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Harvard Business Review

SEPTEMBER 2016

WHAT DOES YOUR CUSTOMER REALLY WANT?

HOW TO FIGURE IT OUT

PAGE 45


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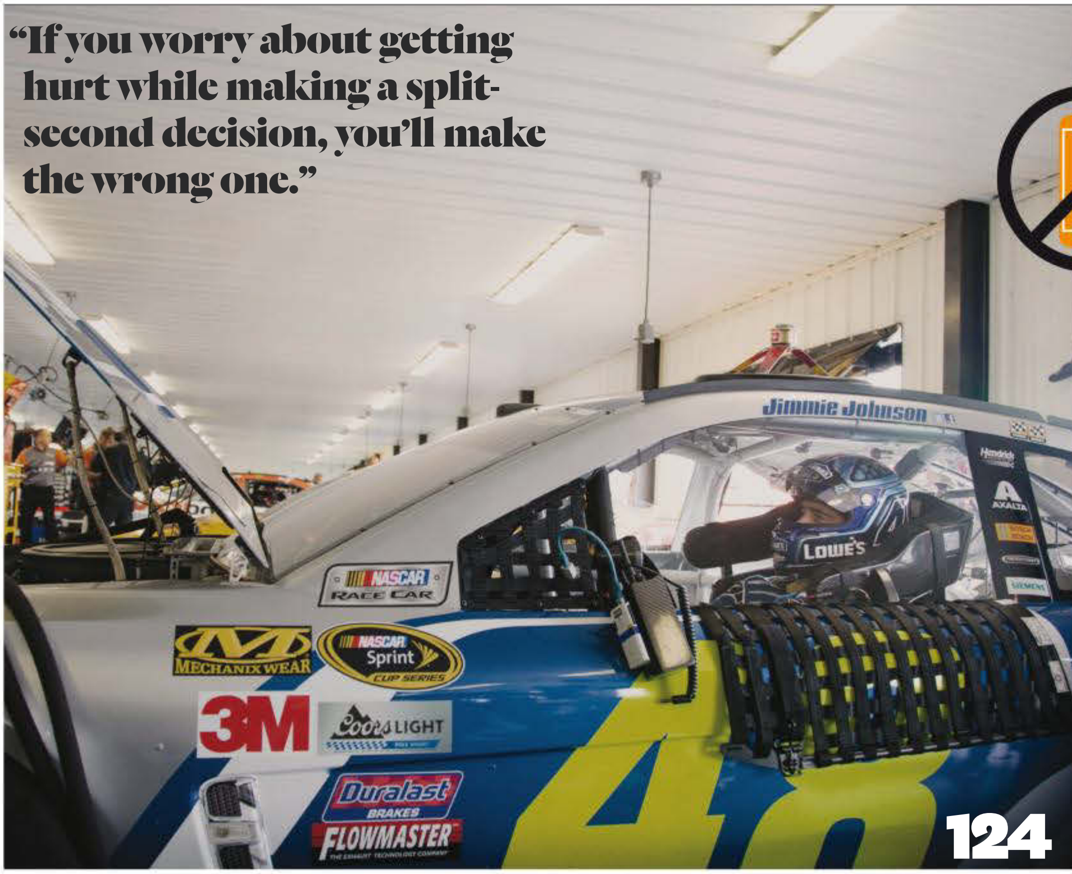
“If you worry about getting hurt while making a split-second decision, you’ll make the wrong one.”



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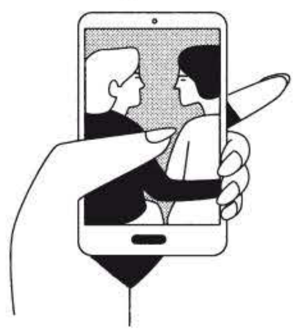

ETHAN HILL; PAUL GARLAND; CHRISTOPHER DELORENZO

From the Editor
Thriving in a Volatile Global Landscape

Fifteen years ago, Henry Kissinger published a book with the provocative title *Does America Need a Foreign Policy?* Kissinger was concerned that with the Cold War over, policy makers had become reluctant to articulate a clear vision of U.S. self-interest.

We're putting forth a provocative idea of our own in this month's Big Idea, "Why Your Company Needs a Foreign Policy" (page 36). In the article, John Chipman, chief executive of the London-based International Institute for Strategic Studies, argues that companies, too, need a strategy for protecting their interests in an increasingly unstable world.

For Chipman, things changed two years ago, when Russia invaded and then annexed Ukraine's Crimean peninsula. It was the first major strategic crisis in Europe in a generation, and as I write, Europe faces another crisis: Britain has voted to leave the European Union. A shifting world order requires multinationals to adopt a new approach to global risk management.

The shift derives from several megatrends, including America's growing unwillingness to intervene in faraway hot spots, an increase in officially imposed economic sanctions, and political uncertainty in the developing world. To cope with all this, Chipman says, companies need to effectively "privatize" foreign policy—internalizing many of the elements traditionally employed in statecraft. They need to collect external intelligence, identify allies, and even develop their own relationships with foreign governments.

For most companies, this is a dramatic change. But Chipman suggests that in today's tumultuous geopolitical climate, expertise in international affairs and effectiveness at corporate diplomacy will become a critical new source of competitive advantage.

Adi Ignatius, Editor in Chief

JOHN VON PAMER


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Contributors

Max Bazerman gave up his alternative career path, 38 years ago, as a cardplayer. He was a life master in tournament bridge as a teen and made money gambling. Eventually, cards interfered with grad school, and grad school interfered with cards—one had to go. Today Bazerman continues to use many of the skills he learned at the table—strategic thinking, decision making under uncertainty, and understanding how others arrive at their decisions—in his research on negotiations. On page 76, Bazerman and his coauthor, Nobel Prize–winner **Daniel Kahneman,** transform the game of negotiation by thinking about how to change the incentives of the other side to act ethically.

Marijah Bac Cam, this month's Spotlight artist (page 45), was born in Laos and grew up in France. She says that the person who most encouraged her creative side was her father. "According to him, even a mundane activity such as peeling a vegetable should be done with enthusiasm and creativity," she said in an interview with Nitram Charcoal. "I have not learned to peel vegetables in a sculptural way, but I have kept his message in my heart and try to infuse all my daily acts with creativity and fantasy." See more of her work at saatchiart.com/mbc.

As a PhD candidate at UPenn's Wharton School, **Mohanbir Sawhney** focused his research on innovation in the film business—an industry he selected because its speedy turnarounds made it easy to test hypotheses about new-product development. Now a professor at Northwestern's Kellogg School, he continues his study of innovation through the lens of the digital revolution. His feature on page 82 looks at the potential of digitization to transform higher-end knowledge work.

Joseph Badaracco credits his Jesuit high school with fostering his interest in how important thinkers, across centuries and cultures, have addressed complex problems. As a professor, he has continued to study ethics and decision making and for the past two decades has taught those subjects around the world. In this issue, he presents a five-question framework for choosing a course of action when the path forward is unclear (page 104).

John Chipman was in China meeting with senior leaders on the eve of Russia's annexation of the Crimea. "Suddenly, everyone wanted to know what it meant and how the West would react," Chipman recalls. His organization, a foreign policy think tank, studies the effect of strategic shocks and geopolitical volatility on global markets. To survive, says Chipman, companies need a corporate foreign policy. On page 36, he lays out the principles that should guide multinationals wherever they operate.

VIVIAN SHIH

Harvard Business Review

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Interaction


MANAGING THE HIGH INTENSITY WORKPLACE

An "always available" culture breeds a variety of dysfunctional behaviors.

BY ERIN REID AND LAKSHMI RAMARAJAN

The Challenges of a 24/7 Workplace

HBR article by **Erin Reid** and **Lakshmi Ramarajan,** June

People today are under intense pressure to be "ideal workers"—totally committed to their jobs and always on call. But after interviewing hundreds of professionals, Reid and Ramarajan concluded that such selfless dedication is often not only unnecessary but actually harmful to individuals and their firms. The authors discuss three strategies for coping with demanding workplaces—accepting, passing, and revealing—and the risks associated with each.

It would be very helpful if managers understood how difficult being a 24/7 employee is and adopted the authors' ideas for creating a saner workplace. However, I'm afraid that, with its gentle tone, this piece will be lost on many people, who don't have a clue what they're doing to their workers. This isn't a new issue, but it's an easy one for a boss to ignore.

As the economy improves, I'm hearing more about people who are looking for new jobs because their workplaces are toxic and demand unreasonable time commitments. And more people are turning off their phones altogether when they leave work.
Michele M. Horaney, principal, Thought Leader Public Relations

Most corporate environments need a little of all three strategies the authors mention. Sometimes deadlines and collaborative projects require a more accepting approach, where you devote yourself to work. But it's important to balance that with the revealing approach—being open about your life outside work—to preserve a healthful culture.
Jason Walton, executive, Mortenson Construction

It takes courage for a manager to demonstrate the revealing behaviors and encourage them among his or her team, especially if the company culture supports only "ideal" workers. However, I've seen that when employees are given the support to be their whole selves, they willingly go the extra mile and perform better overall.
Caroline Foote, marketing manager

I loved the recommendation that while it's up to individuals to protect their personal time, it's usually a leader in the organization who can and must drive the culture toward accepting a balanced life.
Devashish Pandey, senior consultant, Deloitte Consulting

What about responding to e-mails after work with "I don't receive e-mails on my personal phone" or "I don't share my personal phone number at work—if I'm needed in the evening, I should be given a company phone and compensated for being on call."
Sophia Wallingford, data analyst

Workers are increasingly aware of the importance of balancing health, happiness, and a career—and those who aren't burn out inevitably. A well-oiled machine is much more efficient than one that has run itself into ruin.
Amanda Luecht, administrative assistant, Premier Island Management Group

RECENTLY TRENDING ON HBR.ORG

How to Know If Someone Is Ready to Be a Manager
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BY PRISCILLA CLAMAN

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BY JACK ZENGER AND JOSEPH FOLKMAN

Turning Around a Team

HBR article by **Michael D. Watkins,** June

Most leaders don't have the luxury of building a team from scratch. They're put in charge of an existing team, and they need guidance on how to raise their game. Watkins suggests a three-step approach: Size up the personnel you've inherited, reshape the team, and accelerate team development.

The biggest constraint, in my opinion, is the organization's culture and the "allowed" pace of change. The author touches on this at a high level, but experience shows that not moving swiftly to replace certain members on your team will increase frustration and hinder a new manager's plan. A new manager should try to negotiate the leeway to replace people prior to signing on to the role.

Jean Y. Sabbagh, vice president of marketing, SaaS

A new leader has to provide stability while also moving the team forward. I've worked with clients who suffered because the new leader brought stability but did not bring vision or develop a strategic direction. Thus they became victim to a revolving door of leaders.

Michelle Riley Jones, senior HR consultant, The Fahrenheit Group

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Defend Your Research: Generalists Get Better Job Offers Than Specialists

HBR article by **Nicole Torres,** June

When Jennifer Merluzzi and Damon Phillips conducted a study of nearly 400 recent graduates of top U.S. business schools who had gone into investment banking, they found that the MBAs who had specialized in investment banking were less likely to receive multiple job offers and were offered smaller signing bonuses than the MBAs who had diverse backgrounds.

Isn't it possible that investment banks offer a lower bonus to a specialist because they know they can get away with it? They realize that a specialist in finance will have less desire and fewer options to go outside the industry. Also, what are the relative percentages of specialists hired compared with the total available specialist spots versus those percentages for generalists? That also may be a factor. I'm skeptical about these conclusions because I see a larger move toward specialization even in the most generalist industry of all: consulting.

Pedro Nuno Chaves Ornelas, manager, financial services advisory, EY

Does this research consider the potential selection bias for generalists? If I were an investment bank recruiter, I would probably hire generalists only if they were truly exceptional but might accept weaker performers who are specialists.

Nicholas Rait, senior strategy consultant, Deloitte Australia

In today's world being able to swiftly shift your focus from one area to another is key; nothing is siloed today. Strategy blends with operations, technology with people, and art with science. And underneath it all comes culture. To really master one area, you need to be able to master a few.

Yuval Dvir, head of online partnerships, Google for Work

Nowadays the description for a particular job often involves so many roles and responsibilities that generalists are more likely to be hired, since they are the ones who will be able to move around within the organization, fulfilling multiple roles. Specialists are also needed but in a different capacity.

Mubashir Bashir, service development manager, E-Resolute

If you look again at the same sample of investment bankers, I'm sure you'll find that many candidates who joined as generalists eventually became specialists. So how do you distinguish that?

Roopa Kamath, consultant, Vasista Enterprise Solutions

HBR SURVEY

How do you respond to texts and e-mails from colleagues in the evening? Here's what our readers say:

24% ALWAYS REPLY AND, IF REQUESTED, BANG OUT SOME WORK ("I'LL HAVE IT FOR YOU IN FIVE MINUTES!")

25% RESPOND AND GIVE THE IMPRESSION THAT THEY'RE WORKING ("AM ON IT—WILL TAKE A FEW HOURS")

51% DON'T ALTER THEIR PLANS UNLESS IT'S URGENT ("AT A SHOW—WILL GET TO THIS TOMORROW"). THEY MAY NOT EVEN RESPOND THAT EVENING.

SOURCE THE HIGH-INTENSITY WORKPLACE SURVEY, BY ERIN REID AND LAKSHMI RAMARAJAN

Idea Watch

Compiled by HBR editors

Not all diversity is created equal.
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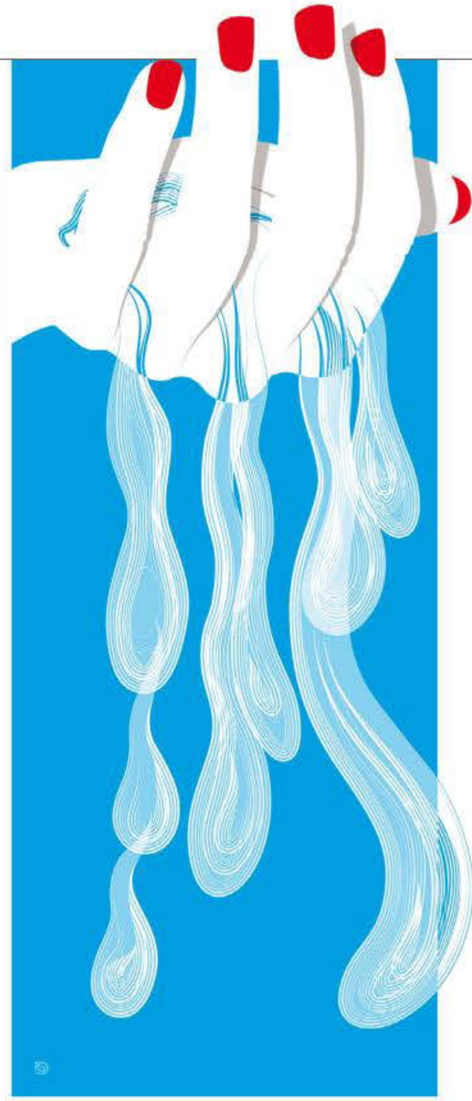
PAUL GARLAND

TALENT
WHY PEOPLE QUIT THEIR JOBS

Tech surveillance and social media monitoring point to new triggers.



PAUL GARLAND

Imagine that you're looking at your company-issued smartphone and you notice an e-mail from LinkedIn: "These companies are looking for candidates like you!" You aren't necessarily searching for a job, but you're always open to opportunities, so out of curiosity, you click on the link. A few minutes later your boss appears at your desk. "We've noticed that you're spending more time on LinkedIn lately, so I wanted to talk with you about your career and whether you're happy here," she says. Uh-oh.

It's an awkward and Big Brother–ish scenario—and it's not so far-fetched. Attrition has always been expensive for companies, but in many industries the cost of losing good workers is rising, owing to tight labor markets and the increasingly collaborative nature of jobs. (As work becomes more team-focused, seamlessly plugging in new players is more challenging.) Thus companies are intensifying their efforts to predict which workers are at high risk of leaving so that managers can try to stop them. Tactics range from garden-variety electronic surveillance to sophisticated analyses of employees' social media lives.

Some of this analytical work is generating fresh insights about what impels employees to quit. In general, people leave their jobs because they don't like their boss, don't see opportunities for promotion or growth, or are offered a better gig (and often higher pay); these reasons have held steady for years. New research conducted by CEB, a Washington-based best-practice insight and technology company, looks not just at why workers quit but also at *when*. "We've learned that what really affects people is their sense of how they're doing compared with other people in their peer group, or with where they thought they would be at a certain point in life," says Brian Kropp, who heads CEB's HR practice. "We've learned to focus on moments that allow people to make these comparisons."

Some of the discoveries are unsurprising. Work anniversaries (whether of joining the company or of moving into one's current role) are natural times for reflection, and job-hunting activity jumps by 6% and 9%, respectively, at those points. But other data reveals factors that have nothing directly to do with work. For instance, birthdays—particularly midlife milestones such as turning 40 or 50—can prompt employees to assess their careers and take action if they're unhappy with the results. (Job hunting jumps 12% just before birthdays.) Large social gatherings of peers, such as class reunions, can also be catalysts—they're natural occasions for people to measure their progress relative to others'. (Job hunting jumps 16% after reunions.) Kropp says, "The big realization is that it's not just what happens at work—it's what happens in someone's personal life that determines when he or she decides to look for a new job."

Technology also provides clues about which star employees might be eyeing the exit. Companies can tell whether employees using work computers or phones are spending time on (or even just opening unsolicited e-mails from) career websites, and research shows that more firms are paying attention to these things. Large companies have also begun tracking badge swipes—employees' use of an ID to enter and exit the building or the parking garage—to identify patterns that suggest a worker may be interviewing for a job. Companies sometimes retain outside firms, such as Joberate, to monitor employees' social media activity for indications that people are scouting for new options. (Among other things, such firms look at whom employees are connecting with.) Joberate CEO Michael Beygelman compares this emerging science to the way that credit scoring can predict which consumers will fail to repay loans. Although some companies hire Joberate to help them anticipate which individual employees might think of leaving, others use the intelligence to zero in on

1967

FROM THE ARCHIVE

"The geographic boundaries of these units [zip codes] divide the country into areas which in fact can be defined economically and, even more important, culturally—rather than into areas, like counties, which are defined politically and are almost meaningless for marketing purposes."

"ZIP CODE—NEW TOOL FOR MARKETERS," BY MARTIN BAIER (HBR, JANUARY–FEBRUARY 1967)

departments or locations with high "likely to leave" scores so that they can work on team building and overall engagement. One large tech company uses it to target people it might lure away from other firms. Some investors use it to identify companies that may soon face turnover in key positions. "If the CIO and the head of sales are both likely to be job hunting, you have to ask what's up," Beygelman says.

Lori Hock, the CEO of Hudson Americas, a recruitment process outsourcing company that uses Joberate, values predictive intelligence because it helps her reduce clients' attrition—and spot things that may be driving it. "Is it a bad manager?" she says. "Is there a training component? Are we undervaluing certain positions? It gives you a nice opportunity to think about what the trigger might have been—and to ask questions *before* you lose talent."

Some firms, such as Credit Suisse, take this tack with employees identified as being at risk of leaving: Internal recruiters cold-call the employees to alert them to openings inside the company. In 2014 the program reduced attrition by 1% and moved 300 employees, many of whom might otherwise have left, into new positions. Credit Suisse estimates that it saved $75 million to $100 million in rehiring and training costs.

Researchers agree that preemptive intervention is a better way to deal with employees' wandering eyes than waiting for someone to get an offer and then making a counteroffer. CEB's data shows that 50% of employees who accept a counteroffer leave within 12 months. "It's almost like when you're in a relationship and you've decided you want to break up, but your partner does something that makes you stick around a little longer," Kropp says. "Employees who accept a counteroffer are most likely going to quit at some point very soon."

HBR Reprint F1609A

ABOUT THE RESEARCH "The New Path Forward: Creating Compelling Careers for Employees and Organizations," by CEB (white paper)

THE IDEA IN PRACTICE

"THIS IS AN EARLY-WARNING SIGNAL"

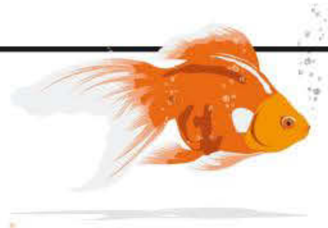
Genevieve Graves studied astrophysics before joining hiQ Labs, a start-up that applies predictive analytics to talent management. She says the fields aren't as dissimilar as they sound: "Most of the techniques I used as an astronomer—machine learning, scientific computation, large data-management tools—directly translate, but now I study people instead of galaxies." She spoke with HBR about the emerging science of predicting attrition. Edited excerpts follow.

What does hiQ Labs do?
We use public and internal company data to predict turnover risk. We also provide tools to help with skill mapping, succession planning, internal mobility, and career development. It used to be about retention, but now it's also about getting the most from the employees you have.

What public data do you look at?
We read online résumés and profiles. We consider an employee's social media footprint, which indicates visibility to recruiters. For instance, is an engineer participating in open-source code projects? We look at work histories (to get a sense of how frequently an employee changes jobs) and at the opportunity landscape, meaning how much demand there is for a particular employee's skills. These things don't necessarily mean someone is job hunting—they just indicate recruiter attention. People trying to predict attrition often think of "push factors" that make people want to leave their jobs, but public data can point to "pull factors" that indicate recruiters might be wooing someone who's not actively looking.

What do managers do with the information?
Once they know which people to worry about, they can have check-in conversations. Do employees find their work challenging and interesting? Do they see a clear trajectory? (For knowledge workers, attrition usually isn't driven by compensation.) The data is an early-warning signal that lets managers intervene.

Why do employers find this valuable?
Attrition can be expensive, especially with knowledge workers. We focus on industries such as finance, technology, pharma, and biotech, which have high-value contributors. A lot of company knowledge walks out the door when an employee leaves. You can hire somebody with the same skill set, but it takes months for that person to get up to speed. And when managers leave, they may take a whole team with them.



People who act unethically on the job recall their misdeeds less vividly than they recall their good behavior—a phenomenon researchers call "ethical amnesia."

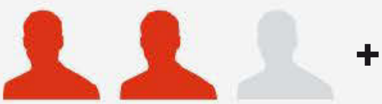
"WE'RE UNETHICAL AT WORK BECAUSE WE FORGET OUR MISDEEDS," BY FRANCESCA GINO AND MARYAM KOUCHAKI

SOCIAL MEDIA
MAKING CLICKBAIT VIDEOS FOR THE C-SUITE

Many companies are now creating online videos aimed at global decision makers. To understand executives' consumption habits, researchers at Alpha Grid (a media company owned by the *Financial Times*) and Unruly (a video ad tech firm) surveyed 87 senior business and government leaders about when, why, and how they watch. The researchers offer these tips:

DO

Keep it short. More than half the leaders surveyed said they generally won't watch videos that are longer than three minutes.



Feature VIPs. More than two-thirds said that the most appealing clips include a respected figure, such as a journalist or a big thinker.

Highlight key takeaways. The most-often-cited reasons to click on a video include "relevance to industry" and "to gain information for my job."

DON'T

Air live broadcasts mid-afternoon. Executives watch mostly at night (54%), over lunch (30%), or upon waking up (10%). Consider e-mailing video links after hours.

Obsess about mobile. Fully 82% of the leaders surveyed watch primarily on a laptop or a desktop.

Rely on the executives to make videos go viral. Although they frequently share videos with colleagues, they do so chiefly by e-mail (76%) and typically send a link to just one recipient.

SOURCE "THE SCIENCE OF BUSINESS SHARING," BY ALPHA GRID IN PARTNERSHIP WITH UNRULY

ORGANIZATIONS
WE CONFLATE DIFFERENT KINDS OF DIVERSITY

Diversity can be measured on a host of dimensions—ethnicity, gender, skills, and so on. A group may be diverse on one or more dimensions and homogeneous on others. But people are really bad at recognizing this subtlety. If a group is diverse in any way, a flaw in our cognitive processing can lead us to perceive it as diverse in *every* way—a distortion that might help explain why inclusion remains so challenging for many companies.

That's the conclusion of Stanford University researchers who conducted several experiments to assess people's perceptions of diversity. In one, participants looked at several groups of faces; all the groups were two-thirds male, and some were racially diverse. When asked about the level of gender diversity, subjects were more likely to report groups with racial diversity as having more gender diversity. In another experiment, groups that wore different-colored T-shirts while working on a task were more likely to later say that their team was gender-diverse than were groups that wore T-shirts of the same color—even though all the groups had the same mix of men and women. The effect exists for less obvious markers of diversity too. For instance, participants in two other experiments erroneously judged groups to have high ethnic diversity when those groups included people with a variety of programming skills.

The researchers hypothesize that these flaws in judgment occur because when assessing diversity, people use any indication of heterogeneity as a heuristic—a shortcut that involves generalizing on the basis of specific information. According to one of the researchers, Stanford assistant professor Lindred Greer, this might explain why Silicon Valley has historically employed men of various ethnicities but relatively few women: Hiring

In a retail chain that implemented a bonus plan for high-performing employees, sales rose on average—but fell in cases where workers thought the bonuses were unfairly awarded or unattainable.

"DO INCENTIVE PLANS FOR EXEMPLARY EMPLOYEES LEAD TO PRODUCTIVE OR COUNTERPRODUCTIVE OUTCOMES?" BY CAROLYN DELLER AND TATIANA SANDINO

managers see the ethnic diversity, which masks the lack of gender diversity. "The question 'Are we diverse?' turns out to be difficult to answer correctly across multiple dimensions," Greer says.

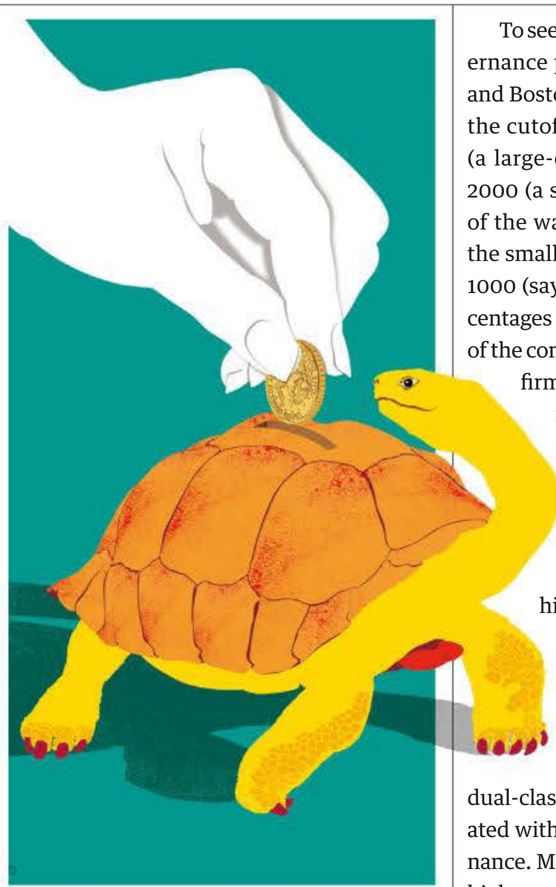
The researchers warn that an inaccurate view of diversity can lead to poor management. If a leader overestimates the variety of skills among the members of a multiethnic team, for instance, she might direct the team toward solving new problems instead of implementing existing solutions. Perhaps most important, the researchers say, their findings call into question much of the literature on whether diversity improves team and organizational performance, because a lot of studies have used self-reported measurements of diversity. New studies that account for distortions in how people perceive groups, they write, "might allow us to draw more-robust scientific inferences about the consequences of diversity."

ABOUT THE RESEARCH "Spillover Bias in Diversity Judgment," by David P. Daniels, Margaret A. Neale, and Lindred L. Greer (working paper)

GOVERNANCE
DEBUNKING THE MYTH OF THE PASSIVE INVESTOR

Over the past 20 years, the share of mutual fund assets owned by index funds, or "passive" investors, has nearly tripled—a development often seen as hurting corporate governance.

When active investors use their discretion to buy or sell shares of a company, they're voting on the firm's strategy and rewarding or punishing its leaders for performance. Even when they're not buying or selling, they're often engaged in a dialogue with executives, using the threat of selling to persuade managers to shift strategy or increase dividends or buybacks.



Passive fund managers can't do this—they're forced to hold, say, an S&P 500 stock, regardless of their view of the company's strategy, simply because the stock is in the index they're tracking. (Some critics refer to the passive camp as "lazy investors.") Although the financial community has mixed views of "activist investors" and their tactics, which are often seen as heavy-handed, proponents argue that shareholder influence is part of what makes capitalism work. As the hedge fund manager Bill Ackman has put it, "Active oversight…is essential to the country's long-term business performance." Passive investors counter that although they can't threaten to sell shares, they can influence company behavior through proxy votes and other means. "We're going to hold your stock…when everyone else is running for the exits," says F. William McNabb III, the CEO of Vanguard, the indexing powerhouse. "That is precisely why we care so much about good governance."

To see how passive ownership affects governance practices, researchers at Wharton and Boston College studied companies near the cutoff point between the Russell 1000 (a large-company index) and the Russell 2000 (a smaller-company index). Because of the way those indexes are constructed, the smaller of the companies in the Russell 1000 (say, the bottom 250) have lower percentages of passive investors than the larger of the companies in the Russell 2000, but the firms are otherwise fairly similar. The researchers analyzed governance practices in the two sets to try to determine how passive ownership affects policies, behavior, and performance.

Surprisingly, they found that higher passive ownership is associated with a larger number of independent board directors. Firms with high passive ownership are also more likely to remove takeover defenses and dispense with dual-class share structures—actions associated with good, shareholder-friendly governance. Moreover, the researchers found that higher passive ownership is associated with greater profitability and firm value. In effect, passive investors seem to be enhancing performance by pushing for proven governance reforms without much costly monitoring.

Should we think of these institutional investors as "passive-aggressive" instead? One of the researchers, Boston College's Ian Appel, says no. Passive "does describe how they pick stocks," he explains, but it doesn't suggest that they're meek or lazy when it comes to dealing with management. Firms with stock held by large index funds "appear to be confronted by a more contentious shareholder base."

ABOUT THE RESEARCH "Passive Investors, Not Passive Owners," by Ian R. Appel, Todd A. Gormley, and Donald B. Keim (*Journal of Financial Economics*, July 2016)

Some of these articles previously appeared in different form on HBR.org.

DEFEND YOUR RESEARCH
MAKING A BACKUP PLAN UNDERMINES PERFORMANCE

The study: Jihae Shin of Wisconsin School of Business and her coauthor, Katherine Milkman of Wharton, gave 160 university students a sentence-unscrambling task and promised an energy bar to those who performed it well. Before receiving the text to work on, half the participants were asked to think about different ways they could obtain free food on campus should they fail to earn the snack. People prompted to think about those backup plans unscrambled significantly fewer sentences, on average, than people who hadn't been asked to formulate a plan B.

The challenge: When we think about what we'll do if we fail to achieve our goals, are we less likely to succeed? Can backup plans backfire? **Professor Shin, defend your research.**

Shin: That was our hypothesis, and it proved true not only in this study but in follow-up experiments that took the same approach but offered people different rewards—saved time or an extra dollar in their pockets. We think that when achieving a goal requires work, not luck, making a backup plan can hurt performance by reducing the desire for that goal. We saw this in our third study, in which we surveyed participants about how much they wanted the promised reward of $1. Those who had been asked to think through backup plans reported that they wanted the cash less than others. They might not have been aware of this shift in their mindset while working, but they were less motivated, so they put in less effort, which hurt their results.

HBR: So they weren't just distracted? Or tired from too much thinking? We did test to see whether cognitive fatigue could be causing the poor performance, but participants asked to brainstorm about other things before unscrambling the sentences did just fine. That confirms that cognitive fatigue wasn't driving our effects.

But aren't we taught the importance of not putting all our eggs in one basket? There are certainly important benefits to making backup plans. One is the psychological comfort it brings: People think, "I'm going to be OK even if I fail, because I can then do X or Y." It reduces the perceived uncertainty of the situation. Another benefit is that if you fail, you don't have to dwell on it; you can quickly implement your backup plan. However, the costs of making backup plans haven't previously been examined, and we believe that acknowledging both costs and benefits can lead to better, more informed decision making.

But the tasks in your experiments were pretty simple and the rewards were—no offense—sort of lame. Would you get the same results if you studied people in high-stakes situations? We would actually predict that the effect would be more significant, and when we conducted a separate survey, interviewing people from the general public about their real goals, we found correlational evidence supporting that hypothesis. Those who had thought through backup plans reported devoting less effort to the goals they were trying to achieve: getting a promotion, earning a graduate degree, or becoming a vet, for example. Also, the participants in our lab studies spent less than 10 minutes thinking about their backup plans—a tiny investment of their attention—yet it significantly affected their motivation and performance on goal pursuit. In real life, when the stakes are higher, we would expect people to devote more time and energy to mapping out detailed backup plans. And as that reduces effort over a sustained period, it could result in even more significant negative effects.

The idea for this research actually came from my own experience in the job market. As I was pursuing an academic faculty job, I had the option of thinking about a backup plan—pursuing an industry job—but I found myself not wanting to, because I worried that it might make me less determined to achieve my primary goal.

So, to use another cliché, we need to always act as if failure is not an option? The punch line of this research could certainly be this: If you prepare for failure, you may be more likely to fail. But the practical advice we would give is more nuanced than that. We're not suggesting that you always avoid making backup plans. But maybe you

PAUL GARLAND

could hold off on doing so until you've put as much effort as possible into your primary goal. If you're a manager of a team working toward a certain objective, consider asking a second group, consisting of different people, to come up with the backup plan rather than your A team. If you're an entrepreneur, think about committing to one start-up idea for a period of time, instead of planning for and being ready to jump to another project as soon as things go south.

My aunt always told my cousin, an aspiring dancer, that she should get a teaching degree to fall back on. Was she wrong? Success and performance depend on many factors. For some people, not making a backup plan might indeed be beneficial in helping them put their best effort forward. Some parents assume that having a backup plan is always a good thing, yielding nothing but positive outcomes. Given our findings, we'd suggest that they at least consider the possible negative effects.

Aside from your job search, have these findings changed how you operate at work? Yes, I now sometimes try to delay making a backup plan until after I've really done everything I can to accomplish my first goal. For example, when Katy and I were working on this research project, I didn't think about other projects we could do if this one failed.

I don't have another Q&A to run in September if this one turns out badly. Good. That means you'll make sure it doesn't.

Interview by **Alison Beard**
HBR Reprint F1609B

STRATEGIC HUMOR

To enter our caption contest, go to **HBR.org**.

CAPTION CONTEST

"Well, I guess it's one way to develop a can-can do attitude."

This month's winning caption was submitted by **Mike Vos** of Hilton, KwaZulu-Natal, South Africa.

TOM TORO, SUSAN CAMILLERI KONAR, CROWDEN SATZ

HOW I DID IT...
ARZU'S FOUNDER ON SHAPING CULTURE THROUGH SOCIAL ENTERPRISE

by Connie Duckworth

MATTHEW GILSON

The Idea

The author wanted to improve the lives of Afghan women, despite considerable cultural obstacles. Her nonprofit found a way to attach education and health care to their employment as rug weavers and to raise their standing in the community.

I first visited Afghanistan in 2003, as part of a U.S. delegation focused on improving the lives of women. I was particularly interested in women's economic empowerment, and my initial thought was to create a business around some sort of product that Afghan women could manufacture and we could sell for a profit in the United States.

Until that trip, I had no idea what we were up against. Afghanistan was dangerous: Planes turned off their lights to land in Kabul, and we were the first group of civilians allowed to stay in-country overnight since the war began. The villages had no electricity, so it was difficult to imagine creating a light manufacturing facility. Women were still regarded as chattel, and they weren't permitted to leave their homes to take a job. So it was hard to see how my plan could ever empower them.

On the last day of the trip, our military convoy stopped at a dusty NGO shop. U.S. soldiers were stationed to protect us, and we were given 10 minutes. I looked around quickly and saw mostly trinkets. The only higher-end products were locally woven carpets. I bought four small ones and took them home to Chicago. I knew nothing about rugs, but I began studying the industry. I learned that few other industries in the world rely as much on child and slave labor. That made very appealing the idea of building a responsible, sustainable business that would employ only adults and treat them humanely. Afghanistan has a rich history of carpet weaving, and most of the work is done by women in their homes. But the profits go to middlemen, whom we would have to disintermediate in order to pay the weavers a higher wage. In developed economies, large handwoven wool rugs sell for as much as $8,000, and there's a robust market for them. The financial model and the cultural fit seemed to align.

I spent months carrying those four rugs in a wheelie bag around Washington, DC, trying to line up some initial funding. In the summer of 2003 I set up a 501(c)(3) nonprofit and began working to create an entirely new and socially responsible supply chain. The term "social enterprise" wasn't well-known back then; I was calling this a "self-funded enterprise," meaning that although we could accept donations to fund our operations, our long-term goal was to be profitable. It has proved harder than I ever expected—13 years later we're still not turning a profit. But we have been able to document significant improvements in the lives of the Afghan women we employ—their earnings have jumped dramatically, and most now have cell phones, for instance—along with a real cultural shift in how these women are viewed by their families and society. We believe that our model, which is based on behavioral economics, would work well with other products and other economically underserved people, whether in developing countries or here in the United States, in poverty-stricken urban or rural areas. It all starts with a job.

Bitten by the Start-Up Bug

I've always been fascinated by business, even as a teenager. After attending the University of Texas, I went to Wharton, and then I spent a couple of years working in the oil industry. In 1981 I joined Goldman Sachs in the bond department. I liked the work. In 1990 I became one of the first four women to be made partner there, and the first from a sales or trading function. In the late 1990s I helped Goldman start an electronic trading business, which it later spun off. Once bitten by the start-up bug, I began thinking about what I might do next.

I happened to be in New York on 9/11, and it was a terrifying day, both for me and for my family back in Chicago. At the time, my four children were aged five to 11. The 800-mile drive home after the bridges reopened gave me a long opportunity to think, and I realized that it was time to make a change: I opted to retire at age 46. Within months I was asked to join the U.S.-Afghan Women's Council, a bipartisan public-private partnership focused on Afghan women. As the "business representative," I made the Afghan economy my priority.

It's hard to comprehend the scale of need in Afghanistan, but I quickly became convinced that charity and foreign aid weren't working. Most of the aid earmarked for Afghanistan never even leaves the United States—it's taken as commissions and fees by contractors and subcontractors. The U.S. has spent billions in the country, and from what I've seen on my four visits, there's very little to show for it. Even well-run, well-intentioned charities are usually just pulling on

In addition to providing employment for weavers, ARZU operates three preschools and supplements government K–12 schooling with English and computer classes held at its community centers, which are open to ARZU families and others.

ELISA BOGOS (TOP); ARZU STAFF (BOTTOM)

a single thread, such as education or health, rather than stepping back to think about poverty alleviation as a human-centric activity. People need an ecosystem that attacks the larger set of problems holistically. I believe that building viable local businesses is a more promising way to drive change.

To create a self-funded enterprise that sells rugs, I first needed to learn a lot about the product and the market. I showed the rugs I'd brought back to carpet dealers, who said they were junk—they'd never sell in the high-end U.S. market. It turns out that a lot of factors go into "quality" beyond the actual weaving: patterns, colors, dyes, the finishing, the wool itself—all are variables in a very complex supply chain. The first rugs I'd bought had traditional and tribal patterns, and many of them were dyed the orange-red color of madder root. The weavers—the people my organization wanted to employ—were just one link in the chain. To make this venture work, we'd have to get involved in every step of the process.

Three Legs of the Stool

As our understanding of the product and the local environment grew, our goals became more ambitious. We wanted to create a sustainable business model linking well-paying jobs to certain behaviors that over time would shift the cultural norm. The centerpiece is what we call our "social contract," negotiated with male heads of household. If a family wants to weave for ARZU ("hope"), they must agree to these conditions: All children, including girls, must attend government school full-time, and all adult women must be "released" from the family compound in order to attend ARZU's literacy classes or to be transported to a clinic when pregnant. (Although these rural villages have clinics nearby, families are often reluctant to let a woman go to one for prenatal care or during labor, even if there's a danger she will bleed to death.) We created incentives for women to seek education and health care tied to a job, the way they are in some developed economies.

Earning power, education, and medical care: Those became the three legs of the stool we were building. As we learned how to buy wool, contract with dyers, and create the most salable rug patterns, we also had to arrange for four-wheel-drive vehicles and chaperones to transport pregnant women to and from clinics. The approach has worked: Since 2006, when we began the health care initiative, none of our workers has died in childbirth—in a country with one of the world's highest maternal death rates. Nor has any one of them lost an infant during birth. In all, our program has helped more than 800 babies come into the world.

We employed design thinking as we worked on the larger goals of the project. Instead of looking at the problems through our own lens, we tried to understand them from the point of view of users—the rural women we would serve. For instance, you might think that to improve pregnant women's access to medical care, you need to build hospitals or train doctors. But in rural Afghanistan the real problems are a much deeper cultural norm (not allowing women to leave home without a female chaperone) and logistics (safe transportation and tracking of appointments). Design thinking involves looking at how people actually live and developing a system that suits their lives. That's what we do.

Once we had a business model in place, recruiting weavers required an intensive, house-to-house outreach. In every village our representatives first met with the tribal elders to explain our concept and to get permission to work there. Then teams of men and women began knocking on doors. Because Afghanistan is a gender-separated society, only the female reps could talk to the women—a lesson we learned early on. We explained that we would be paying the local market rate for weaving as a salary, rather than delaying payment (often for months) until a rug had been completed and sold. And we would pay an additional 50% of that rate as a bonus for the highest-quality work, as an inducement for weavers not to cut corners or make mistakes; lower-grade products wouldn't sell. At first people were skeptical, but once a few weavers had signed on and began talking about the bonuses they were receiving, word spread quickly, and many more families wanted to join our operation. Today we have a waiting list of weavers.

Getting the Story Out

When we launched ARZU, I thought the supply chain and the ground operations—the processes that lead to a finished rug—would be the hard parts. But our biggest challenge hasn't been in Afghanistan; it's been marketing and distributing the rugs back in the United States. We have just three U.S. employees, not including me (I work as CEO pro bono); they are focused on design, distribution, and data.

The rug industry is highly fragmented, with thousands of distributors and retailers, and trying to connect with each of them is very labor-intensive. We've had to do brand building on a slim budget, one client at a time. We sell through multiple channels, including interior designers and commercial design firms that put rugs in the offices of socially responsible corporations, but those, too, are fragmented markets. We also sell direct.

Our rugs have won several prestigious design industry awards, and a renowned group of architects (including Robert A.M. Stern, Frank Gehry, and the late Zaha Hadid) have designed modern patterns and gifted them to us in support of our mission. Our rugs are very price-competitive with other handmade rugs, and customers learn that they have a humane and prosocial impact. The ARZU story is compelling to consumers, but getting the story out is hard work.

Today revenue from our rugs covers 100% of the cost of goods and all social programs. As a 501(c)(3), we take donations, but I've been a little stubborn about that. We don't have a development person, and we don't actively fund-raise. I've really wanted to focus on demonstrating that a high-quality, ethically made product can create sufficient sales to be self-supporting. Although we're not there yet, we've been fortunate in that a handful of private foundations have helped us bridge our funding gap from time to time. But because distribution has taken so long to develop, we've been left undercapitalized.

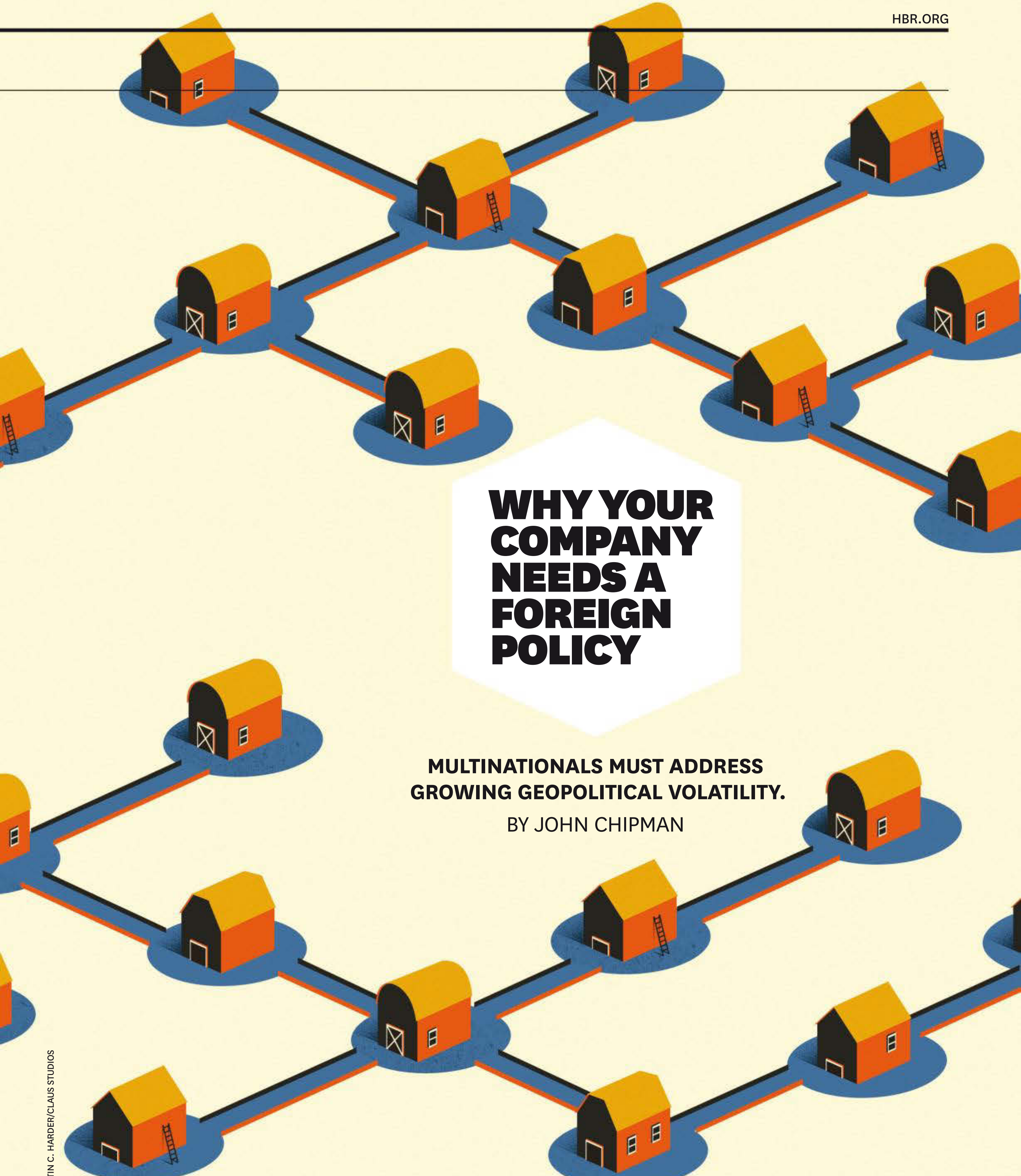
All our weavers are now literate (whereas 90% of Afghan women remain illiterate), and 20% are putting a child through university, thus expanding opportunity for the next generation.

ARZU is still relatively small. We currently employ 55 people in Afghanistan to manage the operation, and depending on the season, we may have 400 or more women weaving for us. Another 150 women do piecework. About 30% of our weavers are widows; their husbands were killed by the Taliban or in the war. Most of the weavers spent several years in refugee camps in Pakistan and returned with very little. We closely track how their lives improve as they work with us. On average, our weavers earn 68% more than the average per capita income in Afghanistan—a measure that includes male salaries in urban areas. In the first year they use the money to buy food, clothing, and shoes—the basics. The next year they typically start to pay down debt. Some of the money goes for small frills, such as toys for their children on a holiday. (Many of the children have never previously received a gift.) Over time these earnings have a material impact on well-being. Today 55% of the families own their own home, and one even owns a car.

Significant changes have occurred beyond that material success. All our weavers are now literate (whereas 90% of Afghan women remain illiterate), and 20% are putting a child through university, thus expanding opportunity for the next generation. Working and earning money develops dignity and self-esteem. These women are typically the primary breadwinners in their homes. They're leaving the house more often. Many of them now have radios, so they're listening to news of the wider world. Perhaps most important is the cultural shift in how men, whether family members or village leaders, view women: as capable human beings or "like any man in the village," as our team often hears.

We think this model could work elsewhere—whether in a developing economy in the Middle East or Africa or on the South Side of Chicago. Once we prove that it can be profitable under the almost impossible operating conditions of rural Afghanistan, it should be replicable and scalable anywhere. The key is to make sure the market for your products is big and established with real buyers—you can't do that with souvenirs or trinkets. It's expensive to build a consumer brand. And you need to work backward: Rather than starting in the B2C market, go B2B from the start. Becoming part of somebody else's supply chain can lead to employment and uplift for millions of people around the world.

HBR Reprint R1609A



WHY YOUR COMPANY NEEDS A FOREIGN POLICY

MULTINATIONALS MUST ADDRESS GROWING GEOPOLITICAL VOLATILITY.

BY JOHN CHIPMAN

JUSTIN C. HARDER/CLAUS STUDIOS

IN FEBRUARY 2014, RUSSIA INVADED THE UKRAINIAN PENINSULA OF CRIMEA, AND THE FOLLOWING MONTH, IT ANNOUNCED CRIMEA'S ANNEXATION. THIS SUDDEN ACT MARKED THE BEGINNING OF THE FIRST MAJOR STRATEGIC CRISIS IN EUROPE IN A GENERATION AND SERVED AS A WAKE-UP CALL TO BUSINESS LEADERS.

As the crisis was unfolding, the Bank of England surveyed business executives on their views of systemic risk and in June published the striking results: 57% cited geopolitical risk as the greatest challenge facing their business, up from 13% the previous year. Subsequent Bank of England surveys have all ranked geopolitical risk as the most challenging risk to manage—above cyberattacks, financial disruption, and even an economic downturn.

Geopolitics is back—just witness the recent Brexit decision, which will dramatically change the future shape of the EU as much as the UK's relationship to it—and not just in Europe. A more confident China has taken measures to assert its territorial claims in the East and South China Seas. In the Middle East, advances by Islamic State of Iraq and the Levant (ISIL) and its declaration of a caliphate have threatened the territorial integrity of several states. ISIL's advances in Libya and the activities of other terrorist groups in West Africa have further destabilized governance across large territories there. The internal politics of Africa and Latin America, too, are often mercurial.

Adding to the climate of destabilization, the United States is no longer certain to intervene if the status quo in some region or other is challenged. With no clear "world policeman," few effective "neighborhood watch" schemes, and a growing number of vigilante groups as well as countries eager to challenge the rules of the game, many parts of the world look and feel unstable. Companies cannot assume, in any region of the world, that the strategic status quo will be sustained by neat balances of power or unbreakable promises of foreign policy assistance from superpower states.

In this new reality, the most successful multinational companies will be those that make expertise in international affairs central to their operations, adopting what can best be described as a corporate foreign policy. Such a policy will have two goals: to improve a company's ability to operate in foreign environments through effective corporate diplomacy, and to ensure its success wherever it is engaged through careful geopolitical due diligence.

Multinationals operate in many very different environments and in many industries; however, several principles underlie successful corporate foreign policy wherever it is practiced. Adhering to them can provide a new source of competitive advantage.

Geopolitical Risk Today

When my organization, the London-based geopolitical think tank IISS, hosted a workshop for executives in 1994 on the topic "Do companies need a foreign policy?" the session was quite muted. At the time, companies were content to consider the still relatively novel concepts of CSR and stakeholder engagement as part of a global business strategy but thought foreign policy was a step too far. Avoiding politics—standing above or apart from the political fray—was the preferred method for protecting interests and advancing reputation. Now when I speak to executives, most realize that their company must adopt a stronger foreign policy attitude. There are several key reasons for this shift.

The decline of U.S. intervention. All the challenges to the global order in recent years have been made without any swift or decisive rebuke from America or its allies. It is true that a diverse coalition that includes the United States is engaged in military operations to defeat ISIL, that NATO has seen its sense of purpose in Europe revived, and that the United States is engaged in a "pivot" toward Asia. Yet the speed of events and America's sluggish reactions suggest that we are in an age of "living tactically" while strategic structural adjustment takes place before our eyes. Future American presidents may

Idea in Brief

THE CHALLENGE
Several global forces are complicating the geopolitical environment for multinational companies: increasing global instability combined with a decline in U.S. intervention, the proliferation of economic sanctions as a tool of statecraft, and increased trade among developing nations.

THE SOLUTION
To navigate the geopolitical complexities of the modern world, companies have to "privatize" foreign policy, internalizing many of the elements traditionally employed in statecraft.

IN PRACTICE
A corporate foreign policy has two components. *Geopolitical due diligence* involves the assessment of local, regional, and transnational risks facing a company. *Corporate diplomacy* aims to enhance a company's ability to operate internationally and to ensure its success in each particular country with which it is engaged.

be more assertive, but the appetite for intervention among U.S. policy makers and the public alike is on the wane. The world will be less stable as a result, which is the first reason multinational companies must focus anew on geopolitical risk.

Increase in economic sanctions. The second reason companies must improve their ability to manage geopolitical risk is the proliferation of economic sanctions as an instrument of foreign policy—an emphasis that has increased the ties between global commerce and geopolitics. The United States is, and will remain for some time, a sanctions superpower, and the European Union also wields considerable sanctions power. When the EU joined the United States in imposing sanctions on Iran, many European companies were disabled from trading with that country. The United States and the EU have, with their G7 colleagues, imposed heavy commercial sanctions on Russia, constraining trade there. The reach of U.S. sanctions is particularly powerful, as non-U.S. companies worry that their ability to trade in the United States may suffer if they sustain trade relations with countries or entities sanctioned by Washington. Companies have become used to consulting officials in Washington and Brussels, and in other European capitals to alert them to any unintended consequences of sanctions policies. Such consultations will be a persistent feature of international commerce for the foreseeable future.

Good businesses are smart about understanding the sanctions environment and how quickly it may evolve. They also know how to conduct business as usual when bilateral relations decline but foreign policy pressure stops short of legal sanctions. At the height of the tension with Moscow over Ukraine, for example, Canada's government tried to persuade its businesses to boycott an economic forum in St. Petersburg. The CEO of the mining multinational Kinross Gold resisted that pressure, arguing that having operated in Russia for 20 years, it had an obligation to shareholders and its Russian employees to attend. The French oil and gas giant TOTAL persisted with investment in Myanmar in the early 2000s despite that country's pariah status, also helping to keep the lights on in neighboring Thailand. International success depends on business leaders' having the foreign policy acumen to distinguish between what they can and can't do in a sanctions environment or tough diplomatic climate.

Increase in south-south trade. The thickening flows of commerce among emerging nations without the West as intermediary, and the volatility of domestic politics in high-growth markets, is the third reason multinationals must become more adept at corporate foreign policy. Businesses in the developing world are finding opportunities in new markets and discovering new rivals. These relationships require a sophisticated understanding by multinationals. A U.S. company investing in Ghana, for instance, needs to understand not just America's foreign policy toward Ghana and Ghana's internal politics but also Chinese policy toward Ghana, given Beijing's commercial clout there. Investing in Myanmar requires an understanding of its complex internal politics but also an appreciation of its relations with China, India, and the other ASEAN states, all of whom have important interests in the country.

The uncertainty of domestic politics in high-growth markets poses specific geopolitical challenges. Sanctions may be lifted against Iran, but how many companies would be confident investing there unless they understood the relations between all the domestic actors and the links between some companies and the government and the security apparatus? Geopolitical due diligence is vital before even contemplating first steps.

What Is Corporate Foreign Policy?

To navigate the geopolitical complexities of the modern world, companies have to, in effect, "privatize" foreign policy—that is, they must internalize many of the elements traditionally employed in statecraft. For nation states, a foreign policy requires that a country define its interests, collect and analyze external intelligence, find regional and local allies, and cultivate an environment conducive to its success. A country must be mindful of the cultural conditions in which it operates, adapting its style of engagement as necessary while remaining true to its moral principles. Multinational companies must do all these things and more.

Companies today take direct control of their international image and reputation. Few, if any, wish to be seen principally as the commercial arm of a particular nation, as was the East India Company while Britain held imperial sway from the 17th to the late 19th centuries. Nor would companies wish to follow the example of the United Fruit Company, which was complicit with the U.S. government in the 1954 coup in Guatemala. That experience left a legacy of distrust of multinationals, and companies spent the latter part of the 20th century bending over backward to appear politically neutral.

CSR AND OTHER TOOLS DO LITTLE TO HELP A COMPANY CAPTURE OPPORTUNITY OR PROTECT INVESTMENTS IN THE FACE OF GEOPOLITICAL UPHEAVAL.

Indeed, since at least the mid-1980s, companies have sought to show that they were doing good in society and have worked hard to present themselves as distinctly apolitical. They have adopted a range of strategies in this effort, including CSR, brand and reputational risk management, and stakeholder management, along with defensive and public relations actions to address concerns of NGOs or even co-opt them. Yet this toolbox of corporate external activities has done little to help a company capture opportunity or protect operations and investments in the face of a coup, state intervention, the actions of local oligarchs, a change in the political fortunes of a key local partner, or a radical shift in public sentiment toward the company.

The reality in the 21st century is that companies cannot escape politics, nor can they consistently pretend to be politically neutral. The answer is to embrace the need to engage politically and diplomatically. Today's corporate foreign policy has two components: geopolitical due diligence and corporate diplomacy.

New Principles of Geopolitical Due Diligence

Just as companies conduct regulatory, legal, financial, and other due diligence, they must also conduct geopolitical due diligence. To do this, they have traditionally relied on country risk reports, but in an age of transnational and local threats, geopolitical due diligence needs to occur not just at the country level but at other levels and in other spheres as well. Companies must:

Assess transnational risk. Broad, regional risks may pose a greater threat than country risks, as the Norwegian oil company Statoil learned in January 2013. A gas facility in Algeria that it ran, along with BP and the Algerian state oil company Sonatrach, suffered a terrorist attack that led to the death of 40 people from 10 nations. Following a full investigation by a former Norwegian head of intelligence, Statoil realized that its corporate safety approach did not account for geopolitical threats to security—and that such threats could not be understood solely on a country-by-country basis. The terrorist attack, attributed to al Qaeda, was conceived in Mali, launched from southwest Libya, and carried out in Algeria. Only a rigorous assessment of transnational and regional threats might have anticipated this risk.

Effective geopolitical due diligence requires that companies develop an understanding of both country and transnational risk and then assess both under a broader geopolitical overlay. Statoil now tests its country risk, transnational threats, and broader geopolitical trends analysis at a high management level, separately from formal capital expenditure planning exercises. It engages a very sophisticated team of internal analysts to assess geopolitical risk on a continual basis and has international affairs experts brief the board.

Pay attention to regional political trends. Due diligence at this level isn't just about risk assessment—it's also about sensitivity to regional political developments. International companies that are seen to be supportive of well-conceived regional initiatives can build a geopolitical support base that positions them to capture future value. For example, as Mexico, Colombia, Peru, and Chile place greater emphasis on the integration of their countries through the creation of the Pacific Alliance (PA) trading bloc, private sector firms that support the goals of the alliance may do correspondingly well there. Although the Brazilian government views the PA as an unwelcome rival to the Mercosur trading bloc, Brazilian companies have taken a more positive view. The large Brazilian financial institution BTG Pactual, for instance, opened offices in all four countries once the Pacific Alliance was established.

Assess local in-country risk. States that are perceived to be generally unstable may still have large sections that are conducive to investment. For example, oil and gas firms have invested in the north of Iraq in the area administered by the Kurdish Regional Government because they are confident that the relative security there will permit continuous operations. An international shipping company renewing its political risk insurance for the Port of Surabaya, in a stable region of Indonesia, should not be moved by the incidence of terrorist activity in Bali. The Mexican state of Sinaloa has murder rates similar to those in El Salvador, the homicide capital of the world in 2015, while murder rates in the state of Chiapas are no higher than those in Hawaii. In Africa, too, threats are often local: Kano and Baga, in Nigeria, are extremely dangerous, Lagos dramatically less so.

Decisions about doing business in one part of a troubled country aren't simple or straightforward, however. Several years ago the Indian firm Reliance sold its interest in Kurdish Iraq to Chevron, wishing to position itself to take advantage of the potentially larger opportunities emerging in southern Iraq from which it might have been barred because of operations in the north. Companies from countries including Korea, the U.S., and Austria took different approaches: Some judged that they could trade with both southern Iraq and the north; others decided to bet only on the north. Regardless of the strategic decision, each company had to have in mind a coherent foreign policy approach toward the various Iraqi entities with which it was engaged. Neutrality, more often than not, would have meant forgoing all opportunities there.

Don't neglect home and near-abroad risk. While it's natural to place the most attention on places a company might least understand, the greatest geopolitical and commercial risks often occur close to home. For example, the referendum on British membership in the EU had large ramifications for UK businesses, so many began actively to campaign to remain in the Union in the spring of 2016 in advance of the vote, calculating that silence on this "political" issue was not in the best interests of their workers or shareholders.

It is not unusual for companies to overlook political and economic developments close to home that they would successfully perceive further afield. Vale, the Brazilian mining company, has generally organized itself well in its investments in Mozambique, making an enormous effort to develop a refined understanding of that country. On the other hand, it experienced striking difficulties in neighboring Argentina, a country one would expect it to understand well. In 2011, it made a major investment in the western province of Mendoza, but when exchange rate controls and exceptionally high inflation radically increased costs at the Rio Colorado mine, it became commercially unviable. In April 2013, after a meeting between the presidents of Brazil and Argentina, an agreement was reached for Vale to exit Argentina. Abandoning the project cost Vale several billion dollars—a blow that could have been avoided had it taken a more prudential approach to investing in its neighbor.

New Principles of Corporate Diplomacy

Good geopolitical due diligence includes careful assessment of the local, regional, and international forces at play before, during, and after any investment. The role of corporate diplomacy is twofold: to enhance a company's general ability to operate internationally and to ensure its success in each particular country with which it is engaged. The general international reputation of a company can be affected by its success or failure in any given country, and likewise a company's ability effectively to enter newly attractive markets or gracefully exit from suddenly unappealing ones depends on its broader reputation.

In the pursuit of those goals, companies can neither comport themselves like NGOs—beating the drum of a single moral issue and advocating resolution of that issue above all other priorities—nor act as substitutes for governments and attempt to provide local populations with all the public goods they need. Rather, they must cultivate wide and deep relations with both government and society. Wherever they wish to operate, they must identify the various stakeholders, understand which groups may be supportive of company goals and which are likely to protest or oppose them, and develop strategies to engage each constituency effectively.

Four key principles underpin an effective corporate diplomacy strategy.

Develop your own foreign policy stance. The first principle of corporate diplomacy is that companies must develop their own approach to foreign governments, rather than manipulate or be manipulated by the policies of their home country.

To be sure, home-nation muscle can have its advantages. The Italian firm Trevi, for example, won a contract in 2016 to repair the heavily damaged Mosul dam in Iraq—just months after Italian Prime Minister Matteo Renzi announced the deployment of 450 troops to defend the dam against ISIL. The UK's "prosperity agenda" calls on foreign embassies and high commissions abroad to support the aims of British companies internationally. Japan supports its companies economically when they seek business opportunities outside the domestic market.

All that said, companies that align themselves too much with their home government often encounter problems. It is not clear that Monsanto gained hugely when the U.S. government lobbied intensely in its behalf to encourage European consumers to be more accepting of genetically modified foods. Sovereign wealth funds have for almost a decade been trying to convince governments and publics abroad that they can take decisions independently of their home government's foreign policy concerns of the day. Often, big businesses are better off when they develop a character of their own while crafting a foreign policy approach. In entering the U.S. market, China's Huawei telecommunications firm experienced difficulties at the federal level because of its founder Ren Zhengfei's links to the People's Liberation Army (PLA). The United States was concerned that Huawei's telecom systems could be used to relay data to the Chinese security apparatus. In response, Huawei shifted its focus to the state level. Having been shut out of Tier 1 carriers in the United States, Huawei has succeeded in gaining contracts with smaller carriers, such as SpeedConnect, that have operations in rural areas across the country. It has gone to great lengths to demonstrate its independence from the Chinese government. In a rare interview, in which he acknowledged the perceptions of his company as a front for the PLA, Ren noted that the company's goal was "to make people perceive Huawei as a European company"—a pretty clear, if eccentric, endorsement of the idea that companies sometimes need to detach themselves from their home country's foreign policy.

Where possible, develop a transnational character. The larger a multinational company becomes, the more important it is to develop a transnational character. That's because when a company or an investor group is seen as having a clear national origin, it risks bearing the brunt of a political dispute. For example, in 2008 the French supermarket chain Carrefour was boycotted in China in retaliation for protests in Paris by pro-Tibet demonstrators. Business suffered until Carrefour, with help from the Chinese government, made a strong case for its international credentials, pointing out that most of its employees in China were Chinese. Today the company is seen not as French but as a transnational globalized player in the retail market.

Deracination comes with two major caveats. The first is that declaring publicly what nationality you are *not* can be effective in certain situations. Japanese companies have pushed into Africa and Latin America in part by distinguishing themselves from Chinese companies, which have gained a reputation for exploitation in many areas of those continents.

Second, companies should not become so stateless that they feel no obligation to pay taxes anywhere. The failure to pay a decent tax on earnings can itself denote a failure of good foreign policy practice: It can damage a company's reputation and lead to strong government action—as evidenced by the recent legislative backlash against U.S.-based companies seeking corporate inversions.

Diversify your political relationships. Companies must engage all actors rather than attempt to mitigate geopolitical risk just through good government contacts (on the one hand) and good social practices (on the other). It is the dynamic relationship between the government, the business elite or oligarch class, and civil society that needs to be appreciated. In high-growth markets where domestic politics are particularly volatile, the internal balance of power between key actors in the economic and political spheres must be continually monitored. Companies need to be alert to fast-paced change in these relationships and be ready to adapt.

The Spanish oil company Repsol, operating in Argentina as YPF, for a time took comfort in the fact that a senior businessperson close to then-President Nestor Kirchner owned a large share of the operation and was on its board. When Kirchner's wife, Cristina Kirchner, succeeded him as president, she nationalized YPF, and Repsol's principal contact was powerless to prevent it. While Repsol could have done little differently to prevent a nationalization—which probably hurt Argentina more than the oil company—the experience serves as a cautionary tale that cultivating contacts so closely associated with a particular regime or stakeholder creates a single point of vulnerability and does little to mitigate geopolitical risk. The best political risk insurance remains a wide and deep set of relationships that strengthens the company's implicit political license to operate effectively.

Don't sabotage yourself. Political risk is not just something that happens to corporate bystanders. It can also be caused by inept company action, such as taking long-standing partners for granted or acting to advance shareholder value without regard to local circumstances. Companies need a genuine understanding of the political and foreign policy interests of the countries in which they invest so that they can be fleet-footed in responding to political change.

In October 2015, MTN, the South African–based cellphone provider, was fined $5.2 billion in Nigeria for failing to cut off service to 5 million unverified subscribers who had not provided their addresses when buying SIM cards. The Nigerian government had passed legislation requiring registration as a security measure to help prevent insurgent groups such as Boko Haram from using untraceable mobile phones. A casual observer of Nigerian politics—let alone a major investor in the country—would be expected to recognize that the battle against Boko Haram was a top national priority. In addition, MTN should have been attuned to the rivalry that exists between its home country and Nigeria—the two largest economies on the continent—and had the diplomatic intelligence to act sensitively with regard to Nigerian authorities.

Mining giant Anglo American's misadventure in Chile in 2012 is another example. Codelco, a state-owned mining company, argued that its attempts to exercise its option to buy a stake in the national assets were ignored by Anglo, which instead began negotiations to sell 24.5% of the operation to Japan's Mitsubishi for $5.4 billion. Anglo was adamant that it was within its rights to arrange a better deal for its shareholders and accused Codelco of using bullying tactics to prevent the sale. A standoff followed that became extremely costly to both sides. It was resolved only when Anglo agreed to sell a 30% stake in its mining assets to Codelco at a discount to market price, thus damaging Anglo's overall position in Chile. While Anglo could properly argue that it was acting in its shareholders' fiduciary interests, and while the ultimate agreement saved face on all sides, Anglo should have realized that it was unlikely to win such a dispute in a foreign market against a state firm and taken action more quickly to end the standoff.

COMPANIES MUST DEVELOP THEIR OWN APPROACH TO FOREIGN GOVERNMENTS, RATHER THAN MANIPULATE OR BE MANIPULATED BY THE POLICIES OF THEIR HOME COUNTRY.

AT BOTTOM, geopolitical volatility is no different from other forms of volatility. As long as a company's geopolitical assessment processes are comprehensive and its corporate foreign policy shrewd, business leaders should be able to navigate these challenging times. In judging the quality of a company, investors will continue to look at traditional indicators of commercial attainment. Increasingly, however, they will mark companies also on their foreign policy aptitude and their corresponding business resilience in the face of geopolitical shock.

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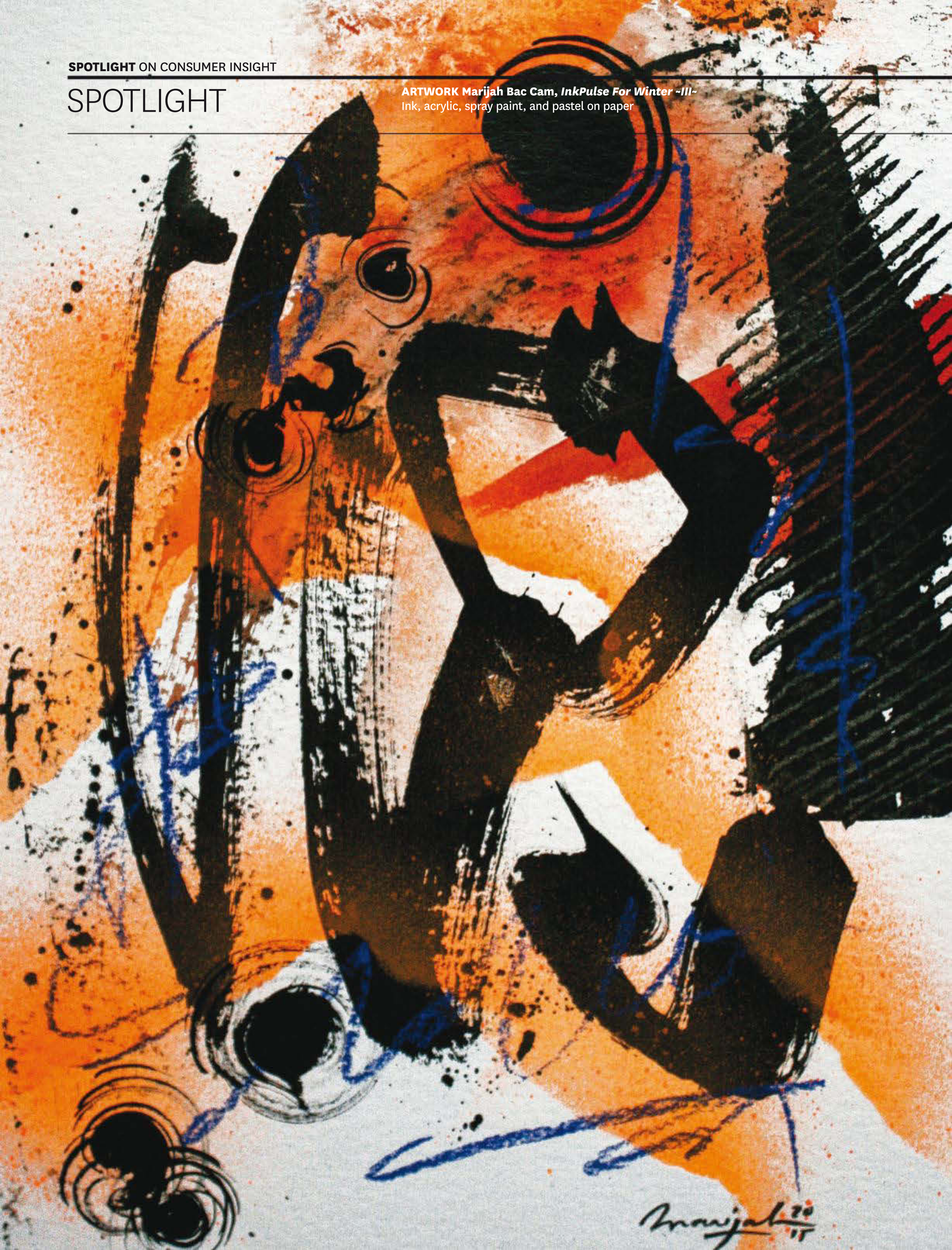
SPOTLIGHT

Consumer Insight

ARTWORK Marijah Bac Cam
Dandelion
Ink and marker on paper

SPOTLIGHT



ARTWORK Marijah Bac Cam, *InkPulse For Winter ~III~*
Ink, acrylic, spray paint, and pastel on paper

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The Elements of Value

Measuring—and delivering—what consumers really want

BY ERIC ALMQUIST, JOHN SENIOR, AND NICOLAS BLOCH

When customers evaluate a product or service, they weigh its perceived value against the asking price. Marketers have generally focused much of their time and energy on managing the price side of that equation, since raising prices can immediately boost profits. But that's the easy part: Pricing usually consists of managing a relatively small set of numbers, and pricing analytics and tactics are highly evolved.

What consumers truly value, however, can be difficult to pin down and psychologically complicated. How can leadership teams actively manage value or devise ways to deliver more of it, whether functional (saving time, reducing cost) or emotional (reducing anxiety, providing entertainment)? Discrete choice analysis—which simulates demand for different combinations of product features, pricing, and other components—and similar research techniques are powerful and useful tools, but they are designed to test consumer reactions to preconceived concepts of value—the concepts that managers are accustomed to judging. Coming up with new concepts requires anticipating what else people might consider valuable.

The amount and nature of value in a particular product or service always lie in the eye of the beholder, of course. Yet universal building blocks of value do exist, creating opportunities for companies to improve their performance in current markets or break into new ones. A rigorous model of consumer value allows a company to come up with new combinations of value that its products and services could deliver. The right combinations, our analysis shows, pay off in stronger customer loyalty, greater consumer willingness to try a particular brand, and sustained revenue growth.

We have identified 30 "elements of value"—fundamental attributes in their most essential and discrete forms (see the exhibit "The Elements of Value Pyramid"). These elements fall into four categories: functional, emotional, life changing, and social impact. Some elements are more inwardly focused, primarily addressing consumers' personal needs. For example, the life-changing element *motivation* is at the core of Fitbit's exercise-tracking products. Others are outwardly focused, helping customers interact in or navigate the external world. The functional element *organizes* is central to The Container Store and Intuit's TurboTax, because both help consumers deal with complexities in their world.

In our research we don't accept on its face a consumer's statement that a certain product attribute is important; instead we explore what underlies that statement. For example, when someone says her bank is "convenient," its value derives from some combination of the functional elements *saves time, avoids hassle, simplifies,* and *reduces effort*. And when the owner of a $10,000 Leica talks about the quality of the product and the pictures it takes, an underlying life-changing element is *self-actualization,* arising from the pride of owning a camera that famous photographers have used for a century.

Three decades of experience doing consumer research and observation for corporate clients led us to identify these 30 fundamental attributes, which we derived from scores of quantitative and qualitative customer studies. Many of the studies involved the well-known interviewing technique "laddering," which probes consumers' initial stated preferences to identify what's driving them.

Our model traces its conceptual roots to the psychologist Abraham Maslow's "hierarchy of needs," which was first published in 1943. Then a faculty member at Brooklyn College, Maslow argued that human actions arise from an innate desire to fulfill needs ranging from the very basic (security, warmth, food, rest) to the complex (self-esteem, altruism). Almost all marketers today are familiar with Maslow's hierarchy. The elements of value approach extends his insights by focusing on people as consumers—describing their behavior as it relates to products and services.

It may be useful to briefly compare Maslow's thinking with our model. Marketers have seen his hierarchy organized in a pyramid (although it was later interpreters, not Maslow himself, who expressed his theory that way). At the bottom of the pyramid are physiological and safety needs, and at the top are self-actualization and self-transcendence. The popular assumption has been that people cannot attain the needs at the top until they have met the ones below. Maslow himself took a more nuanced view, realizing that numerous patterns of fulfillment can exist. For example, rock climbers achieve self-actualization in unroped ascents of thousands of feet, ignoring basic safety considerations.

Similarly, the elements of value pyramid is a heuristic model—practical rather than theoretically perfect—in which the most powerful forms of value live at the top. To be able to deliver on those higher-order elements, a company must provide at least some of the functional elements required by

The elements of value extend Maslow's "hierarchy of needs" by focusing on people as consumers.

Idea in Brief

THE CHALLENGE
What customers value in a product or service can be hard to pin down. Often an emotional benefit such as reducing anxiety is as important as a functional one such as saving time. How can managers determine the best way to add value to their offerings?

THE ANSWER
The authors describe 30 "elements of value" that meet four kinds of need—functional, emotional, life changing, and social impact—and that, when optimally combined, increase customer loyalty and revenue growth.

THE OPPORTUNITY
The elements of value work best when a company's leaders recognize their ability to spark growth and make value a priority. Companies should establish a discipline around improving value in three areas: new-product development, pricing, and customer segmentation.

a particular product category. But many combinations of elements exist in successful products and services today.

Most of these elements have been around for centuries and probably longer, although their manifestations have changed over time. *Connects* was first provided by couriers bearing messages on foot. Then came the Pony Express, the telegraph, the pneumatic post, the telephone, the internet, e-mail, Instagram, Twitter, and other social media sites.

The relevance of elements varies according to industry, culture, and demographics. For example, *nostalgia* or *integrates* may mean little to subsistence farmers in developing countries, whereas *reduces risk* and *makes money* are vital to them. Likewise, throughout history, *self-actualization* has been out of reach for most consumers, who were focused on survival (even if they found fulfillment through spiritual or worldly pursuits). But anything that saved time, reduced effort, or reduced cost was prized.

Growing Revenue

To test whether the elements of value can be tied to company performance—specifically, a company's customer relationships and revenue growth—we collaborated with Research Now (an online sampling and data collection company) to survey more than 10,000 U.S. consumers about their perceptions of nearly 50 U.S.-based companies. Each respondent scored one company—from which he or she had bought a product or service during the previous six months—on each element, using a 0–10 scale. When companies had major branded divisions such as insurance or banking, we conducted separate interviews focused on those divisions. We then looked at the relationships among these rankings, each company's Net Promoter Score (NPS)—a widely used metric for customer loyalty and advocacy—and the company's recent revenue growth.

Our first hypothesis was that the companies that performed well on multiple elements of value would have more loyal customers than the rest. The survey confirmed that. Companies with high scores (defined as an 8 or above) on four or more elements from at least 50% of respondents—such as Apple, Samsung, USAA, TOMS, and Amazon—had, on average, three times the NPS of companies with just one high score, and 20 times the NPS of companies with none. More is clearly better—although it's obviously unrealistic to try to inject all 30 elements into a product or a service. Even a consumer powerhouse like Apple, one of the best performers we studied, scored high on only 11 of the 30 elements. Companies must choose their elements strategically, as we will illustrate.

Our second hypothesis was that companies doing well on multiple elements would grow revenue at a faster rate than others. Strong performance on multiple elements does indeed correlate closely with higher and sustained revenue growth. Companies that scored high on four or more elements had recent revenue growth four times greater than that of companies with only one high score. The winning companies understand how they stack up against competitors and have methodically chosen new elements to deliver over time (though most of them did not use our specific framework).

Next we explored whether the elements of value could shed light on the astonishing market share growth of pure-play digital retailers. This, too, was confirmed empirically. Amazon, for instance, achieved high scores on eight mostly functional elements, illustrating the power of adding value to a core offering. It has chosen product features that closely correspond to those in our model. For example, in creating Amazon Prime, in 2005, the company initially focused on delivering *reduces cost* and *saves time* by providing unlimited two-day shipping for a flat $79 annual fee. Then it expanded Prime to include streaming media (*provides access* and *fun/entertainment*), unlimited photo storage on Amazon servers (*reduces risk*), and other features. Each new element attracted a large group of consumers and helped raise Amazon's services far above commodity status. Prime has penetrated nearly 40% of the U.S. retail market, and Amazon has become a juggernaut of consumer value. That allowed the company to raise Prime's annual fee to $99 in 2015—a large price increase by any standard.

No other elements can make up for a significant shortfall on *quality*, which has the greatest effect on consumer advocacy.

Patterns of Value

To help companies think about managing the value side of the equation more directly, we wanted to understand *how* the elements translate to successful business performance. Are some of them more important than others? Do companies have to compete at or near the top of the pyramid to be successful? Or can they succeed by excelling on functional elements alone? What value do consumers see in digital versus omnichannel companies? We used our data to identify three patterns of value creation.

Some elements do matter more than others. Across all the industries we studied, perceived *quality* affects customer advocacy more than any other element. Products and services must attain a certain minimum level, and no other elements can make up for a significant shortfall on this one.

After quality, the critical elements depend on the industry. In food and beverages, *sensory appeal,* not surprisingly, runs a close second. In consumer banking, *provides access* and *heirloom* (a good investment for future generations) are the elements that matter (see the exhibit "Which Elements Are Most Important?"); in fact, *heirloom* is crucial in financial services generally, because of the connection between money and inheritance. The broad appeal of smartphones stems from how they deliver multiple elements, including *reduces effort, saves time, connects, integrates, variety, fun/entertainment, provides access,* and *organizes*. Manufacturers of these products—Apple, Samsung, and LG—got some of the highest value ratings across all companies studied.

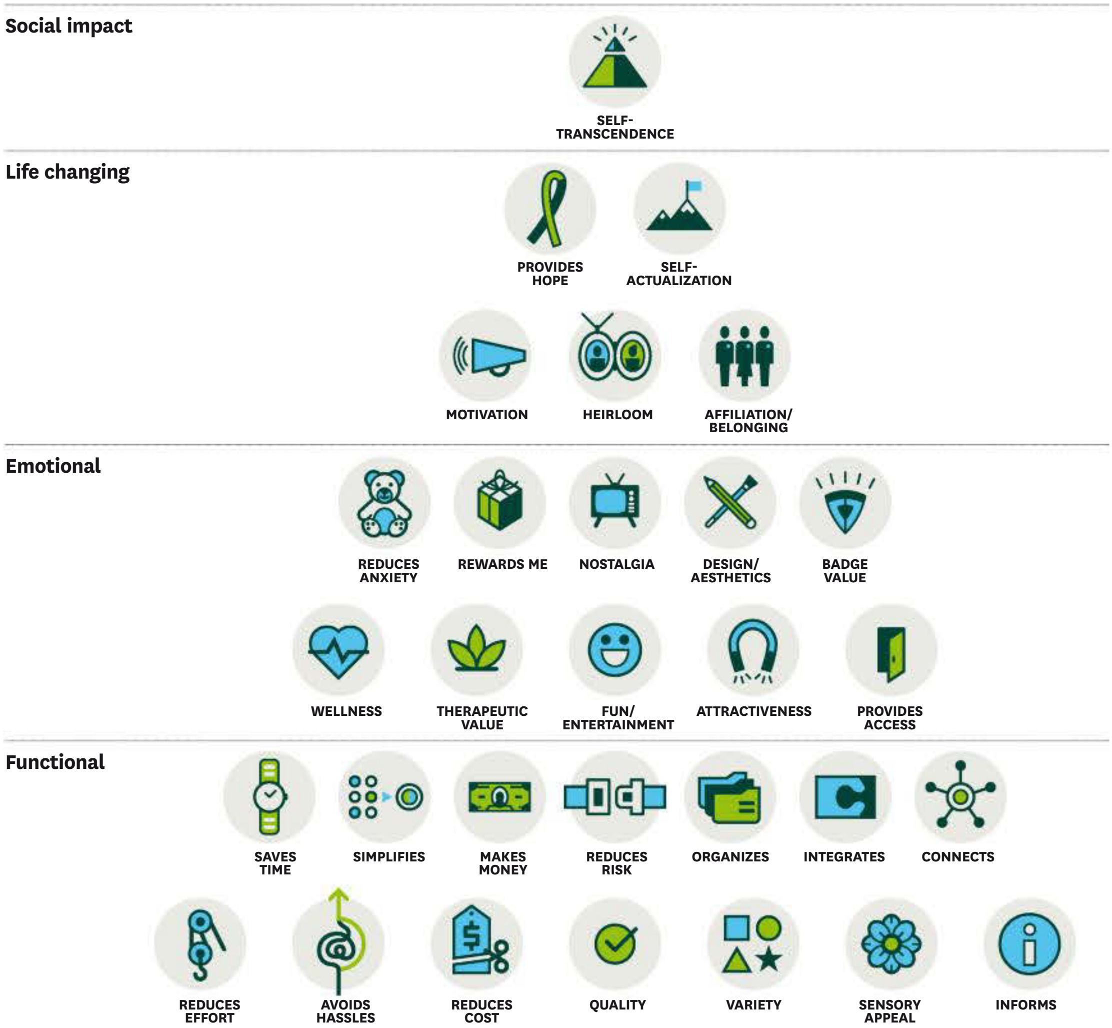
Consumers perceive digital firms as offering more value. Well-designed online businesses make many consumer interactions easier and more convenient. Mainly digital companies thus excel on *saves time* and *avoids hassles*. Zappos, for example, scored twice as high as traditional apparel competitors did on those two elements and several others. Overall, it achieved high scores on eight elements—way ahead of traditional retailers. Netflix outperformed traditional TV service providers with scores three times as high on *reduces cost, therapeutic value,* and *nostalgia*. Netflix also scored higher than other media providers on *variety*, illustrating how effectively it has persuaded customers, without any objective evidence, that it offers more titles.

Brick-and-mortar businesses can still win on certain elements. Omnichannel retailers win on some emotional and life-changing elements. For example, they are twice as likely as online-only retailers to score high on *badge value, attractiveness,* and *affiliation and belonging.* Consumers who get help from employees in stores give much higher ratings to those retailers; indeed, emotional elements have probably helped some store-based retailers stay in business.

Moreover, companies that score high on emotional elements tend to have a higher NPS, on average, than companies that spike only on functional elements. This finding is consistent with previous Bain analysis showing that digital technologies have been transforming physical businesses rather than annihilating them. The fusion of digital and physical channels is proving more powerful than either one alone. That accounts in part for why E*TRADE has invested in physical branches and why retailers such as Warby Parker and Bonobos have launched physical stores. (See "Digital-Physical Mashups," by Darrell K. Rigby, HBR, September 2014.) These patterns demonstrate that there are many ways to succeed by delivering various kinds of value. Amazon expanded functional

The Elements of Value Pyramid

Products and services deliver fundamental elements of value that address four kinds of needs: functional, emotional, life changing, and social impact. In general, the more elements provided, the greater customers' loyalty and the higher the company's sustained revenue growth.



ICONS BY NIK SCHULZ

excellence in a mass market. Apple excels on 11 elements in the pyramid, several of them high up, which allows the company to charge premium prices. TOMS excels on four elements, and one of them is *self-transcendence,* because the company gives away one pair of shoes to needy people for every pair bought by a customer. This appeals to a select group of people who care about charitable giving.

Putting the Elements to Work

These patterns are intriguing in their own right, and they illuminate how some companies have chosen to navigate upheaval in their industries. Ultimately, however, the elements must prove their usefulness in solving business challenges, particularly growing revenue. Companies can improve on the elements that form their core value, which will help set them apart from the competition and meet their customers' needs better. They can also judiciously add elements to expand their value proposition without overhauling their products or services.

Companies have begun to use our method in several practical ways, instilling a "hunt for value" mentality in their employees. Although many successful entrepreneurs have instinctively found ways to deliver value as part of their innovation process, that becomes harder as companies grow. The leaders of most large organizations spend less time with customers, and innovation often slows. The elements can help them identify new value once again.

Some companies have refined their product designs to deliver more elements. Vanguard, for instance, added a low-fee, partly automated advice platform to its core investment services in order to keep its clients better informed and, in many cases, to reduce risk. A chainsaw manufacturer that felt undifferentiated used the elements of value to identify specific ways of making future products distinctive. It focused on *quality* (defined as the results of using its products), *saves time,* and *reduces cost.* These three elements had the greatest effect on customer satisfaction and loyalty, and the company was able to build competitive advantage with them.

Other companies have used the elements to identify where customers perceive strengths and weaknesses. They start by understanding which elements are the most important for their industry and how they stack up on those relative to competitors. If a company trails in the crucial elements, it should improve on them before attempting to add new ones. A large consumer bank found that although it fared relatively well on *avoids hassles* and *saves time,* it did not score well on *quality.* The bank did extensive research into why its quality ratings were low and launched initiatives to strengthen anti-fraud operations and enhance the mobile app experience.

The broadest commercial potential of the elements of value model currently lies in developing new types of value to provide. Additions make the most sense when the organization can deliver them while using its current capabilities and making a reasonable investment, and when the elements align with the company's brand.

Sometimes selecting an additional element is fairly straightforward: Acronis and other software providers added cloud backup and storage services to reinforce their brand promise of *reduces risk* for computer users. Another key element in cloud backup is *provides access,* because users can reach their files from any computer, tablet, or smartphone connected to the internet.

It's not always so obvious which elements to add, however. One financial services company recognized that if it could attract more consumers to its retail banking business, it might be able to cross-sell insurance, investment advice, and other products. But how could it do that? The company arrived at the best answer through three largely qualitative research stages followed by a fourth, highly quantitative stage.

Structured listening. Working with Bain, the company interviewed current and prospective customers across the United States, individually and in groups. The goal was to understand consumers' priorities for a checking account, their frustrations, their compromises, and their reasons for using multiple institutions for banking services.

"Ideation" sessions. We then used the elements to explore where improvements in value might resonate with consumers. Bain's survey data had identified the elements that tend to reinforce customer advocacy in consumer banking, among them *provides access, heirloom,* and *reduces anxiety.* Those insights, combined with the consumer research, informed ideation sessions with a project team consisting of people from all customer-touching departments across the bank, not just marketers.

The sessions explored which elements might be used to form the nucleus of a new offering. For example, *provides access* and *connects* held appeal, because the bank might be able to provide access to mutual funds or connect consumers with financial planners. In the end, however, the team decided that neither element was feasible in this business, primarily for reasons of cost. Instead it developed 12 checking-account concepts that were built around *reduces cost, makes money,* and *reduces anxiety. Reduces cost* highlighted low fees, while *reduces anxiety* emphasized automatic savings. *Reduces anxiety* was particularly important, because most of the targeted consumers were living paycheck to paycheck and struggling to save money.

Customer-centric design of prototype concepts. Each concept approved by the project team contained a different mix of product features, fees, and levels of customer service. Many of these new concepts could be delivered through an improved smartphone app that would increase customer engagement with the bank. Almost all the targeted consumers used smartphones for financial services (consistent with our earlier observations on the many elements of value delivered by these devices).

The financial services company then conducted further one-on-one interviews with consumers and got fast feedback that allowed it to winnow the 12 prototypes down to four concepts for enhanced value. Then, on the basis of the feedback, it refined them in the fourth, quantitative stage:

Rigorous choice modeling. Having designed the four prototypes, the project team tested them

Which Elements Are Most Important?

What customers value in products varies by industry. Here are the top five elements influencing loyalty for 10 types of businesses.

APPAREL RETAIL QUALITY VARIETY AVOIDS HASSLES DESIGN/AESTHETICS SAVES TIME	**TV SERVICE PROVIDERS** QUALITY VARIETY REDUCES COST DESIGN/AESTHETICS FUN/ENTERTAINMENT
DISCOUNT RETAIL QUALITY VARIETY REDUCES COST SAVES TIME REWARDS ME	**CONSUMER BANKING** QUALITY PROVIDES ACCESS HEIRLOOM AVOIDS HASSLES REDUCES ANXIETY
GROCERY QUALITY VARIETY SENSORY APPEAL REDUCES COST REWARDS ME	**BROKERAGE** QUALITY MAKES MONEY HEIRLOOM VARIETY PROVIDES ACCESS
FOOD AND BEVERAGES QUALITY SENSORY APPEAL VARIETY DESIGN/AESTHETICS THERAPEUTIC VALUE	**AUTO INSURANCE** QUALITY REDUCES ANXIETY REDUCES COST PROVIDES ACCESS VARIETY
SMARTPHONES QUALITY REDUCES EFFORT VARIETY ORGANIZES CONNECTS	**CREDIT CARDS** QUALITY REWARDS ME HEIRLOOM AVOIDS HASSLES PROVIDES ACCESS

with thousands of customers using discrete choice analysis, which requires people to make a sequence of explicit choices when presented with a series of product options. The researchers began by amassing a detailed list of the attributes for each prototype—ATM fees, overdraft fees, credit monitoring, customer service hours, and so on. They presented respondents with several sets of checking accounts that varied on these attributes, asking them to select which prototype from each set they preferred. This process was repeated several times, as attributes changed according to an experimental design, until the team derived the winning combination of attributes.

Two clear finalists emerged, which the bank recently launched in the marketplace. It will use customer demographics and the increase in demand to gauge the eventual winner.

Getting Started

The elements of value work best when a company's leaders recognize them as a growth opportunity and make value a priority. It should be at least as important as cost management, pricing, and customer loyalty. Companies can establish a discipline around improving value in some key areas:

New-product development. Our model can stimulate ideas for new products and for elements to add to existing products. Managers might ask, for example: Can we connect in a new way with consumers? Can our customers benefit from integration with other software applications? Can we add therapeutic value to our service?

Pricing. Managers commonly view pricing as one of the most important levers in demand management, because when demand is constant, higher prices accrue directly to profits. But higher prices also change the consumer value equation, so any discussion about raising prices should consider the addition of value elements. Recall how Amazon's judicious increases in value helped justify higher prices over time.

Customer segmentation. Most companies have a formal method of segmenting their customers into demographic or behavioral groups, which presents an opportunity to analyze what each of these groups values and then develop products and services that deliver those elements.

Whenever an occasion to improve value presents itself, managers should start with a survey of current customers and likely prospects to learn where the company stands on the elements it is (or is not) delivering. The survey should cover both product and brand, because examinations of the two may yield different insights. For example, the product itself may deliver lots of value, whereas customers have difficulty getting service or technical support.

The elements of value have an organizational dimension as well: Someone in the company should be tapped to explicitly think about, manage, and monitor value. One pay-TV executive, lamenting the success of Netflix, told us, "I have a lot of people working on product features and service improvements, but I don't have anyone really thinking about consumer value elements in a holistic manner."

The concept of value remains rooted in psychology, but the elements of value can make it much less amorphous and mysterious. Abraham Maslow emphasized the bold, confident, positive potential of psychology. The elements can help managers creatively add value to their brands, products, and services and thereby gain an edge with consumers—the true arbiters of value.

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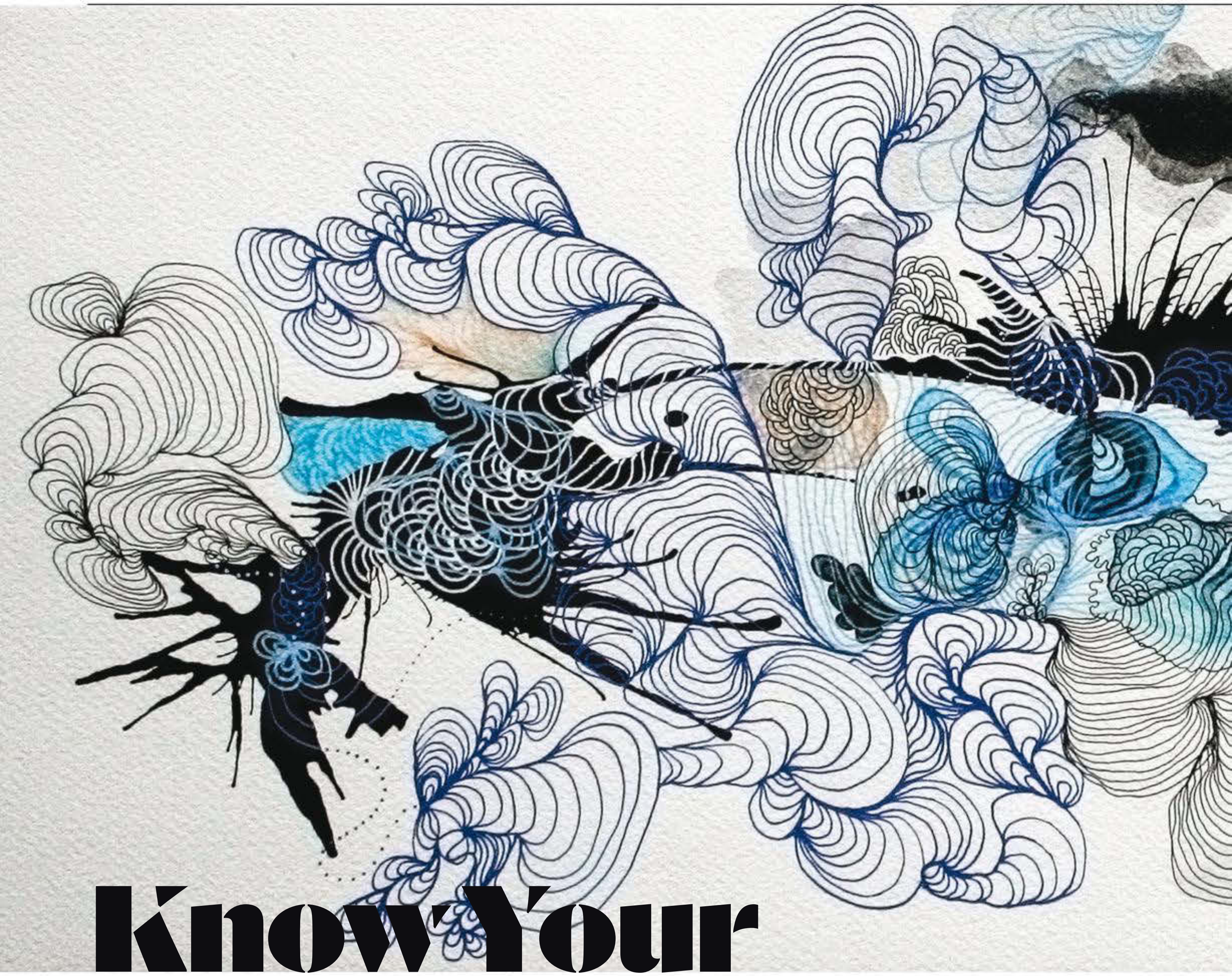
SPOTLIGHT



Know Your Customers' "Jobs to Be Done"

Is innovation inherently a hit-or-miss endeavor? Not if you understand why customers make the choices they do.

BY CLAYTON M. CHRISTENSEN, TADDY HALL, KAREN DILLON, AND DAVID S. DUNCAN

ARTWORK Marijah Bac Cam, *Blue Landscape*
Charcoal, ink, marker, and pencil on paper

For as long as we can remember, innovation has been a top priority—and a top frustration—for leaders. In a recent McKinsey poll, 84% of global executives reported that innovation was extremely important to their growth strategies, but a staggering 94% were dissatisfied with their organizations' innovation performance. Most people would agree that the vast majority of innovations fall far short of ambitions.

On paper, this makes no sense. Never have businesses known more about their customers. Thanks to the big data revolution, companies now can collect an enormous variety and volume of customer information, at unprecedented speed, and perform sophisticated analyses of it. Many firms have established structured, disciplined innovation processes and brought in highly skilled talent to run them. Most firms carefully calculate and mitigate innovations' risks. From the outside, it looks as if companies have mastered a precise, scientific process. But for most of them, innovation is still painfully hit-or-miss.

What has gone so wrong?

The fundamental problem is, most of the masses of customer data companies create is structured to show correlations: *This customer looks like that one,* or *68% of customers say they prefer version A to version B.* While it's exciting to find patterns in the numbers, they don't mean that one thing actually caused another. And though it's no surprise that correlation isn't causality, we suspect that most managers have grown comfortable basing decisions on correlations.

Why is this misguided? Consider the case of one of this article's coauthors, Clayton Christensen. He's 64 years old. He's six feet eight inches tall. His shoe size is 16. He and his wife have sent all their children off to college. He drives a Honda minivan to work. He has a lot of characteristics, but none of them has caused him to go out and buy the *New York Times.* His reasons for buying the paper are much more specific. He might buy it because he needs something to read on a plane or because he's a basketball fan and it's March Madness time. Marketers who collect demographic or psychographic information about him—and look for correlations with other buyer segments—are not going to capture those reasons.

The focus on knowing more and more about customers has taken firms in the wrong direction.

After decades of watching great companies fail, we've come to the conclusion that the focus on correlation—and on knowing more and more about customers—is taking firms in the wrong direction. What they really need to home in on is the progress that the customer is trying to make in a given circumstance—what the customer hopes to accomplish. This is what we've come to call the *job to be done.*

We all have many jobs to be done in our lives. Some are little (pass the time while waiting in line); some are big (find a more fulfilling career). Some surface unpredictably (dress for an out-of-town business meeting after the airline lost my suitcase); some regularly (pack a healthful lunch for my daughter to take to school). When we buy a product, we essentially "hire" it to help us do a job. If it does the job well, the next time we're confronted with the same job, we tend to hire that product again. And if it does a crummy job, we "fire" it and look for an alternative. (We're using the word "product" here as shorthand for any solution that companies can sell; of course, the full set of "candidates" we consider hiring can often go well beyond just offerings from companies.)

This insight emerged over the past two decades in a course taught by Clay at Harvard Business School. (See "Marketing Malpractice," HBR, December 2005.) The theory of jobs to be done was developed in part as a complement to the theory of disruptive innovation—which at its core is about competitive responses to innovation: It explains and predicts the behavior of companies in danger of being disrupted and helps them understand which new entrants pose the greatest threats.

But disruption theory doesn't tell you how to create products and services that customers want to buy. Jobs-to-be-done theory does. It transforms our understanding of customer choice in a way that no amount of data ever could, because it gets at the causal driver behind a purchase.

The Business of Moving Lives

A decade ago, Bob Moesta, an innovation consultant and a friend of ours, was charged with helping bolster sales of new condominiums for a Detroit-area building company. The company had targeted downsizers—retirees looking to move out of the family home and

Idea in Brief

WHAT'S WRONG
Innovation success rates are shockingly low worldwide, and have been for decades.

WHAT'S NEEDED
Marketers and product developers focus too much on customer profiles and on correlations unearthed in data, and not enough on what customers are trying to achieve in a particular circumstance.

WHAT'S EFFECTIVE
Successful innovators identify poorly performed "jobs" in customers' lives—and then design products, experiences, and processes around those jobs.

divorced single parents. Its units were priced to appeal to that segment—$120,000 to $200,000—with high-end touches to give a sense of luxury. "Squeakless" floors. Triple-waterproof basements. Granite counters and stainless steel appliances. A well-staffed sales team was available six days a week for any prospective buyer who walked in the door. A generous marketing campaign splashed ads across the relevant Sunday real estate sections.

The units got lots of traffic, but few visits ended up converting to sales. Maybe bay windows would be better? Focus group participants thought that sounded good. So the architect scrambled to add bay windows (and any other details that the focus group suggested) to a few showcase units. Still sales did not improve.

Although the company had done a cost-benefit analysis of all the details in each unit, it actually had very little idea what made the difference between a tire kicker and a serious buyer. It was easy to speculate about reasons for poor sales: bad weather, underperforming salespeople, the looming recession, holiday slowdowns, the condos' location. But instead of examining those factors, Moesta took an unusual approach: He set out to learn from the people who had bought units what job they were hiring the condominiums to do. "I asked people to draw a timeline of how they got here," he recalls. The first thing he learned, piecing together patterns in scores of interviews, was what did *not* explain who was most likely to buy. There wasn't a clear demographic or psychographic profile of the new-home buyers, even though all were downsizers. Nor was there a definitive set of features that buyers valued so much that it tipped their decisions.

But the conversations revealed an unusual clue: the dining room table. Prospective customers repeatedly told the company they wanted a big living room, a large second bedroom for visitors, and a breakfast bar to make entertaining easy and casual; on the other hand, they didn't need a formal dining room. And yet, in Moesta's conversations with actual buyers, the dining room table came up repeatedly. "People kept saying, 'As soon as I figured out what to do with my dining room table, then I was free to move,'" reports Moesta. He and his colleagues couldn't understand why the dining room table was such a big deal. In most cases people were referring to well-used, out-of-date furniture that might best be given to charity—or relegated to the local dump.

But as Moesta sat at his own dining room table with his family over Christmas, he suddenly understood. Every birthday was spent around that table. Every holiday. Homework was spread out on it. The table represented family.

What was stopping buyers from making the decision to move, he hypothesized, was not a feature that the construction company had failed to offer but rather the anxiety that came with giving up something that had profound meaning. The decision to buy a six-figure condo, it turned out, often hinged on a family member's willingness to take custody of a clunky piece of used furniture.

That realization helped Moesta and his team begin to grasp the struggle potential home buyers faced. "I went in thinking we were in the business of new-home construction," he recalls. "But I realized we were in the business of moving lives."

With this understanding of the job to be done, dozens of small but important changes were made to the offering. For example, the architect managed to create space in the units for a dining room table by reducing the size of the second bedroom. The company also focused on easing the anxiety of the move itself: It provided moving services, two years' worth of storage, and a sorting room within the condo development where new owners could take their time making decisions about what to discard.

The insight into the job the customers needed done allowed the company to differentiate its offering in ways competitors weren't likely to copy—or even comprehend. The new perspective changed everything. The company actually raised prices by $3,500, which included (profitably) covering the cost of moving and storage. By 2007, when industry sales were off by 49% and the market was plummeting, the developers had actually grown business by 25%.

Getting a Handle on the Job to Be Done

Successful innovations help consumers to solve problems—to make the progress they need to, while addressing any anxieties or inertia that might be holding them back. But we need to be clear: "Job to be done" is not an all-purpose catchphrase. Jobs are complex and multifaceted; they require precise definition. Here are some principles to keep in mind:

"Job" is shorthand for what an individual really seeks to accomplish in a given circumstance. But this goal usually involves more than just a straightforward task; consider the experience a person is trying to create. What the condo buyers sought was to transition into a new life, in the specific circumstance of downsizing—which is completely different from the circumstance of buying a first home.

The *circumstances* are more important than customer characteristics, product attributes, new technologies, or trends. Before they understood the underlying job, the developers focused on trying to make the condo units ideal. But when they saw innovation through the lens of the customers' circumstances, the competitive playing field looked totally different. For example, the new condos were competing not against other new condos but against the idea of no move at all.

Good innovations solve problems that formerly had only inadequate solutions—or no solution. Prospective condo buyers were looking for simpler lives without the hassles of home ownership. But to get that, they thought, they had to endure the stress of selling their current homes, wading through exhausting choices about what to keep. Or they could stay where they were, even though that solution would become increasingly imperfect as they aged. It was only when given a third option that addressed all the relevant criteria that shoppers became buyers.

Jobs are never simply about function—they have powerful social and emotional dimensions. Creating space in the condo for a dining room table reduced a very real anxiety that prospective buyers had. They could take the table with them if they couldn't find a home for it. And having two years' worth of storage and a sorting room on the premises gave condo buyers permission to work slowly through the emotions involved in deciding what to keep and what to discard. Reducing their stress made a catalytic difference.

These principles are described here in a business-to-consumer context, but jobs are just as important in B2B settings. For an example, see the sidebar "Doing Jobs for B2B Customers."

Designing Offerings Around Jobs

A deep understanding of a job allows you to innovate without guessing what trade-offs your customers are willing to make. It's a kind of job spec.

Of the more than 20,000 new products evaluated in Nielsen's 2012–2016 Breakthrough Innovation report, only 92 had sales of more than $50 million in year one and sustained sales in year two, excluding close-in line extensions. (Coauthor Taddy Hall is the lead author of Nielsen's report.) On the surface the list of hits might seem random—International Delight Iced Coffee, Hershey's Reese's Minis, and Tidy Cats LightWeight, to name just a few—but they have one thing in common. According to Nielsen, every one of them nailed a poorly performed and very specific job to be done. International Delight Iced Coffee let people enjoy in their homes the taste of coffeehouse iced drinks they'd come to love. And

Jobs are never simply about function—they have powerful social and emotional dimensions.

Identifying Jobs to Be Done

Jobs analysis doesn't require you to throw out the data and research you've already gathered. Personas, ethnographic research, focus groups, customer panels, competitive analysis, and so on can all be perfectly valid starting points for surfacing important insights. Here are five questions for uncovering jobs your customers need help with.

Do you have a job that needs to be done? In a data-obsessed world, it might be a surprise that some of the greatest innovators have succeeded with little more than intuition to guide their efforts. Pleasant Rowland saw the opportunity for American Girl dolls when searching for gifts that would help her connect with her nieces. Sheila Marcelo started Care.com, the online "matchmaking" service for child care, senior care, and pet care, after struggling with her family's own care needs. Now, less than 10 years later, it boasts more than 19 million members across 16 countries and revenues approaching $140 million.

Where do you see nonconsumption? You can learn as much from people who aren't hiring any product as from those who are. Nonconsumption is often where the most fertile opportunities lie, as SNHU found when it reached out to older learners.

What work-arounds have people invented? If you see consumers struggling to get something done by cobbling together work-arounds, pay attention. They're probably deeply unhappy with the available solutions—and a promising base of new business. When Intuit noticed that small-business owners were using Quicken—designed for individuals—to do accounting for their firms, it realized small firms represented a major new market.

What tasks do people want to avoid? There are plenty of jobs in daily life that we'd just as soon get out of. We call these "negative jobs." Harvard Business School alum Rick Krieger and some partners decided to start QuickMedx, the forerunner of CVS MinuteClinics, after Krieger spent a frustrating few hours waiting in an emergency room for his son to get a strep-throat test. MinuteClinics can see walk-in patients instantly, and their nurse practitioners can prescribe medicines for routine ailments, such as conjunctivitis, ear infections, and strep throat.

What surprising uses have customers invented for existing products? Recently, some of the biggest successes in consumer packaged goods have resulted from a job identified through unusual uses of established products. For example, NyQuil had been sold for decades as a cold remedy, but it turned out that some consumers were knocking back a couple of spoonfuls to help them sleep, even when they weren't sick. Hence, ZzzQuil was born, offering consumers the good night's rest they wanted without the other active ingredients they didn't need.

thanks to Tidy Cats LightWeight litter, millions of cat owners no longer had to struggle with getting heavy, bulky boxes off store shelves, into car trunks, and up the stairs into their homes.

How did Hershey's achieve a breakout success with what might seem to be just another version of the decades-old peanut butter cup? Its researchers began by exploring the circumstances in which Reese's enthusiasts were "firing" the current product formats. They discovered an array of situations—driving the car, standing in a crowded subway, playing a video game—in which the original large format was too big and messy, while the smaller, individually wrapped cups were a hassle (opening them required two hands). In addition, the accumulation of the cups' foil wrappers created a guilt-inducing tally of consumption: *I had* that *many?* When the company focused on the job that smaller versions of Reese's were being hired to do, it created Reese's Minis. They have no foil wrapping to leave a telltale trail, and they come in a resealable flat-bottom bag that a consumer can easily dip a single hand into. The results were astounding: $235 million in the first two years' sales and the birth of a breakthrough category extension.

Creating customer experiences. Identifying and understanding the job to be done are only the first steps in creating products that customers want—especially ones they will pay premium prices for. It's also essential to create the right set of experiences for the purchase and use of the product and then integrate those experiences into a company's processes.

When a company does that, it's hard for competitors to catch up. Take American Girl dolls. If you don't have a preteen girl in your life, you may not understand how anyone could pay more than a hundred dollars for a doll and shell out hundreds more for clothing, books, and accessories. Yet to date the business has sold 29 million dolls, and it racks up more than $500 million in sales annually.

What's so special about American Girls? Well, it's not the dolls themselves. They come in a variety of styles and ethnicities and are lovely, sturdy dolls. They're *nice,* but they aren't *amazing*. Yet for nearly 30 years they have dominated their market. When you see a product or service that no one has successfully copied, the product itself is rarely the source of the long-term competitive advantage.

American Girl has prevailed for so long because it's not really selling dolls: It's selling an experience. Individual dolls represent different times and places in U.S. history and come with books that relate each doll's backstory. For girls, the dolls provide a rich opportunity to engage their imaginations, connect with friends who also own the dolls, and create unforgettable memories with their mothers and grandmothers. For parents—the buyers—the dolls help engage their daughters in a conversation about the generations of women that came before them—about their struggles, their strength, their values and traditions.

American Girl founder Pleasant Rowland came up with the idea when shopping for Christmas presents for her nieces. She didn't want to give them hypersexualized Barbies or goofy Cabbage Patch Kids aimed at younger children. The dolls—and their worlds—reflect Rowland's nuanced understanding of the job preteen girls hire the dolls to do: help articulate their feelings and validate who they are—their identity, their sense of self, and their cultural and racial background—and make them feel they can surmount the challenges in their lives.

There are dozens of American Girl dolls representing a broad cross section of profiles. Kaya, for example, is a young girl from a Northwest Native American tribe in the late 18th century. Her backstory tells of her leadership, compassion, courage, and loyalty. There's Kirsten Larson, a Swedish immigrant who settles in the Minnesota territory and faces hardships and challenges but triumphs in the end. And so on. A significant part of the allure is the well-written, historically accurate books about each character's life.

Rowland and her team thought through every aspect of the experience required to perform the job. The dolls were never sold in traditional toy stores. They were available only through mail order or at American Girl stores, which were initially located in just a few major metropolitan areas. The stores have doll hospitals that can repair tangled hair or fix broken parts. Some have restaurants in which parents, children, and their dolls can enjoy a kid-friendly menu—or where parents can host birthday parties. A trip to the American Girl store has become a special day out, making the dolls a catalyst for family experiences that will be remembered forever.

No detail was too small to consider. Take the sturdy red-and-pink boxes the dolls come in. Rowland remembers the debate over whether to wrap them with narrow cardboard strips, known as "belly bands." Because the bands each added 2 cents and 27 seconds to the packaging process, the designers suggested skipping them. Rowland says she rejected the idea out of hand: "I said, 'You're not getting it. What has to happen to make this special to the child? I don't want her to see some shrink-wrapped thing coming out of the box. The fact that she has to wait just a split second to get the band off and open the tissue under the lid makes it exciting to open the box. It's not the same as walking down the aisle in the toy store and picking a Barbie off the shelf.'"

In recent years Toys "R" Us, Walmart, and even Disney have all tried to challenge American Girl's success with similar dolls—at a small fraction of the price. Though American Girl, which was acquired by Mattel, has experienced some sales declines in the past two years, to date no competitor has managed to make a dent in its market dominance. Why? Rowland thinks that competitors saw themselves in the "doll business," whereas she never lost sight of why the dolls were cherished: the experiences and stories and connections that they enable.

Aligning processes. The final piece of the puzzle is processes—how the company integrates across functions to support the job to be done. Processes are often hard to see, but they matter profoundly. As MIT's Edgar Schein has discussed, processes are a critical part of an organization's unspoken culture. They tell people inside the company, "This is what matters most to us." Focusing processes on the job to be done provides clear guidance to everyone on the team. It's a simple but powerful way of making sure a company doesn't unintentionally abandon the insights that brought it success in the first place.

A good case in point is Southern New Hampshire University, which has been lauded by *U.S. News & World Report* (and other publications) as one of the most innovative colleges in America. After enjoying a 34% compounded annual growth rate for six years, SNHU was closing in on $535 million in annual revenues at the end of fiscal 2016.

Like many similar academic institutions, SNHU once struggled to find a way to distinguish itself and survive. The university's longtime bread-and-butter strategy had relied on appealing to a traditional student body: 18-year-olds, fresh out of high school, continuing their education. Marketing and outreach were generic, targeting everyone, and so were the policies and delivery models that served the school.

SNHU had an online "distance learning" academic program that was "a sleepy operation on a nondescript corner of the main campus," as president Paul LeBlanc describes it. Yet it had attracted a steady stream of students who wanted to resume an aborted run at a college education. Though the online program was a decade old, it was treated as a side project, and the university put almost no resources into it.

Doing Jobs for B2B Customers

Des Traynor is a cofounder of Intercom, which makes software that helps companies stay in touch with customers via their websites, mobile apps, e-mail, and Facebook Messenger.

Intercom, which now has more than 10,000 customers and grew fourfold in 2015, adopted a jobs-to-be-done perspective to clarify its strategy in 2011, when it was still an early-stage start-up. Traynor spoke about that experience with Derek van Bever and Laura Day of Harvard Business School's Forum for Growth & Innovation. Here is an edited version of their conversation.

FORUM: How did you come across the "jobs" approach to innovation and strategy?
TRAYNOR: Somewhat by accident! In 2011 Intercom had just four engineers and some modest VC backing. I was asked to speak about managing a start-up at a conference. Clay Christensen opened the conference and mentioned "jobs to be done."

And that made an impression because...? We were searching for direction at the time. We knew we wanted to help internet companies talk to their customers—and to make that personal. We knew that the features we shipped were valuable—but we didn't really know who was using us. Customer support? Marketing? Market research? Nor did we know exactly what they were using us for.

How had you approached those questions until then? We were using a personas-based approach to segmentation, but it wasn't working. We had too many "typical users" who had little in common, going by traits like demographics or job titles. Because we didn't really understand why people were coming to the platform—what they were using it for—we charged a single price for access to the entire platform.

As soon as I grasped the distinction between "customers" and "problems people need help with," a lightbulb went off. I called my cofounder Eoghan McCabe and said, "We're going to build a company that is focused on doing a job."

And how did you figure out what the relevant job was? We got in touch with innovation consultant Bob Moesta, who has a lot of practical experience with this approach. Bob and his team conducted individual interviews with two types of customers: people who had recently signed on with us, and people who had dropped the service or changed their usage significantly.

He wanted to understand the timeline of events that led up to a purchasing decision and the "forces" that ultimately pushed people into that decision. Bob has a theory that customers always experience conflict when considering a new purchase—what he calls "the struggling moment." There are pressures pushing them to act—to solve a problem by "hiring" a solution—and forces like inertia, fear of change, and anxiety holding them back. His overall objective was to explain, in the customers' words, what caused people to resolve the conflict and "hire" Intercom, and then how well Intercom performed.

I listened in on four interviews live—and tried not to jump to judgment. Two things stood out. One, prospective clients who sampled our services were usually flailing. Their growth had flattened, and they were ready to try something new. And two, the words they described our product with were really different from the words we used. People using it to sign up new customers kept using the word "engage," for example. We used the term "outbound messaging," which has a very different feel.

According to Bob, this is really common: Companies fall in love with their own jargon. They focus on the technology being offered rather than the value being delivered.

What did you learn about the jobs you were being hired to do? It turned out that people had four distinct jobs: First, help me observe. Show me the people who use my product and what they do with it. Second, help me engage—to convert sign-ups into active users. Third, help me learn—give me rich feedback from the right people. And finally, help me support—to fix my customers' problems.

How much did you change the business once you understood the different jobs your customers had? A lot. We now offer four distinct services, each designed to support one of those jobs. Our R&D group—120 people—has four teams, one for each job, and we've gone deeper and deeper on each job.

Essentially, we realized that we'd been offering a one-size-fits-none service. The initial price felt high because no customer needed everything we were selling.

How did that change work out? Our conversion rate has increased, since prospects can now buy just the piece of the site that suits their initial job, and we're able to establish multiple points of sale across client organizations, since there is now a logical path for relationship growth.

On paper, both traditional and online students might look similar. A 35-year-old and an 18-year-old working toward an accounting degree need the same courses, right? But LeBlanc and his team saw that the job the online students were hiring SNHU to do had almost nothing in common with the job that "coming of age" undergraduates hired the school to do. On average, online students are 30 years old, juggling work and family, and trying to squeeze in an education. Often they still carry debt from an earlier college experience. They're not looking for social activities or a campus scene. They need higher education to provide just four things: convenience, customer service, credentials, and speedy completion times. That, the team realized, presented an enormous opportunity.

SNHU's online program was in competition not with local colleges but with other national online programs, including those offered by both traditional colleges and for-profit schools like the University of Phoenix and ITT Technical Institute. Even more significantly, SNHU was competing with *nothing*. Nonconsumption. Suddenly, the market that had seemed finite and hardly worth fighting for became one with massive untapped potential.

But very few of SNHU's existing policies, structures, and processes were set up to support the actual job that online students needed done. What had to change? "Pretty much everything," LeBlanc recalls. Instead of treating online learning as a second-class citizen, he and his team made it their focus. During a session with about 20 faculty members and administrators, they charted the entire admissions process on a whiteboard. “It looked like a schematic from a nuclear submarine!” he says. The team members circled all the hurdles that SNHU was throwing up—or not helping people overcome—in that process. And then, one by one, they eliminated those hurdles and replaced them with experiences that would satisfy the job that online students needed to get done. Dozens of decisions came out of this new focus.

Here are some key questions the team worked through as it redesigned SNHU’s processes:

What experiences will help customers make the progress they’re seeking in a given circumstance? For older students, information about financial aid is critical; they need to find out if continuing their education is even possible, and time is of the essence. Often they’re researching options late at night, after a long day, when the kids have finally gone to sleep. So responding to a prospective student’s inquiry with a generic e-mail 24 hours later would often miss the window of opportunity. Understanding the context, SNHU set an internal goal of a follow-up phone call within eight and a half minutes. The swift personal response makes prospective students much more likely to choose SNHU.

What obstacles must be removed? Decisions about a prospect’s financial aid package and how much previous college courses would count toward an SNHU degree were resolved within days instead of weeks or months.

What are the social, emotional, and functional dimensions of the job? Ads for the online program were completely reoriented toward later-life learners. They attempted to resonate not just with the functional dimensions of the job, such as getting the training needed to advance in a career, but also with the emotional and social ones, such as the pride people feel in earning their degrees. One ad featured an SNHU bus roaming the country handing out large framed diplomas to online students who couldn’t be on campus for graduation. “Who did you get this degree for?” the voice-over asks, as the commercial captures glowing graduates in their homes. “I got it for me,” one woman says, hugging her diploma. “I did this for my mom,” beams a 30-something man. “I did it for you, bud,” one father says, holding back tears as his young son chirps, “Congratulations, Daddy!”

But perhaps most important, SNHU realized that enrolling prospects in their first class was only the beginning of doing the job. The school sets up each new online student with a personal adviser, who stays in constant contact—and notices red flags even before the students might. This support is far more critical to continuing education students than traditional ones, because so many obstacles in their everyday lives conspire against them. Haven’t checked out this week’s assignment by Wednesday or Thursday? Your adviser will touch base with you. The unit test went badly? You can count on a call from your adviser to see not only what’s going on with the class but what’s going on in your life. Your laptop is causing you problems? An adviser might just send you a new one. This unusual level of assistance is a key reason that SNHU’s online programs have extremely high Net Promoter Scores (9.6 out of 10) and a graduation rate—about 50%—topping that of virtually every community college (and far above that of costlier, for-profit rivals, which have come under fire for low graduation rates).

SNHU has been open with would-be competitors, offering tours and visits to executives from other educational institutions. But the experiences and processes the university has created for online students would be difficult to copy. SNHU did not invent all its tactics. But what it has done, with laser focus, is ensure that its hundreds and hundreds of processes are tailored to the job students are hiring the school for.

MANY ORGANIZATIONS have unwittingly designed innovation processes that produce inconsistent and disappointing outcomes. They spend time and money compiling data-rich models that make them masters of description but failures at prediction. But firms don’t have to continue down that path. Innovation can be far more predictable—and far more profitable—if you start by identifying jobs that customers are struggling to get done. Without that lens, you’re doomed to hit-or-miss innovation. With it, you can leave relying on luck to your competitors.

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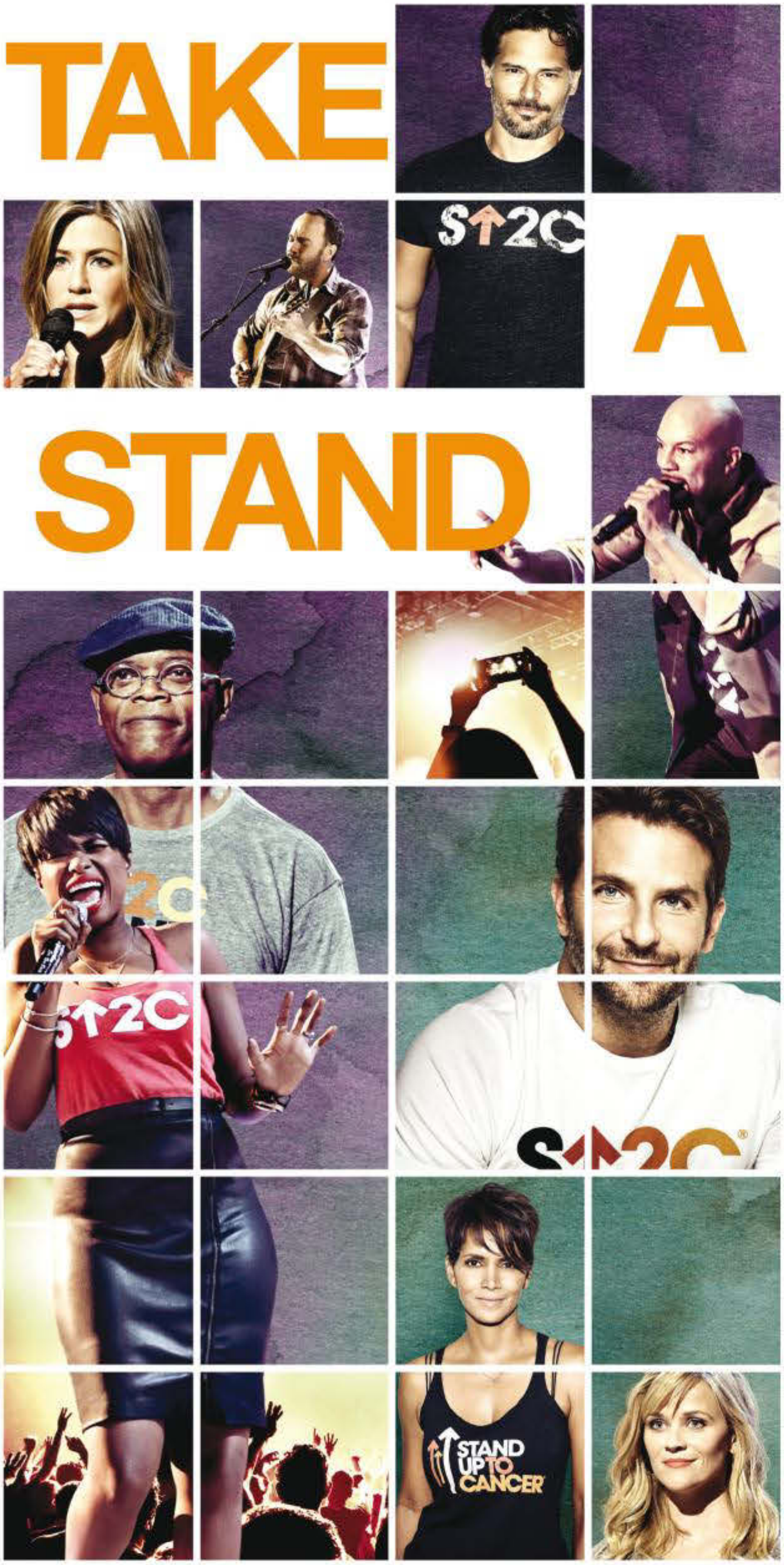
TAKE A STAND



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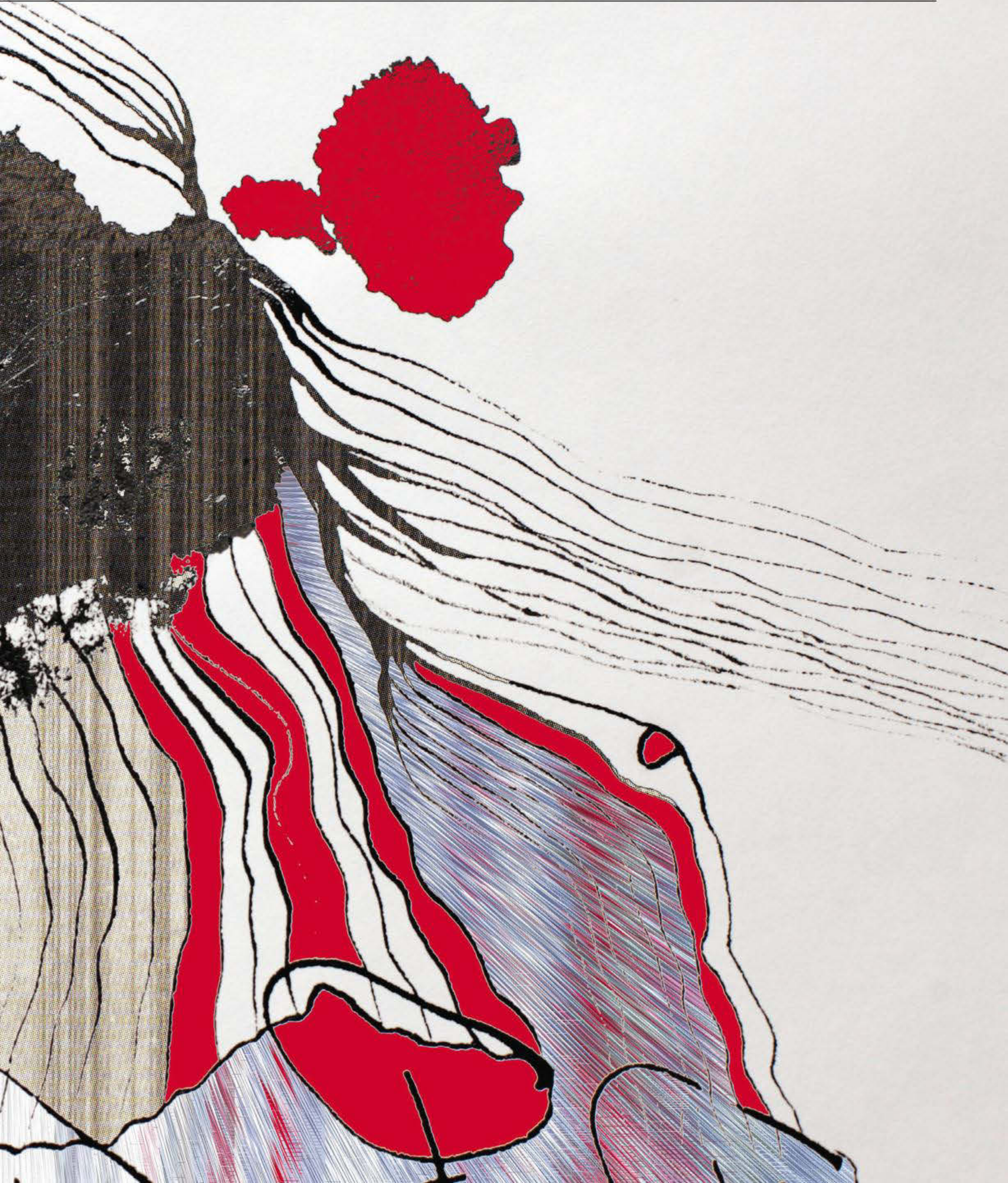
SPOTLIGHT

Building an Insights Engine

How Unilever got to know its customers

BY FRANK VAN DEN DRIEST, STAN STHANUNATHAN, AND KEITH WEED

ARTWORK Marijah Bac Cam, ***Irradiation #2***
Digital on paper



Operational skill used to confer long-term advantage. If you had leaner manufacturing, made higher-quality products, or had superior distribution, you could outrun competitors. But today those capabilities are table stakes. The new source of competitive advantage is customer centricity: deeply understanding your customers' needs and fulfilling them better than anyone else.

You need data to accomplish this. Yet having troves of data is of little value in and of itself. What increasingly separates the winners from the losers is the ability to transform data into insights about consumers' motivations and to turn those insights into strategy. This alchemy requires innovative organizational capabilities that, collectively, we call the "insights engine."

The vital role of the insights engine was revealed in a global market-research study led last year by the strategy consultancy Kantar Vermeer. The study, called Insights2020 (i2020), involved interviews and surveys of more than 10,000 business practitioners worldwide (see the sidebar "About the Insights2020 Research"). Of the factors that were found to drive customer-centric growth, none mattered more than a firm's insights engine, embodied in its insights and analytics function. (While these go by many names—including "I&A," "consumer and market insights," and "customer intelligence"—for simplicity we refer to them as insights functions here.)

In this article we describe the elements of the insights engine and show how it works at consumer goods giant Unilever. The firm's 400-plus brands, which include Dove, Knorr, and Axe, generated $60 billion in revenue in 2015, propelling underlying sales growth of 4.1% for the year. Performance at that level requires the full engagement of the company's 169,000 employees, who span functions from supply chain and R&D to marketing and finance. But as we'll show, it's the insights engine, manifested in the firm's Consumer and Market Insights (CMI) group, that underpins Unilever's customer-centric strategy.

A New Strategy

When Unilever released its first-quarter results in April 2016, CFO Graeme Pitkethly, addressing analysts, announced a major new initiative to shift resources to local markets around the world. He noted that consumers are increasingly seeking brands and products that align with their cultural identity and lifestyle. The result is that local firms, particularly in emerging markets, are growing fast and strengthening their competitive positions. The new program, he explained, would clarify accountability and make Unilever's marketing teams more agile both globally and locally.

Country business heads had recognized the rising popularity of local brands, and the implications were being discussed separately at many levels across the firm. A presentation to the operating board by CMI's head, coauthor Stan Sthanunathan, drew on this intelligence and on CMI's own review of what was happening. Sthanunathan walked the board members through an analysis of why local brands were growing, what threat this posed, and how Unilever could compete. The presentation focused attention, catalyzed the conversation about strategy, and ultimately led to changes in both organization and mindset.

Unilever's new initiative showcases the type of high-level advisory role that leading insights functions are increasingly taking. A decade ago, this sort of strategic involvement by a customer intelligence operation was almost unheard of. The market research department typically was a reactive service unit reporting to the marketing function, fielding marketing requests, and producing performance management reports. Over time, however,

Idea in Brief

THE IMPERATIVE
Operational skill once conferred competitive advantage; now it's table stakes. The new source of advantage is customer centricity: deeply understanding your customers' needs and fulfilling them better than anyone else.

THE RESEARCH
A study involving more than 10,000 practitioners examined the strategies, structures, and capabilities that distinguish high-performing, customer-centric companies. Having an independent insights and analytics function that participates fully in business planning and strategy is key.

THE CASE
Unilever's CMI group embodies the so-called insights engine through its expertise in synthesizing data, close collaboration with other functions, innovative use of new technologies and programs, and whole-brain mindset that balances creative and analytical thinking.

market research departments have been shifting from merely supplying data to interpreting it—distilling insights about consumers' motivations and needs on the basis of their behavior.

Driven by the imperative to become customer-centric, leading firms are now completing the transformation of market research groups into true insights engines with a fundamentally strategic role. At Unilever, CMI's prominently communicated mission is "to inspire and provoke to enable transformational action." Note that the word "insight" is missing—intentionally. That's because insights merely provide a means to the desired end: action that drives business growth.

In the pages that follow, we describe 10 characteristics of superior insights engines, gleaned from the i2020 research and our experience at Unilever. We divide these into two broad groups: *operational characteristics,* such as functional independence and experimental orientation, and *people characteristics,* such as business acumen and well-balanced analytic and creative thinking styles.

Operational Characteristics

Seven of the key characteristics relate to the way insights engines operate.

Data synthesis

Until recently, large firms had an advantage over smaller rivals simply because of the scale of their market research capability. Today research that once took months and cost millions can be done for a fraction of that price and in mere days. What matters now is not so much the quantity of data a firm can amass but its ability to connect the dots and extract value from the information. This capability differentiates successful organizations from less successful ones: According to the i2020 research, 67% of the executives at overperforming firms (those that outpaced competitors in revenue growth) said that their company was skilled at linking disparate data sources, whereas only 34% of the executives at underperformers made the same claim.

This proficiency in using data is evident in high-performing firms across industries, including pharmaceuticals, financial services, hospitality, and consumer packaged goods. And to improve, many firms are creating dedicated data groups, under senior executive leadership, to consolidate, manage, and analyze data and distribute it throughout the organization. At Unilever, CMI has taken on this role.

For any insights group that serves as a data aggregator, interpreter, and disseminator, the first challenge is to integrate massive and disparate sets of both structured and unstructured data from such sources as product sales figures, spending on media, call-center records, and social media monitoring. This may amount to tens of millions of pieces of data. The data sets are customarily owned by different teams—sales data by sales, media spending by marketing, customer interactions by customer service, and so on.

Working closely with IT, CMI implemented a global marketing-information system, accessible to all marketers throughout the company, that integrates data and presents it in consistent formats. This ensures that all users, wherever they reside in the firm, see the same information in the same way—what CMI calls "one version of the truth." Thus if marketing and finance are both looking at first-quarter shares of Dove soaps in any market segment, they're viewing the same numbers and units, derived using the same methodology and displayed in the same manner. Likewise, they see precisely the same picture when they look at data across brands, retailers, or regions.

Unilever's global marketing-information system has dramatically reduced the debates about data definitions, methodology, and interpretation that led to competing (and sometimes wrong) conclusions. It has also freed CMI from much of the resource-intensive reporting work that mires many firms' insights groups, allowing it to shift its focus from simply providing data to delivering insights and recommendations for action.

Consider CMI's role in Unilever's campaign to improve consumers' heart health. The firm was selling cholesterol-lowering spreads and drinks, but the hurdle was getting consumers to consistently use them. CMI's research generated quantities of data about consumption patterns. The initial insight was that for behavioral change to stick, people had to use the products for at least three weeks. The further insight was that the best way to get that long-term commitment was through peer pressure—engaging a group to work together. That insight then powered the marketing team to create a program called It Takes a Village, which challenges the people of an entire town to lower their cholesterol. The program, now in communities in more than 10 countries, includes cholesterol testing, nutrition advice, cooking guidance (involving the firm's products), and group breakfasts and exercise. To date, 85% of people taking the challenge have lowered their cholesterol.

CMI's approach to data gathering and analysis is often technology-intensive. For example, while monitoring Twitter chatter in response to a Ben & Jerry's "free cone" promotion, a CMI team noticed a strong relationship between chatter and sales increases in most regions—but not all. A real-time analysis of the slow spots revealed that stockouts there were inhibiting sales, allowing Unilever to head off similar problems with future promotions.

A full accounting of how CMI marshals technology to synthesize data is beyond the scope of this article, but two major programs are illustrative. The first, CMI's People Data Centre, combines social media and business analytics with data mining of Unilever's customer-care lines and digital marketing channels, which capture millions of conversations a day in 40 languages. CMI can rapidly turn raw data from those sources into business impact. When the firm's Knorr brand launched its "Love at First Taste" campaign, for example, it was inspired by research showing that most people are attracted to others who like the same flavors they do. So Knorr found singles with shared tastes, set them up on food-based blind dates, and filmed the results. Then it released the video on social media and engaged with people who'd been identified as "food influencers." In the first three weeks, the video received 100 million views.

Another CMI program, PeopleWorld, addresses the problem "If only Unilever knew what Unilever knows." Often the answer to a marketing question already exists in the firm's historical research; finding it is the challenge. But using an artificial intelligence platform, anyone within Unilever can mine PeopleWorld's 70,000 consumer research documents and quantities of social media data for answers to specific natural-language questions. For example, a brand manager might ask, "What hair-care problems concern middle-aged men in India?" PeopleWorld computers would intuit what's needed, search the vast repository of information on hair loss, dandruff, and similar topics, and instantly deliver a high-level overview. Through a set of related queries, the manager could get a clear picture of the distinct and overlapping hair-care concerns of younger or older men and those in different countries—information that might yield insights about consumer needs in various markets and how to meet them.

Anyone within Unilever can mine its 70,000 documents and vast social media data to gain insights about consumer needs.

ABOUT THE INSIGHTS2020 RESEARCH

To understand the organizational strategies, structures, and capabilities required to drive customer-centric growth, a global team launched the Insights2020 initiative in 2015.

Researchers conducted in-depth interviews with more than 350 business, marketing, and insights and analytics (I&A) leaders, along with online surveys of more than 10,000 practitioners in 60 countries. Kantar Vermeer led the project in partnership with Esomar, the Advertising Research Foundation, LinkedIn, and Korn Ferry. The Wharton School engaged an expert panel to validate and extend the research, and an analysis of LinkedIn's 400-million-member database discerned the interaction behaviors of executives at the most customer-centric firms.

Respondents were divided into two groups—overperformers and underperformers—on the basis of their companies' three-year revenue growth relative to their competitors'. The firms were then compared across an array of marketing and I&A dimensions. The results confirmed a strong correlation between customer centricity and revenue growth and identified the essential features of high-performing, customer-centric organizations. These fell into three broad categories: a superior ability to provide a consistent, personalized, meaningful experience across all touchpoints; a singular commitment from every department to meeting customer needs; and the presence of an insights engine—typically an independent I&A function that participates fully in business planning and organizational strategy. Of these three categories, the insights engine—the focus of this article—had the largest impact on revenue growth.

Further analysis revealed the 10 characteristics of superior insights engines detailed in this article. To gauge your firm's performance on each characteristic and see how you compare to average and top-performing organizations, try out the Insights2020 benchmarking tool here: www.Insights2020.org/Benchmark.

Independence

Superior insights groups sit decisively outside marketing and other functions and often report to someone in the C-suite—the CEO, the chief strategy officer, or the chief experience officer. The i2020 research shows that insights leaders in overperforming organizations report to these senior executives more than twice as often as their counterparts in underperforming organizations do (29% versus 12%). Kantar Vermeer's work with dozens of firms across industries indicates that this number is increasing, and we expect that in time this will be the typical arrangement.

At Unilever, Stan Sthanunathan reports to a member of the executive board—coauthor Keith Weed, who leads marketing, communications, and sustainable business functions. This reporting structure makes CMI a fully independent function with direct lines to the CEO. In this position, CMI can be objective, collaborate on an equal footing with other functions, and challenge or even set the direction of functional and organizational projects and strategy.

Take CMI's push to make advertising pretesting a standard procedure. Because Unilever is the world's second-largest media spender, improving advertising performance by even a few percentage points can translate into hundreds of millions of dollars in reduced costs and new revenue. And yet in the past, ads were often launched without hard data about their effectiveness. To change that, CMI implemented a disciplined testing program; using consumer surveys and software that reads facial expressions, the CMI team can now see if people find the ads authentic, relevant, and conversation-worthy—before they're aired. Poor ads are killed while powerful ones are given the go-ahead, and CMI collaborates with marketing to boost their performance. Ad creators originally saw the testing program as a threat to creativity and resisted it. But it proved so effective that marketers now embrace it, knowing that it helps them do their best work and that successful ads figure into their bonus computations.

CMI's independence is enabled by having autonomy over its own budget, a mandate to drive business performance, and accountability for helping other functions achieve business targets. Thus when CMI recommends, for example, extending a brand into new local markets, it works in close partnership with marketing on the strategy and execution, because falling short would be as much CMI's responsibility as marketing's.

Integrated planning

For most companies, the business- and brand-planning cycle is the driving force behind strategy development and execution. This is where decisions are made about where to play and how to win. And it's here that resource allocation and budgeting are formalized and performance is monitored against goals. If insights groups are to help drive strategy, their activities must be aligned during the planning cycle with those of strategic planning, marketing, finance, sales, and other functions. That's why substantially more overperforming firms than underperforming ones (61% versus 46%) include insights leaders at all key stages of the planning cycle. We find that insights-function involvement in the cycle varies by industry; it's especially strong in retail.

Here's how CMI participates in the planning cycle: "Where to play?" is fundamentally a question of where to direct growth investments—in existing, adjacent, or new markets. To help determine this, CMI uses a bespoke software tool called Growth Scout, which mines millions of data points on consumer demand across demographics, regions, and countries to quantify the potential value of deeper category or brand penetration. A typical application might be to gauge the impact of, say, increasing the penetration of shower gels by 10% in Thai markets. The results could help Unilever prioritize growth opportunities and decide where it could most profitably invest additional marketing or product-development resources. Recently, the CMI home-care team used Growth Scout to uncover potentially lucrative new markets for Unilever detergent brands by identifying demographic segments with weak penetration.

Once decisions have been made about where to play, another custom-built software tool, called Growth Cockpit, helps guide "How to win?" strategies. The tool provides a one-screen overview of a brand's performance in a market relative to the category. By rapidly building a visual picture of how the brand compares on a host of metrics—market share, penetration, pricing, media spending, and more—it points managers to growth opportunities.

Additionally, CMI employs other tools to help answer questions about which product benefits marketing should emphasize, which ads are most effective, what marketing budget allocations will yield the highest return on investment, and what pricing is optimal. CMI then plays a central role in tracking the performance of marketing initiatives against targets and advising on tactical adjustments that may improve performance.

Collaboration

The i2020 study found that on average, 69% of respondents from overperforming firms said they work closely with other functions and customers, compared with just 52% of those in underperforming companies. This emphasis on collaboration is evident particularly among tech start-ups, but we're also seeing it among giants such as Alibaba and Google, and it's certainly the norm at Unilever and other large CPG firms.

In traditional market-research functions, the emphasis isn't so much on collaboration as on being an effective service provider. Insights functions like CMI have a distinctly different role that emphasizes shared goals and partnerships. We saw this in CMI's work with IT to create "smart" information-sharing platforms, like PeopleWorld, that anyone at Unilever can use. Similarly, CMI consciously collaborated with marketing, shedding its image as a "policeman" monitoring performance and instead coming to be seen as a helpful partner in creating effective communications.

More broadly, CMI's structural alignment with the rest of the organization and its integration into the planning cycle create natural channels for often-daily collaboration. For example, CMI's organizational structure includes teams that focus on personal care, home care, foods, and refreshments, and the team leaders are colocated with the presidents of the same product categories in the broader organization. This helps ensure that when the strategy discussion turns to, say, expanding a personal-care brand into a new market, CMI and other functions are participating in conversations together and working as partners. Being held accountable for business results also provides an incentive for CMI to collaborate with all commercially oriented teams, since that is the best way to influence the key performance indicators for each team's operations.

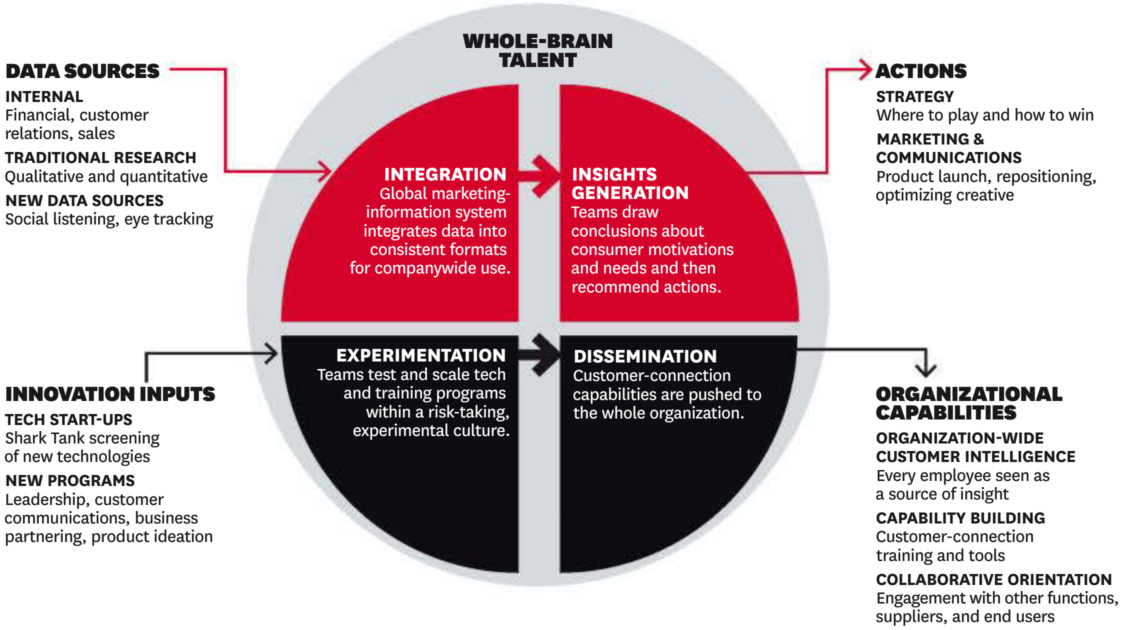
It's understood across the firm that insights can come from anyone at any time. Therefore, CMI encourages every employee to engage with customers to gain insights about their needs and the role of Unilever products in their lives, and it provides tools to help. Through a program called People Voice, for example, all employees, from factory workers in Asia to members of global brand teams and up to the CEO, can connect directly with customers at events with themes such as "sustainability" and "shopper experience." Another option is for employees to use an "always-on" platform, provided through a start-up called Discuss.io, to arrange virtual meetings with consumers anywhere. A typical request might be: "I want to meet a South African soup lover next week at 4 PM." The employee then gets an automated calendar invite to a live video chat. Some category presidents use the platform to engage with people in a country they plan to visit, asking about their needs and exploring opportunities for Unilever. This helps the presidents focus their conversations with local managers when they arrive.

To record their insights, employees use an in-house app that captures their observations from live chats or other consumer interactions. For example, an employee might note that people she talked with in Algeria equated "sustainability" with water conservation. Such notes, stories, pictures, and videos of employees' communications are stored centrally and analyzed by CMI, which uses video mining and other technologies to identify behavioral patterns across regions and groups and to generate insights about consumer needs. For instance,

THE WORKINGS OF THE INSIGHTS ENGINE

Whole-brain thinking is at the core of the insights engine, powering two parallel processes that allow companies to understand and fulfill customers' needs.

The first involves gathering data from disparate sources, integrating it into a universally accessible database, mining it for insights, and then recommending concrete actions related to strategy and marketing. The second process starts with the use of new technologies and other inputs to foster a culture of experimentation. The insights engine team then strives to spread a customer-centric mindset throughout the organization, expanding employees' capabilities with training, tools, and an emphasis on collaboration.



reports from employee visits to customers' kitchens in China revealed that because of high heat and tight space, grease buildup on surfaces is a common problem. Brand teams are now trying to determine what product innovations and messaging can help provide a solution.

About 30,000 people participate in People Voice programs annually. In addition to helping Unilever understand consumers' needs, the programs reinforce the idea that it's everyone's job to uncover insights—a challenge that motivates and engages employees at every level.

Experimentation

Overperforming companies are three times as likely as underperformers to embrace a culture of experimentation, the i2020 research shows (40% versus 13%), and B2B firms in general are more experimental than B2C companies. Unilever is an exception in the B2C world, having formalized experimentation in a variety of ways, most visibly in its 2014 launch of the Foundry. Originally a marketing-technology start-up incubator, the Foundry has since expanded to include hackathons, a collaboration platform for addressing sustainability issues, another platform that sources and gives prizes for creative marketing concepts, and a mentoring program that connects start-ups with Unilever experts who advise on product and brand development and marketing strategy. Much of the Foundry's work revolves around the "challenges" it posts on its site—requests for proposals to address a specific problem, such as consumers' quandaries over what to cook for dinner or how to live a more sustainable lifestyle.

Under the Foundry's aegis, CMI's Shark Tank initiative applies a technique borrowed from the CNBC show of the same name. A dozen or so start-ups pitch new technologies to a CMI executive team. Each has five minutes to tell its story, followed by five minutes of Q&A. After the presentations, the team votes on which ideas to pilot and which to reject. Since its inception two years ago, Shark Tank has screened more than 650 technologies, piloted more than 175, and scaled up 37.

One of the start-ups brought in was Discuss.io, the online consumer-connection video platform. Another was weseethrough, which uses wearable technology to observe what consumers actually do—which is often not what they claim to do. Test subjects for weseethrough wear Google Glass while engaging in routine tasks, such as cleaning, cooking, or shopping. The company then analyzes the video captured by the headsets to discern behaviors that consumers themselves may be unaware of. For example, people may think it takes longer to clean the living room than the bathroom, but in fact the reverse is true. Insights like that have helped Unilever adapt its portfolio of products to address consumers' unarticulated cleaning needs.

Forward-looking orientation

To get a handle on the future, market researchers traditionally focused on the past. They might have reviewed a project launch months after the fact, for instance. Most firms today have shifted substantial attention to studying the present, monitoring consumers in real time to anticipate what they'll do next. The most sophisticated practitioners—those with insights engines like CMI—take the next step, using predictive analytics and other technologies, along with new organizational structures, to both anticipate and influence behavior. Though overperformers currently aren't far ahead of underperformers in this regard (32% versus 28%), the i2020 research suggests that the gap is widening, and we expect the trend to continue.

Consider how CMI worked with Google and Razorfish to develop a program that leveraged real-time media monitoring to anticipate hairstyle trends and shape demand for related products. Unilever is one of the largest players in the global hair-care market, with brands including Suave and TRESemmé, but like its competitors, it had struggled to differentiate itself. Using a custom tool to analyze hair-related Google searches (there are about a billion a month), the program identifies styling trends and rapidly creates how-to videos featuring (but not directly promoting) Unilever products on a YouTube channel called All Things Hair. There visitors can browse by hair type and buy relevant Unilever products. Now live in 10 markets, All Things Hair has had more than 125 million views since its launch in 2013, and the research shows that it's three times as likely to drive purchases as conventional advertising is.

At a broader level, CMI created a team called Human and Cultural Futures (HCF), dedicated to imagining the future, examining developments in key regions, and exploring the implications for strategy. The team has identified certain societal, technological, environmental, political, and economic pressures, or "macro forces," that are shaping the world—including a shift of economic and technological growth to the East (India and China) and South (Africa and South America), and growing environmental stress. Among its programs, HCF runs cultural awareness workshops and prompts brand and category teams to discuss how various macro forces might affect both consumers and Unilever. In one conversation about increased mortality among children under five, the Lifebuoy soap brand team zeroed in on data showing that over 40% of the deaths occur among infants less than a month old, and many could be prevented with handwashing. This has led to a sweeping handwashing education program that has changed the behavior of 337 million people in 28 countries. In villages in India, mothers reported that the incidence of diarrhea in family members dropped from 36% in 2013 to 5% in 2014.

Affinity for action

The most influential insights functions focus as much on strategy as on data. Indeed, i2020 found that 79% of insights functions at overperforming companies participated in strategic decision making at all levels of the organization, compared with just 47% at underperforming companies.

CMI's action orientation manifests itself in two broad ways: in its specific recommendations to other functions and in the recruitment and training of "action-oriented" employees.

Look, for example, at CMI's engagement with marketing regarding market development. CMI pointed out the large "size of the prize" that Unilever stood to gain by expanding the markets it operated in. Company leaders acknowledged this as the firm's biggest growth opportunity. CMI helped break the challenge into three parts—generating more product users, more usage, and more benefits for users—and then helped identify ways to attack those challenges. For instance, in the area of more usage, CMI suggested that promoting nighttime use of toothbrushes and toothpaste could boost business growth and tie in with Unilever's social mission of improving oral hygiene. CMI facilitated a workshop that highlighted the importance of dads in teaching their children to brush. That resulted in a marketing campaign with a song encouraging kids to brush at night as a way to have fun and bond with their fathers.

Insights teams must think holistically, exercising creative, right-brain skills *and* analytical, left-brain ones.

On the staffing side, from top to bottom, CMI invests in development programs designed to expand people's capabilities beyond the expected functional skills (research and analysis) to "action" skills—communicating, persuading, facilitating, leading. The idea is to help employees become better at turning insights into business results, whether by conceiving of a new business opportunity or by selling it within the organization.

People Characteristics

The operational characteristics that distinguish superior insights engines are complemented by three traits characterizing the people who are part of them.

Whole-brain mindset

For an insights engine to be collaborative, experimental, and so on, it needs a culture that breaks from the past. Historically, the members of insights organizations focused on analytics. That left-brain orientation served them well, but today's insights teams must think holistically, exercising creative, right-brain skills as well.

High-performing organizations are particularly adept at integrating the two types of approaches; far more respondents from overperformers than from underperformers agreed that their insights functions were skilled at whole-brain thinking (71% versus 42%). Achieving balance between right- and left-brain thinking requires a two-pronged effort: recruiting whole-brain talent and encouraging the mindset across the existing organization. Few people are purely right- or left-brained. But organizational work often favors analytical thinking, so conscious efforts to unleash people's creative side are particularly vital.

One approach that CMI uses is Upping Your Elvis workshops, run by a company of the same name. The energetic and interactive training pushes people out of their default thinking styles and gets them to engage in creative problem solving with colleagues they might not normally connect with. A recent workshop, for example, brought together people from marketing, R&D, CMI, and other areas and asked them to brainstorm ways to boost hair-conditioner sales in Southeast Asia. Their insight was that consumers were reluctant to risk buying a product when they weren't sure of its benefits. This led to the idea of launching an inexpensive trial-size packet.

In other CMI workshops, the focus is on linking data about markets and brand performance to the actual consumer experience. Marketers, R&D staff, and others in the organization will go to people's homes to wash clothes or cook a meal, seeing firsthand how users engage with Unilever products. Workshop participants also connect directly with both loyal and lapsed customers and hear outside speakers present case studies on customer engagement. And they join in ideation sessions with colleagues across functions to imagine new growth programs and develop detailed action plans.

In all cases, employees leave these workshops with new collaboration tools, and they become role models and evangelists for whole-brain thinking.

Business focus

Historically, organizations' right-brain thinkers—marketing creative teams, for example—have not naturally focused on the business side. But i2020 found that respondents from high-performing firms were much more likely than those from low-performing firms to believe that their insights functions were business-focused (75% versus 50%).

At Unilever, CMI has implemented an array of programs to build business acumen. Recall that

In its marketing presentations, CMI has **moved away from charts and tables and toward provocative storytelling.**

the vision of the CMI team is "to inspire and provoke to enable transformational action." CMI sees developing insights as a means to an end—customer-centric business growth. To reinforce the connection between insights and growth, staff bonuses are linked to the wider business unit performance. This creates shared accountability with other functions, encourages CMI teams to take responsibility for growth, and motivates them to go the extra mile. Teams are trained to think outside their traditional areas through "CMI Academy" courses on topics such as finance for nonfinance managers and effective business partnering. As a result of these and other programs, teams now instinctively consider the business impact of their work and of every recommendation they make.

Storytelling

The i2020 research imparts a final lesson about what makes for a strong insights engine: good storytelling. At overperforming firms, 61% of surveyed executives agreed that people in their insights functions were skilled at conveying their messages through engaging narratives; at underperforming firms, only 37% agreed.

At Unilever, CMI has embraced storytelling. Traditionally its presentations were data-intensive, built on the assumption that a fact-filled talk would be more persuasive than a fact-based one with less data and more narrative. Although data has its place, CMI has moved away from charts and tables and toward provocative storytelling, embracing an ethos of "Show, don't tell." Increasingly, CMI is making its points with memorable TED-style talks and other experiential approaches.

For example, early in the business-planning cycle, CMI does market-by-market presentations to leadership and staff, including the heads of Unilever's personal care, foods, and other categories. These describe global demographic, consumption, and other trends that are relevant to each category. Rather than bludgeon audiences with data, the presentations include compelling imagery and vignettes to advance a story line that has implications for strategy.

For an initiative targeting senior citizens, the CMI team found a novel way to bring the experience of older consumers to life. Instead of simply reporting how seniors struggle with products, CMI had marketing executives don old-age simulation equipment and then try to read labels and handle Unilever products such as shampoo. Encumbered by gear that reduced their mobility and vision, the marketers gained a real appreciation for the obstacles the elderly face. One outcome of the event is newly designed ice cream packaging that's easier to read.

MUCH OF what insights engines at any firm do is gather and analyze data. But today that is the minimum needed for success. Being able to translate this capability into customer-centric growth is what distinguishes winners from losers. The insights engine is critical to this process—in fact, it's the most important driver identified by the i2020 research. But by itself, even the most advanced insights engine can't make a firm customer-centric. That requires leadership from the top to ensure that every function, from R&D to marketing to CMI itself, maintains a singular focus on understanding and meeting consumers' fundamental needs.

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How to Make the Other Side Play Fair

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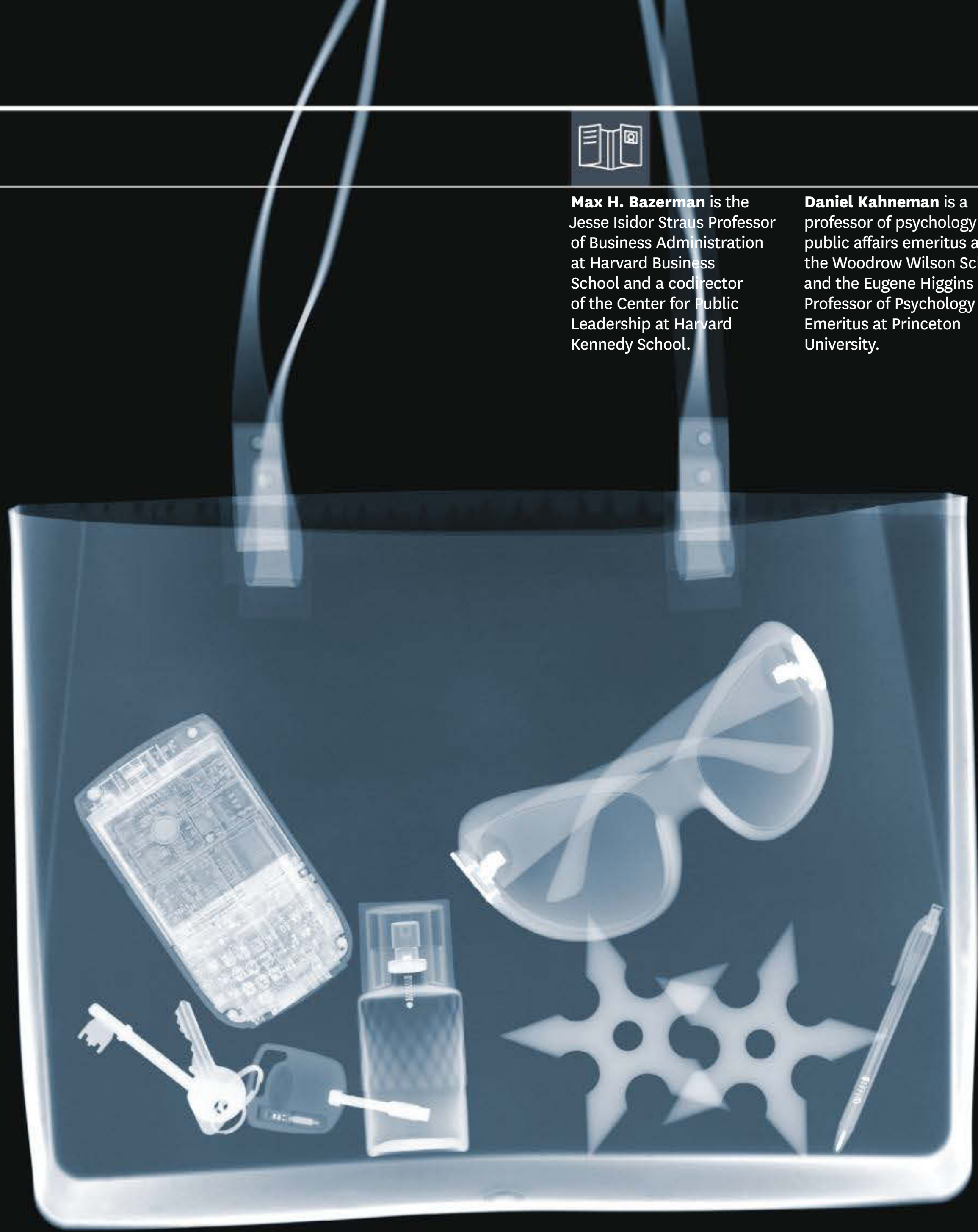

THE FINAL-OFFER ARBITRATION CHALLENGE GIVES NEGOTIATORS A VALUABLE NEW TOOL.

BY MAX H. BAZERMAN AND DANIEL KAHNEMAN

NICK VEASY

Please answer two quick questions:

1 When negotiating, do you want the other side to be reasonable?

2 Is it a good idea to be reasonable in negotiations?

Everyone we ask says yes to the first question, but answers diverge in response to the second. Academics lean toward yes, but businesspeople and lawyers often hesitate. In legal disputes, contested insurance claims, and similarly adversarial negotiations, they point out, the other party is likely to open with an inflated claim or a lowball offer. If the other side's position is unreasonable, these practitioners suggest, it makes little sense to be reasonable yourself.

Suppose a customer claims that a problem with a product you sold him resulted in a $10 million loss to his business. After careful analysis, your legal team concludes that the fair value of his claim is just $5 million. How do you respond? A common reflex is to come back with, say, $1 million. The familiar and dysfunctional negotiation dance that follows can be costly for all involved. The parties may eventually converge on a figure close to $5 million, but only after spending a lot of time and money to get there—and harming their relationship in the process.

It would be to everyone's advantage if parties routinely came to a negotiation with a reasonable offer in hand: If starting positions are realistic, the offers will be more or less aligned, and any negotiation that follows should be relatively civil, speedy, and fair. But how can a negotiator who wants to be fair from the start ensure that his or her counterpart will be reasonable as well?

This question inspired us to propose the *final-offer arbitration challenge,* a new negotiation strategy for reaching fair agreements efficiently, even when dealing with seemingly unreasonable opponents. Leveraging an approach first applied in labor negotiations in the 1960s, the strategy allows one side to encourage reasonableness on the part of the other by making a demonstrably fair offer at the outset and then, if the other side is unreasonable, challenging it to take the competing offers to an arbitrator who must choose one or the other rather than a compromise between them. We conceived the final-offer arbitration challenge in the course of our work with the global insurance company AIG. As we'll describe, the strategy could be used in negotiations well beyond insurance.

The Challenge in Action

Insurance companies pay billions of dollars every year to settle claims, employing hundreds of people to evaluate and negotiate tens of thousands of cases. There is good reason to believe that their employees' decisions are not always optimal, resulting in overpayment on some claims and needlessly costly negotiation over others. AIG's CEO, Peter Hancock, who was familiar with Daniel Kahneman's *Thinking, Fast and Slow,* invited TGG, the consulting firm with which Kahneman is affiliated, to explore solutions. Kahneman recruited Max Bazerman to examine the company's approach to negotiation. What began as a brief engagement became a large-scale, long-term project to sharpen AIG's ability to efficiently resolve claims and reach reasonable settlements, reduce costs, and improve its reputation for fairness. Success with this intervention, Hancock reasoned, could ultimately confer competitive advantage.

AIG used the final-offer arbitration challenge in a difficult negotiation with a man who had been injured while working in a factory it insured. The company didn't want to overpay on the claim, but it also didn't want to appear unfair in the eyes of its customer, the factory owner. Drawing on the assessments of several outside experts, AIG estimated the claim's fair value at $1 million to $1.1 million and made an

Idea in Brief

THE PROBLEM
The two sides in an adversarial negotiation rarely bring their most reasonable offers to the table. Rather, each stakes out a position to its advantage and seeks to give up as little as possible. This common approach is often costly to all involved.

THE SOLUTION
A new negotiation strategy can efficiently lead to an equitable agreement: One side presents an objectively fair offer, challenging the other to make its own best offer and then allow an arbitrator to decide which of the two is more reasonable.

THE RESULT
The threat of losing in a final-offer arbitration will typically bring an unreasonable adversary back to the table with a more reasonable offer. The insurance giant AIG tested this strategy in an injury claims case, leading to a rapid, fair settlement.

offer of $850,000. The claimant's attorney countered with $2.6 million—an amount he vehemently insisted was fair.

AIG, confident that its position was reasonable (and that the claimant's wasn't), responded with a final-offer arbitration challenge: Present the two offers to a professional arbitrator, who would make a legally binding decision about which was more reasonable. By forbidding an arbitrator to split the difference between two offers, this procedure neutralizes any incentive to be unreasonable, because the arbitrator is unlikely to choose the less reasonable offer. (See the sidebar "A Primer on Final-Offer Arbitration.") In a conventional arbitration or a typical judicial process, the arbitrator *is* allowed to choose a value between the two figures. Although conventional arbitration may be efficient in comparison with a lengthy court process, it tends to reward unreasonableness, because the parties believe that the arbitrator will land somewhere between their offers. The more unreasonable your offer is, therefore, the better you are likely to fare.

The final-offer arbitration challenge worked because it exposed the unreasonableness of the other side's position: The claimant's attorney, realizing that AIG was convinced of its position and unlikely to be flexible, abruptly reduced the demand by more than half, from $2.6 million to $1.25 million. AIG reiterated its relatively fair offer of $850,000. A rapid series of offers and counteroffers ensued, and the claim was settled in a matter of days for $1.05 million.

Notice that the parties in this case ultimately avoided arbitration but did converge on a number close to AIG's opening offer. We expect that as the challenge strategy is used more widely, this result will be common: The party subject to the challenge will quickly return to the table with a more reasonable position.

It is rational for claims executives to argue that if they make a reasonable opening offer of 90% of a claim's true value and the other side counters with an unreasonable 1,000%, they will be poorly positioned for the usual process of exchanging concessions. The final-offer arbitration challenge curtails this process by sending a credible signal that the other side should not expect much more movement. We are confident that the challenge will often bring the other party to reasonableness.

When to Use the Challenge

Prior to this work, the use of arbitration was typically established as the default for obtaining agreement long before the actual negotiation started. That is, it was mandated if the parties couldn't reach an agreement on their own. A unique feature of our approach is that one side in a dispute can present the final-offer arbitration challenge at any time.

We suggest that parties we are advising determine, before or during a negotiation, the range of possible settlements an objective observer would consider fair and then make a reasonable offer. If the counteroffer is unreasonable, they should ask if the other side really believes that its offer is fair. If the answer is yes, they should propose that the two offers be submitted to final-offer arbitration. If you are sure that your offer is more reasonable than the counteroffer, you can be confident of prevailing if the other side accepts the challenge. But it rarely will. The point of the challenge is to credibly signal that you believe your offer is fair and you won't improve on it unless the other side returns to the table with a far more reasonable proposal.

The challenge strategy makes sense in any dispute where four conditions are met: You have made a reasonable offer that has been countered with an unreasonable one. You are confident of what a fair

A Primer on Final-Offer Arbitration

Final-offer arbitration—also known as "baseball arbitration" because of its use in Major League Baseball salary disputes—was first suggested in the 1960s by the labor relations scholar Carl Stevens as a strategy for driving parties to agreement. Conventional arbitration was already in frequent use as an alternative to strikes for resolving disagreements between management and labor. In conventional arbitration the two parties make their cases to a neutral third party whose ruling on the issue at stake is binding.

Essentially, conventional arbitration serves as an efficient judicial process. But research showed that parties were remaining far apart in the expectation that the arbitrator would simply split the difference between them. In that case, the more unreasonable your offer, the better you fared. Thus many people questioned the wisdom of arbitration. Stevens created final-offer arbitration to address the problem and to encourage negotiators to solve disputes on their own.

Under final-offer arbitration, reasonableness is rewarded rather than punished. The two parties submit their final offers, and the arbitrator must select one or the other. Although this may prevent the arbitrator from choosing a number he or she believes is truly fair, the riskiness of the process drives the parties toward agreement, dramatically raising settlement rates. In the rare case when arbitration is actually invoked, each party competes to be more reasonable than the other.

"The suggestion was not received with overwhelming enthusiasm by the labor-relations community," Stevens recounted in 1976. "Indeed, there was a tendency to write it off as an unworkable 'gimmick.'" Many people criticized the requirement that the arbitrator choose the lesser of two evils rather than what was actually fair. Nevertheless, final-offer arbitration has proved to be a strong alternative to courts and strikes.

resolution would be. Escalating the dispute into litigation would be costly. Neither side can easily walk away.

What is "fair" or "reasonable" lies on a spectrum from objective to subjective and thus from clear to ambiguous. With many insurance or legal claims, historical data or records from similar cases can provide a solid basis for determining a fair settlement. The value of a new car totaled in an accident is easy to determine and hard to dispute. But personal injury claims involving emotional suffering require more-subjective evaluations. The challenge should be reserved for disputes in which the objective value of a claim is fairly clear; the more ambiguous the value, the greater the uncertainty about where an arbitrator's decision will fall.

To determine fairness in an injury case, an insurance company could assemble several independent experts, give them the facts, and ask each to gauge the claim's value. If their conclusions are fairly well aligned, the insurer can be confident of its offer. If a group of experts returns with widely divergent values, you know that "fair" is ambiguous—and, therefore, that using the challenge strategy will be risky.

Having established what's fair, ask, "Can either party easily walk away?" In a typical buyer-seller transaction, if the parties' positions are polarized and neither side is inclined to bargain, a final-offer arbitration challenge isn't useful, because the other side can simply abandon the negotiation. In a legal dispute, however, where walking away isn't an option, the strategy can make sense.

This approach is most applicable to resolving disputes, but we can also imagine how it might help close a deal. For example, it could be used to break an impasse in a merger negotiation when the parties have agreed to all but one of the deal's components. Rather than allow the negotiation to collapse over one small dispute, the parties could subject the lone contested element to final-offer arbitration, potentially preserving the merger. (See the sidebar "Saving the Deal.")

Building Your Reputation

The obvious benefit of employing this strategy is economic: A more efficient negotiation is a lower-cost negotiation. But the strategy potentially has another, less obvious benefit—enhancing a company's reputation for fairness. That was one of Peter Hancock's goals. Several considerations are relevant when using the strategy to this end.

We recommend that you begin a negotiation with a reasonable offer—to the extent that you have a good assessment of what is fair—and that you do so before an unreasonable one is put on the table. This flies in the face of much conventional wisdom, but it will strengthen the reputational signal you're trying to send. (It will also leverage the anchoring effect, steering the other side toward reasonableness from the start.) In a more typical negotiation, both parties open with unreasonable positions and only later move to a reasonable stance. But if the goal is to signal fairness, beginning the dysfunctional dance will work against you.

We discourage use of the challenge when both sides are being unreasonable. Although you may win the dispute, you won't have improved your reputation—and you may have diminished it. Furthermore, it's highly uncertain what an arbitrator faced with two unreasonable offers will decide.

Getting Started

Companies interested in using the final-offer arbitration challenge will most likely pilot it. If that goes well, they may choose to roll it out more widely. Adding the challenge strategy to a tool kit requires developing new negotiation skills and may mean leading a significant organizational culture change. As noted, opening a negotiation with their most reasonable position is anathema to many practitioners.

Let's look first at the technical part—learning new skills. In most companies where some negotiation ability is required, basic soft skills—such as how to read the other side or find opportunities for joint gain—are commonly taught. But companies rarely teach the negotiation analytics skills that business schools do. A company planning to use our strategy must train its negotiators to objectively assess fairness—including how to conduct formal analysis on the basis of previous negotiations and how to aggregate assessments from multiple experts. And, of course, negotiators must learn the mechanics of issuing the final-offer arbitration challenge. They need to be instructed in the legal logistics of setting up the process, local arbitration laws in countries around the world, and how to access arbitrators through organizations such as the American Arbitration Association.

These methods have been disseminated across AIG through an international training program we devised for many hundreds of adjusters involved in claims worth tens of billions of dollars. An important part of the training has been to teach skeptical adjusters the logic of abandoning negotiation tactics they've long found natural. Getting buy-in for the new approach, which puts being fair first, is essential.

The leadership challenge can't be overemphasized. Although leaders at the highest level may see an argument for change, those further down in the managerial ranks may push back against doing some things very differently. Actively creating a supportive environment means rewarding negotiators for using the strategy—and not punishing them for negative outcomes.

Suppose a claims adjuster proposes final-offer arbitration and his company loses. That's not necessarily a bad thing; the company shouldn't expect to win every case that goes to arbitration. Consistent success might suggest that the company tends to make overly generous offers. However, if the gap between the competing offers was large and the company's negotiator lost, he or she may have misjudged what constituted a reasonable offer. To reduce the danger of such misjudgments, we propose that a broader team, including the negotiator's manager, review the offer in advance. When a bad outcome suggests a misjudgment, the company—not an individual negotiator—should own the decision.

Above all, it's critical that endorsement of the program at the highest level be visible throughout the organization. At AIG materials for the training program were conspicuously branded "The AIG Way of Negotiating," and Hancock publicly emphasized both the reduced litigation costs and the reputational benefits he hoped would result.

WE ENCOURAGE negotiators to use the final-offer arbitration challenge not as a hostile act but as a civil mechanism for signaling an honest belief in the fairness of their offers. Fully implementing the strategy requires leadership commitment and investments in training. But if it reduces costs, improves customer satisfaction, and boosts your reputation, the investment is sure to be worthwhile.

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Saving the Deal

Consider how the final-offer arbitration challenge might be used to rescue a merger negotiation when the parties are close to an acquisition price. The target firm wishes to reach agreement quickly to avoid a hostile takeover attempt by a different company. The target and the acquirer are only \$30 million apart—a small percentage of the roughly \$800 million price. The disagreement is over the valuation of one piece of the business: a new project about which the target, unlike the acquirer, is enthusiastic. There is not enough time to extract this project from the deal—for example, by selling it off as a separate company.

Either side could propose moving forward with the agreement while quickly setting up final-offer arbitration to determine whose valuation of the project is fairer. We predict that such a proposal would result in a negotiated agreement, making the arbitration unnecessary. And if either side was bluffing about its valuation of the new project, the final-offer arbitration challenge should bring it back to the table in a more concessionary mood.

PUTTING PRODUCTS INTO SERVICES

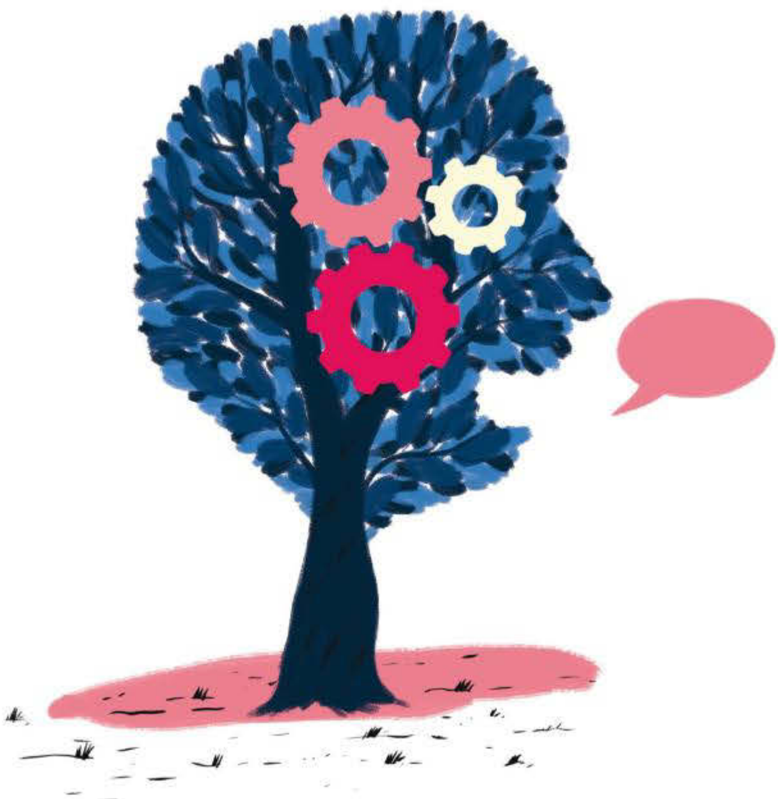
Mohanbir Sawhney is the McCormick Foundation Chair of Technology at the Kellogg School of Management, where he also directs the Center for Research in Technology & Innovation. He has advised two companies mentioned in this article: Littler and EXL.

A REVENUE-GROWTH PLAYBOOK FOR CONSULTANTS AND LAW FIRMS

BY MOHANBIR SAWHNEY

PAUL BLOW

High-end professional services firms that cater to corporate clients have a clear upside: Because they provide specialized expertise, their offerings can be very lucrative. But there's a less obvious downside: If a consulting firm, say, or a law practice wants to double its revenue, it has to double its staff of consultants or attorneys.



Consultancies, law firms, ad agencies, and other professional services firms struggle to nudge their gross margins above 40% as they achieve scale. Contrast that with product companies like Google and Adobe, which don't have to deal with the same cost structure and which enjoy gross margins of 60% to 90%.

Technology offers professional services firms a way out of their predicament. By leveraging the power of algorithm-driven automation and data analytics to "productize" aspects of their work, a number of innovative firms are finding that, like Google and Adobe, they can increase margins as they grow, while giving clients better service at prices that competitors can't match. Productivity rises, efficiencies increase, and nonlinear scale becomes feasible as productized services take over high-volume tasks and aid judgment-driven processes. That frees up well-paid professionals to focus on jobs that require more sophistication—and generate greater value for the company.

There are distinct challenges, however, in developing products to embed in services. The nature of a product and its role in a business's value proposition are not the same for a services firm as they are for a company that manufactures goods. This means that services firms must take a different approach to creating, managing, and monetizing products.

In the following pages I present a guide to product development for professional services firms. I describe the three key stages of the process: *discovering* potential

Idea in Brief

THE PROBLEM
Although high-end professional services firms are knowledge-intensive businesses that can charge premium prices, they traditionally struggle to realize the same returns as product or platform firms such as Adobe and Google.

WHY IT HAPPENS
Traditionally, professional services firms have been able to grow only by selling more of their services. That means adding more people, which adds significantly to costs and keeps revenue growth linear.

THE SOLUTION
Smart professional services firms are automating aspects of their work, essentially developing products that can be combined with employees' expertise to deliver better service at lower cost. The firms improve revenue by shifting away from billable hours to a fee for each customer transaction and finally to outcome-based pricing.

products by identifying opportunities for automation; *developing* the products and enabling them to process, analyze, and learn from data; and *monetizing* them by building a revenue model that captures benefits from automation and the application of analytics.

Embedded Products in Service Offerings

In a professional services firm, a product is created when some aspect of a service is automated, infused with analytics, and monetized differently. This involves systematizing the service, leveraging data to improve it automatically, and then changing the method of payment for the resulting improvements.

The product, therefore, is embedded in the service offering and sold as an element of it. Services remain the center of gravity, and customers continue to buy the service offering, not the product per se. From the customer's perspective, little changes other than the pricing of the service. That drops because the value created by the new product is shared between the firm and its customers.

As an illustration of a service provider with embedded products, consider Littler, a global employment and labor law practice. Littler does legal work for companies in more than a dozen countries. To improve the quality and efficiency of its services, it has "unbundled" the tasks involved in their delivery and assigned them either to people with specialized knowledge or to products with automation and analytics capabilities, depending on the level of sophistication involved. Essentially, the firm has reengineered its legal services by developing offerings that are powered by technology and humans.

One example is Littler CaseSmart–Charges. This offering helps HR professionals and in-house attorneys better manage employee discrimination claims and complaints by combining software, project management tools, and the skills of flextime attorneys (FTAs) and data analysts. FTAs focus on specific tasks in the litigation process and have deep subject-matter expertise, which makes them highly efficient and effective at performing particular services. (They also work out of home offices on a flexible schedule, which reduces the company's overhead.) Data analysts, meanwhile, focus on reviewing, interpreting, and translating data on behalf of lawyers and work at a lower price point.

Littler uses a dashboard that enables clients to track discrimination charges filed with the Equal Employment Opportunity Commission. The dashboard provides data-driven insights to proactively address business risks, which in turn lowers legal costs and speeds up the process of managing pending cases. In some instances, this can help prevent the cases from escalating to litigation.

Similarly, Littler CaseSmart–Litigation provides a streamlined method for HR clients to manage the litigation process in cases where they are being sued by individual plaintiffs. A dashboard interface provides insights on employment issues while tracking the progress of legal cases, and that technology is coupled with attorney services. Again, the offering improves the speed and quality of Littler's work while lowering costs for both Littler and the client. It also allows clients to look across their portfolios of litigation and identify recurring factors that may be contributing to those cases (for example, they can determine whether there's a pattern involving a particular jurisdiction, decision maker, or policy and then proactively manage that issue).

To share the benefits of these innovations, Littler has entered into alternative fee arrangements (AFAs) with clients that save them money while boosting the firm's revenue. Instead of billing for the hours its attorneys spend on claims, Littler uses a fixed-fee model in which charges are based on productivity (per grievance or complaint). This change has resulted in lower legal costs for clients—they've reported drops ranging from 10% to 35%—which has enabled the CaseSmart team to win new business. Revenue doubled from 2014 to 2015, and in spring 2016, *Legaltech News* heralded Littler as a Client Service Innovator of the Year, and BTI Consulting Group named it one of the 22 law firms that were best at AFAs.

Discovering Opportunities

Whereas product manufacturers' ideas for new offerings are driven by an external focus on customer needs, professional services firms identify product opportunities inside their businesses. They're looking not for unmet needs but for untapped potential to automate the services they're already delivering successfully.

Consider EXL, an operations management and analytics company I advised as a board member for a decade. One service that EXL provides to its health insurance clients is medical claims management, specifically as it relates to overpayment caused by fraud or abuse. Years ago that service was manual: EXL employees would examine medical claims for incorrect coding, subrogation, payment errors, nonbeneficial services, and other causes of overpayment. They'd investigate claims that seemed questionable and then focus on recovering undue outlays.

After processing millions of claims, EXL began to recognize patterns in the circumstances that surrounded instances of overpayment. It discovered that certain procedure codes, diagnosis codes, providers, patients, locations, and other variables were systematically associated with fraudulent or erroneous activity. With those insights, EXL was able to develop a tool that could scan and analyze claims for the relevant attributes. Each claim earned a score that predicted the likelihood of abuse or fraud, and the ones flagged as suspect went up for review.

TASKS THAT MEET TWO CRITERIA— THEY'RE PERFORMED FREQUENTLY AND THEY REQUIRE LITTLE SOPHISTICATION —ARE THE LOW-HANGING FRUIT FOR PRODUCTIZATION.

By productizing this service, EXL was able to significantly increase the number of claims it processed, reduce the costs of handling them, increase the amount of money recovered, and prevent overpayment on new claims. In fact, for one client, EXL's payment integrity tool recovered $50 million in three years and prevented an estimated $20 million in further overpayments.

Once you've identified patterns in your services, you'll want to evaluate which tasks are best suited for productization via automation. To do this, you need to sort them according to two variables: the frequency with which they're performed and the level of sophistication (meaning knowledge or intelligence) required to perform them. (A high-sophistication task in an advertising agency, for example, might involve developing creative assets for a new marketing campaign. A low-sophistication task might involve optimizing search engine marketing for a brand.)

The tasks that meet two criteria—they're performed frequently and they require little sophistication—are the low-hanging fruit for productization. That's because the algorithms that drive automation are very good at performing high-volume, repetitive tasks. Volume is also important for improving the algorithm over time; the more input the algorithm receives, the more it will learn and the better it will perform.

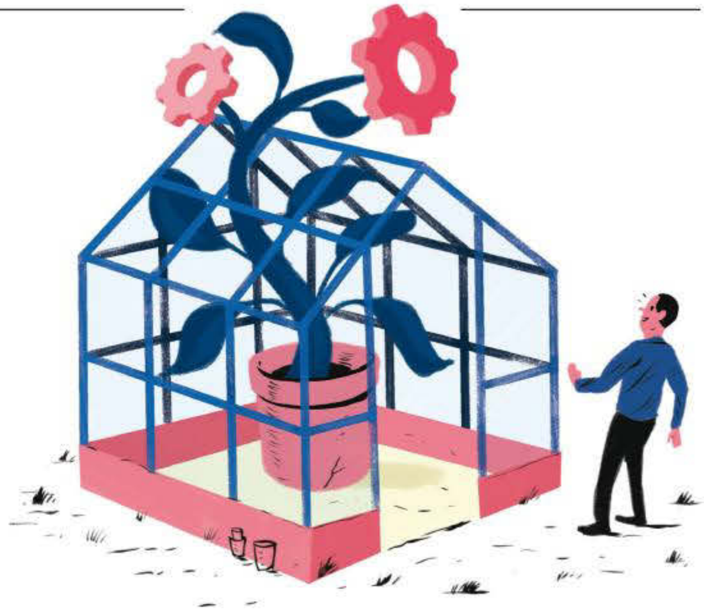
To get a better sense of opportunities that fall into this category, consider this analogy: When you drive long distances on the highway, you repeatedly perform certain tasks that require very little intelligence, such as maintaining a steady speed and keeping an eye on the lanes to your left and right. These high-volume, low-skill tasks are ideal for automation—and, in fact, the technology already exists (think cruise control and blind-spot monitors).

By contrast, low-volume tasks don't provide enough data on which to base automation, while high-sophistication tasks are not easily automated because they require strategic decision making. For professional services companies, these opportunities simply aren't worth the investment.

Developing Products

Professional services firms have the advantage of already knowing what they're marketing and whom it's for. These companies aren't *creating* something out of nothing; they're *converting* something (a service) into something else (a service with embedded products).

This changes the process of developing and improving an offering in profound ways. In early-stage



development, a product company will design various prototypes and try them out on sample customers, with a view to determining the key components in a value proposition. Smart professional services firms, however, aren't trying to identify desired features. Instead, they use prototypes merely as a foundation on which to build precision, sophistication, and complexity. These improvements are typically driven by the ability of the product to gather and analyze data automatically, thus harnessing technology to create a "smart" product that improves itself.

Deloitte, a leading audit, consulting, tax, and advisory services firm, provides a good example. Its Argus tool makes use of machine-learning techniques and natural-language processing to analyze electronic documents for auditing purposes. Argus can "learn" from every interaction it has with humans and every document it processes, so it gets better at identifying and extracting key accounting information over time. Within a few months of its release, Argus had already been used by more than 1,000 auditors to analyze more than 30,000 documents.

When products that are embedded in a service are basically software, improvements are more frequent than with stand-alone products, whose improvement usually involves the launch of a new generation or model. As I've pointed out, the tool is always learning from and adapting to its users, and it's arguably misleading to draw strict boundaries between prototypes, finished products, and generations of finished products.

These incremental product improvements have broader business implications. As the basic functionality of a product grows more sophisticated, the enabling technology can be expanded to other uses. For example, Deloitte is now applying the platform behind Argus to its consulting business.

Note, however, that embedded products do not replace service offerings; instead they strengthen the value proposition that service offerings present. Argus amplifies Deloitte's auditing services but does not serve as a substitute for them. For instance, if a client requested the development of a maturity model for cybersecurity readiness, an auditor would need to have strategic discussions with the company to devise guidelines, policies, and tools. That's because such work involves complex analysis and decision making that exceed the capabilities of an embedded product like Argus.

For similar reasons, self-service products (such as the basic legal and accounting tools offered by LegalZoom and TurboTax) are rare in the context of high-touch professional services firms. Specialized knowledge, strategic thinking, and sophisticated decision making are integral to the delivery of high-value services, so people at those firms must play a bigger role than products do. It's also preferable for professional services firms to do some hand-holding with clients, because that's how they usually make their money. And it's usually best to keep products on company premises, where they can remain proprietary and protected as a source of competitive advantage.

A professional services firm may sometimes find it advantageous to turn a tool into a stand-alone product and then spin it off and sell it. However, after creating such a product, the company will almost always return to the business of providing a service. This observation brings us to the final stage in the product-creation process.

Monetizing Products

For an embedded product to be worth developing, you have to figure out how to capture its value. If your firm's services have become more efficient or effective, it doesn't make sense to continue with a pricing model that's based on time and materials. Indeed, if the goal behind productizing services is to push beyond a linear growth rate, you *must* change your monetization model—or risk getting paid less for your work.

Two monetization levers—*transaction-based pricing* and *outcome-based pricing*—correspond to the productivity gains and intelligence gains that automation and analytics respectively deliver. Once your company adds

A TALE OF TWO PLAYBOOKS

Product companies and professional services firms have different views of products, and they take different approaches to creating and managing them.

	PRODUCT COMPANIES	PROFESSIONAL SERVICES FIRMS
VIEW OF PRODUCTS AND SERVICES	Products are the key focus and primary source of revenue. Services surround the product; they complement or augment the product as add-ons.	Products arise when a service is infused with automation, analytics, and monetization. Products are embedded within a service to enrich it; they do not replace it.
DISCOVERY OF PRODUCT OPPORTUNITIES	Products are conceived in response to marketplace needs or customer problems.	Products are conceived when patterns are found in the services already provided to customers.
PRODUCT DEVELOPMENT	Products are designed to address needs or problems identified during the discovery stage. Prototypes are created to crystallize markets, customer segments, product specifications, and product features.	Products convert an existing service into a more efficient or effective one. Prototypes are created as a foundation on which to add precision, sophistication, and complexity.
PRODUCT MONETIZATION	Customers pay for a product or its use.	Customers pay for a service that has the product embedded within it.

automation to a service, it must shift to transaction-based pricing to capitalize on the increased *quantity* of the offering (because automation improves productivity). And once your company adds analytics to a service, it must shift to outcome-based pricing to capitalize on the increased *quality* of the offering (because analytics enables smarter decision making). In other words, this is a sequential process in which you transition from getting paid for *inputs* (time and materials) to getting paid for *throughputs* (transactions) to getting paid for *outputs* (outcomes). Note that this progression requires both time and trust. You need maturity and experience with the process to establish the correct pricing structure at each of these stages. And you need to build trust with your clients before attempting to convert them to a new pricing model. In practice, this process can take several years.

When segueing from billable hours to transaction-based pricing, it's important to do your math. Consider your revenue under a time-and-materials-based model, calculate how your costs and margins will change as a result of automation, and adjust your fees accordingly. Doing these computations will prevent you from pricing your service too high and creating a dissatisfied client, or going too low and ending up with subpar margins.

Here's an example: Let's say that your company reviews legal agreements at a rate of $200 an hour and each agreement takes about 10 hours, resulting in a fee of $2,000 per agreement. Now suppose you automate that process so it takes only two hours per agreement, which translates to a fivefold productivity gain. Since your client won't be happy about paying an hourly rate that's five times higher ($1,000), a better approach is to propose a per-agreement price with a discount thrown in for good measure. Thus you might charge the client $3,500 for two contract reviews—less than the previous cost of $4,000. Your client will be pleased with the reduced fee, and you'll both come out ahead.

Reaping the monetary value of analytics, however, requires moving from transaction-based pricing to outcome-based pricing. Consider this example from EXL: While managing collection calls for a utility company, EXL developed an algorithm that scored each delinquent customer on the likelihood that he or she would pay the bill following a phone call. EXT used that information to prioritize the calls to make, and the efficiency of the collections process increased dramatically as a result. However, to be compensated for that increased value, EXL would have to get paid for results it delivered (recovering money from overdue bills) rather than for each transaction (each call). EXL is investigating that model for the future.

Pricing outcomes is more difficult than pricing transactions, because it requires qualitative judgments as well as quantitative assessments. A professional services firm has to figure out how to define value, measure it, and attribute value creation to the proper source. To negotiate outcome-based contracts with clients, therefore, you may need relatively high-level salespeople or product specialists with consulting or creative strengths. In addition, you may have to elevate the conversation to top decision makers at the client company, because the negotiation may be too strategic to be left to employees accustomed to buying your services on a time-and-materials basis. Finally, it pays to pilot your product and new billing model with customers with whom you've built a trusted relationship and who are prepared to participate in the experiment. Make sure they understand that you'll be rolling out the product and new billing model with other clients.

Changing the structure of your contractual agreements may influence the types of clients you pursue in the future. For example, you may want to focus on companies that have highly repeatable problems. Or you may decide to concentrate on opportunities where you can clearly measure and determine the source of the strategic value you've created. This is one of the reasons that EXL primarily provides collection services to companies, as opposed to, say, helping companies improve their customer satisfaction rates. It's a lot easier to measure efficiencies or effectiveness generated by the former.

People and Processes

Successfully developing products to embed in a service requires more than just a sound process. A firm's culture and people's mindsets have to change. So does the organizational structure. Here are three things that are necessary for success:

- **A unit dedicated to product development.** In the same way that product companies build innovation units to incubate ideas, services companies should set up teams devoted to developing products internally. It's important to make such a team somewhat autonomous; it needs its own budget, people, goals, and metrics. But keep it connected to the business units, since that's where product ideas will arise. Create a two-way exchange in which business units can come to the product team with ideas—and vice versa—while you empower the team to incubate those ideas.
- **A cross-functional approach.** The product development team should include people with expertise in three areas: the business domain, IT, and pricing. You need domain experts to provide firsthand knowledge about clients, work processes, and business patterns. You need IT experts to add automation and intelligence to your services and ensure that the product can integrate with existing systems. And you need business analysts who can appropriately price your services.
- **A different dashboard.** The client-facing units within services firms have a tendency to examine and evaluate their performance and budgets almost daily. Product-management organizations can't work this way, and it's important to get the organization to really value long-term goals, because the benefits of product-enabled services may take time to blossom. To measure an embedded product's performance, therefore, professional services companies have to change how they define success. Instead of focusing on classic service-based metrics (such as client satisfaction or process efficiency), use product-based metrics (such as ideas generated, prototypes created, or level of automation achieved).

Beyond the organizational changes, all services firms contemplating embedding products in their offering need to recognize that doing so comes with a hefty price tag. Accepting this reality can be uncomfortable. Although product companies understand that costs come long before sales, and although entrepreneurs can rely on funding from venture capitalists with that same understanding, investing ahead of revenues is an alien concept for firms that provide services. It's important to accept that you have to spend money without knowing exactly how you're going to get paid.

Productization is also a source of fear for many employees. The flip side to the benefits of intelligent automation is that firms will need fewer people to manage a process. So when robots take over manual tasks, companies generally move to a model in which they offer fewer but more-demanding jobs. Employees with the best skills and knowledge will keep their jobs, while those tied to repetitive manual tasks will find themselves at risk. In theory, you could even remove people altogether.

It's therefore easy to conclude that intelligent automation pits humans against robots. I'd argue that's not the case. Algorithms are created and improved by humans, and technology is nothing without people to guide it. Thus the future workplace will not be about you versus robot; it will be about you *and* robot. It's also worth noting that intelligent automation will ultimately leave employees with more-meaningful jobs and companies with more-profitable business models.

THE WORLD of professional services stands ready to be transformed by analytics and automation. That's good news for services firms; they can leverage the power of embedded products to break free from the linear-growth trap. But there's another, perhaps more pressing, reason why they should put products into their offerings: Customers are increasingly demanding it. By following the steps outlined in this article, professional services firms can increase their profitability and gain an advantage over their competitors.

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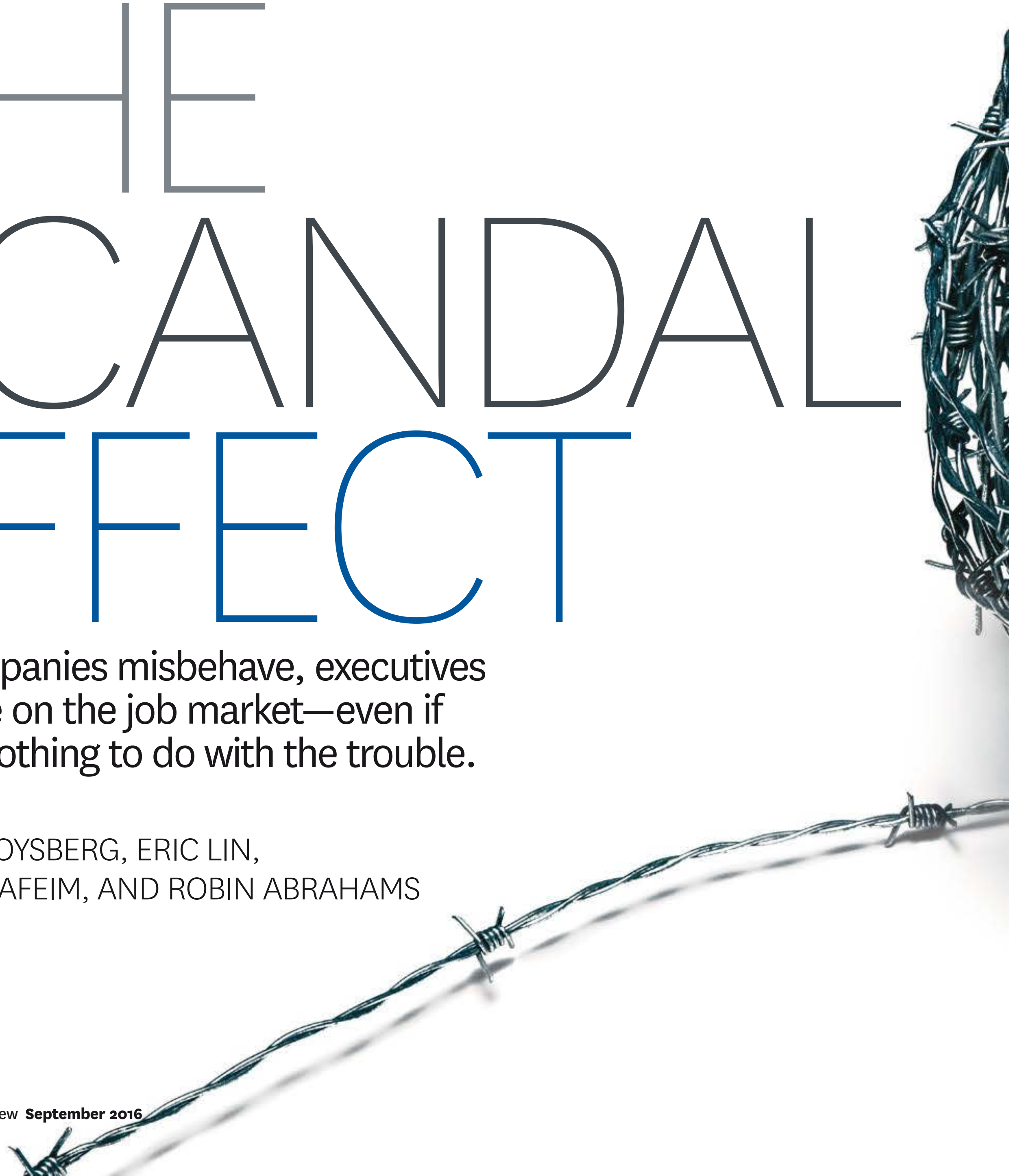
THE SCANDAL EFFECT



When companies misbehave, executives pay a price on the job market—even if they had nothing to do with the trouble.

BY BORIS GROYSBERG, ERIC LIN, GEORGE SERAFEIM, AND ROBIN ABRAHAMS

FREDRIK BRODEN

IN September 2015 Volkswagen was found to have intentionally set controls on its diesel engines to misrepresent their emissions levels. Some 11 million cars worldwide had the "defeat" program installed. This discovery led to an immediate plunge in Volkswagen's stock price; government investigations in North America, Europe, and Asia; the resignation of its CEO and the suspension of other executives; the company's record loss in 2015; and a tab estimated at more than $19 billion to rectify the issues. The scandal did incalculable damage to Volkswagen's brand.

Imagine that you are an engineer in Mexico, or an HR executive in the United States, or a logistics expert in Poland. You worked for Volkswagen from 2004 to 2008, before the new emissions controls were even in place, and you never worked in the divisions that created the deceptive programming. Lately you've been unhappy in your current job and have been thinking about making a change. Your long-ago association with VW shouldn't be a problem—right?

Wrong. Our research shows that executives with scandal-tainted companies on their résumés pay a penalty on the job market, even if they clearly had nothing to do with the trouble. (See the sidebar "About the Research.") Overall, these executives are paid nearly 4% less than their peers. Given that initial compensation in a job strongly affects future compensation, the difference can become truly significant over a career.

Interviews with senior leaders at international executive search firms complemented our quantitative analysis and corroborated our findings. One European headhunter recounted the difficulty of placing an executive who had once worked for a bank that had recently experienced a scandal, although the executive had left the company a decade before the trouble even started. The headhunter's client, a managing director, resisted meeting the candidate for some time. "It's too risky," he finally said. "Even though the guy has been out of the bank for 10 years, I cannot consider him for this search."

A surprisingly high proportion of professionals are vulnerable to this kind of bias. In our sample of job changers, 18% of the executives had worked for a company that had been involved in a financial scandal. Of course, if companies involved in nonfinancial scandals—product-safety issues, labor disputes, customer-relations fiascos, and so forth—were included, the proportion would be even higher. Because the scandal effect is lasting, even a company you left long ago could have an impact on your current and future job mobility. You can't control this risk, but you can and should plan for it.

The business press illuminates the variety of scandals that can affect an organization's reputation: *Fortune* listed the five biggest scandals of 2015 as Volkswagen's, the FBI's indictment of FIFA, Toshiba's accounting problems, Valeant's secret relationship with the pharmacy company Philidor, and the arrest of Turing Pharmaceuticals CEO Martin Shkreli (already excoriated in the media for price-gouging) for stock fraud. *Inc.,* too, published a list, which included Goldman Sachs's use of confidential information; indictments of nine New York City energy companies for corruption; the hack of VTech, which exposed its insecure data; and the revelation that Exxon Mobil "deliberately misleads the public about climate change."

For the purposes of our study, we defined "scandal firms" as companies that had been cited in the databases of the U.S. Government Accountability

Idea in Brief

THE FINDING
Executives with scandal-tainted companies on their résumés pay a penalty on the job market—even if they had nothing to do with the misbehavior.

THE REASON
The stigma that arises from scandal plays an outsize role in hiring decisions because judging other people accurately is difficult and because those making executive hires tend toward conservatism.

THE ANSWER
If you have a scandal-tainted firm on your résumé, you should address the matter forthrightly, establish relationships with people who can attest to your character, and consider taking a "rehab job."

Office (GAO) or the U.S. Securities and Exchange Commission's Accounting and Auditing Enforcement Releases (AAER) for misstating earnings. Over the past few years the absolute number of companies that filed restatements has held steady at about 800 to 850. However, the size of those companies has increased, which means that more employees are vulnerable to the scandal effect.

Organizational Stigma

The modern concept of stigma is most closely associated with the sociologist Erving Goffman, who in 1963 defined it as "the phenomenon whereby an individual with an attribute which is deeply discredited by his/her society is rejected as a result of the attribute." A stigma, which may be fair or unfair, undermines a person's credibility in the social role he or she is attempting to play. You might not think ill of your real estate agent if you discovered that she was a semiprofessional poker player in her spare time, but the same discovery about your child's Sunday school teacher could be disconcerting.

The dynamics of stigma are robust across diverse circumstances: The "what" may change, but the "how" is constant. A stigmatized person—and frequently his family and associates as well—is isolated, avoided, demeaned, or not taken seriously in his chosen role. If someone is stigmatized for an ethically neutral, uncontrollable, or irrelevant attribute (think of race, gender, or physical disability), we see the marginalization as unjust. But when the attribute is perceived as both controllable and immoral, it becomes socially acceptable to discriminate against the stigmatized.

To understand how a corporate scandal can hurt an individual's career, we turned to the concept of *organizational stigma,* which occurs when a company's actions are widely seen as fundamentally flawed or immoral. Researchers have become increasingly interested in organizational stigma since the financial collapse of 2008. An entire industry may be stigmatized by society at large for its core functions—think of sex work, weapons manufacturing, or tobacco production, for example. People who choose to work in such industries are aware of the risks, unlike the executives in our study. Noncontroversial companies don't incur organizational stigma merely because of missteps or failure—there must be a sense that they actively engaged in wrongdoing, transgressing important norms and values of their industry.

Because the scandal effect is lasting, even a company you left long ago could have an impact on your current and future job mobility. You can't control this risk, but you can and should plan for it.

Companies that are tainted by scandal suffer from stigma the same way individuals do. Other organizations may sever relationships with them or try to take financial advantage of the situation. Stigmatized companies may be mocked in the media, have their charitable donations rejected, see employee morale plunge, and experience an exodus of talent. And organizational stigma is contagious, not only for employees but sometimes even for other companies in the same industry that have done no wrong.

Why is stigma so *sticky*—so hard to shake and so easily transferred among people and groups? Here are three reasons:

Stigma isn't always rational. Social scientists generally agree that the stigmatization process is a product of evolution. Bos et al. (2013) have described it as primarily about "keeping people down…keeping people in [and]…keeping people out." In other words, stigma serves to maintain status hierarchies, enforce norms and values within a community, and help people avoid contact with contaminated others—aims that are actually similar on an emotional level. Infectiousness, moral wrongdoing, and unacceptable "otherness" are linked in the human mind to disgust.

Women are hurt more by the scandal effect than men are: They receive 7% less in compensation, whereas men receive only 3% less. And an elite education appears to protect against the effect.

Indeed, experimental psychology offers voluminous evidence that our judgment of other people, and even of physical objects, is often based less on rational assessment than on a kind of magical thinking that seeks to avoid moral or physical contagion. People photographed with undesirable others are often themselves judged less desirable—a kind of guilt by association. And research subjects were less likely to want drinks that had been stirred with a brand-new comb, or a sweater that was once the property of a serial killer.

Judging other people accurately is hard. Another reason organizational stigma can adversely affect innocent individuals is that accurately assessing someone you do not know is very difficult. Hiring managers often use cognitive shortcuts, heuristics, and stereotypes—consciously or unconsciously—to assess candidates. Negative information and stereotypes have disproportionate influence.

A hiring manager can attempt the laborious process of first assessing a candidate's traits and skills and then discerning how they relate to the accomplishments listed on his résumé. Alternatively, she can construct a patchwork approximation of his character by consulting her knowledge of all the institutions he has been affiliated with. The latter approach—creating a mental model of an unknown quantity using various known quantities on the résumé—is easier, almost automatic. "The image of the company is stronger than the individual image," as one recruiter put it.

Thus it's not surprising that hiring managers often evaluate candidates according to their former affiliations—whether consciously or not. One headhunter told us about a client, the CEO of a big bank, who declared that he wouldn't even interview any candidates from two particular banks that had failed. The CEO didn't care that several candidates from one of those banks claimed they hadn't been able to do their jobs because the boss was such a tyrant. In the CEO's view, the headhunter said, somebody with integrity who was unable to do his job would have voted with his feet. We've heard plenty of similar anecdotes.

There are motives to be conservative. Organizational stigma results from the judgments of multiple groups, whom researchers have dubbed "arbiters." Legal arbiters are regulatory agencies and court systems; social arbiters, or opinion makers, include academics, journalists, and advocacy groups; and economic arbiters are the business community, including executive search firms and companies that are hiring. These groups are responsible for investigating and explicating corporate scandals and for imposing and addressing their consequences.

The complicated nature of most corporate scandals makes arbiters' tasks inherently difficult. Furthermore, each group of arbiters is concerned not only with the objective truth of the situation but also with the kind of evidence and narrative its audience will accept. Lawyers must make arguments that juries can understand; reporters must write stories that readers will find plausible; businesses must make decisions that customers and shareholders will consider reasonable. If the truth is too complicated, it may not be acted on. Some headhunters reported being unable to "sell" candidates from scandal firms because they could not craft a compelling narrative for their clients. After a few such incidents, many decide that it is not worth the investment of energy—even if they believe the candidate is innocent and qualified. And because their own credibility is at stake, arbiters are naturally motivated to be conservative. Defending the stigmatized can lead to being stigmatized oneself.

Given these cognitive, emotional, and market considerations, it is a wonder that any executives from scandal firms manage to find subsequent employment. What helps them bounce back?

Different Factors, Different Effects

Multiple considerations determine whether, and how much, a corporate scandal will affect the career of an innocent employee or former employee.

National culture. We found that scandal penalties are more pronounced in countries with stronger regulatory and governance systems, such as the United States and Denmark, where executives with scandal firms on their résumés receive compensation more than 6% lower than that of other executives (holding past compensation levels constant across executives). In countries that have weaker laws, such as Russia, Spain, Colombia, and Bahrain, differences in compensation are not statistically distinguishable. Countries with strong laws have regulatory enforcement mechanisms, well-developed accounting and auditing systems, sturdy corporate governance systems, and intermediaries that allow information to be disseminated efficiently. These factors indicate that a country has both the capacity to discover and punish crime and the motivation and desire to do so.

A country's size may play a role as well. In a smaller nation, people in the same industry are more likely to know one another, so the truth about a corporate scandal—who is innocent and who's not—may be easier to uncover. In a country as large as India or the United States, the news of a scandal spreads instantly, but personal knowledge of the individuals involved is less likely.

Job function. Damages from financial scandals are of course most sharply pronounced among those in finance-related careers: Executives formerly at scandal firms receive initial compensation almost 10% lower than that of other finance executives, and the gap widens over time. For example, if a finance expert with a scandal on her résumé finds a position at a new company that ordinarily pays, say, $200,000, and her compensation grows by 3% each year for the next 20 years, her first year's pay will be reduced by $20,000 (10%), and over those two decades her lost compensation will amount to almost $540,000.

Seniority. The burden of previous association with a scandal-tainted company may be greater for those in senior positions, whose compensation is more than 6.5% lower than that of executives with no such association. Effects are mixed for junior executives, some of whom manage to escape any negative impact. "The higher up you go in the leadership structure or the power structure at large, the more people are permanently punished for their affiliation," says one recruiter. "At the board level, people are so occupied by the optics that the substance no longer matters. They just steer clear of any taint whatsoever."

Gender. Women are hurt more by the scandal effect than men are: They receive 7% less in compensation, whereas men receive only 3% less. The greater visibility of female leaders may account for this: It's easier for a company to hire a reputationally challenged worker who will remain in the back office than one who will be high profile. And women from scandal firms, especially those in a male-dominated industry, may feel that they approach the negotiating table with two strikes against them and thus don't push on compensation as hard as they

Joining a "Scandal Firm"

When stigmatized companies hire managers, the balance of power shifts to the individual. Those who seek to join a company that has weathered a scandal may get a premium for doing so. "When scandal firms survive," one headhunter told us, "the people who move into them are compensated more positively than those who were there before."

However, compensation is a blunt instrument, and search consultants are likely to look for candidates whose skills or experience make them a good fit for those particular circumstances. "Companies that have been through some kind of negative publicity absolutely have to exercise a little danger pay," one recruiter acknowledged, "although it's not just 'Hey, you've got to pay out 40% more.' Say that I knew John Doe lived in Europe before, and his family really wanted to move back; we could use that to our advantage."

One recruiter noted that taking a job with a scandal firm could be a worthwhile move for an early- or late-career leader—that is, a short-termer with a high level of risk tolerance: "Some very aggressive, talented young people might take a job like that because they want a chance to be CEO—if it works well, they look great, and if it doesn't, it's not their fault, so they can probably recover—or, more likely, somebody in the late stage of a career or whose company got sold, so there's not much personal risk."

Some job candidates may be attracted by the challenge of managing a turnaround. One recruiter spoke of the "mixture of ego and humility" that would lead an executive to join a scandal firm: "It's an acknowledgment of the extent of the problem and the need to do due diligence far beyond what you would normally do if you were accepting a role. And it's a willingness by [the hiring company] to open itself up so that the full extent of the issue can be resolved. If you're the person who does it, you are marked as special. How wonderful would it be if you were the person who saved Lehman Brothers?"

About the Research

Using proprietary data from a global executive placement firm, along with detailed career histories, we analyzed 2,034 executive job moves across multiple functions, industries, seniority levels, and geographies from 2004 to 2011. For each move, we captured geography, position title, industry, company names, individual attributes such as gender and education, and compensation levels from both prior and placed positions. Nearly half the placements were for positions other than C-level, president, or vice president.

Prior and placed jobs had a mean total compensation of $294,000 and $331,000, respectively. On average, the executives had almost 19 years of professional experience. Of the placed executives, 18% were women (a notably higher proportion than in data sets relying exclusively on C-level executives).

Of the executives studied, 18% had worked at a company marked by earnings misstatements captured in either the GAO database or the AAER database. The GAO database captures only restatements, and the AAER database captures SEC enforcement actions that have been flagged with an AAER designation. The employment of these executives clearly predated any misdeeds, and they were never legally implicated in a scandal.

We measured the impact on first-year total compensation when an executive with a scandal firm on his or her résumé was placed by an executive search firm. Each executive was benchmarked on past-year compensation at the prior company.

otherwise might, or as their similarly stigmatized male peers do.

Education. An elite education appears to protect against the scandal effect. Alumni of scandal firms who were also alumni of Ivy League schools received offers moderately lower (2.0%) than did peers without scandal firms on their résumés, whereas non-Ivy graduates were offered almost 4% less.

Executive search consultants suggest that the following factors may also be in play:

Industry culture. Some industries are more lenient about what is deserving of organizational stigma. Bankruptcy may destroy the reputation of a financial institution but not of a software company, at least not in the 21st century. When an entire industry has been hit with multiple scandals or failures, as banking was, the reaction of the companies that survive may be mixed. One interviewee noted that nonstigmatized firms may be more risk-averse in protecting their reputations: "Even the people who maybe weren't entirely clean or pure don't want to touch anyone who's unclean or impure, because they don't want to borrow anyone else's problems or inherit anybody else's scandal." Another recruiter, however, argued that the banking industry has become more tolerant: "People are generally open-minded. It may partly be because we get a lot more of this in financial services than anywhere, given the financial crisis. But at this point I think there's a feeling that it's happened to everyone."

Also, industries or niches within them may have different standards regarding risk and their response to stigma. For example, "the private equity guys are more forgiving than anyone else," according to one recruiter. "What they care about is how good a person is at his job, how much he really gets done. They will go deep, deep, deep to understand the particulars of what that person did versus what the institution did, the inside politics of it." Remember that stigma involves being put outside the dominant value system. If an industry's value system stresses the presumption of innocence, nonconformist thinking, and independent empirical research, the unfairly stigmatized may benefit.

Subgroups within the stigmatized company. Some organizations function—and are perceived—as a more unified whole than others. But if a scandal is clearly the product of one person, group, or company division, it may be easier for employees elsewhere in the organization to escape the stigma. As one search consultant noted, "Enron U.S. and Enron Europe were two very different situations. There were no issues, as far as I remember, with the European operation. Those executives actually continue to have very strong careers, because Enron in Europe was seen as very innovative at the time when the energy markets were being deregulated."

We see a similar phenomenon in the Michael Milken–Drexel Burnham Lambert scandal. Milken was indicted on 98 counts of fraud and racketeering in 1989, and Drexel filed for bankruptcy in early 1990. The functional and geographic division of the firm into Drexel West (California, where Milken and his junk-bond department were located) and Drexel East (New York, home of the equities department) helped the New Yorkers survive with their careers intact. "In Drexel East, the research department was not just highly regarded on the Street," recalls the analyst Abby Joseph Cohen. "It was a group of people who were reasonably well liked and individually credible." Geography, function, and leadership can all contribute to the existence of separate subcultures within a firm.

Niche skills. Drexel analysts did well after the bankruptcy in part because some of them had specialized skills or a narrow professional focus. Such people may be protected after a scandal. As one headhunter put it, "I find that in narrow industry niches where people deeply know their competitors, there's a lot of fact-finding around the individual. And in those cases the individual can transcend the larger misfortunes of the firm."

Niche specialists have two major advantages: They are not easily replaced, and—more important—they are likely to be known personally by potential hiring managers. "In certain niches individual reputation is more important than public opinion," one recruiter explained, "because these people would never necessarily move out of their own sector, and so would not be confronted with a layman's view of what happened." Indeed, that's how things played out for specialists at one failed investment bank. The bank was known for playing fast and loose and for tacitly encouraging misbehavior. But "there was a lot of recognition of the talent inside," says one recruiter. "And a lot of that talent, because of the way that firm was structured, was very specialist-oriented. People would work in the same niche their entire careers. That talent got snapped up in an instant. I would say almost no taint adhered to the technical experts in their specialty fields."

The eye of the beholder. Misstating earnings (the type of scandal we examined in our study) represents a profound breach of public trust, confirmed by the legal system and clearly defined. But beyond such clear-cut examples, the extent of organizational stigma also depends on which stakeholder group is affected. For example, Walmart and Amazon are stigmatized by some groups for their labor and other business practices, yet are popular with shareholders and customers. A recent and fascinating case is that of Blue Bell Creameries, whose ice cream was recalled in 2015 after a listeria outbreak led to three deaths. Despite allegations that the company had known about the food-safety issues for years, many customers remained intensely loyal to the product. Given that the desire to avoid illness is a fundamental psychological reason for stigmatization, the loyalty of Blue Bell's customer base suggests that we still have much to learn about how organizations do or do not become stigmatized.

Bouncing Back

How can you survive a corporate scandal? Insights from our field research suggest three steps:

Forthrightness. Truth is the best friend of the innocent. Transparency and full disclosure are key to surviving after a corporate scandal. Recruiters were quick to tell us that employees from a scandal firm need to be the ones to bring the topic up. "I'd definitely opt for addressing it head-on, both to headhunters and to anybody they're meeting in an interview context," said one.

Recruiters generally do additional due diligence on candidates from scandal firms. "We would do a standard 360-degree reference process, but we would probably want to talk to a few more people than normal," said one. "In an average search, we talk to five to eight references. Maybe we have to do eight to 10 references to cover people from a scandal company. If I'm the client, I may want to talk to some of those references directly. On top of that I would certainly recommend a third-party background check as well as the standard criminal background check."

Some industries are more lenient about stigma. Bankruptcy may destroy the reputation of a financial institution but not of a software company.

Because they understand their clients' concerns, executive recruiters can help candidates create a full, clear, and succinct narrative for hiring managers. A headhunter who recruited the CFO of a scandal firm to another financial institution described the process: "The candidate spent a lot of time helping me understand and articulate that the parts of the world over which he had responsibility were not the parts of the world that were blowing up on the company's balance sheet."

Reputation. According to Goffman, stigma functions as a kind of reputational bankruptcy, in which the actual self cannot make good on the implicit promises of the virtual self. The best course of action for an executive stigmatized by scandal is to borrow, as it were, reputation and legitimacy from someone else. Managers who have extensive external networks, or who are in fields that emphasize individual reputations, may be able to acquire such cover through existing relationships.

For many others, executive search firms can serve as both the reference and the sponsor. Indeed, the importance of the research that these firms perform lies not only in the exonerating information but also in the time and energy that gathering such information represents. Search firms are hired by companies, not by job seekers, and will not invest in an in-depth background check unless they already believe in the candidate's innocence and value on the job market. Their investigations provide a form of reputational voucher.

Rehab. After proving your innocence and establishing relationships with people who can attest to your character, the final step may be to take a "rehab job." One headhunter noted that although some executives—especially those with a dedicated recruiter and an "enlightened" hiring firm—can make a job change at the same level of responsibility and compensation, many candidates from stigmatized companies need to "seek a lower-level job which you can do with one arm tied behind your back." He continued, "You look so compelling compared with the next person who might do it that you're almost guaranteed to get the job. Inevitably it's at a lower level of compensation."

The purpose of the rehab job, whether or not it represents a step backward in compensation or responsibility, is to create a persuasive story to compete with the scandal narrative. Your eventual goal is to make the rehab job the first piece of data people associate with you.

One recruiter told us about a banker whose employer had been caught in a fraud; the banker managed to find a rehab position at a smaller institution and eventually became its leader. "It was an opportunity for him to get back into a bigger role with a smaller company in a market where he still had a good reputation," the recruiter recalled. "Later, we recruited him to be a chief executive. We went through all our due diligence on his background, as did some of the board members, to make sure that not only was there no culpability, but there was no sort of lingering reputational damage—which there was not. I think he needed that in-between job. I don't think you could've taken him right out of where he was and plugged him in to be CEO somewhere else."

The tactics for surviving an organizational scandal depend on multiple factors: what phase of your career you're in, your skill set, the industry, the overall labor economy, how willing you are to make changes. But the basic strategy is the same: Get the facts on the table, borrow someone else's good name, and take a job that will allow you to prove yourself again. The scandal effect can't always be predicted or controlled, but it can be survived.

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With businesses in all industries under pressure to innovate and deliver high performance in a rapidly changing environment, customer service has emerged as a tool for brand differentiation. In the insurance business, delivering a distinctive customer experience can be a powerful competitive advantage. *Harvard Business Review* recently spoke with Brian Winters, Head of Customer, Distribution & Market Development, Zurich Global Corporate in North America, about how Zurich's customer relationship model is helping drive customer engagement.

Zurich's customer relationship strategy is designed to help differentiate it in the highly competitive, corporate customer marketplace. What went into the development of your strategy, and how do you act on it?

Zurich is a large, complex organization. A lot of customers told us they wanted access to a dedicated "champion" who could help them navigate our organization and capabilities. Beginning in 2002, Zurich pioneered a customer relationship model centered on the role of the Global Relationship Leader, or GRL. Our objective was to transform Zurich from a product-focused company to a truly customer-centric organization recognized as an industry-leading differentiator.

How does Zurich go about delivering an award-winning customer experience?

Our highly trained GRLs act as our primary strategic account managers. Among the key attributes we seek in candidates are proven business savvy and the ability to create an effective and compelling strategic plan for assigned customers. Execution is critical.

We also introduced a document called a Team Charter, signed by the chief executives of all of Zurich's global businesses. The Team Charter established the global mandate for our GRLs to be the lead interfaces on behalf of Zurich. It also established the key processes for their interactions with all Zurich businesses globally.

How do you grow relationships and maintain a differentiated experience when accounts traditionally buy insurance once a year?

Many of the transactions with large customers come up at different times during the year. Our Relationship Leaders meet with strategic customers regularly to determine what lines are coming up for renewal and any new lines and exposures to consider. We, of course, engage brokers in this process, too. Early on, we had to convince brokers that there was no need to feel threatened by this approach. We earned trust by demonstrating that we understood their concerns. We also showed that our approach could actually make brokers' and customers' lives easier, such as in dispute resolution. For all sides, this new paradigm has been a real win-win.

What overall impact has this customer relationship model had on your business?

Results on all key metrics over the past 10 years have shown that this model delivers superior performance. Our strategic customers have consistently outperformed the rest of the Zurich corporate customer portfolio, with over four times the product density, an average nine points higher in retention, and up to 10 points higher on Net Promoter Scores.

Customers tell us they consider our Relationship Leaders to be extensions of their own teams. They depend on them for deep insights into their challenges and to help them solve complex problems. This approach has become a cornerstone of how we do business.

We are proud to note that our customer relationship model earned us a 2016 Strategic Account Management Association (SAMA) Excellence Award — the first time a global insurance carrier has won a respected SAMA award in the group's more than 50-year history.

Learn more about us at **zurichna.com.**

Get access to the Zurich solutions and risk insights on the Zurich Virtual Literature Rack. Download to your iPad from the App Store or visit **zurichvlr.com.**

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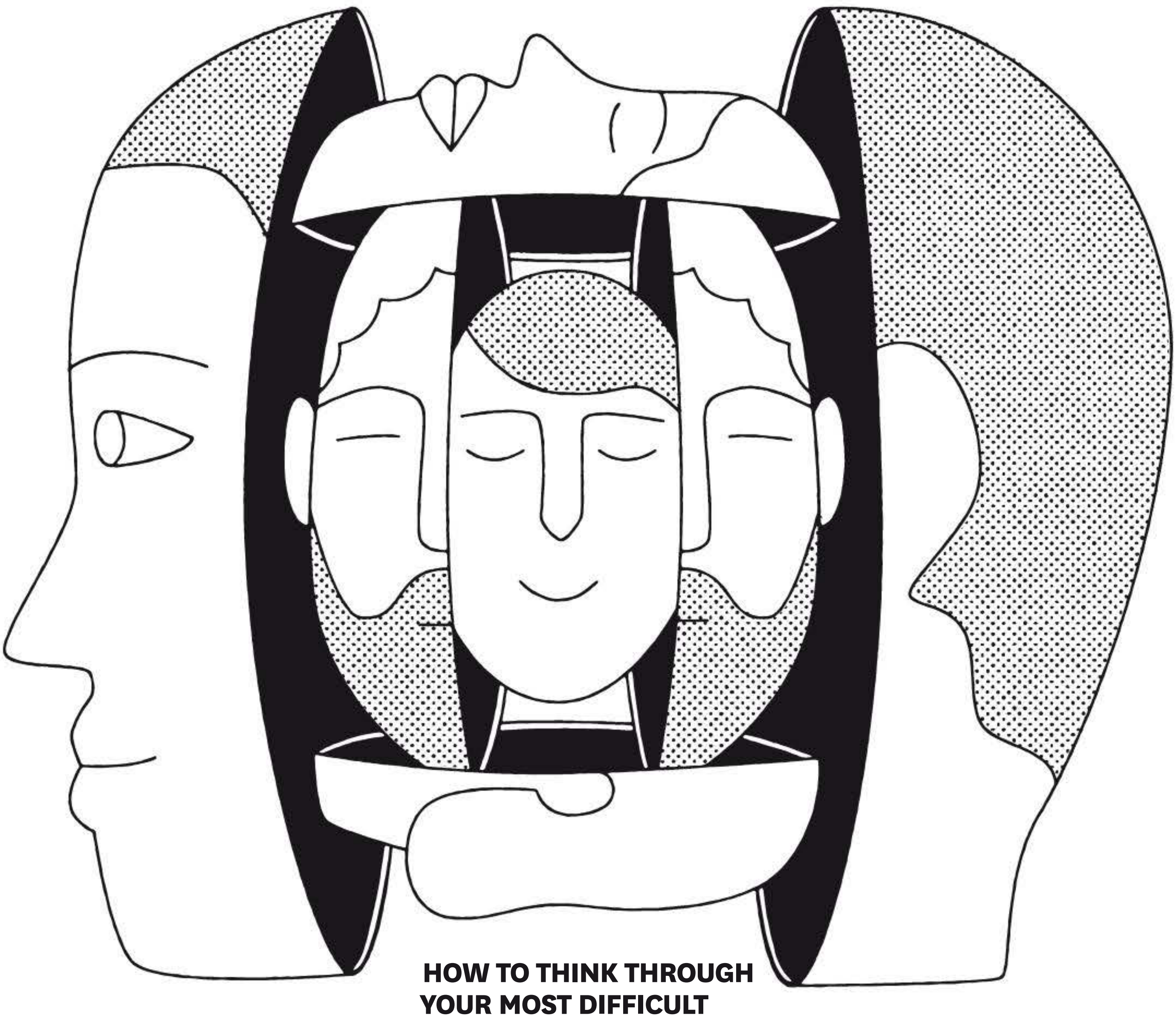

CHRISTOPHER DELORENZO

HOW TO THINK THROUGH YOUR MOST DIFFICULT DECISIONS PAGE 104

Managing Yourself
How to Tackle Your Toughest Decisions

by Joseph L. Badaracco

CHRISTOPHER DELORENZO

Every manager makes tough calls—it comes with the job. And the toughest calls come in the gray areas—situations where you and your team have worked hard to gather the facts and done the best analysis you can, but you still don't know what to do. It's easy to become paralyzed in the face of such challenges. Yet as a leader, you have to make a decision and move forward. Your judgment becomes critical.

Judgment is hard to define. It is a fusion of your thinking, feelings, experience, imagination, and character. But five practical questions can improve your odds of making sound judgments, even when the data is incomplete or unclear, opinions are divided, and the answers are far from obvious.

Where do these questions come from? Over many centuries and across many cultures, they have emerged as men and women with serious responsibilities have struggled with difficult problems. They express the insights of the most penetrating minds and compassionate spirits of human history. I have relied on them for years, in teaching MBA candidates and counseling executives, and I believe that they can help you, your team, and your organization navigate the grayest of gray areas.

This article explains the five questions and illustrates them with a disguised case study involving a manager who must decide what to do about a persistently underperforming employee who has failed to respond to suggestions for improvement. He deserves a bad review, if not dismissal, but higher-ups at the company want to overlook his failings.

How should the manager approach this situation? Not by following her gut instinct. Not by simply falling into line. Instead, In a six-month study of call center employees, those with adjustable desks, which allow them to stand or sit as they wish, were about 46% more productive (as measured by completed calls per hour) than those with traditional desks.

"CALL CENTER PRODUCTIVITY OVER 6 MONTHS FOLLOWING A STANDING DESK INTERVENTION," BY GREGORY GARRETT ET AL.

she needs to systematically work through the five questions:

What are the net, net consequences of all my options?
What are my core obligations?
What will work in the world as it is?
Who are we?
What can I live with?

To grapple with these questions, you must rely on the best information and expertise available. But in the end you have to answer them for yourself. With gray-area decisions, you can never be certain you've made the right call. But if you follow this process, you'll know that you worked on the problem in the right way—not just as a good manager but as a thoughtful human being.

Net, Net Consequences

The first question asks you to thoroughly and analytically consider every course of action available to you, along with the full, real-world, human consequences of each. Gray-area problems are rarely resolved in a flash of intuitive brilliance from one person; as a very successful CEO told me, "The lonely leader on Olympus is really a bad model." So your job is to put aside your initial assumption about what you *should* do, gather a group of trusted advisers and experts, and ask yourself and them, "What *could* we do? And who will be hurt or helped, short-term and long-term, by each option?"

Don't confuse this with cost-benefit analysis, or focus solely on what you can count or price. Of course, you should get the best data you can and apply the relevant frameworks. But gray-area problems require you to think more broadly, deeply, concretely, imaginatively, and objectively about the full impact of your choices. In the words of the ancient Chinese philosopher Mozi, "It is the business of the benevolent man to seek to promote what is beneficial to the world and to eliminate what is harmful."

In today's complex, fluid, interdependent world, none of us can predict the future with total accuracy. And it's sometimes hard to think clearly about gray-area issues. What's important is taking the time to open your mind, assemble the right team, and analyze your options through a humanist lens. You might sketch out a rough decision tree, listing all potential moves and all probable outcomes, or designate certain people to act as devil's advocates to find holes in your thinking and prevent you from rushing to conclusions or succumbing to groupthink.

It's sometimes hard to think clearly about gray-area issues. You need to open your mind, assemble the right team, and analyze your options through a humanist lens.

When you make important, difficult decisions, you affect many people's lives and livelihoods. The first question asks you to grapple hard with that reality.

Core Obligations

We all have duties—as parents, children, citizens, employees. Managers also have duties to shareholders and other stakeholders. But the second question gets at something deeper: the duties we have to safeguard and respect the lives, rights, and dignity of our fellow men and women.

All the world's great religions—Islam, Judaism, Hinduism, Christianity—emphasize this obligation. The contemporary ethicist Kwame Anthony Appiah has said, "No local loyalty can ever justify forgetting that each human being has responsibilities to every other."

How can you figure out specifically what these duties oblige you to do in a particular situation? By relying on what philosophers call your "moral imagination." That involves stepping out of your comfort zone, recognizing your biases and blind spots, and putting yourself in the shoes of all key stakeholders, especially the most vulnerable ones. How would you feel in their place? What would you be most concerned about or afraid of? How would you want to be treated? What would you see as fair? What rights would you believe you had? What would you consider to be hateful? You might speak directly to the people who will be affected by your decision, or ask a member of your team to role-play the outsider or victim as persuasively as he or she can.

Again, you must look past economics and your business school training. Yes, managers have a legal duty to serve the corporation—but that's a very broad mandate that includes the well-being of workers, customers, and the community in which they operate. You have serious obligations to everyone simply because you are a human being. When you face a gray-area decision, you have to think—long, hard, and personally—about which of these duties stands at the head of the line.

The World as It Is

The third question pushes you to look at your problem in a clear-eyed, pragmatic way—seeing the world not as you would like it to be but as it is. Ultimately you need a plan that will work—one that will move an individual, a team, a department, or an entire organization through a gray area responsibly and successfully.

The phrase "the world as it is" points toward Niccolò Machiavelli's thinking—a perspective that might seem surprising in an article about making responsible decisions. But his view is important, because it acknowledges that we don't live in a predictable, calm environment populated with virtuous people. The world Machiavelli described is unpredictable, difficult, and shaped by self-interest. Sound plans can turn out badly, and bad plans sometimes work. Much of what happens is simply beyond our control. Leaders rarely have unlimited freedom and resources, so they must often make painful choices. And a great many individuals and groups will pursue their own agendas, skillfully or clumsily, if not persuaded to do otherwise.

That is why, after considering consequences and duties, you need to think about practicalities: Of the possible solutions to your problem, which is most likely to work? Which is most resilient? And how resilient and flexible are you?

To answer those questions, you need to map the force field of power around you: who wants what and how hard and successfully each person can fight for his aims. You must also ready yourself to be agile and even opportunistic—maneuvering around any roadblocks or surprises—and, when the situation calls for it, to play hardball, asserting your authority and reminding others who is the boss.

It's easy to misinterpret the third question as an "out"—an excuse to do what's safe and expedient instead of the right thing. But the question is really about what will work if you bring persistence, dedication, creativity, prudent risk-taking, and political savvy to the task.

Who Are We?

According to an old African adage, "I am because we are." Put differently, our behavior and identities are shaped by the groups in which we work and live. As Aristotle said (and as a vast body of scientific literature has since confirmed), "Man is by nature a social animal." So this question asks you to step back and think about your decision in terms of relationships, values, and norms. What really matters to your team, company, community, culture? How can you act in a way that reflects and expresses those belief systems? If they conflict, which should take precedence?

To answer those questions, you might think about the defining stories of a particular group—the decisions and incidents that everyone cites when explaining the ideals to which you are collectively committed, what you have struggled to achieve, and what outcomes you try hard to avoid. Imagine that you are writing a sentence or a chapter in your company's history. Of all the paths you might choose in this gray area, which would best express what your organization stands for?

This question comes fourth because you shouldn't start with it. Unlike the first three, which require you to take an outsider's perspective on your situation and consider it as objectively as possible, this one addresses you as an insider, at risk for adopting an insular, limited view when you consider norms and values, because we are naturally inclined to take care of our own. So counterbalance that tendency with the thinking prompted by the previous questions.

Living with Your Decision

Good judgment relies on two things: One is the best possible understanding and analysis of the situation. The other involves the values, ideals, vulnerabilities, and experiences of whoever will be making the decision. A seasoned executive once told me, "I wouldn't go ahead with something just because my brain told me it was the right thing to do. I also had to feel it. If I didn't, I had to get my brain and my gut into harmony."

Ultimately you must choose, commit to, act on, and live with the consequences of your choice. So it must also reflect what you really care about as a manager and a human being. After considering outcomes, duties, practicalities, and values, you must decide what matters most and what matters less. This has always been the challenge of taking on any serious responsibilities at work and in life.

How will you figure out what you can live with? End your conversations with others, close the door, mute the electronics, and stop to reflect. Imagine yourself explaining your decision to a close friend or a mentor—someone you trust and respect deeply. Would you feel comfortable? How would that person react? It may also be helpful to write down your decision and your reasons for it: Writing forces clearer thinking and serves as a form of personal commitment.

In Practice

Now let's turn to our case study. Becky Friedman was the 27-year-old manager of a 14-person technology group responsible for clothing sales at an online retailer. One of her team members, Terry Fletcher, a man 15 years her senior with a longer tenure at the company, wasn't doing his part. Although his previous boss had routinely given him scores of 3.5 on their five-point performance scale, Friedman didn't believe his work merited that; and whenever she presented him with opportunities to develop his skills and ramp up his contributions, he failed to follow through. So she wanted to drop his rating to 2.5 and put him on a performance improvement plan (PIP), on a path to dismissal. Soon, however, two of the company's vice presidents, good friends of Fletcher's, caught wind of her plans and paid her a visit. They asked whether she was sure about what she was doing and suggested that the real problem might be her management.

Suddenly the situation was no longer black-and-white. Friedman had entered a gray area and felt stuck. To find a way out, she turned to the five questions. She considered her options—stick to her plan, abandon it, or find a middle ground—and their consequences. She reminded herself of her basic duties to her fellow human beings, including Fletcher, her team, and the VPs. She evaluated the practical realities of her organization. She weighed the defining norms and values of her various social groups. And she thought carefully about her own abiding sense of what really matters in life.

She suspected that if she pushed forward and gave Fletcher the rating he deserved, she and her team would suffer retribution: The VPs could withhold resources or even force her out of the company. She also worried about Fletcher, who seemed off-balance and appeared to have few things going well in his life. How would a poor review and a possible job loss affect him, not just financially but also psychologically? If Friedman chose option B, however, she would still have a deadweight on her team, which might prevent the group from achieving its ambitious goals and demoralize its most talented and diligent members. The VPs might also take her capitulation as a sign of weakness, which could keep her, a relative newcomer, from moving up in the leadership ranks.

Middle-ground options, such as presenting Fletcher with further development opportunities or giving him another warning, seemed more promising but carried their own risks: Would they be effective in changing his behavior? Would they still result in backlash from the VPs? Friedman also thought about what she, her team, and her organization cared about most. As a woman in computer science, she knew what it was like to be marginalized, as Fletcher was among the whiz kids in her department, and she felt compelled to help him. At the same time, her group prided itself on exceptionally professional performance, and her company, although young, had always claimed and generally proved to be a meritocracy with high standards and a sharp focus on customer needs.

After much deliberation, Friedman decided to try a counseling session with Fletcher. She opened by telling him that she had decided to give him a 2.5, but that she wouldn't put him on a PIP because it would be too demeaning. She then asked him to consider the department's recent hires—all of whom had strong technical skills—and honestly evaluate whether he would be happy or successful working alongside them.

> Imagine yourself explaining your decision to a close friend or a mentor—someone you trust and respect deeply. Would you feel comfortable? How would that person react?

She concluded by suggesting that he spend the next several months continuing to do his job while also looking for another one. She was surprised and relieved when his immediate anger over the bad rating subsided and he agreed to consider her plan; in fact, he had already been toying with the idea of leaving. He spent the next several weeks looking for other positions, inside the company and elsewhere, and soon joined another company. Friedman, meanwhile, continued to thrive. She had, of course, been lucky; there was no guarantee that Fletcher would respond so positively to her feedback. But she'd put herself in a good position by getting the process right, and she'd been prepared to try other, equally thought-through tactics if the first didn't work.

WHEN YOU FACE a gray-area problem, be sure to systematically answer *all five* of the questions, just as Becky Friedman did. Don't simply pick your favorite. Each question is an important voice in the centuries-long conversation about what counts as a sound decision regarding a hard problem with high stakes for other people.

Leadership can be a heavy burden. It is also a compelling, crucial challenge. In gray areas, your job isn't *finding* solutions; it's *creating* them, relying on your judgment. As an executive I greatly respect once told me, "We really want someone or some rule to tell us what to do. But sometimes there isn't one, and *you* have to decide what the most relevant rules or principles are in this particular case. You can't escape that responsibility."

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THE PORTER PRIZE

Recognizing Innovation and Competitive Strategy in Japan

Hitotsubashi University was founded in 1875 as the first educational institution in Japan to teach business and commerce. Today, Hitotsubashi's International Corporate Strategy program, known as Hitotsubashi ICS, builds on that tradition of excellence. Our vision is to provide "The Best of Two Worlds," becoming the bridge between East and West, large and small, global and local, old and new, practice and theory, cooperation and competition, and business and society.

As a part of this mission, ICS established the Porter Prize in 2001 to recognize Japanese companies and business units that achieve superior profitability through implementation of unique competitive strategy. The screening criteria and selection process were developed with the help of Professor Michael E. Porter of Harvard Business School, the leading authority on competitive strategy.

The Porter Prize highlights ICS's commitment to helping business leaders develop and implement unique strategies and innovations that enhance the competitiveness of Japanese industries. Since its inception, 53 winners have been recognized: 19% are pioneers that have created a new business; 25% are new entrants to existing industries that have employed an innovative strategy; and 57% are industry incumbents that have successfully created a unique competitive strategy.

Each year, judges look for innovations that serve a unique strategy by creating new ways of doing things. One example: KOMTRAX is a sensor and remote control system designed by the Komatsu company to help customers utilize its earth-moving machines. KOMTRAX can even stop the engines of stolen machines. Since 2001, this technology has helped the company achieve its competitive growth strategy in China.

The achievements of pioneers and newcomers demonstrate the dynamic nature of Japanese industries as both disruptive innovators and symbiotic innovators that create spin-off opportunities. For instance, prizewinners such as 7-11 Japan and Askul, an office supply retailer, have provided their small shops with new functions in their value chain, allowing franchise stores to survive new competition from general merchandise stores and catalog and online shopping.

Many Porter Prize winners deploy virtual vertical integration, which makes a unique way of differentiation possible while also providing more flexibility. For example, UNIQLO, an apparel retailer, created its highly successful Ultra Light Down jacket series by working with UNIQLO's partner factories, whose manufacturing quality and efficiency were improved in collaboration with UNIQLO's manufacturing engineers.

Other innovations developed by prizewinners include product innovations and improvements in manufacturing quality, logistical efficiency, and customer service. Among the service providers that emerged as winners, many have deployed new work structures and human resource management. Hoshino Resorts, one of the largest operators of resorts and hotels in Japan, for instance, has developed a workforce of multitasking employees to improve service, level the workflow, and enhance efficiency.

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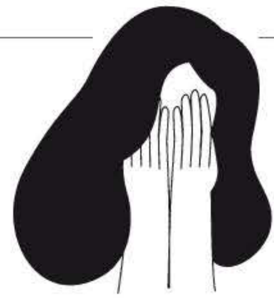
Hitotsubashi ICS offers a full-time all-English MBA program and now is opening a new executive MBA program aimed at developing business leaders equipped with competencies required to lead organizations in a rapidly globalizing and digitizing environment. This 12-month program will include concentrated weeks of on-site studies, weekend sessions, online courses, and learning expeditions to companies around the globe. Students can take part in programs offered by GNAM, a global network of 28 business schools. Applications will be accepted beginning in February 2017. For more information, visit Hitotsubashi ICS at www.ibs.ics.hit-u.ac.jp/.

Case Study An Office Romance Gone Wrong

A star salesperson struggles to navigate a bad breakup with a coworker. *by J. Neil Bearden*



Brad: Drinks after the last session?
Elizabeth: The whole gang?
Brad: Just me. Others flying back.
Elizabeth: OK. Hotel bar@7?
Brad: See u there.

Nothing happened that first night. Yes, Brad had flirted, and Elizabeth had flirted right back. They'd spent two hours at the bar. But she knew better than to take it further. He was the CFO of their company, a software start-up with about 75 employees. She was its star salesperson. They were at a conference, with industry contacts all around, using expense accounts. Maybe the flirting would lead to something; maybe not. But if it did, she wanted things to start right.

Ada: Ready for your big date?
Elizabeth: Nervous
Ada: Because he's your boss? ;)
Elizabeth: He's not! Just C-suite. And super smart.
Ada: Not bad looking either…

It was true. Brad wasn't her boss. He led the finance team. She reported to the head of sales, who reported to the COO, and she and Brad rarely interacted at work. They'd only gotten to know each other in the past couple of months, after she'd been asked to present at a few investor conferences, repurposing the spiel she'd successfully given to so many customers. Still, when just a few days after their drinks in the hotel, he'd asked her out on a "real date," Elizabeth initially demurred, wondering if it was a good idea. But he'd assured her they wouldn't be breaking any rules. He didn't evaluate her or even set her pay. And given her standing in the company, they were really more like peers. He liked her, respected her, and wanted to get to know her better. So she'd said yes, and they'd had a pretty amazing time together.

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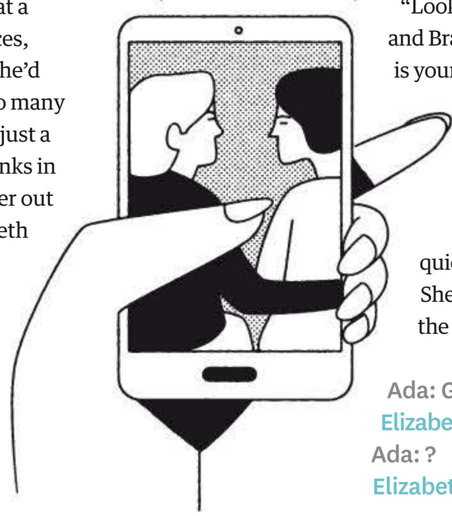


Brad: Fun night
Elizabeth: Maybe too much fun?
Brad: Never too much. Dinner again Friday? The new Thai?
Elizabeth: OK, but let's keep btwn us for now?
Brad: Sure ;)

They managed to keep the fledgling relationship secret for three weeks. But then two colleagues spotted them at a restaurant across town on a Saturday night, and they were forced to come clean. By Monday morning, it seemed like everyone in the office knew. There were whispers from some of the women and what felt like relentless, albeit good-natured, teasing from the guys in sales.

"Hey, Lizzie, I thought you were after customers, not coworkers!"

She hoped that would be the extent of the fallout, but the next day her boss pulled her aside.

"Look, Elizabeth, I like both you and Brad, and what you do privately is your business. But please keep it out of the office. I don't want this to distract you or, well, detract from your reputation around here."

Elizabeth's embarrassment quickly turned to frustration. She sure hoped Brad was getting the same lecture.

Ada: Girls night! Still busy w/ B?
Elizabeth: No.
Ada: ?
Elizabeth: Long story.

CHRISTOPHER DELORENZO

Case Study Teaching Notes

J. Neil Bearden teaches the case on which this one is based in his MBA and executive MBA ethics courses.

WHAT DREW YOU TO THIS CASE?

It's based on a story that a student shared in class. I decided to teach it when I saw her peers' reactions. There was deep disagreement over "the right thing to do," and people became emotional, which made for a great discussion. I've now taught the case to nearly 1,000 people, and it always has a big impact. Many students tell me they've been in or around similar situations, and most can identify with it in some way.

HOW DOES THE DEBATE TYPICALLY UNFOLD?

Some people think the protagonist is responsible for the situation she's in and should therefore "suck it up" or leave. Others blame the company's leaders for fostering an unprofessional environment and argue that she should seek legal recourse. People have a hard time seeing the legitimacy of opposing views.

WHAT DO YOU HOPE STUDENTS TAKE AWAY?

One lesson is that office relationships can have career consequences. Another is the importance of empathy. I hope the case encourages students, especially men, to think of their subordinates and colleagues as human beings with real feelings and to treat them accordingly.

Ada: Tell me over wine! Sal's@8

After two months of romantic dinner dates, daily texts, and even a brief meet-and-greet with her parents, she and Brad had hit a lull. He claimed he was busy with work, but it was the middle of the quarter, with no major management or board meetings on the docket. He'd promised they would meet for dinner after work that Thursday, so she'd initially declined Ada's invitation. But when she finished her last call for the evening and stopped by his office, she found it empty.

"Have you seen Brad?" she asked one of the CPAs who happened to be passing by.

He looked up at her, then down at his shoes, cheeks suddenly pink. "Er, I think he said he had, um, a last-minute meeting, er, out of the office."

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

His stammering made Elizabeth suspicious. "Yeah," she said casually, "I was supposed to give him some numbers beforehand. Do you know who else was going?"

Now the young man looked confused. "I think Claudia? They left together." Elizabeth forced a smile. Claudia was the newest recruit to the sales team—young, eager, pretty.

"Great, thanks." She tried calling and texting Brad, but he didn't answer. So she met Ada and the girls for a bit and went home alone.

Brad: Sorry re yesterday. Work emergency. Left phone in Uber.
Elizabeth: You couldn't borrow a phone? Or email?
Brad: Busy w/ board stuff. Working all night.
Elizabeth: With Claudia?
Brad: We should talk. Cafe@11?

Afterward, she realized that he'd chosen the company café so that she wouldn't make a scene. And she didn't—even when he told her that he had indeed been out with Claudia the night before, and several times before that. They couldn't fight the "instant connection," he explained, and because things were getting serious, he had to stop seeing other people. Elizabeth wondered if she was the only one Brad was giving this speech to that day. They'd never talked about exclusivity, but she'd assumed…She felt blindsided, hurt—and angry. But she kept her cool.

"Obviously, I'm surprised and, justifiably, upset," she said in as even a tone as she could muster. "Clearly, this wasn't what I thought it was, and you aren't who I thought you were, so it's probably best that it's over."

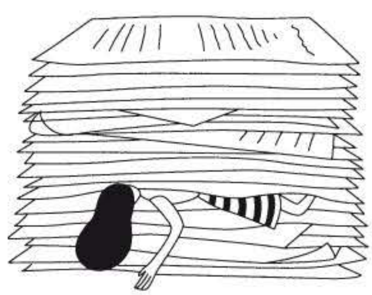
Brad smiled. "Thanks for understanding, Lizzy. I knew you would be a professional about this."

After he left, she went into the ladies' room, closed herself in a stall, and cried.

Ada: Come out tonight?
Elizabeth: Will just bring you down.
Ada: Still bad?
Elizabeth: Constant PDA.
Ada: Let me distract you!
Elizabeth: Thx but no. Burying myself in work!

She could handle it, she thought, if they would just stop flaunting their relationship in front of her and everyone else. She felt a brief rush of vindication when she heard that the newly appointed head of HR—a seasoned executive brought in to provide "adult supervision" to the growing start-up—was instituting an anti-fraternization policy. But she soon learned that it applied only to people with reporting relationships, and Brad and Claudia would have been grandfathered in regardless.

The CEO even seemed to reference them at the all-staff meeting he'd called to announce the new rules—"Of course, we're not trying to break up any happy couples!"—which prompted Brad and Claudia, seated



together in the front row, to exchange cutesy smiles. Elizabeth could feel people watching her for a reaction, some with concern, most with schadenfreude-fueled curiosity. She acted as if she hadn't seen anything, stared at her phone, and pretended to respond to an extremely urgent e-mail.

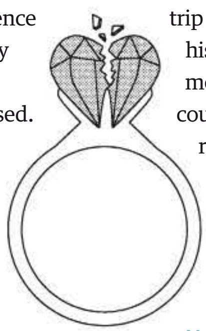
Elizabeth: Can I ask a favor?
Brad: ?
Elizabeth: Would you mind toning it down w/C at the office?
Brad: Tone down what?
Elizabeth: You know what I mean.
Brad: Not sure I do. We're trying to stay out of your way. But you have to get over this.

As Elizabeth walked into the office the next morning, Claudia intercepted her. "Do you have a minute, Elizabeth?"

Had Brad said something to her already?

"What is it?" Elizabeth said, in a colder tone than she'd intended. Claudia bristled.

"I just wanted to let you know that the executive team has asked me to come to the investor conference in New York next week. They want me to watch you give your presentation." She paused. "And you should probably hear this from me first: Brad and I are engaged."



Elizabeth felt like the wind had been knocked out of her. This was them "staying out of her way"?

"Oh," she said, trying to marshal her emotions. Unfortunately, it didn't work. "Well," she added, sounding even icier than before, "I wish you both the very best of luck. You seem just perfect together."

She gave herself a few minutes to collect herself and then tracked down her boss, who was working in an empty conference room. "Claudia mentioned that she's going to New York, too," she said. "Does it really make sense for both of us to be there when we still have work to do to hit our numbers for the month? It's an investor conference, not a sales event."

Her boss looked at her pointedly and told her to close the door. "Sometimes investors can become customers or lead us to new ones, as you well know, Elizabeth," he said. "But the main reason management wants Claudia there is so she can see what you do up on stage. If we groom her to do it, I'll have more of your time, which, between you and me, is a much better allocation of resources." He lowered his voice. "Honestly, if you could get past the, uh, personal situation here, you'd be a great mentor for her."

Elizabeth couldn't believe it. Of course, she was trying to get past it. But sending her on a business trip with her ex-boyfriend and his fiancée and asking her to mentor the woman so that she could take over a high-visibility role that Elizabeth herself had created? That was too much.

Elizabeth: I might need to quit.
Ada: You love your job! You're great at it! You make so much $$!
Elizabeth: Don't love it anymore.
Ada: You can't let B&C ruin your life.
Elizabeth: Then I can't see them every day...

Elizabeth got calls from headhunters all the time, but she'd always ignored them. She did love her job, most of her colleagues, her company, and its entrepreneurial culture. She was a top performer at one of the industry's most talked-about start-ups, the heir apparent to her boss, and perhaps an eventual contender for the C-suite.

Ada was right about her compensation, too: With salary, bonuses, and stock options (which still had a year to vest), her package was sort of insane. She couldn't leave. But after everything with Brad, making a clean break was looking more and more appealing.

A recruiter had contacted her just the week before about a role at a *Fortune* 500 company—a big, impersonal organization where no one knew or cared about anyone else's love life. But that position would be a lateral move, with less autonomy and financial upside. Other start-ups reached out, almost daily, but she wasn't sure she was up for taking that sort of gamble on another small company.

Another option was transferring: The executive committee had just decided to open a London office, and the new European sales manager was looking for a number two. But that would mean taking a step back in her career and moving away from friends and family—and she'd still have to occasionally deal with Brad and Claudia.

Should she, could she, just suck it up? Or was it time to move on?

Tell us what you'd do in this situation. Go to **HBR.org**.

Should Elizabeth stay at her company?

See commentaries on the next page.

The Experts Respond

Elizabeth would be better off taking her talents to an employer that will appreciate them.

Karen Firestone is the chairman and CEO of Aureus Asset Management and the author of *Even the Odds: Sensible Risk-Taking in Business, Investing, and Life.*

I WOULD NEVER advise Elizabeth to leave her current job before she secures a new one, but I do think she should immediately and aggressively pursue other opportunities. Her current work environment is toxic for her, in part because of the company's male-dominated, chauvinistic culture and Brad's insensitive behavior, but also because she's unable to control her reactions and put the episode behind her.

She's upset and distracted, and her manager is treating her like damaged goods; she needs to get out before her performance and her professional reputation suffer any further. Perhaps she has grounds for a lawsuit, but consider the high financial and emotional costs of fighting that battle. She would be better off taking her talents to an employer that will appreciate them.

There's no question that many companies will find her to be an extremely attractive candidate. A successful female sales manager with a knack for talking to investors is a rare commodity in the technology world, and her current employer wouldn't dare give her anything but a glowing recommendation.

So in negotiations with prospective employers, she should have no qualms about asking for a compensation package equivalent to her current one, including the stock options she would leave on the table should she switch jobs. A key driver of gender income inequality is women's failure to demand the same pay and benefits that men get. Elizabeth shouldn't be shy about declaring her value in the marketplace and accepting an offer from the highest bidder. If anyone asks why she's leaving, she should tell them she's done a great job and is ready for something bigger. I'm not at all worried about her ability to rise in another organization.

At the same time, she needs to learn from this experience and use better judgment in the future. I don't blame her for accepting an invitation to drinks with a colleague, or even for dating someone at the office. People do those things all the time, and some workplace romances work out happily, as may be the case for Brad and Claudia. In fact, I believe that anti-fraternization edicts are somewhat naive.

Her real mistake was in letting herself become too invested in someone who wasn't as invested in her, and failing to think through the consequences of that playing out at the office. Every relationship involves taking a risk—you might get hurt or you might hurt the other person—but those risks are amplified when you date a coworker. Elizabeth needs to remember that, recognize her blind spots, and be more careful next time. We can't always control emotional connections, but for at least a couple of years, she should make an effort to keep her love and work lives separate.

Comments from the HBR.org community

A Welcome Distraction

The transfer to London offers Elizabeth a quick out and a way to demonstrate strong leadership and a commitment to the company. She dated Brad for two months, not two years. She can easily distract herself with the new professional opportunity and a second chance at love in the UK.

Jessica Dunyon, *strategic management consultant, jQuotient*

Move On

Elizabeth should move on because she's still not over Brad, and it's hindering her performance and judgment. A different company may not give her better benefits or a bigger pay package, but it will give her the ability to grow and learn new skills.

Rishabh Khanna, *executive, Confederation of Indian Industry*

A Glass Ceiling?
Elizabeth should definitely stay with the company. She has earned her position there through sheer passion and hard work. We often talk about the glass ceiling that stops women from progressing in their careers; in this case, Elizabeth is building her own ceiling.
Gayathri Sivasubramanian, *associate professor, PGP College of Engineering & Technology*

Companies Beware
I had a similar situation occur at a company where I was a group leader. Ultimately, two of the three parties involved left the company, hamstringing growth and productivity. My advice for small, emerging ventures: Make sure you have a policy in place to deal with these situations, because they can very quickly undermine your future success.
Stefan Pagacik, *founder and principal, iAdvisor*

What Would Drucker Do?
The communication from Elizabeth's boss about how she should cope with the situation suggests management bias. My advice, to quote Peter F. Drucker: "If you notice integrity issues with the leadership of your company, you should dissociate yourself from the company."
Rudra Swain, *audit senior manager, Deloitte*

Elizabeth isn't in the right state of mind to make a decision that will alter her career.

Wendi S. Lazar is a partner and coheads the individuals and the executives and professionals practices at Outten & Golden, an employment law firm.

AT THE MOMENT, Elizabeth isn't in the right state of mind to make a decision that will dramatically alter her career and her financial situation. Her emotions are running high, and giving up without negotiating a graceful "mutual" exit would not be in her best interest. And with time, she may find that she can psychologically move on without leaving the company. So my advice to her would be to stick it out at least until her stock options have vested. In the meantime, she should build her case for fair compensation for her years of success and investment—and possibly for uneven if not illegal treatment—should she choose to leave.

As a successful, high-level employee, Elizabeth should have realized the risks involved in an office romance. The reality is that women who run astray of corporate socializing rules are often demonized, while men behaving the same way are celebrated by the corporate "boys club." But she is a strong performer and a leader in her group, so she shouldn't lose her confidence. Now is when she most needs to call on her professionalism and business savvy to prove her resilience and worth.

Although the limited facts in this case provide no basis for Elizabeth to make a legal complaint against her company, I do see an unhealthy dynamic in the organization—one in which people at or below her level are "managed," while C-suite executives are free to act as they please. We see Elizabeth being told to keep her relationship "out of the office" and to get over her "personal situation," but there is no evidence that Brad has been counseled to keep his affairs low-key or to stop dating subordinates. To the contrary, the CEO appears to smile fondly on "the happy couple."

The company's new anti-fraternization policy is an attempt to set some guidelines, but it falls short in failing to cover relationships outside reporting lines. And it's an entirely inadequate replacement for strong leadership on the sensitive issues of personal and professional boundaries and power imbalances.

Elizabeth must carefully consider her situation in the context of the company culture when deciding whether to stay or go. If the CEO and HR director don't change what seems to be a very male-dominated environment in which inappropriate behavior from people in power goes unchecked, she *should* leave—for the right opportunity at a time of her choosing.

HBR Reprint R1609K
Reprint Case Only R1609X
Reprint Commentary Only R1609Z

Synthesis Is Project Europe Doomed?

Probably, unless something is done about the euro. *by David Champion*

Ten years ago, Project Europe looked like a resounding success. A reunified Germany stood at the core of the world's second-largest market, the European Union—an economic giant of 27 countries, many of which shared a common currency, the euro. Citizens of the EU were free to live and work in any member nation, and controls across most borders were light. For a time it looked as if the EU had achieved what Francis Fukuyama described as "the end of history."

But Project Europe's future looks a lot less rosy now. Worries over immigration, brought to a boil by the refugee crisis, have contributed to a general resurgence in right-wing nationalism. All this is exacerbated by a persistent, region-wide depression that has triggered a series of sovereign debt crises and contributed to growing economic inequality across the member nations. It's perhaps not surprising that the United Kingdom voted in a referendum earlier this year to withdraw from the EU. Many voters and policy makers believed that the country's economy and its security would benefit from the divorce.

What went wrong? Three new books attempt to make sense of Europe's economic crisis, and all put much of the blame on the design of the single currency and the approach taken by euro-zone governments to manage the fallout from the Great Recession.

Nobel laureate Joseph Stiglitz pulls few punches in *The Euro,* a masterly analysis of how the new common currency has served only to deepen preexisting economic differences among member states. In the face of his data, it's hard to disagree with his conclusion that the euro is doing today what the gold standard did in the 1930s and that the governments involved—especially Germany's—are

CHRISTOPHER DELORENZO

BOB SUTTON: WHAT I'M LISTENING TO

99% Invisible, created and hosted by Roman Mars

"This delightful, wise podcast is, in the broadest sense, about design. Mars and his coconspirators celebrate the best we humans have to offer, without ignoring our foibles, and make seemingly dull topics fascinating, I think because they show so much empathy for their subjects and interviewees."

Bob Sutton is a professor at Stanford University and the coauthor of *Scaling Up Excellence* (Crown Business, 2014).

The Euro: How a Common Currency Threatens the Future of Europe
Joseph E. Stiglitz
W.W. Norton, 2016

The Euro and the Battle of Ideas
Markus K. Brunnermeier, Harold James, and Jean-Pierre Landau
Princeton University Press, 2016

Europe Isn't Working
Larry Elliott and Dan Atkinson
Yale University Press, 2016

once again turning a crisis into a catastrophe. He argues that German leaders are guilty of confusing private and public virtue: They believe that good people, like Germany's famously frugal Swabian housewives, pay their debts, and good countries should do the same. It's an appealing notion for an electorate with memories of the *Wirtschaftswunder* decades, when the country rebuilt its war-shattered economy and transformed itself, according to popular narrative, into an industrial powerhouse through hard work and discipline. German voters feel, unsurprisingly, that bailing out a profligate Greece should not be their reward for adopting the euro. But real life is not that simple.

The big problem is that Europe is emphatically not what the economist Robert Mundell would consider a natural currency zone. The euro's architects knew this and tried to force economic convergence by imposing limits on government spending and borrowing that were designed to make everyone in the union act more like its dominant economic power, Germany. But this was an impossibility. Leaving aside the fact that Germany itself repeatedly broke the agreed-upon budget-deficit and debt-to-GDP-ratio limits after the euro's introduction, each EU country counted its fellow members as major trading partners. If all became export powerhouses, to whom would they export? They couldn't all be Germany.

Instead, the euro has created a dangerous dynamic of divergence, in which nations' economic differences become increasingly entrenched. The result is that ordinary working stiffs in, for example, Greece lose jobs and pensions so that large banks in (you guessed it) Germany stay afloat. Germany, meanwhile, insists that if debtor countries could just put their finances in order, investment would flow and their economies would boom. But most experts agree that there is little evidence to back this theory of "expansionary austerity."

Stiglitz's solution is rapid fiscal integration to compensate for the loss of the monetary tools (exchange and interest rates) with which national governments normally regulate their economies, and he sketches a blueprint for how to achieve it. He acknowledges the political hurdles but says that if they can't be overcome, EU leaders will have no alternative but to abandon the euro—possibly returning to national currencies or creating two or three workable new currency zones.

The second book is less apocalyptic. *The Euro and the Battle of Ideas,* by economist Markus Brunnermeier and historian Harold James, both from Princeton, and Jean-Pierre Landau, a political scientist at France's Sciences Po, presents the European crisis as a battle between two very different theories of how economies work—a German one anchored in accountability and a belief in free markets versus a French model anchored in solidarity and the idea that markets should be managed.

More comprehensive than *The Euro,* the book is a difficult read, combining a dense explanation of macroeconomics with a rather livelier history of ideas. But it does bring out the nuances of the crisis, which is not as cut-and-dried as Stiglitz suggests, and it demonstrates (with some irony) that France and Germany have often swapped philosophies. Before World War II, for instance, France was the country insisting on accountability, market forces, and adherence to a gold standard, while Germany was all for a managed economy.

For Brunnermeier et al., the underlying problem with Europe is that policy makers on both sides of the ideological divide are engaging in a dialogue of the deaf. Rather than work through their differences, they muffle them with compromises in the hope that an economic recovery will bail everyone out. Given the increasing unlikelihood of that scenario, the authors call for greater understanding between the two camps. They believe that each new crisis can prompt a small step toward greater integration—the evolution of the European Central Bank, now the EU's premier institution, is an example—and as integration deepens, the seemingly interminable flow of crises will abate. Bottom line: Europe will muddle through.

British journalists Larry Elliott and Dan Atkinson, authors of the third and most readable book, *Europe Isn't Working,* don't agree. They present a diagnosis and gloomy prognosis similar to Stiglitz's, but offer only the briefest discussion of ways forward. In the end they seem to favor a return to national currencies, since it would be easiest to implement. Still, their book offers useful insight into why so many people thought the euro was a good idea in the first place: In the eyes of many politicians, financial markets are little more than casinos, where shady types make money at the expense of hardworking people. Abolish separate currencies and you abolish speculation, making the world a better place. Back in 2000 it was an easy sell, and felt modern. Integration equaled social progress; those against it were on the wrong side of history.

And that origin story explains why "Europe isn't working." The single currency was a political, not an economic, initiative—an attempt to give history a shove, as Lenin put it a century ago. Unfortunately, as Lenin's successors realized and as Project Europe's managers will learn, history doesn't take kindly to being shoved.

David Champion is a senior editor at *Harvard Business Review*.

THE REPUBLIC OF GUINEA

Capital: Conakry
GDP: 6.624 billion USD (2014)
Population: 12,275,527 (2014)
Source: World Bank

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From Potential to Prosperity

Guinea is set to become a driving force in the West African economic resurgence

Access full interviews by scanning the QR codes

ALPHA CONDÉ
President of the Republic of Guinea

ABDOULAYE MAGASSOUBA
Minister of Mines and Geology

As the dust settles and investors return to West Africa in the wake of the Ebola epidemic, the Republic of Guinea finds itself once more with the potential to become a driving force in the region's economy.

President Alpha Condé hit the ground running when he took office back in 2010, and quickly laid the groundwork for the transformation of the country. He put together a government including young business leaders educated in the United States and United Kingdom, and passed myriad reforms to jumpstart the economy and encourage investment in infrastructure, industry and education.

> Our country is rich in potential. Our challenge is to make that potential a reality
>
> *President Alpha Condé*

With the building blocks in place, Guinea is now ready for the next phase of its economic transformation following the reelection of President Condé in 2016.

Today, the country is once again gaining momentum and starting to take advantage of its potential, offered by its geostrategic position – that of a potential gateway between landlocked West African countries and the Atlantic Ocean – and the largest bauxite reserves in the world.

Compagnie des Bauxites de Guinée (CBG)

Destined to Lead the Bauxite Market

NAMORY CONDE
General Manager of CBG

With the vast majority of the planet's bauxite reserves under its feet, the Compagnie des Bauxites de Guinée (CBG) is in a unique position to become the world leader in bauxite production in the near future.

Being the world's primary source of aluminium, the demand for bauxite isn't going anywhere. For the Republic of Guinea, **one of the most promising emerging economies in West Africa**, this opportunity for a steadily growing revenue has not gone unnoticed; at the moment, the country is the world's second largest bauxite producer as well as the largest exporter.

CBG, however, sees an even bigger picture. "I want to make CBG one of the best bauxite production companies in the world," says General Manager Namory Condé.

With its 40 years of history in bauxite mining, CBG is the largest and oldest company in Guinea, and is owned at 49% by the government while the rest is controlled by **Halco, a concortium composed of Alcoa, Rio Tinto and Dadco.**

The bauxite ore, extracted from the CBG Sangaredi mine in the Boke region of Guinea, contains 65% aluminium oxide, making it almost twice as pure as Australian bauxite (38%), which is the pride of Namory Conde who adds, "On the mining front, we have two thirds of the world's bauxite reserves. Guinea can supply all of the world's refineries with bauxite for the next 100 years. We also have the largest bauxite deposit in the world."

"The mining sector accounts for a major chunk of the country's revenue and amounts for major part of the country's GDP. CBG contributes highly to Guinea's economy and has initiated a vast Extenstion Project to double its capacity of production. Today, we produce 14 million metric tons and, in the medium term, we'll get to nearly 30 million tons per year," says Mr. Condé.

> On the mining front, we have two thirds of the world's bauxite reserves. Guinea can supply all of the world's refineries with bauxite for the next 100 years. We also have the largest bauxite deposit in the world

With a step by step plan to reach this goal, CBG has already signed contracts **planning to invest** 700 million dollars for the first phase of this massive expansion **project**, which will create **more than 200** new jobs and ultimately have a socio-economic impact on over two million people.

Guinea's new Finance Sector

DR. LOUCENY NABE
Governor of the Central Bank of the Republic of Guinea

President Condé's reforms managed to stabilize inflation in Guinea before 2014. Together with the Central Bank of the Republic of Guinea (BCRG), the country passed laws regarding banking, the Central Bank, lease-purchasing agreements and the modernization of payment systems.

"A stable financial system and currency are already attractive indicators for foreign investors. Now, investors also have the possibility of repatriating a portion of their profits thanks to exchange regulations and the operating income law," says BCRG Governor Louceny Nabe.

Hotel Millenium Suites -www.milleniumsuites.com

The private banking sector also has plenty of room to grow, with only 7% of the population using banking services, making the market ripe for microfinance institutions.

Afriland First Bank

Afriland First Bank Guinea, a banking affiliate of Afriland First Bank Group, has existed since 1987 and currently operates in 11 African countries, China and France. Now the second largest banking group in the CEMAC region, its banking affiliates of Cameroon and Equatorial Guinea are leaders in their respective countries.

Afriland First Bank Guinea's actions are guided by the search for innovative solutions tailored to Guinea with major objectives being the emergence of a new class of young Guinean entrepreneurs, economic development in rural areas through micro development banks, creating bridges between the formal and informal sectors, and supporting SMEs and SMIs through appropriate financial services such as leasing and venture capital.

A universal bank combining commercial, development and investment banking elements, Afriland First Bank Guinea offers a range of services and products for individuals, businesses, communities, and the state, as well as innovative and integrated products of home banking, electronic payment instruments, and Islamic finance.

> Innovative banking for all Guineans

Afriland First Bank

www.afrilandfirstbank.com

ANAIM

Strengthens the Mining Industry and Guinean Society

LAMINE CISSÉ
Director General

As mining remains the backbone of Guinea Conakry's economy, the ANAIM aims to contribute more to the industry by investing in new mining infrastructure thanks to a corporate restructuring.

The Agence Nationale d'Aménagement des Infrastructures Minières (ANAIM), which translates to the 'National Agency of Mining Infrastructure Organization', a national company founded in 1995, manages infrastructure which is key to the mining industry, such as railroads and the Kamsar Port, used by major companies such as CBG, SMB and EGA-GAC.

"The other challenge of the mining sector is to ensure the security of mining installations through the presence of policemen," says Director General Lamine Cissé. "When it comes to housing policies, we're building a city where future employees of mining companies will be able to live.

As West Africa recovers from the Ebola crisis and business activities return to normal, Guinea's mining sector shows notable ambition to ramp up its bauxite mining activities, taking advantage of having the majority of the world's bauxite reserves to become the leading player on the global bauxite market. The ANAIM is, therefore, in a unique position to provide support to this developing industry.

"Our ambition is for other actors of the mining industry to come to Guinea. To this end, we plan to improve existing infrastructures in other regions of Guinea, such as the Conakry-Kindia railroad, which will enable the exploitation of the mines of that region," says Mr. Cissé. "The ANAIM's ambition for the years to come is to take over certain of the CGB's prerogatives to create ANAIM-specific structures for fundraising and investments."

The ANAIM manages more than mining-specific infrastructure, making it a vital part of the Guinean society with projects such as the Kamsar hospital, which uses Africa's most cutting edge IT systems and is a reference in the medical sector.

> The ANAIM's ambition for the years to come is to take over certain of the CGB's prerogatives to create ANAIM-specific structures for fundraising and investments

"But we need more financing to build new infrastructure. New investors and mining stakeholders will be profitable to the state in terms of revenue but also in terms of local employment," says Mr. Cissé.

Thanks to its contributions to Guinea's socio-economic fabric, the ANAIM sees itself as one of the country's flagship institutions.

To fully take advantage of its natural resources and geostrategic position, Guinea is upgrading its infrastructure, most notably with a railway between Bamako and Conakry – a partnership with Mali, which leads all the way to the port of Conakry.
This will facilitate not only the exportation of locally mined bauxite, but also the transit of goods to and from neighboring Mali and other landlocked countries. As a result, Conakry's port has been expanding to accommodate the expected boom in transit, notably towards the South American market.

MAMADOU DIALLO CELLOU
National Director of the Merchant Navy

KEITA KABASSAN OULABA
Direction SOGEAC

Office des Chargeurs

An Office Dedicated to the Guinean Shipping Industry

As business returns to Guinea Conarky following the end of the Ebola Crisis and the reopening of the borders, the Guinean Shipping Office (Office Guinéen des Chargeurs) is dedicated exclusively to helping international trade to and from the country.

The Guinean Shipping Office was founded in 2010 by President Alpha Condé, in order to set a framework to facilitate both imports and exports at all of Guinea's trade hubs.
Because much of Guinea's business is conducted informally, the office is not yet as well-known as it should be. Director General Sekou Camara intends to change that.

"The Guinean Shipping Office is here to facilitate exchanges between importers and exporters in Guinea. We're here to create a single counter to enable the importer and exporter to get their paperwork in order and facilitate customs' work," Mr. Camara, says.

Port of Conakry

West Africa's Rising Port

The Port of Conakry's geostrategic position, cutting edge technology and competitive prices make it a force to be reckoned with in West Africa.

Having nearly tripled its throughput from 2014 to 2015, the Autonomous Port of Conakry is quickly establishing itself as a major player in the West African port industry.

Accounting for 95 to 98% of customs revenue in the Republic of Guinea, the Port of Conakry is crutial to the West African nation's economy. "One could even say the Port of Conakry is the flagship of Guinean companies," said a spokesperson of the port.

Despite Guinea's economic slowdown between 2013 and 2015, the port was able to process 157,000 containers in 2015 compared to 57,000 in 2014, thanks to an upgrade in capacity undertaken by Bolloré Africa Logistics, a major partner of the port's.

"We have the ambition of becoming one of the biggest ports in West Africa. In 2017, we'll start the construction of a second dock. Since His Excellence President Alpha Condé took office, we've signed a public-private partnership (PPP) contract with the Bolloré Group. We've obtained many changes in terms of infrastructure and modern equipment, which we needed to compete with the ports of Abidjan and Dakar."

Conakry's port was founded with the merger of several independent entities in 1982. Since then, it has been ceaselessly expanding and modernizing thanks to financing from Guinea's central bank and the privatization of the dockers.

President Alpha Condé has signed a partnership with his Malian counterpart, President Ibrahim Boubacar Kéita, to build a train line between Bamako and the Port of Conakry. The port's geostrategic position therefore grants Mali and other landlocked West African countries direct access to the Atlantic Ocean, giving them a new route for imports and exports.

"We have the same standards and we offer the same services as other regional ports such as the port of Dakar, but at a lower price. Regarding shipping container management, we're number one in the region thanks to cutting edge equipment. Thanks to the vision of the president of the Republic of Guinea, we will be able to become a regional leader."

"The Ministry of Transport is currently working on several projects of internal transport infrastructure development, which will make us even more competitive," said the port's spokesperson, who also highlighted Conakry's location on the southwestern tip of West Africa which makes it the ideal port to do business with South America.

This, in addition to its partnership with foreign ports, including in the United States, make Conakry's port a key player in the region.

"We have the same standards and we offer the same services as other regional ports such as the Port of Dakar, but at a lower price. Regarding shipping container management, we're number one in the region thanks to cutting edge equipment. Thanks to the vision of the president of the Republic of Guinea, we will be able to become a regional leader."

To achieve this ambitious goal, the Port of Conakry's goal is to attract international partnerships and investment. "The Port of Conakry has always wanted for economic operators to come here, or even to become shareholders in the Port of Conakry. For the moment, our partner of choice is Bolloré – they came here first – but we're always open to other offers."

Mrs. Touré Hawa Keita, formerly Secretary General of the Ministry of Commerce, has taken the helm of the Port of Conakry as Director General in June of 2016.

University of Kofi Annan

DR OUSMANE KABA
President-Founder
Of the Kofi Annan University of Guinea

With 10,000 students, the Kofi Annan university is the oldest and most important private university in Guinea Conakry. Thanks to its wide palette of courses, its solid integration into Guinea's socio-economic fabric, its national and international partnerships, it aims to gradually improve the services it has to offer its students as well as the community.

EXECUTIVE SUMMARIES SEPTEMBER 2016

SPOTLIGHT ON CONSUMER INSIGHT

What do customers *really* want? This month's Spotlight looks beyond traditional marketing approaches and explores new models for understanding customers and creating hit products.

CUSTOMERS

The Elements of Value

Eric Almquist, John Senior, and Nicolas Bloch | page 46

What consumers truly value can be difficult to pin down and psychologically complicated. But universal building blocks of value do exist, creating opportunities for companies to improve their performance in existing markets or break into new markets. In the right combinations, the authors' analysis shows, those elements will pay off in stronger customer loyalty, greater consumer willingness to try a particular brand, and sustained revenue growth.

Three decades of experience doing consumer research and observation for corporate clients led the authors—all with Bain & Company—to identify 30 "elements of value." Their model traces its conceptual roots to Abraham Maslow's "hierarchy of needs" and extends his insights by focusing on people as consumers: describing their behavior around products and services. They arrange the elements in a pyramid according to four kinds of needs, with "functional" at the bottom, followed by "emotional," "life changing," and then "social impact" at the peak.

The authors provide real-world examples to demonstrate how companies have used the elements to grow revenue, refine product design to better meet customers' needs, identify where customers perceive strengths and weaknesses, and cross-sell services.

HBR Reprint R1609C

STRATEGY

Know Your Customers' "Jobs to Be Done"

Clayton M. Christensen, Taddy Hall, Karen Dillon, and David S. Duncan
page 54

Firms have never known more about their customers, but their innovation processes remain hit-or-miss. Why? According to Christensen and his coauthors, product developers focus too much on building customer profiles and looking for correlations in data. To create offerings that people truly want to buy, firms instead need to home in on the *job* the customer is trying to get done.

Some jobs are little (pass the time); some are big (find a more fulfilling career). When we buy a product, we essentially "hire" it to help us do a job. If it does the job well, we'll hire it again. If it does a crummy job, we "fire" it and look for something else to solve the problem.

Jobs are multifaceted. They're never simply about function; they have powerful social and emotional dimensions. And the circumstances in which customers try to do them are more critical than any buyer characteristics. Consider the experiences of condo developers targeting retirees who wanted to downsize their homes. Sales were weak until the developers realized their business was not construction but transitioning lives. Instead of adding more features to the condos, they created services assisting buyers with the move and with their decisions about what to keep and to discard. Sales took off.

The key to successful innovation is identifying jobs that are poorly performed in customers' lives and then designing products, experiences, and processes around those jobs. **HBR Reprint** R1609D

MARKETING

Building an Insights Engine

Frank van den Driest, Stan Sthanunathan, and Keith Weed
page 64

The most successful companies don't just have good products and strong distribution systems—they have a deep understanding of customers. That naturally requires lots of marketing data, but the authors say it also takes an "insights engine"—a set of structures, people, and processes that can translate data into actionable strategy.

How do high-performing organizations achieve this kind of customer centricity? Extensive research by the lead author's firm indicates that seven operational characteristics are critical for a superior insights and analytics group: It must be adept at synthesizing data, independent from other functions, integrally involved in business planning, collaborative, willing to experiment with new technologies and programs, future oriented, and active in strategic decision making. In addition, the people who are part of the insights engine share three key traits: They have a whole-brain mindset (they think creatively as well as analytically), they focus on business growth, and they are effective at getting their messages across with engaging storytelling rather than dry recitations of data.

The authors discuss each characteristic in turn, using the consumer goods giant Unilever as a case study. Unilever's Consumer Markets and Insights group, the epitome of a powerful insights engine, has helped the company generate impressive revenue and sales growth.

HBR Reprint R1609E

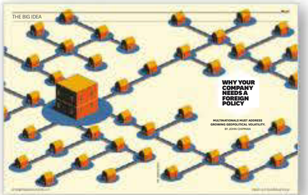
Features

THE BIG IDEA

INTERNATIONAL BUSINESS

Why Your Company Needs a Foreign Policy

John Chipman | page 36



After a relatively quiet period following the end of the Cold War, geopolitics is back. With the United States displaying a reduced appetite for violent confrontation, there are now no world policemen, few effective "neighborhood watch" schemes, and a growing number of vigilante groups and countries eager to challenge the existing rules of the game. Companies cannot assume, in any region of the world, that the strategic status quo will be sustained by neat balances of power or unbreakable promises of foreign-policy assistance from superpower states.

In this new reality, the most successful multinational companies will be those that make expertise in international affairs central to their operations, adopting what John Chipman, the chief executive of the International Institute for Strategic Studies, calls a corporate foreign policy.

A corporate foreign policy has two components. *Geopolitical due diligence* involves the assessment of local, regional, and transnational risks facing a company. *Corporate diplomacy* aims to enhance a company's ability to operate internationally and to ensure its success in each particular country with which it is engaged.

Chipman lays out the principles of geopolitical due diligence and corporate diplomacy and argues that their successful execution can be a new source of competitive advantage for multinational businesses in a time of increased geopolitical volatility.

HBR Reprint R1609B

NEGOTIATIONS

How to Make the Other Side Play Fair

Max H. Bazerman and Daniel Kahneman | page 76

A tactic borrowed from labor negotiations can help.

In legal disputes, contested insurance claims, and similarly adversarial negotiations, one party is likely to open with an inflated claim or a lowball offer. And if the other side's position is unreasonable, it may make little sense to be reasonable yourself. But if everyone routinely came to a dispute with a realistic starting position, the offers would be more or less aligned, and any negotiation that followed would most likely be relatively civil, speedy, and fair.

How can a negotiator who wants to be fair from the start ensure that his or her counterpart will be reasonable as well? The authors propose the *final-offer arbitration* challenge, which leverages an approach first applied in labor negotiations in the 1960s. You can employ this tactic by opening with a demonstrably fair offer and then—if the other party is unreasonable—extending a challenge to take the competing offers to an arbitrator who must choose one or the other rather than a compromise between them (the usual outcome of conventional arbitration).

The authors describe how AIG used the approach and how other companies can begin to adopt it.

HBR Reprint R1609F

STRATEGY

Putting Products into Services

Mohanbir Sawhney | page 82

High-end professional services firms, unlike product companies, traditionally experience only linear revenue growth. That's because selling more services means adding more professionals, which limits profit margins. However, savvy providers of consulting, legal, accounting, and other services are using technology to their benefit. They are automating certain routine aspects of their work to essentially "productize" those tasks. By combining those products with human attention to matters requiring more knowledge or judgment, they can give clients better service at a lower cost.

This article provides a guide to product development for professional services firms. The author describes the three key stages of the process: (1) To *discover potential products,* identify opportunities for automation by looking for patterns in your services and zeroing in on the tasks that are performed frequently and require little knowledge. (2) To *develop products,* use algorithms and artificial intelligence to create "smart" tools to handle high-volume, low-sophistication tasks. (3) To *monetize your products,* stop charging for time and materials, and shift first to transaction-based pricing and then to an outcome-based model.

In conjunction with this process, it's important to create a cross-functional team that focuses on product development. And take the long view—you'll have to invest time and money before you reap the benefits of embedding products in services.

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MANAGING YOURSELF

The Scandal Effect

Boris Groysberg, Eric Lin, George Serafeim, and Robin Abrahams | page 90

Executives with scandal-tainted companies on their résumés pay a penalty on the job market, even if they clearly had nothing to do with the trouble. Because the scandal effect is lasting, a company you left long ago could have an impact on your current and future job mobility, not to mention your compensation. Overall, executives who suffer from the effect are paid nearly 4% less than their peers. You can't control this risk, the authors write, but you can and should plan for it.

They offer three steps to help you survive a corporate scandal.

1. Be forthright. Transparency and full disclosure are key to overcoming the stigma. Executive recruiters, who do due diligence on candidates, can help you create a full, clear, and succinct narrative for hiring managers.

2. "Borrow" reputation and legitimacy from others in your network, establishing innocence by association. Executive search firms can also act as references and sponsors.

3. Take a "rehab job," one at which you so clearly excel that it creates a persuasive story to compete with the scandal narrative.

HBR Reprint R1609H

How I Did It

ORGANIZATIONAL CULTURE

ARZU's Founder on Shaping Culture Through Social Enterprise

Connie Duckworth | page 31

The author visited Afghanistan in 2003 as part of a U.S. delegation focused on improving the lives of women. Her idea was to start a business that would employ the women of that country to make a product she could sell in the United States. Some locally woven rugs caught her eye; she carried them back home and started looking for initial funding. She set up a 501(c)(3) nonprofit and began working to construct an entirely new and socially responsible supply chain.

ARZU's goal was to create a sustainable business model linking well-paying jobs to behaviors that over time would shift the cultural norm. The company negotiated a "social contract" with male heads of household that set conditions for women in the home to become its weavers: All children (including girls) must attend government school full-time, and all adult women must be "released" from the family compound to attend ARZU's literacy classes or for transport to medical clinics when pregnant. Once the business model was in place, recruiting weavers required an intensive, house-to-house outreach. But as word spread that the company would pay the local rate as a salary (rather than piecework) and that women could earn a bonus for highest-quality work, families sought to join the program. Today ARZU has a waiting list.

All the company's weavers are now literate (whereas 90% of Afghan women remain illiterate), and 20% are putting a child through university. Working and earning money has developed their dignity and self-esteem, and the men of their villages have come to view them as capable human beings.

HBR Reprint R1609A

Managing Yourself

How to Tackle Your Toughest Decisions

Joseph L. Badaracco | page 104

The toughest calls managers have to make come in situations when they have worked hard to gather the facts and have done the best analysis they can, but they still don't know what to do. Then judgment—a fusion of thinking, feelings, experience, imagination, and character—becomes critical. The author offers five practical questions to improve your odds of making sound judgments:

- What are the net, net consequences of all my options?
- What are my core obligations?
- What will work in the world as it is?
- Who are we?
- What can I live with?

All five questions must be answered, according to the author: "Each question is an important voice in the centuries-long conversation about what counts as a sound decision regarding a hard problem with high stakes for other people."

If you work through these questions, you'll know that you've approached the problem in the right way—not just as a good manager but as a thoughtful human being.

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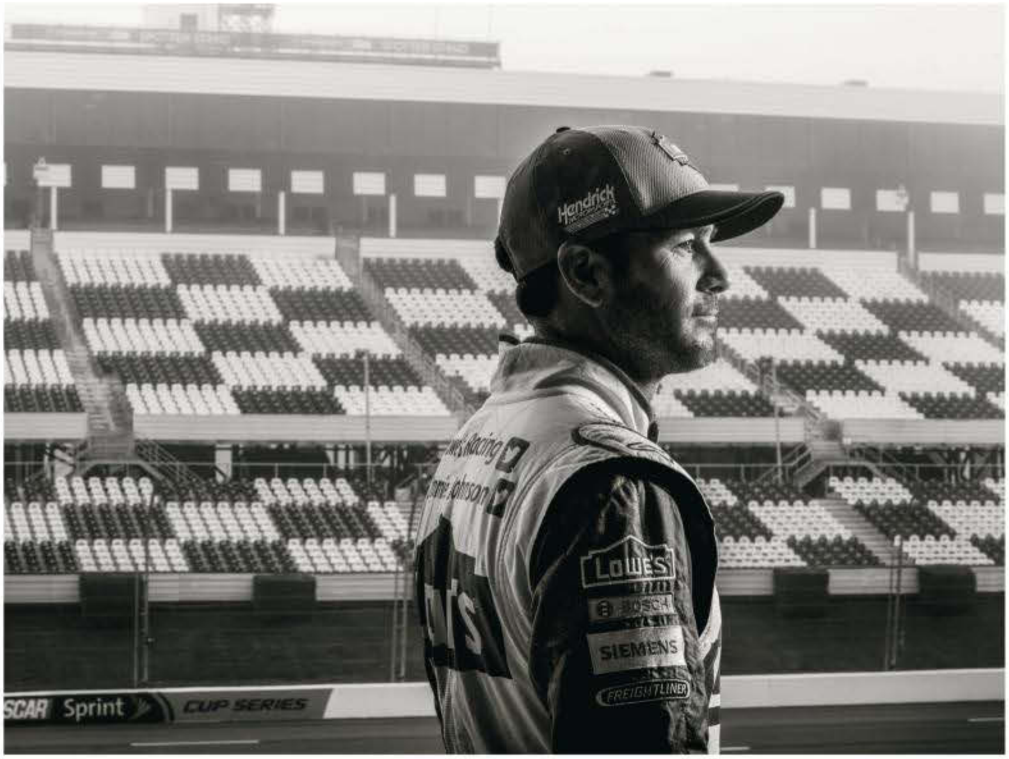
Life's Work



ETHAN HILL

Jimmie Johnson began racing small motorcycles on dirt tracks at age five. By 2002 he'd made it to NASCAR's elite Sprint Cup Series, where he eventually won six championships (putting him just behind Richard Petty and Dale Earnhardt, who won seven each). Off the track Johnson, now 40, competes in half-marathons and triathlons. *Interviewed by Daniel McGinn*

Read the complete interview online at **HBR.org**.

HBR: In NASCAR, how much of winning can be attributed to the car versus the driver?
Johnson: People who aren't familiar with racing don't realize that NASCAR is a team sport. I drive for Hendrick Motorsports, which has four cars on the racetrack. There's the same equipment among top teams. All the drivers can drive, and all the crews can build great cars. The real magic is in the chemistry and collaboration between the driver, the team, and the crew chief, who is like a head coach in other sports. I have to verbalize the sensations I feel in the car, and the team has to absorb and digest that information and make the right changes.

How do you instill a sense of teamwork when most of the glory goes to the driver? It's really just a matter of being around and connected with the team. It's easy to do that with the 15 people who travel to the track each weekend, but they are a small percentage of our employee base: 100 people are working in the shop where my car is built. We try hard to connect with the others because we know how important the team dynamics are.

How have technology and the advent of big data affected your sport? They've changed our preparation for events. We have amazing tools to catalog and diagnose problems. We have machines to improve on-track activity, such as wind tunnels. We're doing all we can with those. But NASCAR doesn't allow a lot of these tools at the track on race weekends. During the race, I'm the computer. I'm the only one out there who can feel what's happening in the car. We try to match that up with what the technology said should be happening.

How did you master the job of representing sponsors? The team always tries to maximize the value we give our sponsors. My mom drove a school bus and my dad was a heavy equipment operator, so they didn't have the means to take me racing. I learned at a young age that to chase my dream, I had to appeal to corporate America.

NASCAR great Jeff Gordon retired at age 44. How long will you continue? When the fire burns out, when it feels like work, and when I don't want to be away from my daughters, who are two and six, then I'll step down—or if I'm concerned about my safety. If you worry about getting hurt while making a split-second decision, you'll make the wrong one. I've seen guys driving at 53 or 54, but I don't think I'll be in the car that long. I have other interests in racing, such as the 24 Hours of Le Mans and off-road truck racing. I'm also interested in other endurance and adventure sports. I've done a half-Ironman and I really want to do a full one. Even if I step down from the NASCAR grind, the competitive spirit will stay alive in me forever.

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