Adjusting strategy to appease shareholders can quickly threaten the very mission of a young business, to everyone's disappointment. When the handmade goods pioneer Etsy went public, in 2015, CEO Chad Dickerson limited retail investors to a $2,500 stake, hoping to ensure that the company's social and political missions would continue to take priority. But after two years of ballooning costs and confusion among Etsy's artisanal sellers over a tortured decision to allow manufactured goods on the site, activist investors forced Dickerson out, along with 8% of Etsy's staff. The company may now lose its status as a socially conscious B corporation, and a promised restructuring as a public-benefit corporation is unlikely. Instead of helping Etsy burnish its brand, the company's public investors may wind up killing its soul.

5. The company won the lottery. In an era when new products and services are quickly built from combinations of interchangeable hardware and software parts, a growing number of big-bang disrupters have achieved private and sometimes public valuations in the billions of dollars in record time. These "unicorn" prices seem based not on any investing fundamentals but simply on early-user fervor and the promise of revenues to follow—the result of near-perfect market information generating winner-take-all success.

Some of today's most admired start-ups simply got lucky—a fact that becomes clear when a company fails utterly to build on its initial popularity. Launching a first product that turns out to be a big-bang disrupter can leave managers feeling invincible. Too often an ex post facto history is written that makes the enterprise's successful but accidental first act appear to be the result of exceptional management decision making—a dangerous delusion. Success frequently breeds failure.

Twitter, which ended its first day of public trading with a value of $24 billion, has since struggled to find revenue and maintain explosive growth. New features, including promoted tweets, polls, streaming videos, and long-form posts, annoyed many longtime users, who complained via the company's own service. Management, meanwhile, has become a revolving door. In addition to losing half its value, the company has lost its way, calling into doubt whether it ever had one.

Founders who confuse a high valuation with business genius may also cripple an elegant product design with all the bells and whistles wisely left out of the initial offering, alienating the devoted early customers who launched them into the spotlight in the first place. Just months after winning Best of the Best at the 2014 Consumer Electronics Show with a virtual-reality headset that was still a prototype, Oculus was acquired by Facebook for $2 billion. But design excesses delayed the company's first commercial product until 2016, and the resulting price of $800 for a fully configured unit depressed consumer enthusiasm. Simpler products developed in the interim by HTC, Sony, and Samsung vastly outsold the too-much-anticipated Oculus Rift in its first year, leaving Oculus with just 4% of total sales.

6. The company is held captive by regulators. In response to the rapid uptake of products in the big-bang phase of the shark fin, stunned incumbents increasingly turn to regulators, hoping to buy time by derailing insurgents. In industries as different as aviation (threatened by drones), hospitality (Airbnb), health care (genetic testing), and financial services (bitcoin), incumbents first lobby for an outright ban on the disrupters. When consumers revolt, regulators fall back on hastily crafted and often crippling new rules, designed with little or no understanding of how the start-ups' products or services differ from those of incumbents.

In response, start-ups must now engage legal counsel much sooner than was ever before thought necessary, diverting scarce resources from building the company to dealing with city councils, public utility commissions, and legislative hearings. Around the world, Uber, Airbnb, and other sharing-economy enterprises are engaged in pitched battles for the right to do business at all, much less to do it without taking on the regulatory legacy of incumbent transportation companies and hotels.

For start-ups desperate to stay in business, this trend carries hidden risk: They can quickly develop the same dependency on regulators that stalls incumbents. Having legal advisers makes them newly cautious. They, too, come to believe that they can use the law as a barrier against next-generation innovators. They may win the regulatory battle, but in doing so they lose their momentum and, eventually, the once-potent sympathies of their customers.

7. The company anticipates customers who don't exist. In a winner-take-all phenomenon, customers for the big-bang disruption show up all at once, sending confusing signals about future sales and the market's appetite for follow-on products. As the Tesla example reveals, consumers use social media and other electronic channels to signal when a new product is a must-have, leading to a sudden rush followed by a trickle. Everett Rogers's gentle bell curve of diffusion disappears, leaving only the shark fin.

Consider the smartwatch, effectively a wearable smartphone. Apple garnered one million preorders from U.S. customers on the first day of availability for the Apple Watch, at a relatively high price point. But smartwatches don't seem to have a second act based on new features, new looks, or new hardware, let alone the rapid replacement cycle of smartphones and tablets. Sales have been essentially flat, leading some analysts to suggest that consumers have rejected smartwatches in favor of fitness-oriented products with similar features.

Anticipating more customers and new market segments, managers conditioned to the bell curve commit costly resources to expanded production and distribution for follow-on sales that never come. Or, worse, they produce vast inventories that quickly become unsellable at any price. The game developer THQ, which experienced great success with a drawing tablet for the Nintendo Wii, exuberantly committed to other game platforms in 2010. But the launch of the Apple iPad soon after suddenly shifted the market to stand-alone drawing applications. THQ continued to manufacture its tablets anyway, warehousing 1.4 million unsold

LAUNCHING A FIRST PRODUCT THAT TURNS OUT TO BE A BIG-BANG DISRUPTER CAN LEAVE MANAGERS FEELING INVINCIBLE.

units. The company was forced into bankruptcy and never recovered. THQ's president later confessed, "I'm not sure how that happened."

SURVIVING TO A SECOND ACT

Just avoiding the pitfalls described above is not enough to separate the standouts from the burnouts. Timing the shift from one shark fin to the next is equally critical. In the era of big-bang disruption, the life-or-death moment for any enterprise comes well before sudden decline—when a fast-growing market abruptly shifts course.

with, redirecting as many of their best assets as they can while still generating revenue to finance the shift.

After dispatching Blockbuster with its original DVD mail-delivery service, for example, Netflix famously launched internet-based movie delivery in 2007, long before broadband speed or penetration was ready for it. The company was accused of cannibalizing its own revenue, but CEO Reed Hastings understood that DVD delivery was only an interim solution—and an inefficient one at that. Today the company has leveraged its streaming dominance into the production of original content. It now has more than twice as many subscribers as the cable giant Comcast.

MOST SECOND-ACT SURVIVORS LAUNCH NOT A SINGLE PRODUCT BUT, RATHER, AN ECOSYSTEM.

The few companies that survive to a second act and become truly sustainable enterprises are those that see the big bang for what it is—a short burst of success, followed by ever-briefer windows of opportunity. Companies that go on to launch a second product, enter a second market, or lead a second technical revolution do so because their founders structured them not as one-offs to solve a specific problem but as engines of innovation that spawn a thousand experiments. Those founders also have the wisdom to see which experiments are promising and which need to be terminated quickly and (relatively) painlessly.

To ensure that your business is a second-act survivor, learn from some of these tactics of perennial disrupters:

Abandon the successful product before it runs out of steam. Second-act companies not only see the top of the big-bang tsunami coming but also have the courage to jump from one shark fin to another before they've extracted the last drops of value. While many companies get caught in the eddy of the wave, serving a dwindling number of legacy customers who haven't moved to the better and cheaper alternative, the survivors go in search of new technology to experiment

Build a platform, not a product. Most second-act survivors launch not a single product but, rather, an ecosystem, connecting customers, suppliers, and others and deriving revenue from services provided to all of them, including payment processing, curation, dispute resolution, data analysis, and quality assurance. As tastes change, the platform abides.

Internet giants—including Google, Amazon, Facebook, and China's Tencent Holdings—have honed this lesson to razor sharpness. Tencent, for example, leveraged its gaming platform and expertise in smart devices to add the WeChat messaging app, now a daily obsession for more than a billion Chinese. WeChat, which has itself expanded to include social-networking tools and mobile payments, has revenue of close to $2 billion annually, most of it still related to online gaming.

The platform strategy is now being imitated by sharing-economy enterprises such as Uber, Airbnb, and TaskRabbit (recently acquired by IKEA). These network-based companies have no physical assets of their own; they simply connect buyers and sellers while relentlessly driving down the transaction costs that make their markets inefficient. That leaves the companies with considerable flexibility to add services, change interfaces, and redesign back-end relationships with the actual suppliers as market needs rapidly evolve, greatly reducing second-act risk.

Turn your initial product into a service. The real value in a disruption may be the infrastructure that was built to make, deliver, and support it. Unless the company's product is a cobbled-together throwaway, as is true for many software start-ups, a second act may lie in leasing core tools and processes to others, perhaps in very different businesses and industries.

Since 2015, for example, the fitness technology leader Under Armour has invested heavily in the nascent internet of things, launching its own line of fitness trackers developed in partnership with HTC. But Under Armour has generated stronger reviews for its Connected Fitness platform, which allows customers to import tracking data from a wide range of sources and third-party products, including those of Under Armour's competitors, into a single dashboard and a series of apps. A partnership with Johns Hopkins Medicine adds research-based health guidance for the 200 million members of Under Armour's Connected Fitness community.

Or consider Amazon, which started off as an online retailer selling first books and then pretty much everything. From there it was a relatively short leap to hosting other retailers. Now the company offers cloud computing to any organization or individual through Amazon Web Services—the fastest-growing IT business in history. AWS hosts operational software, data, and processing for millions of other enterprises, making it the dominant provider. In 2016 it generated more than $3 billion in operating income—almost triple that of the company's retail divisions.

The need to develop services from a one-shot product is a lesson being learned the hard way by the sports-camera superstar GoPro, which has suffered slowing revenue and a catastrophic drop in its stock price (a decline of 90% in just a few years). The company prematurely reached saturation in its hardware business amid the rapid improvement of high-end cameras embedded in smartphones. Despite painful staff cuts, the company has spent heavily both internally and on acquisitions to build new software for state-of-the-art video-editing tools that can be used regardless of the original source of a recording. The company's new strategy, CEO Nick Woodman said recently, is to become a trusted neutral video host: "the Switzerland of content creation."

Invest in or acquire nascent disrupters. Companies with a successful first act may find themselves flush with cash and relatively cheap financing from venture investors. That money, if spent early, can fuel a second act. Even as the company continues serving customers of a popular product, it can invest in or acquire outright the next generation of disrupters.

Evolving through acquisition has been a preferred strategy in Silicon Valley all along, notably for companies such as Cisco, Oracle, and Qualcomm. But even relatively young companies have taken a page from their playbook and expanded on it. Although the multibillion-dollar price tags for recent early-stage acquisitions—including Facebook's $19 billion purchase of the messaging service WhatsApp and Google's $3 billion buy of the internet-of-things pioneer Nest—may leave many scratching their heads, for second-act companies these are just a hedge against an uncertain future, well worth the price.

LIVING TO FIGHT ANOTHER DAY

The sooner a successful start-up accepts the reality that its big-bang disruption may have resulted more from great timing than from uncanny foresight, the better its chances of resisting the bad habits that sank so many of the companies in our study.

But that's only the first step toward a sustainable new enterprise. Even as consumers enthusiastically engage with a first-act product, managers must prepare for its inevitable collapse, shifting their focus to the creation of a solid platform built on business fundamentals. Second-act leaders are those who resist the temptation to take on unnecessary capital and operational obligations and instead invest in a product architecture that can be reshaped however and whenever the market dictates.

The rewards for such virtuous behavior are profound. Companies that survive an early second-act crisis become innovation incubators, focused not on a single product or even a single market but on a corporate culture that attracts the best engineering and marketing talent, along with stakeholders who encourage long-term investments in repeatable disruption. In short, they develop brands worthy of their stratospheric valuations.

Today such enterprises are few and far between. Most are found in the pressure cooker of the internet ecosystem, where survival instincts are of necessity the most valuable entrepreneurial trait. But for every successful second-act enterprise, a hundred once-promising disrupters simply disappear.

And as we've said, it's not just start-ups that quickly face an existential crisis. As the shark fin becomes a reality in every industry, incumbent businesses likewise may find themselves suddenly in need of a second-act strategy—especially those whose most recent hit has already enjoyed an extended run.

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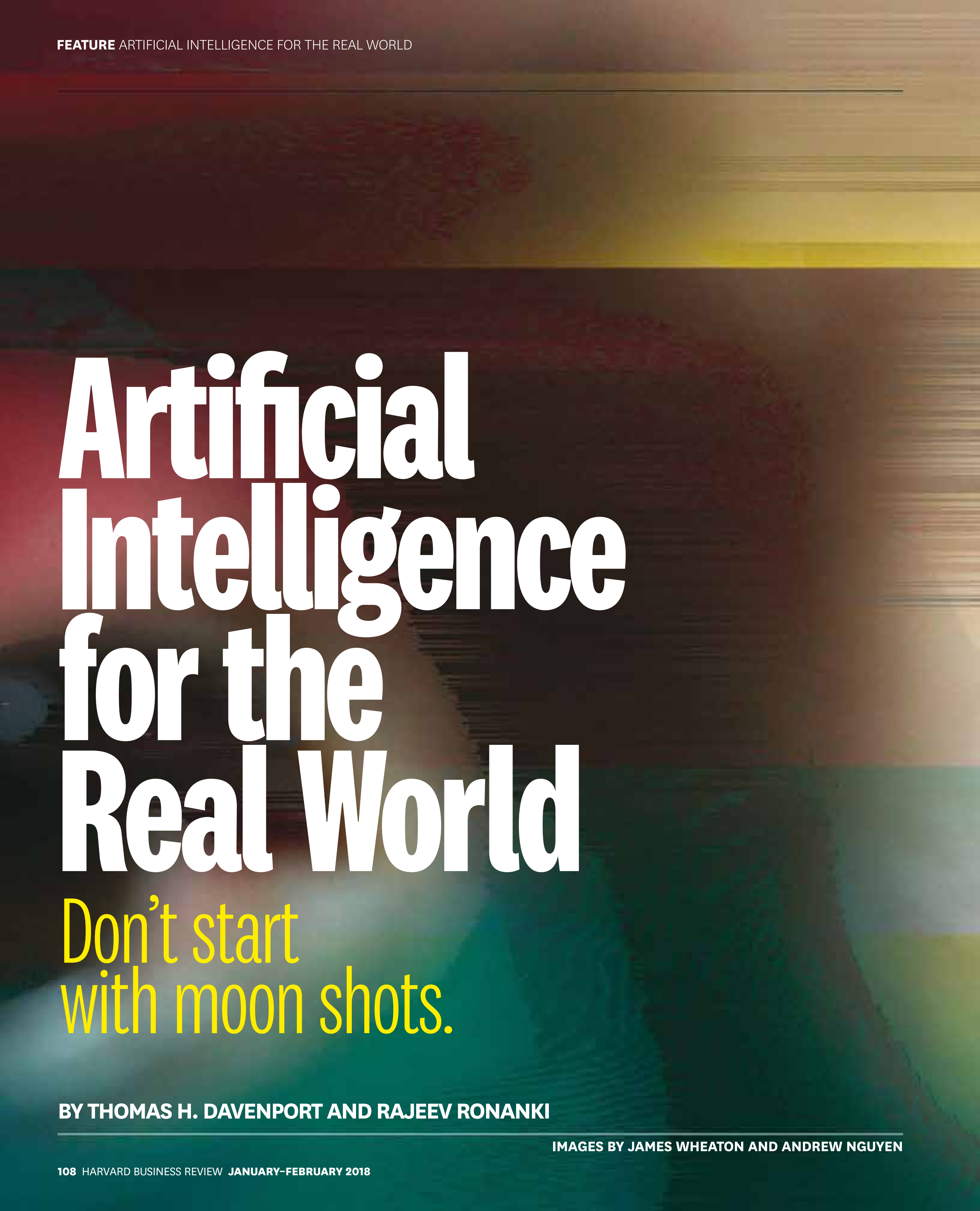


Artificial Intelligence for the Real World

Don't start with moon shots.

BY THOMAS H. DAVENPORT AND RAJEEV RONANKI

IMAGES BY JAMES WHEATON AND ANDREW NGUYEN

In 2013, the MD Anderson Cancer Center launched a "moon shot" project: diagnose and recommend treatment plans for certain forms of cancer using IBM's Watson cognitive system. But in 2017, the project was put on hold after costs topped $62 million—and the system had yet to be used on patients. At the same time, the cancer center's IT group was experimenting with using cognitive technologies to do much less ambitious jobs, such as making hotel and restaurant recommendations for patients' families, determining which patients needed help paying bills, and addressing staff IT problems. The results of these projects have been much more promising: The new systems have contributed to increased patient satisfaction, improved financial performance, and a decline in time spent on tedious data entry by the hospital's care managers. Despite the setback on the moon shot, MD Anderson remains committed to using cognitive technology—that is, next-generation artificial intelligence—to enhance cancer treatment, and is currently developing a variety of new projects at its center of competency for cognitive computing.

The contrast between the two approaches is relevant to anyone planning AI initiatives. Our survey of 250 executives who are familiar with their companies' use of cognitive technology shows that three-quarters of them believe that AI will substantially transform their companies within three years. However, our study of 152 projects in almost as many companies also reveals that highly ambitious moon shots are less likely to be successful than "low-hanging fruit" projects that enhance business processes. This shouldn't be surprising—such has been the case with the great majority of new technologies that companies have adopted in the past. But the hype surrounding artificial intelligence has been especially powerful, and some organizations have been seduced by it.

In this article, we'll look at the various categories of AI being employed and provide a framework for how companies should begin to build up their cognitive capabilities in the next several years to achieve their business objectives.

THREE TYPES OF AI

It is useful for companies to look at AI through the lens of business capabilities rather than technologies. Broadly speaking, AI can support three important business needs: automating business processes, gaining insight through data analysis, and engaging with customers and employees. (See the exhibit "Cognitive Projects by Type.")

Process automation. Of the 152 projects we studied, the most common type was the automation of digital and physical tasks—typically back-office administrative and financial activities—using robotic process automation technologies. RPA is more advanced than earlier business-process automation tools, because the "robots" (that is, code on a server) act like a human inputting and consuming information from multiple IT systems. Tasks include:

- transferring data from e-mail and call center systems into systems of record—for example, updating customer files with address changes or service additions;
- replacing lost credit or ATM cards, reaching into multiple systems to update records and handle customer communications;
- reconciling failures to charge for services across billing systems by extracting information from multiple document types; and
- "reading" legal and contractual documents to extract provisions using natural language processing.

RPA is the least expensive and easiest to implement of the cognitive technologies we'll discuss here, and typically brings a quick and high return on investment. (It's also the least "smart" in the sense that these applications aren't programmed to learn and improve, though developers are slowly adding more intelligence and learning capability.) It is particularly well suited to working across multiple back-end systems.

At NASA, cost pressures led the agency to launch four RPA pilots in accounts payable and receivable, IT spending, and human resources—all managed by a shared services center. The four projects worked well—in the HR application, for example, 86% of transactions were completed without human intervention—and are being rolled out across the organization. NASA is now implementing more RPA bots, some with higher levels of intelligence. As Jim Walker, project leader for the shared services organization notes, "So far it's not rocket science."

One might imagine that robotic process automation would quickly put people out of work. But across the 71 RPA projects we reviewed (47% of the total), replacing administrative employees was neither the primary objective nor a common outcome. Only a few projects led to reductions in head count, and in most cases, the tasks in question had already been shifted to outsourced workers. As technology improves, robotic automation projects are likely to lead to some job losses in the future, particularly in the offshore business-process outsourcing industry. If you can outsource a task, you can probably automate it.

Cognitive insight. The second most common type of project in our study (38% of the total) used algorithms to detect patterns in vast volumes of data and interpret their meaning. Think of it as "analytics on steroids." These machine-learning applications are being used to:

- predict what a particular customer is likely to buy;
- identify credit fraud in real time and detect insurance claims fraud;
- analyze warranty data to identify safety or quality problems in automobiles and other manufactured products;
- automate personalized targeting of digital ads; and
- provide insurers with more-accurate and detailed actuarial modeling.

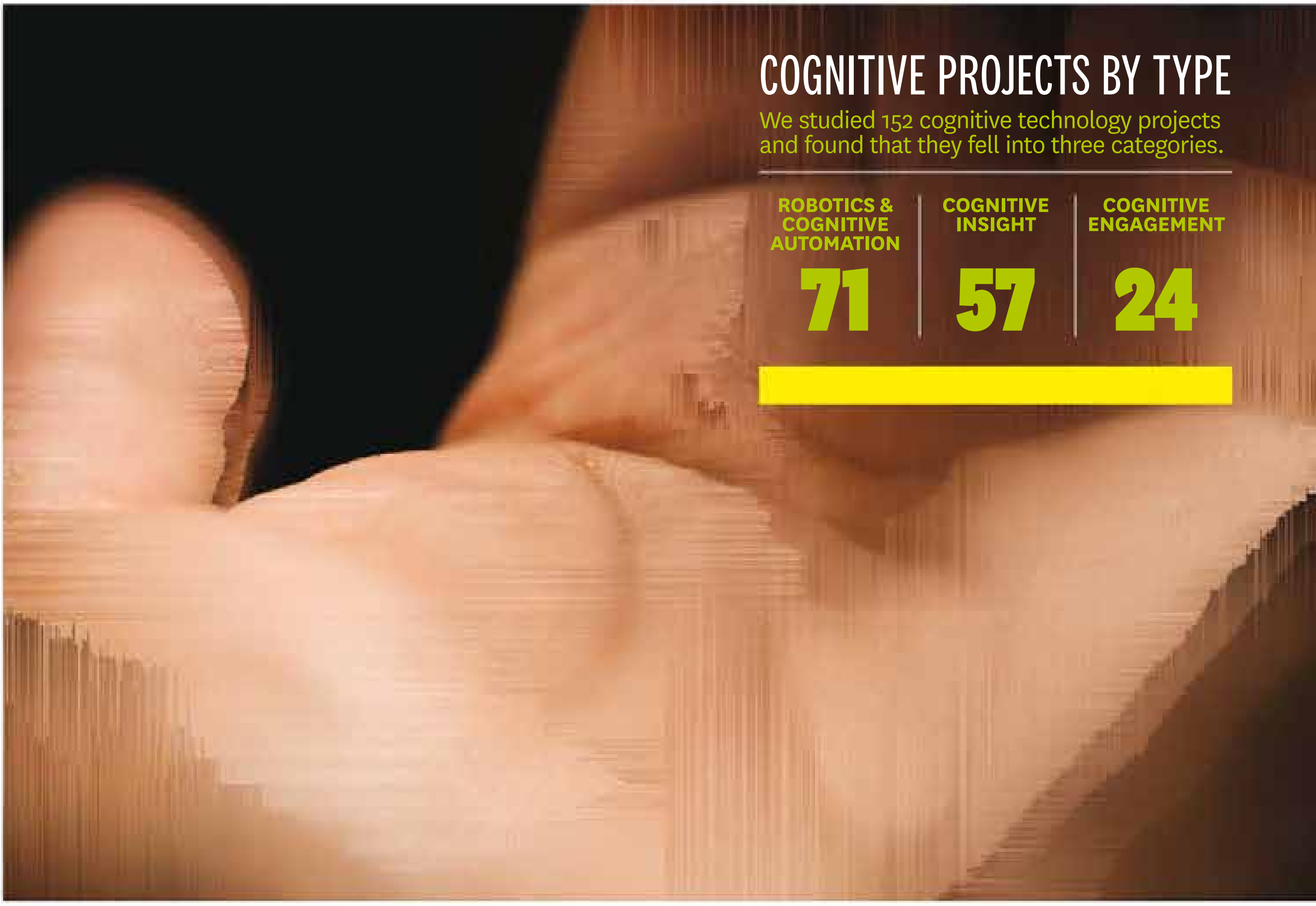
Cognitive insights provided by machine learning differ from those available from traditional analytics

IN BRIEF

THE PROBLEM
Cognitive technologies are increasingly being used to solve business problems, but many of the most ambitious AI projects encounter setbacks or fail.

THE APPROACH
Companies should take an incremental rather than a transformative approach and focus on augmenting rather than replacing human capabilities.

THE PROCESS
To get the most out of AI, firms must understand which technologies perform what types of tasks, create a prioritized portfolio of projects based on business needs, and develop plans to scale up across the company.



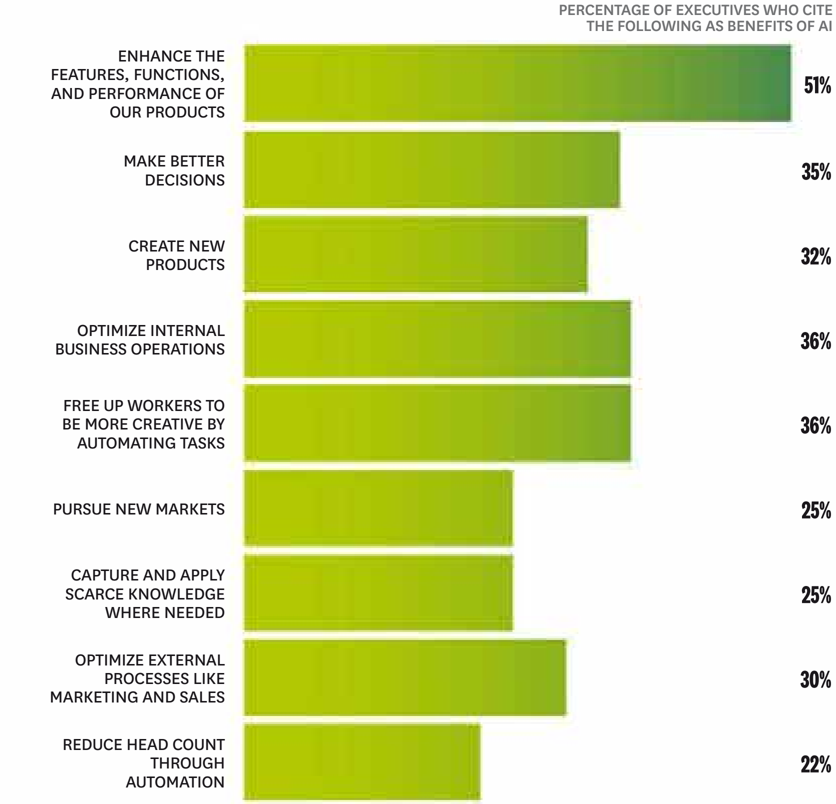
in three ways: They are usually much more data-intensive and detailed, the models typically are trained on some part of the data set, and the models get better—that is, their ability to use new data to make predictions or put things into categories improves over time.

Versions of machine learning (deep learning, in particular, which attempts to mimic the activity in the human brain in order to recognize patterns) can perform feats such as recognizing images and speech. Machine learning can also make available new data for better analytics. While the activity of data curation has historically been quite labor-intensive, now machine learning can identify probabilistic matches—data that is likely to be associated with the same person or company but that appears in slightly different formats—across databases. GE has used this technology to integrate supplier data and has saved $80 million in its first year by eliminating redundancies and negotiating contracts that were previously managed at the business unit level. Similarly, a large bank used this technology to extract data on terms from supplier contracts and match it with invoice numbers, identifying tens of millions of dollars in products and services not supplied. Deloitte's audit practice is using cognitive insight to extract terms from contracts, which enables an audit to address a much higher proportion of documents, often 100%, without human auditors' having to painstakingly read through them.

Cognitive insight applications are typically used to improve performance on jobs only machines can do—tasks such as programmatic ad buying that involve

THE BUSINESS BENEFITS OF AI

We surveyed 250 executives who were familiar with their companies' use of cognitive technologies to learn about their goals for AI initiatives. More than half said their primary goal was to make existing products better. Reducing head count was mentioned by only 22%.



SOURCE DELOITTE 2017

such high-speed data crunching and automation that they've long been beyond human ability—so they're not generally a threat to human jobs.

Cognitive engagement. Projects that engage employees and customers using natural language processing chatbots, intelligent agents, and machine learning were the least common type in our study (accounting for 16% of the total). This category includes:

- intelligent agents that offer 24/7 customer service addressing a broad and growing array of issues from password requests to technical support questions—all in the customer's natural language;
- internal sites for answering employee questions on topics including IT, employee benefits, and HR policy;
- product and service recommendation systems for retailers that increase personalization, engagement, and sales—typically including rich language or images; and
- health treatment recommendation systems that help providers create customized care plans that take into account individual patients' health status and previous treatments.

The companies in our study tended to use cognitive engagement technologies more to interact with employees than with customers. That may change as firms become more comfortable turning customer interactions over to machines. Vanguard, for example, is piloting an intelligent agent that helps its customer service staff answer frequently asked questions. The plan is to eventually allow customers to engage with the cognitive agent directly, rather than with the human customer-service agents. SEBank, in Sweden, and the medical technology giant Becton, Dickinson, in the United States, are using the lifelike intelligent-agent avatar Amelia to serve as an internal employee help desk for IT support. SEBank has recently made Amelia available to customers on a limited basis in order to test its performance and customer response.

Companies tend to take a conservative approach to customer-facing cognitive engagement technologies largely because of their immaturity. Facebook, for example, found that its Messenger chatbots couldn't answer 70% of customer requests without human intervention. As a result, Facebook and several other firms are restricting bot-based interfaces to certain topic domains or conversation types.

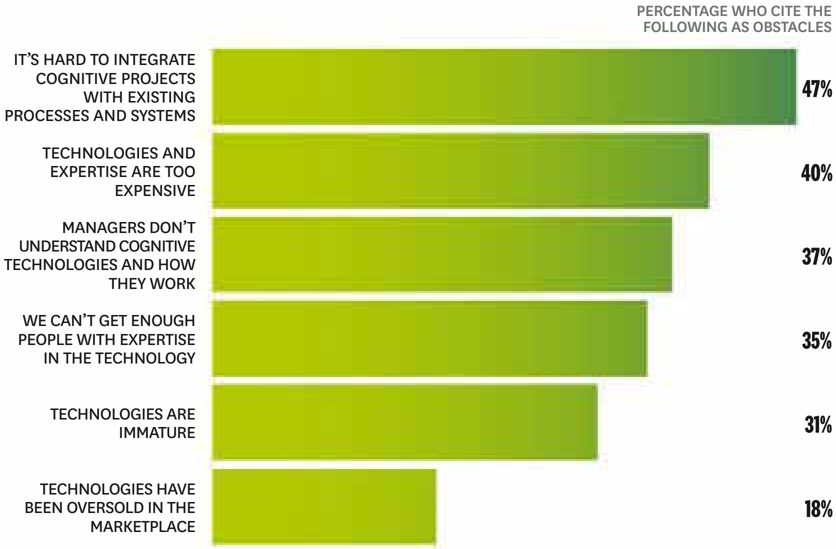
Our research suggests that cognitive engagement apps are not currently threatening customer service or sales rep jobs. In most of the projects we studied, the goal was not to reduce head count but to handle growing numbers of employee and customer interactions without adding staff. Some organizations were planning to hand over routine communications to machines, while transitioning customer-support personnel to more-complex activities such as handling customer issues that escalate, conducting extended unstructured dialogues, or reaching out to customers before they call in with problems.

As companies become more familiar with cognitive tools, they are experimenting with projects that combine elements from all three categories to reap the benefits of AI. An Italian insurer, for example, developed a "cognitive help desk" within its IT organization. The system engages with employees using deep-learning technology (part of the cognitive insights category) to search frequently asked questions and answers, previously resolved cases, and documentation to come up with solutions to employees' problems. It uses a smart-routing capability (business process automation) to forward the most complex problems to human representatives, and it uses natural language processing to support user requests in Italian.

Despite their rapidly expanding experience with cognitive tools, however, companies face significant obstacles in development and implementation. On the basis of our research, we've developed a four-step framework for integrating AI technologies that can help companies achieve their objectives, whether the projects are moon shoots or business-process enhancements.

THE CHALLENGES OF AI

Executives in our survey identified several factors that can stall or derail AI initiatives, ranging from integration issues to scarcity of talent.



SOURCE DELOITTE 2017

1. UNDERSTANDING THE TECHNOLOGIES

Before embarking on an AI initiative, companies must understand which technologies perform what types of tasks, and the strengths and limitations of each. Rule-based expert systems and robotic process automation, for example, are transparent in how they do their work, but neither is capable of learning and improving. Deep learning, on the other hand, is great at learning from large volumes of labeled data, but it's almost impossible to understand how it creates the models it does. This "black box" issue can be problematic in highly regulated industries such as financial services, in which regulators insist on knowing why decisions are made in a certain way.

We encountered several organizations that wasted time and money pursuing the wrong technology for the job at hand. But if they're armed with a good understanding of the different technologies, companies are better positioned to determine which might best address specific needs, which vendors to work with, and how quickly a system can be implemented. Acquiring this understanding requires ongoing research and education, usually within IT or an innovation group.

In particular, companies will need to leverage the capabilities of key employees, such as data scientists, who have the statistical and big-data skills necessary to learn the nuts and bolts of these technologies. A main success factor is your people's willingness to learn. Some will leap at the opportunity, while others will want to stick with tools they're familiar with. Strive to have a high percentage of the former.

If you don't have data science or analytics capabilities in-house, you'll probably have to build an ecosystem of external service providers in the near term. If you expect to be implementing longer-term AI projects, you will want to recruit expert in-house talent. Either way, having the right capabilities is essential to progress.

Given the scarcity of cognitive technology talent, most organizations should establish a pool of resources—perhaps in a centralized function such as IT or strategy—and make experts available to high-priority projects throughout the organization. As needs and talent proliferate, it may make sense to dedicate groups to particular business functions or units, but even then a central coordinating function can be useful in managing projects and careers.

2. CREATING A PORTFOLIO OF PROJECTS

The next step in launching an AI program is to systematically evaluate needs and capabilities and then develop a prioritized portfolio of projects. In the companies we studied, this was usually done in workshops or through small consulting engagements. We recommend that companies conduct assessments in three broad areas.

Identifying the opportunities. The first assessment determines which areas of the business could benefit most from cognitive applications. Typically, they are parts of the company where "knowledge"—insight derived from data analysis or a collection of texts—is at a premium but for some reason is not available.

- **Bottlenecks.** In some cases, the lack of cognitive insights is caused by a bottleneck in the flow of information; knowledge exists in the organization, but it is not optimally distributed. That's often the case in health care, for example, where knowledge tends to be siloed within practices, departments, or academic medical centers.

- **Scaling challenges.** In other cases, knowledge exists, but the process for using it takes too long or is expensive to scale. Such is often the case with knowledge developed by financial advisers. That's why many investment and wealth management firms now offer AI-supported "robo-advice" capabilities that provide clients with cost-effective guidance for routine financial issues.

  In the pharmaceutical industry, Pfizer is tackling the scaling problem by using IBM's Watson to accelerate the laborious process of drug-discovery research in immuno-oncology, an emerging approach to cancer treatment that uses the body's immune system to help fight cancer. Immuno-oncology drugs can take up to 12 years to bring to market. By combining a sweeping literature review with Pfizer's own data, such as lab reports, Watson is helping researchers to surface relationships and find hidden patterns that should speed the identification of new drug targets, combination therapies for study, and patient selection strategies for this new class of drugs.
- **Inadequate firepower.** Finally, a company may collect more data than its existing human or computer firepower can adequately analyze and apply. For example, a company may have massive amounts of data on consumers' digital behavior but lack insight about what it means or how it can be strategically applied. To address this, companies are using machine learning to support tasks such as programmatic buying of personalized digital ads or, in the case of Cisco Systems and IBM, to create tens of thousands of "propensity models" for determining which customers are likely to buy which products.

Determining the use cases. The second area of assessment evaluates the use cases in which cognitive applications would generate substantial value and contribute to business success. Start by asking key questions such as: How critical to your overall strategy is addressing the targeted problem? How difficult would it be to implement the proposed AI solution—both technically and organizationally? Would the benefits from launching the application be worth the effort? Next, prioritize the use cases according to which offer the most short- and long-term value, and which might ultimately be integrated into a broader platform or suite of cognitive capabilities to create competitive advantage.

Selecting the technology. The third area to assess examines whether the AI tools being considered for each use case are truly up to the task. Chatbots and intelligent agents, for example, may frustrate some companies because most of them can't yet match human problem solving beyond simple scripted cases (though they are improving rapidly). Other technologies, like robotic process automation that can streamline simple processes such as invoicing, may in fact slow down more-complex production systems. And while deep learning visual recognition systems can recognize images in photos and videos, they require lots of labeled data and may be unable to make sense of a complex visual field.

In time, cognitive technologies will transform how companies do business. Today, however, it's wiser to take incremental steps with the currently available technology while planning for transformational change in the not-too-distant future. You may ultimately want to turn customer interactions over to bots, for example, but for now it's probably more feasible—and sensible—to automate your internal IT help desk as a step toward the ultimate goal.

3. LAUNCHING PILOTS

Because the gap between current and desired AI capabilities is not always obvious, companies should create pilot projects for cognitive applications before rolling them out across the entire enterprise.

Proof-of-concept pilots are particularly suited to initiatives that have high potential business value or allow the organization to test different technologies at the same time. Take special care to avoid "injections" of projects by senior executives who have been influenced by technology vendors. Just because executives and boards of directors may feel pressure to "do something cognitive" doesn't mean you should bypass the rigorous piloting process. Injected projects often fail, which can significantly set back the organization's AI program.

If your firm plans to launch several pilots, consider creating a cognitive center of excellence or similar structure to manage them. This approach helps build the needed technology skills and capabilities within the organization, while also helping to move small pilots into broader applications that will have a greater impact. Pfizer has more than 60 projects across the company that employ some form of cognitive technology; many are pilots, and some are now in production.

At Becton, Dickinson, a "global automation" function within the IT organization oversees a number of cognitive technology pilots that use intelligent digital agents and RPA (some work is done in partnership with the company's Global Shared Services organization). The global automation group uses end-to-end process maps to guide implementation and identify automation opportunities. The group also uses graphical "heat maps" that indicate the organizational activities most amenable to AI interventions. The company has successfully implemented intelligent agents in IT support processes, but as yet is not ready to support large-scale enterprise processes, like order-to-cash. The health insurer Anthem has developed a similar centralized AI function that it calls the Cognitive Capability Office.

Business-process redesign. As cognitive technology projects are developed, think through how workflows might be redesigned, focusing specifically on the division of labor between humans and the AI. In some cognitive projects, 80% of decisions will be made by machines and 20% will be made by humans; others will have the opposite ratio. Systematic redesign of workflows is necessary to ensure that humans and machines augment each other's strengths and compensate for weaknesses.

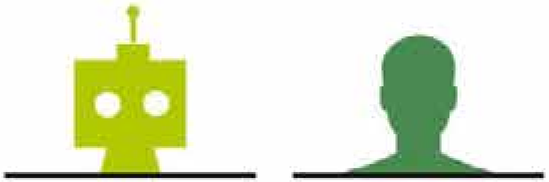
The investment firm Vanguard, for example, has a new "Personal Advisor Services" (PAS) offering, which combines automated investment advice with guidance from human advisers. In the new system, cognitive technology is used to perform many of the traditional tasks of investment advising, including constructing a customized portfolio, rebalancing portfolios over time, tax loss harvesting, and tax-efficient investment selection. Vanguard's human advisers serve as "investing coaches," tasked with answering investor questions, encouraging healthy financial behaviors, and being, in Vanguard's words, "emotional circuit breakers" to keep investors on plan. Advisers are encouraged to learn about behavioral finance to perform these roles effectively. The PAS approach has quickly gathered more than $80 billion in assets under management, costs are lower than those for purely human-based advising, and customer satisfaction is high. (See the exhibit "One Company's Division of Labor.")

Vanguard understood the importance of work redesign when implementing PAS, but many companies simply "pave the cow path" by automating existing work processes, particularly when using RPA technology. By automating established workflows, companies can quickly implement projects and achieve ROI—but they forgo the opportunity to take full advantage of AI capabilities and substantively improve the process.

Cognitive work redesign efforts often benefit from applying design-thinking principles: understanding customer or end-user needs, involving employees whose work will be restructured, treating designs as experimental "first drafts," considering multiple alternatives, and explicitly considering cognitive technology capabilities in the design process. Most cognitive projects are also suited to iterative, agile approaches to development.

ONE COMPANY'S DIVISION OF LABOR

Vanguard, the investment services firm, uses cognitive technology to provide customers with investment advice at a lower cost. Its Personal Advisor Services system automates many traditional tasks of investment advising, while human advisers take on higher-value activities. Here's how Vanguard redesigned its work processes to get the most from the new system.



COGNITIVE TECHNOLOGY

- Generates a financial plan
- Provides goals-based forecasting in real time
- Rebalances portfolio to target mix
- Minimizes taxes
- Tracks aggregated assets in one place
- Engages clients virtually

ADVISER

- Understands investment goals
- Customizes an implementation plan
- Provides investment analysis and retirement planning
- Develops retirement income and Social Security drawdown strategies
- Serves as a behavioral coach
- Monitors spending to encourage accountability
- Offers ongoing wealth and financial-planning support
- Addresses estate-planning considerations

SOURCE VANGUARD GROUP

4. SCALING UP

Many organizations have successfully launched cognitive pilots, but they haven't had as much success rolling them out organization-wide. To achieve their goals, companies need detailed plans for scaling up, which requires collaboration between technology experts and owners of the business process being automated. Because cognitive technologies typically support individual tasks rather than entire processes, scale-up almost always requires integration with

FURTHER READING

"Big Idea: The Business of Artificial Intelligence"
by Erik Brynjolfsson and Andrew McAfee
HBR.org/ai

"Inside Facebook's AI Workshop"
by Scott Berinato
HBR.org/ai

"AI Can Be a Troublesome Teammate"
by Kurt Gray
HBR.org/ai

existing systems and processes. Indeed, in our survey, executives reported that such integration was the greatest challenge they faced in AI initiatives.

Companies should begin the scaling-up process by considering whether the required integration is even possible or feasible. If the application depends on special technology that is difficult to source, for example, that will limit scale-up. Make sure your business process owners discuss scaling considerations with the IT organization before or during the pilot phase: An end run around IT is unlikely to be successful, even for relatively simple technologies like RPA.

The health insurer Anthem, for example, is taking on the development of cognitive technologies as part of a major modernization of its existing systems. Rather than bolting new cognitive apps onto legacy technology, Anthem is using a holistic approach that maximizes the value being generated by the cognitive applications, reduces the overall cost of development and integration, and creates a halo effect on legacy systems. The company is also redesigning processes at the same time to, as CIO Tom Miller puts it, "use cognitive to move us to the next level."

In scaling up, companies may face substantial change-management challenges. At one U.S. apparel retail chain, for example, the pilot project at a small subset of stores used machine learning for online product recommendations, predictions for optimal inventory and rapid replenishment models, and—most difficult of all—merchandising. Buyers, used to ordering product on the basis of their intuition, felt threatened and made comments like "If you're going to trust this, what do you need me for?" After the pilot, the buyers went as a group to the chief merchandising officer and requested that the program be killed. The executive pointed out that the results were positive and warranted expanding the project. He assured the buyers that, freed of certain merchandising tasks, they could take on more high-value work that humans can still do better than machines, such as understanding younger customers' desires and determining apparel manufacturers' future plans. At the same time, he acknowledged that the merchandisers needed to be educated about a new way of working.

If scale-up is to achieve the desired results, firms must also focus on improving productivity. Many, for example, plan to grow their way into productivity—adding customers and transactions without adding staff. Companies that cite head count reduction as the primary justification for the AI investment should ideally plan to realize that goal over time through attrition or from the elimination of outsourcing.

THE FUTURE COGNITIVE COMPANY

Our survey and interviews suggest that managers experienced with cognitive technology are bullish on its prospects. Although the early successes are relatively modest, we anticipate that these technologies will eventually transform work. We believe that companies that are adopting AI in moderation now—and have aggressive implementation plans for the future—will find themselves as well positioned to reap benefits as those that embraced analytics early on.

Through the application of AI, information-intensive domains such as marketing, health care, financial services, education, and professional services could become simultaneously more valuable and less expensive to society. Business drudgery in every industry and function—overseeing routine transactions, repeatedly answering the same questions, and extracting data from endless documents—could become the province of machines, freeing up human workers to be more productive and creative. Cognitive technologies are also a catalyst for making other data-intensive technologies succeed, including autonomous vehicles, the Internet of Things, and mobile and multichannel consumer technologies.

The great fear about cognitive technologies is that they will put masses of people out of work. Of course, some job loss is likely as smart machines take over certain tasks traditionally done by humans. However, we believe that most workers have little to fear at this point. Cognitive systems perform tasks, not entire jobs. The human job losses we've seen were primarily due to attrition of workers who were not replaced or through automation of outsourced work. Most cognitive tasks currently being performed augment human activity, perform a narrow task within a much broader job, or do work that wasn't done by humans in the first place, such as big-data analytics.

Most managers with whom we discuss the issue of job loss are committed to an augmentation strategy—that is, integrating human and machine work, rather than replacing humans entirely. In our survey, only 22% of executives indicated that they considered reducing head count as a primary benefit of AI.

We believe that every large company should be exploring cognitive technologies. There will be some bumps in the road, and there is no room for complacency on issues of workforce displacement and the ethics of smart machines. But with the right planning and development, cognitive technology could usher in a golden age of productivity, work satisfaction, and prosperity.

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MORE THAN A PAYCH

HOW TO CREATE GOOD BLUE-COLLAR JOBS IN THE KNOWLEDGE ECONOMY

by Dennis Campbell, John Case, and Bill Fotsch

ECK

Fifty years ago Americans knew exactly what constituted a good job for a blue-collar worker: a position with a large manufacturer such as General Motors or Goodyear or U.S. Steel. Often unionized, it paid well and offered good benefits. It was also secure. Even if you were laid off during a downturn, you would probably be called back when business picked up. This was true not only in the United States but also in most other developed economies at the time.

We now live with the legacy of that era: Many people still believe that what blue-collar workers need most are more jobs on the factory floor. But the possibility of returning to that earlier time is remote. To begin with, manufacturing employment has steadily declined, from about 25% of the U.S. labor force in 1970 to less than 10% today. Most new plants are likely to have more robots than human beings, and the few workers who do

SHUTTERSTOCK/SEVENKE

manage to land manufacturing jobs are often paid on a lower scale than veteran factory workers. Tomorrow's blue-collar jobs will be largely in services.

That means the good jobs of the future are going to look rather different from those of the past. What we mean by "good" is well understood: The jobs provide a decent living. But we've come to realize that a decent living in the new economy entails more than a generous wage; it involves sharing the company's success with employees. It's also about more than money: People want to learn new skills and to understand how their work contributes to that success. Those insights have generally taken hold in high-end, knowledge-work settings. But a healthy free-enterprise society must offer promising employment opportunities for all its citizens, not just the well educated and highly skilled—and that means figuring out how to make blue-collar jobs more engaging as well as better paid. Otherwise the toxic combination of anger, demoralization, and cynicism that we already see among many Americans will spread.

So what should blue-collar jobs in the 21st century look like? Let's begin by considering compensation. Arguably, we've already figured out that we ought to change the way we pay—even if relatively few companies are doing so yet. But as we'll see, no benefits of progress on compensation will be fully realized or sustained unless we also make blue-collar jobs more engaging. In this respect, much remains to be done.

FROM COGS TO OWNERS

The good manufacturing jobs in the mid 20th century were the result of particular economic circumstances. A handful of large, profitable companies dominated most industries. They competed in oligopolistic markets, jostling with one another for a point or two of share, and often passed additional costs on to their customers. They could pay their workers well—and powerful unions helped ensure that they did.

Those circumstances have changed. Many companies can't afford to pay their employees much above market rates, and few are under any pressure from unions. Nor can they easily pass higher labor costs on to their customers. In this environment, companies have had to find a different way to provide their workers with a decent living.

Increasingly, the solution has been to offer employees a direct stake in the company's performance through stock, a share in profits, or both. Such measures can put substantial amounts of money into workers' pockets or retirement accounts without adding to an employer's fixed costs—and without putting companies at a competitive disadvantage. Indeed, they are likely to help companies attract and retain a talented workforce—a competitive edge.

The idea of sharing ownership and profits with a broad base of employees is hardly radical. Procter & Gamble has long had an employee profit-sharing and stock ownership program; an estimated 10% to 20% of its shares are in the hands of its workers. About 13% of Southwest Airlines stock is owned by employees, and in 2016 the company paid $586 million in profit-sharing bonuses, increasing every employee's annual compensation by 13.2%. More and more companies are finding it helpful to distribute stock, profits, or both—and many of them are not high-wage, knowledge-work companies. H-E-B, a Texas-based supermarket chain, handed out 15% of its shares to its 55,000 employees in late 2015. Chobani, the fast-growing yogurt company, gave workers shares worth up to 10% of the company's valuation in 2016. Meanwhile, several thousand privately held companies are significantly or completely owned by their workers through employee stock ownership plans, or ESOPs. Companies with ESOPs (including a relative handful that are publicly traded) now employ roughly 11 million Americans, or about 9% of private-sector workers.

Even the private equity firm KKR, once known for its bruising takeover battles, has begun sharing equity with workers in some of its portfolio companies in the industrial sector. Thanks to KKR, employees of Gardner Denver, a Milwaukee-based manufacturer, received shares worth about $100 million just prior to its IPO, in May 2017. Every eligible employee got stock worth 40% of his or her base pay. Employees of C.H.I. Overhead Doors, who got stock options when KKR bought the company, in 2015, received a dividend this year that put as much as $4,000 apiece into blue-collar workers' pockets. "To me, it's common sense," KKR's industrial practice head, Peter Stavros, told a reporter. "Private equity is all about alignment. You put the right incentives in place and do the broader engagement work to show people you actually care, and the results start to pour out."

The performance of companies with ESOPs has been studied in some detail, and the research indicates that they typically outperform their peers. For example, data from the nonprofit National Center for Employee Ownership (NCEO) shows that ESOP companies register 25% greater job growth over a 10-year period than similar companies with conventional ownership; they also see an average yearly increase in return on assets of 2.7 percentage points. Productivity improves by 4% to 5% in just the first year after adoption of an ESOP.

Many academic studies support the NCEO's conclusions. Joseph Blasi, Douglas Kruse, and Dan

IN BRIEF

THE PROBLEM
Companies in the knowledge economy are struggling to provide meaningful and secure jobs for workers who aren't highly educated. This creates social tensions and promotes inequality.

WHY IT'S HAPPENING
Manufacturing, traditionally the source of good blue-collar jobs, is shrinking relative to the service sector, and what work it has available is increasingly vulnerable to automation. Meanwhile, service sector jobs are often poorly paid and offer little security.

THE SOLUTION
We need to redefine what makes a blue-collar job good. The traditional job was well paid and secure. Going forward, employers should offer workers a stake in the company, reward their contributions to the company's success, and provide opportunities to acquire portable skills.

Weltmann, of Rutgers University, examined more than 300 privately held companies that set up ESOPs from 1988 to 1994, comparing each one with a similar, conventionally owned company in the same industry. They found that the ESOP companies reported significantly higher sales growth and higher revenue per employee than did the control group. More recently Kruse and Fidan Ana Kurtulus, of the University of Massachusetts at Amherst, found that companies with a high level of employee ownership were substantially less likely than others to lay people off and considerably more likely to survive downturns.

By definition, companies with high levels of employee ownership put more money in the pockets of their blue-collar workers. Employees who let their shares accumulate—as ESOP participants must do until they retire or leave the company—can build sizable nest eggs for retirement, often amounting to hundreds of thousands of dollars. According to NCEO data, ESOP participants have 2.2 times as much in retirement plans as other, similar workers, and 20% more assets overall.

In addition, thanks to their higher productivity, employee-owned companies can offer better wages and benefits than similar but conventional enterprises—and they do not have to worry about outside investors' urging cost cuts. Research suggests that the wage differential between the two groups ranges from 5% to 12%. However, a new study of workers aged 28 to 34 by Nancy Wiefek, of the NCEO, found much bigger differences. Respondents to a Bureau of Labor Statistics survey who said that their employer had an employee ownership plan reported 33% more income from wages and a median household wealth 92% higher than that of comparable workers with no such plan. Not surprisingly, the employee ownership group also reported a 53% longer average job tenure.

But giving employees a stake is not sufficient. If blue-collar jobs are to count as good in the 21st century, they must also engage employees and offer them opportunities to acquire transferable skills.

MAKING OWNERSHIP MATTER

The aggregate performance numbers of companies with significant employee ownership are certainly impressive. But a dig into the data reveals that these companies divide quite neatly into two groups. Those that, like Southwest, create some sort of ownership culture—by building in structures of participative management and helping employees learn to think and act like owners—realize virtually all the gains to be had. Those that rely on ownership alone are disappointed, because the payoff is small or nonexistent.

OTHER APPROACHES

Two of the authors of this article, John Case and Bill Fotsch, have long been involved with the business philosophy known as open-book management, which systematically applies many of the principles outlined in this article. Others have taken different approaches to the problem of creating good jobs, but all are largely complementary to our perspective. Those approaches include:

Best Companies to Work For. The Great Place to Work Institute, based in San Francisco, has developed a rigorous methodology for assessing jobs, working conditions, and employees' attitudes toward their work and their employers. It collaborates with *Fortune* magazine to produce the annual list "100 Best Companies to Work For." Although many of the listed companies employ well-educated and highly skilled workers—think Google, Genentech, Intuit—some have large numbers of non–college graduates on the payroll. The latter include retailers such as Wegmans Food Markets and manufacturers such as W.L. Gore & Associates (which is 100% employee owned).

Net Promoter System. The Net Promoter Score, a tool for measuring customer attitudes developed by Fred Reichheld, of Bain & Company, has evolved over the years into a comprehensive management philosophy that defines and promotes good jobs for frontline employees. In Reichheld's view, most workers derive deep job satisfaction from knowing they have helped to delight a customer; experienced Net Promoter companies place responsibility for customer delight squarely in the hands of frontline teams, which track their performance through customer feedback and then figure out how to improve it. Over time they become what Rob Markey, a partner at Bain, calls a "self-directing, self-correcting workforce," learning as they go.

The Good Jobs Strategy. Zeynep Ton, of MIT, argues in *The Good Jobs Strategy* that companies have a choice about what kinds of jobs they provide. Some choose to pay rock-bottom wages and tolerate the high turnover and lack of motivation that result. Others pay well, cross-train, and empower their employees to take on a variety of responsibilities—the good jobs strategy in practice. Ton analyzes how retailers such as Costco and Trader Joe's make specific operational choices that alter the economics of retailing so that the good jobs strategy pays off.

ONE COMPANY'S TRANSFORMATION

A few years ago a global travel-management company decided to conduct a controlled experiment. At the time, the company operated through 27 branches in North America, each one responsible for clients in its region and accountable to the parent company for certain profit targets. The company decided to launch an initiative based on the principles outlined in this article at three of its branches while leaving the other 24 operating as before. (One of the authors, Bill Fotsch, was directly involved in this work.)

At each of the experimental branches, the company established a formal process to gather information from employees, management, and customers along with financial data. Employee input included answers to questions that are rarely posed to frontline workers, such as "What should the branch do to improve relationships with customers?" and "What is the biggest opportunity for improvement in the branch?" The branches then developed a consensus regarding the key issues they faced during the next six to 12 months and a metric—direct profitability, or revenue minus direct costs—that would indicate whether they were "winning the game." They created targets and scoreboards and integrated team incentive plans with quarterly bonuses, funded by the targets, for improving results.

Soon employees were brainstorming about how to improve performance. At weekly meetings, results were shared and forecasts were updated for the coming three months. Quarterly performance figures were recognized, learned from, and celebrated when they were on target. Individuals began taking initiative for specific improvements. One customer relations rep, for instance, started contacting vendors to recover money lost owing to hotel no-shows, canceled flights, and the like. She collected close to $200,000 in the first several months.

After a year the outcome could scarcely have been clearer. The three experimental branches exceeded their annual profit targets by 10%, 17%, and 20% after incentive payments. None of the other 24 branches achieved its profit target that year. Not surprisingly, corporate management decided to roll the program out to all its branches—a process made more efficient by lessons taken from the three experiments. The experiments also created a kind of partnership mindset, something that is missing from many workplaces. One travel counselor said, "I feel that the company has entrusted us with this financial data, and that empowers us to create positive financial opportunities for the company."

This finding dates back to a seminal article by Corey Rosen and Michael Quarrey ("How Well Is Employee Ownership Working?" HBR, September 1987), and it has been replicated by virtually every study since. "The positive effects," write Blasi, Kruse, and Harvard's Richard Freeman in a recent paper, "appear to depend on workplace policies and norms that support cooperation and higher effort, such as employee involvement in decisions, participation in company training, and job security."

In the modern economy, companies are limited in their ability to offer the degree of security that was possible five decades ago. To compensate for that, a good blue-collar job must now also provide substantial learning so that workers can easily move on if need be to a different job, a different company, or even a different industry. With learning comes flexibility, and with flexibility comes security. Learning was notably absent from the good blue-collar jobs of the past, as evidenced by the fact that so many laid-off factory workers have found it difficult or impossible to locate new employment.

In our view, an ownership culture and learning opportunities are closely entwined. Looking at the experience of companies that have created good blue-collar jobs in the modern era, we see that most apply three basic principles.

Make the company's economics clear. Every business has economics that reflect what its customers value. Company owners and senior executives generally understand those economics; they track the relevant numbers and use the information to make decisions.

Forward-thinking organizations realize that although frontline employees may not have the same perspective and business experience that senior leaders do, they are nevertheless in a good position to track one or two key numbers that reflect the economics. The relevant metric might be sales at a retailer, the average tab in a restaurant, shipments or rework rates in a plant, or occupancy rates in a hotel. Smart companies identify and focus on just one or two such numbers for each department and share them with the whole workforce.

This approach is quite different from the way companies traditionally think about key performance indicators. For one thing, many companies that track KPIs overdo it, identifying different ones for each business unit and creating confusion in the process. Some years ago we studied the Australian iron ore division of a large mining company. The division at the time had 7,000 employees and 203 KPIs, each linked to its own incentive plan. This pitted employees and departments against one another. The parts department's

KPI, for instance, was minimizing the money tied up in spare-parts inventory. The production department's was throughput. When a machine went down, the parts required for repair were frequently unavailable, stalling production and souring relationships between the departments. Taking a broader approach, the division's managers implemented a new system in which everyone tracked the same key number: safe tons of ore shipped per month. This metric was easy for all employees to understand and it directly affected the division's income statement.

Some companies deliberately change the key numbers as the business's economics change. Doing so enables them to concentrate everyone's efforts on eliminating specific weaknesses. Right now, for instance, Gardner Denver is focusing on reducing its net working capital, which is higher than that of many of its peers. The company is training 150 leaders in the basics of lowering it. Those leaders will then train the company's 6,000-plus employees and help them figure out how in their various positions they can affect the working-capital level—for example, by coming up with ideas for reducing parts or work-in-process inventories. Meanwhile, a scoreboard will track progress, and the company will publicize short-term innovations (quick wins) that begin to put dents in the number. When net working capital hits an appropriate level, the company can move on to its next challenge.

COMPANIES CAN NO LONGER OFFER THE SECURITY OF FIVE DECADES AGO—BUT THEY CAN COMPENSATE WITH SUBSTANTIAL LEARNING.

This one-number-at-a-time approach has another advantage: It broadens employees' understanding of the economics of the business. At Gourmet Events Hawaii, a catering company, employees initially focused on increasing gross profit (revenue minus direct costs). The following year they began tracking net profit (gross profit minus operating expenses). Learning is dynamic, and employees' knowledge of business fundamentals will most likely be deeper and more sustainable with this approach. Furthermore, because the company's employees are motivated to improve its economics, they require less supervision—lowering costs associated with it. And what they have learned is a valuable capability that they can take with them to future jobs.

Encourage employees to follow and improve the metrics. Once people understand the economics, they can make better decisions and manage to the numbers they're tracking. Sometimes all it takes is sharing the data. A fast-food franchisee began posting simplified weekly income statements—sales, cost of goods sold, and gross profit—on the wall where his employees could see them. The workers, mostly teenagers, quickly made a game of figuring out how to boost revenue while keeping costs low. Along the way they got a practical lesson in the basics of running a business.

Other companies employ more-formal processes. At Trinity Products, a midsize steel fabricator based in Missouri, employees propose improvement initiatives to management and then serve on teams charged with addressing the highest-priority issues. "We took coil splices from 25 minutes to 15," Robert Griggs, the founder and president, told us. "Changeovers from one size to the next size went from eight hours to five and then to three or three and a half." Every such improvement has a positive effect on Trinity's income statement, which the company shares with employees.

An essential part of managing to the metrics is forecasting the numbers from one period to the next. This is a key discipline of business-unit management. It reinforces proactive thought and behavior, enabling the organization to anticipate opportunities and difficulties and to take appropriate action. But accurate forecasting is also challenging, and involving themselves in the process may seem like an impossible task for employees.

In our experience, it's not. We find that managers at good job companies willingly share what they know—sales forecasts or economic conditions, for instance—at weekly meetings. For their part, frontline team representatives are often keen to offer input, such as what customer service reps are hearing on the phone or what store clerks have noticed about foot-traffic trends. As with any discipline, forecasting skills improve with practice. People identify what they don't know and figure out ways to fill the gaps. Comparing forecasts with budgets and, eventually, with actual results indicates which parts of the business are under control and which could use some additional coaching. Just as students learn from thoughtful grading, employees learn from studying variances.

Share the results of improved performance. The learning and individual initiative required in an ownership culture are new to many companies and their workers. The culture asks employees to stretch themselves and to take on new responsibilities. This naturally raises the time-honored question that has caused so many well-intentioned initiatives to founder: What's in it for me?

Obviously, stock ownership and yearly profit sharing provide part of the answer, but both can seem remote from the daily ups and downs of the workplace. So we think a generous short-term incentive plan tied to improvement in the key metrics is an essential element of a good blue-collar job in the new economy.

Under such a plan, management and employees typically agree at the beginning of the year on targets related to the key numbers. The company establishes a payment schedule: so much extra pay for hitting the targets, so much additional for exceeding them. Companies often find it useful to describe the potential bonus in terms of extra days or (usually) extra weeks of pay, and to track it publicly from week to week. That allows employees to see at a glance exactly where they stand on the incentive and how it relates to the current forecast.

Ideally, the plan should have no cap. If the bonus is determined by gross profit performance, for example, and the results are particularly good, employees can earn substantial amounts of money. We have seen companies give as much as 30 weeks' worth of extra pay to their employees—a nice reward by anyone's standards, and an impressive supplement to a blue-collar worker's wage. At the same time, the plan should cost the company nothing. Bonus payments should always be fully funded by the improved performance, and companies may realize two to four times the amount of the bonus in incremental gains. Thus these plans reinforce the idea that management and labor are on the same side, working together to improve the business.

A GOOD BLUE-COLLAR JOB TODAY INVOLVES THINKING LIKE A BUSINESS OWNER AND SHARING IN THE REWARDS OF SUCCESS.

Put all these things together and you essentially redefine the notion of a good job. No longer does it mean simply assembling parts, serving customers, or driving a forklift. It involves thinking like a business owner—someone responsible for tracking and managing the key numbers and figuring out how to improve performance. It also involves sharing in the rewards of success rather than just collecting an hourly wage. That definition seems fitting in our knowledge economy—and makes for more-engaging work for employees at every level of the organization.

THE OPPORTUNITY

Ninety years ago the chairman and CEO of General Electric, Owen D. Young, gave the dedication speech at a ceremony for Harvard Business School's new campus, across the Charles River from the rest of the university. What he said must have surprised his listeners: "I hope the day may come when these great business organizations will truly belong to the men who are giving their lives and their efforts to them, I care not in what capacity....Then an idle machine will mean to every man in the plant who sees it an unproductive charge against himself. Then every piece of material not in motion will mean to the man who sees it an unproductive charge against himself....Then we shall dispose, once and for all, of the charge that in industry organizations are autocratic and not democratic. Then we shall have all the opportunities for a cultural wage which the business can provide. Then, in a word, men will be as free in cooperative undertakings and subject only to the same limitations and chances as men in individual businesses. Then we shall have no hired men."

In keeping with his times, Young spoke of men only, and he focused on manufacturing enterprises, which were the largest employers of his day. No matter: It's easy to translate his vision to today's economy, where most people in the private sector work for service companies. It's pretty clear that he envisioned creating good jobs in much the same way we do. But we have an advantage that Young lacked: decades of experience with shared profits and shared ownership programs (including ESOPs), along with a growing understanding of how to help employees think and act like businesspeople rather than like hired hands.

American business finds itself in an unusual position today. The decline in the good blue-collar jobs of an earlier era has contributed to stagnating wages among the bottom 80% of U.S. households, feeding growing levels of discontent. Governments have for the most part been unable or unwilling to address this situation. Many voters don't even believe that they should. But here is an arena where business can take the lead. Almost any company can set up some kind of system that encourages employee ownership, profit sharing, or both. Most can create a culture that helps employees learn the business and improve its results and that puts more money in their pockets right away. Executives who adopt such a system will find that they are pioneers in addressing one of America's most pressing problems—and, most likely, that their company performs better than it did before.

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Advanced Analytics and the CFO

Extreme automation demands that CFOs act now. How should they move forward?

by: Don Mailliard and John E. Mulhall, KPMG LLP

Spurred by technology advances, the speed of disruption in organizations is perpetually fast—and only getting faster. The finance function is uniquely positioned to address extreme automation because the CFO is the only position in the company with both the permission and the duty to integrate strategy, finance, and analytics. New research from HBR Analytic Services, sponsored by KPMG, found that recent developments in data and analytics present a clear call to action to finance leaders to define the analytics agenda and provide deeper, more insightful, on-demand analysis to decision makers; improve forward-looking forecasts of performance; and respond more effectively to changing business conditions.

CFOs have the chance to turn extreme automation into opportunities for competitive advantage and growth, if they take action now on three strategic priorities.

1. Reexamine the technology infrastructure. In recent years, CFOs have turned to cloud ERP systems to streamline processes and robotic process automation (RPA) to further drive operational efficiency. While many organizations will continue to see the value in these areas, the next several years will be marked by investments in more advanced technologies. Investments in machine learning and artificial intelligence will shift the focus from operational efficiency to enhanced data and insights, which can deliver a quantum leap in performance. To prepare for this shift, CFOs need to ensure they have baseline digital capabilities—specifically around data and processes—to capitalize on these future investments.

These new technologies enable trends and patterns to be analyzed for future action rather than historical explanations. IBM Watson, for example, can quickly analyze and synthesize tremendous amounts of data—structured and unstructured text, images, audio, and video—and then draw hypotheses that drive value creation. Instead of asking what happened, predictive technologies like this can ask what *will* happen. Artificial intelligence can go a step further and ask what we should do about it.

2. Create business partnerships. The finance function must partner with the business in deeper and more impactful ways, becoming a model for collaboration, cutting across functional areas, and upending silos to unleash value.

Business partnering requires not only the ability to provide analysis and insight but also the ability to challenge the business, to be credible, and to be recognized as a valued partner. While there is no one-size-fits-all business partnering model, there is one element that all hold in common: a customer-centric approach to internal customers that helps drive real value for the business and boosts the bottom line.

3. Develop new skills and talent. In a rapidly changing environment, finance organizations must assess new work to be done and how this translates to the skill sets of the workforce. There will be an increased demand for talent specializing in analytics tools, methods, and technology. Additionally, those with critical thinking skills will be needed to ask insightful questions, interpret data, and draw conclusions rather than simply provide answers. As RPA increasingly captures more routine finance work, the human element becomes even more important for performing strategic activities.

Attracting, building, and retaining talent will look different in the future. It will be essential to address critical aspects of talent management holistically—from sourcing nontraditional backgrounds, to redefining roles and core competencies, to rotating finance high performers and future leaders throughout the business.

CFOs must disrupt the finance function to stay ahead of extreme automation. Otherwise they risk irrelevance.

To learn more about the future of finance, visit **kpmg.com/us/FutureFinance**.

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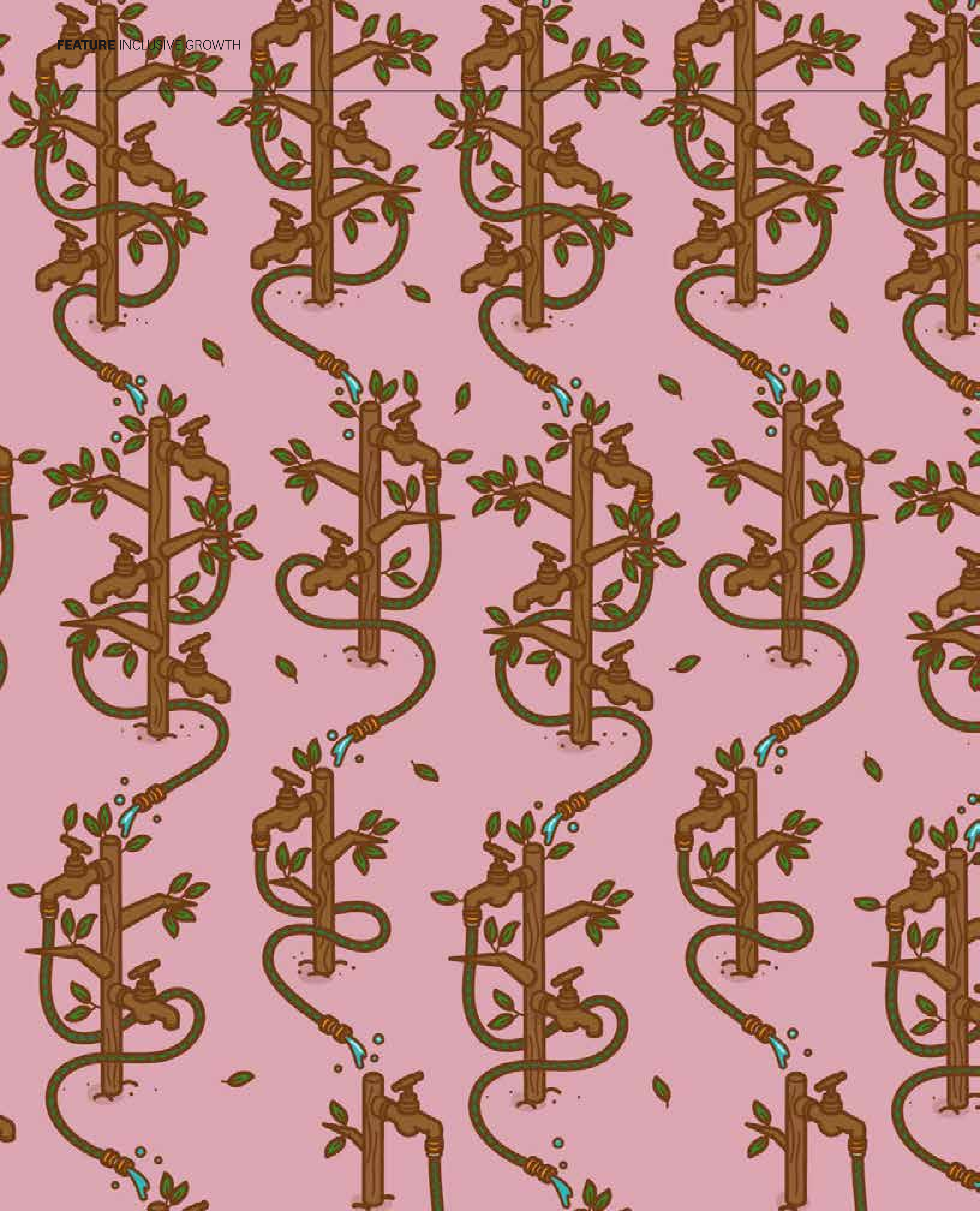

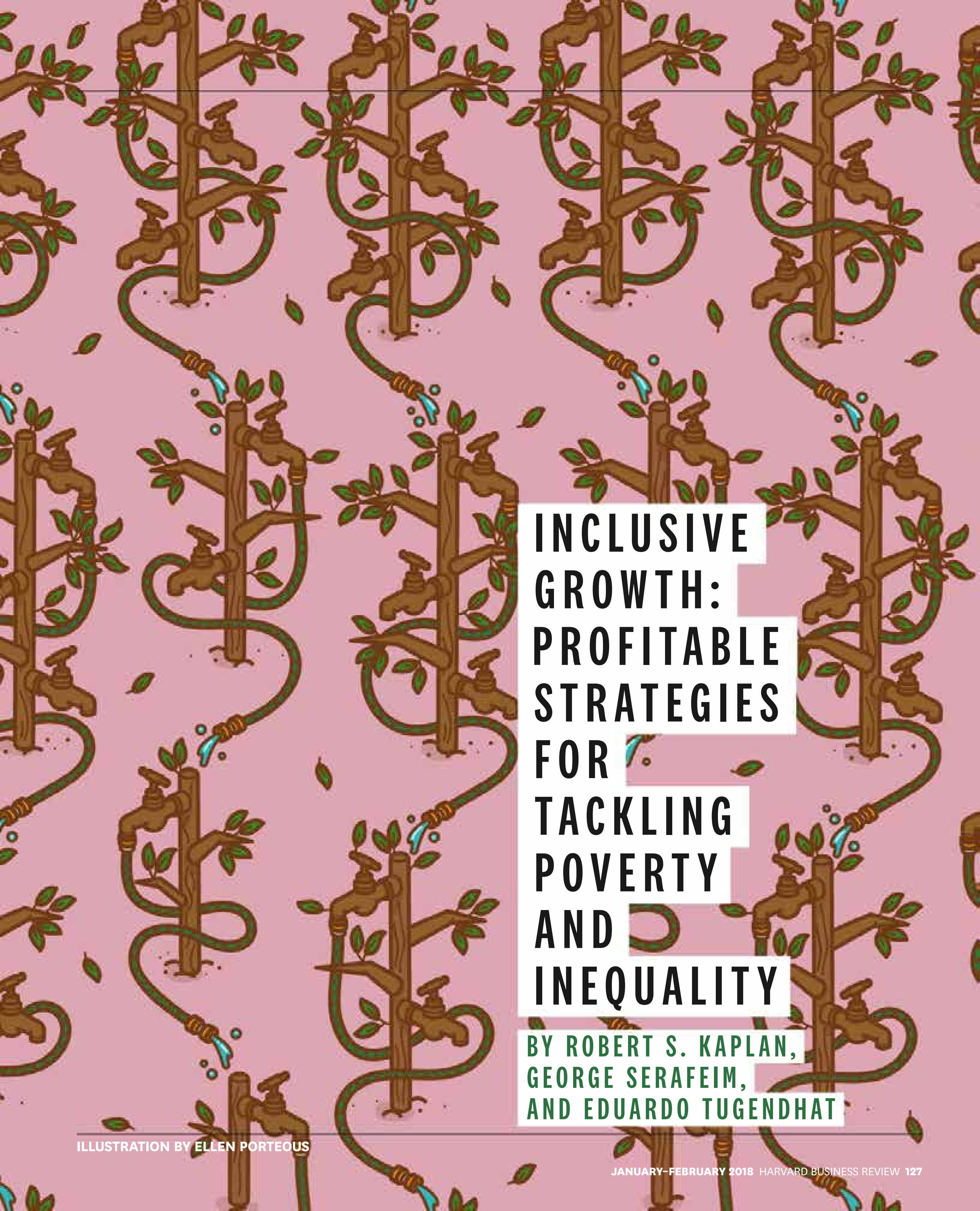

INCLUSIVE GROWTH: PROFITABLE STRATEGIES FOR TACKLING POVERTY AND INEQUALITY

BY ROBERT S. KAPLAN, GEORGE SERAFEIM, AND EDUARDO TUGENDHAT

ILLUSTRATION BY ELLEN PORTEOUS

GLOBAL CORPORATIONS AND MARKET-DRIVEN CAPITALISM HAVE GENERATED TREMENDOUS GROWTH SINCE WORLD WAR II, CONSIDERABLY REDUCING OVERALL RATES OF POVERTY.

IN BRIEF

THE PROBLEM
Although growth has raised the standard of living in the developing world, more than a billion people remain in extreme poverty and outside the formal economy. Traditional corporate social responsibility programs have done little to alleviate the situation and rarely produce transformational change.

WHY IT HAPPENS
Companies' projects are not ambitious enough. Instead of trying to fix local problems, corporations and other actors need to reimagine the regional ecosystems in which they participate.

HOW TO FIX IT
Ecosystem reinvention requires searching for systemic, multisector opportunities and mobilizing complementary partners. Corporate financing can be supplemented with start-up capital from private and public organizations with a mission to alleviate poverty.

That growth, however, has not benefited everyone. In developed economies, a small fraction of the population has captured the most recent gains, while many people in working-class rural and especially urban communities have experienced socioeconomic decline.

The situation is far worse in the developing world. Although growth has raised the standard of living in Africa, Asia, and Latin America, more than a billion people remain in extreme poverty and outside the formal economy. This is especially true in countries with large rural populations, where smallholders are shut out of the supply chains of nearby food companies because they lack knowledge of modern agricultural practices and the means to access and finance needed technology inputs. Developing nations also suffer from massive talent gaps. Large numbers of young adults are unemployed, while corporations find planned expansions stymied by a shortage of skilled local workers.

To be fair, companies have tried to upgrade their traditional corporate social responsibility (CSR) programs to sustainability and shared value strategies designed to deliver positive economic returns while improving the quality of life in low-income, distressed communities. But those programs have had a limited impact and rarely produce transformational change. For example, the widely publicized CocoaAction alliance in Côte d'Ivoire and Ghana aimed to improve the livelihoods of about 20% of the families involved in cocoa farming. But evidence has yet to emerge that it has actually moved many households out of poverty. Similarly, the agricultural technology supplier Syngenta's Good Growth Plan has doubled the productivity of small-scale farmers in Indonesia and Nicaragua—but only a tiny percentage of the destitute farmers in each country have benefited, and the impact on total company sales is hard to detect. (See the sidebar "Syngenta: Ambitious Goals Need Ambitious Projects.")

This raises a fundamental question: Given the strong demand for companies to deliver economic and social value and the ample opportunities for improving the quality of life in distressed communities, why do businesses find it so difficult to implement scalable and profitable strategies for inclusive growth—growth that benefits all society's stakeholders?

The answer, our research suggests, is that companies' projects are generally not ambitious enough. Instead of trying to fix local problems, corporations and other actors need to reimagine the regional ecosystems in which they participate if they are to bring poor farmers and unemployed urban youths into the mainstream economy. In the following pages we draw on our experience with several successful inclusive-growth projects to offer a road map for creating such new ecosystems.

FROM LOCAL SOLUTIONS TO ECOSYSTEM CHANGE

To understand why CSR and sustainability initiatives often fail to scale up successfully, we interviewed 30 chief sustainability officers (CSOs). Most saw the problems as relating to implementation; they cited poor integration with the company's core businesses, the difficulty of engaging with the multiple actors in local communities, and the lack of relevant measurements to motivate and evaluate benefits for the company and the target populations.

But as we looked more deeply, we came to believe that the main problem was not in the execution of shared value projects; it was in the limited scale of projects' ambitions. CSOs were not thinking big enough.

Poorly functioning supply chains and systemic talent gaps cannot be solved by any single company through targeted local solutions, such as building a new warehouse, establishing a regional headquarters, selecting a local distributor, or building a school or training center. A sustainable, scalable solution requires that the company help create a new ecosystem that replaces economically and socially inefficient supply chains with ones that are both more profitable and capable of bringing more people into the formal economy. To learn how this can be achieved, we examined the experiences of several companies, now part of the global consultancy Palladium, that have helped implement some three dozen projects in 25 countries over the past 15 years. (Full disclosure: All three authors are employed by or advisers to Palladium.) We identified three principles for designing strategies that can create inclusive, sustainable, and profit-generating ecosystems: Companies should search for systemic, multisector opportunities; mobilize complementary partners; and obtain seed and scale-up financing.

In what follows we'll explain these principles in detail and show how a new actor, which we call the catalyst, can help develop the new ecosystem and drive pilot projects and scale-up before passing the baton to the sustaining market players. We'll conclude by discussing a potential fourth principle: Implement a new measurement and governance system to build commitment, monitor progress, and sustain alignment among the key players involved in creating the new ecosystem.

We have chosen to focus here on experiences in developing nations. But we envision that a similar pathway for more-inclusive ecosystems can be implemented in low-income urban and rural areas in the United States and Europe.

SEARCH FOR SYSTEMIC, MULTISECTOR OPPORTUNITIES

The traditional corporate approach to engaging with socioeconomic problems is to make relatively specific investments in infrastructure, waste reduction, environmental protection, and local training and health programs. Investments and programs like those remain largely under the corporation's direct control; much of the motivation behind them is to provide tangible evidence of the company's commitment to improving local environmental and social performance.

But such programs typically benefit a relatively small number of people and don't fundamentally change the community's socioeconomic conditions. What's more, they are generally funded from a sustainability budget, not embedded in the company's local business strategy. That means they are often the first programs to be cut during lean times. The traditional corporate sustainability approach ultimately has a limited impact because it is positioned as a social or an environmental program, not a profit-generating one.

Our first principle, therefore, is that corporations should search for projects that generate economic benefits for themselves while creating socioeconomic gains for all other actors in the new ecosystem. Such projects require diverse investments from many stakeholders and have the potential to scale up to other communities and regions. The aim is not to incrementally upgrade an existing system but, rather, to unleash market-based forces to create a new ecosystem that is economically self-sustaining and organically growing.

This is a complex undertaking. It requires developing trust so that relationships can be established, particularly among actors from multiple sectors who may have little knowledge of or empathy for what motivates people from sectors other than their own. It also involves identifying the resources and skills that are lacking in the community, the intermediaries who can potentially close those gaps, and the incremental support that will persuade each player to participate.

Uganda provides a classic example of this dynamic. More than 70% of the country's population ekes out a precarious living by growing crops, mainly low-quality maize, on tiny plots. Farmers dry their maize on bare ground shared with domestic animals and thus lose 30% to 40% of the crop, with much of the rest failing to meet minimum commercial standards. In 2010 household incomes in the country averaged $307 a year, or just 87 cents a day. Eleven million people, or 30% of the population, were severely undernourished (the paradox of the starving farmer), and 40% of children were stunted from eating contaminated food. These conditions persisted despite the presence of Nile Breweries, a large regional company owned by SABMiller—which bought almost all its grain products from overseas suppliers.

That year Carana, a global economic-development consultancy (since acquired by Palladium), initiated a project aimed at creating a supply chain that could bring small maize farmers into the mainstream regional economy. This required deep engagement with multiple players, including Nile Breweries, grain traders, and the farmers themselves. It involved multiple investments in new assets and capabilities for the traders and farmers, including the creation of maize demonstration plots to showcase good agricultural practices and proper postharvest handling techniques. An offtake agreement with Nile Breweries facilitated farmers' access to credit and attracted input suppliers that could help farmers finance the purchase of improved seeds, equipment, and fertilizers along with access to irrigation and pest- and fungus-control solutions.

Uganda

After five years median crop yields had risen by

and annual household incomes had more than doubled.

Uganda

Annual sales of maize grits to Nile Breweries increased to

metric tons, up from 480 metric tons.

Fast-forward five years. By 2015 the enhanced supply chain encompassed 27,000 farmers, more than half of them female. Median crop yields had risen by 65%, and the median price per metric ton had increased from $139 to $179. Annual household incomes had more than doubled, to $688, and participating farmers' gross margins had increased by 50%. Farmers' families had a more diversified and nutritious diet that included vegetables, nuts, fruits, and occasionally meat, fish, and eggs. Farmers were buying drought-resistant seeds and could access crop insurance and interim financing through mobile-phone payment systems.

Downstream in the new supply chain, annual sales of maize grits from the lead grain trader, AgroWays, to Nile Breweries had increased from 480 to 12,000 metric tons, and the improved quality and processing meant higher prices. This enabled AgroWays to recoup the investment in its new storage and processing facilities. Another company, Maganjo Grain Millers, built a regional facility to turn maize germ from AgroWays into high-nutrition porridge and other products. Other companies were entering the region, creating the sustainable mass for an agribusiness cluster.

Beyond these tangible financial results was the impact on quality of life. One farmer said, "Things are different now. All my children own pairs of shoes. We are a happy family that can afford to eat meat and chicken, which were unheard of in my home before. My children enjoy school because they no longer feel left out."

MOBILIZE COMPLEMENTARY PARTNERS

The second principle recognizes that a company almost certainly cannot create a transformational ecosystem on its own. It needs to partner with a catalyst organization to engage actors from multiple sectors in collaborative relationships and strategies for economic and social value creation.

The catalyst can be an NGO or a project management or consulting company committed to the economic and social benefits that a new ecosystem can generate. Ideally it has deep country knowledge as well as expertise in helping create new ecosystems on the ground, such as enhanced supply chains for products or talent. Most important, it has a strong reputation as an independent player that understands and respects the perspectives of all participants in the new ecosystem.

Often the catalyst is the first to identify a transformational opportunity. Carana saw that investing in the capabilities and capacities of small local trading companies in Uganda could enable those companies to link large end-use processors of agricultural products with smallholders.

Carana also saw an opportunity in El Salvador. In 2010 fewer than 40% of the country's children completed high school, and most aspiring entrants to the labor market lacked necessary skills. Unemployed youths, or "ninis" (not in school and not in jobs), joined gangs, contributing to the country's world-leading crime rates. Carana believed that partnerships between regional corporations and local training providers could give young adults the skills needed to access entry-level positions in the country's rapidly growing retail, hospitality, and services companies.

Catalysts are usually better placed than corporations to spot such opportunities. Company executives, located at corporate headquarters, are infrequently able to recognize chances to create regional private-public partnerships. And they are constrained by financial management systems that guide them toward short-term incremental change and quick paybacks rather than value chain transformations.

A CSO or a country manager who wants to create transformative change is unlikely to get much traction, let alone a budget sufficient to provide proof of concept. Nor does he or she have the authority to add sustainability objectives to line managers' operational responsibilities and performance assessments. And local managers, under pressure to deliver short-term financial results, lack the authority, legitimacy, trust, capabilities, and resources to support more than incremental feel-good projects.

Whoever recognizes an opportunity, one thing is certain: Without the involvement of a profit-seeking corporation, no program is likely to go far. For an industrial ecosystem to be sustainable, it must be credible to businesses searching for competitive advantage and able to scale up. Governments are attracted to public-private partnerships for improving local socioeconomic conditions because they can harness the resources and innovation capabilities of profit-seeking companies.

OBTAIN SEED AND SCALE-UP FINANCING

The corporate partner would seem to be a natural supplier of seed financing for an ecosystem transformation. After all, a corporation has resources to invest in positive net present value projects and will be a prime beneficiary when projects succeed.

But few companies are prepared to finance this type of risky investment, especially with their limited sustainability and CSR budgets. Corporate investment funds favor safe projects with short payback periods, not projects that require disrupting an existing equilibrium and creating new relationships across multiple sectors far from headquarters. All the organizational, incentive, and cultural hurdles that make disruptive innovation so hard become amplified when implementing projects designed to create new, socially inclusive business models and ecosystems.

Advocates for systemic change can look for seed capital from organizations that already have a mission

to create inclusive growth ecosystems and are under less pressure to generate short-term financial returns.

In Uganda, for example, Carana successfully approached USAID for a grant to test the hypothesis that modest funding could stimulate investment by intermediary companies in a new agricultural supply chain. In El Salvador, it used a USAID grant to establish the Youth with Commitment (YwC) job-training program. With Carana bringing external seed capital to the table, local corporations were willing to cofinance and advise on program content.

After a pilot launched with seed funding has demonstrated proof of concept, the catalyst may need additional funds to rapidly scale up the project. It can now seek support from the anchor corporation, since funding to scale up an existing ecosystem is perceived as less risky than initial financing. But a better source may be impact investment funds, which currently manage about $80 billion in assets worldwide. Foundations and the private offices of wealthy families also have hundreds of billions of dollars available to fund projects in distressed communities. These external investors usually have hurdle rates for their impact investments of 6% to 8%—much lower than companies' typical cost of capital: 12% to 14%.

The pool for impact investment is growing rapidly. The Ford Foundation and others now make investments for which they seek close-to-market-rate returns on capital deployed in mission-related causes. The W.K. Kellogg Foundation supports projects that generate attractive financial returns while contributing to more-healthful environments for families and children. One of its investments, Revolution Foods, has delivered 250 million nutritious meals to schoolchildren over the past 10 years.

Private equity groups such as Bain Capital and TPG Capital have recognized the emerging opportunities in this space and accumulated funds for impact investing in new physical and information infrastructures in impoverished communities. The private equity fund Summa Equity raised $500 million in the first six months of 2017 for investment in companies working toward one or more of the UN's 17 sustainable development goals. (One of the authors, George Serafeim, is an adviser to the fund.) Those companies include Lin Education, a Swedish education-technology firm that helps adults acquire the skills to remain competitive in the 21st century, and eGain, whose technology helps households reduce their electric bills and carbon footprints.

Even NGOs are entering the space, introducing financial products that align incentives for the creation of social value. The nonprofit organization Social Finance has developed innovative pay-for-success programs to incentivize the delivery of social impact. Recent projects include bonds that pay interest according to education and employment outcomes for underprivileged populations in the United States.

To sustain and scale up the new ecosystem, the catalyst can introduce a special purpose vehicle (SPV) to receive financing, collect payments, and distribute interest on bonds and dividends on equity shares. For a training program like those in El Salvador, an SPV could issue a $500,000 bond paying 5% interest over 10 years. The interest could fund programs whose graduates would be hired by local companies paying the SPV a fixed amount—say, $200—for each hire. Designing the SPV's parameters and payment structure would require plausible estimates of the potential pool of candidates and the productivity improvements yielded by the training.

Although we don't believe a corporation needs to be the primary source of funds, it must be an engaged partner, because a significant corporate presence is critical to funders' decisions to invest.

El Salvador

Over a two-year time frame Walmart hired

380

young adults from the training program and reduced its hiring period for open positions by 15 days.

El Salvador

Turnover among those employees was

30%

lower than among previous hires, and training costs were reduced by 15%.

The participation of a lead corporation lowers risk and guarantees that a minimum quantity of products or services will flow through the new ecosystem. The developer of a shopping center starts by signing up an anchor store; similarly, external funders will most likely want a lead corporation to anchor the ecosystem.

BUILDING OUT THE ECOSYSTEM RELATIONSHIPS

In the projects we studied, leadership shifted over time. Initially the catalyst played the key role, but as the project became commercially viable, corporations took the baton. Once the new ecosystem in the Ugandan maize project was established, Carana could disengage as AgroWays, Nile Breweries, and other agribusiness companies made their own new investments to reach a broader population of maize farmers.

In El Salvador's YwC program, Carana started by identifying the skill and competency needs for entry-level employees of service sector businesses whose growth was constrained by a shortage of qualified workers. It then selected local NGOs and other organizations that could train unemployed young adults in the necessary skills and secured agreements from businesses. For example, Walmart agreed to hire graduates of an 80-hour YwC program as cashiers, food handlers, and entry-level managers. Carana also partnered with government ministries to reach unemployed youths, launching a social media campaign to publicize the training programs and local job openings. The training lasted one to three weeks, included travel and meal stipends, and culminated with guaranteed job interviews. Companies made the hiring decisions and provided any additional technical training specific to their needs.

Over a two-year time frame Walmart hired 380 young adults from the program and reduced its hiring period for open positions by 15 days. Turnover among those employees was 30% lower than among previous hires; training costs were 15% lower; and a much higher percentage of candidates became eligible for promotions. The program was so successful that Walmart brought it in-house and hired the YwC director to head HR for Central America.

Over a four-year period 16,000 young people received career-specific training for nine industry sectors, with 15,000 obtaining new or better jobs. (To put those numbers in perspective, consider that the entire Salvadoran economy produced only 15,500 formal jobs in 2009, the year YwC was formed.) Businesses across the economy now willingly pay training and hiring fees to third-party providers, enabling the trainers to sustain and grow the programs. The training programs and company associations compete to get youths off the streets and prepared for employment.

SYNGENTA: AMBITIOUS GOALS NEED AMBITIOUS PROJECTS

Syngenta, a $13 billion Swiss seed and crop protection company, embarked on its Good Growth Plan in 2000. The plan articulated several commitments to be met by 2020, including:

- a 20% increase in the productivity of the world's major crops, to be achieved without using more water, land, or other inputs
- a 50% increase in the productivity of 20 million smallholders
- the completion of labor safety training by 20 million farmworkers, mostly in developing countries
- fair labor conditions throughout the supply chain

An early initiative was the FrijolNica (Nicaraguan Bean) program, focused on 16,000 small coffee-bean growers organized in cooperatives. After 10 years their productivity had doubled, more children were attending school regularly instead of working in the fields, and all communities were more optimistic.

The project was certainly a success. But the 16,000 growers represented only 5% of the nation's bean farmers, and the incremental financial benefits to them totaled only $7.5 million. Juan Gonzalez-Valero, Syngenta's head of public policy and sustainability, realized that the project—and others like it—needed to be much larger to achieve the ambitious 2020 targets while supporting sales growth for the company's products.

Mapping the entire bean ecosystem, Gonzalez-Valero discovered that many of the remaining 95% of bean farmers also worked as laborers on large coffee and cattle farms. The farms' owners, who included Syngenta's best customers in Nicaragua, traditionally provided or rented small plots for their laborers to grow food. But many farmers, trapped in poverty, were beginning to leave for work elsewhere, creating serious labor shortages during harvest season. Gonzalez-Valero also learned that major food companies such as Goya were seeking more-reliable sources of quality beans. He recognized that bean farmers employed on large coffee farms represented an opportunity to expand the FrijolNica program.

So Syngenta will be implementing a new system strategy in Nicaragua, one that requires getting progressive large-scale coffee farmers to invest in bean aggregation facilities in collaboration with a major food company that needs a stable source of beans. Working with Syngenta, the aggregator will provide smallholders with training and access to inputs, a guarantee to purchase a minimum amount of crops, and support in expanding their farms. This will give them a more diversified and sustainable business model. Increasing small farmers' household incomes will help retain critical labor for the harvest while expanding sales of Syngenta's crop-protection products and increasing the reliable supply of beans for local food companies. Inclusive growth will be achieved, with all local partners realizing benefits from the enhanced supply chain.

ALIGN AND GOVERN THE ECOSYSTEM PARTICIPANTS

Building an ecosystem is not for the fainthearted. By some estimates, more than 50% of joint ventures and strategic alliances fail to achieve their desired synergies, and inclusive growth strategies are orders of magnitude more complex than traditional private-sector strategic partnerships. As discussed, a new ecosystem requires collaboration among unrelated actors from multiple sectors—corporate, NGO, and public—each typically with a deep mistrust of the attitudes and motives of those outside its sector.

All this suggests that ecosystem creation should include an additional design principle: Align multiple stakeholders around the new strategy. This can be achieved through proven tools from the corporate sector, such as a strategy map—a widely used component of the balanced scorecard tool kit for creating organizational alignment around strategy. As documented in the 2010 HBR article "Managing Alliances with the Balanced Scorecard," a co-created strategy map helps partners align around common goals and how to achieve them. We have consistently seen that it breaks down barriers. One corporate CEO observed, "The scorecard gave us a common language for our strategic direction and intent. We could develop and communicate strategy so that it was quite clear to everyone. The widespread participation in developing the scorecard gave it great acceptance."

It is reasonable to assume that potential partners in a new ecosystem could similarly collaborate, possibly under the catalyst's leadership, on a strategy map for inclusive growth. The process would help generate trust and a shared understanding about implementing the strategy they participated in creating. The strategy map would be followed by a balanced scorecard specifying financial and nonfinancial performance metrics for all participants. This would quantify the tangible benefits of participation: financial returns for corporations and seed and impact investors, and economic and social benefits for local citizens. The existence of a shared scorecard should inhibit the short-term incentives of large corporations to use their power to capture most of the gains from a more productive ecosystem. And having measurable objectives and results for the entire ecosystem would help it raise capital for growth.

Shared metrics also provide accountability and the foundation for governing the ecosystem. Monitoring and governance occur during periodic meetings at which all participants review performance, identify the root causes of any shortfalls, and develop action plans to correct deficiencies and adapt to changing circumstances.

THE FOUR INCLUSIVE-GROWTH design principles constitute a road map for corporations to pursue profitable multisector strategies to transform impoverished communities into vibrant, sustainable economies. Past corporate efforts in social responsibility and sustainability have yielded only modest returns. To address persistent poverty and inequality, corporations must reach beyond their own capabilities and partner with other private-sector entities and with governments, communities, and nonprofits to create new ecosystems that will deliver value to all. That will require clear strategies, access to seed and growth capital, and new means of measurement and governance that can maintain alignment, focus, and balance among all participants.

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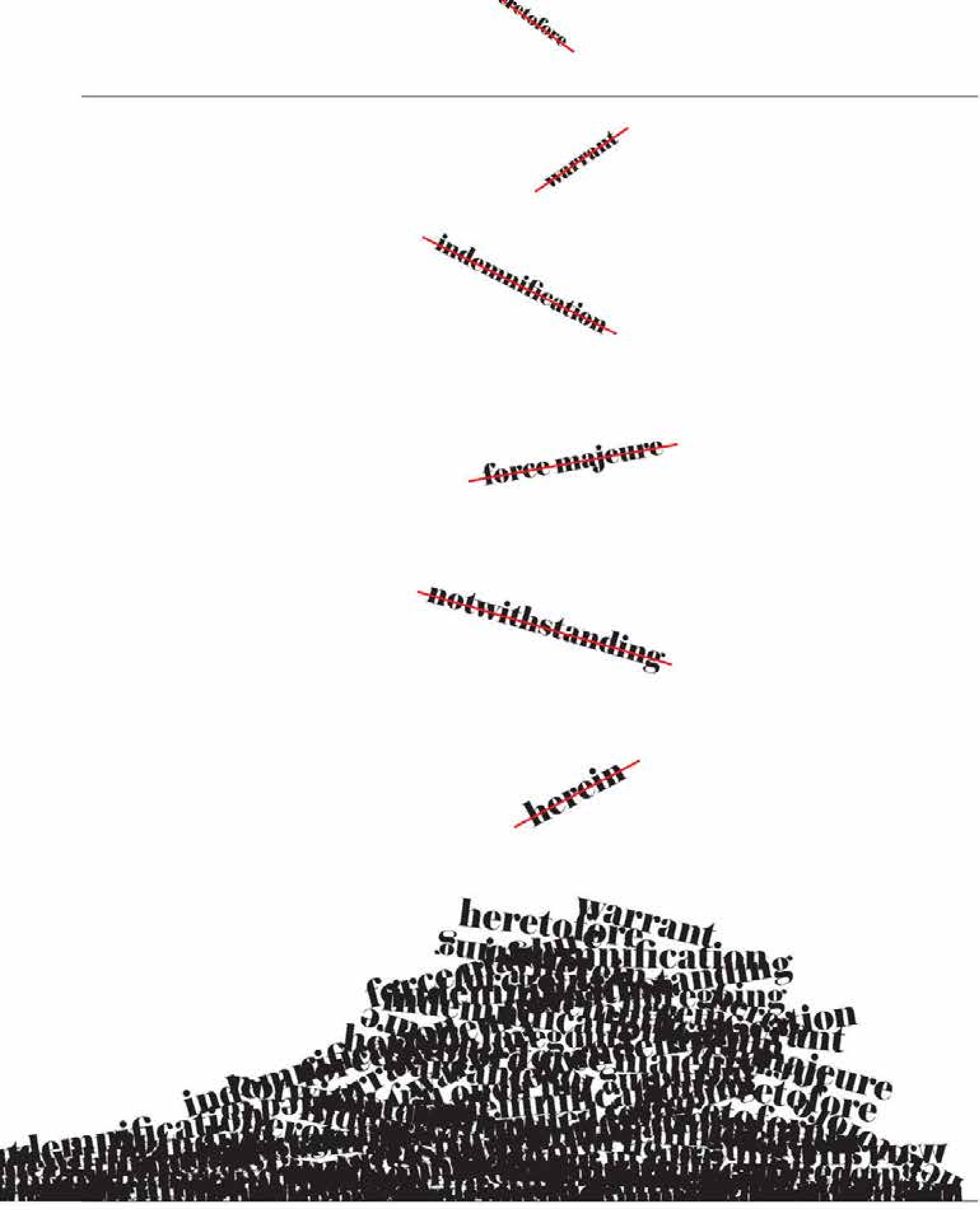
The Case for Plain-Language Contracts

Want to do deals faster and increase customer satisfaction? Start by stripping out the legalese.

by Shawn Burton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IN BRIEF

THE PROBLEM

Contracts that take forever to negotiate, are unclear to everyone but lawyers, and generate all too many disputes between parties.

THE CAUSES

Legal jargon; long-winded explanations of the reasons for transactions; pages of definitions; strings of synonyms; all-cap, italicized, bolded sections; and awkward sentences filled with semicolons.

THE SOLUTION

Radically shorter "plain-language" contracts that a high schooler could understand.

W**HAT DO YOU** call a dense, overly lengthy contract that is loaded with legal jargon and virtually impossible for a nonlawyer to understand? The status quo. For the most part, the contracts used in business are long, poorly structured, and full of unnecessary and incomprehensible language.

Is there some practical reason for this? Are pages of definitions; words like "heretofore," "indemnification," "warrant," and "force majeure"; and phrases like "notwithstanding anything to the contrary herein," "subject to the foregoing," and "including but in no way limited to" necessary for an agreement to be enforceable? Is there some counterintuitive value in useless boilerplate language? Does a contract really need 15-word strings of synonyms; all-cap, italicized, bolded sentences that span multiple pages; awkward sentences containing numerous semicolons; and outdated grammar to be worthy of signature? In my opinion, the answer is a resounding no.

A contract should not take countless hours to negotiate. Business leaders should not have to call an attorney to interpret an agreement that they are expected to administer. We should live in a world where contracts are written in accessible language—where potential business partners can sit down over a short lunch without their lawyers and read, truly understand, and feel comfortable signing a contract. A world where disputes caused by ambiguity disappear.

That might seem far-fetched. However, I believe it is indeed possible—as a three-plus-year effort to promote plain-language contracts at GE Aviation's digital-services business has demonstrated. Since this initiative began, in 2014, that unit has signed more than 100 such contracts. Those agreements took a whopping 60% less time to negotiate than their previous legalese-laden versions did. Some customers have even signed plain-language contracts without a single change. Customer feedback has been universally positive, and there hasn't been a single customer dispute over the wording of a plain-language contract.

To be clear, I'm not talking about "simplified" agreements with fewer words, better headings, and cleaner fonts. I'm talking about a contract that a high schooler could understand with zero context or explanation. As Robert Eagleson, a scholar on the topic, has put it: Plain language "lets the message come through with the greatest of ease."

Plain-language contracting is not a novel idea. It's a movement that started many years ago and, perhaps surprisingly, made initial headway in the U.S. government. In 1972, President Nixon ordered that "layman's terms" be used in the *Federal Register.* Six years later, President Carter issued an executive order stipulating that government regulations should "be as simple and clear as possible." The Clinton administration went slightly further in 1998, by expressly obligating federal agencies to use plain English. That same year, the U.S. Securities and Exchange Commission published *A Plain English Handbook* for people drafting security disclosure documents. It's still being used today. In 2010 the U.S. Congress passed and President Obama signed the Plain Writing Act, whose stated purpose was "promoting clear government communication that the public can understand and use." As Obama's administrator of the Office of Information and Regulatory Affairs noted, "Plain language can make a huge difference" by saving money and making it "far easier for people to understand what they are being asked to do." The agency, which was responsible for administering the law, issued guidance on plain language that remains in effect.

In the private sector, plain language has saved time and money for many organizations. In his book *Writing for Dollars, Writing to Please: The Case for Plain Language in Business, Government, and Law,* Joseph Kimble cites a number of them. After the Cleveland Clinic simplified its billing statements in 2008, for instance, it saw a significant uptick in patient payments and was able to recover an additional $1 million a month. And after Sabre Travel introduced plainly written guidelines to help customers install its computerized flight-information system, annual calls to Sabre's help desk dropped 70%, yielding savings of more than $2.4 million. Yet despite such successes, plain language has been slow to catch on in the business world.

THE BUSINESS CHALLENGE

In 2013 I was named the general counsel of GE Aviation's digital-services unit. I was responsible for managing, with the help of others from the Aviation legal department, the unit's legal activity, including contracting. Shortly before I assumed this role, GE Aviation had consolidated three separate digital-services businesses that it had acquired, all of which performed data analysis to identify ways to optimize customers' operations. The leaders appointed to run the newly merged business were trying to grow it and formed a team to make that happen.

Speed to market was key. The team's business strategy was sound, but as the members began executing it, they encountered an obstacle: The complexity of the contracts was making negotiations drag on for months, frustrating prospective customers. Rather than pursuing new opportunities, capturing new business, and delivering world-class digital solutions, the sales team was spending most of its time debating archaic contract language.

Even though the three businesses sold very similar services, they all had their own contracts, a legacy of their pre-GE days. There were seven contracts in total. They averaged 25 pages in length; the longest was 54 pages. They included lengthy recitals (which explain the reasons—at times in excruciating and unnecessary detail—that the parties are signing the contract) and extensive definitions. One contract contained 33 definitions that spanned two pages. Each contract had a unique structure and used distinctive language. These documents had only one thing in common: None of them used plain language; legal jargon and complexity pervaded them all.

My head was spinning when I read each agreement. I felt like a bewildered *Dilbert* cartoon character: Was I looking at a contract or a textbook on quantum physics?

THE SOLUTION

The legal team supporting the newly formed business realized that it had to act. The team proposed converting the seven contract formats into one single plain-language contract.

The team members described their vision to the leaders of the digital-services business in bold terms: If a high schooler can't understand the entire contract, it ain't good enough. But the contract must also protect GE's interests, they said. Transformation without adequate safeguards was not acceptable, even if it did reduce the time spent on negotiations.

The business unit's leaders embraced the idea without hesitation. In fact, they adopted it with zeal, dedicating resources to the project and making it clear that they considered the creation of an easy-to-understand contract to be vital.

As a first step, the legal team organized a multiday off-site with the newly formed plain-language team—a group that included people from sales, engineering, and product support as well as the legal department. The goal was twofold: (1) gain a deep understanding of the services offered, and (2) identify their operational risks. The legal team knew that assumptions were often made about what to include

BEFORE AND AFTER

Under the plain-language initiative in GE Aviation's digital-services unit, a contract's liability-limitation clause was dramatically simplified:

BEFORE

UNDER NO CIRCUMSTANCES SHALL COMPANY HAVE ANY LIABILITY, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY, OTHER LEGAL THEORY, OR BREACH OF WARRANTY FOR: (i) ANY LOST PROFITS; (ii) ANY LOSS OR REPLACEMENT OF DATA FILES LOST OR DAMAGED; (iii) CONSEQUENTIAL, SPECIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES ARISING OUT OF THIS AGREEMENT, THE DELIVERY, USE, SUPPORT, OPERATION, OR FAILURE OF THE SYSTEM; OR (iv) CONSEQUENTIAL, SPECIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES ARISING OUT OF THE INACCURACY OR LOSS OF ANY DATA GENERATED BY THE SYSTEM; EVEN IF COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, PROVIDED THAT THE FOREGOING DISCLAIMER UNDER SUB-SECTION (iii) ABOVE DOES NOT APPLY TO THE EXTENT SUCH DAMAGES ARE BASED UPON THE USE OF THE SYSTEM AND ARE ARISING OUT OF AUSTIN'S WILLFUL MISCONDUCT OR GROSS NEGLIGENCE THAT RESULTS IN A BREACH OF SECTION 6 HERETO.

AFTER

Your and our total compensation obligation under this contract cannot exceed twenty-five percent of the amount FES has billed you in the last twelve months for the applicable service, and neither of us have any compensation, contribution or other obligation for consequential, punitive, incidental, indirect or exemplary losses (including, but not limited to, profit or revenue loss, capital costs, replacement costs and increased operating costs).

NOTE THE NAME OF THE FIRM CHANGED FROM AUSTIN TO FES IN THE INTERIM.

BEFORE AND AFTER

Language in the indemnification clause of a services contract was revised to be clearer and much more concise:

BEFORE

Customer shall indemnify, defend, and hold Company harmless from any and all claims, suits, actions, liabilities, damages and costs, including reasonable attorneys' fees and court costs, incurred by Company arising from or based upon (a) any actual or alleged infringement of any United States patents, copyright, or other intellectual property right of a third party, attributable to Customer's use of the licensed System with other software, hardware or configuration not either provided by Company or specified in Exhibit D.3, (b) any data, information, technology, system or other Confidential Information disclosed or made available by Customer to Company under this Agreement, (c) the use, operation, maintenance, repair, safety, regulatory compliance or performance of any aircraft owned, leased, operated, or maintained by Customer of (d) any use, by Customer or by a third party to whom Customer has provided the information, of Customer's Flight Data, the System, or information generated by the System.

AFTER

If an arbitrator finds that this contract was breached and losses were suffered because of that breach, the breaching party will compensate the non-breaching party for such losses or provide the remedies specified in Section 8 if Section 8 is breached.

in contracts without ever stopping to ask whether the services being covered justified those passages. So, to avoid unnecessary text in the new contract, the plain-language team deliberately decided to put off drafting it to another day.

The off-site was a success; the plain-language team left with keen insight into the offerings and the associated operational risks. Next the legal team started drawing up the contract, beginning from scratch. No templates. No "sample" clauses. No use of or reference to the existing contracts. We simply started typing on a blank sheet of paper, focusing only on the covered services and the risks we'd identified. Throughout the process, we applied our litmus test: Can a high schooler understand this?

Unlearning how to write like a lawyer was harder than we expected. It took more than a month to produce the first draft. The initial version was just five pages—significantly shorter than the existing contracts. More important, it was a clear and understandable document. It didn't contain a single "heretofore," "whereas," or "forthwith." There were no superfluous introductory recitals and legal jargon. Legal concepts that historically had been made complicated in contracts were explained in lay terms. Sentences were short and written in the active voice. We eliminated all definitions. The initial draft was truly a marked departure from the norm. After reading it, one GE Aviation lawyer commented: "It is a little jarring because it is so user-friendly and plainly written." She was not alone in her reaction. All who read it—lawyers and nonlawyers alike—were surprised at its plainness.

The legal team then asked the outside law firm of Weil, Gotshal & Manges to vet the contract. The firm assembled a team of lawyers with expertise in a variety of areas, including commercial contracting, intellectual property, litigation, and alternative dispute resolution. The vetting took roughly three weeks, and Weil proved to be a great partner throughout. With an eye toward ensuring that the final contract adequately protected GE's interests, the Weil team routinely challenged our in-house legal team.

The vetting resulted in refinements, but the new version remained true to our commitment to plain language. The digital-services legal team then reviewed the contract with several other lawyers within GE who were seasoned in commercial contracting. This produced yet another draft. Again, it did not compromise on the commitment to plain language.

THE RESULT

The contract was then presented to the leaders of the digital-services business. It was well received, to say the least. The head of sales at the time characterized it as "a true paradigm shift in contracts and language." It was indeed.

For instance, the compliance-with-laws clause now reads: "During the contract term, we will comply with all of our legal obligations." One sentence containing 13 very understandable words. The previous iteration of that clause consisted of five distinct subsections, nine sentences, 417 words, and (believe it or not) a reference to the president of the United States.

The liability-limitation clause shrank from more than 140 all-capitalized words to just 66 words of regular text. The indemnification clause is now one sentence containing 41 words, down from more than 150. The word "indemnification"—which itself is legalese—is not even used. (See the boxes "Before and After.")

Now we faced the most important test. Would the new contract have any effect on the duration of negotiations? Would customers—some of whom used complex contracts themselves—accept something so radically different? Would the jarring look of the new contract actually increase, rather than decrease, negotiation time?

The results speak for themselves. Plain language has saved GE Aviation's digital-services business significant amounts of time and money. And customers love it. One customer told us: "The contract worked out really nicely; I prefer a more simplistic approach and contracts written in a fashion I can understand." Another said: "The agreement was reasonable to work with, as you saw by our extremely limited redlining needed to get to execution."

Nick Brodribb, legal counsel at Qantas Airways, commented: "Australian lawyers have for a long time been dealing with turgid and redundant language crammed into U.S. legal contracts. The drive toward plain English we have seen from GE, along with companies like Airbnb, gives us great hope for the future. Plain English should save time on the front end of a transaction, which allows the business to get into the project quickly, to manage it more easily, and potentially to resolve disputes sooner."

Plain-language contracting is beginning to spread inside GE. GE Healthcare has launched a plain-language initiative. GE's additive-manufacturing business implemented its first plain-language contract in 2017; the initial customer response has been positive, and the unit's general counsel and business leaders are committed to making plain language the standard approach.

THE LESSONS

I hope our story convinces you of the benefits of making the move to plain-language contracting. For those who decide to go for it, here are a few important lessons we've learned:

Be patient. Complex contracting has been with us for hundreds of years. Don't rush the process. As the saying goes, old habits are hard to break.

Get smart. Learn as much as you can about the products or services that will be covered by the contract. If the people selling the product or service know more about it than you do, learn from them—and do it before you start drafting. Then let the product or service and the associated risks determine the substance of the document. Just because you've always seen a certain clause in a contract doesn't mean that it has to be in yours.

Measure your speed. There is a real allure to a one-page contract or a contract that has fewer than x number of words. But the truth is, fewer pages and words do not necessarily make a contract more comprehensible. Page and word counts should drop, but speed should be the priority. If negotiation time stays the same or goes up, nobody will care how long the agreement is. A negotiation-time metric forces you to focus on what really matters: understandability. The "high schooler" test proved invaluable to us in pursuing that goal. The idea is to make the contracting experience easy for your customer, because, after all, customers determine your success.

Be persistent. The concept of plain-language contracts and the benefits from them are hard to argue with. Every business wants legal agreements that are easy to understand. Every business wants to spend less time negotiating and more time pleasing the customer. Every business wants to spend less time administering its contracts and more time innovating. But change in any company is hard, and radical change—which this is—is damn near impossible. Creating a solid template for plain-language contracts consumes time, ties up resources, and, given the habits formed over years, taxes your organization intellectually. Without some good old-fashioned grit and stick-to-itiveness, your plain-language initiative will fail.

Plain-language contracting takes courage and commitment. It takes putting yourself in the customer's shoes. And it takes patience. In the end it is worth the effort.

HBR Reprint R1801L

The new contract was just five pages and didn't contain a single "heretofore," "whereas," or "forthwith." There was no legal jargon.

SHAWN BURTON is the general counsel of GE Aviation's Business & General Aviation and Integrated Systems businesses. He was previously the general counsel for GE Aviation's Digital and Avionics businesses.

Taking the Pulse of Healthcare Transformation

Large-scale transformation is happening in healthcare. With providers striving for better outcomes at lower costs, the first half of this century will be seen as a turning point in the worldwide development of efficient, outcome-driven, and more personalized healthcare service delivery.

In a new global survey of 613 global health systems executives and consultants conducted by Harvard Business Review Analytic Services and sponsored by Siemens Healthineers, 91 percent said that great opportunity lies ahead for healthcare because of the disruption offered by new technologies and new business models. These disruptions hold the promise of providing better outcomes and more value, the respondents said, while changing the dynamics of healthcare.

These healthcare leaders said that over the next three years, digital technologies will have significant impact on their organizations. Which tools and capabilities will prove disruptive? Mobile devices/patient apps were cited by 75 percent, advanced analytics by 66 percent, and unified communication/collaboration tools to improve communication and treatment adherence by 59 percent.

Providing better outcomes was the key driver for adopting these new technologies and business models. Seventy-two percent of respondents said patient engagement levels can and should be increased by these new tools because they create better outcomes. New technologies also hold the promise of reducing expenses by improving the quality and quantity of patient data and increasing workforce productivity, they said. More than half of the executives strongly agreed that the healthcare industry currently creates avoidable waste and that doctors spend too much time on the tasks that could be fulfilled by lower-level providers and/or by automation.

But this transformation is not without its challenges. Nearly three-fourths of the respondents said that the healthcare industry as a whole lags behind other industries in its capacity to adapt. And only 43 percent said that their own organizations are able to transform as quickly as their competitors'.

Creating a culture of innovation and risk-taking will be essential to improving healthcare quality, the respondents said, but only 22 percent said their organizations are now innovative. Transformation also demands new investments if organizations are to operationalize new technologies. Old hierarchies and traditional healthcare service delivery models, as well as a lack of effective change-management processes, are also barriers to change, respondents said.

What else will the future look like? Nobody has a crystal ball. But at Siemens Healthineers, we believe the future of healthcare—given today's market dynamics—will include:

- Medicine will be more precise and affordable. Therapies tailored to the individual will move us closer to the goal of "the right treatment for the right patient at the right time."
- Value will be at the heart of care delivery. Reducing costs without sacrificing outcomes will require dedicated teams working collaboratively across the full continuum of care.
- Patients will be treated as consumers. As patients continue to bear more financial responsibility for their own care, the search for better value will be the driving force shaping decision making.
- Healthcare will be digital. Digital technologies and big data will continue revolutionizing our understanding and treatment of disease and the very nature of wellness and healthcare.

In short, healthcare transformation calls for less expensive—though excellent—care. That is why we will continue to partner with our customers throughout healthcare's transformational journey toward more value, enabling them to achieve better outcomes at lower cost.

To learn more about how Siemens Healthineers is helping healthcare providers to achieve better outcomes at lower costs, visit siemens.com/healthcare-insights

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Harvard Business Review Experience

JANUARY–FEBRUARY 2018

MANAGING YOURSELF
The Best Leaders Are Great Teachers

CASE STUDY
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The Triumph of Spin over Substance

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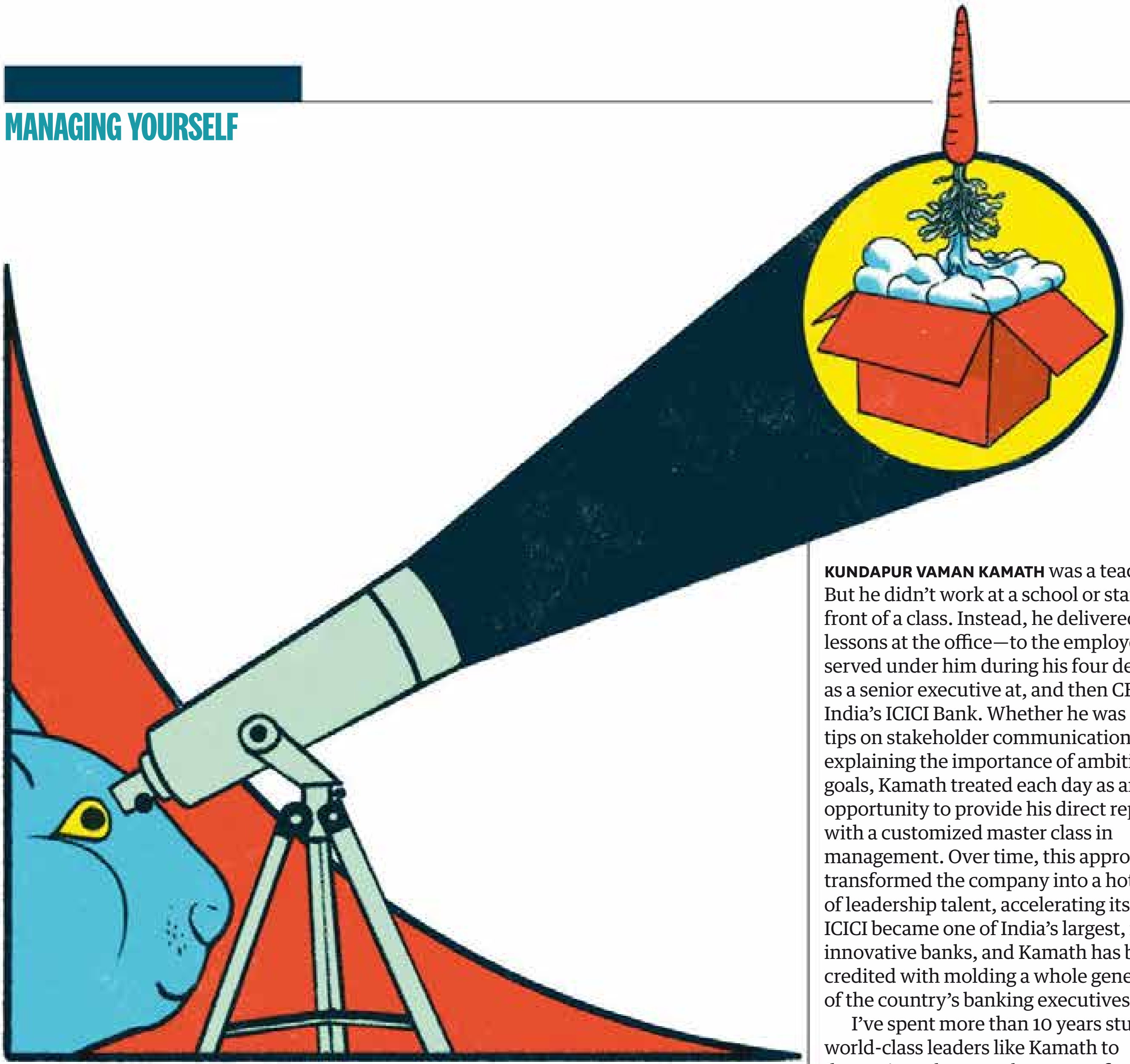
ILLUSTRATION BY CRISTINA DAURA

MANAGING YOURSELF



THE BEST LEADERS ARE GREAT TEACHERS

THEY PERSONALIZE INSTRUCTION TO HELP THEIR EMPLOYEES SOAR. BY SYDNEY FINKELSTEIN

KUNDAPUR VAMAN KAMATH was a teacher. But he didn't work at a school or stand in front of a class. Instead, he delivered his lessons at the office—to the employees who served under him during his four decades as a senior executive at, and then CEO of, India's ICICI Bank. Whether he was offering tips on stakeholder communication or explaining the importance of ambitious goals, Kamath treated each day as an opportunity to provide his direct reports with a customized master class in management. Over time, this approach transformed the company into a hothouse of leadership talent, accelerating its growth. ICICI became one of India's largest, most innovative banks, and Kamath has been credited with molding a whole generation of the country's banking executives.

I've spent more than 10 years studying world-class leaders like Kamath to determine what sets them apart from typical leaders. One big surprise was the extent to which these star managers emphasize ongoing, intensive one-on-one tutoring of their direct reports, either in person or virtually, in the course of daily work. Cognitive psychologists, teachers, and educational consultants have long recognized the value of such personalized instruction: It fosters not just competence or compliance but mastery of skills and independence of thought and action. However, it's unusual to see this type of teaching employed in a business context. Indeed, I've found that most leaders fall back on more-traditional employee management and development practices, such as giving formal reviews, making professional introductions, advising on career plans, acting as sounding boards, and helping to navigate internal politics.

Although some managers do occasionally find themselves imparting a lesson or two, few give it much thought or make it a core part of their job.

By contrast, the exceptional leaders I studied were teachers through and through. They routinely spent time in the trenches with employees, passing on technical skills, general tactics, business principles, and life lessons. Their teaching was informal and organic, flowing out of the tasks at hand. And it had an unmistakable impact: Their teams and organizations were some of the highest-performing in their sectors.

Fortunately, it doesn't take special talent or training or even a lot of time to teach in the same way that star managers do. Simply follow the precedent they've set. Learn what to teach, when to teach, and how to make your lessons stick.

UNFORGETTABLE LESSONS

Great leaders teach on a range of topics, but their best lessons—so relevant and useful that direct reports are often still applying and sharing them years later—fall into three buckets:

Professionalism. A manager who worked for real estate CEO and investor Bill Sanders told me that Sanders often gave advice on conducting oneself professionally. He explained how to effectively prepare for meetings, how to communicate a vision when attempting to sell, and how to look at the industry not as it is but as it could become. Protégés of Kamath have said that he showed them how to mentor subordinates in an appropriate and constructive manner—guiding them while still respecting their independence. Other managers spoke of learning from their leaders the value of emphasizing integrity and high ethical standards. "He started with credibility," former Burger King CEO Jeff Campbell said of the late Norman Brinker, a legend in fast casual dining and one of Campbell's early bosses. "It's clear that he really cared about how guests felt and what kind of people he had working for him." An executive who reported to Tommy Frist Jr. when he was the CEO of Hospital Corporation of America (HCA) recounted that Frist sometimes lectured doctors about the need to put patients first. "Your duty," he would tell them, "is to do just what you learned when you took the oath. If you ever have a business manager call you and encourage you to do something different from what you think is right, you call me, because the day we start doing that, we start shutting hospitals."

Points of craft. You might think that the most senior leaders would leave instruction about the nuts and bolts of their business to others. But stars like former hedge fund CEO Julian Robertson and fashion icon Ralph Lauren trained their people in the same highly disciplined approach that they employed themselves—one rooted in extensive knowledge and experience. As a direct report said of Robertson, he "could, at any given time, know so much about so many different companies that an average person's head would spin." Mindy Grossman, CEO of Weight Watchers and a former executive at Polo Ralph Lauren, remembered standing in showrooms with Lauren and listening to him explain how to achieve authenticity and integrity in fashion whether they were "creating a $24 T-shirt or a $6,000 crocodile skirt." Similarly, employees who worked at Oracle under Larry Ellison noted that when he was running the company, he constantly shared his technical knowledge of software architecture. And Jim Sinegal, cofounder and retired CEO of Costco Wholesale, recalled the way his former boss, Price Club founder Sol Price, routinely tried to build his employees' expertise in the details of retailing: "We were tested every day, and if something wasn't done properly, he'd be certain to show us how to do it."

Life lessons. Of course, great leaders don't limit themselves to teaching about work—they also proffer deeper wisdom about life. That might seem like overstepping, but I discovered that managers found it extremely helpful. For example, an HCA physician interviewed by my research team remembered his former boss Frist showing him a note card on which he had written his near-term goals, intermediate-term goals, and long-term goals. In a lesson the doctor never forgot, Frist explained that he refined those goals each day and was surprised that more people didn't perform such an exercise.

THE EXCEPTIONAL LEADERS I STUDIED ROUTINELY SPENT TIME IN THE TRENCHES WITH EMPLOYEES, PASSING ON TECHNICAL SKILLS, GENERAL TACTICS, BUSINESS PRINCIPLES, AND LIFE LESSONS.

Another example comes from Mike Gamson, a senior vice president at LinkedIn, who told *Business Insider* that his first meeting with the company's new CEO, Jeff Weiner, involved a two-hour discussion of Buddhist principles. Gamson said he wanted to be a more empathetic leader, and Weiner asked why he wasn't instead aiming to be more compassionate. The pair explored the difference between those concepts, with recourse to a religious parable. Gamson came to see that both types of leaders understand other people's perspectives. However, managers who empathize run the risk of getting drawn into the emotions of situations, whereas compassionate leaders are more likely to remain calm and clearheaded and thus more capable of rendering assistance. That lesson from Weiner changed Gamson's entire leadership philosophy.

PERFECT TIMING

When leaders teach is almost as important as what they teach. The successful leaders I studied didn't wait for formal reviews or even check-ins. They seized and created opportunities to impart wisdom.

On the job. When Sinegal was working with Price at Price Club, he knew that lessons could come at any time. According to Sinegal, Price "spent day and night teaching," whether giving advice on retail tactics or discussing how to be a better manager. Chase Coleman III, a protégé of Robertson's, said that Robertson was similarly "out to teach you a lesson" in every interaction, showing "how to do things and how to run a business."

Some leaders ensure on-the-job learning by working in open offices that allow them to observe employees, project accessibility, and encourage frequent conversations. Others opt for more-conventional offices but make a point of maintaining open-door policies and spending lots of time circulating among their staff, which means they can offer lessons on the spur of the moment—when people can best process and embrace them. A good example of this was relayed to me by Campbell, the Brinker disciple. One evening at the office, Brinker brought up a memo Campbell had recently sent to a team member directing him in some detail to take a specific action. "You know," Campbell vividly recalled his boss saying, "this is a thought for you: The next time you're going to tell someone like Bill to do something, try to give him the objective and leave it up to him to figure out how to do it. You'll find out how smart he is or isn't, and he'll probably come up with some things that you wouldn't have thought of yourself."

In manufactured moments. Great leaders don't wait for the "perfect" opening. They create teaching moments—often by taking protégés out of the office environment to more-relaxed settings or unusual places. Frist, an avid pilot, sometimes invited people up in his plane. Longtime *Philadelphia Inquirer* executive editor Gene Roberts would treat his direct reports to dinner and offer "little hints" on how to handle certain situations, one employee recalled. They were the "best seminar you could ever have," another Roberts-trained manager told me. An ICICI executive who often caught rides home from the office with Kamath discovered that this was one of his boss's favorite times to teach. Kamath would welcome all kinds of questions and offer reflections on everything from his business philosophy to his personal spirituality.

Famed chef and foodie entrepreneur René Redzepi, co-owner of the restaurant Noma in Copenhagen, takes off-site teaching to an extreme. In 2012 he relocated his entire staff to London to create a 10-day pop-up establishment. A few years later, the team members went to Tokyo for two months. The next year they moved to Sydney, Australia, for 10 weeks, and in 2017 they ran a pop-up in Tulum, Mexico, for seven weeks. The goal, Redzepi explained, was "to learn by exploring a different place and meeting new people." He took personal responsibility for ensuring that everyone was broadening his or her culinary horizons. Back home, he said, he and the staff worked "to apply all these new learnings to the everyday routine."

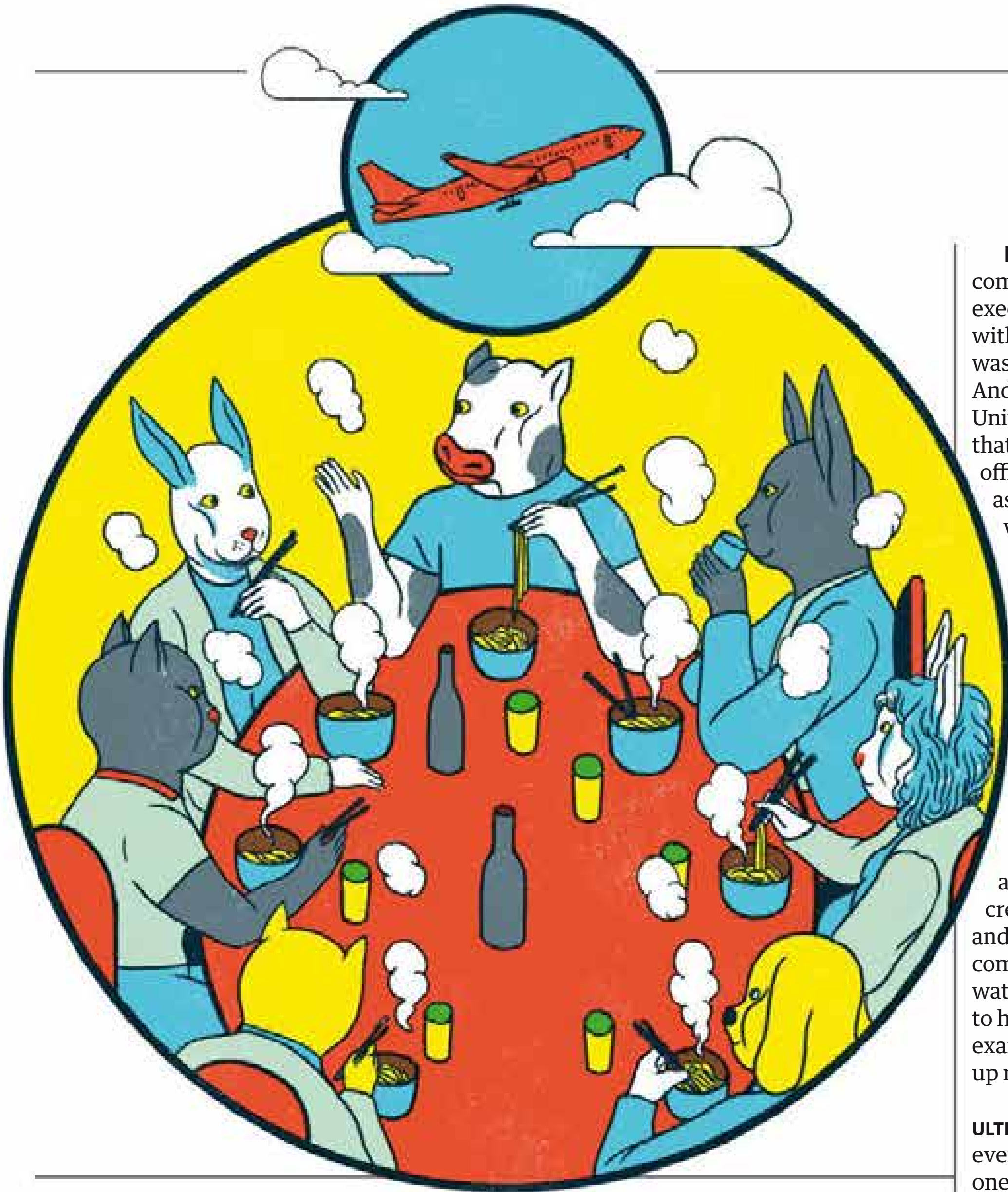
GREAT LEADERS DON'T WAIT FOR THE "PERFECT" OPENING. THEY CREATE TEACHING MOMENTS—OFTEN BY TAKING PROTÉGÉS OUT OF THE OFFICE ENVIRONMENT TO MORE-RELAXED SETTINGS OR UNUSUAL PLACES.

EXPERT DELIVERY

No matter when or where they chose to teach their lessons, the leaders I studied were smart enough not to pompously pontificate or pummel employees with too much information. They deployed these more-nuanced techniques:

Customized instruction. Best-in-class educators embrace personalization, tailoring lessons and support to match students' individual learning profiles. And great business leaders do the same thing. They know that each subordinate should be taught in a way that suits his or her particular needs, personality, and developmental trajectory. Craigslist founder Craig Newmark remembered getting that type of targeted advice from his former boss at a local IBM branch office after an incident in which he behaved like a know-it-all. Pulling him aside, his boss quietly said, "Don't correct people when it matters little."

A senior manager who worked for Sanders described a similar encounter. The man had used the phrase "you guys" in an important—and successful—meeting with



potential business partners. Afterward, in private, Sanders chastised him for the informal language. "He put his arm around me like a father," the executive recalled, and made it clear that as good as the meeting was, "it could have been even better." He has since made a point of expunging "you guys" from his business vocabulary.

Robertson was a master at delivering targeted advice and, more generally, at customizing his ongoing interactions with protégés. "He was very good at understanding what motivated people and how to extract maximum performance out of them," Coleman explained. "For some people, it was by encouraging them, and for other people, it was by making them feel less comfortable. He would tailor his approach based on what he thought would be most effective."

Questions. Star leaders also take a page from Socrates and teach by asking sharp, relevant questions, often in the course of furthering their own learning. According to a colleague at HCA, Frist "was always asking probing questions to find out what was happening." He did it to "educate himself, not to make you feel like you were doing something appropriate or inappropriate. It was an educational venture."

Restaurateur Brinker likewise "was always asking questions," said a former senior executive who reported to him. "'What do you think about this? What do you think about that? If this were your restaurant, what would you do differently?' He pushed his people to do the same thing: 'Have you talked to employees? What kind of guest feedback do you have?'"

Modeling. Another powerful and common teaching tactic deployed by executives I studied, used in conjunction with the other techniques I've mentioned, was the simplest: leading by example. Andrew Golden, president of the Princeton University Investment Company, reported that his former boss, Yale's chief investment officer David Swensen, was known for assuring ambitious new hires that he would do everything he could to help them not only develop but also move on to new jobs when they were ready—which is exactly how Golden ended up in his current role. He and other Swensen disciples learned the strategy by watching Swensen employ it, and now they practice it themselves. "It's a great recruiting tool," Golden noted.

One of Frist's direct reports told me that he learned how "to be a lot more adventurous" just by being around Frist, who was "incredibly creative in how the company was built and put together." Another Frist manager commented: "You learned as much from watching Tommy" as you did from listening to him. Sometimes, just seeing the right example in front of you is all it takes to pick up new behaviors.

ULTIMATELY, GREAT LEADERS understand that even a little bit of high-quality, one-on-one teaching can yield great dividends. As the boss, you command your employees' attention, and the lessons you impart will be more relevant, better-timed, and more personalized than content delivered in traditional leadership-training programs. And when you embrace the role of teacher, you build loyalty, turbocharge your team's development, and drive superior business performance.

Teaching is not merely an "extra" for good managers; it's an integral responsibility. If you're not teaching, you're not really leading.

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CASE STUDY

ARE OUR CUSTOMER LIAISONS HELPING OR HURTING?

LEADERS AT AN INDIAN HOSPITAL WONDER WHETHER NEW STAFF MEMBERS ARE DRIVING DOCTORS AWAY. BY SUNANDA NAYAK AND JYOTSNA BHATNAGAR

Amrita Rajesh could tell that the doctor sitting across from her felt uncomfortable.

Exit interviews were usually handled by junior managers on the HR team, but Amrita felt that given the high rate of attrition among doctors at Krisna Hospital over the past year, it was her responsibility as head of HR to talk to Dr. Vishnu Patel, a respected cardiologist who'd just given his notice.

"Everyone is always very polite in these interviews, but I need your honesty," Amrita told him.

Dr. Patel shifted in his chair. "There are a host of reasons for my departure, many of which you can't do anything about. My family obligations, for example, and the demands in my own practice."

Most of the physicians at Krisna saw patients in their private practices, but they also partnered with and referred patients to the hospital for procedures that weren't possible in an office setting. As the largest multispecialty hospital in Noida, in the National Capital Region of India, Krisna provided secondary and tertiary services in cardiology, orthopedics, neuroscience, oncology, renal care, and gastroenterology.

"Is there anything that would've made you stay? Anything in particular that made you decide to leave now?" Amrita prodded.

"There was that argument I had with a PCE," Dr. Patel said after a pause. He was referring to a relatively new position in the hospital: the patient care executive. Three years ago, in response to patient complaints about not understanding doctors' explanations about their diagnoses and treatments, Krisna had introduced this liaison role. It was meant to be a win-win: Patients and their families would get a better, more personalized hospital experience, and doctors could spend less time managing patients and more time practicing medicine. The program

CASE STUDY CLASSROOM NOTES

The authors wrote the case on which this one is based to explore how organizations can best attract, hire, and retain medical professionals.

In India, physician attrition is a primary worry for hospital leaders since it negatively affects patient loyalty and therefore hurts the bottom line.

SUNANDA NAYAK is a doctoral student in human resources management at the Management Development Institute (MDI), in Gurgaon, India. **JYOTSNA BHATNAGAR** is a professor of human resources management and the chairperson of alumni relationships at MDI.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the case study "Need for New Creed of Doctor-Managers: Talent Management, Retention and Employer Brand Dilemmas at XYZ Hospital," by Sunanda Nayak and Jyotsna Bhatnagar.

The patient care executive (PCE) role is still rare in Indian hospitals, but this type of go-between is not unique to the health care industry. Having a liaison between technical experts and customers can be useful for all sorts of companies. It can also cause friction, as it does in this case.

Are the PCEs "interfering" or playing an important role? The need to better coordinate patient care is becoming increasingly important as health care delivery gets more complicated.

What is the value proposition for doctors to work at Krisna? Why should they work with this employer over others?

fit well into the hospital's brand as an expensive but high-quality care center with the best talent, technologies, and services. Unfortunately, Amrita had heard grumbling from physicians from the moment she'd hired the first PCE.

Dr. Patel explained how the PCE assigned to one of his more complicated cases—a patient who had bypass surgery and needed a pacemaker—had caused the patient's family to lose trust in him. "I don't know what he said to them during the operation, but from then on, they wanted to talk only with him and acted like I was an enemy. It was definitely the PCE and the family against me."

"To make matters worse," he continued, "he gave them misinformation about the pacemaker, and when I tried to explain that he'd been wrong, they didn't believe me."

It was true that Krisna's PCEs didn't have medical training. Most had MBAs but only a few years of experience in health care. And Dr. Patel wasn't the first to complain about PCE interference in the doctor-patient relationship. But thanks to higher customer-satisfaction scores, senior leaders were happy with the PCEs.

"Is the PCE program the reason you're leaving us?" Amrita asked.

Dr. Patel reluctantly admitted that it was. "To be honest, it just makes the job that much harder. I already have to answer to the patient, the patient's family, and the administration. Now I also have to answer to the PCE. It's too many people to please. Why wouldn't I prefer to work in a hospital that doesn't interfere in the same way?"

Amrita didn't have a good response, and she was pretty sure Dr. Patel wasn't expecting one. "Could we convince you to change your mind?" she asked instead.

"Fire that PCE. Actually, fire them all. And let us doctors do our jobs. Then maybe I'll stay."

LEAVING IN DROVES

Later that day, Amrita sat down at a table in the hospital's cafeteria with Meera Kumar, Krisna's chief medical officer. The two executives had worked together for nearly 20 years, and despite their hectic schedules, they tried to meet for lunch each month.

Amrita was still thinking about her conversation with Dr. Patel and broached the issue of PCEs with Meera.

"I wish I could tell you that he is an anomaly," Meera said, "but he's not. Many of our doctors are unhappy about the PCEs."

"Why didn't you tell me this earlier?" Amrita asked.

"I did. You said, 'Give it time.'"

Amrita smiled sheepishly.

Meera continued, "I know I'm biased because of my position, but I agree with my physicians that the PCEs are unnecessary and, in a lot of cases, do more harm than good. From the stories I hear, they seem inexperienced and intrusive. They understand the lingo, but they don't really understand medicines and treatments."

"That's not fair," Amrita said. "It's not as if they're making medical decisions for patients. The doctors are still in complete control. The PCEs are just helping patients better comprehend their options."

"That's not what I hear," Meera said. "A doctor told me that a PCE talked one of his patients out of an important diagnostic test because she was having panic attacks about the procedure. The doctor tried to explain that they could treat the anxiety and that the test was critical, but the PCE wouldn't budge."

Amrita took a breath, about to speak.

"I know what you'll say," Meera cut in. "'That's one bad apple.' But I hear more stories like that every day. This is why our doctors are leaving in droves."

The hospital's attrition rate had been between 20% and 25% for the past 18 months. It was true that because of the current doctor shortage across India, many hospitals were fighting talent wars, but Krisna ranked among the worst on this metric. And it was the only medical center to have the patient care executive role.

Amrita was beginning to wonder if they were ahead of the pack or venturing in the wrong direction.

GOOD OR BAD ATTRITION?

A week later, Ghiridhar Iyer, Krisna's CEO, called Amrita and Jai Srinivasan, the head of patient services, to his office to discuss doctor turnover. He

Are the PCEs compromising the hospital's ability to deliver on its mission of providing superior health care? Patients may feel more cared for, but are they getting the highest-quality treatment?

According to the World Health Organization, India has a ratio of 0.7 doctors per 1,000 people, compared with 2.5 in the United States and 1.49 in China. This has created intense demand for talent among Indian hospitals, with many trying to lure physicians away from competitors with offers of higher pay and more autonomy.

The Indian health care sector is growing at a CAGR of approximately 16%. Its worth is expected to be $160 billion by the end of 2017 and $280 billion by 2020.

When employee engagement and customer service seem to be at odds, should a company prioritize treating employees well or serving consumers as best as they can?

It's not uncommon for a role meant to expedite customer service to add a layer of bureaucracy in an organization. Could Krisna's troubles be attributed to "growing pains" with the PCE program rather than to a fundamental problem with the role?

explained that the issue had come up at the last board meeting.

"Have we identified any patterns or root causes?" he asked.

Amrita glanced at Jai, and then answered, "There are the usual reasons, of course, but I'm starting to wonder about the PCE position."

She could see Jai tense up next to her. The PCE program had been his baby, and his body language suggested he would not take criticism well. Still, she pressed on, summarizing her conversations with Dr. Patel and Meera.

"We wouldn't need PCEs if the doctors had a better bedside manner," Jai interrupted. "I'm sick of trying to keep them happy at all costs. We are a 'patient-focused care center,'" he said, citing Krisna's mission statement.

"Yes," said Ghiridhar, "but we can't deliver patient care if we don't have doctors." Krisna's compound annual growth rate was 82%, and it had been struggling to keep positions filled.

"There is no doubt that the PCE program has been great for the hospital," Amrita said, hoping to defuse Jai's agitation. "Revenue is up, as are patient retention rates and referrals—"

"That's right," Jai said. "When we treat patients with dignity and care, they come back to our hospital for all their health concerns and tell their friends and families to come here as well. And the customer satisfaction scores say it all: They love the PCEs."

"We aren't debating that," Ghiridhar said. "Who wouldn't love a person whose primary job is to hold your hand through a difficult time? The question is: What are we losing as a result?"

Jai jumped back in. "I don't believe that the PCEs are driving the doctors out. I think the doctors are tired of splitting their revenue with us. And they're not happy that the patients would rather come to see the PCEs than go to the doctor's private practice. They're also jealous that the PCEs get paid no matter who comes through the door." At Krisna, and most Indian hospitals, physicians' salaries reflected the number of patients they treated.

"We could consider more training," Amrita suggested. "We did sessions when we launched the role, but maybe it's time to bring the doctors and PCEs together again to share best practices."

"We had enough trouble getting the doctors to show up the first time," Jai said. "What we need to do is find doctors who believe in the hospital's mission and want to collaborate—not put their own interest first."

"According to Meera, those are exactly the doctors we're losing," Amrita said. "We all know that there is good attrition and bad attrition, and Meera assures me that we're now dealing with the bad kind."

"This is a top priority for me," the CEO said. "I know where you stand, Jai. And I agree that we need to be careful not to alienate patients. But we don't want this to escalate into a crisis. We need to think about remedies."

AN EMOTIONAL DECISION

On the elevator ride down from the CEO's office, Amrita replayed the meeting in her mind. She took issue with Jai's characterization of the doctors as money-hungry and self-involved. She knew that most of them could live comfortably on the revenue from their private practices, but they chose to take on challenging cases and bring them into the hospital, splitting the revenues, because they wanted to help people. If PCEs were making the doctors' jobs more difficult, she had to do something about it.

The elevator stopped, and the doors opened. A woman stepped in, crying into her cell phone. "They don't seem to care if he lives. They do test after test, but no one decides what to do. The only person I trust is Karthik."

Amrita recognized the name. He was a recently hired PCE, and when the doors opened again on the first floor, the man she remembered was waiting there. He caught Amrita's eye but then focused his attention on the woman, who fell into his arms sobbing.

They spoke quietly, then hugged again. As Amrita watched them, she couldn't help but think that the PCEs were indeed filling a critical role. She doubted any of Krisna's competitors were providing this level of service.

Amrita now felt weepy herself. This was business, yes, but emotions invariably played a huge role. She needed to make sure that both doctors and patients trusted Krisna to do right by them.

Hospitals like Krisna compete with other private hospitals in their region, as well as with those run by government agencies and nonprofit trusts. Since the country has softened its foreign investment policy, new entrants from Singapore, the U.S., and Australia may soon make the market even more competitive.

SEE COMMENTARIES ON THE NEXT PAGE

SHOULD AMRITA RECOMMEND GETTING RID OF THE PCE ROLE? THE EXPERTS RESPOND

AMRITA SHOULD SERIOUSLY consider eliminating the PCE role, or at least reimagining it so that the responsibilities more clearly reflect the part these employees should play in the process of care delivery.

Right now, there seems to be a gap between what the PCEs were hired to do (explain doctors' diagnoses and treatments to patients and their families) and what they're actually doing (providing emotional support and, in some cases, influencing decision making). Instead of acting as intermediaries, they're acting as alternate authorities, and that's eroding patients' trust in their doctors and in Krisna.

I relate to this case in three ways: as a manager tasked with improving the care experience across a $6 billion, 24,000-employee system; as a practicing physician who treats critically ill patients every day; and as a patient who spent eight years in and out of hospitals fighting my own critical illnesses. In all three roles, I've found that there is nothing more important than the doctor-patient relationship.

Jai, the head of patient services, assumes that physicians want to delegate difficult, emotional conversations so that they can focus on the medicine. But what I've learned is that you can't effectively treat people without taking the time to understand their preferences, values, and fears; you find the right plan only by knowing who your patient truly is as a person and then triangulating on the medicine together. So those interactions are vital to treating the patient and not something I would ever give up. I don't know many doctors who would.

Rather than relieve physicians of the essential task of communication, Amrita must find ways for Krisna's physicians to hand off other, less critical duties, such as administrative burdens or routine tasks that can be competently handled by highly skilled nurses. The PCEs could fulfill the important work of helping patients and their families navigate our increasingly complex medical systems: finding specialists, scheduling appointments, explaining bills and insurance statements. I even think a liaison charged with translating the concerns of patients and families to medical teams could be useful. But the doctors should be the ones at the center of the relationship, answering the questions and leading people to the right courses of treatment.

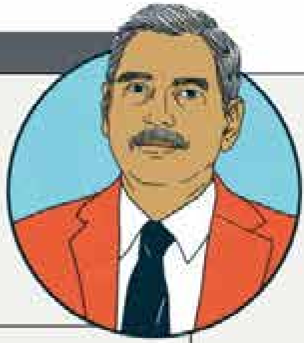
To help them do this, Amrita should introduce Krisna's physicians to the concept of authentic efficiency. Empathetic, compassionate patient care doesn't have to be terribly time-consuming if you follow a few basic rules. It starts with approaching each patient interaction

THERE'S A GAP BETWEEN WHAT THE PCEs WERE HIRED TO DO (EXPLAIN DIAGNOSES AND TREATMENTS TO PATIENTS) AND WHAT THEY'RE ACTUALLY DOING (PROVIDING EMOTIONAL SUPPORT).

with humble curiosity and exploratory questions that position the physician not as the "voice of medicine" but as a partner. At our health system, we've created a program called CLEAR (connect, listen, emphasize, align, respect), which teaches relationship-based communication skills using improv actors.

When I was a patient—with liver tumors that led to hemorrhagic shock, a miscarriage at seven months, multi-system organ failure, and a stroke—the doctors who made me feel "seen" in this way were the ones who got me through. They spent time at my side, which fostered the kind of trust that superseded all others. Krisna needs to make sure that patients' trust is being placed first and foremost in its medical professionals, not its PCEs. That's the only way the hospital and its physicians will continue to thrive.

DR. RANA AWDISH is a critical care physician and the director of the pulmonary hypertension program at Henry Ford Hospital in Detroit. She is also the medical director of care experience for Henry Ford Health System, and the author of *In Shock: My Journey From Death to Recovery and the Redemptive Power of Hope.*



ASHUTOSH RAGHUVANSHI is a cardiac surgeon and the vice chairman, managing director, and group CEO of Narayana Health, which operates 24 hospitals, seven heart centers, and a network of primary care facilities across India.

BEFORE ABOLISHING the patient care executive role, Amrita and her CEO should consider whether there is a structural solution to the problem.

The PCEs aren't working in sync with physicians, most likely because the program was set up without input from or oversight by the medical teams. And while patients and their families might feel more supported, the disconnect between the hospital's staff and its doctors will ultimately lead to miscommunication, missed opportunities, mistakes, and more attrition that will diminish care and customer satisfaction in the long term. It could also create litigation risk for Krisna: Patients who suffer bad outcomes after being counseled by unlicensed professionals may very well sue.

My advice is to restructure the program to better integrate the PCEs into the medical teams. Three or four of them could be assigned to work with each doctor so that people in both roles begin to understand each other and get into a collaborative rhythm. Meera, the chief medical officer, should oversee the group. Amrita, as the head of human resources, could stay involved, but in my view, Jai, who seems to think that a hospital can run on systems and processes while physicians are expendable, should not. In fact, the CEO might want to replace him with an administrator who is sympathetic to both patients and doctors and more capable of working across silos.

Hospitals everywhere should, of course, be considering ways to support patients more fully. This is especially true in India, where we face huge shortages of physicians and lack the physician assistant role you find in other countries. Our specialists are extremely talented in the practice of medicine, but some are poor communicators and resistant to soft-skills training; others routinely handle so many cases that they're too short of time to give each patient the attention he or she might like. But because of our market dynamics, we rarely have the luxury of hiring more and better doctors. Instead, we must work with them to develop tools that will enhance their performance.

Two years ago, after consultation with Narayana's physicians, we implemented a system in six of our hospitals. We selected a group of managers from various functions, including HR, finance, and operations. We assigned them to different areas of the hospital, gave them 10 beds each, and told them to spend an hour each day visiting the patients. Their job was to unearth any brewing concerns and share them with the medical teams or the administration, as appropriate. There were some growing pains as everyone got used to the new role and working together. But after just three months, we saw an increase in patient satisfaction, and we've since seen net promoter scores rise—from as low as 5 to a high of 9—in every hospital that piloted the program. We're now planning to roll it out across our system.

Krisna seems to have introduced its patient care executives without taking into account the opinions of its doctors—the specialists at the core of its service. The responsibilities of the PCEs were obviously too loosely defined, and the PCEs aren't adequately engaging with the medical teams. Amrita and her CEO must now rectify the situation. If they redesign the program so that the PCEs report to physicians, it would be much more than a cosmetic change. It would mark a shift in thinking. It would demonstrate that the hospital is prioritizing clinical outcomes. It would move the focus from hospitality to medicine and ensure that overworked specialists are being supported, not undermined.

WE RARELY HAVE THE LUXURY OF HIRING MORE DOCTORS.

HBR Reprint R1801N
Reprint Case only R1801X
Reprint Commentary only R1801Z

COMMENTS FROM THE HBR.ORG COMMUNITY

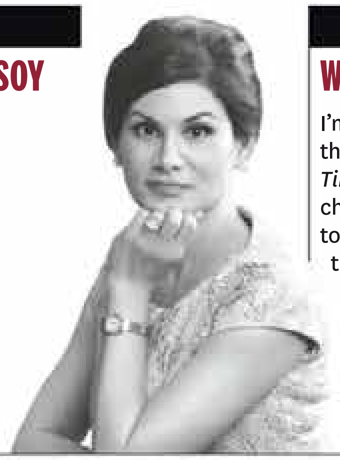
Look at Data
Amrita should run an A/B test, splitting the doctors into two groups. In one, assign them PCEs; in the other, have them communicate with patients directly. Then assess the impact of each group on customer satisfaction scores, attrition, and revenues to make a data-driven decision.
Eugene Ivanov, owner, Demystifying Innovation

Don't Let Patients Suffer
Studies show that activities that increase patient satisfaction can lead to poorer health outcomes. That's what's happening here. Amrita ought to eliminate PCEs and transfer the duties to doctors or other health professionals trained to prioritize health outcomes. After all, a somewhat dissatisfied living patient is better than a satisfied corpse.
Christopher Dougherty, master's candidate, Carleton University

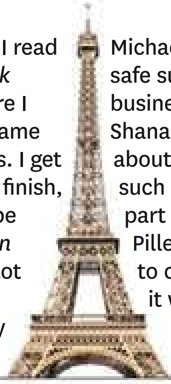
Improve the Program
Amrita hasn't exhausted the options for making the program work. She needs to examine roles and incentives to make sure they're clear and aligned. She should make sure best practices from successful teams are shared with others.
Abhishek Kothari, VP, global financial services firm

JESSICA ICLISOY

FOUNDER AND CEO, CALIFORNIA BABY



WHAT I'M READING...

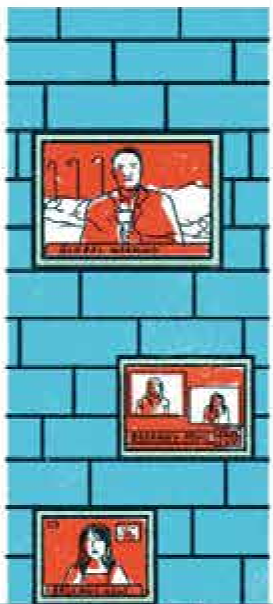


I'm very regimented: Every morning, I read the *Wall Street Journal,* the *New York Times,* and the *Financial Times* before I check e-mail; they might cover the same topics but from different perspectives. I get the *New Yorker* each week; just as I finish, the new one comes. And I subscribe to the *Paris Review* and the *London Review of Books.* I tend to have a lot of books going at one time. Right now they're *The UV Advantage,* by Michael Holick and Mark Jenkins, about safe sun exposure, which relates to my business; *Deep Nutrition,* by Catherine Shanahan and Luke Shanahan, which talks about traditional healthy fats and foods such as liver; and *Chaser,* a fun book that's part memoir, part how-to from John W. Pilley Jr., a professor who trained his dog to communicate 1,000 words. I might try it with my three toy poodles.

SYNTHESIS
THE TRIUMPH OF SPIN OVER SUBSTANCE

STAYING SMART IN A WORLD OF FAKE NEWS AND DUBIOUS DATA BY JEFF KEHOE

During my lunch hour, I often cross the street to the gym for a quick workout. While I pound the treadmill, I plug my earbuds into the TV screen mounted on the equipment and flip back and forth between CNN and Fox News to catch up on the day's headlines. What follows never fails to amaze me. These two media outlets, each watched by millions of people, exist in the same world but describe starkly different realities. It reminds me of the scene in the film *The Matrix* in which Neo's perceived reality depends on whether he takes a blue pill or a red pill.



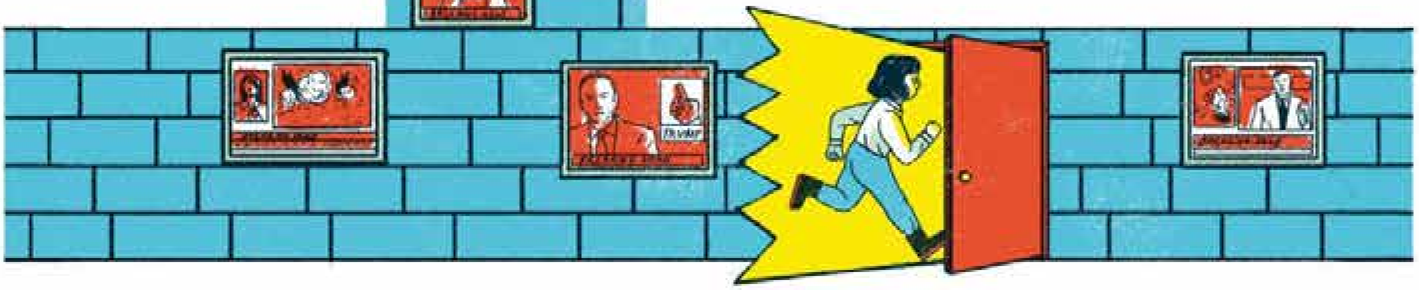
When that film came out, in 1999, many people chalked it up as yet another dystopian sci-fi thriller that posed quasi-philosophical questions about the nature of reality and the potential menace of technology. But the past couple of years—with the 2016 presidential election and the world of "fake news" we've been living in since—have changed all that, giving those questions new immediacy and relevance.

How can we discern the difference between substance and spin—whether we're evaluating political ideas propagated on a mass scale to promote certain interests, or a PowerPoint presentation slightly skewed by a vendor or a colleague to make a point? How can the line between fact and fantasy seem so blurred?

Such questions have defined a burgeoning genre, starting perhaps with Harry Frankfurt's concise treatise *On Bullshit* (2005) and continuing to books such as Evan Davis's engaging chronicle of our moment, *Post-Truth: Why We Have Reached Peak Bullshit and What We Can Do About It* (2017). Three of the freshest books in this crop look at our new reality from quite different angles, shedding light on how it came to be, explaining implications, and providing guidance on how to think and behave in it.

Answering the "How did we get here?" is *Fantasyland: How America Went Haywire,* by the author and critic Kurt Andersen. Andersen argues that the real founders of America were the 17th-century Pilgrims of the Massachusetts Bay Colony, who were both "fantasists" (driven by their passion to create a religious utopia) and "pragmatists" (with precise daily habits, a love of science, and a hatred of art). Add in the Constitution's emphasis on individual rights, and you had a powerful brew, Andersen writes: "a nation that guaranteed personal liberty above all, where citizens were officially freer than ever before to invent and promote and believe anything."

He treats readers to a kind of historical magic-carpet ride, past the Great Awakening (which he relabels "The Great Delirium") and on to the 19th century's mesmerism, homeopathic quackery, and Christian Science. Of course, we meet P.T. Barnum, who well understood "the perfect good-nature with which the American public submits to a clever humbug." Some things never change.



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WHERE I'M GOING...

Because we manufacture our own products, I often travel to see suppliers—for example, the Provence farm that grows our lavender and the Hamburg R&D lab where we source other ingredients. I also attend industry trade shows, particularly in Europe, where a lot of skin care innovation is happening. One annual event I enjoy is the FT Business of Luxury Summit. It's a great place to exchange ideas with industry leaders.

WHAT I'M LISTENING TO...

I'm a huge podcast person. Especially when I'm flying, I'll spend a few hours listening. Favorites include *ReWild Yourself,* from Daniel Vitalis, who believes we've all become too domesticated and is living off the land in rural Maine, and *The Tim Ferriss Show,* which has great interviews with people about personal productivity.

WHAT I'M COLLECTING...

I'm passionate about art, with a focus on works by women, such as the abstract expressionist Perle Fine and the photographer Catherine Opie. We have a great art scene in Los Angeles now, with the Downtown Arts District and LACMA getting a new life. When I'm in New York, my favorite spot is the Neue Galerie.

Fast-forward to what Andersen calls the "Big Bang" decade of the 1960s, which turbocharged hyperindividualism and anything-goes belief. On the left was the rise of relativism, which, ironically, resulted in the enabling of far-right hysteria about gun ownership, anti-government conspiracism, climate change denial, and more.

Fantasyland highlights how, in our own era, the web—combined with democratic dynamics—has massively amplified the battle between what's fake and what's real, because the prominence of any given assertion depends simply on how many zillions of individuals click on it. (Just Google "chemtrails proof.") Thus the book provides a cautionary tale about democracy, asking, Should freedom of belief be an affirmative right, protecting the assertion of fantasy as fact?

One might think that the rise of technology and our digital capability to measure real-world phenomena more accurately would counter our drift toward fantasyland. Not really, as the historian Jerry Muller demonstrates in *The Tyranny of Metrics.* Although he acknowledges that much good has come from scientifically quantifying what's going on around us and using that information to drive our decisions and actions, he also believes that our "metric fixation"—seen in business, government, medicine, education, and elsewhere—has gone too far.

Muller argues, powerfully, that what can be measured is not always worth measuring; that efforts to measure are often more costly than beneficial and draw resources away from the things we ought to care about; and that measurement frequently provides us with seemingly solid knowledge that is actually distorted. The reader acquires a sharpened awareness of how numbers can become a kind of theology (fantasy?), substituting for human expertise and judgment based on experience.

If these two books illustrate, in different ways, that we are now in a bizarro realm where many people feel entitled to believe whatever they want and even data geeks can trade in squishiness, the *Dilbert* creator Scott Adams's latest book—*Win Bigly: Persuasion in a World Where Facts Don't Matter*—offers advice for how to navigate the new normal. It's provocative and entertaining and at turns informative (a glossary of persuasion words is included), philosophical ("The Myth of the Rational Mind" is a short chapter), and practical (aphoristic Persuasion Tips are sprinkled throughout).

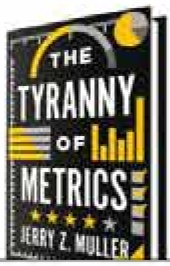
It can also be maddening. Adams professes admiration for Donald Trump's "weapons-grade" persuasion skills, which led to his election victory (though he asserts that he supported neither Trump's nor Hillary Clinton's policy positions). But for people who care about progress—and especially for leaders, whether in the public or the private sector—winning isn't and can't be everything. How one plays the game should matter too.

We are a nation founded on freedom of belief and individual rights. And we are a nation that believes in scientific advances. These three books illustrate how those diverse threads in the American DNA have brought us to a place where people can't seem to agree on the truth. Surprisingly, however, none of the authors make the point that with all rights come civic responsibilities. It's up to each of us to step back, check the source, and think critically about our belief systems. Otherwise we risk submitting to yet another clever humbug.

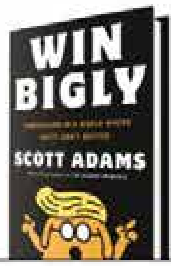
"WE HAVE ENCASED OURSELVES IN A WALL-TO-WALL 24/7 COLLAGE OF FANTASY....MANY DISTINCTIONS BETWEEN FAKE AND REAL HAVE BEEN ERASED. A LOT OF AMERICAN REALITY IS NOW VIRTUAL."
Kurt Andersen, *Fantasyland*

JEFF KEHOE is a senior editor at Harvard Business Review Press.

Fantasyland: How America Went Haywire
Kurt Andersen
Random House, 2017



The Tyranny of Metrics
Jerry Z. Muller
Princeton University Press, 2018



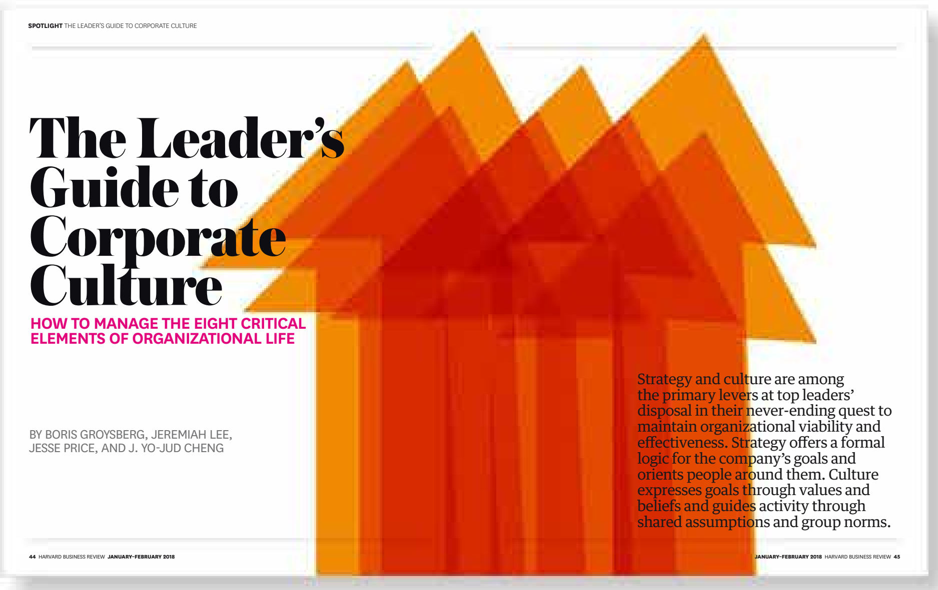
Win Bigly: Persuasion in a World Where Facts Don't Matter
Scott Adams
Portfolio, 2017

SPOTLIGHT

LEADING CULTURE

This package provides an essential guide to determining your organization's current culture and shaping it to fit your strategy.

page 43


SPOTLIGHT THE LEADER'S GUIDE TO CORPORATE CULTURE

The Leader's Guide to Corporate Culture

HOW TO MANAGE THE EIGHT CRITICAL ELEMENTS OF ORGANIZATIONAL LIFE

BY BORIS GROYSBERG, JEREMIAH LEE, JESSE PRICE, AND J. YO-JUD CHENG

Strategy and culture are among the primary levers at top leaders' disposal in their never-ending quest to maintain organizational viability and effectiveness. Strategy offers a formal logic for the company's goals and orients people around them. Culture expresses goals through values and beliefs and guides activity through shared assumptions and group norms.

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THE LEADER'S GUIDE TO CORPORATE CULTURE

Executives are often confounded by culture, because much of it is anchored in unspoken behaviors, mindsets, and social patterns. Many leaders either let it go unmanaged or relegate it to HR, where it becomes a secondary concern for the business. This is a mistake, because properly managed, culture can help them achieve change and build organizations that will thrive in even the most trying times.

The authors have reviewed the literature on culture and distilled eight distinct culture styles: *caring,* focused on relationships and mutual trust; *purpose,* exemplified by idealism and altruism; *learning,* characterized by exploration, expansiveness, and creativity; *enjoyment,* expressed through fun and excitement; *results,* characterized by achievement and winning; *authority,* defined by strength, decisiveness, and boldness; *safety,* defined by planning, caution, and preparedness; and *order,* focused on respect, structure, and shared norms.

These eight styles fit into an "integrated culture framework" according to the degree to which they reflect independence or interdependence (people interactions) and flexibility or stability (response to change). They can be used to diagnose and describe highly complex and diverse behavioral patterns in a culture and to model how likely an individual leader is to align with and shape that culture.

Through research and practical experience, the authors have arrived at five insights regarding culture's effect on companies' success: (1) When aligned with strategy and leadership, a strong culture drives positive organizational outcomes. (2) Selecting or developing leaders for the future requires a forward-looking strategy and culture. (3) In a merger, designing a new culture on the basis of complementary strengths can speed up integration and create more value over time. (4) In a dynamic, uncertain environment, in which organizations must be more agile, learning gains importance. (5) A strong culture can be a significant liability when it is misaligned with strategy.

THE COMPLETE SPOTLIGHT PACKAGE IS AVAILABLE IN A SINGLE REPRINT. **HBR Reprint** R1801B

WHAT'S YOUR ORGANIZATION'S CULTURAL PROFILE?

Leaders can use this worksheet and accompanying questions to determine what kind of culture currently operates in their company.

HOW TO SHAPE YOUR CULTURE

Step-by-step advice for arriving at an aspirational target

CONVERGENCE MATTERS

High levels of employee engagement and customer orientation correlate with closely aligned views among employees regarding which cultural characteristics are salient in the company.

CONTEXT, CONDITIONS, AND CULTURE

When assessing a culture's strategic effectiveness, leaders must keep in mind two germane external factors—region and industry—and three internal considerations: alignment with strategy, leadership, and organizational design.

MANAGING YOURSELF

THE BEST LEADERS ARE GREAT TEACHERS

Sydney Finkelstein | page 142

What sets exceptional business leaders apart? One thing, says Sydney Finkelstein, is their ongoing commitment to giving direct reports one-on-one instruction. Finkelstein, a management professor at Dartmouth's Tuck School of Business, has studied world-class leaders for more than a decade. He's found that they make a point of personally imparting memorable lessons that fall into three categories: pointers on professionalism, technical knowledge and skills, and broader life lessons.

Finkelstein notes that *when* and *where* top leaders teach is almost as important as *what* they teach. Instead of waiting for formal reviews, great managers stay accessible to their employees and share their wisdom as opportune moments arise, whether that's in the office or outside it. They also *create* teaching moments—often by taking protégés off-site.

How do they make lessons stick? Their techniques include (1) customizing instruction to the needs, personality, and development path of each individual, (2) asking pertinent questions to deepen learning, and (3) modeling the behavior they want others to practice. Finkelstein discusses numerous superstar leaders who are revered as great teachers and suggests that if you follow their example, you can strengthen your staff and drive superior business performance.

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FEATURES

MARKETING

ADS THAT DON'T OVERSTEP

Leslie K. John, Tami Kim, and Kate Barasz | page 62

Data gathered on the web has vastly enhanced the capabilities of marketers. With people regularly sharing personal details online and internet cookies tracking every click, companies can now gain unprecedented insight into individual consumers and target them with tailored ads. But when this practice feels invasive to people, it can prompt a strong backlash. Marketers today need to understand where to draw the line.

The good news is that psychologists already know a lot about what triggers privacy concerns off-line. These norms—and the authors' research—strongly suggest that firms steer clear of two ad-targeting techniques generally disliked by consumers: using information obtained on a third-party site rather than on the site on which an ad appears, which is akin to talking behind someone's back; and deducing information about people (such as a pregnancy) from analytics when they haven't declared it themselves.

If marketers avoid those tactics, use data judiciously, focus on increasing trust and transparency, and offer people control over their personal data, their ads are much more likely to be accepted by consumers and help raise interest in engaging with a company and its products.

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MANAGING PEOPLE

CAN MOOCs SOLVE YOUR TRAINING PROBLEM?

Monika Hamori | page 70

Companies say they want their employees to learn and grow, but in practice, they skimp on training. In a recent study of 1,481 employed learners, more than one-third of them said they had received no training from their companies in the previous 12 months. Instead, many acquire work-related skills through MOOCs (massive open online courses)—usually without their employers' knowledge

PEOPLE WHO WANT TO GET BETTER AT THEIR JOBS ARE FENDING FOR THEMSELVES.

or support. This represents a missed opportunity for companies to harness their employees' efforts in the service of organizational goals.

Managers can help team members put their learning into context by providing study time and informal guidance before and during the courses. Having employees pilot courses for one another helps ensure relevance and quality. And tracking completion reinforces the value of learning while increasing the odds that people will stick with their coursework.

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LEADERSHIP

THE NEW CEO ACTIVISTS

Aaron K. Chatterji and Michael W. Toffel | page 78

Though corporations have been lobbying the government and making campaign donations for a long time now, in recent years a dramatic new trend has emerged in U.S. politics: CEOs are taking very public stands on thorny political issues that have nothing to do with their firms' bottom lines. Business leaders like Tim Cook of Apple, Howard Schultz of Starbucks, and Marc Benioff of Salesforce—among many others—are passionately advocating for a range of causes, including LGBTQ rights, immigration, the environment, and racial equality. Not only are CEOs speaking out, but they're flexing their firms' economic muscles by threatening to move business activities out of states that pass controversial laws.

But does CEO activism actually change public opinion and policies? What are its risks and rewards? And what is the playbook for leaders considering speaking out? The authors of this article examine those questions and explain the takeaways of their own research. One finding: Consumers tend to view CEO activism through the lens of their own political affiliations, so it can provoke both negative and positive responses. Nevertheless, in the age of Twitter, silence on an issue can be conspicuous—and consequential.

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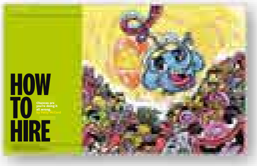
MANAGING PEOPLE



HOW TO HIRE

Patty McCord | page 90

Most companies approach hiring with faulty assumptions and poor practices. They believe talent is fixed rather than contextual. They fail to create real partnerships between internal recruiters and hiring managers. And they rely too much on salary surveys and rigid compensation formulas.

The author shares what she learned about making and keeping great hires during her 14 years as the chief talent officer at Netflix. The process requires probing beneath the surface of people and their résumés; engaging managers in every aspect of hiring; ensuring that recruiters deeply understand the business and are not viewed as support staff; adopting a mindset in which you're always recruiting; and coming up with compensation that suits the performance you need and the future you aspire to.

These lessons may be especially relevant to fast-growing tech-based firms, whose rapid innovation means a continual need for new talent. But organizations of all types can benefit from taking a fresh look at their hiring and compensation practices.

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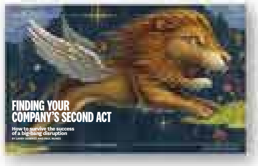
INNOVATION



FINDING YOUR COMPANY'S SECOND ACT

Larry Downes and Paul Nunes | page 98

Accelerating technological improvements have changed the speed with which new innovations penetrate markets. Graphed over time, the market adoption of innovations now resembles a dramatic shark fin—a dangerously deformed version of the classic bell-curve model of diffusion. Two forces have compressed the bell curve: near-instant market saturation by new products and the rapid obsolescence of digital components. As a result, many companies struggle to find new sources of revenue after a big-bang success.

The authors describe seven mistakes that make enterprises—incumbent businesses as well as start-ups—highly vulnerable to such flameouts: (1) The company is too lean. (2) Its capital structure is built to fail. (3) It has lost its founder. (4) It's overserving investors. (5) It "won the lottery" by getting lucky with a big-bang disrupter. (6) It's held captive by regulators. (7) It anticipates customers who don't exist. They offer some tactics for ensuring that your business is a second-act survivor: Abandon the successful product before it runs out of steam. Build a platform, not a product. Turn your initial product into a service. Invest in or acquire nascent disrupters.

HBR Reprint R1801G

TECHNOLOGY

ARTIFICIAL INTELLIGENCE FOR THE REAL WORLD

Thomas H. Davenport and Rajeev Ronanki | page 108

Cognitive technologies are increasingly being used to solve business problems; indeed, many executives believe that AI will substantially transform their companies within three years. But many of the most ambitious AI projects encounter setbacks or fail.

A survey of 250 executives familiar with their companies' use of cognitive technology and a study of 152 projects show that companies do better by taking an incremental rather than a transformative approach to developing and implementing AI, and by focusing on augmenting rather than replacing human capabilities.

Broadly speaking, AI can support three important business needs: automating business processes (typically back-office administrative and financial activities), gaining insight through data analysis, and engaging with customers and employees. To get the most out of AI, firms must understand which technologies perform what types of tasks, create a prioritized portfolio of projects based on business needs, and develop plans to scale up across the company.

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MANAGING ORGANIZATIONS

MORE THAN A PAYCHECK

Dennis Campbell, John Case, and Bill Fotsch
page 118

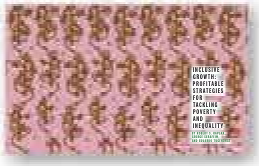
Fifty years ago a good blue-collar job was with a large manufacturer such as General Motors or Goodyear. Often unionized, it paid well, offered benefits, and was secure. But manufacturing employment has steadily declined, from about 25% of the U.S. labor force in 1970 to less than 10% today. Now a decent living entails more than a generous wage; it involves sharing the company's success with employees.

NOWADAYS A GOOD JOB INVOLVES THINKING LIKE A BUSINESS OWNER.

Some companies offer a direct stake in the company's performance through stock, a share in profits, or both. Companies with employee stock ownership plans report significantly higher sales growth and higher revenue per employee than do conventionally owned companies in the same industry. However, virtually all the gains to be had go to those that create an ownership culture, by building in participative management and helping employees learn to think and act like owners.

HBR Reprint R1801J

STRATEGY



INCLUSIVE GROWTH: PROFITABLE STRATEGIES FOR TACKLING POVERTY AND INEQUALITY

Robert S. Kaplan, George Serafeim, and Eduardo Tugendhat | page 126

More than a billion people in the developing world remain in extreme poverty and outside the formal economy. Traditional CSR programs have done little to alleviate the situation and rarely produce transformative change.

Instead of trying to fix local problems, the authors argue, corporations need to reimagine the regional ecosystems in which they participate. They should search for systemic, multisector opportunities; mobilize complementary partners; and obtain seed and scale-up financing from organizations with a mission to alleviate poverty. They should also align the various stakeholders around the new strategy, using proven tools such as a co-created strategy map.

These principles are informed by the authors' experience with several successful inclusive-growth projects. An initiative in Uganda is bringing small maize farmers into the mainstream regional economy, while a training program in El Salvador is giving unemployed youths the skills to work in the country's growing service sector.

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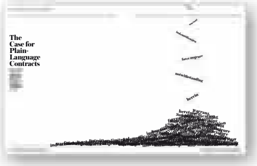
NEGOTIATIONS



THE CASE FOR PLAIN-LANGUAGE CONTRACTS

Shawn Burton | page 134

What do you call a dense, overly lengthy contract that's loaded with legal jargon and virtually impossible for a non-lawyer to understand? The status quo, says Shawn Burton, the general counsel for GE Aviation's Business & General Aviation.

When Burton was leading the legal team for that division's new digital-services unit, he and his colleagues noticed that customer contract negotiations were dragging on for months, hampering growth. So they set out to replace the unit's seven excruciatingly complicated contracts with one that even a high schooler could understand. In this article, Burton describes how the team went about achieving that goal and the lessons learned along the way. He also shares the results: Customers were delighted with the new contract, and some even signed it without making a single change. The time it took to negotiate contracts dropped by a whopping 60%. And now plain-language contracts are starting to spread inside GE.

HBR Reprint R1801L

HOW I DID IT

STRATEGY

THE CHAIRMAN OF RYOHIN KEIKAKU ON CHARTING MUJI'S GLOBAL EXPANSION

Masaaki Kanai | page 35

The idea behind Muji was to manufacture and sell beautiful, inexpensive housewares, food, and apparel that every Japanese consumer might need. In the late 1980s Muji sparked interest among British retailers at an exhibition of Japanese products, and a joint venture with Liberty ensued. By 1991 the brand had stand-alone stores in London and Hong Kong, and since then it has grown to 418 stores in Japan and 403 in 27 other countries. Yet the company has moved cautiously, adding stores only when existing ones in the country or region are running profitably, and trusting the intuition of local managers. Operations outside Japan now account for 35% of the business, and the company intends to keep expanding globally. But its aim is to be tenacious in trying to deliver on the Muji promise and to live as part of a community—simply, conscientiously, and in harmony.

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COMING IN JANUARY 2018: ENDING SEXUAL HARASSMENT

HAVE THE #MeToo movement and the continuing exposure of serial sexual aggressors in the workplace permanently changed our sense of what constitutes sexual harassment? Wider access to public platforms for reporting bad behavior and new research on what works (or doesn't) when it comes to creating safe workplaces point to a generational shift in how men and women attain—and retain—power in the workplace. In this series, HBR explores the risks and rewards for leaders as they seek to address one of business's most open secrets: Too many of us feel unsafe at the office.

MARCH 2017

THE ECONOMY

THE BUSINESS OF INEQUALITY

Nicholas Bloom

hbr.org/inequality

INCOME INEQUALITY is a big problem, and it starts with firms. Understand how a winner-takes-all economy drives it. See top economists' inequality charts. Read an interview with former White House economist Jason Furman and a call to action by Harvard Business School's Rebecca Henderson.

MAY 2017

TECHNOLOGY

THE DRONE ECONOMY

Chris Anderson

hbr.org/drones

DRONES ARE here to do real work. Learn how to get started with this disruptive technology platform. See how AT&T uses drones. Watch the founder of iRobot talk about her drone start-up. Learn about the breadth of jobs that drones do. Understand the legal and regulatory landscape.

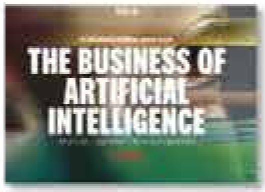
JULY 2017

TECHNOLOGY

AI, FOR REAL

Erik Brynjolfsson and Andrew McAfee

hbr.org/ai



AI IS finally for real and its effect on business will be profound. Go inside Facebook's AI team. Watch AI help chefs make a meal. Read why AI can't yet write an HBR executive summary. Watch Coursera cofounder Andrew Ng and HBR's Adi Ignatius discuss AI.

SEPTEMBER 2017

MANAGING YOURSELF

CONNECTING AT WORK

Vivek H. Murthy

hbr.org/loneliness

MURTHY, the 19th U.S. surgeon general and a tech entrepreneur, argues that cultivating emotional well-being at work can lessen people's loneliness and improve business. Leading researchers and executives contribute to an interactive conversation about us, our jobs, and our health.

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NOVEMBER 2017

MANAGING ORGANIZATIONS

THE GOOD JOBS SOLUTION

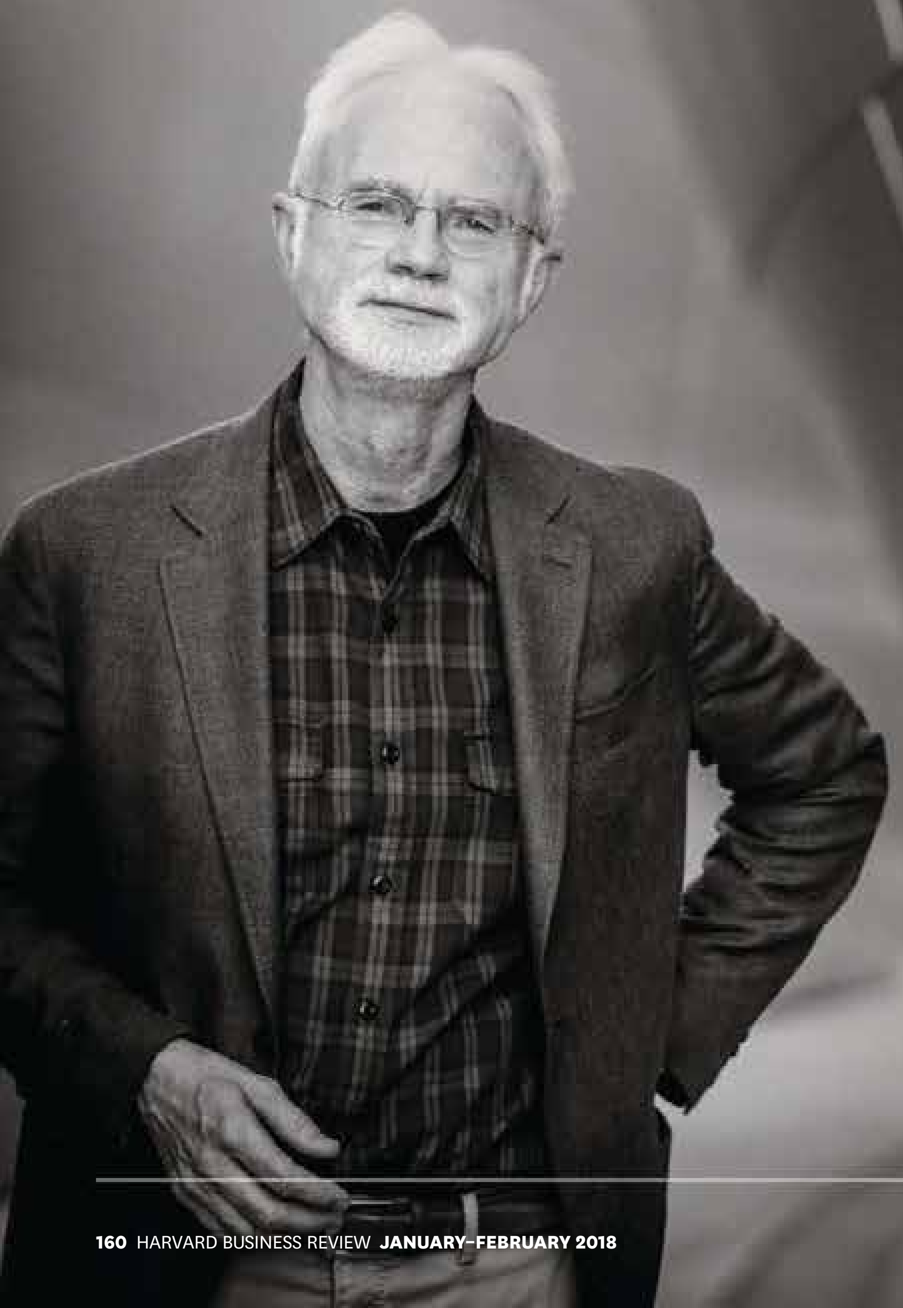
Zeynep Ton

hbr.org/goodjobs

MILLIONS OF service-sector jobs are low-paid and dead-end. But some companies are adopting a radically different model. MIT's Zeynep Ton explores what it takes to make the transformation and its potential impact on companies, the economy, and workers' lives.

LIFE'S WORK JOHN ADAMS COMPOSER

"I'M LIKE A GARDENER: I HAVE THESE IDEAS AND LET THEM GROW BUT KNOW WHERE TO TRIM AND PLUCK."



Terrorism, nuclear war, and politics are just a few of the topics that Adams, one of classical music's preeminent living composers, has tackled in his work. Moving between the studio (where he writes alone) and the stage (where he conducts large orchestras), he now has a catalog of more than 70 pieces, including the recently premiered opera *Girls of the Golden West*.
Interviewed by Alison Beard

HBR: How do you stay on the cutting edge while also ensuring commercial success?
ADAMS: Well, classical music does not have a fraction of the audience that somebody like Beyoncé has. But I've been very lucky over my career to have had a wonderful listenership. As for buzzwords like "cutting edge" and "innovative," I don't think that way. I encounter the world—whether it's politics or history or the psychology of being an American at this time—and respond. If I were to sit down and say, "What can I do to push the envelope or be disruptive?" it just wouldn't work.

But your first major opera, *Nixon in China*, marked a big change. How did you have the confidence to do it?
I think it was, in part, a dollop of ignorance. I had no experience with opera. I'd never written a note for a solo voice. But I was really charged by the story of this encounter between Nixon and Mao. To explore that collision of a market economy and a communist ideology was a delicious thing. And it was controversial, which piqued everybody's interest. Of course, people forget that the reviews were pretty scorching. The *New York Times* said, "Mr. Adams does for the arpeggio what McDonald's did for the hamburger." What kept me going was the fact that it created an enormous amount of excitement. People wanted to put it on and write about it in magazines like *Time* and *People*.

How do you follow a splash like that?
I'm 70 now, and I've learned through painful experience that each new piece has to begin with baby steps. My first scribblings and stabs are always profoundly humiliating. I would be terrified if anybody were in the room seeing how, after all my prizes and honors, I'm sitting there like a kindergartner with Lego blocks trying to put something together. But too often in the art world people hit on an idea and brand themselves with it and keep delivering the same thing. That to me is death. I would rather struggle but at the end of six months or two years have a work that is genuinely new and original.

How long will you keep at it?
Brahms publicly announced his last piece, but that's inconceivable to me. It would be like saying, "Next week I'm going to stop breathing." I communicate with the world through my music. When people tell me that something I've written has affected them, it makes me feel my existence on the earth has been worth it.

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VERN EVANS