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Managing a Polarized Workforce


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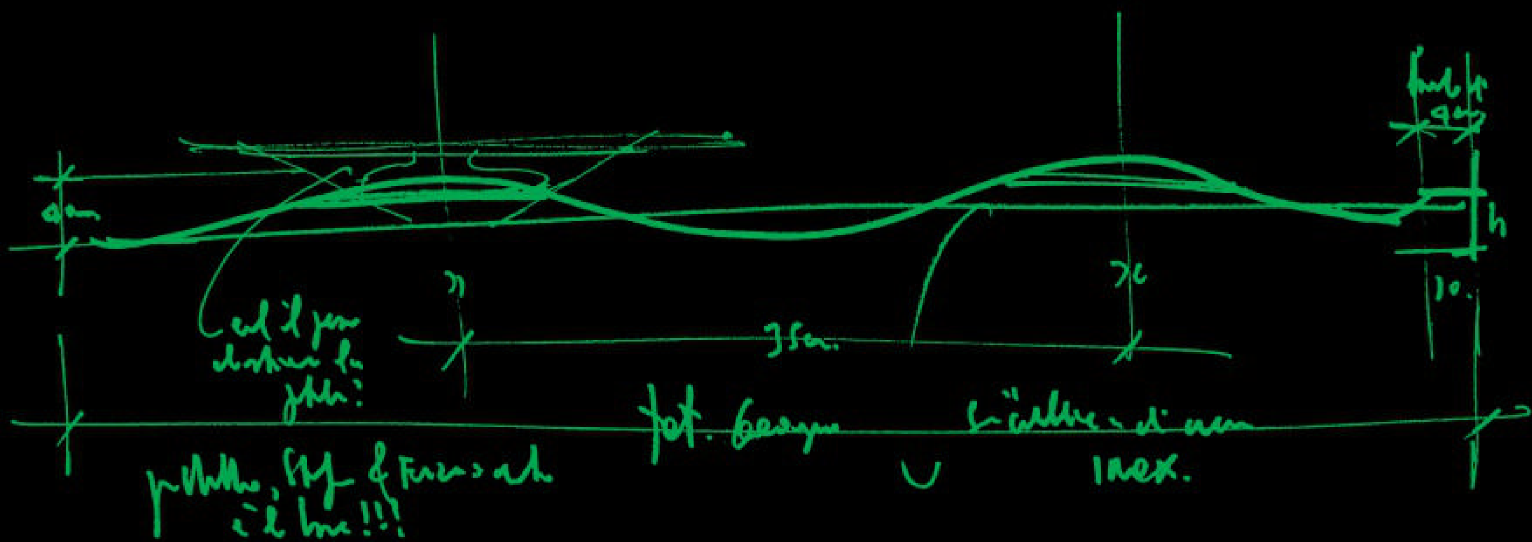

“Practical idealism means refusing to sacrifice real albeit incomplete progress in the name of perfection.”

“THE MESSY BUT ESSENTIAL PURSUIT OF PURPOSE,” PAGE 44

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Departments

"At Roblox user innovation is not a nice-to-have alongside other things. It's fundamental."
–DAVID BASZUCKI, CEO OF ROBLOX

Photograph by WINNI WINTERMEYER

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Making Purpose Real

Adi Ignatius

OVER THE PAST DECADE *Harvard Business Review* has published articles, interviews, and books exploring alternatives to the shareholders-first model of capitalism. Internally we refer to that work by a simple shorthand: "fixing the system."

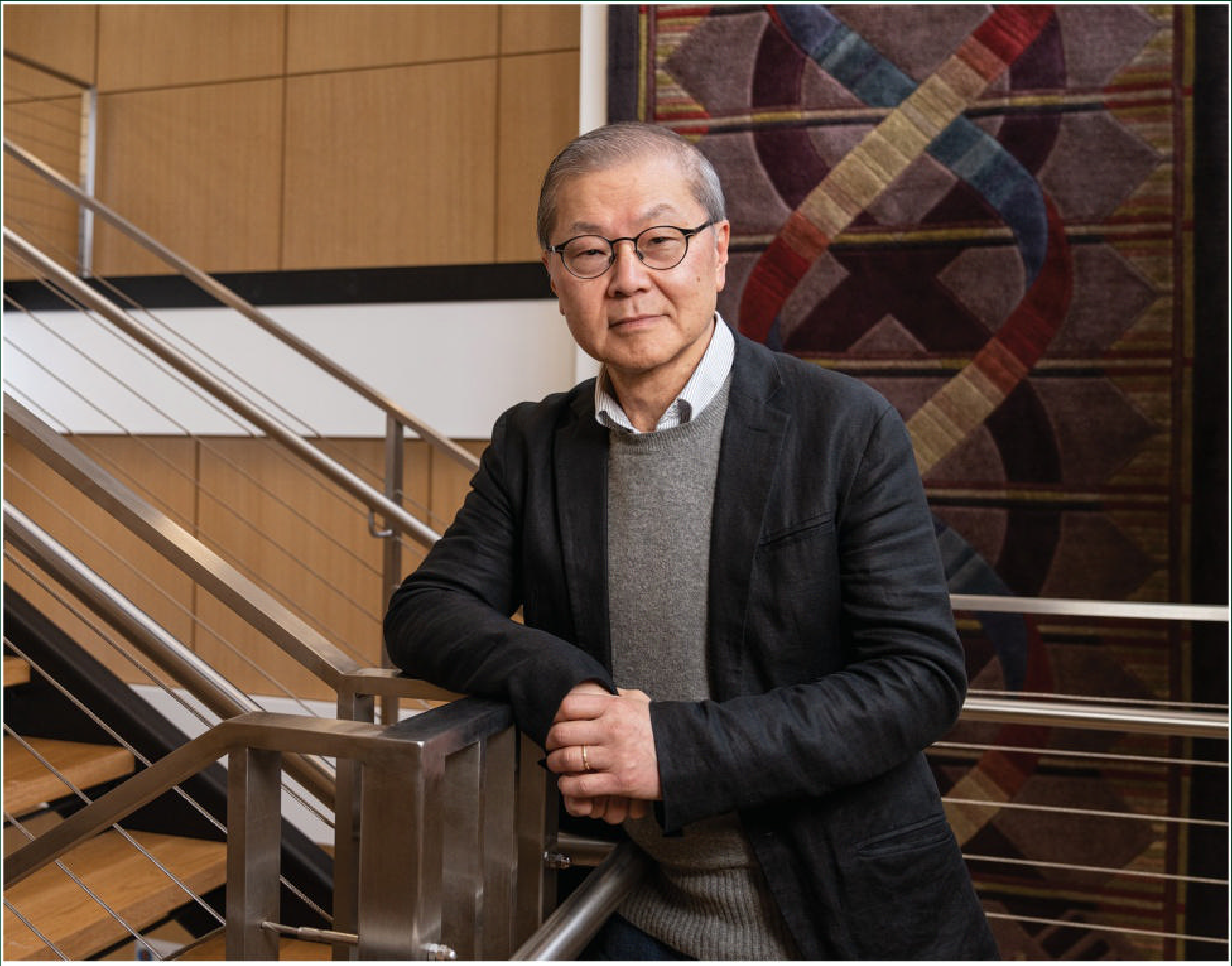
In August 2019 Business Roundtable came up with a fix of its own: It issued a landmark statement that the purpose of a corporation is to promote an economy that serves all stakeholders—a clear shift away from shareholders first. We applaud that shift—and the increasing debate around it. But we recognize a problem: Too often, discussions of managing with "purpose" can be frustratingly vague. What exactly is purpose? It sounds great in an annual report, but how do leaders actually use it, day by day, to make difficult trade-offs, engage customers, energize employees, and attract investors?

This issue's Spotlight, "Making Purpose Real," aims to bring specificity to those questions. In the lead article Jonathan Knowles and coauthors delineate three kinds of purpose: *competence* ("the function that our product serves"), *culture* ("the intent with which we run our business"), and *cause* ("the social good to which we aspire"). "Cause-based purposes tend to receive the most attention," they write. "But any of the three types can be effective when pursued appropriately."

Here at HBR we sometimes talk about our purpose using another simple shorthand: "to rid the world of bad management." I hope the articles in this issue help you advance toward that goal.

ADI IGNATIUS
Editor in chief

Sasha Patkin



Contributors

Rosabeth Moss Kanter, a Harvard Business School professor, has spent decades illuminating how structures and cultures propel success or decline. More recently, she has added a focus on big societal problems, asking what it takes to go from changing organizations to changing the world. In an article in this issue she and her coauthor explore how companies and governments can team up to address crises such as Covid-19 and related health disparities. Such voluntary and fluid collaborations require leadership styles unfamiliar to many CEOs. This article identifies essential factors for effective impact.

106 Creating High-Impact Coalitions

In his undergraduate days at the University of Minnesota, **Randall S. Peterson** served as the student representative to the school's board of regents. "I distinctly remember sitting in meetings and realizing that I didn't understand what was happening—and that I needed to," says Peterson, now a professor at London Business School. That experience inspired 25 years of research on teams, boards, and leaders, including the "alliances and competitive rivalries that drive a lot of what happens." In this issue he and coauthor Kristin J. Behfar explain how we can better manage all kinds of workplace rivalries.

143 When to Cooperate with Colleagues and When to Compete

From 2013 to 2020, **Diane Gherson** was the chief human resources officer at IBM, where she saw close-up that managers were struggling to cope with the new demands made on them. "Everybody talks about leaders, but nobody's talking about managers, even though their roles have changed so much," she says. "The 9-to-5 workday, the Monday-to-Friday workweek, how and where we work—everything is up for grabs. Managers are overwhelmed!" After leaving IBM, Gherson met London Business School's Lynda Gratton, who agreed that it was time to give attention to the changing role of the manager—a topic they address in this issue.

96 Managers Can't Do It All

Total shareholder return (TSR) has become the primary measuring stick for corporate performance—but should it be? That's a question that **Mihir Desai,** a finance professor at Harvard Business School, has been debating for years. In this issue, Desai and two coauthors introduce an alternative metric: core operating shareholder return, or COSR. Its advantage: It strips out the effects of stock buybacks and dividend reinvestment, which can skew TSR. "This article gives us an opportunity to assess the buyback revolution in a nonpolemical, data-driven way," Desai says.

134 A Better Way to Assess Managerial Performance

Wanda Tuerlinckx is a Belgian-born, Amsterdam-based photographer who has specialized in making portraits of robots since 2016. Her photographs in this issue are from her series *Humanoids*. "Early robots didn't look like humans," she says. "But over time we realized that if we make robots in human form and give them many of the human sensory and motor abilities, they can be used more easily." Many of the robots whose images Tuerlinckx has captured in this series work in hospitals.

84 Robots Need Us More Than We Need Them

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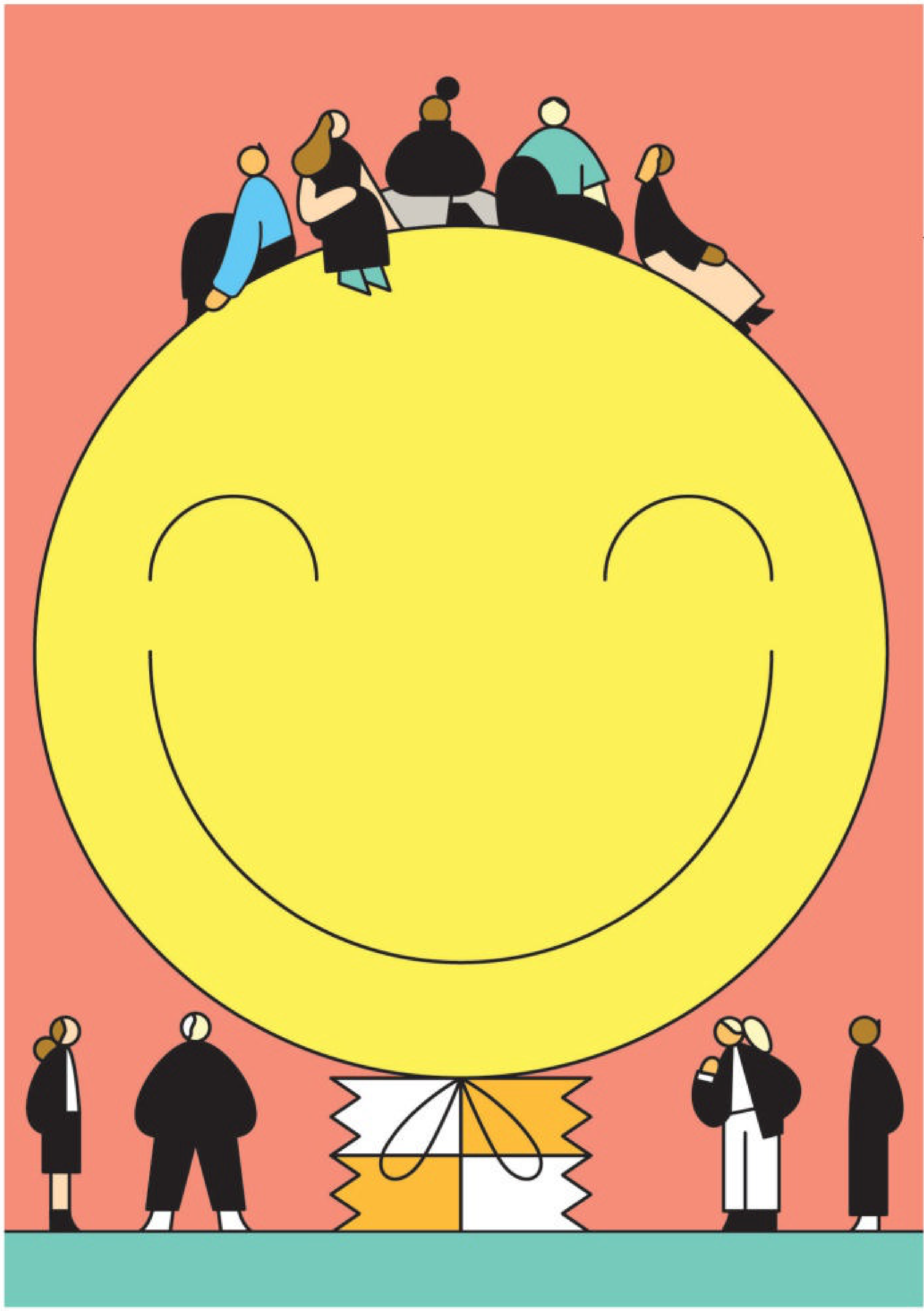


IN THEORY

Rethinking Your Approach to the Employee Experience

Companies should focus on not just what they give employees but also how their offerings make employees feel.

HUMAN RESOURCES LEADERS commonly assume that for a company to stand out as a great place to work, it must deliver competitive perks—everything from skills training to pet insurance to foosball. New research finds that this view is outdated: Engagement and retention don't correlate with benefits awards. Employees have begun looking beyond material offerings and assessing how they feel about the company they work for—and that requires a different approach.

Fortune 500 companies spend more on benefits and perks than ever—almost $2,500 a year per employee, on average. But a study by the research and advisory firm Gartner, comprising global surveys of 5,000 employees and more than 150 HR leaders, reveals that employee engagement has been flat since 2016.

Illustrations by ROSE WONG

IdeaWatch

For example, just 31% of workers say that their company offers something unique. And only 23% of HR leaders expect most employees to stay with the firm after the pandemic ends.

"Companies have been engaged in an arms race to offer the best perks," says Carolina Valencia, a vice president in Gartner's HR practice and one of the study's authors. "But once basic needs are met, people are more powerfully motivated by feelings than by material features. Employees today want to be treated as people, not just workers."

That doesn't mean companies should switch out all their employee offerings, the researchers say. What's needed is a change in emphasis: Instead of building a portfolio of ever-increasing offerings, benefits managers should focus on a "human deal" that makes employees feel cared for financially, physically, and emotionally. The need for such a shift is particularly acute given the dual crises in many countries of the pandemic and civil unrest. In Gartner's survey, conducted in January 2021, 47% of employees reported that their stress was higher than anything they'd previously experienced in their careers, and only 37% agreed that their organization understood what they needed in their personal lives and for their families.

Employers can put together a human deal that will make workers feel valued and supported by:

Connecting with employees' lives outside work. Companies have traditionally shied away from asking about nonwork issues, in part because of privacy concerns, but the researchers argue that the boundaries have blurred during the pandemic, and workers are no longer willing to pretend that their work lives and outside lives are separate. More than 60% of employees say it's important for their company to share in caring for their families and communities. "Employees want their managers to know about their personal commitments and to make accommodations where possible," says Dion Love, also a vice president in Gartner's HR practice and a coauthor of the study. "Trust is key to that." Recognizing those realities, AT&T devised an employee trust survey to help managers learn how comfortable people are sharing personal information with them. Employees and their managers discuss the results and identify ways to shore up trust in areas where it's lacking.

Ensuring autonomy. Many organizations allow remote work at least some of the time. But they should go further, aiming for "radical flexibility" in which employees ideally decide with whom, on what, and how much to work. That's not possible in every role, of course, but even non-white-collar employees can and should be granted more control of their schedules, the researchers say. At the pharmaceutical company Novartis, each team determines what work patterns will be most effective and sets its own boundaries for flexible work. At the pest-control company Rentokil, successful solutions for flexible work practices are shared across the organization. Far from providing cover for loafers, Gartner finds, the adoption of radical flexibility raises the number of employees defined as high-performing by 40%.

Promoting personal growth. Most organizations offer programs to foster professional growth. But more than half of employees want opportunities for personal growth as well. That can mean anything from career coaching to community service and even language lessons. At the professional services firm EY, employees identify learning opportunities and tap an employee

experience fund to pursue them. One of the few requirements is that people must be willing to connect others to the opportunity. Broadening the definition of "development" in this way increases both performance and intent to stay by 6%. "Learning something new, even when it's not work-related, hones employees' learning skills," Valencia says. "It pays off for employers too."

Instilling shared purpose. Employees want to feel invested in their organizations' purpose, including the ways in which it interacts with the larger world. Some 53% say they want their leaders to take a stand on societal issues they care about, beyond just issuing occasional statements. Unbeknownst to many employees, leaders often already do so: Some 66% of HR chiefs report that their company acts on social issues, but only 32% of employees agree. Leaders may hesitate to highlight their activism for fear of alienating employees with dissimilar views, but such concerns appear to be overblown. Seventy percent of employees say they feel included when their company takes a stand they approve of—and 68% feel included even when they disapprove. "Don't duck these issues," advises Dion Love. "Face them head on." Companies can institute regular meetings to discuss emerging issues and create a framework for deciding whether and how to address them and for sharing the results transparently throughout the organization. Some also urge employees to take action themselves. At Griffith Foods, employees develop personalized "purpose plans" to learn about the company's stated purpose and identify intersections with their own. They are encouraged to act on the overlap through activities such as reading about sustainable agriculture and volunteering at local food banks.

Providing holistic well-being offerings—and helping people use them. Most large firms offer a variety of well-being programs, but few employees take advantage of them. That's a tough nut to crack, but companies can start by recognizing that needs vary from person to person and change over time. Mashreq, a leading Middle Eastern financial institution, encourages employees to assess their well-being across six dimensions, such as family well-being and financial well-being, and to create and hold themselves to an action plan that leverages the organization's offerings. Leaders can also talk candidly about mental health and provide managers with dos and don'ts (do ask employees how they are faring and guide them to resources if needed; don't try to be their counselor).

Employees want to be treated as whole individuals, the researchers emphasize, and to feel deeply connected to their company. Today's tight labor market may be fueling a spike in organizational attention to those concerns, the researchers say, but it would be a mistake to see all this as a passing trend. "The days of showing up for work simply to collect a paycheck and get some benefits are over," Love says. "The pandemic exposed the limits of that transactional relationship, and leading employers will respond accordingly."

HBR Reprint F2202A

ABOUT THE RESEARCH: *"Reinventing the Employee Value Proposition: The Human Deal," by Gartner (white paper, 2021)*

IN PRACTICE

"Show Employees That You Care About More Than Their Work"

***Carolyn Rush** spent the early part of her tenure at the professional services firm PwC helping client organizations with their people strategies. Now a director on the global human capital team, she's turned her attention to the 295,000 people of PwC. Rush spoke with HBR about how the pandemic has changed what workers want from their employers. Edited excerpts follow.*

Gartner argues for expansive benefits that focus on employees' feelings. Is that advice too ambitious?

No. We're living through a once-in-a-generation realignment of the employee-employer dynamic. People are reexamining their priorities; they want different things from their employers. In some ways this is a gift because it's allowing firms to try things that many have been too cautious to do in the past—flexible and remote work being prime examples.

Traditional benefits such as health plans and paid time off

are table stakes for recruiting and retaining talent. Employers also need to build connections with their employees. You can have an amazing workplace with great benefits, free cereal, and so on, but employees can still feel disconnected.

How do you foster connections?
You need to show employees that you care about more than their work—that you're also concerned with their own and their family's health and well-being. For instance, companies need to demonstrate that they understand the mental health pressures we've all experienced during the pandemic. PwC Canada launched a Mental Health First Aid training program in 2020 that teaches managers how to recognize the signs of mental health issues. It's been very successful.

But health and well-being aren't only about mental health. In October 2020 PwC South Africa launched a gender-neutral domestic-violence policy. It provides support to employees experiencing or recovering from domestic or gender-based violence, which has risen since lockdown measures were put in place. The policy provides for emotional and legal counseling, time off to find new accommodations and attend court hearings, and a salary advance for any moving expenses.

You also need to empower people with opportunities to grow and instill a shared purpose that keeps them engaged. You need to think about culture being created by who you are recruiting and promoting. Employees' experiences are shaped dramatically by their leaders, managers, and coworkers. It doesn't matter what a firm does to show it cares if that care is not demonstrated by an employee's boss.

How do you know whether your efforts are working?
There is a vast number of KPIs that you can look at: retention, percentage of candidates who accept offers, engagement, and so on. But companies need to develop a dashboard specific to their context; for instance, some industries can expect higher turnover rates than others. Leadership teams must review and meaningfully discuss the metrics often; this is core to building the culture of the organization. If you check just once a year, it will be hard to determine what benefits are working or how people are feeling about them.

Will this new approach be more expensive?
There can certainly be short-term costs associated with making policy changes like these. But in the long run, the engagement and retention benefits they generate will lead to a better bottom line. We're living through an epochal shift. This is not the time for companies to be overly focused on short-term dollars and cents.

Photograph by ALANA PATERSON

IdeaWatch

CEOS

Risky Business, On and Off the Job

Researchers have become interested in recent years in how chief executives' off-the-job activities affect their workplace behavior and decisions. A new study looks at how a leader's risky hobbies influence an important group of stakeholders: banks.

The researchers analyzed thousands of loans made to large U.S. firms from 1993 to 2010, drawing on prior work by others to identify which of the organizations were led by CEOs with private-pilot licenses—a proxy for risky personal behavior and something often discovered as part of potential investors' due diligence. Controlling for CEO traits such as age, tenure, and overconfidence, for firm traits such as age and assets, and for broad economic conditions, they found that firms with pilot CEOs incurred higher costs of debt by an average of 18 basis points, or 0.18%. Loans to those firms had more stipulations attached to them, were more likely to require collateral, and were more likely to be spread among multiple banks. The effect was stronger for leaders who were especially important to their firms (the researchers used the purchase of corporate-owned life insurance as a gauge) and when boards had few independent directors.

"Investors seeking to understand a firm ought to look into the CEO's activities both on and off the job," the researchers write. Boards should take notice too, they say. Directors should not only think about nonwork activities when evaluating candidates for the top job but also "seriously consider curbing any dangerous recreational activities pursued by their CEOs."

ABOUT THE RESEARCH *"No-Fly Zone in the Loan Office: How Chief Executive Officers' Risky Hobbies Affect Credit Stakeholders' Evaluation of Firms," by Bo Ouyang et al.* (Organization Science, *forthcoming)*

MOTIVATION

Want to Get in Shape? Plan How Often to *Skip* the Gym

As human beings, we're constantly looking to improve ourselves: We vow to exercise more, to eat more-nutritious food, to build up our retirement savings, and so on. Part of the process involves defining the rate at which we'll undertake actions that will produce our desired result. A new study finds that how we frame those actions—whether as goal-consistent activities to engage in (such as visiting the gym three times a week) or to forgo (skipping the gym four times a week)—affects our level of ambition and eventual failure or success.

Across seven experiments involving more than 2,200 participants, people set goals that were 13% higher, on average, when they were deciding how many goal-consistent activities to forgo rather than undertake. In the first experiment, participants were asked to think about something they wanted to save up for and to specify how much they would either add to their savings account that month or hold back. Those in the second group set goals that were 17% higher, on average, than those in the first group. The experiment also looked at decisions about how many educational seminars to attend or skip, how many puzzles to solve or skip to earn a reward, and how many servings of vegetables to eat or pass up, with similar findings in each case. Subsequent experiments showed that this happened because deciding to forgo a goal-consistent activity triggers self-critical emotions, such as guilt, disappointment, and regret. People then set more-ambitious goals in order to feel better about themselves. The findings also confirmed what other researchers have found: that more-ambitious goals lead to greater success.

"Public policy guidelines regarding exercising typically focus on the number of days or hours one should at least work

SMARTER THAN WE ARE?

In a study of nearly 1,400 households, those with smart thermostats—widely touted for efficiency—used just as much energy as similar households with analog thermostats did. Users programmed the devices wisely but overrode the settings on a daily basis. "Smart Tech, Dumb Humans: The Perils of Scaling Household Technologies," by Alec Brandon et al.

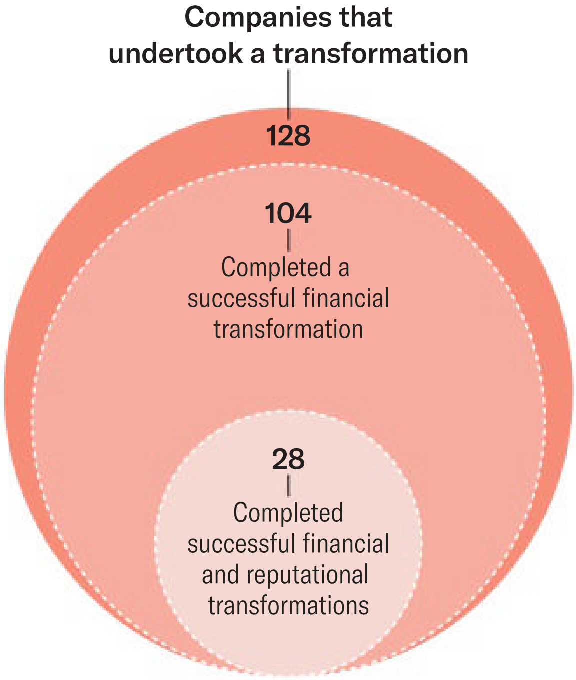
out," the researchers write. "Prompting consumers to consider how many days one can forgo working out could actually be more effective."

ABOUT THE RESEARCH *"Do Versus Don't: The Impact of Framing on Goal-Level Setting," by Mirjam A. Tuk, Sonja Prokopec, and Bram Van den Bergh* (Journal of Consumer Research, *2021)*

ORGANIZATIONAL CHANGE

The Secrets of Successful Corporate Transformations

Researchers studied 128 companies that underwent some degree of transformation from 2016 to 2020. Most achieved financial change, but few also achieved reputational change. Those that did outperformed in six areas: employee pay, bonuses, and satisfaction; diversity and inclusion; and the shares of female employees in the company and of women in management.



Source: "The Secret Behind Successful Corporate Transformations," by Paul A. Argenti et al. (HBR.org, 2021)

EMERGING-MARKET MULTINATIONALS

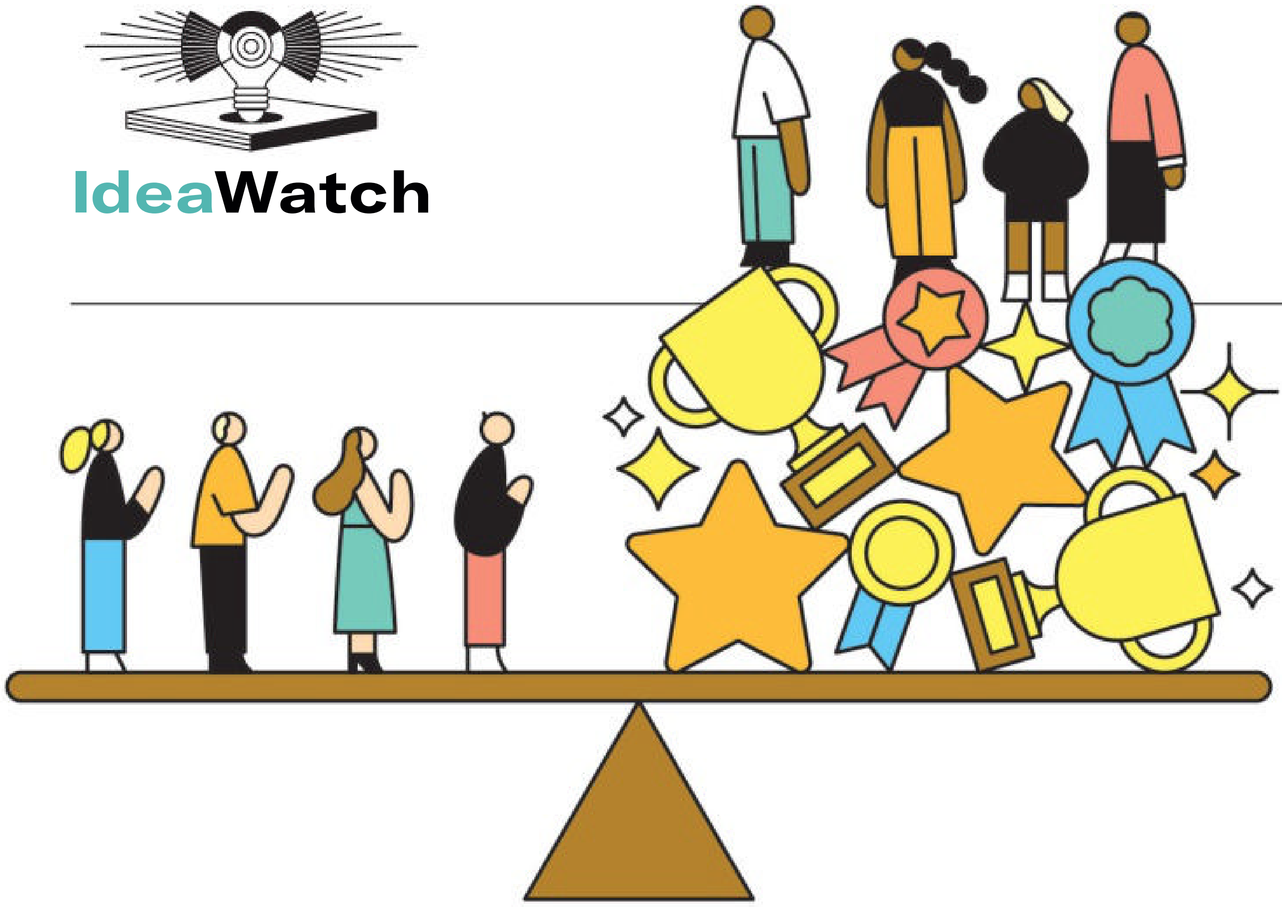
The Cost of Being a Bad Corporate Citizen

Emerging-market multinationals increasingly seek to expand abroad, but they face stiff headwinds because stakeholders in their target markets often fear they will be poor corporate citizens. A researcher wondered: Does media coverage of their corporate social responsibility (CSR) activities affect their chances of success? And what about coverage of corporate social *irresponsibility* (CSI), such as the use of child labor and polluting facilities?

The researcher gathered data on 4,087 cross-border acquisition announcements by firms in Brazil, Russia, India, China, and South Africa from 1990 to 2011. Focusing on the public takeover period—the interval between the public announcement of a deal and its completion or cancellation, when local stakeholders typically weigh in—she examined media coverage of each potential deal, coding articles as either endorsing a firm's CSR activities or revealing CSI. Articles touting CSR generally had no effect on whether and how quickly a deal went through, but ones exposing CSI greatly reduced the odds of success. For two otherwise similar companies, the chances of completing a deal were 12 percentage points lower for one with some press coverage of CSI activities than for one without any. And if the firm with negative press was able to complete the deal, it took 36 to 41 days longer than average.

"Because negative events/news have a greater capacity to arouse the firm's observers, negative perceptions of social irresponsibility have a greater impact on stakeholders and, thus, on the outcomes of their review of the deal," the researcher explains. She adds: "Even though media coverage of CSR does not seem to matter, by investing in CSR practices that can help avoid incidents of CSI and their media coverage, firms may have better chances of success in cross-border acquisitions."

ABOUT THE RESEARCH *"How Media Coverage of Corporate Social Responsibility and Irresponsibility Influences Cross-Border Acquisitions," by Olga Hawn* (Strategic Management Journal, *2021)*



DEI

Why Your Racial Equity Efforts May Be Failing

Although racial diversity is increasing in many organizations, diversity is not the same as equity, and evidence abounds that the latter is lagging badly. For example, minority scientists innovate at disproportionately high rates, but their contributions are less likely than others' to be adopted. Similar patterns are found elsewhere: Whites are inattentive to their minority counterparts, even when they could learn or otherwise benefit from them. A new study finds a potential remedy.

The research team gave white working-age Americans a difficult problem with information they knew to be ambiguous and offered them a substantial reward for coming up with the correct answer. Each participant had the chance to see the solutions of two fictitious peers who had worked on the same problem. Half the participants were matched with peers who had white-sounding names, half with peers who had Black-sounding names. Whether participants had paid attention to their peers was evident from the solutions they submitted—and it turned out that they were 33% more likely to pay attention to presumed white peers than to presumed Black ones. Surveys showed that they deemed the latter to be less skilled.

The researchers then made two modifications. First, they told participants that their peers had done well on similar problems in the past; the experiment then proceeded as described above. This change erased the racial disparity in assessments of skill and reduced but did not eliminate the disparity in attention: Participants were 15% less likely to attend to Black peers' solutions than to those of white peers. In the second modification, participants watched their peers solve related problems before tackling their own task. This raised evaluations of Black peers' skill and erased the disparity in attention.

People weigh experience more heavily than other sources of knowledge, the researchers say, and organizations should take heed. "If biased choices stem from a racial attention deficit, then it is easier to understand the feeble outcomes associated with diversity training sessions, initiatives to reduce prejudice, or implicit bias training," they write. "However well intended, these cures may be treating the wrong disease." They recommend that companies focus instead on giving ongoing recognition to accomplishments of Black employees that can be observed in practice.

ABOUT THE RESEARCH *"Racial Attention Deficit," by Sheen S. Levine, Charlotte Reypens, and David Stark* (Science Advances, *2021)*

COMMUNICATION

Getting Beyond Small Talk

Research has shown that meaningful conversations confer a host of benefits, including strong social ties, close relationships, and increased happiness and well-being. So why do we spend so much time on small talk? A new study offers an explanation.

Across a dozen experiments, the researchers showed that people systematically underestimate others' interest in their lives, and those misapprehensions keep them in the conversational shallows. In one experiment 178 graduate students were randomly divided into two groups. Those in the first group were asked to read five superficial questions (for example, "How did you celebrate Halloween?"). They then predicted how awkward they would feel discussing them with a stranger, how

BEWARE THAT "RELAXING" BEDTIME MUSIC

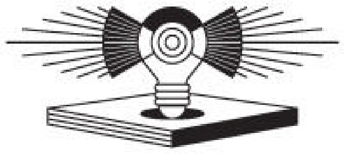
People in a sleep lab who listened to instrumental versions of pop songs before bedtime had an increased incidence of earworms—music stuck in their heads—and the quality of their sleep suffered as a result. Versions with lyrics were far more benign. "Bedtime Music, Involuntary Musical Imagery, and Sleep," by Michael K. Scullin, Chenlu Gao, and Paul Fillmore

much they would enjoy the conversation, how strongly bonded they would feel with their conversational partner, and how well they would get to know that person's character and beliefs. The second group read five deep questions (for example, "For what in your life do you feel most grateful?") before making their predictions. All participants were then paired with someone in their group and given 10 minutes for a discussion using the questions they'd received. Finally, they reported how the conversations made them feel.

Participants in both groups felt less awkward and more connected than they had expected—but the difference between expectations and reality was much stronger among those instructed to have deep conversations. Subsequent experiments showed that this was also true when participants came up with their own topics and that people about to embark on deep conversations underestimated how much their counterparts would care about their responses far more than people about to engage in small talk did. When participants conducted a deep conversation with one partner and a superficial conversation with another, they felt a much stronger bond with the former. And although they expected to prefer the shallow conversation, they enjoyed the deep one more.

In one of the final experiments, participants were led to see their upcoming conversational partners as either unusually caring or indifferent before being asked to select topics to discuss. Those in the caring group chose deeper questions than those in the indifferent group did—strong evidence that misgauging others' reactions inhibits substantive exchanges. "Our participants' expectations about deeper conversations...were reliably miscalibrated in a way that could keep people from engaging a little more deeply with others," the researchers write. "People might have more positive conversations with strangers in daily life if they were willing to dive a little deeper."

ABOUT THE RESEARCH *"Overly Shallow? Miscalibrated Expectations Create a Barrier to Deeper Conversation," by Michael Kardas, Amit Kumar, and Nicholas Epley* (Journal of Personality and Social Psychology, *2021)*



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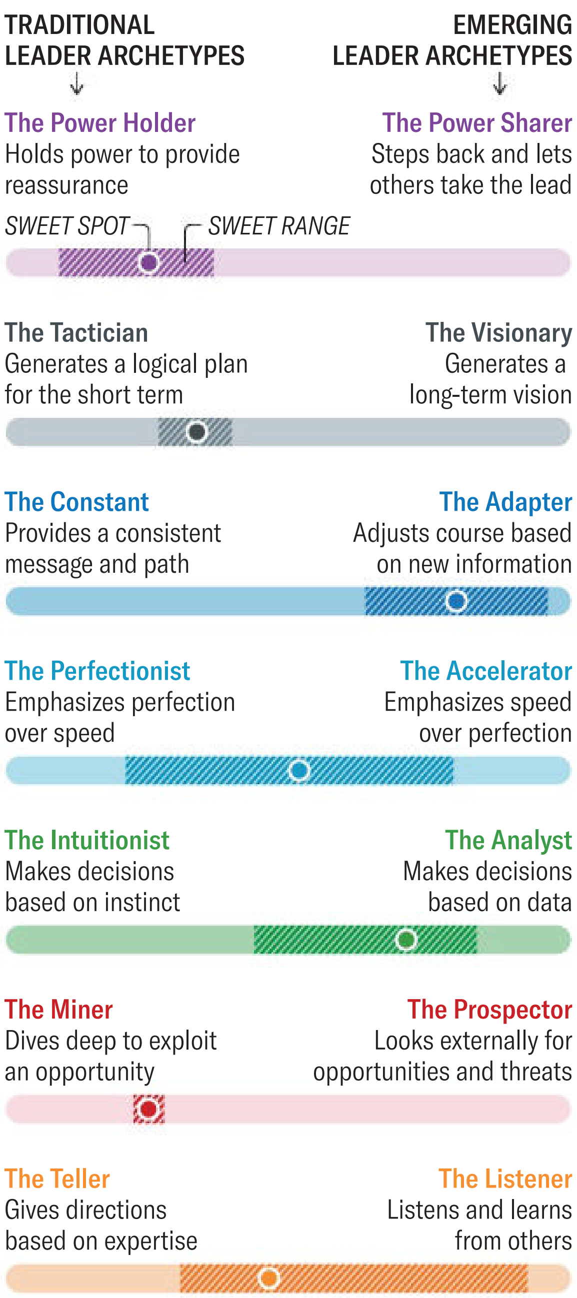
LEADERSHIP STYLES

Develop Your "Sweet Range"

As command-and-control yields to new management styles, each leader has a natural sweet spot on several behavioral continuums. The most skillful managers broaden their approaches to create more-versatile "sweet ranges" instead.

Example leadership profile:



Note: The archetypes were identified in interviews and surveys with more than 1,000 global executives.
Source: "Finding the Right Balance—and Flexibility—in Your Leadership Style," by Jennifer Jordan, Michael Wade, and Tomoko Yokoi (HBR.org, 2022)

TEAMS

To Create Psychological Safety, Share Negative Feedback About Yourself

Managers looking to promote risk-taking and open exchanges on their teams are often advised to seek feedback on their performance from team members; that both signals and invites openness—or so the thinking goes. Across three studies, however, researchers found that sharing critical managerial feedback from the leader's performance review spurred greater effects.

One study was a field experiment with a financial firm and a health care company. The researchers divided 111 team leaders into four groups. Leaders in the first group were told to ask team members for feedback on their performance. Those in the second were told to discuss development areas from their own performance reviews. Those in the third group did both; in the fourth, they did neither. Teams were surveyed about psychological safety after a week and again a year later. None reported any significant effects after a week. After a year, though, teams whose leaders had shared negative feedback about themselves reported significant gains—but not if the leaders had also sought feedback.

Follow-up interviews illuminated the dynamics in play. Leaders initially felt anxious and awkward sharing critical feedback from their reviews, while employees were surprised and skeptical and largely remained quiet. But as leaders continued to share—feeling publicly accountable for doing so—they became more comfortable, and employees began to respond in kind. This created a virtuous cycle, whereby vulnerability was normalized, allowing feelings of safety to grow. By contrast, employees tended to speak up when leaders asked for feedback, but leaders sometimes reacted defensively, feeling judged and having not made a public commitment to vulnerability. And because the requests were open-ended, the feedback often concerned things that were unimportant or were outside leaders' purview—so on these teams, a vicious cycle ensued, with employees saying less and less as leaders became more and more unresponsive.

These findings "reveal an interesting paradox," the researchers write. "Seeking feedback created a wide funnel that invited comments...on a wide range of issues, undermining the efficacy of both leaders and employees. Sharing feedback created a filter, helping employees to concentrate on issues that were important and controllable for leaders."

ABOUT THE RESEARCH *"Taking Your Team Behind the Curtain: The Effects of Leader Feedback-Sharing and Feedback-Seeking on Team Psychological Safety," by Constantinos G.V. Coutifaris and Adam M. Grant* (Organization Science, *forthcoming)*

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Professor **Andy Wu** and doctoral candidate Aticus Peterson of Harvard Business School tracked 314 entrepreneurs who launched multiple technology hardware products on the crowdfunding platform Kickstarter from September 2010 to June 2019. The more projects the founders completed, the wider the margins by which they overshot their go-to-market dates. **The conclusion:**

More-Experienced Entrepreneurs Have Bigger Deadline Problems

Professor Wu, DEFEND YOUR RESEARCH

WU: Entrepreneurs are notorious for failing to hit their own delivery dates, and those in our sample were no exception. Fewer than one-quarter of their projects were completed on time. Although experience should in theory help people anticipate how long it will take to bring something to fruition, set more-realistic deadlines, and execute more quickly, in practice just the opposite happened. And we're not talking about minor setbacks. We saw average delays of an additional six weeks for each subsequent project undertaken by these entrepreneurs.

HBR: That's so strange! Why weren't they learning from experience? To make accurate forecasts, you have to correctly anticipate the complexity of a project: the number of interdependent tasks or components. As entrepreneurs execute more projects, they do get better at that. But they also discover how to improve their products, adding complexity that they didn't expect—and that's the effect that tends to dominate. Both types of learning are important. But they intersect in a way that causes increasingly experienced founders to make increasingly unrealistic predictions and blow through their deadlines.

Why don't they build in a buffer? They do. All the entrepreneurs we interviewed tried to give themselves more time than they thought they'd need. And we found that they gave themselves about eight additional days, on average, for every successive project. But that's not enough. One new feature can generate a cascade of changes in components, requiring much more work—and time. At the extreme, complexity increases geometrically. When setting their deadlines, our study subjects seemed to extrapolate linearly. They failed to see how many more things could go wrong from just one small change.

Here's an example. One entrepreneur built a computerized brick that lets customers control motors and lights in their Lego creations. After launching his initial product, he learned it would be useful to add sensors so that, say, a remote-controlled car could detect darkness and turn on its lights. That's an incremental change—otherwise, it's the same product—and he gave himself more time to deliver it than he'd needed for the original version. Still, he underestimated how much work that one new feature would cause. He needed more-sophisticated tooling, and the original manufacturer wasn't up to the task. He went through seven others before finding a company that could do it, and of course he missed his delivery date.

Why focus on technology hardware projects? Those products—things like wearable devices, 3D printers, educational gadgets, and robots—are among the most complicated offerings an entrepreneur can bring to market. And we looked only at people completing

Illustration by KIMBERLY GLYDER

> You need to recognize that any small tweak to your product could increase complexity dramatically and rapidly. Think geometrically, not linearly.

multiple products of the same type so that past experience would be relevant.

We collected data from the comments and updates on the entrepreneurs' Kickstarter pages, where they discuss problems that arise. We found that with each successive project, unexpected issues increased by an average of 21%.

Entrepreneurs are famously overconfident, and maybe initial success heightens that feeling. Could your findings simply reflect that? Overconfidence is definitely part of it, but complexity is a difficult concept for anyone to fully grasp and account for. Yes, these entrepreneurs might be more confident than most about their ability to execute in the future. But it's more about their *in*ability to comprehend how hard the future will be. That's a challenge we all face.

If they've missed deadlines in the past and nothing terrible happened, maybe they just don't sweat it as much going forward? That's not likely. Research has demonstrated that a past delay can hurt your ability to raise funds in the future. And our interviews showed that founders get pretty upset with themselves when they miss their deadlines. Even worse, angry customers go after them on social media; they hate that.

These entrepreneurs turned to crowdfunding to finance their work. Do you think you'd see the same tendencies in founders who get their money from traditional investors? Maybe you studied a subset that's a little less savvy or skilled? Those who rely on Kickstarter are almost certainly early-stage entrepreneurs, although some of them raise venture capital as well. Indeed, other sources of financing was one of the factors we controlled for. So the effects we found are probably strongest for founders who are relatively early in their careers. There's reason to believe that when you're extremely experienced, you can overcome some of the forecasting challenges.

That said, we're currently studying whether this is a problem for VC-backed entrepreneurs too and how investors might solve it. When those projects fall behind, the VCs often have to bail them out with bridge financing. We're trying to figure out how VCs can avoid that outcome by making better timeline predictions themselves.

Did the amount of money raised have any bearing on the timeliness of product releases? It did. We actually found that when the entrepreneurs exceeded their target amount the delays got worse, because it meant that more people than expected had ordered the product. When that happens, it often requires a switch in manufacturing and distribution. If you plan for 100 customers, you need a certain kind of supply chain. If suddenly 1,000 people want your product, that adds a lot of shock to the system. But in calculating our findings, we did control for the total amount of money raised.

We also controlled for fixed entrepreneurial traits—such as natural talent, intelligence, and work ethic—and for whether someone had previously embarked on an unsuccessful fundraising campaign. If you were traumatized by a past failure and worried you might not be able to raise enough money to complete your next project, you might set a highly aggressive timeline to make it seem more attractive to potential customers. We didn't find any evidence of that, though.

Do you think you'd find the same pattern of increasingly wide deadline misses if you looked at more-experienced innovators working within big companies? We'd expect the same effect in a large company that was launching a series of innovations in a new product category. In fact, we'd expect the delays to be worse because there's more organizational complexity, so more issues and outcomes could be incorrectly forecast. It would be different for a well-established company innovating with a product it has already launched many versions of, however.

Do you have any advice for founders hoping to steer clear of this pitfall? The first thing I'd advise is to build awareness of the nature of complexity. Many unknown unknowns will arise. You need to recognize that any small tweak to your product could increase complexity dramatically and rapidly. Think geometrically, not linearly.

The second thing is to try to better anticipate the specific problems you might face. You can do this by experimenting with new components in low-stakes settings—using incremental stress testing, small-batch production, and iterative processes like agile—to identify potential issues early on, before you establish your timeline.

Remember, time is money, and these delays are not trivial. They can cause companies to go under. So try to plan for them as best you can.

Interview by **Amy Meeker**

HBR Reprint F2202B

HOW WE DID IT

The CEO of Roblox on Scaling Community-Sourced Innovation

by David Baszucki

When Erik Cassel and I launched the precursor of our online platform Roblox, our users were friends, family members, and about 100 tech enthusiasts we'd recruited via Google ads. We offered one experience. "Peak times" meant maybe 30 or 40 people playing at once. Erik and I were the moderators, keeping our community safe and civil.

We also chatted constantly with those early users about what they wanted to see on the platform. Our vision from the start was to build an entirely new category of human coexperience—nothing less than the realization of the next phase of human interaction. We imagined an online space where people from anywhere in the world could share experiences with friends, just as they would in person.

Our core idea to get there was a platform supported by a community of creators who built everything on it. Together they—not us—could design clothes, construct buildings, make discoveries, run businesses, spend time with family, play sports, and attend concerts. Erik and I had already seen the power of user-generated content on Interactive Physics, a platform we'd launched and run with others to support physics learning through 2D modeling. Even in that primitive form, users engaged more deeply when they were the ones doing the building.

Photograph by WINNI WINTERMEYER

Sixteen years after the launch of Roblox, our focus on creation by the community (instead of for it) remains. But now we have nearly 50 million active daily users and millions of developers building experiences. What they do amazes and inspires us.

Let's Be Well is an experience about overcoming depression that a 12-year-old Canadian user, coping with his father's suicide, designed to help destigmatize mental illness. *Royale High* is a virtual high-school experience where people can dress up any day of the week and socialize with friends. Built by a California developer now in her 20s, it has attracted billions of visits and numerous collaborators. Those are just two examples. Thanks to the creativity of our global Roblox community, users can walk fashion show runways, experience an eagle's flight, figure out how to build a city, and flee natural disasters with their friends.

Other companies offer creator economies and user generated content (UGC), but at Roblox user innovation is not a nice-to-have alongside other things. It's fundamental. We're a community. And for us, community is the path to creating what many now know as the metaverse.

OPENING THE UGC FLOODGATES

The seeds of Roblox were planted for me during the creation of Knowledge Revolution, the company behind Interactive Physics, which I started with my brother Greg and the simulation gurus (and future Roblox team members) Erik Cassel, Keith Lucas, and Tim Loduha. Even as we sold that business in 1998 to MSC Software, where I worked for two years before taking a sabbatical, the notion of enabling meaningful co-creation stuck with me and with Erik.

Our physics simulator was on the cusp of something interesting, but we wondered what it might be like to add avatars, a social element, and a hyper-real 3D world and run in the cloud. We were also inspired by the work of futurists and science fiction writers such as Arthur C. Clarke and Neal Stephenson. What would the next phase of human interaction be? Could we help create it?

We started coding. Soon we had a prototype, which we called DynaBlocks. A year and a half later we released the beta version and in 2006 had our official launch. Matt Dusek came on as technical director and John Shedletsky as creative director to help tackle the obstacles and put our ideas into action.

Our first multiplayer experience was a wonder. About 20 users on the platform congregated in an experience called *Crossroads*. They suddenly realized they could build on top of their avatars and started carrying one another around on elaborate contraptions on their shoulders. It was inspiring—and fun.

At first we had just wanted to prove that this kind of platform could work. But once we released Roblox Studio, our free creation engine, the UGC floodgates opened. Roblox Studio allows users to build basic things, such as drag-and-drop obstacle courses and models, and to create complex behavior and experiences using our scripting language Luau.

We had a lot of work to do, however. Our 3D engine, animation system, and content curation all needed overhauling and improving. We envisioned how we could improve our financials without outside investments. One idea was a virtual economy based on our virtual currency, Robux, which we started building in 2007. Players would be rewarded for participation and could earn various benefits through Builders Club (now Roblox Premium), a membership program for users interested in rewards for creating virtual items and experiences on the platform.

We allowed players to outfit their avatars with shirts and body colors and then expanded customization to faces, hair, head shapes, and more. In 2013 we introduced the Developer Exchange, which enables developers and creators to turn their Robux into real money. Our developer community now earns more than half a billion dollars annually, helping our members start their own businesses, expand their teams, pay college tuition, invest, and much more.

In the beginning Erik and I took turns moderating; all along it was our top priority to support a safe and diverse community and foster positive relationships and civility. So we made constant improvements in our safety and civility systems, both for content on the platform and for communication.

OUR BEDROCK VALUES

Now that we have gone from four employees in San Mateo, California, to more than 1,500 people around the world, I'm proud that we are constantly innovating and that we always maintain and protect our core values. We are very clear about what those are. First, *Respect the community*—because we

IdeaWatch

wouldn't be where we are without our users and developers. From the early days we've insisted on a platform that balances freedom with civility. We went from a team of two moderators to large safety, civility, and moderation teams, working along with algorithms and user-flagging systems. We also support experiences at various levels of creation. You can be at a technology camp or in computer science class just learning to build or code, and your Roblox creation can go live. Not only that, but you don't have to be a professional developer for your experience to catch on. Early users swarmed to some incredibly simple games and new, unexpected genres.

Second, *Take the long view.* When you're working through challenges and hoping to grow a business, it's natural to gravitate toward short-term wins. During that pivotal period when we needed more revenue, we spent months implementing the easy fixes on our list, such as online ads and simple enhancements to existing features. Ultimately we decided that building fundamental systems—including our very own full virtual economy—was the better route, even though it would take much longer to execute. We continually ask ourselves, "What's the long view here?" and "How can we build a system for this?" It always pays off.

Third, *Take responsibility.* This means how we conduct ourselves and also means applying an owner's mindset to everything. Once a company reaches a certain size, leaders can't be everywhere. Our employees need to think like founders. So we encourage outside-the-box thinking, taking risks, and off-the-wall ideas, and we build systems that empower an inventor culture at scale.

Finally, *Get stuff done.* Everyone at Roblox knows we need to keep iterating, improving, and "shipping" new products and updates. Even our interns ship features during their few months with us. As a result, we have gone from a collection of simplistic experiences to truly transforming how people come together. For example, there is an immersive *Gucci Garden* inspired by a physical exhibition that the fashion house set up in Florence, and an *In the Heights* experience that allows users to explore a virtual recreation of Washington Heights, the neighborhood in which the Lin-Manuel Miranda musical and Warner Bros. movie was set, including dancing up the walls of buildings.

We can't do all this without the right staff. So we recruit and hire smart, talented, creative, and capable individuals who share our vision and values. Our people also include our community members, from hobbyists to professional creators. We invest heavily in both groups.

We've cultivated like-minded shareholders, too. In the beginning it was our own money. But as we grew, we connected with Altos Ventures and other long-view VC firms. When we decided to take the company public, we opted for a direct listing on the New York Stock Exchange so that our backers and vested employees could sell at the same price and individuals and institutions, from everyday Roblox users to hedge and mutual funds, could buy in at the same time. Most of our current shareholders understand we're not managing our P&L to the month or the quarter. Creating the future of human interaction—the metaverse—is not a short-term endeavor.

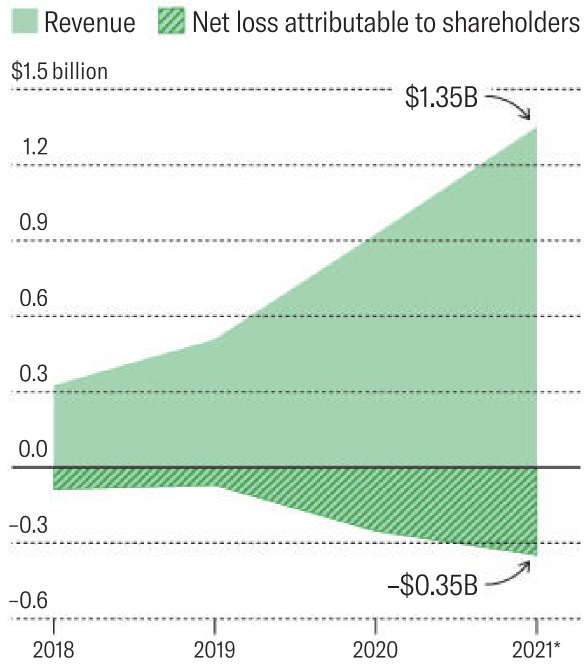
As with any company, the bigger we get, the more organizational structure matters, and we're deliberate about how we build it. Each of our 14 major groups has, on average, four teams, with the goal of prompting the creativity and collaboration seen in start-ups of 10 to 20 people. Instead of 60 small companies we have 60 small teams that, guided by our mission, vision, and strategic road map, are innovating and executing autonomously.

We've started to think about our business this way: The most important product we're building is the Roblox operating system—our culture, our people, and the way we run the company—and we use that to build the Roblox platform.

FACTS & FINANCIALS

Roblox

Founded: 2004
Headquarters: San Mateo, California
No. of employees: 1,500+



*Note: In the nine-month period ending September 30, 2021, Roblox non-GAAP bookings rose to ~$1.96 billion. Bookings are the gaming industry's primary top-line metric, representing sales activity without giving effect to certain noncash adjustments. The company generated positive free cash flow while increasing investments in developer payouts, talent, infrastructure, trust, and safety.

Source: Roblox

Top: A flash mob during the In the Heights *launch party experience. Bottom: In the form of their avatars, Gucci's Alessandro Michele presents an award to Roblox creator cSapphire for metaverse design.*

THE FUTURE OF HUMAN COEXPERIENCE

Where are we going with all this? With enough computer power and bandwidth, parts of Roblox's human coexperience platform will look and feel more realistic than ever before and therefore more immersive and even more useful to even more people. Creators who want photorealism will get that, while those who still want a cartoon world will have that option. You'll be able to attend a concert with 50,000 people and see and hear almost exactly what you would at a live venue. Avatars will become more sophisticated, letting people be whomever they want to be online.

For an eight-year-old, Roblox will be an engaging alternative to a local playground on a rainy day. A middle or high school student can tour ancient Rome, join a mission to Mars, or learn a foreign language with students halfway around the world. Aspiring young designers were recently able to attend the exclusive Fashion Awards 2021 at London's iconic Royal Albert Hall virtually on Roblox. A mom of two teenage daughters, housebound during the Covid crisis, used our platform to spend time "snowboarding" with them. Businesses may choose to have fully virtual workplaces, with avatars engaging in the same watercooler conversations and brainstorming sessions they'd have at the office, but from anywhere. We've done this ourselves during the pandemic, with weekly employee town halls in our virtual headquarters.

Roblox will help build careers. We know many developers who employ teams of our community members, working entirely through chat and earning seven figures from their projects. Many are already collaborating with top global brands and receiving prestigious awards. For example, cSapphire, one of Roblox's digital fashion creators, recently won the British Fashion Council's first-ever Fashion Award for Metaverse Design.

Some may worry that time spent in this virtual world will take away from real life. We see our platform enhancing life for so many. And we know that emerging forms of media always raise concerns at first. In the 1800s philosophers said children were reading too much. In the 1960s and 1970s parents thought TV was a problem. Today it's social media and online games. We believe we are reimagining how people come together to connect, play, work, and learn in ways that open up opportunities that wouldn't otherwise be available and are as impressive as the ones that novelists and filmmakers have imagined.

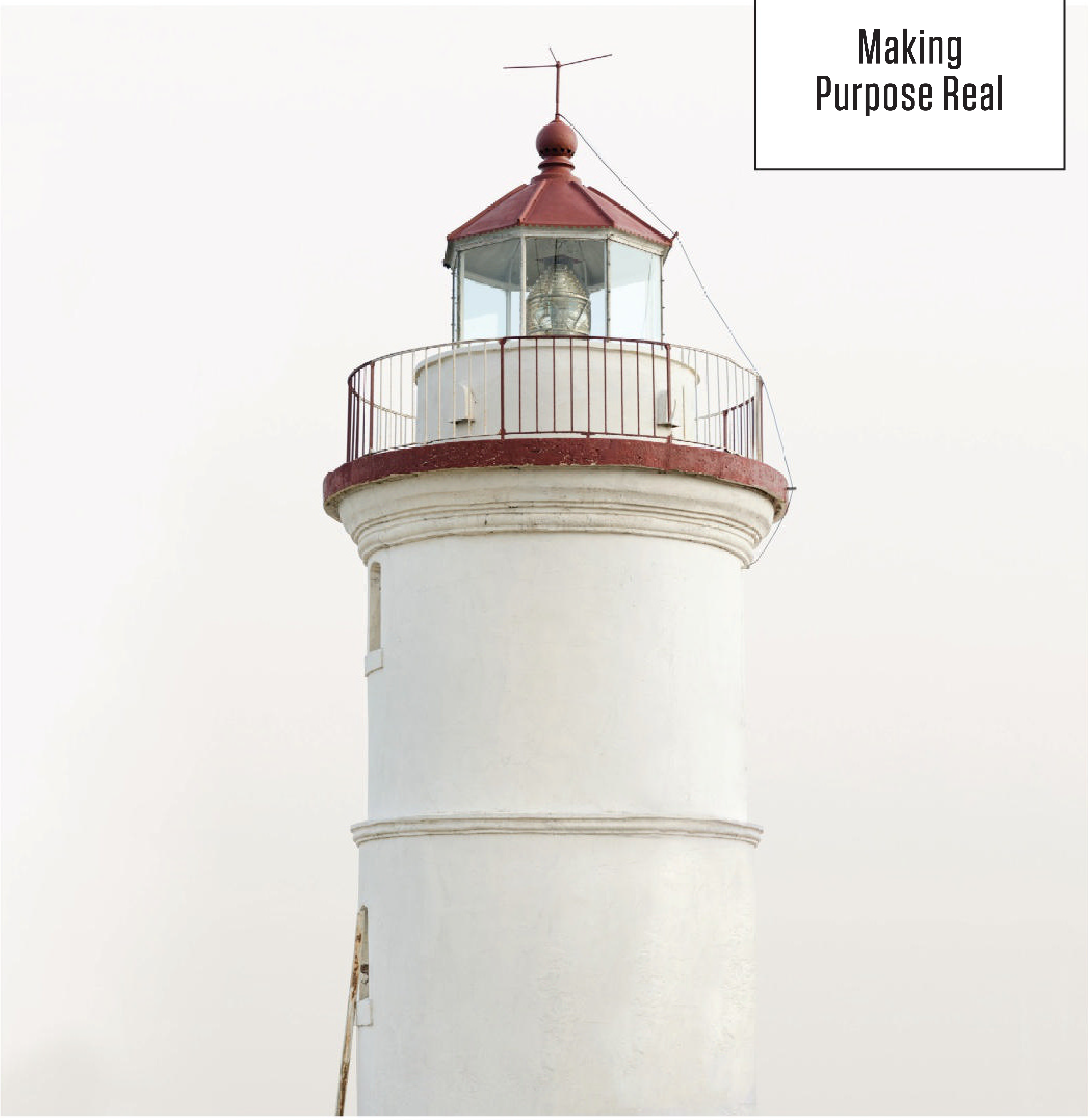
Interest in the concept of the metaverse has been spreading rapidly of late. We believed it was the future decades ago. For 16 years we've been making immersive shared experiences a reality.

This is the next phase of human interaction and a new economy that anyone can be part of. Let's build it together.

HBR Reprint R2202A

Spotlight

Making Purpose Real



Photograph by VLADIMIR SPASSOV

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Spotlight

What Is the Purpose of Your Purpose? Your *why* may not be what you think it is.

TODAY'S BUSINESS LEADERS are under pressure to come up with a corporate purpose, much as they were challenged to develop vision and mission statements in the 1980s and 1990s. Although this focus on the role of corporations in the economy and broader society has many positive aspects, a risk is that speed, shortcuts, and spin may take precedence over authentic action. Our goal in this article is to help executive leaders be clear-sighted about what they seek to define: the purpose of their purpose.

Purpose has become something of a fad and a victim of its own success. Companies are aware that their customers and employees are paying more attention to it as part of a wider reassessment of the role of corporations in society. BlackRock's CEO, Larry Fink, and other major investors are urging executives to articulate a role for their companies beyond profit making, implying that doing so will affect their valuation. But despite its sudden elevation in corporate life, purpose remains a confusing subject of sharply polarized debate. Our research indicates that a primary cause of this confusion is that "purpose" is used in three senses: *competence* ("the function that our product serves"); *culture* ("the intent with which we run our business"); and *cause* ("the social good to which we aspire").

Cause-based purposes tend to receive the most attention, largely because companies that push for societal change are more visible. But any of the three types can be effective when pursued appropriately. A competence-based purpose (such as Mercedes's "First Move the World") expresses a clear value proposition to customers and the employees responsible for delivering on it. A culture-based purpose (such as Zappos's "To Live and Deliver WOW") can create internal alignment and collaboration with key partners. A cause-based purpose (such as Patagonia's "in business to save our home planet" or Tesla's "to accelerate the world's transition to sustainable energy") promotes the idea that it is possible to do well by doing good. All three types can create a meaningful *why*.

Trunk Archive

Photograph by **CRAIG CUTLER**

For any individual company, determining the purpose of its purpose is fundamentally a business decision and must be anchored in strategy. Finding the right answer involves identifying the most authentic and motivating basis for alignment among the key stakeholder groups on which the success of the business depends. That is easier said than done, because multiple business functions have a vested interest in and a specific perspective on purpose. It sits at the intersection of four business agendas: (1) For marketing and sales, it can help win customers and enhance their loyalty. (2) For HR, it can attract, engage, and retain employees. (3) For governance and sustainability, it can enhance environmental, social, and governance performance. (4) For strategy and finance, it can guide how resources are allocated and risks are managed.

Any exploration of purpose begins with recognizing that these agendas are valid inputs to the process. We four—a former CMO, a former CHRO, a professor of global business, and a strategy consultant—represent each of the main constituencies, and we believe that although every company needs a purpose, not every purpose must take the form of a social cause. Of course every company should work to become a better corporate citizen, through programs that actively address climate change and pollution, workplace safety, diversity, and employee well-being, and invest in local communities. As other scholars have shown, improving ESG performance (especially in areas that are most material in your industry) is good for business. But it is distinct from the *purpose* of a business.

In this article we'll provide three key rules regarding the role of purpose; our observations about what companies typically get wrong about it; and a framework for evaluating which of the three types is likely to be most effective for a company.

1 Don't Rally Around a Cause Unless You Actually Have One

Discussions about purpose typically start with the question How would the world be worse off if we did not exist? This spurs people to identify an inspiring social impact that the business should strive to achieve. However, only a limited number of companies operate in industries where the nature of the business lends itself to a compelling answer to that question. Examples include Beyond Meat, whose purpose is to find "a better way to feed the planet," and Disney, which aims to "create happiness through magical experiences." Health, science, and clean energy companies fall into this category too. However, focusing on this question too much may lead the majority of companies to misrepresent the actual nature of their business—as WeWork did in its 2019 investor prospectus when it described subletting office space as striving "to elevate the world's consciousness," and Knorr (a brand known for stock cubes and gravy) did when it suggested that consumers could "change the world by changing what's on [their] plate."

Being able to define a social-cause-based North Star may be of benefit primarily to consumer-facing enterprises. But few others—particularly if they're in B2B sectors such as basic materials, energy generation, capital goods, commercial transportation, and business services—have any particular higher purpose to which they can authentically lay claim.

IDEA IN BRIEF

THE PROBLEM
Despite its sudden elevation in corporate life, "purpose" remains a confusing concept. Finding the right one involves identifying an authentic and motivating basis for alignment among key stakeholder groups.

WHY IT EXISTS
Purpose is used in three distinct senses: competence, as in "the function that our product serves"; culture, as in "the intent with which we run our business"; and cause, as in "the social good we aspire to."

THE SOLUTION
Not all companies can save the world. Only a minority should put forward a cause-based purpose. For the rest, a functionally useful business or a strong culture can provide the basis for a meaningful and motivating why.

Improving environmental, social, and governance performance is good for business. But it is distinct from the *purpose* of a business.

2 A Strong Culture Is Often All You Need

The current fixation on purpose puts pressure on executives to be seen as running a "good" business. Sometimes, however, it's enough simply to run a business well. Culture-based purpose statements are a great option for companies that provide necessary products and services but don't present credibly as agents of positive social change. This is especially true when their success depends on high levels of employee engagement and collaboration with both suppliers and distributors. Those stakeholders are primarily interested in what the company is really like to work for or with rather than in its aspirations to have a broader impact on society.

Defining your purpose as embedded in culture—as operating in a thoughtful, disciplined, ethical manner—can be both pragmatic and genuine. Consider Mars, a family-owned consumer packaged goods company, which in 2019 unveiled its first purpose statement in more than 100 years of operation: "The world we want tomorrow starts with how we do business today." While this expresses aspiration for a better future, its focus is on the "how" of the company's culture—specifically its Five Principles (such as "We base decisions on Mutuality of benefit to our stakeholders" and "We harness the power of Efficiency to use our resources to maximum effect") that since they were first published, in 1983, have actively guided the attitudes and behaviors of all Mars associates.

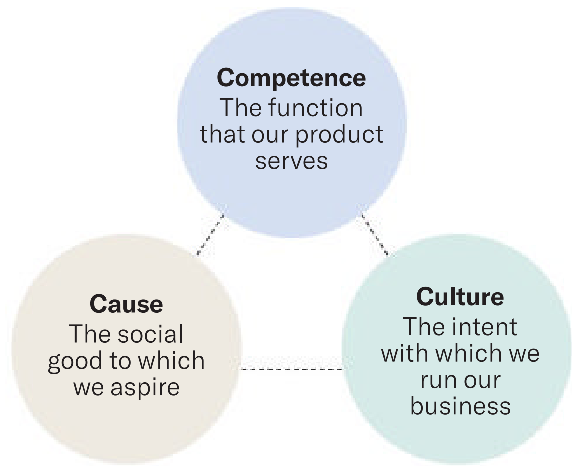
Contrast that with the initial approach to purpose of Mars's rival Nestlé. In 2014 the company began positioning itself as "the world's leading nutrition, health and wellness company"—a descriptor it was forced to retract when commentators observed that nearly three-quarters of its earnings were from snacks and confectionary. The company subsequently retreated to the more believable "Good food, good life."

Choosing culture as the focus of your purpose statement can be a powerful way to attract talent. An engaged workforce is a key business driver. Conversely, Gallup has estimated that the cost of disengagement—in the form of turnover, low productivity, and low morale—can come to about 18% of salary costs.

A focus on culture may take one of three forms, each of which can establish a powerful sense of community and belonging among employees and business partners. Cultural *consistency* stresses adherence to a code for the business—such as the J&J credo and Mars's Five Principles. Cultural *fit* emphasizes an aspect of the culture that will attract employees and partners who are similarly inclined. Examples include Bridgewater Associates' culture of "radical transparency" and Zappos's belief that great customer service depends on "[getting] the culture right." Cultural *diversity* focuses on promoting inclusiveness and celebrating employees and partners for their differences as much as for their similarities. This approach is particularly effective at companies such as airlines and financial services, whose business models require that their employee base closely match the diversity of their customer base.

The Three Senses of Purpose

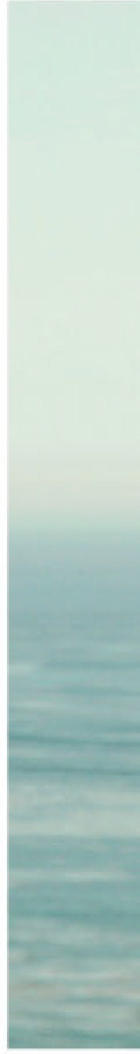
Despite its elevation in corporate life, purpose remains a confusing subject of sharply polarized debate. A primary reason is that it can be understood in three distinct ways.



3 Don't Delegate Purpose to the Marketing Team Alone

Because CEOs assume that the marketing team is most closely in touch with consumer sentiment, some combination of marketing and corporate communications is often tasked with articulating the corporate purpose. But given that marketing's objective is to generate demand for the company's products and services, the purpose initiative may devolve into an exercise in appealing to consumer preferences. Because research shows that most consumers, and especially Millennials, prefer to buy from companies with a cause-driven purpose, the marketing and corporate communications teams will almost inevitably arrive at an elevated statement that puts the company in a highly flattering light.

At the extreme, conflating marketing and purpose can lead to the sort



of posturing whereby BAT (British American Tobacco) and Philip Morris International claim—without any apparent irony—that their purposes are, respectively, to "build a Better Tomorrow" and to "unsmoke the world and create a better future," even if they are simply trying to promote the next generation of their products rather than reduce consumption of an addictive substance. Consider the less egregious but still poorly received attempts by Pepsi and Gillette to position their brands as advocates for important social issues with which they had little previous involvement. The absence of an intuitive connection between Pepsi and the cause of social justice resulted in widespread criticism of its 2017 advertisement featuring Kendall Jenner. A similar reaction greeted Gillette's 2019 brand repositioning, which replaced "the best a man can get" (in use since 1989) with "the best men can be" in a short film that focused on the problem of toxic masculinity. Although this was and is an important social issue, a history of perpetuating male stereotypes through the sponsorship of macho athletes made Gillette an inauthentic advocate.

That's not to say that purpose can't inspire a successful marketing campaign. Contrast those misfires with Dove's campaign for "real beauty," which used normal women as models. The campaign was born out of marketing research revealing that in 2004 only 2% of women around the world would describe themselves as beautiful (the figure had reached only 4% when the research was repeated in 2010). Dove's functional benefits—cleaning and moisturizing—gave rise to an emotional benefit: self-esteem. The campaign aligned nicely with the purpose of Unilever, Dove's parent company: "making sustainable living commonplace" by investing in and improving the lives of its customers and the communities in which it operates. A marketing campaign is most effective when it is the offspring of a corporate purpose rather than the progenitor of one.

Indeed, some companies with strong cause-based purposes don't focus on them in advertising because they recognize the risk of trivializing or overhyping something central and sacred to the organization. Starbucks defines its purpose as "to inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time," but its advertising highlights the quality and novelty of its products. Likewise, JetBlue's advertising largely focuses on what drives ticket sales rather than on its mission "to inspire humanity—both in the air and on the ground."

Companies that can't credibly claim to produce external benefits or to promote a social cause should accept that satisfying the functional and emotional needs of consumers can be a sufficient foundation for a business. Consider soda and snacks. Consuming

Thomas Winz/Getty Images; Craig Cutler/Trunk Archive; Shari Weaver Photography/Getty Images

Spotlight

them is bad for people from a nutritional point of view. But satisfying "sensorial needs" (to borrow from the doublespeak used by BAT in its purpose video) is a legitimate commercial goal, and companies should be content to acknowledge that they aspire to produce the most delicious ice cream or cookies or potato chips or soda. McDonald's is right to define its mission as "to be our customers' favorite place and way to eat and drink." Nordstrom aims simply "to give customers the most compelling shopping experience possible." This is not to say that McDonald's shouldn't take steps to enhance the nutritional value of its menu or to improve the environmental footprint of its suppliers. Doing so could be good for business in the long term if it reduced the risk of consumer or regulatory blowback. But those goals are manifestly not the *purpose* of its business, and any marketing campaign that positions them as such risks derision.

To avoid that risk, business leaders need a clear understanding of how their corporate purpose extends beyond the objectives of their brands and their advertising. A purpose is about the essence of the company. Its goal is to achieve buy-in from a broad range of stakeholders—whereas the function of brands is to persuade consumers to buy the company's products and services.

That distinction was well made by Business Roundtable in 2019 when it described the purpose of a corporation as promoting "an economy that serves all Americans" by meeting the needs of five groups of stakeholders: customers, employees, suppliers, communities, and shareholders. This clearly articulated the need for companies to think beyond the immediate interests of those who provide their funding and to whom they sell.

What Companies Typically Get Wrong About Purpose

The goal of any company is to attract and retain talent, satisfy customers, and conduct business in a manner that secures its license to operate in the eyes of the community and regulators—all while earning an appealing return on capital. Defining your corporate purpose is an opportunity to demonstrate how your company can satisfy those requirements simultaneously. But, as is always the case with strategy, corporate purpose requires clarity about the trade-offs being made and should result in something that is internally coherent.

Many of the challenges that companies encounter with purpose stem from a perceived lack of alignment between how they behave and what they say they stand for. It is tempting to claim being "purpose driven" because of the appeal to employees and consumers—but that works only if you demonstrate authenticity and coherence.

The competence-cause gap. This lack of alignment occurs when the connection between the nature of your business and your espoused cause is not obvious—a danger for even highly successful companies. For instance, a difficulty currently facing the platforms Facebook and Google is that their advertising-driven business models are perceived to be increasingly at odds with their stated missions: "to build community and bring the world closer together" and "to organize the world's information and make it universally accessible and useful," respectively.

The competence-culture gap. This arises when a company is successful at creating value for customers but is less well regarded as an employer, a business partner, or a corporate citizen. Amazon and Walmart have historically enjoyed high levels of customer approval (reflecting their respective commitments to "be Earth's most customer-centric company" and "saving people money so they can live better") while regularly being criticized for their record as employers, their perceived reluctance to recognize workers' rights, and their lack of transparency in the supply chain.

The culture-cause gap. If your company has a clearly stated, cause-related purpose yet your employee engagement scores are low, you have a culture-cause disconnect. This suggests a need for greater focus on culture and behaviors or a reevaluation of your purpose's

It is important to recognize that only executives experience purpose as a top-down phenomenon. Most other stakeholders experience it from the bottom up.

authenticity as currently defined. That is the challenge the new management at Uber faced in 2018 and the new executive team at Volkswagen is currently facing: how to reinvent a culture that turned a blind eye to toxic behavior (in Uber's case) and illegal behavior (in VW's case).

A Guide to Finding Your Purpose

We recommend a five-step process for ensuring that your corporate purpose fulfills its role as a key element of your strategy.

1. Identify the internal constituencies that have a stake in your purpose. At most companies the leaders of multiple business functions will want to see that their interests are adequately considered. We've identified four main kinds of interests and their constituencies: *demand generation* (sales, marketing, channel management), *employee engagement* (HR, employee networks), *governance and sustainability* (legal, operations, corporate communications, investor relations, community relations), and *strategy and business valuation* (the CEO, the CFO, risk management). The first step in drafting a purpose is to establish a working team with representatives from each of these constituencies.

2. Remember that purpose can be defined in three ways. The working team's initial discussion should establish a common language around purpose and explore the various ways in which each of its three domains—competence, culture, and cause—is relevant to each of the constituencies represented. How might a culture-based purpose be articulated with the interests of communities in mind? Or a cause-based purpose with the interests of investors in mind? These discussions should take as expansive a view as possible of the range of options for defining corporate purpose, making authenticity the binding constraint.

This approach acknowledges that each type of purpose has advantages. A competence-focused purpose presents a clear value proposition for both customers and employees. A culture-focused purpose creates internal alignment and collaboration with key partners. A cause-focused purpose aligns customers, employees, and communities around the societal benefits that the company generates. There will be points of overlap with the ESG agenda, but the purpose effort should go further than simply seeking to address negative external effects.

3. Link purpose to strategy. The third step is to view all the possible ideas for purpose in light of the factors that will have the greatest impact on the company's success over the next decade. Is the key business driver talent acquisition and retention—or is it product innovation? The ability to sustain a premium price? International expansion?

The point is to develop a clear sense of the business objective that the purpose will support. How can it enhance the relevance and sustainability of your value proposition to customers and other stakeholders and strengthen the company's relative advantage? This step typically produces a short list of three to five key ideas for defining your purpose in a way that aligns strongly with the strategy of the business.

4. Transcend siloed thinking. At this point the working team needs to recognize that purpose cannot be authentic if it is motivated only by self-interest and opportunism. The next step is to find an idea that acknowledges but transcends the vested interest of each constituency. The following questions can help in reaching a consensus on the most effective definition of the company's purpose.

• *Is the usefulness of what we provide so self-evident that we need say nothing more?* If so, then a competence-based purpose such as Apple's "bringing the best user experience to its customers through its innovative hardware, software, and services" might be a good fit.

• *Does the nature of our business make it credible for us to assert that we're out to do good?* If, for example, the focus of your business is improving health, then either a cause-based purpose (such as Roche's "doing now what patients need next") or a competence-based one is probably best.

• *Does our leaders' behavior support the idea that we're in the business to make the world a better place, even if that's not our core focus?* A fervent CEO and a cause-based purpose can confer a halo on what is otherwise a rather mundane business. The Salesforce CEO Marc Benioff's public activism on social issues has undoubtedly given credence to the company's claim that its CRM services are intended to "unify people to help business and communities pursue their loftiest goals." The Patagonia founder Yvon Chouinard's values and leadership make the clothing company's assertion that it is "in business to save our home planet" credible.

Where Purpose Affects Your Organization

Purpose can have an impact on four business agendas. To determine what that is, ask yourself these questions.

DEMAND GENERATION
How can purpose increase consumers' preference for our products and services?

EMPLOYEE ENGAGEMENT
How can purpose strengthen the connection that employees feel to the work and to one another?

GOVERNANCE & SUSTAINABILITY
How can purpose help reinforce our reputation as a good corporate citizen and a strong ESG performer?

STRATEGY & BUSINESS VALUATION
How can purpose enhance our opportunities for profitable growth and reduce business risk?

• *Do we deliver value to customers while also being an attractive employer, partner, and corporate citizen?* If so, then a culture-based purpose might be most appropriate. Zachry Group, a provider of engineering, procurement, and construction services, focuses its purpose on what it wants to be ("a principle-based enterprise that combines the best in people and technology to create a special business experience, seeking always to make a difference") rather than what it actually *does* (design and build industrial facilities). (Disclosure: One of us, Jonathan, has had a paid advisory relationship with Zachry Group in the past.)

• *Does how we do business create value for society in ways unusual for our industry?* Companies that make their IP open source (as Allbirds did with the technology for creating shoe soles that require no hydrocarbons) or that offer "You buy one, we donate one," as Warby Parker does, enjoy significant credibility when positioning themselves as "leading the way for socially conscious business," in the words of the eyewear manufacturer.

We recommend that during deliberations each member of the working team have discussions with other stakeholders—employees, suppliers, business partners, community leaders—to get their input on the ideas under consideration. That will help ensure that the eventual purpose statement is authentic, relevant, and practical.

5. Embed purpose in behavior. The final step of the process is without doubt the hardest—as anyone who has been involved in change management will attest. New modes of behavior that bring a purpose to life need to be modeled by senior leaders and reflected in performance reviews and promotions, recruitment, business decisions, and the culture more broadly.

It is important to recognize that only executives experience purpose as a top-down phenomenon. Most other stakeholders experience it from the bottom up—through their interactions with products and services, employees, physical locations, and communications. From a top-down perspective, it seems logical to begin an exploration of corporate purpose by asking, How would the world be worse off if we did not exist? But from a bottom-up perspective, it is more important that purpose increase the sense of authenticity, coherence, and engagement derived from the day-to-day experiences of customers, employees, partners, and the communities in which the company operates. The ultimate test of your purpose is whether it improves the way the business actually operates.

THIS DECADE PROMISES to be remembered as the era of stakeholder capitalism, corporate purpose, and the business lexicon's adoption of the terms "empathy," "equity," "diversity," and "inclusion." We suggest two further important elements: *pragmatism* and *authenticity*.

The full potential of purpose is achieved only when it's aligned with a company's value proposition and creates shared aspirations both internally and externally. At its best, it's the most powerful mechanism for generating buy-in across stakeholders. If enacted poorly or manipulatively, it produces the opposite effect. With so much at stake, getting your purpose right should be one of your most pressing decisions.

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Spotlight

The Messy but Essential Pursuit of Purpose

Win-win solutions are less common than we think.

AS PURPOSE-DRIVEN start-ups go, Gotham Greens is a tremendous success story. The company uses advanced hydroponic farming techniques to grow fresh, high-quality, pesticide-free produce, which it now sells in more than 40 U.S. states. Since its launch, in 2009, it has redeveloped 500,000 square feet of out-of-use city industrial spaces and brownfield sites into modern urban greenhouses—facilities that use 95% less water and 97% less land than conventional farms do. Profitable since its first year, it's been named one of *Business Insider*'s "50 Coolest New Businesses in America." By the close of 2020 the company had attracted $130 million in investment.

Gotham Greens clearly delivers social and environmental benefits, making good on its mission of finding new ways to produce local food, revitalize communities, and innovate for a sustainable future. At the same time, it's creating wealth for its employees and investors. It's an example of what my Harvard Business School colleague Michael Porter and the FSG cofounder Mark Kramer have dubbed "shared value" and what Whole Foods Market's CEO, John Mackey, calls "conscious capitalism."

And yet not even Gotham Greens always realizes its ideals perfectly. If you've bought its produce, you know that the greens come in single-use

Photographs by VLADIMIR SPASSOV

> Deep purpose organizations are deeply committed to both positive commercial and positive social outcomes. Their leaders adopt a mindset of practical idealism.

plastic packaging, which is terrible for the environment. Why would a company so dedicated to sustainable, low-waste production make such a decision? As its CEO, Viraj Puri, has explained, it was a difficult but well-researched, mindfully made, and necessary trade-off—the kind that even the most noble companies must constantly make to truly deliver long-term value for all stakeholders.

Over the past three years I've conducted in-depth research on how mission-driven organizations—both old and young and spanning a variety of industries and geographies—succeed. No question, the best of them strive to deliver on their purpose while also generating profits at every turn. Indeed, they see purpose in the same light as profit—as a generative force that expands and improves everything about an organization. For example, you might see a manufacturing company shifting to new energy sources that pollute less and reduce costs, or a bank hiring a more diverse workforce, which benefits the community, brings the bank closer to its customer base, and spurs revenue-generating innovation.

However, smart corporate leaders understand that such win-win solutions—those that yield universal short-term benefits—often aren't possible. How can a company move forward when it can't simultaneously achieve purpose and profit? When it's impossible to satisfy different groups of stakeholders in equal measure at the same time?

Many companies revert to a profit-first strategy when the going gets tough. Others, more committed to their mission, might cling to it instead, come hell or high water—or bankruptcy. But if your end goal is to create long-term value and have a meaningful positive impact on the world, neither of those strategies is tenable.

My research, conducted at an array of large public and private companies, points to a better approach. It involves using purpose as a North Star to clarify priorities and inspire action in situations where trade-offs must be made. It requires leaders to lean into such deliberations in consultation with stakeholders; to look beyond short-term, win-win solutions for ones that are good enough for now and promise broader benefits in the future; and finally, to effectively communicate the thinking behind those difficult decisions to garner support.

This isn't an easy process. In fact, it can be excruciatingly difficult. But evidence from dozens of companies—including Gotham Greens, the personal-health-care company Livongo, the handmade-goods marketplace Etsy, the HR-technology conglomerate Recruit, the diversified industrials multinational Mahindra Group, and the plant and advanced-materials-engineering company Bühler—shows that it works.

Pursuing Deep Purpose

Before we dig into the messy but critical process of successfully navigating trade-offs, let me describe what I define as a *deep purpose* company.

In my work studying and advising organizations over the past few decades, I've reviewed hundreds of purpose and mission statements and found that the most compelling—and most effective in guiding decision-making—have two basic and interrelated features. First, they delineate an ambitious long-term goal for the organization. Second, they give that goal an idealistic cast, committing to the fulfillment of broader social duties. These statements are meant to assert the commercial and societal problems a business intends to profitably solve for its stakeholders. They succinctly communicate what a company is all about and who it hopes to benefit.

Deep purpose companies thoroughly embed their purpose in their strategy, processes, communications, human resources practices, operational decision-making, and even culture. Sadly, such enterprises are quite limited in number. The vast majority of companies practice what I call *convenient purpose:* They talk about purpose but act on it only in superficial ways.

Some set out high-minded goals and serve society to an extent while continuing to sell products and services that cause serious harm. Depending on your moral perspective, certain companies dealing in fossil fuels, tobacco, alcohol, junk food, and weapons, and even some traditional and social media, fall into this category. Their commitment to social good isn't strong or broad enough to lead them to divest from lucrative but questionable businesses. This is *purpose as a disguise.* At an extreme, companies may even use lofty missions to hide malfeasance. Examples include Theranos, the blood-testing start-up that promised a pathway to personalized health care but is said to have faked the efficacy of its equipment, and Purdue Pharma, which allegedly pumped sales of its breakthrough pain-relief medication OxyContin so dramatically that the result was a devastating opioid epidemic.

Other organizations offer what I call *purpose on the periphery:* They work to do good through corporate social responsibility (CSR) efforts and to do well through their core businesses, but they keep the two separate. While helping society to a degree and certainly rewarding shareholders, they stop short of transforming themselves into entities that promote environmental sustainability, community support, and employee well-being.

Then there are the *purpose as a win-win* companies. They aim for the sweet spot where social and economic value intersect. However, they tend to deliver only when ideal outcomes are possible (which is less often than one might think) and thus typically fail on either profit or purpose measures—more often on the latter. As the journalist and commentator Anand Giridharadas has argued, the "promise of painlessness"—the idea that "what is good for me will be good for you" and that investors and top executives need not sacrifice for the public good—is terribly naive.

Deep purpose organizations are different. As the name indicates, they are deeply committed to both positive social and positive commercial outcomes, framing even the smallest decisions, actions, and processes with their goals and duties in mind. Their leaders adopt a mindset of practical idealism. That means they don't simply accept trade-offs—they immerse themselves in them. They are determined to bring their corporate purpose to life, but they also understand that they must play and win within the constraints of our capitalist system.

Consider the exhibit "Weighing Purpose and Profit in Decision-Making." Every purpose-driven, for-profit company claims to be aiming for the "purpose with profit" box. Deep purpose businesses, with leaders who embrace practical idealism, get there more often than others because they are not only truly committed to purpose with profit but also willing to reside in the "profit first" or the "Good Samaritan" quadrant for a time, provided they see a way to move over or up to the win-win ideal in the future. They may avoid decisions that yield only commercial gain with no prospect of social benefit. But if a choice boosts profit in a way that will one day do widespread good, they may make it and work hard to ensure that it eventually provides multistakeholder benefits. Likewise, if they have a Good Samaritan idea that they believe will become profitable over time, they may take a risk on it and then do everything possible to ensure that it works financially.

These leaders recognize the impossibility of devising perfect solutions that benefit all parties equally all the time. They settle instead on arrangements that may require a short-term or partial sacrifice by some but generate a balance of long-term value for everyone.

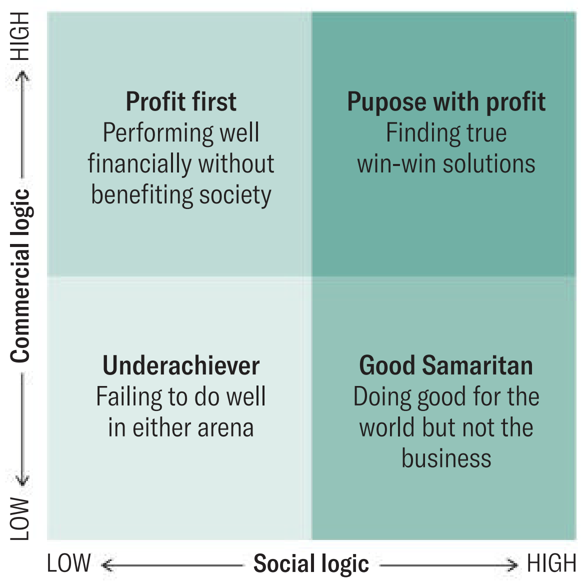
Making Tough Choices

Now let's examine how companies and leaders successfully manage these trade-offs.

By stubbornly fixing on purpose as a North Star. According to Puri at

Weighing Purpose and Profit in Decision-Making

Leaders may be motivated by social factors (the environment, communities, employees, suppliers, customers) or commercial factors (primarily shareholder interests and, sometimes indirectly, customers, employees, and suppliers) in their decision-making. Decisions that fall into the top right quadrant drive both, even if some trade-offs come into play. Those in the lower left quadrant do little good for anyone. The upper left and lower right quadrants represent choices that benefit either shareholders or society but not both.



Gotham Greens, a commitment to environmental stewardship (in tandem with corporate growth) permeates the company's "entire DNA." That means it's the starting point for any decision-making, whether executives are framing long-term strategy or addressing small-scale tactical questions.

Take the packaging dilemma. After researching various eco-friendly options, Puri's team first chose highly attractive, compostable fiber containers. Affordable and good for the environment, they seemed like an exciting win-win. But as workers began harvesting and packaging lettuce, the company encountered a problem: The greens lasted only a few days before wilting, compared with two weeks or longer in plastic.

From there the company could have gone the Good Samaritan route, sticking with the compostable fiber and in due time possibly going out of business as retailers and consumers rejected the less-than-crisp greens. Or it could have quickly opted for profit and switched to plastic without a second thought. Instead, guided by its mission, it embarked on several more months of research.

One alternative was to leave the produce unpackaged, with supermarkets selling to consumers in loose bins. But shoppers had been gravitating away from such purchases, perceiving packaged greens to be cleaner, of higher quality, and safer to eat. Retail buyers said they might still order from Gotham Greens, but not nearly as much as they'd planned to. That was no recipe for an enterprise to succeed in its larger vision of reinventing agriculture.

Next Puri and his team researched various types of plastic, again with sustainability as their primary focus. Recyclable and recycled plastic intrigued them, but it would be too costly. Compostable plastic seemed most promising, but the team soon concluded that it wasn't as "green" as it seemed, because suppliers used subsidized, genetically modified corn to manufacture it, and only consumers who lived near the right municipal facilities could compost it. Most of it would wind up in landfills or, worse, mixed in with recyclables when it didn't qualify.

In the end Gotham Greens decided on #1 PET plastic, the most universally accepted at recycling facilities. Ten years later it's still using the same boxes. But it also has a dedicated group of employees who stay abreast of new technologies and search for more-sustainable options. Purpose in this instance was not only the starting point for decision-making but also a constant source of clarity that helped leaders sharpen their evolving understanding of a difficult trade-off and make informed and deliberate choices to navigate it.

Livongo is another organization that has used purpose as its North Star in making difficult decisions. Glen Tullman founded the company in 2014 with a simple but revolutionary mission: to help people with chronic conditions such as diabetes, which requires regular blood-glucose monitoring, stay healthy without constant visits to hospitals or doctors' offices. This was a personal cause for Tullman, a serial health care entrepreneur: A decade earlier his son Sam, then age eight, had been diagnosed with Type 1 diabetes.

Livongo—short for "Live Life on the Go"—equips users ("members" in its parlance) with devices that provide immediate health metrics after glucose test strips are inserted and then upload the data to the cloud, allowing consistent tracking, interpretation, recommendations, and even alerts when data looks off. With their mission of making members' lives easier always at the forefront, Tullman and his team made some unconventional trade-offs early on.

These included giving away glucose test strips as a way of getting people to use them more often; hiring a virtual care team to provide real-time advice in emergency situations; and keeping individuals on the platform even if they left the employers that initially enabled their subscription to the service. All represented big investments for a small start-up—Good Samaritan decisions at the time—but Livongo knew that a long-term payoff would come in the form of customer retention and value creation for investors. Within two years of its launch, the company had 53,000 active members across more than 200 clients, 100 employees with soaring engagement rates, and close to $40 million in revenue. Following its IPO, in July 2019, Livongo was valued at $3.4 billion. Last year, before its merger with Teladoc, the company was valued at $18.5 billion.

By leaning into trade-offs. Deep purpose companies and their leaders resist the urge to dodge tough decisions. Instead they are willing to linger in a space of discomfort, ambiguity, and contradiction. That's why Gotham Greens spent months investigating the best kind of packaging and ultimately settled for an imperfect solution while continuing to look for a better one.

As Sarah Kaplan of the Rotman School has remarked, companies don't get ahead by "declaring the problems irresolvable." They must learn to "persevere until they reconcile those tensions." Doing that should involve intense consultation with stakeholders to gain insight into their perspectives, the implications various decisions might have for them, and which moves

> Practical idealism means refusing to sacrifice real albeit incomplete progress in the name of perfection and being brave enough to take action that might cause short-term pain.

they regard as deal breakers. Consider how Puri's team talked to retail buyers, engaged materials and recycling experts, and involved its own employees throughout its decision-making process.

Etsy, the online arts-and-crafts marketplace, has leaned into even higher-stakes trade-offs in recent years. Founded in 2005 by the craftsman Rob Kalin and three others, the company has always been defined by its purpose of giving "makers" a venue and tools for marketing their wares and creating their own small businesses. By 2012, under a new CEO, Chad Dickerson, Etsy had adopted a more ambitious mission—"to reimagine commerce in ways that build a more fulfilling and lasting world"—and become a certified B Corporation, a designation given to companies that meet strict environmental, social, and governance standards. By 2015, the year it went public, it was facilitating $2 billion in sales for some 1.4 million sellers each year and attracting top talent thanks to its social purpose and generous workplace policies. What Etsy wasn't delivering was profit: It had lost money since 2012, and within nine months of that IPO, investors had lost patience. The stock plunged 75%, Dickerson was fired, and in 2017 a new CEO, Josh Silverman, was appointed.

Silverman understood the assignment: His job was to rethink how Etsy could better operate to everyone's benefit, rebalancing among stakeholders and injecting more accountability into both its commercial and its social efforts. As he and his team worked to diagnose the problems, they realized that the company had been prioritizing employee and broader societal concerns (key requirements of B Corp certification) over sellers and shareholders, which was a big threat to its long-term health.

Over the next few months Etsy made some major changes: It laid off 160 employees (on top of the 80 it had let go before Silverman's arrival), which amounted to about a quarter of its workforce; shut down projects that were staff favorites; disbanded its existing sustainability group; and announced that it would let its B Corp certification lapse. The blowback was harsh. One disgruntled former employee described those moves as "a cautionary tale of capitalism."

And yet, as Silverman described it to me, he was playing the long game, keeping Etsy's purpose and all its stakeholders in mind. Within a few years the company was able to hire again, and its impact initiatives (refined to focus on three key areas: empowering people, environmental responsibility, and diversity) began to bear fruit. Silverman estimates that the trade-offs the company made in 2017 have allowed it to become five times as productive, as measured by the number of weekly software releases its engineers churn out to improve the selling and buying experience on the site.

Gross sales climbed in each of the past three years, and Etsy has been profitable since 2017. In 2020, thanks to a surge in pandemic sales, its sellers numbered more than 4 million, and they generated more than $1.7 billion in revenue and $349 million in net income for the company. It currently employs about 1,400 people, a few hundred more than it did before the layoffs. And social impact in its key areas is also impressive: Etsy has contributed about $6 billion to the maker economy; it is the first major online shopping destination to offset 100% of emissions from shipping; and it has doubled the number of underrepresented minorities on its staff and has a majority female workforce. As it has done all this, its stock price has shot up.

By looking beyond short-term win-wins to accept good-enough-for-now solutions that will lead to broader long-term benefits. Practical idealism means refusing to sacrifice real albeit incomplete progress in the name of perfection and being brave enough to take future-focused action that might cause short-term pain for some. Without question, that happened at Etsy. Livongo's decisions weren't immediately beneficial to investors. Gotham Greens' use of plastic has a negative impact on the environment.

Remember, though, that even imperfect decisions must be made thoughtfully, with an eye to achieving your social objectives *and* profit someday soon. When a business idea or a course of action would primarily create social value, recognize that you might want to take the leap before commercial value seems entirely attainable, but continue to aggressively explore options and give yourself a timeline. When potential plans would primarily drive commercial value, investigate ways they might help you deliver social impact as well, and if those projections are positive, continue. (If they're not, disengage.) In a legacy business you can try to graft purpose onto your existing products, services, and initiatives—for instance, by making your operations more sustainable and socially responsible or your products safer or healthier. Or you can take a portfolio approach, supplementing your efforts with others that better serve all stakeholders while also taking the steps and making the investments needed to shift your business from purpose on the periphery to deep purpose as soon as possible.

At Recruit, the Japan-based company that owns job-focused websites such as Indeed and Glassdoor along with staffing, recruitment, and HR technology businesses around the world, management would "never, ever" fund a project that delivered only financial returns, its former CHRO Shogo Ikeuchi told me, because that would violate one of its three core principles: "Prioritize social value." (The others are "Wow the world" and "Bet on passion.") At the same time, he insisted, the company wouldn't support projects that serve society but lack commercial potential. "Always, always we have borne in mind the balance between social value and economics," he said.

As of 2020 Recruit has for eight years funded one of its Japan-based ventures, Study Sapuri, an online learning platform for students that is designed to address the country's educational inequities, in the hope of making it profitable. But this is not passive patience. Executives are constantly having "heated debate, discussion on how we can grow this business…how can we possibly generate more revenue?" Ikeuchi explained.

A similar story comes from Mahindra Group's farming equipment business, which decided to make its farming-as-a-service (FaaS) technology available free. That ate into profits but was a way to quickly and efficiently serve the broader company's mission—to "innovatively use all our resources to drive positive change in the lives of our stakeholders and communities across the world" (or, in the company's shorthand, just "Rise"). Cash-poor farmers got immediate access to state-of-the-art tech that would increase their productivity and boost their income potential. The eventual financial benefits were also in sight, however: Free FaaS helped the company gain market share and strengthened its business.

By effectively communicating the rationale. When making trade-offs, it's critical to explain the logic behind your decisions so that stakeholders understand how they connect to and support purpose. Being explicit builds trust and cohesion by giving meaning to the sacrifices some stakeholders are making and reinforcing a mutual commitment to shared long-term benefits.

Leaders at Etsy were quite explicit with employees and customers in explaining why the 2017 restructuring was necessary to put the company back on a sound financial footing and deliver on its promise to create the best maker marketplace in the world. Silverman and others speak openly about the sometimes imperfect decisions they came to. Livongo, Recruit, and Mahindra never hid their purpose-driven choices from shareholders (which were venture capitalists for Livongo and public market investors for the other two); instead executives outlined exactly why they were making those choices and how they would ultimately lead to better returns.

Bühler, a fifth-generation family-owned business that specializes in high-end milling, grinding, sorting, and die-casting machines and process engineering and services expertise, is constantly working to justify its pursuit of strict sustainability standards to its customers and its private owners. Some customers buy in, but others are more skeptical, worrying that the company is sacrificing performance for social goals. A few even feel that its reps and executives have become overly moralistic, "lecturing" them about how to run their businesses. As an employee at one large client told me, "No one is going to say, 'Oh, great, it's a perfectly sustainable company, so I'll just spend more" with it than would be necessary with a competitor.

As a result, Bühler needs to be extremely careful when courting new business, its former HR chief Dipak Mane told me. At the start of a bidding process, its reps tend to focus on "hard" dimensions such as quality, longevity, and price. But once they've progressed to later rounds, they transition to a greater emphasis on purpose, which they believe distinguishes the company from competitors whose product or service specs are otherwise equivalent. The chance to be a part of "saving the world" helps customers justify their choice of Bühler. The company's CEO, Stefan Scheiber, summed it up well: "What's the value? If I cannot answer that, then it's not good."

Acting with Intention in an Imperfect World

To drive performance and inspire stakeholders, leaders must abandon the

Spotlight

notion that win-win solutions are the only ones that count. Of course, you should avoid underachiever decisions at all costs. And you shouldn't content yourself with just doing good or just racking up profit—you must constantly challenge yourself to do both. But recognize that you won't get it perfectly right for everyone all the time and that sometimes the best way to arrive at broad long-term benefits is to patiently negotiate short-term sacrifices.

Ultimately, the purity of your intention is what counts, along with the ferocity with which you pursue and manifest it. Stakeholders know that you can't perfectly align their interests every time. But their commitment to the company and its purpose deepens when you consistently make a valiant and thoughtful effort. You can make purpose meaningful in your organization by approaching every choice determined to serve all stakeholders to the greatest extent possible but mindful that trade-offs are sometimes absolutely necessary.

When deep purpose leaders bend idealism's arc to accommodate the practicalities of commerce, and vice versa, they ultimately generate more widely shared value. They also show us all what we can accomplish if we don't push our ideals to the extreme but instead seek to realize them in measured, practical, and sustainable ways.

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Use Purpose to Transform Your Workplace

Unilever's values-based approach to difficult talent decisions

Photograph by **RODNEY SMITH**

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WITH MORE THAN 149,000 employees, Unilever confronts every issue related to the changing nature of work. It invests in AI and robotics for its factories, negotiates with unions, hires gig workers, and is reshaping its workforce for digital commerce. Many organizations facing challenges similar to Unilever's assume that workforce transformations require painfully reducing the number of employees—perhaps by shifting some into consulting relationships—or taking other steps at workers' expense, such as cutting hours or benefits.

Unilever believes that such transactional approaches overlook opportunities and are ultimately counterproductive. That doesn't mean the company is willing to trade profitability for workforce security. Its vision is to deliver to investors financial returns in the top third of its industry, and it competes in the heavily automated and digitized commerce value chain. But an important lesson from the tenure of Paul Polman, the CEO who led Unilever from 2009 to 2019, is that *purpose* can help reduce tensions in the workforce and create optimum conditions for growth. The company believes that a focus on purpose will allow it to adapt faster and more profitably in the future than the old change-management model would.

This article describes Unilever's Future of Work program and its attempts to remain competitive while staying true to its mission of "making sustainable living commonplace"—including for its employees. Most of the tactics involved will be useful even for companies that don't share Unilever's perspective, although we hope to persuade some skeptics that an "all-in" approach is best.

Doubling Down on Purpose

Unilever's expansion of the scope of purpose from sustainable brands to sustainable workforce relationships was inspired by several beliefs about the evolving nature of work.

The speed of change in workplace skills requires that companies move to "higher ground" with employees. In offices and factories alike, digital skills must be updated or renewed at a much quicker pace than was necessary with prior technologies. Because keeping employee skills relevant will always be a work in progress, Unilever aims to hire people with a learning aptitude and a connection to the company's values. Purpose is arguably the highest ground possible for aligning a workforce, and Unilever bets that its commitment to purpose will give rise to stable, productive employee relationships and a workforce capable of continual change.

Purpose will help attract younger talent. Surveys consistently show that the younger generations value purpose at work. In one LinkedIn survey 86% of young employees reported being willing to give ground on title and compensation to work at a business aligned with their values or mission, compared with just 9% of Baby Boomers. Moreover, workers of all ages hold dear the capacity to achieve their personal goals and career expectations.

Purpose can guide hard decisions. Younger generations now also demand greater consistency across a company and will loudly protest when they perceive its actions as inappropriate. The recent walkouts over military contracts at big tech firms are an example. Unilever believes that embedding purpose in workforce management fosters innovative approaches that will prepare it well for its most challenging moments. When faced with tough staffing and HR problems, executives can return to company values for guidance, charting a course that reduces the likelihood of blowback or discontent.

Connecting Purpose and Work

Unilever's commitment to extend sustainability to its talent strategies is ongoing, and the company has made some missteps along the way. But it has identified several key lessons.

Purpose starts with the individual. It may sound like a paradox, but creating a shared purpose requires that individuals first understand their own raison d'être. That makes workforce management critically different from other purpose-driven initiatives such as building a brand portfolio, which is mostly determined top-down. Employees at all levels undertake important actions to execute on the brand promise to consumers, but senior leaders decide what brands to field. By contrast, Unilever believes, embedding meaning in workforce renewal requires employees to decide what each wants in the future.

For example, it would be unproductive to encourage skills renewal for an employee whose career ambitions lie well outside the company, because she won't invest to keep pace. Moreover, dictating change from above can lead to resistance. To ensure that employees never feel like manipulated widgets, Unilever minimizes the use of common terms such as “reskilling” and “upskilling.” Starting with an employee’s purpose—in a holistic sense, going beyond just title and compensation—gets the conversation off on the right foot and encourages employees’ accountability for their own development.

Purpose requires interacting with individuals at scale. Unilever first sought alignment between individual and company meaning back in 2009, when it started the Unilever Leadership Development Program, which helped more than 400 senior executives discover their own purpose and use that experience to guide their work. (The practice is now widespread among senior leaders at many companies.) The program was so successful that Unilever expanded it to all levels of the organization.

The original four-day workshop for senior leaders was not feasible on a large scale, so the company has rolled out a one-day version that can reach all its employees in their countries and native languages. By the summer of 2021 almost 60,000 of them (40% of the workforce) had “discovered their purpose” through these workshops. Unilever is committed to reaching everyone—even hourly staffers. Today many new employees find that members of their team introduce themselves by sharing their purpose.

At the workshops employees develop individualized “future-fit plans” that chart their desired path over the next 18 months—even to destinations outside Unilever—and the important skill-development steps it requires. These workshops and frequent check-ins help Unilever listen better to its employees, which it believes will lead to increased engagement, well-being, and commitment to drive the company’s strategy.

The workshops don’t sugarcoat the future, however. For example, someone who doesn’t want to be employed in a highly automated factory can work openly, with the company’s assistance, on a path to a better fit—either in a different part of the organization or in a career that takes him away from Unilever.

The future-fit plan becomes the basis for the employee’s engagement with Unilever’s skills platform. Being open to employee career paths makes tools such as talent marketplaces, cross-firm employee swaps, and portable skills certification more valuable. The program is bearing fruit. In 2020, 92% of those who had attended a discover-your-purpose workshop reported having jobs that inspire them to go the extra mile, compared with only 33% of those who had not attended one.

Purpose guides all worker arrangements, even contracting. As companies shift work away from 40 hours a week and break it into discrete tasks, gig and remote models provide critical inputs. Unilever’s first forays into the gig economy were not particularly sophisticated. Many managers needed to be pushed to even consider non-full-time employees for tasks, and few had any experience with gig-work platforms such as Catalant and Momlancers. Unilever also needed to adapt its internal procedures: The 60-day-plus payment terms typical among consumer packaged goods companies are a bit slow for gig workers. But the company is persevering. It has identified more than 80,000 tasks it may need done over the next five years, which will be performed by a combination of full-time employees, gig workers, contractors, and those working flexibly.

From its early experiments Unilever learned quickly that top freelance talent can be choosy about employers, so companies need to stand out. Here its commitment to sustainability has proved important. A gig worker who sees Unilever as aligned with her values is more likely to bid on one of its projects and return for another. Although she won’t be attending a discover-your-purpose workshop, the company believes that creating a connection with her is also important. Indeed, Unilever is progressing toward a common hiring funnel for all workers, whether gig or full-time.

But purpose goes both ways. Unilever believes that the exploitation of gig workers violates its social mission and values. It is also bad for business, because poorly paid workers aren’t good consumers of Unilever’s brands. And it can lead to blowback—as happened when Google employees joined protests and walkouts over perceived inequalities for the company’s TVC (temp, vendor, contractor) pool. Although part-time work is more contractual than traditional employment is, Unilever wants purpose to be at the heart of the contract in a new model of employment that combines flexibility and security. The company’s boldest initiative to date is U-Work, codeveloped with trade unions and policy makers in the United Kingdom. Employees who opt into U-Work are paid a monthly retainer when they commit to work a specified number of weeks a year on short-term assignments

In 2020, 92% of Unilever employees who had attended a discover-your-purpose workshop reported having jobs that inspire them to go the extra mile.

for Unilever. They are further compensated while on assignments and also receive benefits, pension contributions, paid holidays during work spells, and stipends they can spend on learning activities.

The hope is that U-Work and other programs will help the company retain talent—particularly parents and other caregivers—and thereby increase the diversity of its teams. Given the success of U-Work in the UK, Unilever is rolling out similar models in other countries.

Purpose guides workforce reductions. Unilever will face its hardest decisions when fast-paced change brings about the inevitable layoffs required to remain competitive and deliver top financial returns. New technologies can provide new forms of work for some but not all employees. Unilever believes that purpose shines through the most in these tough moments.

Across its nearly 100-year history the company has seen a fair number of difficult plant closures. With the shared goal of "not doing this the old way," and 21% of its employees based in Europe (where trade unions are generally more powerful than in other parts of the world), Unilever first teamed up with its European Works Council (which represents its European employees) to co-create a framework for the Future of Work in March 2019. They developed a joint approach to future-fit skills building, new employment models, and skills-enhancing employability programs and allocated funding to support the initiative. The principles of the agreement have since been applied worldwide through Unilever's Responsible Transformation program.

To be sure, the success of this collaboration required courage from labor leaders. They own the program as much as Unilever executives do. But Unilever's CEO, Alan Jope, has continually and publicly reinforced his leadership team's commitment to seeing the collaboration succeed.

Unilever's goal is to ensure that 80% to 100% of workers displaced by automation can obtain a new internal job or a comparable external position or opt for early retirement. So far the company has managed to stay at the very top of that range. Consider the recent case of a plant in Italy. In line with Future of Work principles, the local manager began co-creating a plan with government, unions, and leading universities to prevent a total closure. Together they developed an innovative plan for converting the plant into a recycling center, guaranteeing jobs for all the employees.

Following layoffs and closures, Unilever works to track employees who leave (providing they agree to be tracked) to determine whether their new pay is keeping pace with the old. And the company is pursuing innovative partnerships to help these workers land other positions with comparable compensation. For instance, it is engaged in exploratory work with Walmart to identify engaging career pathways across the two organizations.

Unilever is doing all this because the "old way"—us-versus-them power dynamics and labor strife—is incompatible with purpose and thus a recipe for long-term value destruction. The company emphasizes to local managers that investing money early in a workforce transition will reduce later costs by even larger sums, and that the process will be accelerated, not delayed, by sharing difficult information with employees and labor reps early, rather than in one big bang after a decision has been made. This approach may be scary, but Unilever's experience thus far confirms that the best outcomes from closures and layoffs have been those most closely aligned with the company's purpose.

PRESIDENT JOHN F. KENNEDY once described the United States' commitment to space exploration with a story about the Irish writer Frank O'Connor. O'Connor and his childhood friends would commit themselves to getting over a wall that seemed too high by first throwing their caps over it.

Unilever faces an existential challenge in the coming years: how to be a purpose-driven company while transitioning its workers to a time when some of their skills may be obsolete. Its leaders are humble enough to know that some bets about the company's future won't pan out, and some actions to put sustainability at the center of workforce decisions may prove ineffectual or even backfire. But Unilever's cap is now on the other side of the wall. The company believes that doubling down on its purpose will help build a workforce capable of overcoming whatever obstacles the future holds.

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Spotlight

Purposeful Business the Agile Way Turn squishy debates into concrete action.

HUMANS ARE BUILT FOR purposefulness. Ancient philosophers postulated, and modern scientists have proved, that people striving for meaningful lives are mentally healthier, more resilient, and more motivated. They are also physically stronger and live longer. They contribute more to their families, friends, and society at large.

Businesses can make purposeful living easier or harder. For decades managers trusted influential economists who promised that if businesses maximized profits, an invisible hand would generate greater benefits for all society. That isn't happening the way they said it would. An excessive focus on creating value for shareholders is robbing other stakeholders of value. One recent manifestation: Record numbers of people are quitting their jobs, and others are hitting picket lines to demonstrate a growing conviction that life is too short to waste on demoralizing work. Concern about social inequities and environmental damage is escalating. The system is out of balance, and the situation is getting worse.

Executives see these problems. Only 7% of *Fortune* 500 CEOs agreed that their companies should "mainly focus on making profits and not be distracted by social goals," according to a 2019 survey conducted by *Fortune*. The challenge is that few executives know how to transform a profit-maximizing system into a purpose-driven system without jeopardizing the future of their businesses and their own careers.

Agile ways of working can be of help by turning squishy debates about corporate purpose into real actions and results. Here we offer four recommendations.

1 Create a Microcosm of the World You Want

Rather than passively hoping that your company will become more purposeful, you can use agile's do-it-yourself ethos to turn your own work group into the kind of organization you aspire to. Just follow the same approach you'd use to create any other innovation:

- Assemble a multidisciplinary team, including experts outside your silo.
- Develop deep empathy for users, exploring their goals and frustrations.
- Examine the current system to identify the causes of those frustrations.
- Envision a more purposeful system.
- Describe changes that might improve the system.
- Prioritize and sequence them.
- Test potential improvements.
- Adapt to unexpected effects and side effects.
- Scale up solutions that enrich the lives of stakeholders affordably.

The three of us have analyzed scores of organizations. No matter how troubled a corporate culture might be, we always find pockets of the organization that are fully engaged, highly productive, and truly fulfilled. They frequently employ agile methods and are operating with a higher sense of purpose, mutual respect, empathy, autonomy, and a passion for learning and growth.

2 Build a "How Could We Test That?" Culture

A purposeful business system isn't comparable to a mechanical watch. If it were, managers could analyze the components to determine how each

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Photograph by RODNEY SMITH

piece affects all the others and pinpoint the malfunctioning ones, replace them with the best practices of successful companies, and—presto!—produce a purposeful new business.

But a purposeful business is more like a complex biological ecosystem that is unpredictable because so many variables are unknown, and those variables behave differently in various combinations and conditions. Good intentions can have unintended consequences—a major reason agile practitioners insist on testing things in their own environments with their own experiments.

The key to success in a complex system is continual innovation that keeps the ecosystem in balance even as environmental conditions change. One smart approach is to intentionally allocate resources—people, time, technology, and money—to purposeful causes designed to create long-term benefits for multiple stakeholders through cascading effects that are hard to quantify up front. You can select those causes using five criteria.

Strategic significance. Does this initiative support your strategic objectives? Does it create important benefits for the stakeholders who have the most impact on the success of your business?

Stakeholder support. Will your key stakeholders—especially employees and customers—actively support this initiative?

Value beyond the money. Will every dollar you invest in this initiative create greater value for targeted stakeholders than would simply writing a check to a more economical innovator?

Testable hypotheses. Can the investment be staged to test specific hypotheses and mitigate adverse side effects before scaling up the project?

Cost of delay. Would delaying the project's launch by a year significantly decrease its value or increase its cost?

3 Do the Right Things for the Right Stakeholders

Profit-maximizing managers set aggressive financial targets, develop plans to hit them, and then calculate ways to get employees and customers to conform to them. Agile helps flip that approach, focusing first on creating value for stakeholders and then on earning adequate profits in the process. Instead of asking, How can we improve profitability without damaging customer and employee satisfaction? they ask, How can we enrich the lives of customers and employees?

4 Prioritize Collaboration over Competition

Humans are extremely social animals, and supportive relationships are essential to leading purposeful lives at home and at work. People who have strong working relationships have more pride in their organizations, a stronger customer focus, more-innovative ideas, greater motivation to work hard, and greater determination to stay in their jobs. Yet for more than 100 years management has focused on increasing profits by improving the performance of individual employees rather than on strengthening teams and systems.

A central reason for the success of agile ways of working is that they prioritize teamwork over individual performance. Research by the Standish Group, which has studied the success of IT projects since 1994, shows that agile teams improve software innovation by more than 60%, on average, and by 100% when the innovation is large and complex. Two-thirds of agile teams across a wide range of business functions report better cross-functional alignment, and 60% register higher team morale, according to the *State of Agile Report* by Digital.ai, a company focused on digital transformations.

Communities of agile teams capitalize on diversity to combine people whose differences may be annoying and divisive into teams with greater strengths and fewer flaws than those in siloed organizations. Collaborating with unconventional partners such as financial experts, lawyers, sustainability advocates, and others with worldviews that challenge yours can dramatically improve both innovation and morale.

The faster businesses embrace a purposeful approach, begin creating greater value for society, and change the ways they work, the better. Agile can help.

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Why Your Board Needs Automation on Its Agenda

A series of disruptive technologies is maturing in the operations space, enabling companies to accelerate the shift to a better, more dynamic operating model.

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IPA incorporates intelligent process design—helping companies rethink how to work with agility and speed. It blends human and digital talent, using data and artificial intelligence (AI) to automate mundane tasks and empower employees with bigger capabilities. And it makes human interactions more meaningful by infusing processes with contextual insights and freeing up employees' capacity for empathy, critical thinking, and innovation.

To be sure, automation's potential to exponentially grow efficiency is often what catches a leader's eye. One U.S. health insurer, after adopting IPA across its enterprise, could process claims six times faster. An agricultural and food company improved its productivity by 75%, with a 4X return on investment (ROI). A leading global consumer credit- and debit-card services provider saved more than $160 million by automating its accounts payable, accounts receivable, and purchase order workflows.

And significant opportunities for transformation exist across all industry sectors.

Humans First

Several years ago, automation's hype skyrocketed. Both advocates and critics fervently debated its merits, with visions of multifold productivity increases in a world ruled by robots. Since then, the leading enterprises that have implemented automation at scale have proved that a mindful, human-centric approach is superior—and possible.

At its best, automation makes jobs more human, not less. Amazon's multiyear automation program Hands off the Wheel elevated its employees' roles and responsibilities by alleviating workers' focus on speed and volume and freeing them to imagine and innovate—all while increasing productivity. Successful automation adopters are investing in effective talent and change-management programs that address skill gaps and enable frontline employees to embrace and proliferate automation and AI in the enterprise.

A Powerful Competitive Advantage

In October 2021, Forrester predicted that companies with advanced automation programs will "obliterate—not merely beat—the competition." And organizations are paying attention; more than 60% of enterprises are trialing or have at least partially implemented automation, according to new research by Cognizant's Center for the Future of Work.

To accelerate the journey to scale, however, and gain a lasting advantage, automation has to be elevated across functions and beyond IT as a strategic, board-level priority—a foundational component of an adaptive, future-ready operating model.

Chart a step-by-step course for the future with intelligent process automation at cognizant.com/neuro.

At its best, automation makes jobs more human, not less. Amazon's multiyear automation program Hands off the Wheel elevated its employees' roles and responsibilities—all while increasing productivity.

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“DATA-DRIVEN DIVERSITY,” PAGE 74

Features

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MANAGING PEOPLE

Managing a Polarized Workforce

How to foster debate and promote trust

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IDEA IN BRIEF

THE PROBLEM
Given heightened tensions over politics and movements such as #MeToo and Black Lives Matter, polarization in the workplace is worse than ever before. Fostering passionate debate and preserving collaboration and trust seem like an impossible mission.

THE ROOT CAUSE
Many leaders—and people in general—have misconceptions about the psychology of disagreement, causing them to avoid discussions on contentious topics rather than try to engage.

THE SOLUTION
Organizations can train people to defuse their fears of disagreeing with others, cultivate a mindset that's open to hearing and trying to understand opposing opinions, and pick their words carefully in discussions. Leaders can also foster an overall culture that encourages receptiveness to colleagues with differing points of view.

One of the most difficult challenges leaders of all organizations face is managing diverse perspectives.

Much has been written on the benefits for teams and organizations of engaging with opposing views, fostering productive disagreement, and creating "teams of rivals." Yet anyone who has been involved in such work knows that disagreements on strongly held opinions, often related to personal identity, are always tough and frequently destructive. That's truer today than ever before, as topics from the #MeToo and Black Lives Matter movements to environmentalism and remote work have elevated both the need for thoughtful discussion and the desire to avoid it. In a 2021 survey we found that conflict is an inescapable part of work life for employees at all levels. Eighty-nine percent of the 486 U.S. respondents from a wide range of companies and industries reported experiencing it at work to some degree. They spend about 3.5 hours a week, on average, dealing with it.

ABOUT THE ART
Nick Ballon's series "The Use of the Small Sword" documents the training of fencing cadets at the Honved Fencing Club, in Budapest.

So, what can leaders do? How can they meet the challenge of fostering passionate debate while preserving collaboration and trust? Drawing from work we've conducted with scholars in psychology, sociology, and management, we offer advice on approaching disagreements more productively and training employees at all levels to better communicate about divisive topics. Only 39% of our survey respondents reported being trained or coached in handling workplace conflict. Among those who were, as part of a leadership development program or executive coaching, 96% said it helped them deal with conflict more effectively, 73% said it made them feel more confident and comfortable engaging in disagreements, and 62% felt they were able to turn potentially destructive conflicts into productive ones.

What We Get Wrong About Conflict

Many management and psychology self-help books suggest that defensiveness and ego threat play a major role in conflict escalation. The prescribed solutions usually involve checking one's ego at the door—advice that people have a very hard time following. It could be that their egos (or insecurities) are just too big. But a larger problem is that the advice is not very helpful. Indeed, it is founded on three common myths.

MYTH 1

People who disagree with us do so because they are uninformed or unintelligent. When we encounter disagreement, a common impulse is to assume that we know the facts and the other person doesn't. But in reality, each of us tends to focus on the facts that support our beliefs and dismiss or devalue those that don't. Human minds have a hard time processing contradictory information but easily make connections to familiar ideas. That's not because of insecurity or ego threat; it's simply a limitation of our processing capacity. Evidence that supports our prior beliefs is easier to notice and remember—it "fits." Over time our views crystallize around a set of familiar ideas supported by members of our professional networks, the news outlets we follow, the leaders we admire, and the politicians we support. We overlook or forget evidence that backs up opposing perspectives because we encounter it less frequently and it doesn't jibe with our mental picture. People on both sides of a disagreement may be equally well-informed but with different information.

As the years pass, the views of those with different life experiences drift further apart, until people inhabit completely different mental realities. They believe ever more firmly that their views are uniquely based in incontrovertible evidence, solid logic, and self-evident truths, and they have increasing trouble grasping what exactly underpins the other side's beliefs. Parents have difficulty relating to or even understanding the experiences of nonparents. Union members think their struggles and hard work should be apparent to management. Employees of color are angry when organizations seem to do little to increase diversity and inclusion. The result: Differences that could be a source of new ideas and productivity frequently lead to conflict as people attribute the disagreement to the other side's failure to see seemingly obvious facts.

MYTH 2

Disagreement will make people defensive. When one of us (Julia) and her colleague Charlie Dorison examined the emotions that people report when talking to someone they strongly disagree with, they found a pattern: high levels of anger, irritation, and disgust. People think their opponents—not they themselves—are feeling insecure, threatened, and anxious. And when those opponents reject their arguments, people assume it's because admitting they were wrong would be too damaging to their egos or too threatening to their view of the world.

Such perceptions allow us to feel superior and give us an excuse to avoid the hard work of trying to understand one another. They also lead to irrational thinking. In a series of studies that Julia conducted with colleagues, more than three-quarters of those who expected to debate a controversial issue predicted that they would win. That's mathematically impossible, of course.

MYTH 3

Disagreement is bad. Most of us think of conflict as negative and go to great lengths to avoid it. Consider a 2021 survey in which we asked 656 employees about the role of

By recognizing that disagreements are likely to be less upsetting than we think, we can learn to approach conflict willingly.

conflict in their professional lives. Nearly 60% described disagreements at work as moderately, very, or extremely unpleasant. More than a third said they preferred to avoid them, and more than 40% thought they were destructive to their professional relationships and productivity. But much research finds the opposite: Disagreement, when managed well, gets greater results than avoidance does. It can spur better ideas, creativity, and innovation, helping businesses gain a competitive edge. (The key phrase is "when managed well," which requires knowledge of the strategies we will go on to discuss and the discipline to consistently use them.)

Part of the reason we expect disagreement to lead to disaster is that we assume the people on the other side won't listen with an open mind. When considering those who hold opposing views, we often rely on stereotypes, convincing ourselves that their positions are extreme caricatures of what they really are. Psychologists call this *false polarization*. In a recent survey by More in Common, a group dedicated to strengthening societies against social division, fewer than 20% of Democrats agreed that most police officers are bad people, but Republicans thought that more than half of them would agree. False polarization makes people expect that discussing a contentious topic with someone holding a different view will be highly unpleasant and largely pointless. That belief often makes them dread or avoid such conversations.

Because of these myths, leaders tend to focus on skirting disagreement or seeking compromise to make it disappear, and employees follow suit. But if disagreements on important issues are not handled successfully, problems fester, effective communication is inhibited, and important views are squelched. To build true collaboration, leaders must empower people to deal productively with opposing views. We offer four high-level strategies and a number of practical steps to achieve that goal.

Defuse Fears of Disagreeing with Others

When asked about recent disagreements they have faced, leaders in our executive education classes are quick to mention personality clashes, intense conflict about decisions, and heated exchanges that ruined relationships. Because most of us find engaging with differing views to be unpleasant, we tend to exit the situation and try to forget it as quickly as possible. Few of us carefully analyze difficult conversations in pursuit of better conflict-management strategies going forward. However, learning about disagreement can help us welcome and manage it in future interactions. Here are some ways to foster such understanding.

Realize that disagreement probably won't feel as bad as you think. On January 20, 2017, the day Donald Trump was sworn in as president of the United States, Julia and colleagues asked people who had voted for Hillary Clinton how they expected to feel while watching the inauguration. The respondents anticipated extreme anger, disgust, and sadness. But in reality their reactions were not nearly that negative. In the following months, when the researchers asked liberals to listen to speeches by Senator Ted Cruz and conservatives to listen to ones by Senator Bernie Sanders after both groups predicted how they would feel, they found that people consistently overestimated their negative reactions. Participants had expected the emotional equivalent of a root canal but experienced something more like getting their braces tightened—unpleasant but not awful. By recognizing that disagreements are likely to be less upsetting than we think, we can learn to approach conflict willingly and eventually experience the benefits of engaging with opposing views.

Leaders who understand this can coach employees to hold productive conversations with those with opposing views. Consider the approach taken by Braver Angels, a nonpartisan organization we studied that conducts training and moderated debates designed to bring conservatives and liberals together in civil dialogue. In full-day workshops, equal numbers of Republican- and Democratic-leaning participants engage in a series of structured activities during which they are encouraged to express their emotions. In an exercise called Stereotypes, red and blue participants meet in separate rooms along with moderators and brainstorm negative stereotypes the other side has about them. They select five and discuss ways in which they are true or false. The groups then come together to share their reflections. They're asked to listen to those from the other political party but not to question or challenge them. Because the discussion focuses on understanding rather than persuasion, it

avoids the high levels of frustration and anger that often accompany failed attempts at persuasion. Participants learn that those on the other side often have sensible reasons for their beliefs and that engaging with them doesn't have to involve extreme negativity.

Seek points of agreement. In studies of the emotional experience of disagreement, Julia and colleagues asked participants what share of an opponent's argument they were likely to agree or disagree with before they listened to it or read it. People generally overestimated disagreement and were pleasantly surprised by the amount of agreement. In our executive education classes we have found that teaching leaders how to find points of agreement with people who hold opposing views makes them more willing to engage with information from them. They don't have a great time doing it, but they become better informed and are often struck by sound logic and admirable values behind their counterparts' positions.

Sometimes looking for agreement means simply reminding people of the overarching goals that brought them together in the first place. Jenna Harrington, the head of patient services at Vertex Pharmaceuticals, told us of a time when severe weather delayed a shipment of medicine. As the team explored solutions, the debate grew contentious. Harrington got the discussion back on track by reminding people that they had a single goal, embraced by all but forgotten in the heat of the moment: patients' well-being.

Direct your disagreement toward the task, not the person. "There is no learning without debate," Pixar cofounder Ed Catmull told us. "It is by truly embracing disagreement and differences in perspectives that we make better decisions, because ideas get pressure-tested and challenged. But to be effective, conflict needs to be about the work, not the people." Management research supports his view. A longitudinal study by Karen Jehn (then at the University of Pennsylvania) and Cornell's Elizabeth Mannix found that high-performing teams had relatively low levels of personal conflict and high levels of disagreement about how to do their work. They had high levels of trust and respect and engaged in open discussions about possible approaches to their tasks.

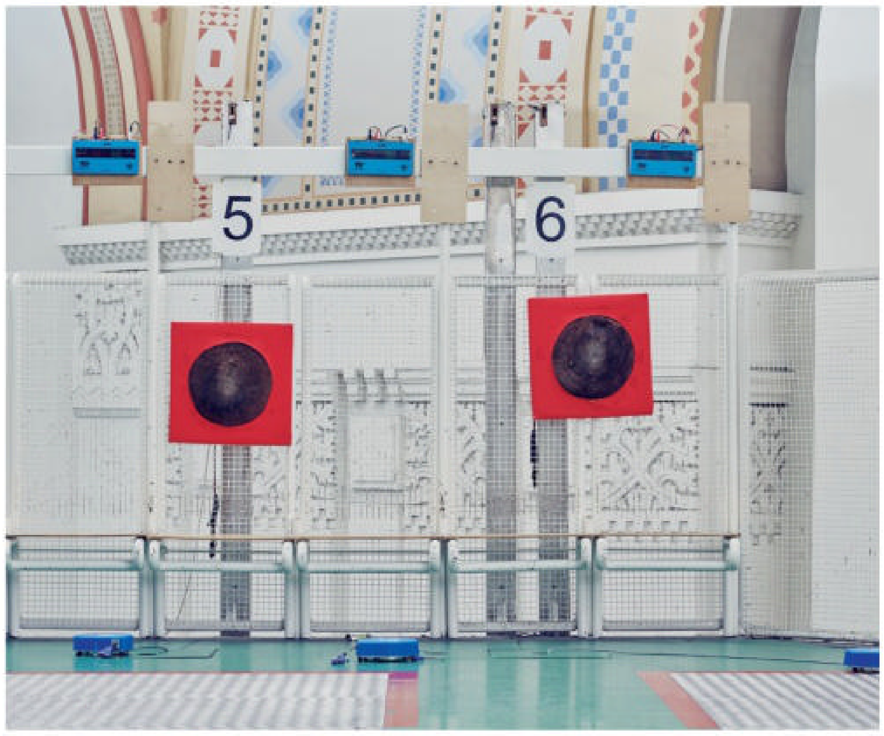
A large pharmaceutical company that one of us (Francesca) studied trained midlevel managers to coach employees to focus on critiquing the current approach to the task in question. If the discussion in a meeting starts to stray, managers redirect it by saying, “We’re getting personal. Let’s refocus on the task.”

Teach People to Be Open-Minded

When confronted with a perspective contrary to their own, some people manage to keep an open mind, showcasing a skill we call receptiveness to opposing views. (To measure your own receptiveness, visit receptiveness.net). Receptive people are more likely than others to listen to arguments from both sides, think deeply about them, and evaluate them fairly. As a result, they form ideologically diverse friendships and professional networks. In a recent study of MBA students that Julia conducted with colleagues, only highly receptive students had social networks that included both liberal and conservative classmates. People who are open-minded in this way undoubtedly benefit from their access to varied sources of information, opportunities, and resources.

Cultivating a receptive mindset takes practice, but it is possible with the following tactics.

Intentionally consider information from the opposing perspective. Classic research in social psychology has demonstrated that telling people to be more objective in evaluating opposing views doesn’t work: People think they are already doing so. It’s more effective to advise them to carefully consider the reasons others hold the views they do. Similarly, the key to a receptive mindset is trying to view information through the eyes of its endorser. That requires us to forgo the easy path of dismissing people with different positions as unintelligent or nefarious while telling ourselves we have already exerted all the intellectual and emotional effort that can reasonably be expected. Receptiveness



Although people generally approach disagreements hoping to persuade the other side, it's more helpful to adopt the goal of learning and to assume that our partners share that goal.

doesn't require us to change our minds or tolerate views we find irrational or offensive. We can listen to arguments attentively, come to fully understand them, and still believe that we're right. The ultimate goal is greater insight, mutual respect, and a willingness to collaborate.

The learning and development director at a global pharmaceutical company told us about its conflict resolution training module. "We teach participants to not get stuck on their views and to be curious about others' perspectives," he explained. "We ask them not to assume but to ask so that they can learn why a colleague sees things differently." In the training module participants are paired up and asked to discuss a work issue they disagree about, over two rounds. In the first round they go into the conversation without guidance. In the second they're asked to focus on what they might learn from their colleague and to think of questions that could help them understand their colleague's perspective. "It's a simple insight, but it fundamentally changed how I work with others," one manager told us. "I feel I've been more effective by testing my assumptions rather than soaking in them when I disagree."

Use the "listening triangle." Conflict resolution professionals employ this technique, which is rooted in work on active listening, to help people get over the idea that they are intellectually superior to their opponents. It consists of three simple steps: Ask your opponent about his or her views, listen to the answer, and restate it in your own words to make sure you understand it correctly. Then repeat, starting with the same question or a highly similar one. People often think they understand a counterpart after hearing the answer to a single question. Asking it, or something like it, again is likely to unearth new information and reveal the reasoning behind your opponent's perspective. By using the listening triangle, you can ensure that your assumptions about the reasons for someone's beliefs are anchored in reality, not in your biases.

Some top companies have concluded that listening is good for business. Organizations including Pixar and the global automotive supplier Webasto offer training programs to help their people develop that skill. (For information on them and on the power of listening, see "Cracking the Code of Sustained Collaboration," HBR, November—December 2019.)

Focus on learning. Although people generally approach disagreements hoping to persuade the other side, our research shows that it's more helpful to go into them with the goal of learning and the assumption that our partners share that goal. When we focus on learning, we move away from judgment and are more open to understanding others' experiences and views.

To coach our students to adopt learning goals during disagreements, we often use a technique based on research by the University of Chicago's Jane Risen and colleagues. After someone shares an opinion you disagree with, thank him or her and acknowledge aspects of the view you appreciate; only then make your own argument. Compared with the common approach of immediately poking holes in the other person's argument, this tack makes people feel more heard and valued. They perceive more common ground and find the conversation to be more collaborative.

Pick Your Words Carefully

Our research shows that we can signal a willingness to listen receptively through words that acknowledge the other person's perspective and present our own view with humility and positivity. We reached this conclusion after developing a natural-language-processing algorithm to identify words and phrases that lead people to be perceived as receptive to another person's point of view during a disagreement. Using the language identified by the algorithm helps people resolve conflicts more quickly and productively. Here's how to foster receptive speech in your organization.

Coach people to use specific language. Our algorithm identified four techniques that convey receptiveness and can easily be employed in training programs (see the sidebar "How to Signal Receptiveness").

→ ***Hedge your claims.*** Use words like "sometimes" and "often" to soften your assertions. Acknowledging room for doubt signals humility and a recognition that the other side might have a valid point. It also makes you sound less extreme and more thoughtful.

→ ***Emphasize agreement.*** Before jumping in with evidence to support your perspective, point out an area of agreement: "We both want a safer country where people are treated fairly." That doesn't mean compromising; it simply

means recognizing that there are many facets to any debate. Doing so improves the tone of the conversation.

→ ***Acknowledge other perspectives.*** Use phrases such as "I understand that you believe…" and "You told me that…." They show your partner that you actually heard him or her.

→ ***Reframe your ideas in positive terms.*** When talking with someone who opposes vaccination, you might say, "It's really important that people get vaccinated so that we can all be safe from Covid-19" rather than declaring, "If people don't get vaccinated, we will never be safe." Using positive language establishes a constructive tone, and it's likely that your counterpart will reciprocate.

When we talk about using receptive language, our students—MBAs and executives alike—raise two concerns. They worry about giving legitimacy to ideas they consider unacceptable. "Some things are simply not up for debate," they say, "and no amount of discussion will make me change my mind." And they note that we're not used to hearing receptive language from prominent leaders. We think of powerful people as speaking firmly and confidently, whereas receptiveness strives to be engaging and inclusive. Could it harm one's reputation as a leader?

We have found no basis for either concern. In one of our studies participants read a debate between a business owner and a city council member over restrictions intended to reduce the spread of Covid-19. We scripted the interaction so that the business owner made untrue and unethical arguments that would put public health at risk. We created two versions of the script. Some participants read a version in which the council member responded with counterarguments. The others read a version in which the council member used the same counterarguments but added a couple of sentences expressing receptiveness and a desire to engage. Participants were no more likely to side with the receptive council member than with the nonreceptive one. In other words, receptiveness did not legitimize bad ideas. More important, people thought the receptive council member was a better, more competent leader.

How to Signal Receptiveness

We created a phrase to help people remember language that counterparts in a disagreement can use to sound more receptive: "I HEAR you." HEAR stands for "Hedge your claims," "Emphasize agreement," "Acknowledge other perspectives," and "Reframe in positive terms." Examples of each strategy are below.

Hedge your claims

"I think it's possible that..."

"This might happen because..."

"Some people tend to think..."

Emphasize agreement

"I think we both want to..."

"I agree with some of what you are saying..."

"We are both concerned with..."

Acknowledge other perspectives

"I understand that..."

"I see your point..."

"What I think you are saying is..."

Reframe in positive terms

"I think it's great when..."

"I really appreciate it when..."

"It would be so wonderful if..."

Students also ask us, What if all our efforts to engage constructively are met with renewed hostility and defensiveness? Our advice: Keep your emotions under control and try again to engage in a receptive fashion, using the approaches we've described. With most people, such efforts will succeed. But sadly, in some instances you can't break through. If you find it impossible to connect and the conversation is becoming more confrontational, your only option is to withdraw before the discussion escalates into full-blown conflict.

Foster a Culture That Encourages Tolerance

Building on the ways to cultivate a receptive mindset and get everyone in their companies to use more-receptive language, leaders can take additional steps to make their organizational cultures more tolerant and less divisive.

Leverage women. Our research shows that women tend to naturally exhibit conversational receptiveness. Without instruction or training, they spontaneously use the kind of language our algorithm identified. This insight has two implications: When feasible, assign women to lead conversations on contentious topics. And if training time and resources are scarce, focus your receptiveness training on men.

Establish a receptive tone at the outset. People worry that making receptiveness the norm in an organization with a history of tolerating or promoting destructive confrontation is easier said than done. Changing such a culture does take work—but it's not impossible. In fact, receptiveness (or a lack thereof) is contagious. In our studies we have found that communicators naturally emulate one another's tone, picking up on words and phrases that signal receptiveness or close-mindedness and adopting them in their replies. This means that a given style of conflict communication can spread throughout a team via meetings and emails. Setting the right tone at the start can "seed" receptiveness for the rest of the conversation. Leading off with a confrontational tone can initiate a destructive spiral.

Be a role model. Leaders who want others to share their attitudes and embrace their goals are better off demonstrating intellectual humility and using receptive language than sticking to the old confrontational script. Jenna Harrington, the Vertex Pharmaceuticals executive we cited earlier, is careful to thank people who challenge her in meetings. That kind of openness builds a culture of psychological safety, whereby people feel comfortable asking questions and acknowledging mistakes to the benefit of organizational performance.

AS ORGANIZATIONS GROW more diverse and global, and as communication becomes less formal, leaders must be ready to engage with conflict arising not only from the tasks at hand but also from the varying ideologies, life experiences, and cultural traditions that employees bring to work. The strategies we've suggested enhance communication, deescalate negative emotions, and build trust. Honing these skills takes time and practice—but the resulting decrease in frustration and negativity is well worth the effort.

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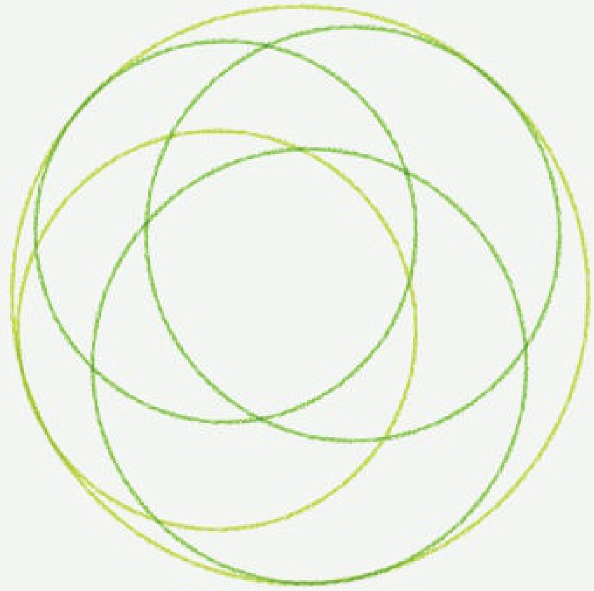
C-suite insights

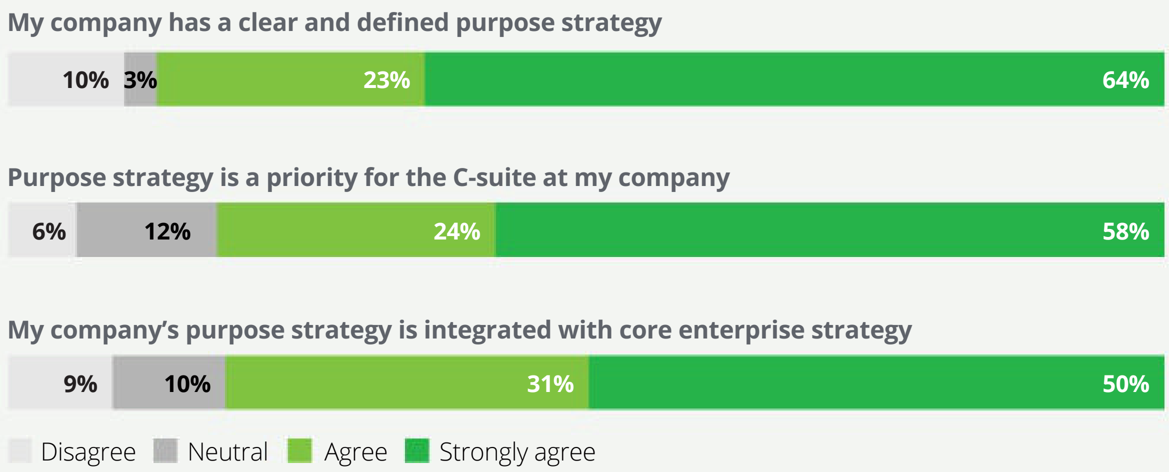
Purpose, value, and the future of the enterprise

By Shira Beery, John Mennel, and Kwasi Mitchell



As stakeholders increasingly expect companies to engage with societal issues, corporate purpose has become a strategic imperative that creates widespread benefits across organizations. Deloitte's new report, *C-suite Insights: How Purpose Delivers Value in Every Function and for the Enterprise*,* can help business leaders advance a truly integrated purpose strategy while avoiding the pitfalls of inconsistent action.

Purpose strategy importance



Source: Deloitte analysis.

While corporate responsibility, advocacy, and sustainability have been priorities for many companies for decades, they have often been managed in silos and peripherally to core business activities. **Today, stakeholders expect companies to drive consistent impact through all aspects of their operations**. In response, we are seeing more and more organizations reevaluating their purpose—the North Star that drives strategy and impact in the eyes of stakeholders.

A clear and integrated purpose creates differentiation and value and helps an organization manage increasingly complex risks. First and foremost, purpose is demonstrated through responsible day-to-day management of the core business processes and systems in line with the organization's values and ethics. Increasingly, purpose is also demonstrated through aligned management of brand and reputation; transparent commitments to and disclosure of environmental, social, and governance (ESG) impacts; the company's stances expressed through policy and advocacy; and corporate social responsibility (CSR) programs and community investments. **Companies have a valuable opportunity to powerfully demonstrate purpose to their stakeholders by coordinating and aligning these efforts across the C-suite, facilitated by a purpose or sustainability function.**

*Deloitte surveyed over 200 C-suite leaders across industries and functions to understand the extent to which Purpose is a priority for their role and organization.

For the full report, inclusive of this excerpt and sourcing, citations and attribution, please visit www.deloitte.com/us/c-suiteinsights.

Purpose has become a strategic imperative and a catalyst in defining an organization's reputation and building value with stakeholders. Consider that 78% of consumers are more likely to remember a company that exhibits a strong purpose, and 86% of employees expect their CEOs to speak out publicly on important issues. Purpose is also critical in capital markets—within the next five years, 65% of institutional investors believe that evaluation of ESG criteria will become standard practice, and global ESG assets are projected to grow to a third ($53 trillion) of total assets under management.

> Purpose can't just be a tagline or an artifact on the wall. It has to tie to how leaders are rated and ranked and compensated and how accountability is cascaded through the organization.
>
> —Brian Tippens
> Chief Sustainability Officer
> HPE

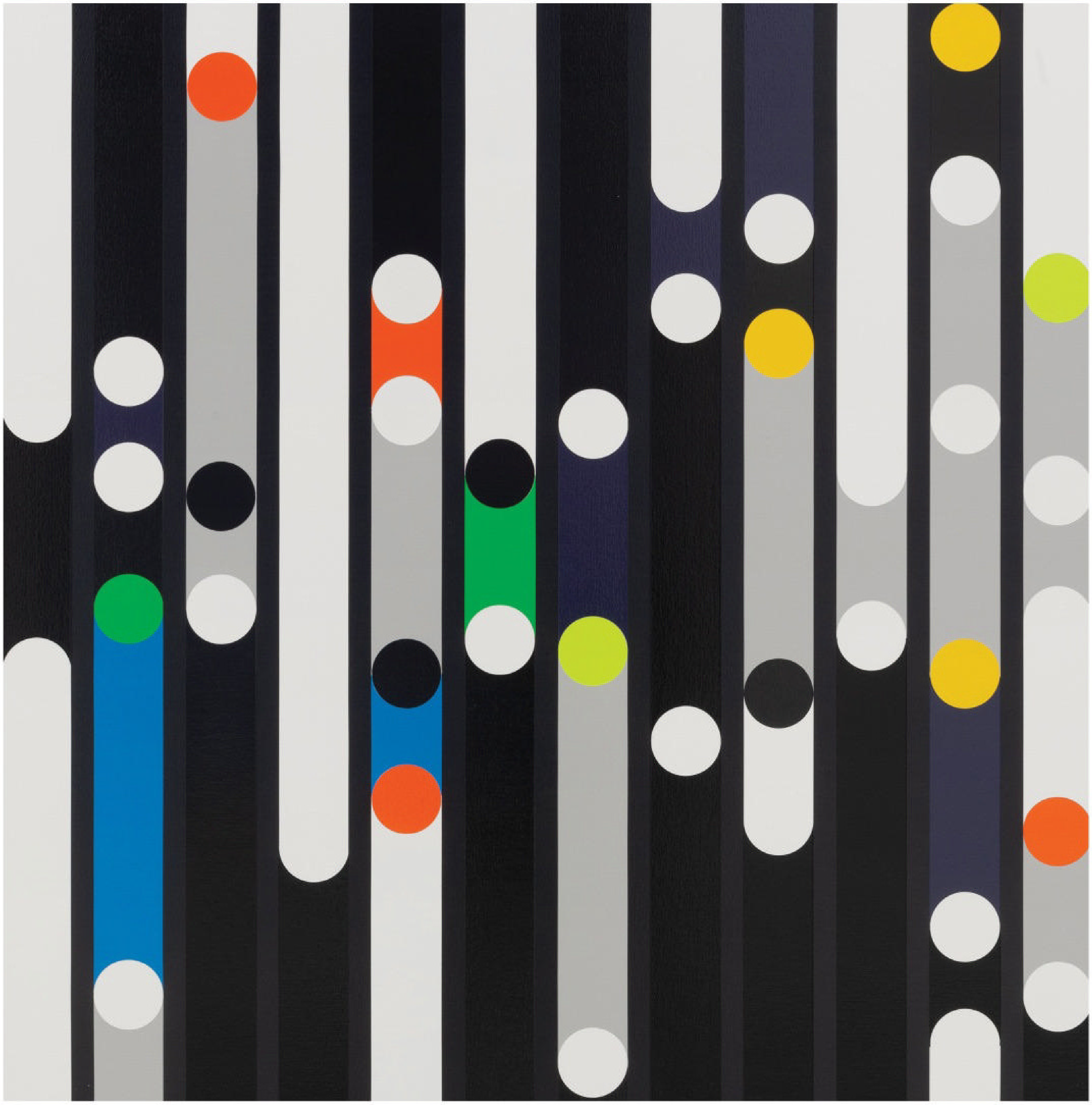
At best, attempting to meet these shifting stakeholder expectations without a clear and authentic purpose will be ineffective. At worst, it will do harm, causing reputational and other costs associated with actions that are inconsistent with stated values or commitments. **Purpose provides an organizational framework for consistently and proactively making strategic choices and investments that impact a company's key stakeholders.** For example, a clear and authentic purpose can help a company identify and manage its most material ESG issues through initiatives that drive competitive advantage and premium returns. It can help focus corporate responsibility efforts on those issues that most closely align to the core business and that the company has the most credibility and strongest capabilities to address. In addition, purpose serves as a compass to help business leaders navigate complex risks or crises.

Although many companies recognize the importance of purpose, including those that signed on to the Business Roundtable's statement redefining the purpose of a corporation in 2019, skeptics have argued that related operational changes and measurable impact have been limited. In fact, a recent study* found that 86% of B2B companies believe that purpose is important to their business, but only 24% have activated it to the extent that it impacts culture, innovation, operations, or societal engagement. **Our research underscores the strong desire among companies of all types and sizes across industries to prioritize and integrate purpose, though implementation remains a challenge.**

There is significant opportunity to mature approaches through cross-functional collaboration and accountability to drive purpose across an organization. The emerging role of the Chief Purpose or Sustainability Officer can help steward these efforts, in collaboration with the rest of the C-suite.

As business leaders seek to heed the call from their stakeholders,they face risks associated with inconsistency of action and perceived purpose-washing.

Read the full report to learn about driving long-term value and impact through a well-integrated approach to purpose. Visit **www.deloitte.com/us/c-suiteinsights**.



Data-Driven Diversity

AUTHORS

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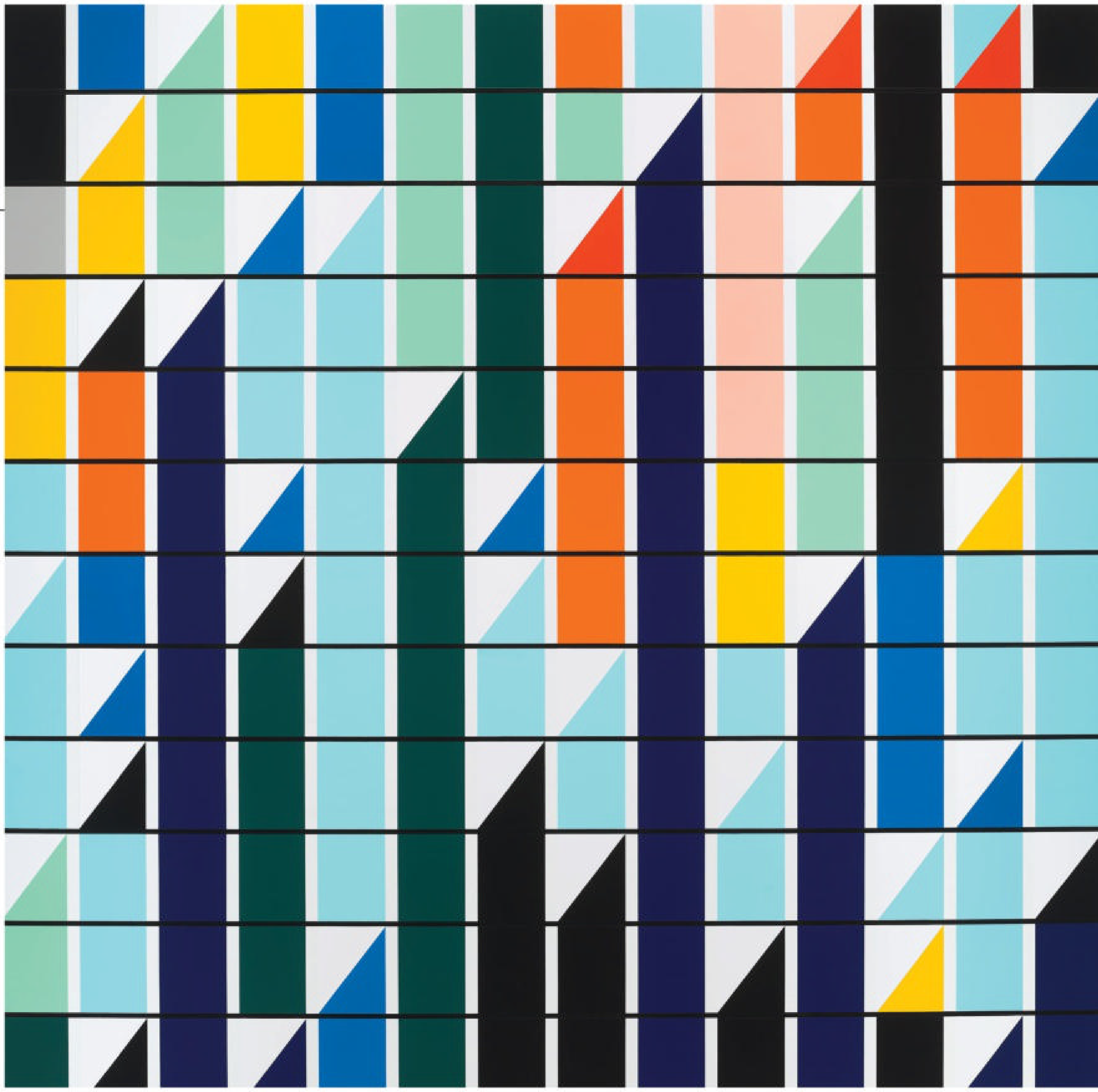
To achieve your inclusion goals, use a metrics-based approach.

DIVERSITY AND INCLUSION

ARTIST **SARAH MORRIS**



IDEA IN BRIEF

THE PROBLEM
Research shows that the best way for companies to improve their record on diversity, equity, and inclusion (DEI) is to use metrics to identify trouble spots, establish baselines, and measure progress. But few companies follow that approach.

THE EXPLANATION
In-house lawyers and midlevel managers often worry that if their companies collect diversity data, they might end up gathering evidence of discrimination that can be used against them in lawsuits.

THE RECOMMENDATION
Many companies have protocols for handling sensitive information, along with procedures for conducting internal investigations. They need to apply those protocols and procedures to DEI matters too.

When companies realize they are falling short in improving their operations, expanding their offerings, or connecting with customers, they typically define what they want to achieve, identify relevant metrics, and then try out various strategies until the metrics reveal progress toward their goal. It's a practice that works, and businesses use it to address any problem they truly care about. Hence the aphorism "We measure what we treasure."

ABOUT THE ART

American artist Sarah Morris is known for her large-scale abstract and geometric paintings inspired by psychology, culture, and politics.

But something odd is going on when it comes to diversity, equity, and inclusion (DEI). Although tracking data is key to doing better in this arena, most companies have yet to adopt evidence-based, metrics-driven practices—even though they've acknowledged DEI as a moral imperative and recognize how it can help their bottom line.

That makes no sense. The fact is, without metrics to measure their current status and monitor progress, DEI efforts will always amount to shooting in the dark. And that can be very costly, as CFOs are starting to realize. According to Harvard Kennedy School's Iris Bohnet, U.S. companies spend roughly $8 billion a year on DEI training—but accomplish remarkably little. This isn't a new phenomenon: An influential study conducted back in 2006 by Alexandra Kalev, Frank Dobbin, and Erin Kelly found that many diversity-education programs led to little or no increase in the representation of women and minorities in management.

If you want meaningful change, it's not enough to simply tout the importance of diversity. Think about it this way: Suppose a firm with weak sales decided to address the situation by conducting an earnest, companywide conversation about how much everyone values sales and then organizing a national Celebrate Sales Month. Would you expect a big jump in sales as a result?

Probably not. A company that's committed to solving its problems uses metrics to identify trouble spots, establish baselines, and measure progress. So why aren't companies doing that in the DEI arena?

Much of the answer has to do with risk. All too often, when an HR chief or a DEI head proposes a metrics-based plan for achieving DEI goals, it gets rejected because others in the company worry about the legal exposure it creates.

To be fair, some types of diversity metrics can indeed be useful to plaintiffs' employment lawyers, because they can provide concrete evidence of discrimination against a protected group. It's understandable, then, that in-house attorneys and midlevel managers may be uncomfortable collecting certain information for fear of helping adversarial lawyers write class-action briefs.

But although it can be risky to gather diversity data, there are also risks in not doing so. Companies today acquire data about virtually everything else, so their failure to track diversity statistics sends a message of indifference—or, worse, may be taken as evidence that the company has allowed bias to flourish.

In fact, there is no cause for alarm about embracing DEI metrics. Companies regularly handle sensitive information and shoulder legal risk to achieve their business goals. How many firms, for example, would refuse to analyze and fix their cybersecurity vulnerabilities because they were worried that doing so might expose them to a data-breach lawsuit? The crucial question corporate leaders have to ask is this: Do we really want to wait until *after* we've been sued to learn that our DEI record is problematic?

One of us (Joan) is an academic who has studied inequality in the workplace for more than 30 years, advised companies on implementing metrics-driven DEI practices, and taught employment law. The other (Jamie) is an employment lawyer who assists companies with DEI initiatives. This article, which reflects recent work we've done with colleagues, will help you take stock of your DEI goals, assess your tolerance for risk, and adopt practices that will make it easier to reach your goals while also mitigating the risks.

There's really no mystery about how to implement a metrics-based approach to diversity that gets results. Your organization probably already has protocols for handling sensitive information, whether it's product-recall secrets or customer data, and you've probably developed thoughtful procedures for conducting sensitive internal investigations. You need to use those protocols and procedures to handle DEI data as well.

Choose the Right Metrics

Many companies assume that diversity metrics are all about the "body count"—how many women, people of color, and perhaps members of other underrepresented groups they employ and in what positions. Those are *outcome metrics,* and they're important. They're a good indicator of bias; they're vital for establishing a baseline against which progress can be measured; and they're necessary for assessing the effectiveness of various interventions.

Any company committed to DEI goals needs to attentively track outcome metrics. Doing that, and making the numbers public, is even required by law in some contexts.

But outcome metrics indicate only whether you have a problem, not where it's arising or how to fix it. And you may find yourself with a PR challenge: If all you're doing in your DEI work is tracking demographics and then haphazardly trying to address the issues that surface, you're likely to end up reporting the same outcomes year after year. That can be a public-relations disaster, and of course it can also have a corrosive effect on employee morale.

To do better, you need *process metrics,* which can pinpoint problems in employee-management processes such as hiring, evaluation, promotion, and executive sponsorship. If your outcome metrics tell you, say, that you don't have enough women or people of color on your staff, process metrics will tell you where exactly to focus your attention to bring about meaningful change. Examples of these metrics include the speed at which people of color move up the corporate ladder and the salary differential between men and women in comparable jobs.

So what kind of problems can process metrics help you identify? Work we've done with colleagues has shown that process metrics can reveal the "prove-it-again bias" that obliges women and nonwhite men to provide more evidence of competence than white men do. Process metrics can also locate "tightrope bias," which rewards white men for being authoritative and ambitious but often penalizes members of other groups for behaving in the same way. On that front, for example, a 2020 study by Shelley Correll and coauthors found that tech company workers who "took charge" tended to receive the highest ratings on performance evaluations—but only if they were men.

The value of process metrics can be easily seen in the context of hiring. Problems generally arise in one or more of four areas: recruitment, résumé review, interviewing, and the making and negotiating of offers. In each case, if you identify a problem, there's a different fix. For example, to diversify your candidate pools, the solution may be additional outreach—perhaps to historically Black colleges and universities. To correct for bias in the review of résumés, you need to train reviewers to identify and interrupt bias. (The simple two-page training worksheet available at biasinterrupters.org can help; our research shows that worksheets of this sort, when read aloud to employees, can correct for bias against both women and people of color.)

To reduce interview bias, at a minimum you'll need a set of structured interview questions so that everyone is asked the same thing, including some skills-based or job-specific questions to ensure that what candidates are asked is relevant. You'll also need specialized training for your interviewers, to teach them not to write off women and people of color as either "too meek" or "too much."

You should incorporate both outcome and process metrics in your plan for achieving your diversity goals. But you also need to consider your tolerance for the risks that come with a metrics-based approach.

DETERMINE ACCEPTABLE RISK

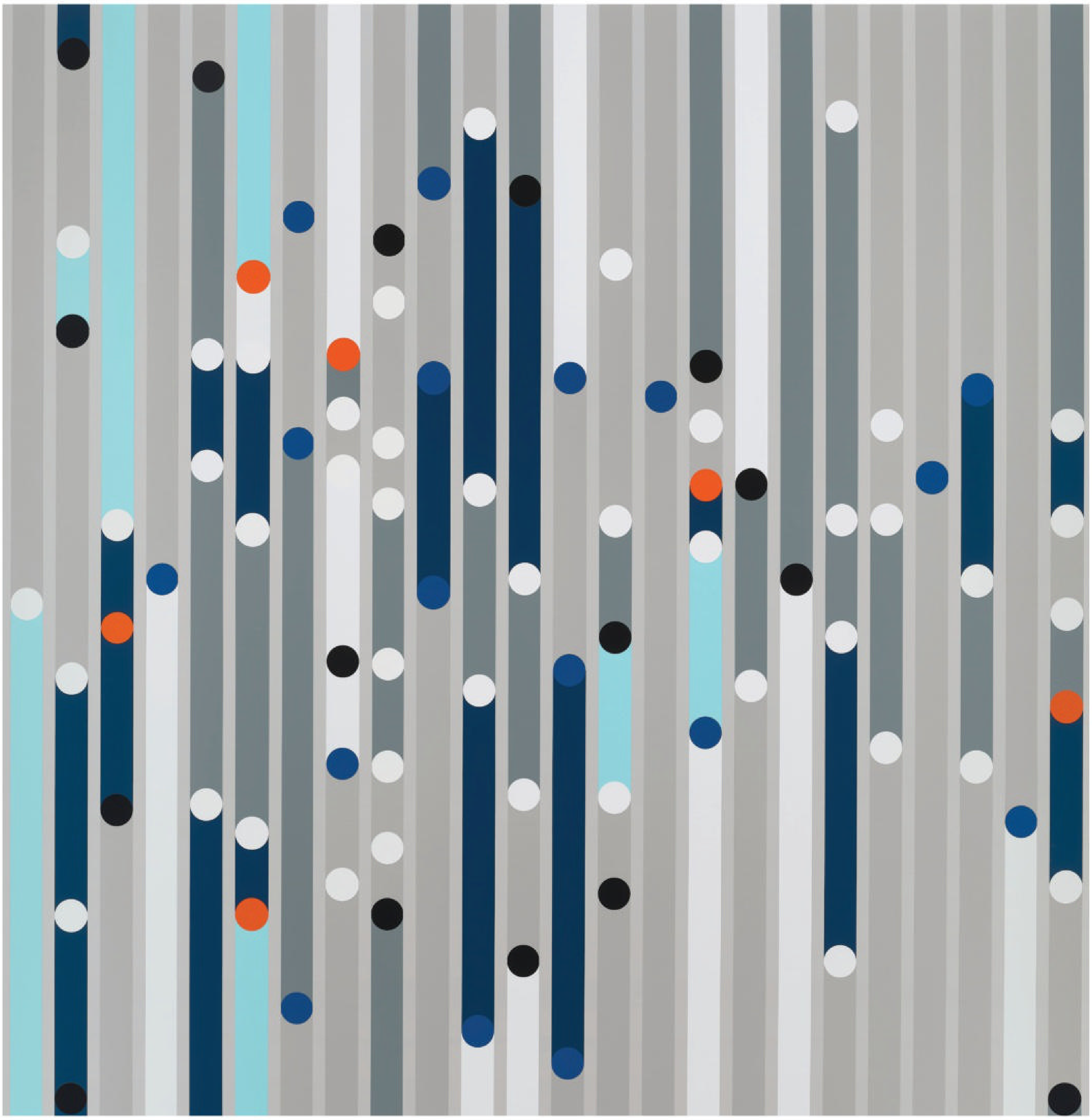
Employment lawyers control for risk all the time, so we recently assembled seven prominent ones to discuss how companies can best protect themselves when using diversity metrics. The group included the former general counsel of a large multinational corporation, other in-house lawyers, and law-firm attorneys who represent employers. Together we created a clear and simple road map for organizations to follow.

The first step is to assess risk tolerance. Some companies are highly risk-tolerant when it comes to DEI metrics. They believe that diversity, equity, and inclusion are core values, and they're absolutely committed to fostering them. They see inclusion as an important business goal, so they're willing to shoulder some risk to achieve it.

Other companies are much warier of getting into hot water with DEI data, sometimes because they're just generally risk-averse. The good news for highly risk-averse companies is that even if they're unwilling to use metrics, they can still use bias interrupters. Ample research shows, for example, that bias in performance reviews can be interrupted by giving managers a structured form to use, with objective criteria for evaluation, and asking them for concrete evidence to justify all their ratings. When we did this with one company, in conjunction with an hourlong workshop, levels of bias fell sharply, and every group, including white men, got more action-oriented feedback.

Of course, using bias interrupters without tracking metrics is less than ideal, because it means you can't determine a baseline. Lacking that, you can't measure progress or

Outcome metrics indicate only whether you have a problem. Process metrics will tell you exactly where to focus your attention to bring about meaningful change.



objectively assess whether your interventions have worked. But using bias interrupters without metrics is certainly better than doing nothing.

In the end, the CEO and other leaders in the C-suite—not midlevel in-house lawyers or HR managers—are the ones who must decide how much risk to shoulder in the DEI context. Once they do, they need to make their position clear to others in the company. Here's a solid rule of thumb: You should be willing to risk as much in the DEI arena as you would in any other arena in which you have important business goals.

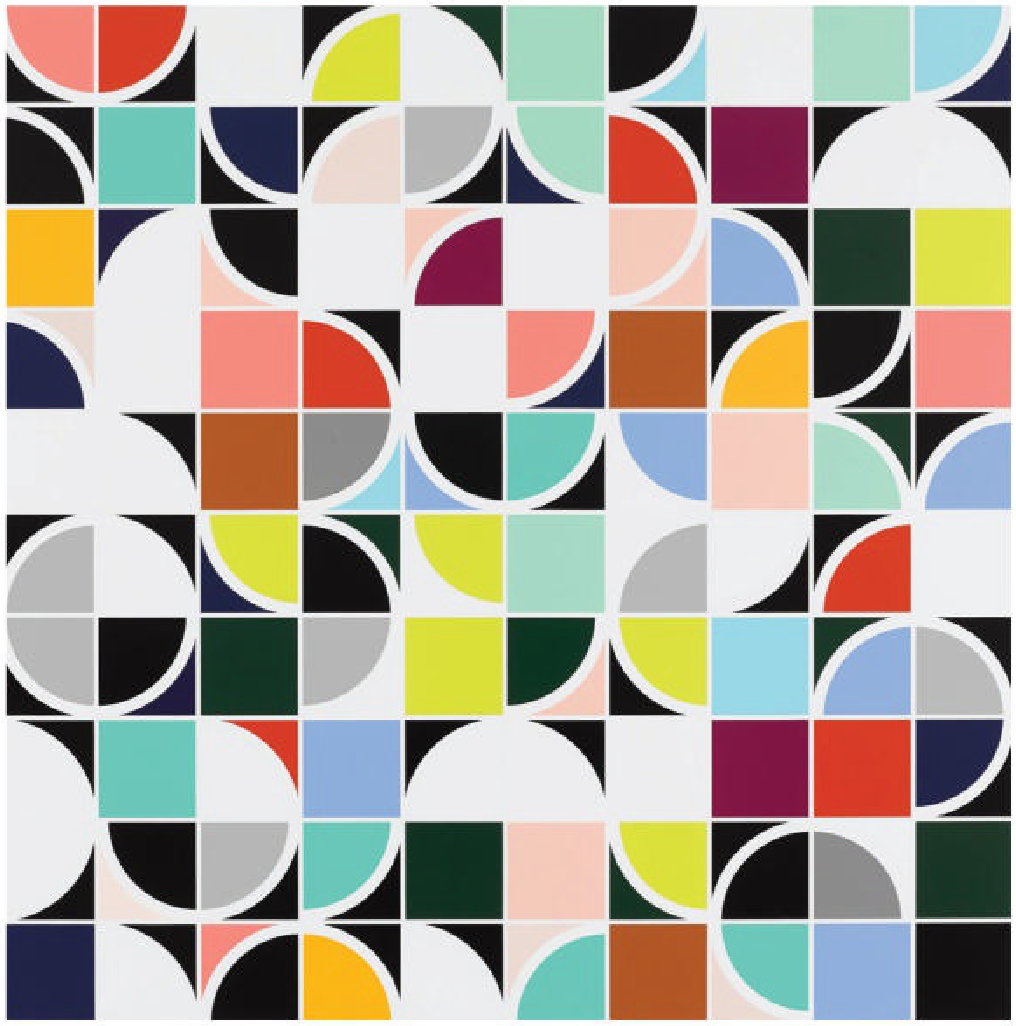
CREATE A PLAN FOR ACTION

Many companies are committed to fostering DEI and would like to adopt a metrics-based approach, but some are highly focused on doing so in a way that will minimize their legal exposure. The following guidelines will work for companies with differing appetites for risk.

Be ready to act on what you find. This is crucial for every organization. Before you begin collecting and analyzing data, make sure you have buy-in at the top and the budget to take persistent, reasonable measures to remedy any problems you find. Remember that you don't need to solve every problem immediately, and your response doesn't have to be perfect. But it does have to be prompt—don't wait around for six months or a year.

Start small. Launching a pilot is a good idea, because it will help you fine-tune your intervention in an iterative fashion before rolling it out companywide—a sensible course of action when it comes to both organizational change and risk management. Starting small also helps ensure that you can identify an effective way to make progress toward your goal without undue delay. Pilots should be overseen by a cross-disciplinary change-management team that has a clear mandate, specific goals, and a limited time frame. That team will need an engaged executive sponsor and a manager who is a diversity champion, or at least someone who is open-minded and willing to be guided by HR or the project team. Don't try to solve every problem in one fell swoop, and keep in mind that making progress on a single issue may require a multifaceted intervention.

Build the business case. Building the business case means persuading key stakeholders at your company that attention to diversity, equity, and inclusion can help them succeed in their jobs. Make clear to your CEO and the board how it can enhance your firm's products and services, its public image, and its profits. If you are a consumer-products company, show managers how effective DEI programs can make it easier to connect with diverse customers. If you are



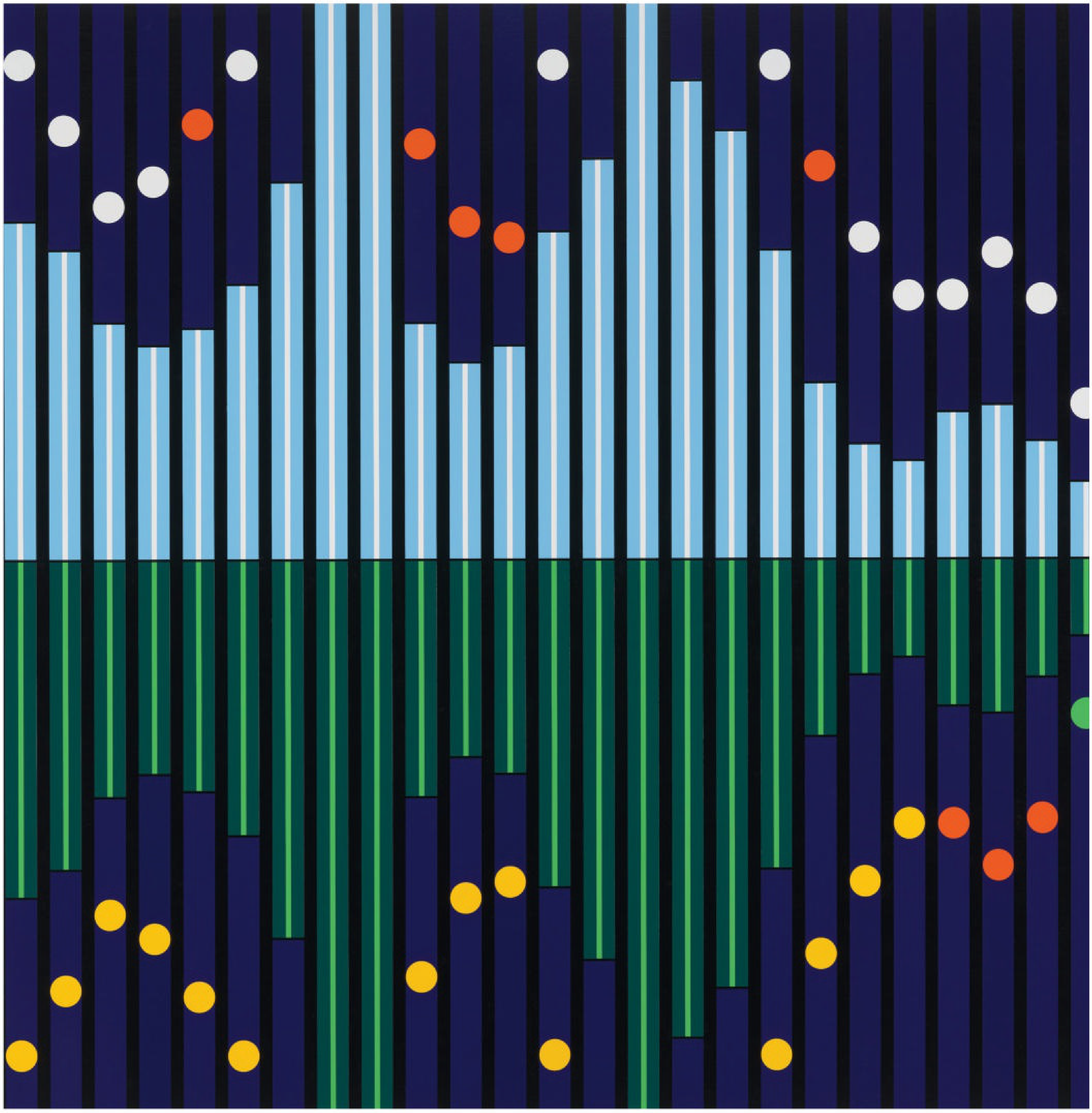
a tech company, emphasize how inclusion can help you avoid bias in your artificial intelligence. (Facial recognition systems, for example, have been notorious for misidentifying people of color.) If you are in finance, point to the finding by Sheen S. Levine and colleagues that ethnically diverse teams are 58% more likely than homogeneous ones to price stocks correctly. Managers also need to know that team performance stands to benefit from racial and gender diversity. Scholars have found, for instance, that a team's collective intelligence is more than twice as important as individual members' intelligence in determining how well the team performs, and that gender diversity predicts higher collective intelligence. Other research indicates that when groups are racially mixed, they engage in less groupthink and work harder.

Control expectations through careful messaging. Don't create expectations you can't fulfill. The most effective messaging is that the company is wholeheartedly committed to unlocking the potential of its most important asset—its human capital. But DEI challenges reflect the fact that bias commonly colors many talent-management activities (from recruiting employees to developing and retaining them), and it's often a factor in informal workplace interactions too. The best path to achieving DEI goals is to aim for a sustained series of small, incremental improvements. Success will take time, so as John Kotter recommends in his organizational-change model, use your metrics to measure and celebrate wins.

Consider limiting access to your metrics. A key difference between risk-averse and risk-tolerant companies is openness about diversity metrics. Some companies widely share enough data to paint a clear picture of the company's DEI profile, and this approach has many advantages. In our work, especially with companies with a high level of antidiversity backlash, we have found that letting managers see key statistics can supercharge buy-in.

But that is not the only option. Risk-averse companies can restrict the dissemination of DEI data in the same way that they restrict the dissemination of any other sensitive information, giving access only to those who are already accustomed to handling such material. For such companies, the real question is this: To create an effective DEI program, who needs to know your metrics and corrective-action plans? You'll want somebody to analyze the data and take the lead on developing the plans. Typically, that's someone in human resources. You're also likely to want your head of HR, your DEI officer, the members of your project team, and its executive sponsor to be informed.

All companies should think carefully about which data to share widely and which to hold closer to the vest.



> All companies should think carefully about which data to share widely and which to hold closer to the vest. Not everybody has to know every metric you are tracking.

Sometimes keeping the circle tight can be important for morale, because any problems you find might take some time to solve. Not everybody in the company has to know every metric you are tracking.

Create a DEI data protocol. Remember that when it comes to DEI risks, problems often arise not from the metrics themselves but from what people do as a clearer picture of the company comes to light: the notes they take, the emails they send, the discussions they engage in. Anyone with access to diversity metrics needs to be trained to know what is and isn't permitted on this front and how to recognize information that should be shared only orally, not in writing. And there should certainly be no joking on paper: Often that's where the trouble starts. People also need to be trained to avoid drawing legal conclusions about the way any employee is treated. That's a job for lawyers.

Risk-averse companies should consider creating a data protocol with several key characteristics. It should name and describe your project. It should identify the members of your project team, including a well-trained "data protocol officer" who is in charge of properly gathering and using sensitive information. It should clarify who is authorized to analyze the data. It should establish a procedure for adding new members to the team. It should delineate the scope of the team's work. And it should make two more things clear: that nobody may share sensitive information outside the team without the data protocol officer's approval, and that any violation of the protocol may lead to disciplinary action.

Risk-averse companies may also want to consider limiting written communications until the company's leaders have determined their DEI priorities. The safest approach is for members of the project team to initially present the data orally to senior leaders, with no note-taking allowed—a perfectly routine and sensible practice. The leaders can then decide which problems to address, in which order, and communicate their plans in writing.

Create a sound data-retention policy. Most companies already have a policy in place regarding how long to keep other kinds of data. If possible, adapt that for use with DEI data. But whether you choose that course of action or start from scratch, make sure that your policy complies with local and other laws. And follow the general principle that you should retain your data only as long as necessary to identify problems and measure the effectiveness of specific DEI interventions.

Consider framing key documents so that they qualify as "privileged." Some highly risk-averse companies try to structure certain critical documents, particularly corrective-action plans, in ways that maximize their chances of being protected by attorney-client privilege. This can be a good idea in certain contexts, notably if your company has already been sued for discrimination. That said, be careful if you choose this approach. It may shield you from risk, but it may also undermine your efforts to make your workplace more diverse, equitable, and inclusive. Research has shown that when companies devise and frame DEI initiatives as responses to legal risk, employees often go into a defensive crouch.

And that, of course, is not a good stance from which to make progress.

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About the Research

The framework presented in this article grew out of the meetings of a working group on the topic of tracking diversity metrics while controlling for legal risk. The group consisted of Cynthia Thomas Calvert (principal at Workforce 21C), Laura Maechtlen (partner at Seyfarth Shaw), Gilda Malek (deputy general counsel for employment and litigation at Confluent), Joyce M. Norcini (former general counsel at Nokia Siemens Networks), Wayne Stacy (executive director of the Berkeley Center for Law & Technology), Emily Gould Sullivan (vice president of the legal group at Ross Stores), Janine Yancey (CEO of Emtrain), and the authors. Heather Lanyi provided outstanding research assistance.

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AI AND MACHINE LEARNING

Robots Need Us More Than We Need Them

In our AI future, people—not the algorithms they deploy—will be the reason most companies succeed.

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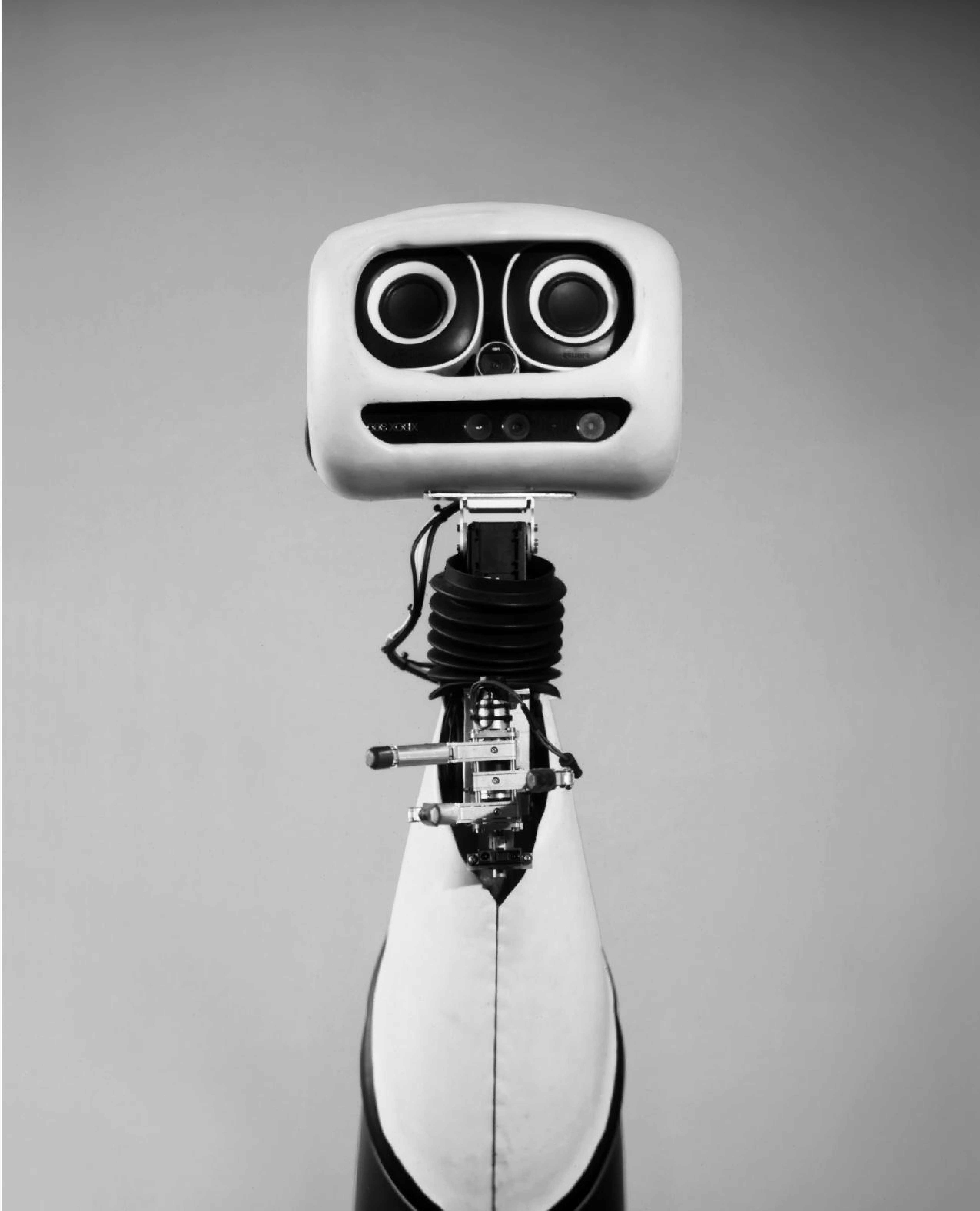


AI AND MACHINE LEARNING

ABOUT THE ART

In collaboration with human-machine interaction scientist Erwin R. Boer, photographer Wanda Tuerlinckx documents realizations of robots in leading scientific institutes and universities and explores the changing relationships between humans and machines.

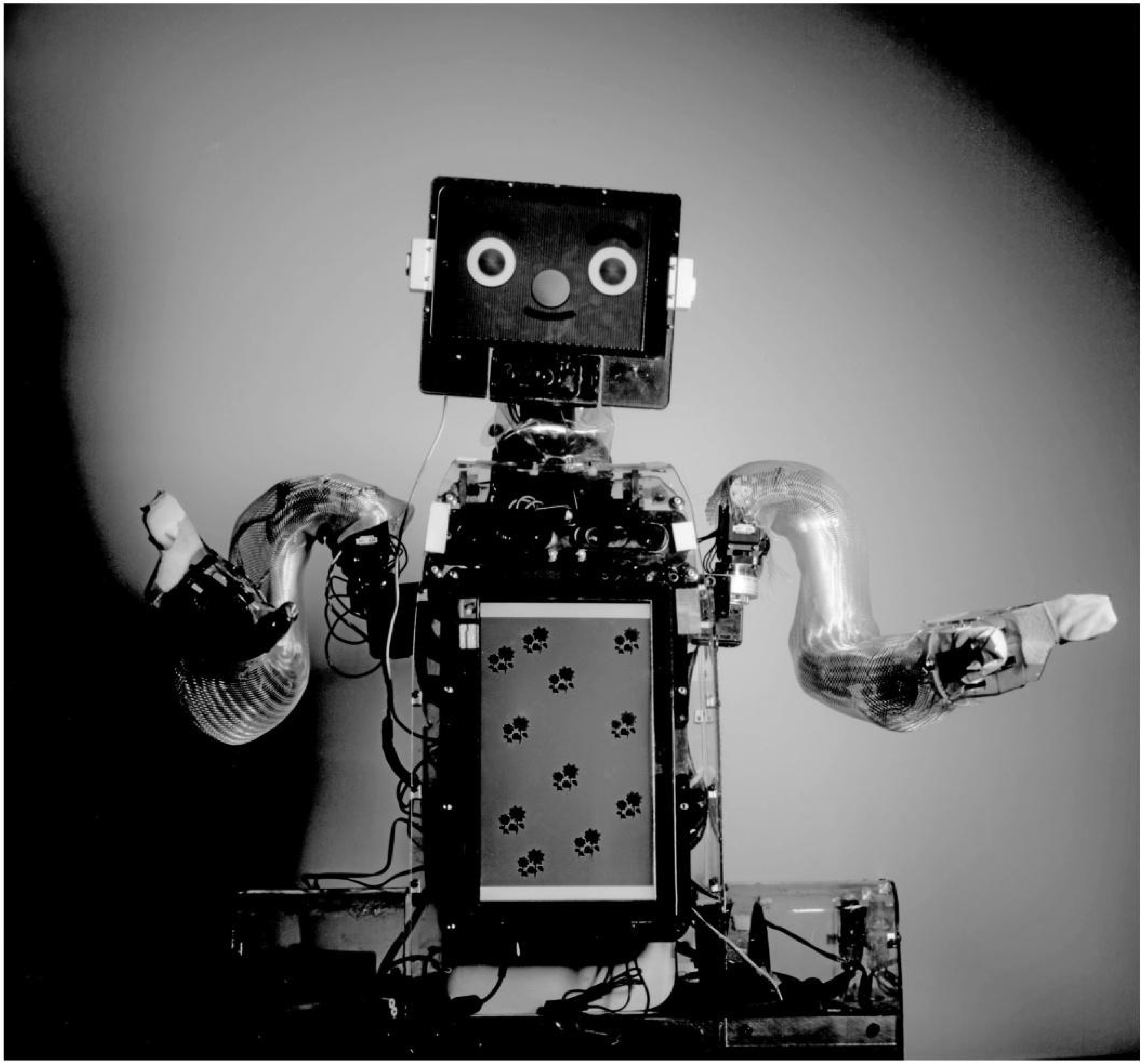
Imagine trying to find a particular image within the National Football League's historical archive of hundreds of thousands of videos. A single season produces more than 16,320 minutes (some 680 hours) of game footage. If you include coverage of every pregame, halftime, and postgame show, every practice, and every media interview, you have a seemingly endless amount of footage. And that's just for one season.

To make it easier for staffers to create highlight reels and other media from all this material, the NFL partnered with Amazon Web Services in December 2019 to use artificial intelligence to search and tag its video content. The first step of the process required the NFL's content creation team to teach the AI what to find. The team created metadata tags for every player, team, jersey, stadium, and other visually recognizable content it wanted to identify within its video collection. It then combined those tags with Amazon's existing image-recognition AI system, which Amazon had already trained on tens of millions of images. The AI was able to use both sets of data to flag relevant imagery within the video library, and the content creation team was able to approve each tag in just a few clicks. Whereas employees once had to manually search, find, and clip each video, store it in a repository, and then tag the video with metadata, Amazon's AI automated most of the process.

In a previous HBR article ("Collaborative Intelligence: Humans and AI Are Joining Forces," July–August 2018), we described how some leading organizations are defying the conventional expectation that technology will render people obsolete—they are instead using the power of human-machine collaboration to transform their businesses and improve their bottom lines. Now several companies are not merely out-innovating their competitors with this approach; they're turning even more decisively toward human-centered AI technology and upending the very nature of innovation as it was practiced over the previous decade.

In the NFL's case, for example, AI accelerated the image-recognition process, but the system would have failed without employees determining which data needed to be uploaded and then approved. And the NFL didn't simply hand the job of making highlight reels over to AI; content creation experts performed that work, but they did it faster and more easily thanks to AI's unique ability to quickly sort through massive volumes of information.

The new human-focused approach to AI is changing assumptions about the basic building blocks of innovation. Companies such as Etsy, L.L.Bean, McDonald's, and Ocado are redefining how AI and automation can knit together a wide range of cutting-edge information technologies and systems that enable agile adaptability and seamless human-machine integration. (Disclosure: Several

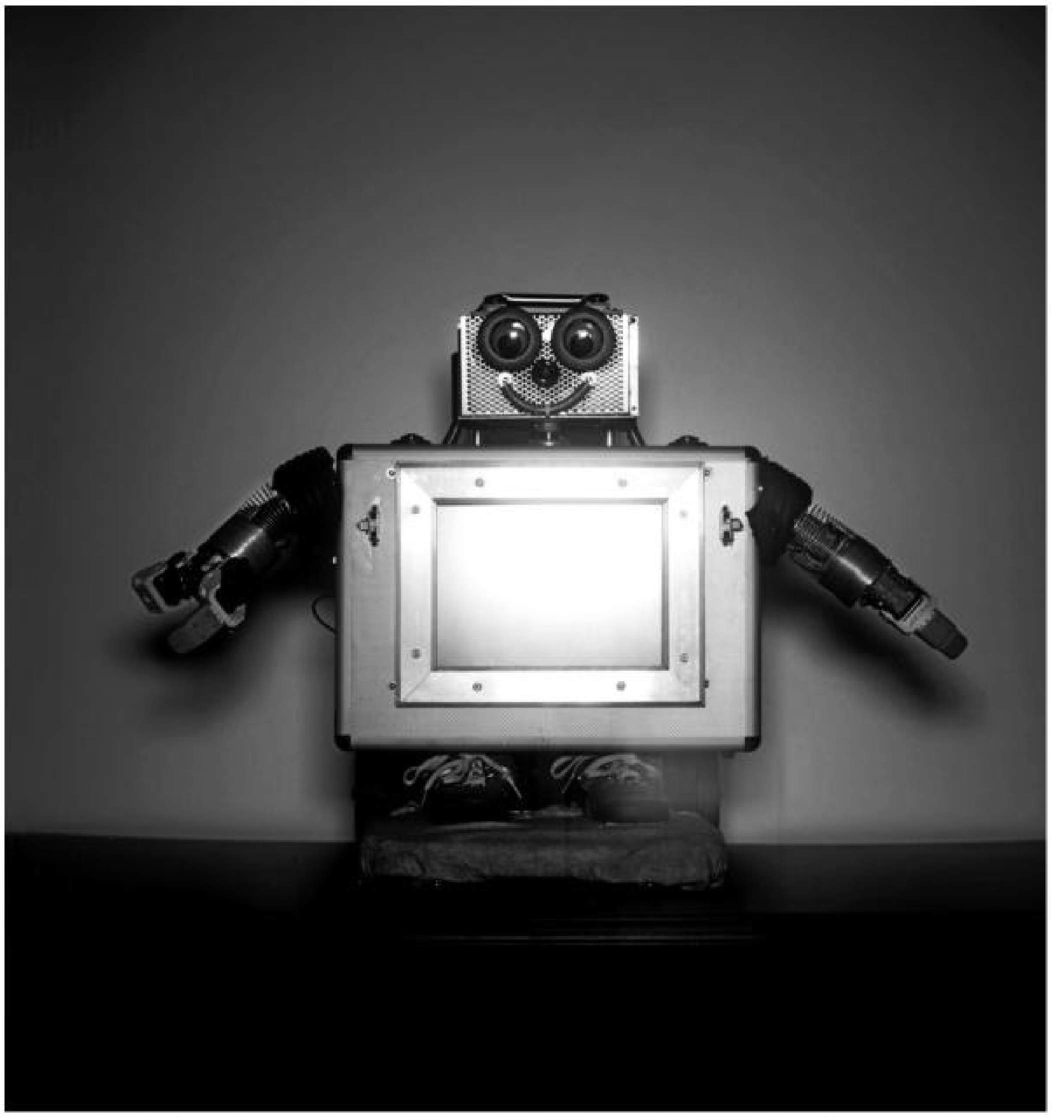


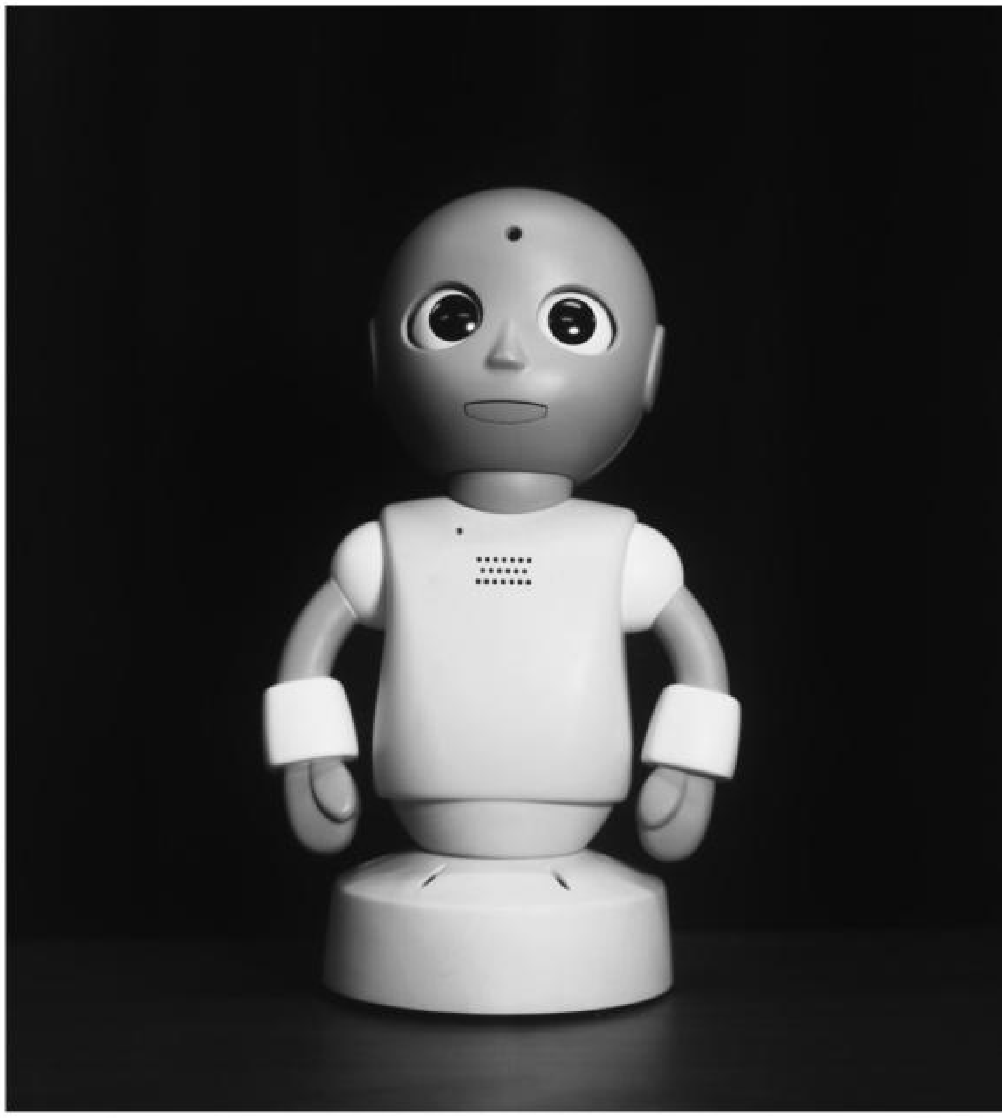
IDEA IN BRIEF

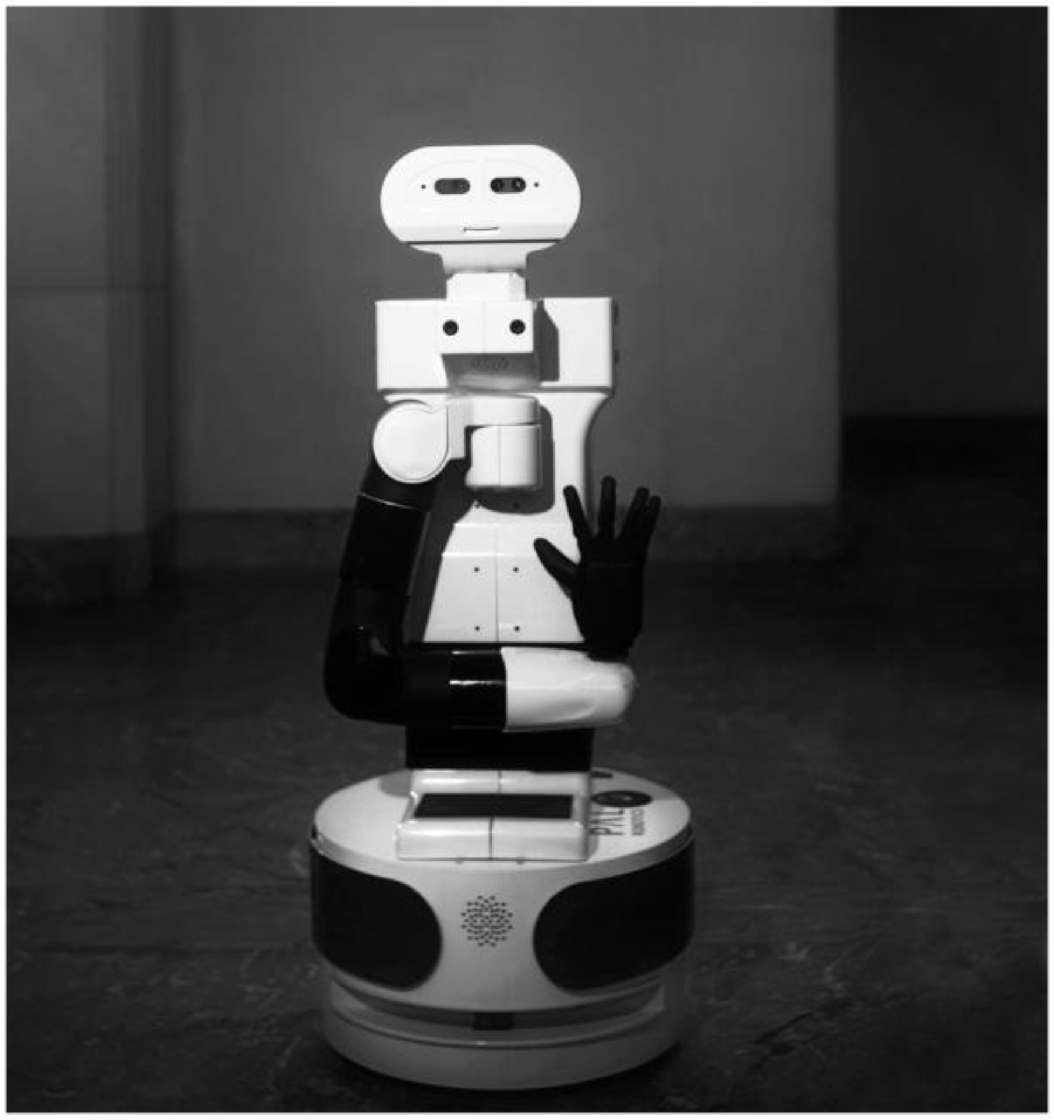
THE SITUATION
Innovative companies have scaled their investments in key digital technologies such as cloud computing and AI, and they're generating revenue at twice the speed of laggards.

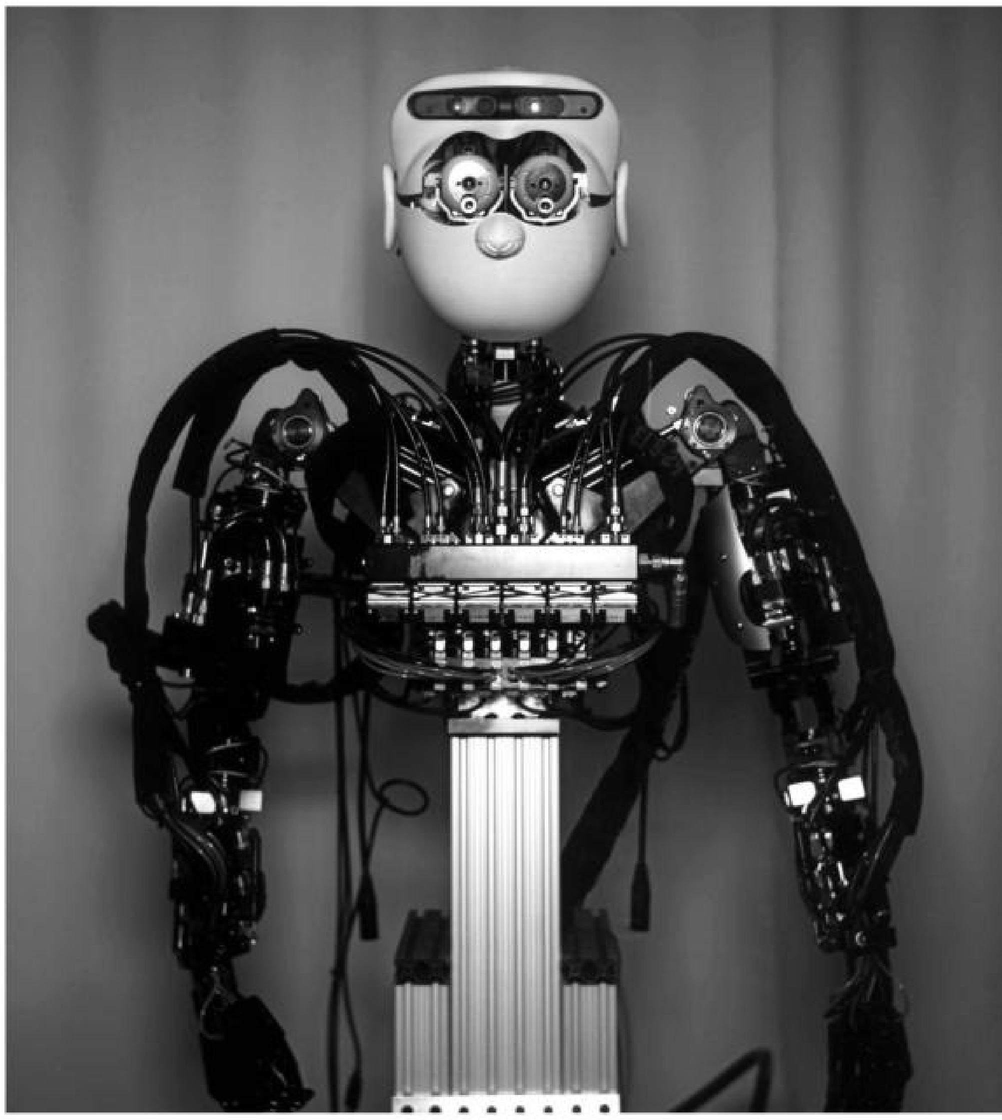
THE EXPLANATION
An increasingly human-focused approach to AI is helping the most-forward-thinking firms create seamless human-machine integration and agile adaptability.

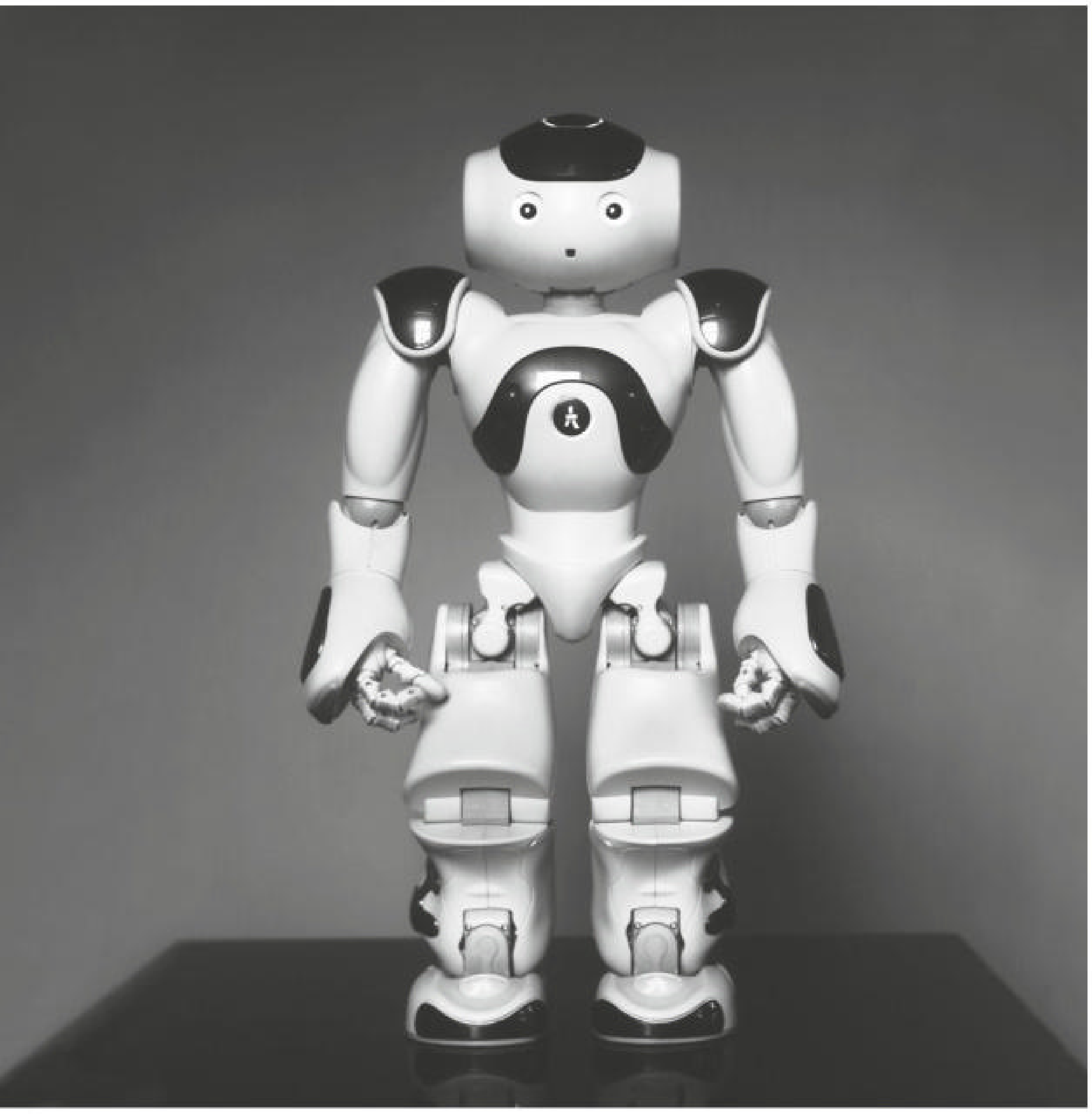
THE ADVICE
Companies that want to get on the bandwagon can use the IDEAS framework: They should focus on five elements of the technology landscape—intelligence, data, expertise, architecture, and strategy—and look for ways to weave them together into powerful engines of innovation.











companies named in this article are Accenture clients.) These path-breaking firms have invested in digital technologies at unprecedented rates to respond to new operational challenges and rapidly shifting customer demands. They've dramatically increased investments in cloud services, AI, and the like, and they're generating revenue at twice the speed of laggards, according to a 2019 Accenture survey of more than 8,300 companies. A second study, of more than 4,000 companies in 2021, shows that the 10% making the biggest commitment to digital technologies are rocketing even further ahead, growing revenue five times as fast as laggards.

We've turned what we've learned from this research into guidance that business leaders can use to compete in a world where most companies will owe their success to humans rather than machines. Our IDEAS framework calls for attention to five elements of the emerging technology landscape: intelligence, data, expertise, architecture, and strategy. It can help both technical and nontechnical executives to better understand those elements and conceive of ways they might be woven together into powerful engines of innovation.

In this article, we use the IDEAS framework to examine examples of businesses that have implemented human-driven AI processes and applications to solve problems in e-commerce, online grocery delivery, robotics, and more. You can do likewise, marshaling the skills and experience of your own people to manage technological innovation in everything from R&D and operations to talent management and business-model development.

INTELLIGENCE

Make AI More Human and Less Artificial

Human intelligence and artificial intelligence are complementary. No machine powered by AI can match the ease and efficiency with which even the youngest humans learn, comprehend, and contextualize. Accidentally drop an object and a one-year-old who sees you reaching for it will retrieve it for you. Throw it down on purpose and the child will ignore it. In other words, even very small children understand that people have intentions—an extraordinary cognitive ability that seems to come almost prewired in the human brain.

That's not all. Beginning at a very young age, children develop an intuitive sense of physics: They expect objects to move along smooth paths, remain in existence, and fall when unsupported. Before they've acquired language, they distinguish animate agents from inanimate objects. As they learn language, they exhibit a remarkable ability to generalize from very few examples, picking up new words after hearing them only once or twice. And they learn to walk on their own, through trial and error.

Conversely, AI can do many things that people, despite being endowed with natural intelligence, find impossible or difficult to do well: recognize patterns in vast amounts of data; defeat the greatest champions at chess; run complex manufacturing processes; simultaneously answer many calls to customer service centers; analyze weather, soil conditions, and satellite imagery to help farmers maximize crop yields; scan millions of internet images in the fight against child exploitation; detect financial fraud; predict consumer preferences; personalize advertising; and much else. Most important, AI has enabled humans and machines to work together efficiently. And contrary to automation doomsayers, such collaboration is creating an array of new, high-value jobs.

At Obeta, a German electronics wholesaler whose warehouse is run by the Austrian warehouse logistics company Knapp, human workers are teaching a new generation of robot pickers how to handle differently sized and textured items. The robots employ an off-the-shelf industrial arm, a suction gripper, and a vision system. Crucially, they are also equipped with AI software from Covariant, a start-up based in California.

To train a robot, Knapp workers put unfamiliar objects in front of it and see if it can successfully adapt to them. When it fails, it can update its understanding of what it's seeing and try different approaches. When it succeeds, it gets a reward signal, programmed by humans, to reinforce the learning. When a set of SKUs differs totally from other sets, the team reverts to supervised learning—collecting and labeling a lot of new training data, as happens with deep-learning systems.

Thanks to the Covariant Brain software, Knapp's robot pickers are acquiring general-purpose abilities, including 3D perception, an understanding of how objects can be moved and manipulated, the capacity for real-time motion planning, and the capacity to master a task after only a few training examples (few-shot learning). These abilities enable them to perform their job—to pick items from bulk storage bins and add them to individual orders for shipping—without being told what to do. In many cases, the items have not been precategorized, which is unusual for industrial packaging systems; it means the robots are learning how to handle them in real time. This is a critical skill to have when dealing with electronics, especially when you consider the different care required to handle a light bulb and a stove.

To succeed in a commercial environment, robots must perform to a very high standard. Previously, Knapp's robot pickers reliably handled only about 15% of objects; the Covariant-powered robots now reliably handle about 95% of objects. And they're faster than humans, picking about 600 objects an hour versus 450 for humans. Nevertheless, they have not caused any staff layoffs off at the Obeta facility. Human workers, instead of losing their jobs, have been retrained to understand more about robotics and computers.

DATA

Manage Info, Don't Just Amass It

In 2018 McDonald's was coming off one of its most challenging years in decades. Its competitors had used online delivery to leapfrog its lock on the fast-food market. The company's leaders quickly devised an online delivery solution through a global partnership with Uber Eats that by 2019 was adding $4 billion to annual sales. But top executives knew that the company's long-term future depended on making a rapid and complete transformation to become data-driven. That meant a strategy to reconfigure its restaurants into enormous data processors, complete with machine learning and mobile technology to support highly personalized customer orders and curbside delivery. Data crunching could also aid in calculating how external factors, from weather to big sporting events, would impact demand and restaurants' ability to serve customers. And gathering and processing data was important for developing new products

> Creating a robust data foundation requires breaking information out of legacy silos so that it can be unified, optimally stored, easily accessed, and readily analyzed—all in the cloud.

and initiatives that could be immediately successful. Within two years, the transformation effort had already achieved financial results: Few companies in the S&P 500 have outperformed McDonald's. What the company's leaders did was recognize that data was a source of valuable, untapped capital that needed to be used strategically.

To master the use of big and small data to generate value from AI, organizations must first lay a solid data foundation. Business data is often locked in legacy, on-site platforms that are siloed, making it difficult, if not impossible, for employees to get different types of data to work together. That makes it even harder for business users to find and process the right information to arrive at appropriate decisions. Creating a robust data foundation requires breaking information out of legacy silos so that it can be unified, optimally stored, easily accessed, and readily analyzed with new tools—all in the cloud.

Three capabilities are key: modern data engineering, AI-assisted data governance, and data democratization.

• ***Modern data engineering.*** In a strong, cloud-based foundation, data comes from multiple internal and external sources. It gets stitched together into curated and reusable data sets that can be employed for a variety of analytic purposes. A good foundation relies on frameworks for data ingestion and ETL (extract, transform, load) that support diverse data types. These frameworks also handle rules for standardizing information, classifying it, ensuring its quality, and capturing metadata. In addition, they enable a faster, templatized approach to using data, which allows engineers to quickly develop new analytic use cases and data products.

• ***AI-assisted data governance.*** Cloud-based AI tools offer the advanced capabilities and scale to automatically cleanse, classify, and secure data gathered in the cloud as it is ingested, which supports better data quality, veracity, and ethical handling.

• ***Data democratization.*** A modern data foundation gets more data into more hands. It makes data accessible and easy to use in a timely manner, while enabling multiple ways to analyze it, including through self-service, artificial intelligence, business intelligence, and data science. The latest cloud-based tools democratize data and empower more people across the enterprise to easily find and leverage information that's relevant to their specific business needs.

Together, these three capabilities help companies overcome some of the most common barriers to getting value from data: problems with its accessibility, trustworthiness, readiness for use, and timeliness. They enable companies to blend items from big and small data sets in real time, build agile reporting, and apply AI to create broadly accessible customer, market, and operational insights that deliver meaningful business outcomes.

With a solid data foundation—more data from more sources, managed with the help of AI and widely disseminated within your organization—you are no longer overwhelmed by data but able to maximize its potential. You can put it to increasingly powerful and fine-grained uses, but, just as with more-humanlike intelligence, that will require greater involvement by your people.

EXPERTISE

Unleash Your Employees' Talent

At Etsy, the online marketplace for vintage and handmade goods, the motto is "Keep commerce human." And it took humans to teach the company's search engine how to recognize what is the crux of many purchasing decisions—aesthetic style. When considering an item to buy, Etsy's customers look not only at details such as its size, material, price, and ratings but also at its stylistic and aesthetic aspects.

For Etsy, classifying items by style is particularly challenging. Most of the products on its site are one-of-a-kind creations. Many borrow from multiple styles or exhibit no clearly identifiable style at all. And there are some 50 million items on offer at any given time. In the past, style-based recommendation systems produced unexplainable product suggestions for groups of shoppers. That's because the AI assumed that two items must be similar in style if they are frequently purchased together by a common customer demographic. Another approach uses low-level attributes such as color and material to group items by style. Neither method has been able to understand how style affects purchasing decisions.

Who better to school AI in subjective notions of style than Etsy's merchandising experts? Based on their experience, they developed 42 style labels that captured buyers' taste across 15 categories from jewelry to toys to crafts. Some labels are familiar from the art world (art nouveau, art deco). Some evoke emotions (fun and humor, inspirational). The merchandisers produced a list of 130,000 items distributed across these 42 styles.

Etsy's technologists then turned to buyers who tend to use style-related terms in their searches, typing in things like "art deco sideboard." For each such query, Etsy assigned the chosen style name to every item the user clicked on, "favorited," or bought during that search. From just one month of such queries, the company was able to collect a labeled data set of 3 million instances against which to test its style classifications. Etsy engineers then trained a neural network to use textual and visual cues to best distinguish between those classifications for each item. The result was style predictions for all 50 million active items on Etsy.com.

This became particularly useful when the Covid-19 pandemic struck and the supply chains of mass retailers broke down. Many buyers turned to Etsy for a much-needed product: masks. Among the hottest sellers within that category were masks tailored to the aesthetic sensibilities of customers, who could specify the design they were looking for—polka dots, floral patterns, animal faces, or what have you. Sales of masks went from virtually nothing at the beginning of April 2020 to some $740 million for the rest of the year. The company's revenue more than doubled during that time, and its market value rose to $22 billion. The key was allowing buyers to find a mask "that expressed their sense of taste and style," said Etsy CEO Josh Silverman.

Machine teaching will unleash the often-untapped expertise that exists throughout your organization, allowing a much broader swath of your people to use AI in new and sophisticated ways. Because it's customizable for your business situation, it opens the way to real innovation and advantage—you no longer are simply playing technology catch-up. In supervised-learning scenarios, machine teaching is particularly useful when little or no labeled training data exists for the machine-learning algorithms—as it often doesn't because an industry's or a company's needs are so specific.

To get the greatest value out of both systems and knowledge workers, organizations must reimagine the way nonspecialists as well as specialists interact with machines. You can begin by giving your domain experts a working knowledge of AI so that they can efficiently transfer their expertise to company processes and technology. Familiarity with the basics of artificial intelligence will also equip them to develop creative ways to apply it to the business.

ARCHITECTURE

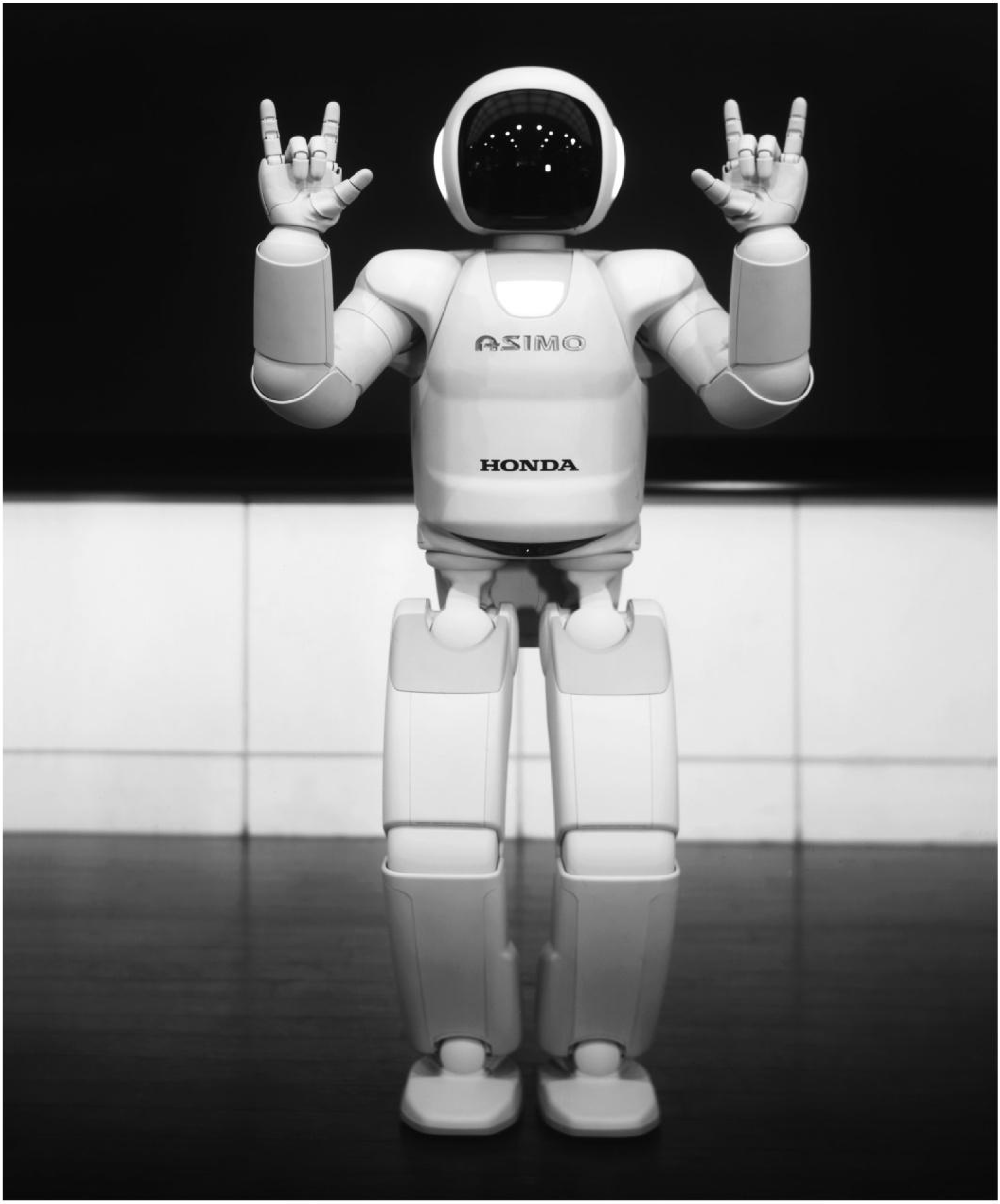
Build Adaptable, Living Systems

Legacy architectures are tightly bounded, maintaining barriers between lines of business, geographies, sales channels, and functions. They're rigid, unable to adapt to new smart technologies or to accommodate new strategies, changing market conditions, and new operational opportunities. That's why many companies' innovation projects stall.

The rapid transformations that occur today and the sudden influx of new technologies have put IT architecture front and center. While laggards fail to seize the opportunity for IT innovation, leaders adopt a wide range of emerging information technologies and assemble them into what we call *living systems* because they are boundaryless, adaptable, and radically human.

By "boundaryless" we mean that they break down barriers—within the IT stack, between companies using cloud-based platforms to harness network effects, and between humans and machines—giving businesses infinite opportunities to improve the way they operate. By "adaptable," we mean that the systems, powered by advances in data and intelligent technologies, rapidly adjust to business and technology change, minimizing friction, scaling innovation, and learning and improving. And when we describe the systems as "radically human," we mean that they are modeled on human brains and behaviors and are able to listen, see, talk, and understand in more humanlike ways than previous generations of intelligent technology could.

Consider L.L.Bean, the 110-year-old retailer with a heritage that includes classic clothing, rugged outdoor gear, and a deep commitment to customer satisfaction. In recent years, as the company increasingly reached out to customers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across multiple channels—print, brick-and-mortar stores, computer and mobile websites, email, and social media—it found itself hampered by a less valuable legacy: a cumbersome IT system, parts of which had been in use for two decades. Much of the system consisted of on-site mainframes and distributed servers. Different platforms, only loosely connected, supported each of the different customer channels, all of which were running on separate applications. Providing a seamless customer experience across all channels was next to impossible. And instead of focusing on delivering customer value, IT personnel had to spend time managing the infrastructure.

Meanwhile, 73% of U.S. consumers were using multiple channels for shopping, according to research reported on HBR.org (see "A Study of 46,000 Shoppers Shows That Omnichannel Retailing Works," by Emma Sopadjieva, Utpal M. Dholakia, and Beth Benjamin). The research also indicated that multichannel shoppers spent more money than single-channel customers did—an average of 4% more on every trip to the store and 10% more online. Furthermore, multichannel shoppers were also more loyal and more likely to recommend a favored retailer to friends and family.

To compete successfully in the age of Amazon, L.L.Bean needed to offer customers a satisfying omnichannel experience that purely online retailers couldn't match. So the retailer decoupled mission-critical applications from its legacy IT system and located them in Google's cloud. The IT team can now integrate data from multiple systems, handle peak website loads more efficiently, and deliver new customer features faster. Because the cloud-based architecture is being continually optimized in the background, the company's front-end developers spend less time managing it and more time using agile software to experiment with new features and launch them as soon as they're ready. And with the flexible front-end architecture now residing in the cloud, decoupled from the legacy system, the company can easily, quickly, and cost-effectively scale up capacity in peak buying periods and scale down during lulls. This ability to rapidly respond to changing conditions is one of the most consequential advantages of living systems.

The way to this future will be determined by the choices your enterprise makes throughout your technology stack. You must transition to more human-centered approaches to AI and automation. You can start by accelerating investments in core technologies like cloud computing, data analytics, and mobility. You can reimagine your approach to application development to take advantage of cloud capabilities and microservices and the flexibility they unlock. And you can focus on creating reusable components that are maximally valuable rather than minimally viable. Organizations that successfully combine their business and technology strategies will be able to develop one-of-a-kind offerings with unprecedented agility.

STRATEGY

We're All Tech Companies Now

For more than two decades Ocado, the world's largest online grocery retailer with no physical stores, has been developing some of the world's most advanced capabilities in AI, machine learning, robotics, cloud technologies, IoT (internet of things), simulation, and modeling—invaluable intellectual property that includes more than 150 patents, with hundreds more pending.

Ocado's IP achievements are particularly remarkable because the grocery industry is one of the most demanding operating environments imaginable. It is the world's largest retail category, and also one of the most complex: Unlike books or DVDs or many other goods, grocery products have widely varying shelf lives and storage temperature requirements. Take that complexity online, where customers who are spread over an entire country demand accurate and reliable order fulfillment at an attractive price, and the challenges increase exponentially.

Founded in 2000, Ocado grew from three people in a one-room office in London into a business with more than 18,500 employees serving hundreds of thousands of customers across the UK. Ocado's customer fulfillment centers (CFCs) boast some of the most advanced grocery-picking technology in the world. A typical CFC is about the size of a soccer field. Inside, hundreds of robots, communicating with one another over a 4G network, wheel around a three-story aluminum grid known as the Hive.

Using swarm technology, which coordinates a group of autonomous robots to work as a system to accomplish

Organizations that successfully combine their business and technology strategies will be able to develop one-of-a-kind offerings with unprecedented agility.

tasks, the dishwasher-size robots bustle along at nearly nine miles per hour, lifting crates of grocery products with their mechanical claws. They either move the crates to another location (according to an algorithm based on frequency of product purchase) or drop them down a chute to a picking station. Two control centers staffed by employees are located at each CFC to monitor the robots and make sure their elaborate dance doesn't degenerate into constant collisions. Human employees also do most of the work at the picking stations: They view a customer's order on a screen, select the appropriate items from the product crates in front of them, and put them into shopping bags that robots have placed inside another crate. The product crates are then sent back to the grid to be refilled with items, while the crates with customers' orders are routed to the shipping dock. A 50-item order can be fulfilled in as little as five minutes.

Ocado could have rested on its laurels as a successful online grocer, but it made a strategic decision to extend its tech expertise further. In 2015 it created the Ocado Smart Platform, a combination of end-to-end e-commerce fulfillment, logistics, and swarm technology that other retailers around the world use to manage their own online grocery businesses. The platform allows them to profitably and scalably replicate Ocado's model in their own regions.

Running in the cloud, the Ocado Smart Platform provides features such as real-time stock projection, last-minute order processing, and intelligent delivery-van routing. Retailers can offer customers mobile access to their sites via an app. And the cloud provides Ocado with an elastic, events-driven architecture that responds to spikes in customer demand in a cost-efficient way. It also enhances development agility. Ocado's engineers can test out new initiatives without making upfront infrastructure commitments, and they can get ideas from concept to production in under an hour. The company can also integrate data from hundreds of microservices into a data lake that powers AI capabilities across the infrastructure.

Grocery retailers around the world have signed on. Over the next several years, Kroger plans to build 20 automated CFCs with Ocado. The platform has also been adopted by Sobeys (exclusively in Canada), ICA (in Sweden), Groupe Casino (in France), Bon Preu (in Spain), and Aeon (in Japan). Ocado's deeper technology strategy can be applied to any industry. Its robots perform basic tasks—lifting, moving, sorting—that are useful in many operating environments. Soon the robots may be able to do more. The company has recently embarked on a project to develop "soft hands" that can pick up virtually any delicate object (for example, fresh fruit) without damaging it—a skill that would be welcome in many manufacturing settings.

Few companies have married strategy and technology as comprehensively as Ocado. Not only has it figured out how to use automation to improve its own operations but it's made the resulting advantages widely available to other players. It has turned itself into a grocery retailer-cum-technology company and brilliantly adapted its strategy to fulfill a new market demand.

LIKE OCADO, OTHER companies have adopted new approaches to intelligence, data, expertise, and architecture and woven them into distinctive strategies as varied as the industries in which the firms compete. No one size fits all. Embracing technology-integrated strategy requires two somewhat contradictory postures: forethought and speed. Technology investments must be sequenced logically and carefully. Yet it has never been truer that "he who hesitates is lost."

Following the demonstrable success of radically human, IDEAS-based innovation, the task will be to move forward with deliberate speed. The future has arrived far sooner than expected, and it requires wise and rapid mastery of new approaches to innovation that are only just beginning to emerge. We've seen it everywhere—from grocery delivery to fast food, in handmade-product retail, and even in the NFL. AI is helping businesses operate in ways most of us could never have imagined, and it will continue to do so, but only if people are leading the way. Our framework provides a clear road map for companies that are ready to get started.

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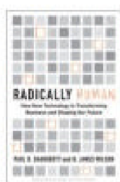

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MANAGEMENT

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MANAGERS CAN'T DO IT ALL

It's time to reinvent their role for the new world of work.

MANAGEMENT

IDEA IN BRIEF

THE PROBLEM
Managers are the lifeblood of organizations. In recent decades, as the workplace has changed, they've been asked to take on new responsibilities and demonstrate new skills—and are struggling to cope. This threatens productivity, employee well-being, and brand reputation.

THE NEW REALITY
Change has come along three dimensions: power (managers have to think about making teams successful, not being served by them); skills (they're expected to coach performance, not oversee tasks); and structure (they have to lead in more-fluid environments).

THE WAY FORWARD
We need to do everything we can to help managers adapt. The three companies featured in this article have deliberately—and successfully—transformed the role of manager so that it better meets the demands of 21st-century work.

Jennifer stares at her upward-feedback report and wonders how she got to this point. How could a veteran like her, someone who was once celebrated as manager of the year, receive such negative ratings? She used to enjoy her role, but now everything feels out of control. Her job has been reshaped so constantly—by sweeping process reengineering, digitization, and agile initiatives, and most recently by remote work—that she always feels at least one step behind.

We have closely observed the changing job of the manager, and we can report that a crisis is looming. The signs are everywhere.

The amount of change that has taken place in just the past few years is overwhelming. The management layer above her was eliminated, which doubled the size of her team, and almost half the people on it are now working on cross-division projects led by *other* managers. She and her team used to meet in her office for progress reviews, but now she has no office, and if she wants to know how her people are doing, she has to join their stand-ups, which makes her feel like an onlooker rather than their boss. She no longer feels in touch with how everybody is doing, and yet she has the same set of personnel responsibilities as before: providing performance feedback, making salary adjustments, hiring and firing, engaging in career discussions.

Not only that, but she's being asked to take on even more. Because her company is rapidly digitizing, for example, she's responsible for upgrading her staff's technical skills. This makes her uncomfortable because it feels threatening to many of her team members. When she talks with them about it, she's expected to demonstrate endless amounts of empathy—something that has never been her strong suit. She's supposed to seek out diverse talent and create a climate of psychological safety while simultaneously downsizing the unit. She understands why all these things are important, but they're not what she signed up for when she became a manager, and she's just not sure that she has the emotional energy to handle them.

What happened to the stable, well-defined job that she was so good at for so long? What happened to the power and status that used to come with that job? Is *she* the problem? Is she simply no longer able to keep up with the demands of the evolving workplace? Is she now part of the "frozen middle"—the much-maligned layer of management that obstructs change rather than enables it?

Jennifer—a composite of several real people we have met in our work—has no answers to these questions. All she knows is that she's frustrated, unhappy, and overwhelmed.

As are managers everywhere.

One of us, Lynda, is an academic researcher and consultant to corporations, and the other, Diane, was until her recent retirement the chief human resources officer at IBM (in which she still owns stock). In those roles we have closely observed the changing job of the manager, and we can report that a crisis is looming.

The signs are everywhere. In 2021, when we asked executives from 60 companies around the world how their managers were doing, we got unanimous reports of frustration and exhaustion. Similarly, when the research firm Gartner asked 75 HR leaders from companies worldwide how their managers were faring, 68% reported that they were overwhelmed. Nonetheless, according to Gartner, only 14% of those companies had taken steps to help alleviate their managers' burdens.

The problem isn't hard to diagnose. The traditional role of the manager evolved in the hierarchical workplaces of the industrial age, but in our fluid, flatter, postindustrial age that role is beginning to look archaic.

The irony is that we actually need great people leaders more than ever. Microsoft has found, for example, that when managers help teams prioritize, nurture their culture, and support work/life balance, employees feel more connected and are more positive about their work. The consulting firm O.C. Tanner has likewise found that weekly one-to-ones with managers during uncertain times lead to a 54% increase in engagement, a 31% increase in productivity, a 15% decrease in burnout, and a 16% decrease in depression among employees. Meanwhile, according to McKinsey, having good relationships with their managers is the top factor in employees' job satisfaction, which in turn is the second-most-important determinant of their overall well-being.

Conversely, bad managers can significantly hurt retention and engagement: Seventy-five percent of the participants in the McKinsey survey reported that the most stressful aspect of their jobs was their immediate boss. As the saying goes, people join companies and leave their managers.

Something is clearly broken. If managers remain essential but their traditional role has become obsolete, then it's obviously time for a change.

In this article we'll make the case for redefining and even splitting the role rather than simply continuing to let it evolve, which is a potentially costly and disastrous course of action. But first let's briefly take stock of the waves of innovation that have brought us to this crisis point.

FOUR DEFINING BUSINESS MOVEMENTS

The first wave, *process reengineering*, began about 1990 and lasted until the early 2000s. It focused on eliminating

MANAGEMENT

> Digitization democratized access to both information and people, but in doing so it undermined traditional sources of managerial power.

bureaucracy and boosting operational efficiencies. With the help of consulting firms, which developed practices around this kind of work, companies globalized and outsourced their processes, flattened their hierarchies, and in many cases put their remaining managers in "player-coach" roles that required them to take on workers' tasks. These changes reduced costs, but they also made life a lot harder for managers. They now had wider responsibilities and significantly larger teams to supervise and were also expected to dedicate themselves personally to projects and customers.

The next wave of innovation, *digitization,* arrived in about 2010. Promisingly, it democratized access to both information and people, but in doing so it undermined traditional sources of managerial power. CEOs and other senior leaders could now communicate directly with their entire workforces, sharing strategies, priorities, and important updates and responding to concerns. No longer a necessary part of the information loop, managers began to feel a loss of power, control, and status.

Then came the *agile movement* and its process changes, which companies began to adopt in the mid to late 2010s. It aimed to shorten timelines and turbocharge innovation by using internal marketplaces across whole organizations to match skills to work and to rapidly assemble project teams on an as-needed basis. As a result, managers started to lose touch with their reports, who now spent much of their time under the rotating supervision of the project managers they were temporarily assigned to. And because candidates could be matched to openings online, managers lost the power and authority involved with brokering career opportunities for their people.

Finally, a fourth wave arrived in 2020 with the pandemic, when companies and employees were forced to embrace the possibilities of *flexible work.* This was a watershed moment. It dramatically altered how and where work was done. Once employees were no longer tied to a physical workplace, managers lost the close control that they used to have over employees' performance and behavior—and employees began to realize that they could tap a greater range of job options, far beyond commuting distance from their homes. These changes were liberating, but they placed even more of a burden on managers—who now were also expected to cultivate empathetic relationships that

From Manager to People Leader

Three fundamental shifts in the role of managers today

A power shift: from "me" to "we"		
My team makes me successful.	→	I'm here to make my team successful.
I'm rewarded for achieving business goals.	→	I'm also rewarded for improving team engagement, inclusion, and skills relevancy.
I control how people move beyond my unit.	→	I scout for talent and help my team move fluidly to wider opportunities.
A skills shift: from task overseer to performance coach		
I oversee work.	→	I track outcomes.
I assess team members against expectations.	→	I coach them to achieve their potential and invite their feedback on my management.
I provide work direction and share information from above.	→	I supply inspiration, sensemaking, and emotional support.
A structural shift: from static and physical to fluid and digital		
I manage an intact team of people in fixed jobs in a physical workplace.	→	My team is fluid, and the workplace is digital.
I set goals and make assessments annually.	→	I provide ongoing guidance on priorities and performance feedback.
I hold an annual career discussion focused on the next promotion.	→	I'm always retraining my team and providing career coaching.

would allow them to engage and retain the people they supervised.

These waves of innovation have changed the role of the manager along three dimensions: *power, skills*, and *structure*. In a power shift, managers have to think about making teams successful, not being served by them. In a skills shift, they're expected to coach performance, not oversee tasks; and in a structural shift, they have to lead in more-fluid environments. (See the exhibit "From Manager to People Leader.")

These changes have empowered employees, which of course is a good thing. But they've also altered how managers drive productivity. Organizations are starting to recognize this. When we asked the executives in our 60-company survey to list the most important areas that managers need to focus on today, their top answers were coaching, communication, and employee well-being.

NEW MODELS OF MANAGEMENT

Some organizations have taken deliberate steps to reimagine the role of the manager. Let's take a look at transformative shifts that have been made at three very different companies in banking, tech, and telecommunications.

Building new skills at scale. Most companies think of their top leaders as the people who make change happen—and are willing to spend millions on their development as a result. The layers of management below the top, the theory goes, are frozen in place and will resist change. But the executives at Standard Chartered—a retail bank, headquartered in London, with more than 750 branches in 50-plus countries—recently chose to think differently. Their 14,000 middle managers, they decided, would play a central role in the bank's growth.

Rather than wholly redesigning the job, the executive team began with some basic steps: changing the role's title, creating an accreditation process, and strengthening the sense of a managerial community. Managers became "people leaders," an acknowledgment of how important the human connection was in their work. Meanwhile, the new accreditation process evaluated future-focused capabilities such as driving growth, building trust, aligning teams, and making bold decisions. And the executive team worked to

The company needed its managers to lead retraining, adapt their styles to agile methods, and get all employees engaged in the journey.

strengthen community by applying the local experiences of people leaders to problems across the whole company. For example, when in the course of filling 10 positions, one cohort of people leaders failed to hire anybody from an underrepresented group, the executive team didn't single the group out for criticism but instead seized the opportunity to ask the whole community, "How can we support you in making your teams more diverse?"

Next the executive team decided to focus on coaching, which has today become a crucial management skill. (See "The Leader as Coach," by Herminia Ibarra and Anne Scoular, HBR, November–December 2019.) Coaching, in fact, plays a key role in each of the three shifts we described earlier: When managers coach they're making a power shift by moving from instruction to support and guidance; a skills shift by moving from the oversight of work to the continual giving of feedback; and a structural shift by engaging with their people in a way that's dynamic and constant rather than static and episodic.

Standard Chartered had been working for decades on developing its top leaders into coaches. But now the challenge was scaling that effort up to 14,000 people leaders. The bank did this through a variety of initiatives—by using an AI-based coaching platform, for example, and by developing peer-to-peer and team coaching across all its markets in Africa, the Middle East, and Asia. It also launched a pilot project in which it offered to help people leaders pay for formal training and accreditation as coaches (by outside organizations approved by the global governing body for coaching). Those who accepted were expected to coach other employees; the goal was building what Tanuj Kapilashrami, the bank's head of human resources, describes as "a deep coaching culture." So many participants reported a boost in skills and confidence that the bank organized further rounds of training and accreditation, each of which was oversubscribed, with hundreds of people taking part around the world.

Rewiring processes and systems. In 2013, as IBM's new chief human resources officer, Diane realized that to support the massive transformation that had been launched by then-CEO Ginni Rometty, the company needed a different kind of manager. IBM was changing 50% of its product portfolio over the next five years, moving into several growth businesses (among them the cloud, AI, cybersecurity, and blockchain), and migrating from software licensing to software as a service. At a worldwide town hall, Rometty announced that all employees would be required not only to develop new skills but also to learn to work differently. The company would build a culture optimized for innovation and speed—and needed its managers to lead retraining efforts, adapt their management styles to agile work methods, and get all employees engaged in the journey.

That meant doing three things: freeing managers up for additional responsibilities by digitally transforming their work; equipping them with new skills; and holding them accountable through a metrics-driven performance-development system. Their most important goal was employee engagement: Managers account for 70% of the variance in that metric.

The HR function deployed AI to eliminate administrative work, such as approving expense reports or transferring employees to a new unit. Personalized digital learning was introduced so that managers could access support on their mobile phones—for, say, just-in-time guidance on preparing for difficult conversations. New AI-driven programs also helped managers make better people decisions and spot issues like attrition risk. An AI-driven adviser has made it easier for managers to determine salary increases: It considers not only performance and market pay gaps but also internal data on employee turnover by skills, the current external demand for each employee's skills (scraped from competitor job postings), and the future demand.

Now when managers have salary conversations with employees, they can confidently share the rationale for their decisions, help team members understand the demand for their skills, and, most important, focus on supporting them as they build market-relevant capabilities and accelerate their career growth.

Like Standard Chartered, IBM also introduced an accreditation for managers, built on a new training curriculum. The impact has been significant: Managers who have obtained this accreditation are scoring five points higher today on employee engagement than those who have not.

In addition, IBM requires managers to get "licenses" in key activities by undergoing an in-house certification program. Licenses to hire, for example, are designed to ensure that managers select candidates in an objective and unbiased way, provide them with a well-designed experience,

Telstra’s Dual Manager Model

To better cope with what it calls the new “equation of work,” the telecommunications firm Telstra has flattened its hierarchy and split the traditional role of manager into two jobs: one devoted to people and the other to process. The two types of managers are equals and coordinate closely with each other.

LEADER OF PEOPLE	LEADER OF WORK
Leads a global chapter of employees with similar skills	Leads an agile project team drawn from chapters and external contractors
Owns the talent capacity, including personnel budgets	Owns the work, including project plans and budgets
Forecasts skills gaps and closes them through training and hiring	Forecasts demand for skills
Selects employees for projects	Bids for employees
Is responsible for employee engagement, career movement, and skills	Is responsible for project deliverables and business outcomes

and ultimately make hires of high quality. The impact has been significant here too: Employees hired by licensed managers are 7% more likely to exceed expectations at six months and 45% less likely to leave the company within their first year than other hires are. Those numbers mean a lot in a company that makes more than 50,000 hires a year.

One major shift is the deliberate change from performance management to performance development. Not just about business results, the new system reflects the mindset and skills needed to manage in the modern workplace.

Feedback is at its core. Team members are asked whether their managers create an environment that encourages candid communication. Do they provide frequent and meaningful feedback? Do they help in the development of market-relevant skills? Are they effective career coaches? At the same time, HR gathers metrics on diversity and inclusion, regretted attrition, and skills development. The company then combines those metrics with its survey data and feeds the results into its Manager Success Index—a dashboard that allows managers to understand how well they’re meeting expectations and to identify needs for both learning and “unlearning.” Managers are invited to training programs on the basis of their specific development needs. Investing in these programs pays off: People who have completed at least one course in the past two years are 20% less likely to be in the bottom decile of the Manager Success Index, whereas those who have taken no leadership development courses are much more likely to be there.

IBM takes this idea seriously. Managers who do not demonstrate growth behaviors and who consistently underperform get moved out of managerial positions. The message to the company’s managers is clear: Times have changed, and you must too. Your ongoing service as a manager is tightly connected to the continued growth and engagement of your people. We’re here to support you in rethinking traditional practices, attitudes, and habits, and adopting ones better suited to new ways of working and the digital workplace.

Splitting the role of the manager. Telstra, a $16 billion Australian telecommunications company that employs more than 32,000 people, has made perhaps the boldest move. When Telstra’s CEO, Andy Penn, decided to make the company more customer-focused, fast-paced, and agile, he and his chief human resources officer, Alex Badenoch, dramatically flattened its hierarchy, reducing the number of organizational layers to three.

Penn, Badenoch, and their team recognized that the restructuring provided a perfect opportunity to redesign the managerial job. “This change has been needed for so long,” Badenoch told us. “We realized we had to separate work and management and create two distinct roles: *leader of people* and *leader of work*.” With very few exceptions, this new model applies to the entire organization.

Leaders of people are responsible for similarly skilled employees grouped into guildlike “chapters”—one for financial planners, say, and another for people experienced in change implementation. Most chapters consist of several hundred people, but some are larger. Subchapter leaders one level below are responsible for 15 to 20 members with narrower specializations and are located all over the world. What people do—not where they are—is what matters most.

Leaders of people ensure that the employees in their chapters have the skills and capabilities to meet the current and future needs of the business. They also help chapter members develop pathways to other chapters, to broaden insights and avoid silos. “The role of leaders of people,” Badenoch told us, “is to know people beyond their work, At no time in the past has the investor community paid such close attention to human capital in corporations—demanding disclosure of metrics such as diversity and turnover.

to understand their career aspirations, to feed their minds and create thought provocations." Their performance is judged by such standards as how engaged they are with the people on their teams (measured by Net Promoter Scores) and how well they fulfill requirements, among them the amount of time that their people are actively at work on projects, as opposed to "on the bench."

Leaders of work focus on the flow of work and the commercial imperatives of the business. They don't directly manage people or control operating budgets. Instead, they create and execute work plans and determine which chapters to draw from for them. These leaders' performance is judged by such standards as the clarity of their planning, the quality of their estimates, and whether their projects are on time and on budget. (See the sidebar "Telstra's Dual Manager Model.")

This bold experiment has been widely acclaimed internally. "You actually get two people out of it who are dedicated to your development," one employee commented. "Your chapter lead [leader of people] is there to talk to you about your growth, and you get to have some great, powerful conversations about the type of work you want to do and how to get there. You can be very honest and share your aspirations openly with them. They have an amazing network and can get you assignments that allow you to explore different roles. And your project leader [leader of work] is there on a day-to-day basis to provide you direction on the work you need to do and on the business outcomes that we're trying to deliver."

At Telstra neither group of leaders is subordinate to the other. Their pay ranges are the same, and they participate as equals in the senior leadership team. Together they determine what Badenoch calls "the equation of work," which reveals "who is performing well, and what the skill and capacity is." Leaders of people have a sense of the dynamics of their talent pool, and leaders of work have a sense of the dynamics of workflow. By coordinating with their counterparts, leaders of people can anticipate skills gaps and prioritize training investments, or forecast undercapacity and the need for hiring—all while being mindful of the commitments, health, and well-being of employees.

This bifurcated model of management isn't new. It's been used for years in consulting, where one often finds a division between practice leadership and project leadership. What is new here is the context. Telstra has proven that the model can work effectively and profitably across all functions in big companies that have adopted agile practices and flexible work arrangements.

LET'S STEP BACK and consider where we are. For roughly a century our approach to management was conventionally hierarchical. That made sense because work was organized sequentially and in silos, jobs were fixed, workspaces were physical, and information flowed downward. But that's no longer the case. In today's world of work, enabled by digitization, we prioritize agility, innovation, responsiveness, speed, and the value of human connection. All of that demands the new approach to management that we've discussed: one that involves shifts in power, skills, and structure.

We have to get this right. At no time in the past has the investor community paid such close attention to human capital in corporations—checking Glassdoor for signals of toxic work environments, demanding disclosure of metrics such as diversity and employee turnover. As the stewards of culture, managers are the lifeblood of organizations. The current state of overwhelmed, confused, and underskilled managers creates significant risk, not just to productivity and employee well-being but also to brand reputation.

Sometimes it takes a jolt like the new titles at Telstra and Standard Chartered, or the Manager Success Index at IBM, to signal that change is afoot. But in all cases the march to sustainable behavioral change is long. The Telstra experience shows us the benefits of a radical new organizational design, and the Standard Chartered and IBM experiences show us that at a minimum companies can take deliberate steps to shift managers' mindsets, energy, and focus. With these kinds of actions—which institutionalize change—we can ensure that people get the leadership they need in the new world of work.

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LEADERSHIP

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Creating High-Impact Coalitions

CEOs can lead the charge on society's biggest problems.

LEADERSHIP

If YOU ASK CEOS WHAT keeps them up at night, you find that their worries go well beyond staying ahead of the competition. Increasingly they worry about big systemic challenges and what they can do to help fix them. That's because they're keenly aware of people's expectations: A high proportion of stakeholders—86% on the 2021 Edelman Trust Barometer—believe that business executives must play a lead role in tackling societal issues.

Traditionally, spearheading the responses to crises and catastrophes—the Covid-19 pandemic; climate disasters such as hurricanes, floods, and heat waves; racial disparities—is considered the responsibility of the public sector and NGOs. Of course, businesses and their resources and expertise can be tapped to provide aid: Commercial airlines, for example, assisted the U.S. government with evacuation flights out of Kabul in 2021; shipping companies such as FedEx and UPS were asked by the White House to operate 24/7 to ease pandemic-related supply-chain bottlenecks; and large retailers such as Walmart have helped federal emergency agencies by distributing bottled water and other goods following extreme weather events.

Yet responding to specific calls is no longer enough; today's business leaders must be more than followers. We argue that they can best respond to big societal challenges through what we call high-impact coalitions—an emerging organizational form that reaches across boundaries of business, governments, and NGOs. In this article, we draw on the experience of many such coalitions, including several that are responding in significant ways to the pandemic, to lay out the features and principles that make the difference between success and failure. Leading and participating in these coalitions may well require actions that go against the grain for executives used to the calculus of business competition, but it can also supercharge a company's sense of purpose and produce a treasure trove of ideas and partnerships.

AN EMERGING ORGANIZATIONAL FORM

Although public-private partnerships have existed for some time in various forms, large cross-sector, multistakeholder initiatives are newly resurgent and are not yet widely understood. They are more voluntary and relationship-based than formal organizations but more task-directed than networks. They connect otherwise disparate spheres of activity that bear on big problems by aligning powerful actors behind a purpose-driven mission. They are particularly well-suited for addressing systemic challenges. Once underway, they can harness and utilize capabilities quickly and flexibly. High-impact coalitions are characterized by:

IDEA IN BRIEF

THE CHALLENGE
A high proportion of stakeholders—86% on the Edelman Trust Barometer—expect business leaders to take the lead on societal issues.

THE PROBLEM
The world's most critical problems are complex, requiring leadership, resources, and skills beyond the capacity of any single organization, industry, or sector.

THE SOLUTION
High-impact coalitions are an underrecognized organizational form for addressing societal problems. They are voluntary and relationship-based, and connect otherwise disparate spheres of activity that bear on big problems by aligning powerful actors behind a purpose-driven mission.

Barriers to membership in coalitions are low. Members give time, resources, and expertise according to their means and interests.

Open boundaries. Barriers to membership are low. Members give time, resources, and expertise according to their means and interests. Leaders of member organizations tap their personal relationships to recruit others. As new participants join, the reach of the coalition broadens and receptivity to its goals extends beyond its membership. Of course, low barriers to entry also mean low barriers to exit, but that can be an advantage: Members at the periphery simply fade away if they disagree, rather than making a fuss, lowering the conflict level.

The Covid-19 Healthcare Coalition (C19HCC), which began in March 2020, is a case in point. A small group of dedicated leaders from 18 diverse organizations, including Amazon Web Services, Epic, Mayo Clinic, and Microsoft, came together quickly to mount a private-sector pandemic response contributing to national and state government efforts. They in turn brought in contacts of their own to create a coalition of more than 1,000 organizations in 16 working groups.

Another example is West Side United (WSU), a coalition of six large hospital systems along with numerous community organizations and financial institutions, formed in 2017. Its ambitious goal is to end racial disparities in life expectancy on Chicago's West Side, which stem from inequities in health and economic systems. As more organizations joined, members found ever-expanding ways to carry out the mission. Hospitals, for example, changed internal practices and purchasing protocols and opened new job pathways. When the pandemic struck, Chicago mayor Lori Lightfoot asked WSU to further widen its scope and membership, this time in behalf of the whole city, by heading up a multipronged Racial Equity Rapid Response (RERR) effort. Within a few months, the RERR had distributed more than 60,000 surgical masks, 200,000 units of hand sanitizer, and 750,000 cloth masks to the community. It also supported food centers in deprived areas and provided resources to keep local businesses afloat.

Emergent structures for evolving tasks. Coalitions often confront challenges for which no proven path yet exists, so it can be easy to become mired in time-wasting debates about how to get organized. Successful coalitions attempt to minimize rules and requirements and just dive in. Members remain independent, continuing to carry out their own work, and step in to collaborate or direct tasks when their capabilities matter. At different times, different groups of members bear the brunt of the workload.

For C19HCC, the initial group of companies grew through word of mouth and expressions of online interest. Members self-organized into working groups focused on specific areas such as analytics, supply chains, telehealth, and the detection of misinformation. Capability needs shifted over time as some problems were addressed and others surfaced. In weekly virtual working meetings, members focused on tasks and nurturing new relationships. In monthly strategy meetings, they shared information and updates without overburdening one another with detail. A dedicated staff served as the coalition backbone, coordinating schedules and tasks.

In the first months of the pandemic, the priority challenge was getting personal protective equipment (PPE) to New York. The coalition formed a supply-chain working group that identified and encouraged global manufacturers to convert production lines to medical supplies. It researched, assembled, and published decontamination tactics to enable reuse of PPE. It also created a system for cataloging PPE for distribution. C19HCC delivered through the governor's office 575,000 KN95 respirators to New York City hospitals in the spring of 2020—an early, motivating win. Later, as information gained importance, another group of members developed data collection and analytics applications and tools to support decision-makers. This work contributed to the development of a rich, publicly available library of hundreds of data sets, models, and dashboards.

Coalitions require coordination to make sure that members do not work at cross-purposes or duplicate efforts. Sometimes, founders will invite or create a dedicated team to perform this backbone role. For example, MITRE, a not-for-profit, federally funded research and development organization, served as C19HCC's facilitator. In Chicago, WSU operated for a few years with coordination help from Rush University Medical Center, one of the founding hospitals, before it hired an executive director. With a credible organization taking on the role of backbone, members can more easily negotiate common ground.

A mission-determined life span. High-impact coalitions are intended to solve problems that can't be handled without collaboration or alignment of multiple entities. If the crisis at hand is immediate yet temporary—as is the case with aspects of the Covid-19 pandemic—they will have a short life span, dissolving as the need evaporates.

Chronic, multifaceted, structurally rooted challenges call for deeper systemic change. As some problems are addressed, new ones arise—that's why successful coalitions may evolve into platforms that coordinate multiple projects and a succession of issues. One round of work is followed by another as activities gradually become aligned behind a new way of doing things.

WSU is an example of a coalition that is evolving, but very carefully. Its mission to close the racial life-expectancy gap can be achieved only through a sustained, long-term effort to align on many fronts: employment, education, housing, health care, and economic investment. Although WSU brought on an executive director after a few years, it has stayed lean with high member engagement. As it took on more tasks during the pandemic, a big question for its leaders was whether to reduce dependence on its first home, at Rush University Medical Center, and become its own entity. The decision was to set up formal legal structures while still emphasizing strong leadership from its members.

Overall, high-impact coalitions keep structures and rules loose, but relationships tight. Members maintain a great deal of independence and have discretion about participation, but strong relationships serve as a control mechanism to gently steer efforts to a productive end. Coalitions seek breadth and maximize diversity. Member organizations and their leaders step in but also step aside as needs change. Our experience examining high-impact coalitions responding to the pandemic suggests that success is rooted in five key organizational principles.

1 EXERCISE MORAL LEADERSHIP

Successful coalitions form out of a sense of higher purpose and dedication to a cause greater than the interests of member organizations alone. In most cases they are put together by respected veterans in the field with long-standing dedication to the issues. Coalition leaders have a sense of responsibility tempered by humility: They understand the magnitude of the problem and are well positioned to help, but they must count on the involvement of many other organizations to make progress.

Trigger events—a sudden crisis, newly discovered evidence, something changing in the external environment—propel leaders into discussions with a few close colleagues, including peers in high-level positions in other organizations. For example, John Halamka, of Mayo Clinic Platform, and Brian Anderson and Jay Schnitzer, of MITRE, all well-connected health care IT executives, made a few calls around the country and persuaded others to come on board at C19HCC.

A significant, inspiring mission is part of what attracts followers, and the goal of a high-impact coalition should transcend outcomes that independent organizational efforts could produce on their own. In recruiting peers from other hospitals, the initiators of WSU had to make it clear that they were not acting for the benefit of Rush but were focused on addressing inequities for the entire West Side region (some half a million residents) and perhaps millions of others—a mission much bigger than anything their own organization could accomplish alone.

But mission must be supported by something tangible. Under its grand purpose of saving lives, C19HCC developed three measurable goals: achieving real-time learning from patient data; supporting an affordable and scalable supply chain for critical medical supplies; and raising awareness and advocating for nonpharmaceutical interventions such as social distancing, mask wearing, and handwashing. WSU not only identified a basic strategy for achieving its mission but also drilled down to specific actions that would mark tangible progress toward achieving racial equity in life expectancy and health. Working groups coalesced on such issues as hospital hiring, maternal health, and the funding of neighborhood businesses.

Belief in the cause must be supported by belief in the power of joint action to achieve specific outcomes. That's what makes quick wins so important. Tangible goals are more achievable and visible than behavior-change goals, so they are a great place to start. For example, civic coalitions can more readily renovate downtowns than fix their schools, and pandemic action coalitions can more easily make and distribute PPE than overcome vaccine hesitancy.

2 OPERATE AT THE SPEED OF TRUST

The speed and effectiveness of action depends on how quickly trust can be developed. Governance and operations for high-impact coalitions are built on trust among members rather than on formal contracts or financial incentives—which explains why some coalitions take time to get moving, while others spring into action immediately.

C19HCC got off to a quick start because it drew on many previously established relationships. The first members could get right into agenda setting and form working groups purely on trust. Their explicit adoption of guiding principles—including agreeing to participate for the benefit of the country without seeking profit and to share plans openly—further forged its trust-based nature. With WSU, there was an initial burst of speed in engaging other hospital systems. Rush's David Ansell held medical-practice and leadership roles at each of the first three hospitals forming WSU; Rush's then-CEO, Larry Goodman, championed the initiative and convened the others. What also helped was that despite their differences—one hospital was academic, one not-for-profit, and one public—the health systems spoke the same language and employed individuals with similar educational backgrounds. And once a few were on board, others didn't want to be left out.

Even business rivals can build trust quickly and find a shared purpose because of their similarities and prior relationships. For instance, Google and Apple jointly developed a privacy-protecting exposure-notification system for pandemic contact tracing. Similarly, when Covid-19 vaccines became available, pharmacy competitors CVS and Walgreens collaborated in a federal partnership to vaccinate staff and residents of long-term care facilities, sharing one moral mission: to vaccinate as many people as possible. As part of the CoVIg-19 Plasma Alliance, pharma company Takeda and biotech firm CSL Behring pooled efforts to develop an unbranded generic treatment for Covid-19, forgoing the pursuit of their own branded products.

Uniting organizations that have very different norms, cultures, and stakeholders is much more challenging. Troubling histories of conflict (and, in the case of Chicago, racial injustices) can make representatives with long memories suspicious and mistrustful. That's why, despite its fast start, WSU had to slow down so that "elite" executives from big companies could listen to and acknowledge the differing views of community members and neighborhood organizations and engage them as equal partners in decision-making.

WSU members who wanted rapid change found the trust-building process excruciatingly slow: large town halls in community college auditoriums; months of listening sessions in churches, storefronts, and apartment buildings; reports featuring community voices; working groups to set priorities; and eventually the hiring of an executive director, Ayesha Jaco, a well-known leader in the community. But the longer process was warranted in light of more than 50 years of community mistrust that WSU had to overcome before it could get moving. And it was because of its work building trust across all stakeholders that Mayor Lightfoot drew on its leadership during the pandemic.

Trust is especially important when no single decision-maker is designated to resolve stalemates. Independent coalition members have to let go of their proprietary or preferred methods as they seek common ground with others. For example, C19HCC's focus on data-driven solutions seems at first blush to be objective and uncontentious, but the coalition had to grapple with the inherent lack of data standards in U.S. health care across geographies, systems, and levels of care. Many minds had to agree on definitions and standards. And, even harder, everyone had to agree on an approach to analyzing data and sharing results.

In these situations, sharing information openly and abundantly, maintaining highly porous boundaries, assigning collective credit, and reiterating the purpose behind the tasks can go a long way.

3 FIND A BALANCE OF COMMITMENTS

Leaders of high-impact coalitions must be adept at operating in the Goldilocks zone of Just Right: not full-time, but not casual either; aligned sufficiently to achieve a shared purpose but requiring little change to member organizations' own systems. It's a matter of balance. A bank is still a bank, a software firm still creates software, but they must steer those capabilities in new directions that address the coalition's purpose.

CEOs commit their firms to membership, but they rely on the buy-in of their people to carry out those commitments.

To succeed, coalition leaders must know what they can request of their members. How much can they commit? What are the resources and capabilities, information and expertise, or credibility and legitimacy that each member has to offer? As we've pointed out, participation will ebb and flow as needs change and new members come on board.

Members also need to identify who among their employees will be deployed in coalition work. CEOs might commit their firms to membership, but they will need to rely on the buy-in of their people to carry out those commitments. When the five hospitals joined Rush and WSU, Ansell's prominence in the Chicago medical community and Goodman's enthusiasm for the initiative were key factors in persuading people to get on board.

Of course, Ansell, Goodman, and other WSU leaders had their own jobs with differing goals, roles, and time commitments; they had to find ways to return home with benefits for their own health system. Community leaders had the same issue. And before a formal coordination structure was developed, WSU faced collaboration challenges stemming from differences in egos and decision-making styles. Even in coalitions that are explicit about sharing credit and don't differentiate among members, human dynamics mean that some people want their voices to count more than others'.

Finding the right balance requires that organizations hold honest internal dialogues before they sign up. When one Chicago bank joined WSU, executives held conversations with units from line banking to small-business lending before they made commitments. After all, people from those units would be doing the actual work.

4 NAVIGATE COMPETING COALITIONS

Coalitions stretch even the most adept leaders' skills at managing relationships. Societal change is daunting, and systems are big and overlapping. A dizzying array of coalitions may be operating in the same space, often vying for the same partners. Because high-impact coalitions form so easily and their boundaries are fluid, their membership is continually morphing.

C19HCC operated alongside many coalitions with overlapping membership. The Covid-19 Research Database, coordinated by the health IT company Datavant and the nonprofit Health Care Cost Institute, provided analytics and data on more than 300 million patients; a Covid-patient-recovery alliance was formed by the consulting firm of a former governor; and a YPO (Young Presidents' Organization) manufacturing coalition tapped 433 member companies to create a domestic supply chain for essential Covid supplies. Some companies formed more-specialized collaborations: 3M worked with Ford and GE to make ventilators and respirators; the Covid Collaborative worked with the Ad Council on messaging. Local initiatives also sprang up, such as GOTVax, a Boston coalition of community organizers, local officials, public housing authorities, students, physicians, nonprofits, vaccine suppliers, and emergency medical services, which delivered vaccinations in lower-income areas through mobile pop-up clinics.

Getting involved in multiple coalition groups can pull an organization's resources in too many directions. Rush was WSU's first fiscal home. But it was also sought after by several other coalitions. In 2018, shortly after WSU started to come together, U.S. senator Dick Durbin launched a 10-hospital initiative, Chicago HEAL (Hospital Engagement, Action, and Leadership), to address gun violence and community conditions, with Rush's participation. In 2020, Rush joined C19HCC. Its leaders wondered whether Rush would have enough attention left for WSU if its teams were spread across many initiatives. Fortunately, WSU's coordinators, especially David Ansell, Darlene Hightower (then Rush's VP of community health equity), and Ayesha Jaco, knew how to bridge coalitions. They helped foster a common language and perspective that would ensure that each effort enhanced rather than detracted from the others.

Of course, WSU's leaders struggled with finding the right balance. Some people on the steering committee had qualms about accepting Mayor Lightfoot's invitation to lead RERR, believing that the challenge could distract from the coalition's core mission. After all, they were still in the early stages of their journey; leaders worried about taking on more work and broadening their scope before they had robust groups with proven leaders. Ultimately, they decided that RERR was on mission, had utmost urgency, and would also serve their West Side constituencies. More than a year later, when Mayor Lightfoot started public health councils for racial equity throughout the city, the WSU coalition was

LEADERSHIP

Coalitions are not bureaucratic entities with narrow goals; they are a means to reach beyond what member organizations already know.

used as a model of business–community collaboration and became the council for its own 10-neighborhood area.

Making change in large-scale systems can be contentious, and one coalition might actively undermine another, often by mobilizing people or organizations that have been left out of the process. Although C19HCC and WSU avoided this trap, other, more-politicized coalitions are less inclusive. Boston's experience of considering a bid on the 2024 Olympics is instructive. A cross-sector coalition initiated by a business leader and his counterparts championed a bid because, they said, it could bring economic and infrastructure benefits to all parts of the community. But the business-led coalition became identified more with the agendas of its leaders than with its mission of civic betterment; it failed to include enough stakeholders outside of a tight elite circle. That made it easy for a small, barely funded coalition to arise in opposition, rally those who felt left out, and ultimately prevail. Neglect inclusiveness at your peril.

5 FOCUS ON SOLUTIONS

Purpose-driven, mission-driven coalitions to improve societal outcomes—such as saving lives in the pandemic, achieving health equity, or addressing climate change—are designed to produce public goods solutions, not to generate competitive advantages for their members.

Effective coalitions are not bureaucratic entities with narrow goals; rather, they are a means to reach beyond what a company already knows. They succeed best when members are open to learning from one another in order to guide joint actions—and along the way they may even change their own thinking. Collaborations combine ideas from partner companies to tap creativity, find innovations, and fill gaps, as WSU did with its new workforce development models and as C19HCC did with its large-scale telehealth impact studies.

Leaders with imagination will see ways that their organizations can capture some future value from what has been learned. For instance, CVS's activities during the pandemic have been monitored closely by a top executive team, and some of the initiatives prompted the leaders to think about their business differently and develop new ventures, such as reopening a readiness service for corporate customers (Delta Airlines was among the first) and a clinical-trial recruitment service for pharmaceutical collaborators. C19HCC member Microsoft launched a mission-driven societal-resilience initiative deploying innovative technological tools to address inequitable access to Covid-19 vaccines—an innovation of global value during and after the pandemic.

Leaders who remain personally involved in the ideas flowing from high-impact coalitions open their minds to new possibilities, especially when the coalition reaches well beyond the usual suspects of industry peers and into the community. They learn from others' expertise, they enlarge their networks and engage with influential people from other sectors, and they benefit from the prestige associated with coalition participation—the reflected glory or halo effect of being part of a noble effort. They may even identify new products and markets along the way. Ultimately, solving big problems can be a mission, a passion, a cause—and an opportunity.

HIGH-IMPACT COALITIONS ARE an underrecognized organizational form addressing systemic challenges that require leadership, resources, and skills beyond those of any single organization, industry, or sector. They succeed when members view the collective goal as a moral imperative; when they build relationships quickly and balance competing claims on their employees; when they can choose how they want to contribute without having to endorse what others are doing; and when they communicate regularly so as not to work at cross-purposes. They use imagination to examine coalitions' missions to recognize potential business innovations embedded in them. Put simply, participating in high-impact coalitions is a chance for companies to build next-level leadership skills while ensuring that business—along with society—actually has a future.

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- Transparency in showing users how doctors compare with their peers—and showing doctors how they can optimize their performance.

> "Many people are just asking their family members or their colleagues or friends or going to social media for reviews or recommendations."
>
> **SONJA KELLEN, SENIOR DIRECTOR OF GLOBAL HEALTH AND WELLNESS AT MICROSOFT**

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CUSTOMER EXPERIENCE

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Customer Experience in the Age of AI

The case for building "intelligent experience engines"

CUSTOMER EXPERIENCE

ABOUT THE ART
Mario Rossi's photography is inspired by mathematics and music. His compositions use geometry and repetitions of form to create kaleidoscopic transformations of movement, behavior, and perspective.

BRINKS IS A 163-YEAR-OLD business well-known for its fleet of armored trucks. The company also licenses its brand to a lesser-known, independently operated sister company, Brinks Home. The Dallas-based smart-home-technology business has struggled to gain brand recognition commensurate with the Brinks name. It competes against better-known systems from ADT, Google Nest, and Ring, and although it has earned stellar reviews from industry analysts and customers, its market share is only 2%. But its systems have generated a wealth of product usage information; its call centers have accumulated voluminous historical customer-level transaction data; and its field reps have been gathering competitive data since it began operations, in 1994.

Brinks wanted to find a way to use all this information to accelerate growth and optimize every customer touchpoint across all channels, especially in its messaging, personalization, and delivery of the user experience. In the fall of 2020, working with OfferFit, an AI start-up, the company tested thousands of combinations of messages and offers, varying the creative content, channel, and delivery times. It reorganized its structure around customer acquisition, service, and renewal and began using AI to optimize service-call scheduling, help cross-sell recommendations from call center reps, and conduct customer outreach for wireless system upgrades. In less than two years Brinks increased A/B testing from two or three tests a day to roughly 50,000 (with the capability to add more as needed). This process has dramatically reduced the need to wait for test results and has allowed Brinks to personalize every customer touchpoint. During the first half of 2021 its average direct-to-consumer (DTC) package size increased from $489 to $968. DTC revenue per user increased from an average of $42.24 to $45.95 during the same period. Overall revenue increased 9.5% compared with the same period in 2020.

Brinks Home is just one example of how brands can win by tapping a deep store of customer information to transform and personalize user experiences. From the pre-internet dawn of segment-of-one marketing to the customer journey of the digital era, personalized customer experiences have unequivocally become the basis for competitive advantage. Personalization now goes far beyond getting customers' names right in advertising pitches, having complete data at the ready when someone calls customer service, or tailoring a web landing page with customer-relevant offers. It is the design target for every physical and virtual touchpoint, and it is increasingly powered by AI.

We have supported more than 100 leading global companies in their large-scale personalization efforts (including several that we reference in this article). Over the past five

IDEA IN BRIEF

THE REALITY
A personalized customer experience has become the basis for competitive advantage.

THE PROBLEM
However, providing personalization requires more than just a technological fix.

THE SOLUTION
Businesses must design intelligent experience engines, *which assemble high-quality, end-to-end customer experiences using AI powered by customer data.*

CUSTOMER EXPERIENCE

years we have seen increases in their revenue of 6% to 10% and an increase in net incremental revenue attributable to personalization initiatives of anywhere from 40% to 100%. A joint survey we conducted with Google, involving thousands of consumers immediately following a personalized brand experience, revealed a comparable revenue effect.

Companies across all industries are putting personalization at the center of their enterprise strategies. Recently Kroger CEO Rodney McMullen called seamlessness and personalization two of the key competitive “moats” in which Kroger is investing. Likewise, companies in home improvement (such as Home Depot), banking (JPMorgan Chase), the restaurant industry (Starbucks), and apparel (Nike) have publicly announced that personalized and seamless omnichannel experiences are at the core of their corporate strategy. We are now at the point where competitive advantage will derive from the ability to capture, analyze, and utilize personalized customer data at scale and from the use of AI to understand, shape, customize, and optimize the customer journey. Digital-advantage supremacy has gone well beyond the boundaries of traditional marketing to become a much broader C-suite issue. The obvious winners have been the big tech companies, which have embedded these capabilities in their business models. But we also see challenger brands, such as sweetgreen in restaurants and Stitch Fix in apparel, that have designed transformative customer experiences based on first-party data.

In this article we explore how cutting-edge companies build what we call *intelligent experience engines* to assemble high-quality customer experiences using AI powered by customer data. They design end-to-end solutions—for example, finding a location, scheduling an appointment, sending appointment reminders, providing directions, and guiding users through any necessary follow-up—that proactively lead customers toward achieving their goals. They also combine human enablers (cross-functional, agile teams) with data and technology that allow for rapid self-learning and optimization. Although building an intelligent experience engine can be time-consuming, expensive, and technologically complex, the results allow companies to deliver personalization at a scale we could only have imagined a decade ago.

> Digital-advantage supremacy has gone well beyond the boundaries of traditional marketing to become a much broader C-suite issue.

The Impediments to Personalization

Most brands don't personalize customer experiences at the scale or depth necessary to compete with the world's leading companies. Personalizing an end-to-end customer experience requires orchestration across channels—a capability that no brand has fully mastered. But merging the flow of customers' physical and digital experiences may be the only way challenger brands can compete against digital natives like Amazon and Google. Early movers have tapped into newer technologies, such as the internet of things, machine learning, marketing tech (martech) platforms, and a growing number of digital media tools that can create formidable advantages when combined with agile methods. Brands that want to surpass—or simply catch up with—early movers need to think about their data and technology foundation. Are their organizational structures and processes up to the task? Do they have a rapid-test-and-learn mentality?

Despite the dizzying array of software tools that purport to enhance every aspect of the customer experience, no one platform can comprehensively manage end-to-end personalization. Nevertheless, key problems, such as creating a 360-degree view of a customer, are being solved with automation, AI-powered intelligence, and activation tools for delivering AI-driven recommendations.

The telecommunications giant Comcast uses Pointillist, a customer-journey analytics service, that logs each customer's footsteps across its ecosystem. The service time-stamps visitor interactions and generates maps of each journey. Using AI to gather data and determine where journeys are failing, such as with its mobile app, Comcast quickly tackles experience issues.

Businesses are combining multiple AI, martech, and back-office solutions connected through common-application programming interfaces to better develop and use personalization data. Salesforce and Adobe provide channel delivery solutions; customer data platforms such as Amperity and mParticle help resolve identity issues; offer-optimization engines such as Formation and OfferFit help improve each ensuing offer; and platforms for content generation, such as Persado for creative copy and SundaySky for video, enable personalization at scale.

New digital media create new ways for users to interact with brands. Location-based tracking and payment systems activated by the swipe of a hand blur the lines across prepurchase (advertising/marketing), purchase (sales/transaction), and postpurchase (service/loyalty) interactions. These capabilities have created intelligent ways to reshape customer experiences, and they enable brands to be distinctively valuable and deepen engagement. Starbucks, for example, geo-targets lapsed customers who are near its stores with ads about new seasonal beverages, and it sends customers personalized in-app offers to encourage them to visit a store or to try their convenient mobile order-and-pay option.

Most companies don't have the bandwidth, resources, or technical prowess to compete with the likes of Comcast or Starbucks. The best approach for challenger brands is to develop a data and tech road map with granular requirements tied to specific, customer-driven use cases. For example, a company will need to figure out which customer data elements must be used in real time to power recommendations in the app, or it must determine which systems must talk to each other after a booking is made to suggest relevant add-on services. Then it must bring together the business and tech teams to work iteratively, focusing on delivering value as they build the foundation.

In the most successful digital transformations of the past decade, we have observed what we call the 70/20/10 rule: Seventy percent of the effort of changing an organization—its processes, ways of working, key performance indicators, and incentives—involves people. Twenty percent entails getting the data right. The remaining 10% is about the technology foundation. This breakdown stems from four impediments. First, most companies are still set up to be product-first, not customer-first, making it impossible for the dozen or so teams that cover channel, market, and product silos to collaborate. The increasingly popular role of chief customer officer was created to solve this problem, to orchestrate the people and moving parts behind the many customer touchpoints. Second, analytics is not infused throughout the business, and no single platform integrates customer data and enables advanced analytics. Third, content is created manually and not tagged for reuse. Finally, agile ways of working, even if common in IT teams, are generally not used by cross-functional teams. Without tools to facilitate teams'

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Intelligent experience engines must be surgically focused on micro-goals—positive moments composing the entire customer experience.

rapid experimentation and learning, companies end up with inconsistent, stagnant experiences across channels.

To get started, companies should launch self-governing pods of workers from marketing, operations, analytics, technology, and the commercial functions and invest them with clear goals, budgets, and decision rights. These integrated groups should be tasked with developing a limited number of specific experiences that represent breakthrough opportunities to drive revenue and build deeper customer bonds. They should have the tools to measure their day-to-day progress and should work in intensive two-week sprints to develop and test ideas for improving engagement. They should optimize many variables, such as what triggers to respond to, which channel to use, when to reach out to a customer, what message to issue, and what incentive to offer. AI can play a progressively bigger role in this effort as more experiments are run and more data is gathered. The pods can use machine learning to determine how to set up multivariate tests, keep track of everything in motion, and decide when to lock in and scale a test to a broader population.

Building an Intelligent Experience Engine

To fulfill every goal the customer may have for an end-to-end experience, companies must think through how to design the flow of a given moment, the information needed to support it, and the cross-channel or cross-party connections (for instance, between in-store and online or in mid- or postexperience) required to successfully complete the interaction. This is not just an exercise in journey mapping or technology planning. It is about developing the front-end flow to the customer and the back-end fuel to drive intelligent experience engines.

Intelligent experience engines are not built just at the highest level of an end-to-end experience, such as enabling better security services at Brinks. They must also be surgically focused on microgoals—positive individual moments that compose the total experience—and ensure that all those goals get stitched together.

Moreover, those engines are "intelligent" in more than one way. They are crafted creatively and insightfully, using the best possible data and expertise. And they employ ever-improving machine-learning algorithms to figure out the right next step to enable the customer's progress—constantly testing, always learning, and fueling decisions about how the interaction works. What the customer gets is a seamless, positive, and distinctive experience that will only improve over time.

The brands that have had the most success pursue five pivotal practices, which define the craft of building intelligent experience engines. They *connect data signals and insights* from a constantly expanding range of sources. They *reimagine the end-to-end experience as a seamless flow,* powered by automated decisions. They *activate the experience across channels,* connecting touchpoints to engage customers wherever they may be. They *fulfill according to the customer's context,* always recognizing who and where someone is. And they *test relentlessly,* injecting new innovations, rigorously measuring their impact, and understanding how things affect people differently.

Let's consider these practices one by one, using examples of companies that are getting it right.

Connect Data Signals and Insights

The first requirement for building an intelligent experience engine is constructing a 360-degree view of each customer, using the expanding range of possible ways to capture new signals from each one. The athletic-apparel company lululemon invested heavily over the past five years to achieve this goal. When a guest makes a purchase at a retail location for the first time, she is asked to provide her email address to receive a receipt. Emails are also collected when customers sign up for free in-store yoga classes. Like many other brands, lululemon uses this personal information to augment basic customer demographics from a service like Experian or Acxiom, enabling marketing actions such as gender- and geo-based targeting.

As people continue to engage with the brand, they often download the app or shop online, and clickstream data is used to understand which items customers browsed, which ones they spent a long time considering or came back to, and which ones they quickly moved past. This data can be leveraged to infer intent and target future recommendations accordingly. In 2020, when lululemon acquired Mirror, it gained a new window into customers' behavior.

CUSTOMER EXPERIENCE

Mirror streams fitness classes into users' homes, giving lululemon insights into customers' workout routines—preference data that helps the brand further refine recommendations for future products and services.

Reimagine the End-to-End Experience as a Seamless Flow

Qantas, Australia's leading airline, takes a broad look at the flow of travel and has invested heavily in optimizing every detail of the customer journey. This begins with the core airline business: Qantas personalizes the booking, check-in, in-lounge, and in-flight experience. For example, its app makes real-time recommendations according to where the passenger is, such as how to check in most efficiently, what time to leave for the airport, and the best route to take.

The airline has also thought beyond travel. It has built a loyalty ecosystem across categories with hundreds of partners, such as Woolworths (the leading Australian grocer), Hilton, Avis, eBay, and major Australian banks, enabling its customers to earn and spend points in novel ways according to their preferences. Its media, analytics, and research service, Red Planet, helps Qantas and many of its partners combine off-line and online behavioral data with media buying to target ad campaigns.

Qantas has also used its data to launch new businesses. For example, it designed an app with which customers can earn points for healthful habits such as taking a certain number of steps each day or working out regularly. To unlock the points, customers are invited to sign up for the airline's new health-insurance business. The app also enables the company to cross-sell travel and other products to members. To orchestrate communications about these offerings, Qantas built a marketing messaging platform that leverages AI and a library of personalized content to deliver the right message through the right channel to each customer.

Activate the Experience Across Channels

Starbucks is famous for its personalization across channels. Its app delivers gamified offers based on individual preferences and behaviors; its paid digital media ads are highly targeted; and its in-store experiences include digital menus in the drive-through that change according to weather, local customer preferences, and inventory.

Although many smaller restaurant chains struggle to compete with Starbucks's level of personalization, sweetgreen, which has only 140 stores worldwide (Starbucks has 33,000-plus), built its cross-channel experience with data and digital in mind. It launched a best-in-class app that makes it easy to create a custom salad and pick it up or have it delivered. It uses the app to roll out new digital menus and deliver personalized offers for customers, and it allows in-store customers to pay by phone. The app enabled sweetgreen to surpass Starbucks's percentage of digital engagements in 2021, with 68% of sweetgreen sales coming from digital channels, compared with only 52% for Starbucks stores in the United States.

Fulfill According to the Customer's Context

Huge retailers like Kroger and Tesco have large data and analytics teams that build algorithms for use in engaging customers in ways that are most appealing to them. Kroger's and Tesco's analytics arms—84.51° and dunnhumby, respectively—run hundreds of propensity models to decide which personalized promotions to offer which customers.

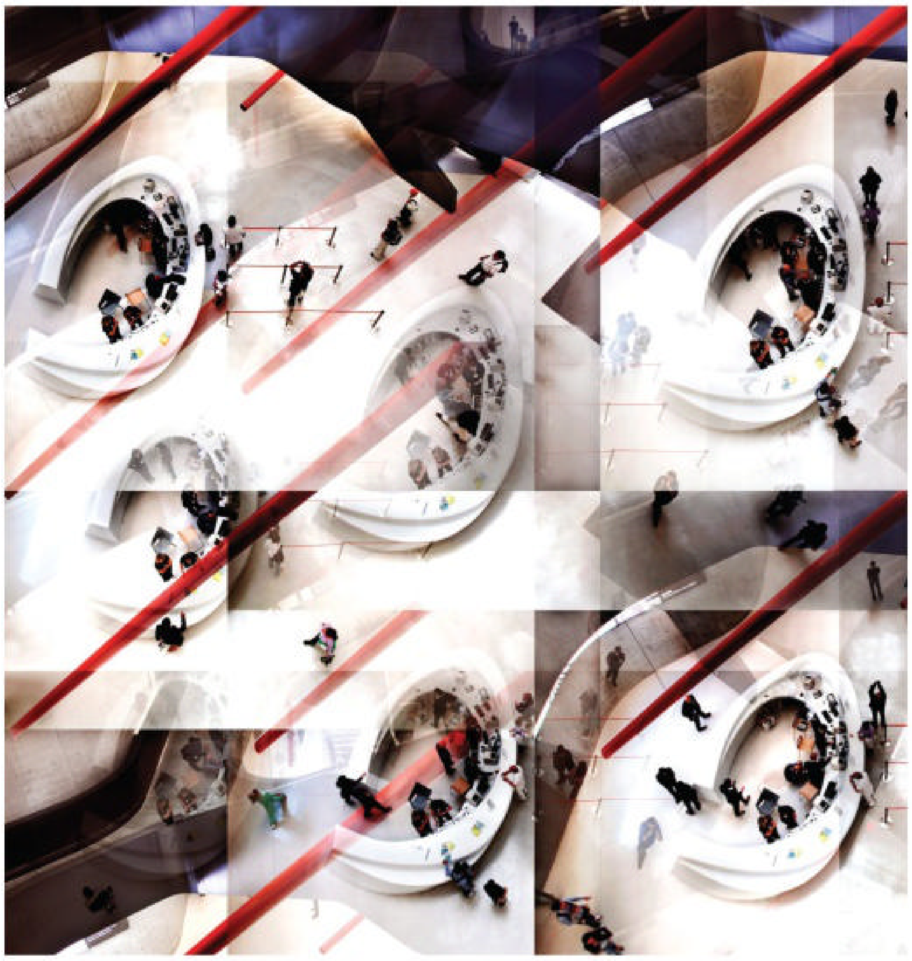
The midsize grocery chain Giant Eagle has also entered this space. It is partnering with Formation, an innovative software-as-a-service tech company, to achieve the same level of personalization in targeting its promotions. The grocer has gamified the shopping experience, rewarding its customers with loyalty points whenever they complete certain steps arranged via its app. For example, new customers might be invited to complete a "weekly shop challenge" that encourages them to come to the store once a week during a specific month to earn extra points in Giant Eagle's fuelperks+ program—good for free gasoline or discounted groceries. Loyal and long-term customers might receive points for shopping a new category that, judging from similar customer profiles, probably interests them, such as chocolate.

Test Relentlessly

Stitch Fix is a digital native that encourages and incentivizes its teams to run hundreds of experiments every month, fully expecting a third of them to fail. It feeds the data from these experiments into its intelligent experience engine to inform the next best action. It also asks customers for data directly. (See "Stitch Fix's CEO on Selling Personal Style to the Mass Market," HBR, May–June 2018.)

Stitch Fix's Style Shuffle is an interface that new subscribers can engage with when they sign up for the service. Customers swipe right for items they like and left for ones

Qantas has thought beyond travel. It has built a loyalty ecosystem across categories with hundreds of partners, enabling customers to earn and spend points in novel ways.



they don't, giving Stitch Fix a clear view of their personal taste and style. The company's algorithms then extrapolate that data from a few items to thousands of SKUs to help craft the monthly selection of apparel delivered to the customer's home.

Honing the Craft

"Competing on Customer Journeys" (HBR, November 2015), by one of us (David) and a coauthor, described how leaders reshape organizations by using cross-functional teams aligned with customer experiences. Today leaders are going further by endowing teams with even greater responsibility for leveraging data. The teams essentially serve as product managers dedicated to continually improving end-to-end customer interactions.

To begin the process we've described, you should ask: What experiences do we want to revolutionize, and how can we build an intelligent engine to achieve our goals? Once you've decided on the answers, research a few customer records in your CRM and marketing automation platforms to determine whether you've captured all the relevant data needed to power more-valuable experiences. Did you use the data to make the customer experience better? Did you do so seamlessly across channels? The answer to both questions is probably no.

Most CEOs and their C-suite colleagues claim to recognize the importance of the customer experience. But we often see more talk than action. That must change. Every company needs an explicit strategy for building an intelligent experience engine, which can align the organization toward using AI, personalization, and agile processes to build deeper, more enduring brand loyalty.

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TALENT MANAGEMENT

The *Real Secret* to Retaining Talent

The subtle art of making people feel special

IDEA IN BRIEF

THE CHALLENGE
Unique talent can have a huge impact on the quality of the work an organization produces. So it's crucial to keep your star performers happy.

WHERE COMPANIES GO WRONG
Many bosses assume that compensation is the solution. But money on its own has seldom retained really first-class talent. Star performers also need to feel special, which means you can't treat them as if they're simply a well-paid cog in your machine.

WHAT TO DO INSTEAD
A boss should show stars appreciation in three ways: by listening to their ideas, never blocking their growth and development, and taking every opportunity to praise them.

ABOUT THE ART

In her series Dog Vogue *Sophie Gamand explored the world of dog fashion. Working with New York City pet couturiers Anthony Rubio and Dawn Deisler, Gamand captured the mighty spirit of dog models who strut the city's runways in glamorous outfits.*

Over the past several decades managers have had to adapt to a stark reality:

Individuals with unique talent can profoundly affect the value—and even the nature—of the work their organizations produce. A film studio can make a movie with or without Julia Roberts, but it won't be the same movie. The Green Bay Packers can play football without quarterback Aaron Rodgers—but they will have to run a different offense. If a pharmaceutical company loses its star scientist, it will have to change its research program. If a hedge fund loses its investment guru, it will need to alter its approach to investing.

As the knowledge economy has taken over the business world, people with rare expertise and skills have become powerful—be they corporate executives, research scientists, money managers, artists, athletes, or celebrities. At the same time, technology and innovation have modernized the capital markets, making funding much easier to get and further shifting power from capital to talent. And while the earnings of talent in many domains have skyrocketed over the past four decades, nothing has matched topflight managers' ability to extract value: Steve Ballmer made the vast majority of his $96 billion fortune by being Bill Gates's first business manager. Eric Schmidt's $24 billion net worth came from taking the reins of Google for a decade, and Meg Whitman's $5 billion from serving as eBay's CEO for 10 years.

Such eye-popping numbers have given rise to the belief that star performers are deeply motivated by compensation and that big monetary rewards are key to their recruitment and retention. There is a grain of truth to that. I've met plenty of CEOs who pump up the perceived value of their companies to inflate their stock-based compensation; activist hedge-fund managers who destroy companies for short-term gain; investment bankers who, in the pursuit of big fees, persuade their clients to make unwise acquisitions; and consultants who sell their clients work that they don't need.

Yet that's not whom I'm talking about here. None of those me-first people have the ability or the motivation to make their organizations or teams great for a sustained period. I can say with confidence that in my 40 years of working with people who truly are in the upper echelon of talent, I haven't met a single one who is solely or even highly motivated by compensation. And that brings me to something managers need to know: *Feeling special is more important to talent than compensation is.* As I will show in this article, when it comes to managing star employees, the secret to success is making them feel like valued individuals—not like members of a group, no matter how elite.

I'll begin with the story of Giles.

GILES'S PATERNITY LEAVE

Thirty years ago, when I was co-running the strategy consulting boutique Monitor Group, Giles was one of a dozen or so most senior members of the firm—what we called global account managers (GAMs)—and a rising star among them. He approached me to ask for paternity leave for his first child, now a fairly standard request but a bit more unusual back then. I readily replied, "Sure, Giles. You're a GAM. At your level you can do pretty much whatever you want. Take as much time as you need."

He said, "OK" and walked off, looking sullen. I was surprised. He had asked for something, and I had given it to him without quibbling or conditions. What was his problem? Then it dawned on me. Giles didn't want to be treated like a member of a group—even if it was the exalted Monitor GAMs. He wanted to be treated like an individual. He wanted to hear "We care about you and what you need. If paternity leave is particularly important to you, we support you 100%."

The result would have been the same—unrestricted paternity leave—but the emotional impact would have been very different: Giles would have felt special, uniquely special.

Since that incident, I have seen the same dynamic again and again. It was because he needed to feel special that basketball icon Michael Jordan famously had his own rules—to the chagrin of some of his teammates. People like him spend their lives striving to be unique. They perform over and above other people. They prepare more; they work harder. They hold themselves to higher standards. They accept the additional pressure that comes with that territory. And that's why Giles was upset. It was jarring at a very deep level to have worked so hard to stand out from everyone else and then get treated like just another GAM—even though that was a position that many top MBAs dreamed of getting.

People like Giles aren't simply doing a job for you. They create outcomes that wouldn't be possible if they disappeared. You can't pigeonhole them into a category and expect to keep them happy. You have to create unique categories for them, even if that means adapting the rest of the organization. If you don't, you and your star will both suffer, as the case of the football star Aaron Rodgers vividly illustrates.

THE SAD STORY OF AARON RODGERS

After a stellar 17-year career with the iconic Green Bay Packers, Aaron Rodgers has established himself as one of the greatest quarterbacks ever to play in the National Football League. At the time of this writing he already had the fifth-most touchdown passes in history. His career passer rating, the most comprehensive measure of quarterback effectiveness, was the highest in league history for any quarterback with five years or more of starting play. He had led the Packers in 2011 to their first Super Bowl win in 14 years and been named the Super Bowl MVP. He'd been the NFL's MVP three times—tying for the second most often in league history—including during the 2020 season.

The Packers have twice made Rodgers the highest-paid player in the NFL, first with a five-year extension for $110 million (covering 2015 to 2019) and then with a four-year extension for $134 million (covering 2020 to 2023). Compensation was not an issue. And Rodgers reciprocated by being the superstar face of the franchise.

But at the NFL draft in April 2020, the Packers' general manager, Brian Gutekunst, traded up to be in a position to pick the quarterback Jordan Love, a potential successor to Rodgers, instead of selecting a wide receiver who would provide more offensive power to Rodgers. According to all involved, Gutekunst never spoke about his plans with Rodgers in advance. That year the Packers didn't draft a single wide receiver, and the sports media kept asking Rodgers about the shallowness of his wide receiver cadre. In a September 3, 2020, interview he expressed enthusiasm for his four top receivers, including Jake Kumerow. On September 4, Gutekunst cut Kumerow, who was immediately picked up by the Buffalo Bills. When asked two months later about the prospect of the Packers' picking up a wide receiver at the trade deadline, Rodgers responded: "I truly understand my role. I'm not going to [advocate] for anybody. Last time I [advocated] for a player, he ended up going to Buffalo."

Rodgers went on to have an MVP season and led the Packers to the National Football Conference championship game. But during it his coach chose not to try for a game-tying touchdown with 2:09 remaining on the clock—a decision that sent Tom Brady's Tampa Bay Buccaneers to the Super Bowl, which they won.

In late April 2021 stories began to circulate that Rodgers had decided not to return to the Packers. Rodgers didn't confirm them, but when pushed during an interview in May, he repeatedly referred to people issues in dealing with the Packers' management. He went on to sit out all voluntary preseason activities and a mandatory minicamp. One day before the start of training camp, he finally reached an agreement with the team to return, but only if it subtracted one year from his contractual obligation, enabling him to leave as a free agent after the 2022 season.

In a press conference following his return to the team, Rodgers finally opened up about the source of his displeasure: "The organization looks at me and my job as just to play. In my opinion, based on what I have accomplished in this league, the way I care about my teammates, the way I show up in the locker room, the way I lead, the way I conduct myself in the community, you should [give me] a little more input. *The rules are the same for most people, but now and then there are some outliers, guys who have been in an organization for 17 years and won a few MVPs, where they can be in conversations at a different, higher level* [emphasis added]. I am not asking for anything that other great quarterbacks across the last few decades have not gotten. The opportunity just to be in conversation, so if you are going to cut a guy, based on a meritocracy, who was our second-best receiver in training camp last year for the majority of camp, run it by me. See what I feel. I might be able to change your mind. But at least to be in the conversation makes you feel like you're important; you're respected."

Though Rodgers didn't mention Brady by name, it's hard to imagine that Brady's 2020 season was not on his mind. After a legendary 20-year career with the New England Patriots, Brady had joined the Buccaneers, who unlike the

Packers had not been in the running for a title in almost two decades. And yet he led the team to a Super Bowl championship. Along the way he had gotten the franchise to bring in his longtime favorite tight end, Rob Gronkowski, whom Brady persuaded to come out of retirement, and Antonio Brown, a polarizing but supremely talented wide receiver Brady had developed a rapport with during the receiver's short stint with the Patriots.

It's not a leap to imagine that what made the difference in the Packers' close championship loss was that, unlike Brady, Rodgers wasn't given the offensive weapons he wanted. Another case in point: His second-favorite receiver, Randall Cobb, wasn't offered a contract after the 2018 season, his eighth with the Packers. Perhaps it is no surprise, then, that about the time Rodgers decided to return to practice, the team announced it had signed Cobb for the 2021 season. But the expectation now is that at the end of the 2021 season (during which Rodgers faced criticism for breaking NFL masking protocols while unvaccinated) or at the very latest the 2022 one, Rodgers will end his relationship with the only NFL team he has ever played for.

Not everyone has been happy with the new power dynamics in the sport. In a May 2021 interview former Packers general manager Ron Wolf referred to star quarterbacks as "divas" and said, "In my time they were hired to play the position [of] quarterback. That's what they're being paid for, and that's what they're being paid to do. These guys, they want to pick the coach, pick the players."

To be fair, no one has alleged that Rodgers asked to pick either the coach or his teammates. However, he did ask to be treated not like just another player. The consequences of the failure to recognize his unique contributions will become manifestly clear to the Packers at the latest in 2022.

THE CHALLENGES FOR MANAGEMENT

Giving talent exceptional treatment presents a risk. If all managers who saw themselves as stars had a say in every decision, for instance, it would lead to chaos. And if any manager believes that being a star makes it all right to violate the fundamental norms of an organization, bad behavior will ensue, as the #MeToo revelations demonstrate. So if you run a team of highly talented people, you must find ways to make them feel special without putting them in charge (or allowing them to break important organizational and societal norms). That's easier than you might think. In fact, extraordinary employees often don't *want* to be in charge. Let's go back to Giles. He didn't want to be responsible for setting policies about leaves. He needed to feel that I, as management, valued him as Giles—not as just another GAM.

If you want to make your stars feel uniquely appreciated, start by following these three "never-dos."

Never dismiss their ideas. Talented people invest huge stores of energy and emotion in developing their skills so that they will succeed at the highest level. By the same token, though, they want input into how to apply those skills and further strengthen them. Rodgers's gripe was primarily about not being given a voice in decisions that were key to whether he could lead his team to another Super Bowl victory.

Consider Eric Yuan, who was turned down for a visa eight times before getting one to work in the United States. He also had to overcome a lack of English-language skills to get a job at the videoconferencing company Webex. Once there, he performed in such an outstanding fashion that he helped Webex become the leading videoconference platform and earned the position of VP of engineering at the tech giant Cisco Systems, which had purchased Webex. Yuan saw the emergence of smartphone-based videoconferencing as both a threat to and an opportunity for Webex, and in 2010 he proposed rewriting the platform to make it phone-friendly. According to Yuan, his proposal got no traction at the company. Less than a year later, he left to start Zoom, which has gone on to displace Webex as the dominant videoconferencing application.

Do you have to listen to everything top talent has to say? Of course not. But recognize that talented people don't take kindly to being dismissed out of hand. And they always have options—options that may be highly damaging to you.

Never block their development. If a star feels that her way forward has been barred and that she's being made to wait for advancement or opportunity, she will take her skills to an organization she thinks will clear a path for her. But deciding what opportunities to offer top talent and when calls for careful judgment. Star performers will also hold you responsible if they fail because you allowed them to bite off too much. The way to win their loyalty is to enable them to

> Recognize that talented people don't take kindly to being dismissed out of hand. And they always have options—options that may be highly damaging to you.

keep growing and learning—in their own individual way—without making success impossible.

Sometimes that requires you to battle the human resources function, which tends to want to treat people homogeneously and limit opportunities to rigid time frames. I recall getting intense pushback from the head of allocations at Monitor when I wanted to assign a less-seasoned consultant to a senior role on a major case. I was told he wasn't ready and that it wasn't fair to others who had been at the firm longer. I offered to look for opportunities in the future for those I bypassed and promised to take full responsibility for cleaning up any mess that resulted from promoting the consultant. Fortunately, it worked out well and catapulted him into a position that eliminated all questions about his readiness.

Never pass up the chance to praise them. In my experience, a real star rarely, if ever, asks for praise—at least not directly. Since your most talented employees are highly driven and intrinsically motivated, it's tempting to assume that they don't need a lot of it and would be indifferent to pats on the back. But just the opposite is true. Extraordinary people spend all their time doing really hard things. They have to regularly flirt with—and actually experience—failure. For that reason they need recognition. Otherwise, they become resentful or sad and drift away from the organization.

The challenge is spotting when they need acknowledgment and appreciation and delivering it in an individualized way. The generic annual "You've had a terrific year" will be viewed negatively, not positively, even if it's accompanied by a sizable financial reward. You have to tie your recognition to your stars' specific accomplishments.

At the Rotman School of Management, where I was the dean, top professorial talent was critical to who we were. We had many excellent professors, but fewer than a handful had a disproportionate impact on our global reputation. I always made sure to give those people pats on the back for things I heard about what they were doing—from favorable articles in the press, to positive student feedback, to the progress of their PhD students.

That was why I had to cringe when a professor friend forwarded me an email that he had received from the dean of his business school. It involved approval for traveling business class. Professors at the school couldn't fly business class unless they received a specific onetime OK from the dean. My friend, who was one of the school's brightest stars, had recently undergone major heart surgery and wrote to the dean indicating that his doctor had forbidden him to fly coach for intercontinental flights. He explained that he needed to travel to an academic conference in Europe to receive a lifetime achievement award in his academic discipline.

It didn't take a rocket scientist to figure out the subtext of the email: "Hey, dean, you probably didn't realize that I had major heart surgery and despite that, I'm back on my feet and representing the school. And I have just received the most prestigious award in my field." The dean's response, in its entirety? "Approved." Not: "My goodness—I had no idea about the surgery. I'm thrilled you have recovered. And I'm so happy for you and proud for the school on this latest accolade in your brilliant career. Of course you have my approval. And I will let media relations know about the award so that they can do a press release on the day of its presentation. Have a great time, and thanks again for all you do for the school's reputation."

Did the dean in question commit a fatal talent management mistake? I doubt it. But how likely is it that my friend will actively help the dean accomplish the next big thing on his list? Not very. How much time would it have taken to craft an email that made my friend feel recognized and appreciated? No more than five minutes.

THE REQUIREMENTS FOR talent management in the modern economy may feel daunting. Star employees can extract huge sums from an organization and, if they jump ship, undermine its ability to succeed. That said, there is a very positive side to the equation. Top talent enables outcomes that otherwise wouldn't be possible—special, tail-of-the-distribution-curve outcomes. If you rely on these people for outstanding organizational performance, you must treat them as valued, unique individuals. Never dismiss their ideas, never allow their progress to be blocked, and never miss the chance to shower them with praise when they succeed.

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CORPORATE FINANCE

ILLUSTRATOR LEONARDOWORX

A Better Way to Assess Managerial Performance

A new measure gets past the distortions of total shareholder return and puts buybacks into perspective.

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CORPORATE FINANCE

TOTAL SHAREHOLDER RETURN (TSR) has become the definitive performance metric for public companies. As executive compensation has shifted over the past two decades away from grants of stock and options that vest with time to grants that vest with performance, TSR has become a critical element of governance and compensation and, therefore, of how firms are managed. TSR is sold as a neutral, market-based measure that captures value creation and can't be manipulated by managers using accounting maneuvers. Are those claims justified?

Unlike measures such as revenue growth or earnings per share that reflect the past, TSR is based on stock prices and therefore captures investor expectations of what will happen as a result of management decisions. This is its chief attraction. The problem is that TSR conflates performance arising from managers' strategic and operating decisions with performance associated with cash distributions—namely, dividends and buybacks. Because firms have moved from distributing roughly half of their operating earnings to shareholders (largely through dividends) to distributing nearly all operating earnings today (largely through buybacks) that conflation takes on a new significance.

In the following pages, we explain the flaws of TSR as a measure of strategic and operational performance, demonstrate the scale of the distortions it introduces, and propose a new metric to replace it: core operating shareholder return (COSR). This metric emphasizes the value created through operations and does not penalize or reward managers for their dividend and buyback decisions. At a minimum, COSR can complement TSR by providing a more precise measure of operational performance. We also provide a comprehensive assessment of the buyback revolution by identifying which firms reallocated the most value—both positively and negatively—through buybacks and how much total value buybacks have generated or lost for investors over the past 20 years. The verdict is quite damning.

TSR'S FLAWED ASSUMPTIONS

TSR calculates the return for a buy-and-hold investor over a specified period by considering the effects of stock price changes and dividends. Over one year, for example, a stock that begins at $100, ends at $110, and pays a $2 dividend has a TSR of 12%: $(10 + 2) / 100 = 12\%$. What could be wrong with that?

Calculating TSR over multiple years requires one to make an assumption about what investors do with the dividends they receive. TSR extends the buy-and-hold logic to the dividend payout and assumes that shareholders will reinvest it in the company's stock: Over a given holding period, TSR equals the stock price gain plus the compounded value of dividends reinvested in the company stock, divided by the

IDEA IN BRIEF

THE PROBLEM
Total shareholder return (TSR) has become the definitive metric for assessing company performance. But it conflates performance associated with operations and strategy with that arising from cash distributions.

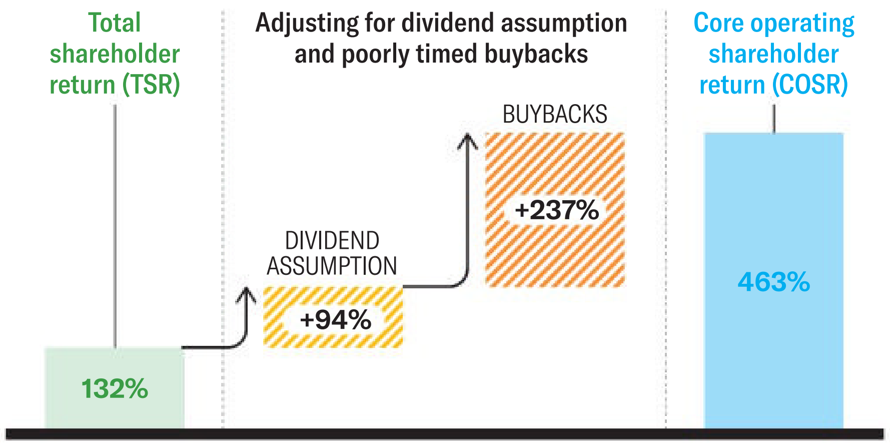
A BETTER MEASURE
A new measure for assessing performance, core operating shareholder return (COSR), emphasizes value created through operations and does not penalize or reward managers for their dividend and buyback decisions.

THE IMPACT
The adoption of COSR promises to bring about an increased emphasis on operational performance, a decreased reliance on financial engineering and cash distributions, and a more credible compensation process.

IBM's Performance Was Better Than It Seemed

Using TSR as a measure, IBM has not fared well over the past two decades, significantly underperforming the average S&P 500 return of 332%. Most of the poor performance, however, can be attributed to cash distributions. Adjusting the dividend assumption and accounting for poorly timed buybacks yields a much higher COSR, revealing the quality of its managers' strategic and operating decisions.

IBM, holding period returns, 2001–2020



starting stock price. Shareholders, however, very rarely reinvest dividends in the company stock; thus the TSR assumption reinforces the effect of the stock's performance relative to the market in a way that is divorced from reality.

Suppose a stock pays a dividend and its subsequent performance is lower than the market average. The stock's underperformance will be compounded by TSR because it is assumed that the dividends will be reinvested back in the company rather than in a higher-performing alternative. By contrast, the TSR of a market outperformer is inflated by the assumption that shareholders will reinvest in the company's high-return stock. That assumption, however, runs counter to the actual behavior of shareholders who routinely reallocate dividends to other investments.

The problems with TSR go beyond assumptions about dividend reinvestment. The broader issue is that cash distributions of both kinds—dividends as well as buyback programs—are mischaracterized by TSR as a source of value creation. But buybacks are merely distributions of cash used by firms to purchase their own stock. Although companies that do buybacks hope they will drive the share price higher (partly by signaling management's conviction that the stock is undervalued), buybacks cannot fundamentally create value. They are more akin to an investment in a security.

Although buybacks don't directly create value, they can transfer it across shareholders, because share price does not always reflect fundamental value. When a firm conducts a buyback program, shareholders can choose to sell or not. If a firm buys shares when the price is $90 but the fundamental value is $100, the buyback will transfer value from selling shareholders to nonselling shareholders. In contrast, a poorly timed buyback (a firm buys its shares for $110 when the fundamental value is $100) transfers value from nonsellers to selling shareholders.

Whether the timing of a buyback is good or bad can be determined only after the fact: The price of the shares eventually either goes up or goes down relative to the market. TSR conflates those timing effects with operating and strategic decisions. In the process, TSR effectively rewards or punishes managers for their timing of repurchases as well as for their strategic and operating decisions.

Our COSR metric overcomes these issues by cleansing TSRs of these distortions. First, dividends are no longer assumed to be reinvested in company stock. Instead, they are assumed to be reinvested in a broad-market benchmark. This enables our second modification to TSR: Cash used to buy back shares is also assumed to be invested in the broad-market benchmark. While the first change to TSR simply replaces a faulty assumption about dividend reinvestment with a better one, the second change is more significant. It imagines a counterfactual world where the cash used for buybacks is treated not like an investment in a security but as a dividend payout to shareholders.

The mechanics of this are relatively simple: To calculate COSR for a given holding period, sum up the ending stock price, the compounded value of dividends that have been reinvested in the S&P 500, and the compounded value of cash deployed as buybacks now assumed to be reinvested in the S&P 500. Then divide that sum by the starting stock price. With TSR, all the shareholder value is tied up in how the stock price moves. With COSR, some of the value is tied up in the stock's movement (start and end price), but the performance of cash distributions is separated from the stock price.

To see how big an impact these changes can have, consider the case of IBM. Its TSR of 132% for the past two decades compares badly with the S&P 500 return of 332%. Simply changing the dividend assumption to assume reinvestment in the S&P 500 index, instead of IBM stock, adds an extra 94% to investors' returns on their IBM shares. Adjusting for the poor performance of its buybacks contributes a further 237%, yielding a COSR of 463%. In short, the assumptions embedded in the TSR metric obscured the remarkably good performance of IBM's managers in generating healthy cash flows from their business.

CORPORATE FINANCE

Understanding When COSR and TSR Diverge

Managers and investors can gain a simple understanding of whether a company's performance will appear better when using the traditional TSR measure or when stripping out the effects of cash distributions, as COSR does, by using the chart below:

	If you are a **market underperformer**:	If you **track with the market**:	If you are a **market outperformer**:
If you **pay dividends**:	COSR IS HIGHER	COSR and TSR ARE EQUAL	TSR IS HIGHER
If you did **buybacks with bad timing**:	COSR IS HIGHER	COSR IS HIGHER	**It depends** Market performance offsets timing
If you did **buybacks with neutral timing**:	COSR IS HIGHER	COSR and TSR ARE EQUAL	TSR IS HIGHER
If you did **buybacks with good timing**:	**It depends** Market performance offsets timing	TSR IS HIGHER	TSR IS HIGHER

But TSR won't always look worse than COSR. For example, the TSR for Apple from 2010 to 2020 was an eye-popping 1,233%, but its COSR was 876%. That's because TSR rewarded Apple for dividends paid during that decade by assuming they were reinvested in Apple's outperforming stock; TSR also rewarded Apple for its well-timed and massive buybacks. Similarly, a further analysis of IBM's performance for each of the past two decades demonstrates that while its COSR was quite similar for the two periods, its TSR was only slightly higher than its COSR in the first decade and considerably lower in the second, indicating that although operating performance was comparable, the effects of dividends and buybacks considerably affected its TSR.

THE DIFFERENCE BETWEEN TSR AND COSR

COSR and TSR differ depending on a firm's cash distribution policies and its market performance over a given period. Of course, firms adjust their policies and mix them over time, but it is useful to consider their effects separately.

No distributions. For companies that do not distribute cash in the form of dividends or buybacks, there is no difference between COSR and TSR. This is typically the case for young, high-growth firms.

Dividends. COSR and TSR numbers will diverge for a dividend-paying firm depending on the relative performance of its stock after the dividend is paid versus a market benchmark. A market outperformer will most likely have a TSR that is higher than its COSR, given the assumption that shareholders reinvest the dividends in the stock. Firms whose stock performance is tracking with the market will see no difference between the two measures. Many dividend payers are more-mature firms with shareholders looking to reinvest dividends in higher-growth firms. For such firms, TSR reinforces their weaker stock performance; thus their COSR numbers tend to be higher.

Buybacks. TSR and COSR in firms that do buybacks diverge for two reasons. First, regardless of whether firms are good at timing their buybacks, COSR will diverge from TSR for the same reasons that they diverge for dividend paying firms—distributed cash under COSR earns the alternative market return rather than the return on a single stock. Second, managers are given credit for their timing ability in executing buybacks in TSR but not in COSR. As a consequence, firms with good timing ability and high-performing stocks will have a TSR that's higher than its COSR. In contrast, firms with poor timing of buybacks will generally deliver a COSR that's higher than its TSR—because the COSR ignores timing effects and assumes reinvestment in the higher-performing benchmark portfolio. (See the exhibit "Understanding When COSR and TSR Diverge.")

THE EVIDENCE

At the majority of firms in the S&P 500, COSRs have been higher and less variable than TSRs over the past 20 years across all sectors. This suggests that the quality of management performance in most companies and industries has been obscured by the effects of payout policies, characterized by an enthusiasm for buybacks. (See the exhibit "TSR Understates Operating Performance for the S&P 500.") And as the exhibit "Identifying the Sources of Bias in TSR" demonstrates, the timing effect is correlated with the dividend effect: Firms with poorly timed buybacks also have depressed TSRs because shareholders are assumed to be reinvesting dividends in the firms' own poorly performing stocks.

We can dive deeper with this analysis and compare companies within a sector. In the IT industry, some firms (such as IBM) have higher COSRs than TSRs because of poorly timed buyback activity and dividends that are assumed to compound at low rates. Other firms, like Microsoft and Apple, feature higher TSRs than COSRs because of propitious buyback activities and dividends that are assumed to

Our analysis suggests that managers time their buybacks poorly, and persistently so, resulting in losses for long-term investors.

CORPORATE FINANCE

compound at high rates. In this sense, TSR magnifies differences in operational performance across firms, whereas COSR allows operational performance to be cleanly isolated from the compounding effects of distribution policies.

The pharmaceutical industry is a particularly compelling example, given the magnitude of its cash distributions. A few firms—such as Regeneron and Vertex—see little difference between COSR and TSR because of their limited cash distributions. Many others have comparable COSRs but widely divergent TSRs. Consider Gilead and Lilly, whose COSRs are very similar. Gilead's much lower TSR reflects its poor record of value-destroying buybacks; Lilly has engaged in few buybacks. And although the stock price performance of Lilly was not favorable relative to the stock market over the entire period, extreme outperformance at the end meant that the sizable dividends paid out during those years dramatically inflated its TSR. Biogen comes out as a particularly poor performer with an average annual TSR for the decade that is lower by 3% per year than its COSR, purely because of ill-timed buybacks. Pfizer, a mid-performing firm on the basis of COSR, is a poorly performing firm in terms of TSR.

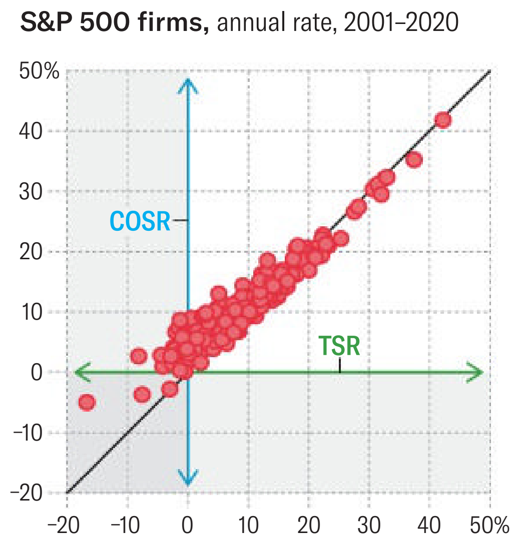
By comparing TSR and COSR, we can make an overall assessment of the impact of buybacks on returns for long-term investors—a topic that has generated much heated debate over the past decade. Some see buybacks as a way to avoid corporate overinvestment, while others see it as shortchanging long-term investors and even damaging the national interest.

Our analysis looks at buyback performance of S&P 500 firms over the past 20 years. We find that firms did not succeed in timing buybacks well in either decade but that performance deteriorated further in the second decade, suggesting that buybacks have become overused.

The firms most proficient at timing their buybacks have annual TSRs that are 2% to 3% higher than their COSRs, while the worst firms have annual TSRs that are 7% to 9% lower than their COSRs. The firms whose buybacks have performed the best according to our analysis—such as Apple, Microsoft, Nvidia, and Mastercard—have reallocated as much as 30% of their current value to their nonselling shareholders. The firms with the worst-performing buybacks—including ExxonMobil, Wells Fargo, and IBM—have transferred more than $100 billion in value away from their

TSR Understates Operating Performance for the S&P 500

Over the past two decades, COSR was higher than TSR at most S&P 500 firms. This indicates that, on average, managers' decisions about how to distribute cash during the holding period made TSR an unreliable measure of operating performance.



long-term shareholders. The absolute value of the reallocations is staggering. Aggregating across all S&P 500 firms, long-term shareholders lost out on more than $1 trillion in value from 2011 to 2020 and, if Apple's stunning buybacks were excluded, that loss would be closer to $1.8 trillion.

It's useful to consider whether buyback performance is associated with luck or skill. Any effort to cleanly tease out one from the other is hazardous, but the persistence of the timing ability of managers offers a hint. If timing of buyback activity is skill based, it would be somewhat persistent. For example, one can look at two periods (2001 to 2010 and 2011 to 2020) and ask what fraction of S&P 500 firms might be expected to have positive timing ability in both decades, in neither decade, or in one decade. If luck were driving the results, one would expect 25% of firms to have positive buyback results in both periods, 25% in neither period, and 50% in only one period. Instead, only 14% of firms have positive buyback ability in both periods, and 44% of firms have negative buyback activity in both periods. We get similar findings when we look at five-year periods. This suggests that managers time their buybacks poorly, and persistently so, resulting in losses for long-term investors.

IS THERE A CATCH WITH COSR?

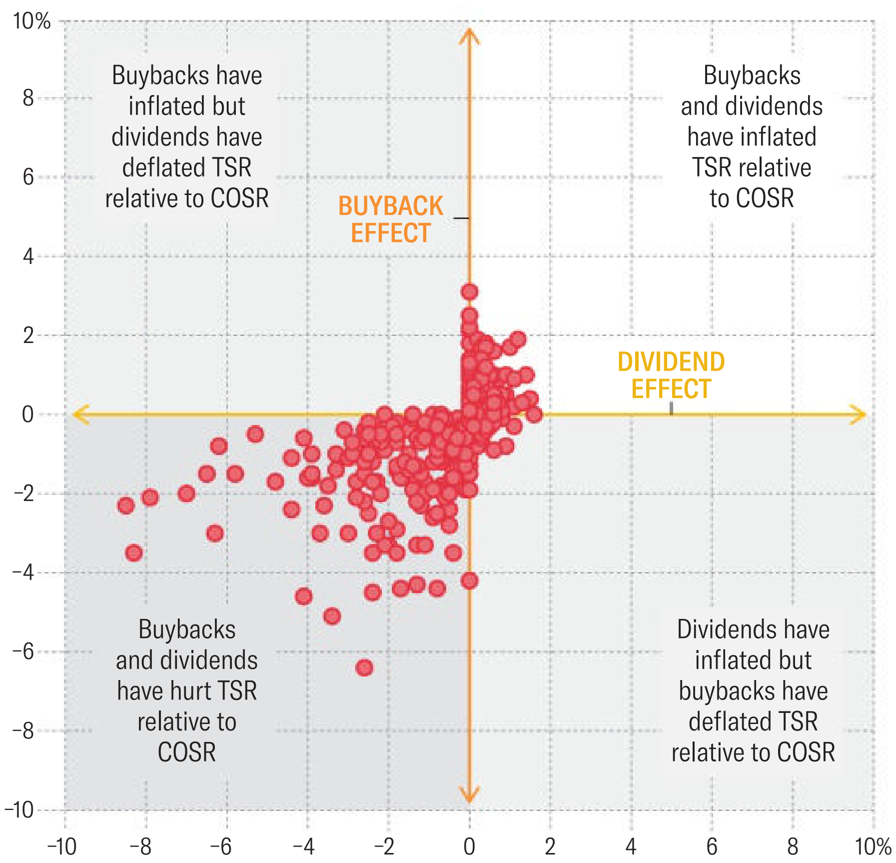
TSR has proliferated widely without a serious examination of its underlying assumptions. We should not make the same mistake with COSR. Several possible objections to COSR exist, and we consider them here:

Shouldn't managers get credit for their timing ability with buybacks? TSR includes returns that are driven by managers' ability to time the market (or lack thereof), but it doesn't shed any light on how important those returns are relative to operating performance. It would be instructive

Identifying the Sources of Bias in TSR

Dividends and buybacks combine to have a distorting effect on TSR. Firms in the top right have higher TSRs (relative to COSR) because their dividends are assumed to be reinvested in their own high-performing stock and their stock buybacks were well-timed. However, many more firms fall in the bottom left quadrant, which represents firms whose buybacks have been poorly timed and whose dividends are assumed to be reinvested in their own underperforming stock.

S&P 500 firms, annual rate, 2001–2020



to learn, for example, if managers were simply destroying large fractions of their operating value by making ill-timed buyback decisions. At the very least, calculating COSR in addition to TSR gives you more insight into where your managers' skills lie and where your company's value is coming from. Given the evidence on managers' poor timing ability, using COSR instead of TSR will give managers less incentive to try to do buybacks.

Is COSR's method of treating buybacks and dividends realistic? Neither COSR nor TSR is fully realistic. TSR makes the assumption that dividends are reinvested in the stock itself, which is contrary to the real-world practice of investors and the decision of managers to distribute cash out of the firm. COSR assumes that the cash deployed in buybacks is distributed as dividends and invested in a reasonable alternative alongside dividends that are also deployed in that manner. Given that cash distributions are, in fact, distributions out of the firm, we think the reinvestment assumption of COSR is more realistic.

The critical question in choosing between TSR and COSR is what kind of performance should serve as the basis for rewarding or punishing managers. COSR measures the impact of the strategic and operating decisions managers make by explicitly removing buyback timing incentives and the misattribution of returns from dividend reinvestment. It is a superior mechanism for focusing the attention of company leaders on the most important things under their control.

Under COSR, shareholders' investment of dividends in outside stocks is taken into account. Isn't it wrong to combine two different assets under one return? No. Our view is that cash distributions from firms are, in fact, distinct from the firm itself and should be treated as such. The presumptive reinvestment of dividends in the stock is in fact the odd choice given that investors redeploy cash from dividends in the best alternative investment outside the firm. COSR reflects that reality.

What determines the relevant outside investment used in COSR? The question of what investment to choose can be quite nuanced. One could consider, for instance, making it a portfolio of stocks of industry peers. We have deployed a broad-market index as this is a fairly straightforward solution. We imagine that large shareholders and governance firms will converge on the suitable investment opportunity for any given firm.

IN AN ERA of rising expectations for businesses and managers, it is critically important that the metrics by which we judge corporate performance and set managerial compensation are not distorted by non-value-creating factors and financial engineering. Performance metrics should focus the attention of managers on what matters: core operations. The adoption of COSR promises to bring about an increased emphasis on operational performance, a decreased reliance on financial engineering and cash distributions, and a more credible compensation process.

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Experience

Advice and Inspiration

MANAGING YOURSELF

When to Cooperate with Colleagues and When to Compete

There's rivalry in every work relationship. Have a strategy for managing it.

by Randall S. Peterson and Kristin J. Behfar

LET'S ACKNOWLEDGE AN uncomfortable truth about workplaces: The people who thrive in them are those who know how to both collaborate and compete with their colleagues. They clearly understand how work relationships affect their interests and the organization's, carefully consider the risks and trade-offs, and dispassionately decide how much to invest in each coworker and when to walk away.

There are dangers in all workplace relationships—not just those in which conflict or competition is pronounced but also ones where you're happily collaborating with someone or able to work largely independently of each other. That's because the parties involved

Illustrations by MAGDA AZAB

always have differing agendas, which will never be 100% compatible and may diverge even more over time.

We've studied *cooperative rivalries* on the job for more than 25 years and found that the way professionals handle them can make or break their careers. We have seen how easy it is to view relationships as simply negative or positive. Virtually all are a mix of both and require careful thought to manage. To do so effectively, you must first understand where you and your colleagues fall on the conflict-collaboration spectrum. (See the exhibit "How Self-Interests Define Work Relationships.")

Relationships are negative when interests are opposed and the parties are either in competition or in outright conflict over goals. Bosses sometimes put us into these challenging situations to test whether we can rise above our personal feelings (or rivalries between teams or business units) to do what's right for the organization. But most of us approach them warily, tending to focus on the harm that our counterparts have done in the past or could inflict in the future.

Relationships are positive when people share interests and decide to cooperate to achieve selective goals or to collaborate when their goals are fully merged. This feels the best, but if you assume that your partner has a purely positive intent and is totally aligned with you, and you're mistaken, you've put yourself at risk.

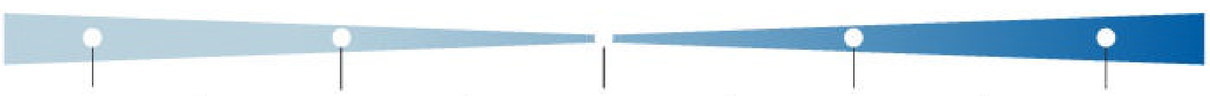
In between are relationships in which two people largely work independently. But as we shall discuss later, these can be hard to maintain and carry their own risks.

Once you've figured out the type of relationship you and your colleague have, you can use various tactics to manage it. That requires you to step back from the existing emotional and behavioral dynamics and carefully analyze your situation. Consider how your disparate and mutual interests align with the goals of your organization. Ask yourself what is in it for you and what is in it for the other person. How do his or her interests create risk for you? What can you tolerate, and what must you prevent? And how can you ensure that the benefits of working together are realized?

How Self-Interests Define Work Relationships

All work relationships fall into one of five categories. Depending on the degree to which the two people's personal interests clash or are aligned, relationships range from very negative, to neutral, to very positive. Managing each type has risks, and over time, as self-interests shift, the nature of a relationship might change.

NEGATIVE — POSITIVE



Conflict (Enemies)	Competition (Rivals)	Maximum Possible Independence (Neighbors)	Cooperation (Friends)	Collaboration (Allies)
Trying to defeat or deny another's interests	Working to deter another in order to protect or advance self-interests	Acting to neutralize the impact of others on self-interests	Maintaining self-interests while also advancing joint interests	Merging self-interests with the interests of others

Sources: Conflict Continuum, Joint Concept for Integrated Campaigning, March 16, 2018; "Cooperation and Competition," by M. Deutsch, *Conflict, Interdependence, and Justice*, Springer, 2011; and Brigadier David Hafner, Australian Army.

CONFLICT

In an outright conflict your counterpart is trying to take something that you want or need. It is a zero-sum relationship that ends when one party wins and the other loses the sought-after reward, such as a promotion or a plum assignment. Consider Jim and Jane, who are both being considered for a senior managing director position at a large private wealth-management firm. (All the case studies in this article are hypothetical but are drawn from various real scenarios we have studied.) Jane has worked for months to cultivate a prospective client, and if she succeeds, it could be a deciding factor in whether she gets promoted. She learns from a junior associate that Jim is also trying to land this high-net-worth individual, even though he knows that Jane is already in pursuit. He's done this before, which is why she has grown to loathe him.

If Jane ignores the situation, Jim will no doubt press on. If he wins the account, he's unlikely to share any of the credit. Her peers and subordinates might then lose respect for her

We have seen how easy it is to view relationships as simply negative or positive. Virtually all are a mix of both and require careful thought to manage.

for not taking steps to protect herself, given that Jim's predatory behavior is widely known. But if she directly confronts Jim, it could force others to take sides, and she might find herself abandoned by colleagues who fear retaliation from Jim, want to be on the winning side, think that she's the one being petty, or have concern only for the firm's bottom line.

To manage the situation, Jane will need to figure out the best way to fight back without burning bridges. That requires emotional maturity and discipline. She can start by considering her counterpart's strengths. (You need to know your enemy well and even acknowledge why he might be hard to beat.) What might the client value in Jim that Jane doesn't have, and what could she do to change this? She also needs to revisit the importance of the issue in contention. Is the deal really vital to her promotion? Next she should consider workarounds or countermoves. Perhaps she could let Jim take this win and project her worth to senior leadership in other ways. Or if she determines that landing this client is key to her advancement, she could reach out to some of Jim's prospects and use that as leverage in a discussion about how she and Jim could create and abide by boundaries. In a conflict relationship you need to be clear about what you must protect and what's not possible, given the circumstances. Confrontation is both necessary and costly, so work closely with allies and do not engage your rival alone.

COMPETITION

This type of rivalry is very common in workplaces where pay and opportunities are routinely allocated by assessing and comparing the performance of employees. You and your colleague want the same things, but supply is limited. Unlike an outright win-or-lose conflict, competitive situations offer some flexibility, because value can still be found in other, albeit less attractive, options.

Consider Michael and Ellen, who've been asked by their boss to colead a priority project: developing their company's new diversity, equity, and inclusion plan. Success or failure on the assignment will have an impact on the career trajectories of both of them. Michael

While collaborative relationships feel psychologically safe and promise the most mutual gain, they are the hardest to disengage from if interests change.

would like to work cooperatively with Ellen but is deeply skeptical that he'll be able to do so, since she has a reputation for throwing colleagues under the bus in difficult situations. While he's confident that they can produce good ideas together, he worries that when they present their recommendations to their superiors, Ellen will insinuate that the best-received ones are hers and the more-controversial ones his.

Michael has several risks to consider when formulating a strategy for dealing with Ellen. If he raises his concerns at the outset, she's likely to view it as an attack or dismiss him as paranoid, since she hasn't done anything wrong yet. If he simply works with her in good faith, he may face the lopsided outcome he fears: her taking all the credit for good work and blaming him for any stumbles. If he takes a page out of her previous playbook and tries to secretly compete with her, using less-than-honest tactics—withholding key information, for example—he might develop a reputation just as bad as hers.

The right move in cases like this one is to recognize where your goals and your rival's are compatible and where they're not and work from there to improve the odds of good outcomes while minimizing unwanted ones. For example, neither Michael nor Ellen wants this project to fail, and both are committed to enhancing DEI at their company. In every conversation with her, he will want to emphasize those shared goals and the importance of achieving them as a team. Perhaps he can rein in her competitive behavior by eliminating scenarios in which she might be tempted to undermine him. One option would be to get her to agree to create an ad hoc review committee with members from multiple departments to provide feedback and endorse the final recommendations. Or maybe he could persuade her that their bosses—instead of them—should present the results. By recognizing what drives a rivalry, those in it can find a way to reduce competition.

INDEPENDENCE

In the middle of the spectrum is independence, which entails deliberately reducing your reliance on others as much as possible—evading the problem rather than trying to fix it. Consider Scott, who felt that his colleague Nigel often bullied him. To avoid having to deal with Nigel, Scott got his boss to restructure their respective responsibilities so that they would interact less frequently—just in formal meetings when the rest of the team was present.

One challenge with this approach is that it is difficult to maintain over the long term. Scott should consider how he will behave if circumstances change and he suddenly has to reengage with Nigel. Another is that avoiding Nigel

might also isolate Scott from potential allies who could help him perform his job better—teammates who think he's being noncollegial and is putting his own interests above the group's. Given those dangers, we don't highly recommend this approach. Instead, people in Scott's situation should consider treating the relationship as a conflict or a competition.

COOPERATION

In a cooperative relationship you and your counterpart share key interests but also have separate ones, so you choose to work together on specific issues where your interests do align and not to compete where they don't. That doesn't require you to like or make any material or long-term investments in each other. It's just a mutually beneficial transaction in which each party brings something to the table.

Take Mohammed and Roberto, peers tasked with an assignment beyond their normal responsibilities: pooling their expertise on BRIC countries to produce an economic forecast for their organization, which sells research and analysis to corporate clients. Both will benefit if the report attracts media attention, draws new subscribers to their company's regular annual forecast, and builds the firm's credibility and standing.

The risks here are much lower than in relationships where partners are in conflict or competition. The main danger stems from the fact that things can change. For example, if Mohammed suddenly gets a time-intensive opportunity to work directly with the CEO of an important client in his region, he will have to decide whether to take it and reduce his commitment to the project with Roberto. To deal with such unplanned circumstances, Mohammed and Roberto might agree at the outset of their relationship to a set of reasons for reducing or ending their commitment to the project and pledge to give each other a certain amount of advance notice should they do so.

COLLABORATION

Collaboration happens when two parties have many key mutual interests and would both benefit from investing in the relationship to help each other. This is the situation that Sara and Maryam found themselves in when their respective employers assigned them to colead a small pilot venture that paired the coach-client matching technology of Sara's firm with the deep coaching experience and client list of Maryam's company. The assignment entailed creating new shared processes for managing coaches, soliciting clients, and ensuring there would be joint accountability if something went wrong. The work promised to be hard but enjoyable; they'd both learn new things and build a venture that neither firm could have created alone.

While such relationships feel psychologically safe and promise the most mutual gain, they are the hardest to disengage from if interests change, because the parties' resources are intermingled. So at the outset Sara and Maryam should be cautious and take the time to understand their respective commitments—and those of their organizations—to the endeavor. That should include developing detailed plans for different scenarios, outlining their implications for each coleader and how they will be handled. For example, what happens if one company wants to pull back and the other wants to move forward, becomes the dominant backer, and insists that its person run the venture? Would the other party be willing to stick it out in a secondary role? Or if one company takes over the project and wants Sara and Maryam to continue to colead, would they both be willing?

WE ALL NAVIGATE a range of cooperative rivalries at work. Understanding and figuring out how to optimize each of them is crucial. The solution is not to find positive relationships and avoid negative ones. You must recognize that conflict and competition inevitably arise among interdependent coworkers but can still be managed in ways that reap rewards; that while independence might seem like a solution it is rarely, if ever, a panacea; and that your goals and your work partners' will evolve over time. Career success depends on relationship management as much as any other skill. Get it right, and both you and your organization will benefit.

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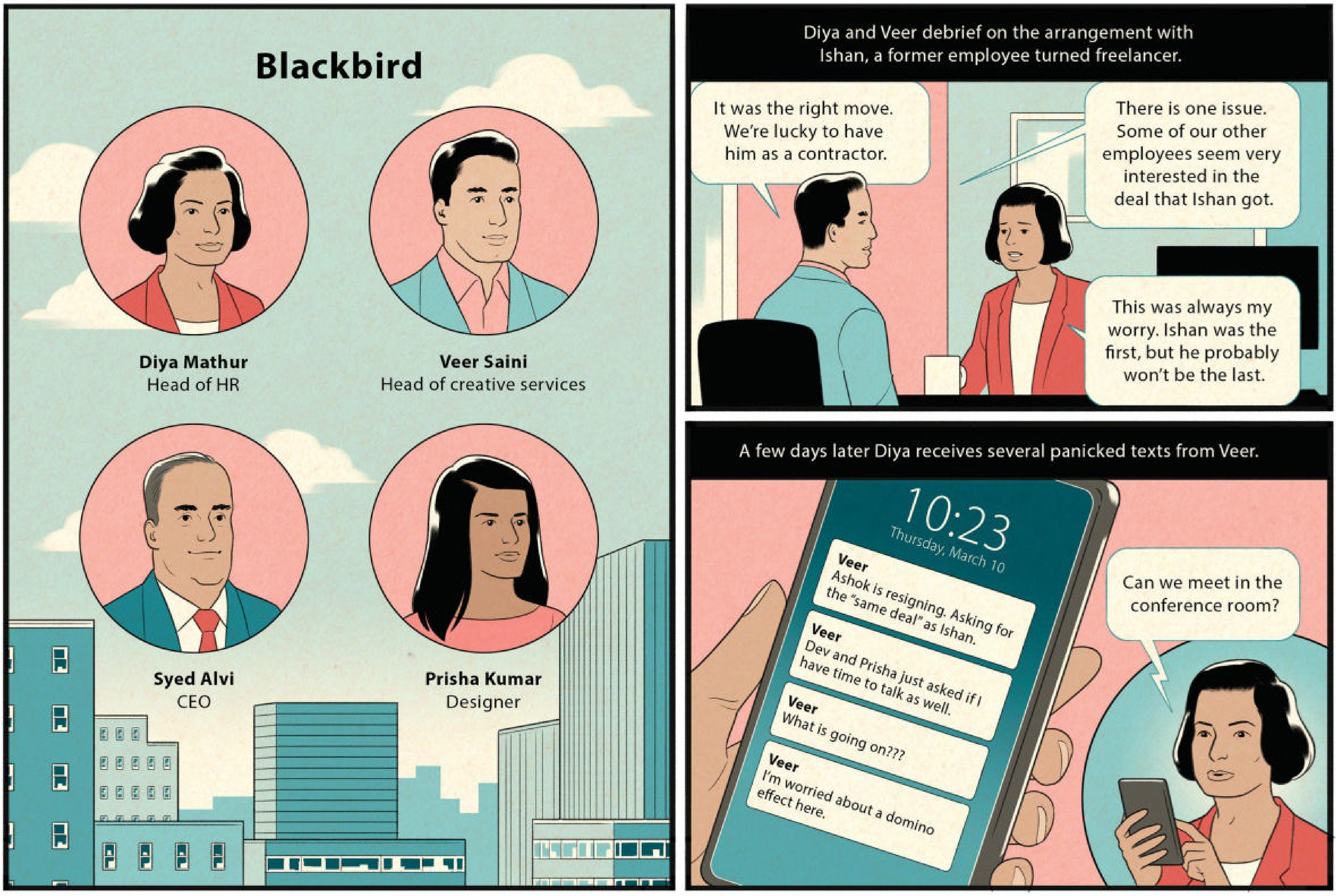


Case Study

One Employee Went Freelance. Now Everyone Wants the Same Deal

by Rakesh Bohra and Jyotsna Bhatnagar

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on "Pioneer Urban: Conundrum of Nurturing a Startup," an original unpublished case developed at MDI Gurgaon.

"IT WAS THE right move. We're lucky to have him as a contractor now."

Veer Saini, the head of creative services at the advertising firm Blackbird, was referring to one of his star designers, Ishan Misra, who had left months earlier to start his own agency. Blackbird had become its first client, and now Veer was stopping by the office of HR director Diya Mathur to update her on how things were going.

At first Diya had been skeptical about the arrangement, but she'd ultimately bought Veer's argument that Ishan was determined to strike out on his own and that they'd be fortunate to keep working with him in any capacity. Ishan was also immensely grateful for their support. And so far, the situation seemed to be working out.

"I'm certain he'll have other clients in no time," Veer continued. "It was always clear that he wasn't just a top-notch creative but someone who could excel on the client management side as well. Here, with our size, he'd never be able to do both."

Blackbird, based in Delhi, had 200 employees organized into three divisions: account services, media, and Veer's group, creative,

Illustrations by **ANUJ SHRESTHA**

which comprised more than 50 people, including 12 designers. They created websites and promotional material for clients—mostly small and midsize businesses. When the group had a large project or got particularly busy, Veer would outsource[1] some of the design work to freelancers or small boutique agencies. Ishan had been in charge of managing those contractors, and he'd been frustrated at times with the quality of their work. He felt he could do better.

When Veer first ran the idea of turning Ishan into a contractor by Diya, he pitched it as a win-win. His team would get reliable outside help, and Ishan would be able to pursue his dream of building his own venture. After getting over her initial hesitation, Diya saw that there was an added benefit. Their support of Ishan would send employees a positive message: Blackbird was invested in their future, even if it wasn't at the firm. Ishan would also join the company's alumni network, which Blackbird used as a recruiting tool.

"There is one issue I wanted you to be aware of," Veer said cautiously.

Diya raised her eyebrows.

"Just something we should keep an eye on," he said. "Some of our other employees seem very interested in the arrangement that Ishan got. I've overheard discussions between them. Ashok even asked me directly about it."

Diya didn't like the sound of that. "I thought Ishan was a one-off. How many of the rest of them could seriously set up independently? And should we be worried about him trying to poach some of our staff?" She got an uneasy feeling in the pit of her stomach.

One of the things that had been bothering her over the past few months was the company's lack of a clear noncompete policy.[2] Technically, there was nothing stopping Ishan from hiring his former teammates or working directly with Blackbird's clients. But she, Veer, and Blackbird's CEO, Syed Alvi, had agreed to the arrangement with Ishan because they trusted him. They'd also decided that they would develop protocols—for contracting with former employees who'd set up shop on their own and ensuring they didn't end up as Blackbird's competition—based on what they learned from this experience.

"This was always my worry," she said to Veer. "Ishan was the first, but he probably won't be the last."

THE FALLOUT

The following Tuesday, Diya was in her office trying to finish up a recruiting report for the firm's board meeting on Friday, but her phone kept buzzing. Picking it up, she saw that Veer had texted her repeatedly:

Ashok is resigning. Asking for the "same deal" as Ishan.

Can we meet this afternoon?

Dev and Prisha just asked if I have time to talk as well.

What is going on???

When can we meet??

I'm worried about a domino effect here.

I'm sorry, I know you're prepping for the board meeting.

She texted him back, asking if they could meet in the conference room by the elevator.

When she arrived, Veer was pacing back and forth, hand to his forehead. "I'm having second thoughts about the Ishan arrangement," he said. "I'm worried we sent the wrong message—that people will be rewarded for quitting. And now some of our designers seem to want to follow in Ishan's footsteps. But they're not Ishan. They don't have the same skills and potential. We can't lose—and then give work to—all of them!"

Case Study Classroom Notes

1. *A recent study of 150 marketing firms with revenue over $200 million indicated that they outsource 45% to 48% of their creative, strategy, media planning, and analytics work.*

2. *Because the Indian Contract Act, 1872, prevents agreements restraining citizens from exercising a lawful profession, trade, or business except in certain cases, and India's constitution protects the right to practice any profession, trade, or business, courts in India have been circumspect in upholding noncompete agreements.*

3. *Without a noncompete, how can Veer ensure that his former employee doesn't hire people away from Blackbird?*

4. *Researchers have found that subjects in simulated noncompete conditions showed significantly less motivation and got worse results on effort-based tasks.*

5. *What expectations should employers have about loyalty from employees?*

Diya took a deep breath. Veer's team was in the middle of a product launch for the agency's biggest client, Neev, and had been pushing back deadlines for other client projects. If several designers left, the remaining ones would be overwhelmed.

"OK, for starters," she said, "let's make it clear we can't guarantee we'll give them business."

Veer nodded. "And what if they want to join up with Ishan?"

"Do you think he's offering them work?"[3] Diya asked.

Veer shrugged. "There's one other thing," he said. "I'm hearing that some of our other contractors are concerned that Ishan's getting special treatment. I think they feel threatened. I guess it's possible that as he builds his agency, he might lure away some of their best staff, too."

"Let's not get ahead of ourselves," she said, "I want to focus on getting your team to stay put."

"What about their employee contracts? Can we leverage those in any way?" he asked.

Diya shook her head. Until now, Blackbird had avoided putting noncompete clauses in its employment contracts, in part because they were tough to enforce under Indian law. But they also didn't fit the culture and image that Blackbird was trying to create.[4] The firm had always sought people with an entrepreneurial spirit and encouraged its employees to grow professionally, even if that meant moving on.

But she had to do something to stop departures—now and in the future.

TRAITORS?

The only opening Syed had in his schedule that day was during lunch, so Diya and Veer met him at his favorite café down the street from Blackbird's office.

He wasn't happy to hear their news: "We train these people, give them the skills they need, and then they stab us in the back?"[5]

Diya was used to Syed's hotheaded reactions but knew he could be reasoned with. "Becoming reliable vendors isn't exactly stabbing us in the back," she countered.

"They have to know they're putting us in an impossible situation, especially with the Neev launch coming up so soon. I don't like this one bit."

"Neither do we," said Veer.

"I wish I'd put the brakes on this whole Ishan arrangement," Syed said. "Now people think they can go off and still earn money from us while also possibly working with our competitors. How can we even be sure that Ishan's not doing that? Or contemplating hiring away some of our best people?" He thought for a moment. "What if

we announce that we're beefing up the employment contract, including a noncompete? Our current employees won't be obligated to sign it and agree to the new terms, but maybe it will make them think twice about jumping ship. They'll realize that we're not going to give everyone else the same deal we gave Ishan. It'll send a strong message."

Diya paused before responding, "We need to carefully consider the consequences of doing that—the effect on morale and our ability to recruit."

Syed shook his head and looked down at his plate. None of them had touched their food.

Veer spoke up. "We could offer people something to stay, instead: a retention bonus."[6]

"Then Diya will have a line out her door of people threatening to quit just to get more money," Syed snapped. He thought for another moment. "We can't change their employment contracts, but we can change company policy. We can announce that effective immediately we will no longer contract with any former employees."

Veer's eyes widened. "So we'd cut ties with Ishan?"[7]

"I know it would be painful, but we have to do something," Syed said.

THE RIGHT REWARDS

Diya had invited Prisha Kumar, one of the designers who had indicated that she was considering quitting, to go for a walk. She wanted to understand Prisha's perspective so that she could figure out how to persuade her—and the other employees who were flight risks—to stay.

As soon as they met on the plaza in Cyber City, Prisha opened up: "Isn't it everyone's dream to work for themselves? Ishan made it seem possible, and you all were so great about it. It's part of what I've loved about working here. It's like a family[8] that encourages everyone to spread their wings and fly off on their own."

Diya felt conflicted. Of course, she'd worked hard to cultivate a warm and trusting work environment, but she bristled at the idea that Blackbird would unconditionally support employees even after they'd left the firm.

"I have to be frank, Prisha," she said. "This is putting us in a bad spot. If several of you leave, we'll fall behind. We can't recruit fast enough to replace you. We could lose clients, including Neev."

"But we could still do the work on a contract basis."

"It's not that simple. There would be inefficiencies, a learning curve. Veer wouldn't have the benefit of you all in one place, fully collaborating."

6. *In a 2016 survey 74% of firms with 20,000-plus employees used retention bonuses, but only 3% of those with under 100 did. According to Salary.com, such bonuses are typically 10% to 15% of salary.*

7. *Is this ethical?*

8. *While firms with a "family" culture often see benefits like higher morale, some experts believe it can blur the line between professional and personal relationships in an unhealthy way.*

Experience

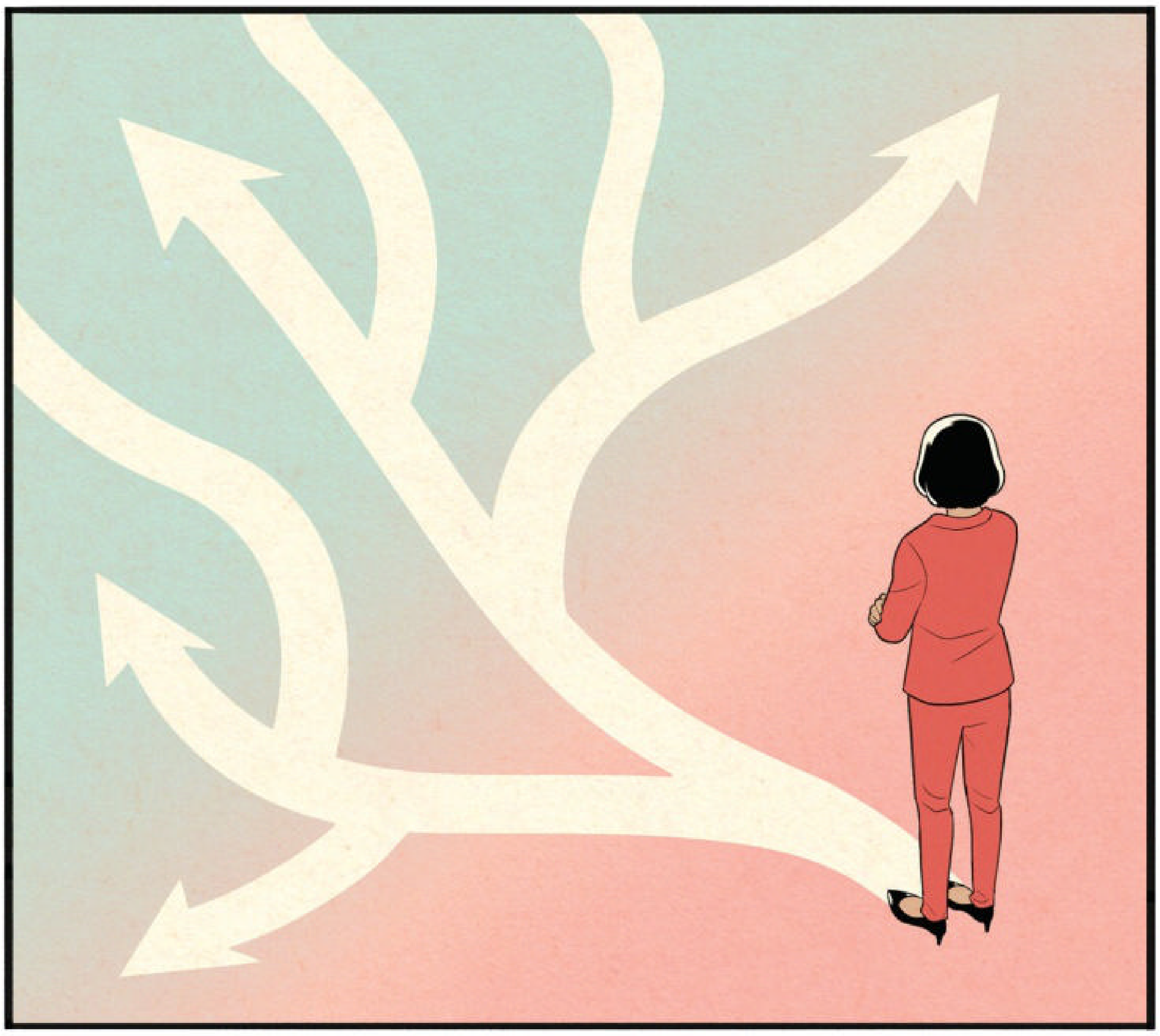
"I'm sorry," Prisha said. "I don't want to abandon you all, but Ishan seems so much happier and has the potential to make more money. It's really tempting to follow his lead. I have to think of my own interests."

So much for family, Diya thought.

"I see where you're coming from," Diya said, "but let me present the counterargument." She shared all the reasons to stay: the security, the benefits, the company's growth potential, and yes, the close-knit culture.

But as she was talking, Diya realized that she wasn't sure those upsides were convincing enough. Would retention bonuses or pay increases be more compelling? Or was it time to intensify the downsides of leaving by instituting a no-working-with-former-employees rule and inserting language to the same effect and noncompetes in all future employment contracts? Would carrots or sticks be more persuasive?

RAKESH BOHRA *is the senior VP and head of projects at Pioneer Urban Land & Infrastructure Ltd. and a doctoral student in organizational behavior and human resources management at the Management Development Institute in Gurgaon, India.* **JYOTSNA BHATNAGAR** *is a professor of organizational behavior and human resources management and dean of research at the Management Development Institute in Gurgaon, India.*



How should Diya handle all the employees who want to follow Ishan? The experts respond.

JOHN H. CHUANG *is the cofounder, chairman, and CEO of Aquent.*

It's time for Blackbird to lean into 21st-century management, embrace the gig economy, and let more employees go freelance.

Diya and Veer made the right decision with Ishan, and they'll attract more talent, foster greater loyalty, build a better culture, and produce more-creative work by letting others follow suit.

To keep pace with societal and technological change, companies today need to be flexible with—and offer flexibility to—their workforces. Young people, particularly creatives, want the autonomy and variety that gig work offers. And companies like Blackbird can greatly benefit—first, by reducing the danger of having people they can't keep busy on the payroll and, second, by serving clients with curated teams designed for their specific needs. If your employees are almost exclusively full-time, you're stuck with their skills;

budgets often won't allow you to bring in extra expertise on projects. It's better to have fewer staffers and access to a network of people who can provide exactly what you need when you need it.

Many large ad agencies are moving toward this model, with support from their clients. It's the same approach you see in filmmaking: bring great people together, have them collaborate, then disband. If Blackbird can learn to do that and earn a reputation for corralling just-in-time talent, it could have a huge leg up in the market.

Freelancers as well as full-time employees will flock to an organization that offers flexibility, independence, consistent work, and the opportunity to collaborate with many different coworkers. Clients will love the customized service; if they request cutting-edge work—say, for designing an experience in the metaverse—Blackbird might be one of the few firms able to provide it.

I don't think Diya or the CEO should question the loyalty of employees who want to do what Ishan has done. Fidelity doesn't come from a full-time contract. It comes from enjoying the work you do with an organization. I suspect that Veer's team members will be even more committed to Veer and Blackbird if they're allowed to leave and partner with the company. Ishan is already proving that. Management should make good on its promise to invest in entrepreneurial employees and help them spread their wings.

At Aquent we employ 10,000 people, but only about 10% are full-time. The majority of our creative work is outsourced; we have just one in-house global creative director, who orchestrates it all. Our business helps enable the gig economy but also relies on it, and we're trying to improve it—for example, by offering contractors and staffers the same benefits.

Blackbird might not be able to go that far right away. But it should take the first step into the future of work.

CRAIG MILLON *is the chief client officer of Jack Morton Worldwide, part of the Interpublic Group of Companies.*

Diya and Veer should do everything they can to retain Blackbird's creatives on a full-time basis.

Clients might come to your agency because of its brand or reputation, but they stay to work with specific people, so you want to own that talent, not rent it.

There are many other benefits to having people on staff, always working together, whether in person or virtually. First, it creates a diverse, cohesive community that employees want to be part of. It also strengthens a company's culture, providing differentiation in a competitive market. The work will be consistent because full-timers are more likely to have trust in one another and deep insight into client needs. Everyone will be more aligned and more committed to the same goals.

It's hard to maintain those things—community, culture, consistency, and commitment—when you rely heavily on freelancers. You might save on salary, benefits, and development costs, but contracting out core creative work poses too many risks. Your relationship with your key talent becomes purely transactional, leading to more churn, and the work inevitably suffers. For all those reasons, Blackbird shouldn't allow Ishan's colleagues to follow his lead.

But keeping the team intact will require more than the carrot of retention bonuses or the stick of potentially unenforceable noncompetes. Diya and Veer need to better articulate Blackbird's value proposition for employees—why their experience working for the agency full-time is better than the one they'd have as freelancers.

At Jack Morton we start with a purpose—"be extraordinary"—knowing that's the reason, beyond getting a paycheck, that our people want to work for us. But we also consider and highlight the intangible benefits of being part of our agency, including the opportunity to work on cutting-edge projects all over the world and to collaborate with a diverse group of colleagues at the micro level (in the office and on discrete teams) as well as the macro level (across functions, geographies, and business units in the broader ecosystem of our parent company, Interpublic).

As a smaller firm, Blackbird can't yet offer all that. But it can decide what it stands for, communicate that to employees, and emphasize perks like a sense of togetherness, training and development, leadership opportunities, more choice of projects, and the chance to work directly with clients.

I'm not against using contractors. We employ many talented ones alongside our full-time team members. Recently, we even helped an employee in business development go out on his own, just as Ishan did. The part of his job that he enjoyed and excelled at—setting up meetings with prospective clients—wasn't something we needed covered full-time, so we agreed that he should start his own firm and became his first customer. Because we couldn't offer him a better experience than he'd get freelancing, the arrangement made sense. But we focus on keeping talent growing internally and leverage contractors for specific needs or niche expertise.

Diya and Veer should make all talent decisions on a case-by-case basis. But I'd steer them toward giving the people that create the most value a reason to stay. Maybe one day in the future they'll even persuade Ishan to come back.

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Reprint Case only R2202X
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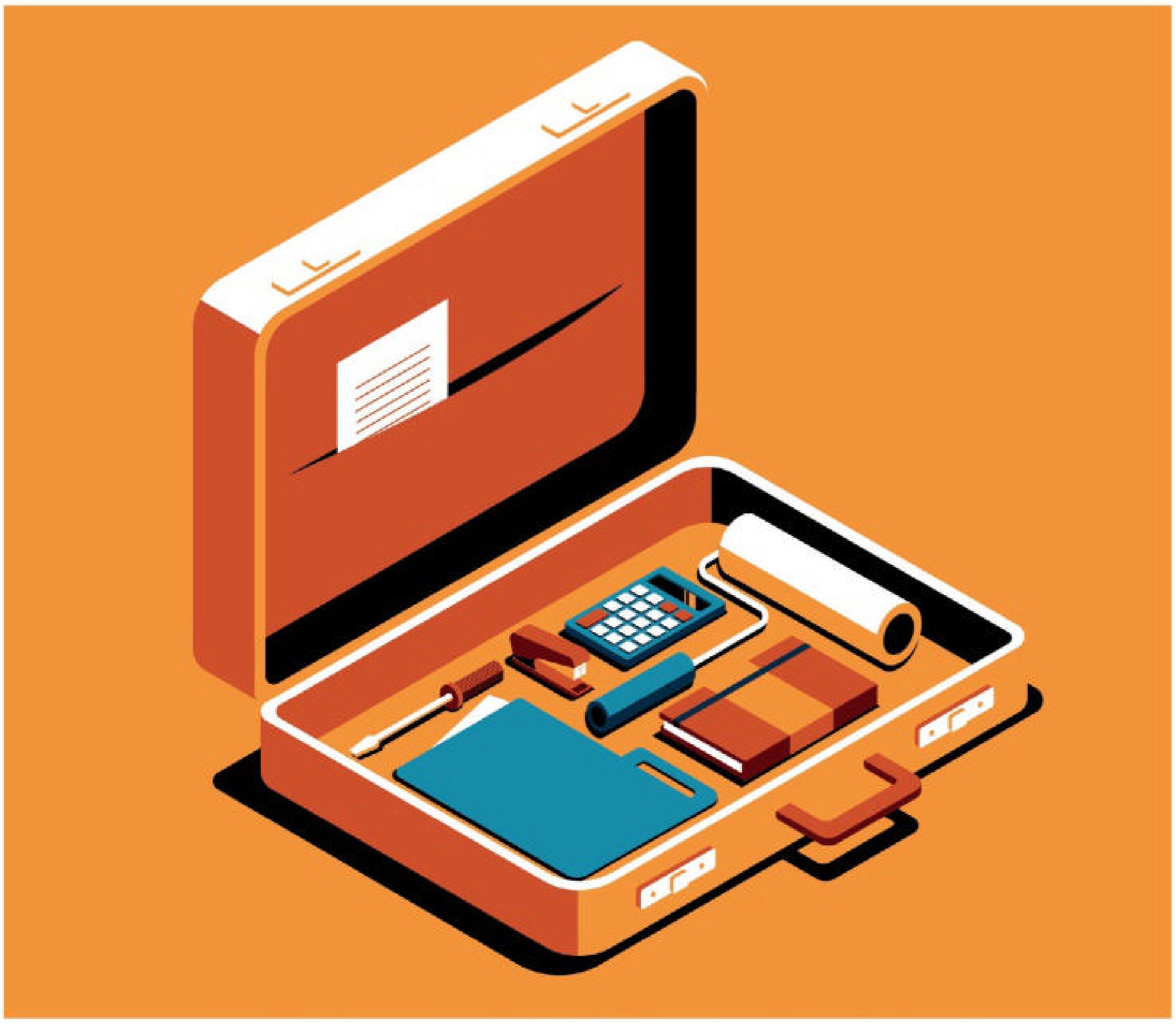

SYNTHESIS

Finding Middle Ground

New takes on the class divide

by Toby Lester

ARE YOU RICH? Are you poor? If you're like most Americans, you'll answer no to both questions, even if your income or wealth puts you near the top or the bottom of the national distribution. Why? Because as a society we have a powerful sense that the proper place to be—economically, socially, even morally—is somewhere in the middle. It's a myth-infused realm, full of hard workers, disposable income, and egalitarian possibility. In 2017, when Gallup asked Americans of various genders, races, and ethnicities to identify their social class, just 2% put themselves in the upper echelon and only 8% put themselves at the bottom. The remaining 90%—plumbers, HR managers, biologists, tax attorneys, software engineers, farmers, nurses, HBR editors—put themselves in between.

This vast middle often gets divided into two segments: blue-collar workers, who, according to the U.S. Bureau of Labor Statistics, make up roughly three-fifths of the whole; and white-collar workers, the professional and managerial types who compose the rest. Even though both groups believe they sit between rich and poor, people in white-collar jobs today are often referred to as the middle class, whereas those doing blue-collar labor are called the working class. Yawning gaps in income, wealth, education, and social status, of course, separate the two groups today.

Those gaps have received much attention of late, especially in the wake of the pandemic, which has put frontline workers, most of them working-class, in the spotlight. One enlightening exploration is the recent book ***Bridging the Divide: Working-Class Culture in a Middle-Class Society,*** by the retired Roosevelt University professor Jack Metzgar, who argues that the ethos of the professional middle class is now so dominant in the United States that it sometimes seems to be the country's *only* mainstream

Illustration by BETH GOODY

culture—and one that everyone should aspire to be a part of. From that perspective it's clear what the working class needs today: better social services, educational opportunities, and professional development so that its members can rise up and join the middle class.

But what if that's not the right approach? What if, Metzgar suggests, that way of thinking denies the existence of a well-defined working-class culture—one that, if properly acknowledged and supported, would not only thrive on its own but also strengthen society as a whole?

Metzgar lays out the differences he has identified between the two classes. Blue-collar workers, he writes, prioritize *being* and *belonging* and dwell in the present; white-collar workers prioritize *achieving* and *becoming* and dream of the future. Blue-collar workers focus on having a *job* that will satisfy the needs of the moment; white-collar workers focus on having a *career* that will give them a better life later. Blue-collar workers cede control over their lives during the workday to gain control outside it; white-collar workers are in perpetual thrall to what the psychologist William James called "the bitch-goddess Success."

Surprisingly, given the cultural dominance of the middle class, Americans seem to have more respect for the working class. Metzgar reports that when they were asked in one national survey to rank 31 social groups—including the poor, the middle class, the rich, the elderly, women, and the military—they put working-class people at the very top of the list. Perhaps that helps explain the great popularity of recent TV series such as *Mare of Easttown, American Rust,* and *The Conners,* which not only showcase the troubles and imperfections of the working class but also celebrate the many virtues of its culture. "You do your job…," Metzgar writes, "and when you do it well nobody notices. Or, rather, there is no public notice of it, but your workmates and family sometimes acknowledge it, usually in subtle and often backhanded ways, not making too much of a fuss but in ways that encourage and nurture the value of simply doing your bit, holding up your end."

There's a special kind of solidarity among working-class people, one that's often absent in the middle class, where the norm is individualistic striving. And when working-class culture is buttressed by a healthy labor movement, as it was during the mid 20th century, we've all benefited, in ways that are often taken for granted. The journalist Kim Kelly makes that point loud and clear in her book ***Fight Like Hell: The Untold History of American Labor***, due out in April, which brings to life many of the forgotten people and movements that in the past two centuries have fought battles and won victories for the working class.

Kelly ranges across time periods and industries but doesn't try to be comprehensive. Instead she focuses on workers who, as she puts it, "have been stigmatized in some way, reduced to harmful stereotypes, or ignored altogether." Time and again, women emerge in her account as a powerful but underappreciated force for change—starting in 1824, with the 102 courageous young textile workers who launched the country's first factory strike; continuing into the 20th century with the stories of organizers such as Josephine Puckett, Ada V. Dillon, Tinie Upton, and Frances Albrier, who fought to secure the rights of the Black women who worked as "Pullman maids" on trains; and carrying right up to the present day with the story of Jennifer Bates, who has been instrumental in the ongoing drive to unionize Amazon workers.

Two recent podcasts, ***Working Class History*** and ***Working People,*** cover similar terrain. The former tells stories of little-known movements and protests around the world, among them the enormously consequential 1980 Gwangju uprising, in South Korea, and the remarkable efforts launched in the 1970s by Australian construction workers, who strove to protect not only their own interests but also those of Aboriginal communities and the environment. *Working People* focuses on the lives and struggles of contemporary working-class Americans, often with real-time reports on strikes, elections, and the evolving labor landscape. In December it took listeners to the Starbucks in Buffalo where employees were about to vote to become the chain's first unionized franchise in the country.

In the end, both podcasts deliver a message similar to the one that Metzgar delivers in *Bridging the Divide*: The professional middle class needs to acknowledge and support the working class much more than it does now; and only when that happens can we ensure that as many people as possible occupy a happy middle ground between rich and poor.

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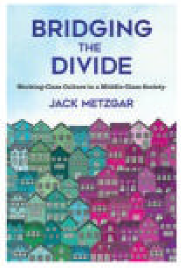
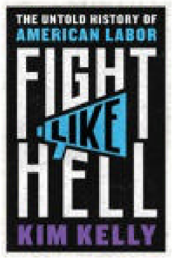
TOBY LESTER *is a senior editor at HBR.*



Bridging the Divide
Jack Metzgar
ILR Press, 2021



Fight Like Hell
Kim Kelly
Atria/One Signal, 2022

Working Class History
WCH Collective

Working People
Podcast

Executive Summaries
March–April 2022

SPOTLIGHT

Making Purpose Real

At a time when many stakeholders are drawn to purpose-driven companies, leaders often struggle with the concept. What is the meaning of "purpose"? What purpose will best serve the needs of your organization? How can it benefit both society and the bottom line? This issue's Spotlight examines those questions and more. | **page 35**


What Is the Purpose of Your Purpose? Your why may not be what you think it is.

What Is the Purpose of Your Purpose?

Jonathan Knowles et al.
page 36

"Despite its sudden elevation in corporate life," the authors write, "purpose remains a confusing topic." They argue that a primary cause of this confusion is that the word is used in three senses: *Cause*-based purposes (such as Patagonia's "in business to save our home planet") tend to receive the most attention. *Competence*-based purposes (such as Mercedes's "First Move the World") express a clear value proposition to customers and the employees responsible for delivering that value. *Culture*-based purposes (such as Zappos's "To Live and Deliver WOW") are effective at creating internal alignment and collaboration with key partners. The authors offer advice about identifying what sort of purpose will best suit your company without misrepresenting it.

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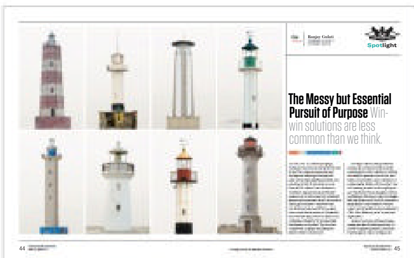

The Messy but Essential Pursuit of Purpose Win-win solutions are less common than we think.

The Messy but Essential Pursuit of Purpose

Ranjay Gulati | page 44

Most forward-thinking executives have embraced the notion that purpose-driven companies can solve social and environmental problems while also generating wealth, creating win-win outcomes that benefit everyone. But ideal solutions are rare. Many purpose-driven companies revert to a profit-first strategy if the going gets tough. Others doggedly pursue purpose but then find that their businesses are unsustainable. Using case studies on Etsy, Livongo, and other diverse companies, the author offers practical examples that leaders can use to think creatively about how to deliver as much benefit as possible to all their stakeholders.

HBR Reprint S22022


Use Purpose to Transform Your Workplace Unilever's values-based approach to difficult talent decisions

Use Purpose to Transform Your Workplace

Leena Nair et al. | page 52

Is keeping pace with the future of work incompatible with using purpose to guide the organization? Unilever is stretching its well-known commitment to purpose for a new and daunting challenge—the transformation of its workforce of more than 149,000 employees. Its Future of Work program involves purpose-focused workshops for all employees that are designed to help them choose their future jobs, whether with the company or elsewhere. Many organizations assume that workforce transformations require painful layoffs. Unilever believes that such an approach represents a missed opportunity and is ultimately counterproductive. It has pledged to undertake a workforce transformation guided by its commitment to decency and sustainability.

HBR Reprint S22023


Purposeful Business the Agile Way Turn squishy debates into concrete action.

Purposeful Business the Agile Way

Darrell Rigby, Sarah Elk, and Steve Berez | page 56

Record numbers of employees are quitting their jobs, and others are hitting picket lines to demonstrate a growing conviction that life is too short to waste on demoralizing work. Concern about social inequities and environmental damage is escalating. Executives see these problems, but few know how to transform a profit-maximizing system into a purpose-driven one without jeopardizing the future of their businesses and their own careers. Agile ways of working can help, turning squishy debates about corporate purpose into real actions and results.

HBR Reprint S22024

Each article in this Spotlight is available as a single reprint. The complete Spotlight is also available as a package.

HBR Reprint R2202B

HOW WE DID IT

The CEO of Roblox on Scaling Community-Sourced Innovation

David Baszucki | page 30

When Roblox launched, in 2004, its user base was made up of friends, family members, and about 100 tech enthusiasts recruited via Google ads to serve as impartial advisers. The idea was simple but ambitious: create an online space where people from anywhere in the world could do anything—construct buildings, run businesses, battle enemies, play sports, attend concerts—together. Everyone agreed that user-generated content (UGC) would be the key to making the platform great. Sixteen years later Roblox boasts nearly 50 million active daily users and millions of developers, who have created experiences such as *Let's Be Well,* a game about recovering from depression, and *Royale High,* a virtual high school. Thanks to their own creativity, Robloxers can now walk fashion show runways, experience an eagle's flight, or figure out how to flee natural disasters with friends. The company's decision to embrace UGC opened it up to a whole new world of innovation, well beyond what its employees could envision or manage. Roblox achieved it with a culture that values long-term thinking, employees with a founder's mindset, a laser focus on end users, and an organizational structure that helps them stay creative and engaged. **HBR Reprint** R2202A

MANAGING YOURSELF

When to Cooperate with Colleagues and When to Compete

Randall S. Peterson and Kristin J. Behfar
page 143

The ability to navigate workplace relationships can make or break your career. Though it's easy to view them as simply negative or positive, virtually all are a mix of both and require careful thought to manage. The trick is to step back and dispassionately analyze what type of relationship you're in—conflict, competition, independence, cooperation, or collaboration. Where on that spectrum you and your colleague fall will be determined by the degree to which your interests align—or clash. The more in sync interests are, the more positive a relationship is. Each type calls for a different set of tactics, but even the negative relationships, if handled appropriately, can still yield rewards.

HBR Reprint R2202L

Features

MANAGING PEOPLE

Managing a Polarized Workforce

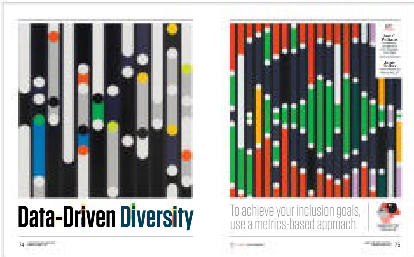
Julia A. Minson and Francesca Gino | page 62

One of the toughest challenges leaders face is managing diverse perspectives—and given heightened tensions over politics and movements such as #MeToo and Black Lives Matter, that's more difficult today than ever before. At the same time, productive disagreement and engagement with opposing views are crucial to high-functioning teams and organizations. So how can leaders both foster passionate debate and preserve collaboration and trust?

Drawing from work conducted with scholars of psychology, sociology, and management, Harvard's Julia A. Minson and Francesca Gino offer advice for leaders on approaching disagreements productively and helping employees at all levels do so. Tactics include training that defuses fears of disagreeing (it's usually not as unpleasant as we expect); encourages people to cultivate a receptive mindset by, for instance, intentionally considering information from the opposing perspective; teaches people to choose words carefully, hedge claims, and emphasize areas of agreement; and fosters a culture of tolerance through actions and tone. Honing these skills takes time and practice, but the resulting decrease in frustration and negativity is well worth the effort.

HBR Reprint R2202C

DIVERSITY & INCLUSION



Data-Driven Diversity

Joan C. Williams and Jamie Dolkas | page 74

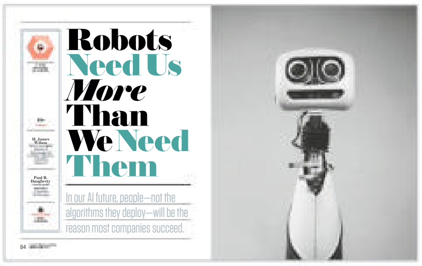
Many companies today recognize that workforce diversity is both a moral imperative and a key to stronger business performance. U.S. firms alone spend billions of dollars every year to educate their employees about diversity, equity, and inclusion (DEI). But research shows that such training programs don't lead to meaningful change. What's necessary, say the authors, is a metrics-based approach that can identify problems, establish baselines, and measure progress.

Company managers and in-house lawyers often worry that collecting diversity data may yield evidence of discrimination that can fuel lawsuits against them. But there are ways to minimize the legal threats while still embracing the use of metrics.

The authors suggest first determining your risk tolerance and then developing an action plan. You will need to track both *outcome metrics* and *process metrics* and act promptly on what you find. Starting with a pilot program can be a good idea. You should also build the business case for intervention, control expectations through careful messaging, and create clear protocols for accessing, sharing, and retaining DEI data.

HBR Reprint R2202D

AI & MACHINE LEARNING



Robots Need Us More Than We Need Them

H. James Wilson and Paul R. Daugherty | page 84

Research shows that companies that are investing heavily in digital technologies to harness the power of human-machine collaboration are dramatically improving their bottom lines. But it takes *people* to conceive of and manage the innovations, and the authors are convinced that success in the future depends on a human-centered approach to artificial intelligence (AI).

In this article they present their IDEAS framework, which calls for attention to five elements of the emerging technology landscape: intelligence, data, expertise, architecture, and strategy. The authors discuss each of these in turn, examining how companies such as McDonald's, Etsy, and the online grocer Ocado have implemented human-driven AI processes and applications to become leading players in their industries.

If you're eager to transform your own business, the IDEAS framework can help you develop a road map for AI-enabled innovation.

HBR Reprint R2202E

MANAGEMENT

Managers Can't Do It All

Diane Gherson and Lynda Gratton | page 96

In recent decades sweeping reengineering, digitization, and agile initiatives—and lately the move to remote work—have dramatically transformed the job of managers. Change has come along three dimensions: power, skills, and structure. Managers now have to think about making their teams successful, rather than being served by them; coach performance, not oversee tasks; and lead in rapidly changing, more-fluid environments. These shifts have piled more responsibilities onto managers and required them to demonstrate new capabilities.

Research shows that most managers are struggling to keep up. A crisis is looming, say Gherson, a former corporate chief human resources officer, and Gratton, a London Business School professor. Some organizations, however, are heading it off by reimagining the role of managers. This article looks at three—Standard Chartered, IBM, and Telstra—that have helped managers develop new skills, rewired systems and processes to support their work better, and even radically redefined managerial responsibilities to meet the new priorities of the era.

HBR Reprint R2202F

LEADERSHIP

Creating High-Impact Coalitions

Rosabeth Moss Kanter and Tuna Cem Hayirli | page 106

Traditionally, responses to crises and societal problems—the Covid-19 pandemic, natural disasters, racial inequities—are considered the responsibility of the public sector and NGOs. But addressing the world's most critical problems requires leadership, resources, and skills beyond those of any single organization, industry, sector, or government. What's needed, the authors argue, is high-impact coalitions—an emerging organizational form that reaches across boundaries of business, governments, and NGOs.

Although public-private partnerships have existed for some time in various forms, large cross-sector, multistakeholder initiatives are newly resurgent and not yet widely understood. They are more voluntary and relationship-based than formal organizations but more task-directed than networks. They connect otherwise disparate spheres of activity that bear on big problems by aligning powerful actors behind a purpose-driven mission. Once underway, they can harness and utilize capabilities quickly and flexibly.

This article describes the features of high-impact coalitions and sets out five principles that make the difference between success and failure.

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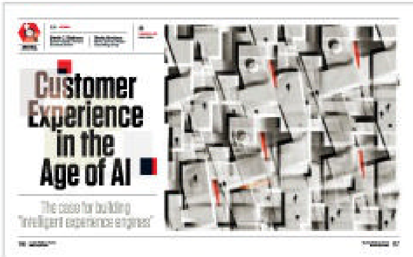
CUSTOMER EXPERIENCE



Customer Experience in the Age of AI

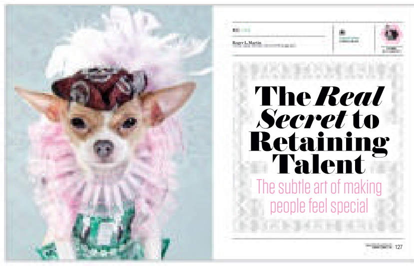
David C. Edelman and Mark Abraham | page 116

Companies across all industries are putting personalization at the center of their enterprise strategies. For example, Home Depot, JPMorgan Chase, Starbucks, and Nike have publicly announced that personalized and seamless omnichannel experiences are at the core of their corporate strategy. We are now at the point where competitive advantage will be based on the ability to capture, analyze, and utilize personalized customer data at scale and on how a company uses AI to understand, shape, customize, and optimize the customer journey. The obvious winners have been large tech companies, which have embedded these capabilities in their business models. But challenger brands, such as sweetgreen in restaurants and Stitch Fix in apparel, have designed transformative first-party, data-driven experiences as well.

The authors explore how cutting-edge companies use what they call *intelligent experience engines* to assemble high-quality customer experiences. Although building one can be time-consuming, expensive, and technologically complex, the result allows companies to deliver personalization at a scale that could only have been imagined a decade ago.

HBR Reprint R2202H

TALENT MANAGEMENT



The Real Secret to Retaining Talent

Roger L. Martin | page 126

In today's knowledge economy, employees with unique skills have a profound impact on organizations. It's crucial to keep them happy. Many managers believe that compensation is the key (as the eye-popping rewards paid to employees in the upper echelon show). But truly talented people aren't highly motivated by money. Feeling special is far more important to them. You must treat stars like valued individuals, not like members of a group, even an elite one. To do that, respect these three never-dos:

Never dismiss their ideas. The Green Bay Packers learned this the hard way when they had a falling out with Aaron Rodgers because he wasn't given a voice in decisions affecting his ability to lead his team to victory. The videoconferencing provider Webex made this mistake too; it gave no traction to a proposal for a phone-friendly platform made by star exec Eric Yuan, who got frustrated and left to start megarival Zoom.

Never block their development. Enabling stars to keep growing will win their loyalty. But if they feel their way forward has been barred, they'll take their skills to an organization they think will clear a path for them.

Never pass up the chance to praise them. Extraordinary people spend all their time doing hard things. If they don't get recognition, they will drift away or become resentful.

HBR Reprint R2202J

CORPORATE FINANCE

A Better Way to Assess Managerial Performance

Mihir Desai, Mark Egan, and Scott Mayfield | page 134

Total shareholder return (TSR) has become the definitive metric for gauging performance. Unlike accounting measures such as revenue growth or earnings per share that reflect the past, TSR is based on share price and thus captures investor expectations of what will happen in the future, which is its chief attraction.

The problem is that TSR conflates performance associated with strategy and operations with that arising from cash distributions (dividends and buybacks). In this article, the authors discuss the distortions embedded in TSR and propose a new metric, core operating shareholder returns, that emphasizes operational performance. It also provides a comprehensive assessment of the buyback revolution—and the verdict is quite damning.

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> "When you get into a situation where it's your idea, you should be the one making decisions. If you lose the connection to your own personal vision, it's a disaster."

Sarah Cooper

*Before Sarah Cooper satirized President Donald Trump with her TikTok lip-synchs of him, she was parodying the corporate world from her perch as a designer and manager at Google. After one blog post—"10 Tricks to Appear Smart in Meetings"—gained steam, she quit her job to write a related book (with 100 tricks) and a follow-up (*How to Be Successful Without Hurting Men's Feelings*). But she was struggling to make ends meet as a writer, a stand-up comic, and an actor until her political comedy thrust her into the spotlight in 2020. Her videos were viewed by millions of people around the world, a Netflix special followed, and she's currently prepping film, TV, and book projects.*

Interview by Alison Beard

HBR: You had good jobs at Yahoo and Google. Why quit?
COOPER: Design was a creative outlet for me. But my childhood dream was to be an actress. So when I turned 30, I quit Yahoo and tried acting and everything else. With stand-up I found that I loved writing my own lines and performing as myself. So I moved to New York, but within a year I was $20,000 in debt. That's when I joined Google. But I still felt this need to perform. I wrote the "10 Tricks" post, and it just clicked. When I told my manager I wanted to leave, he said, "You can always come back," which made me realize that it was a bigger risk to stay than to go.

With the workplace satire, what key problems did you want to highlight?
First, as a woman of color, I can't get away with spouting bullshit. You watch all these guys in meetings have their little ways of making it look like they know what they're talking about when they don't. And in a hierarchical corporate world, if the leaders are talking about scale and pacing the room and asking if we can all take a step back, people imitate that, and we all turn into robots and aren't actually present. Instead, do the opposite: Don't talk in buzzwords. Don't lean on your tricks. Be yourself. Be real. Say "I don't know" and "I need someone to explain this." The second book was more an observation on how women are given all these rules—what to wear, how to sound, how much to smile, how many exclamation points to use—while men, for the most part, don't need to think about such things.

Where did you get the idea of lip-synching the president?
In summer 2019 I was with my nephews, and I said, "Show your old Auntie Sarah a TikTok," because I like learning new things. Then, when the pandemic hit and I couldn't do open mics, I started browsing more, and I came across a short clip from a woman lip-synching a line from Trump. Seeing his voice coming out of a mouth that wasn't his just blew my mind. At the time, he was doing the daily coronavirus press briefings, so I was listening to him say things that to me made no sense. When he did his "put Clorox into the veins" speech, I could see the whole thing as a lip-synch. I recorded it over a few hours. By the next day it had almost a million views. I always thought that to do good in the world you had to start a charity, run for office, volunteer on the weekends. So it was beautiful to make art that raised awareness. Then 2020 was such a blur—going from making TikToks in my bedroom to meeting all my heroes. Both my books were optioned to become TV shows, but now I'm learning how long that process is. It's one thing to achieve success. It's another thing to maintain it.

Why should we laugh at the absurdities—and even the atrocities—of work and political life?
Laughter can make you see something in a different way, give you a new perspective, help you find a new angle on solving a problem. Satire not only makes you laugh; it also makes you think.

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Mindy Tucker

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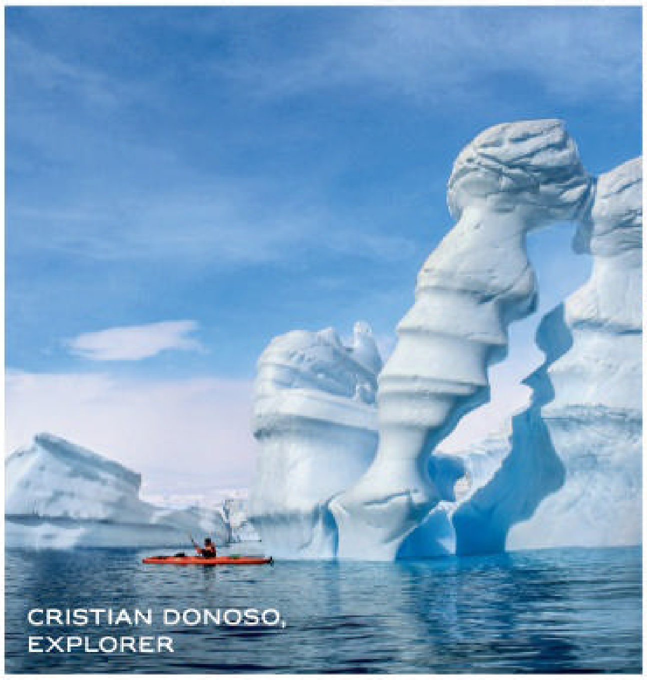
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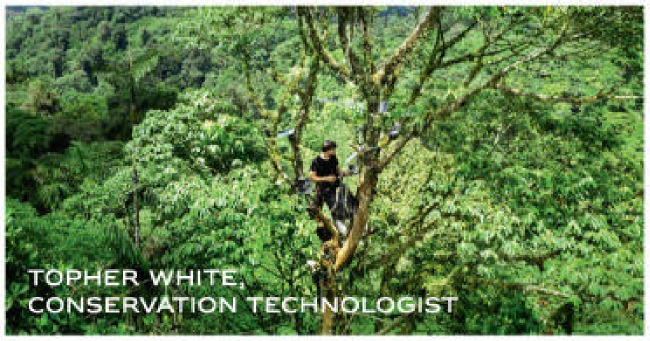
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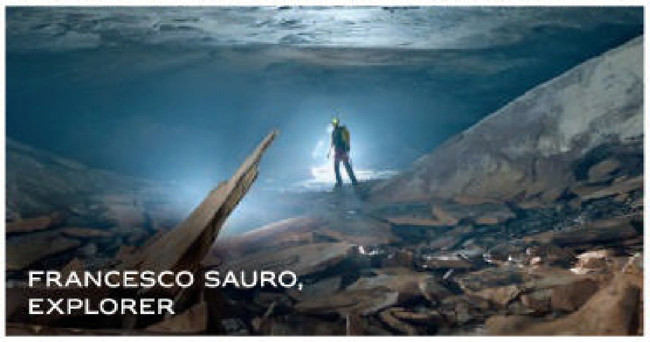
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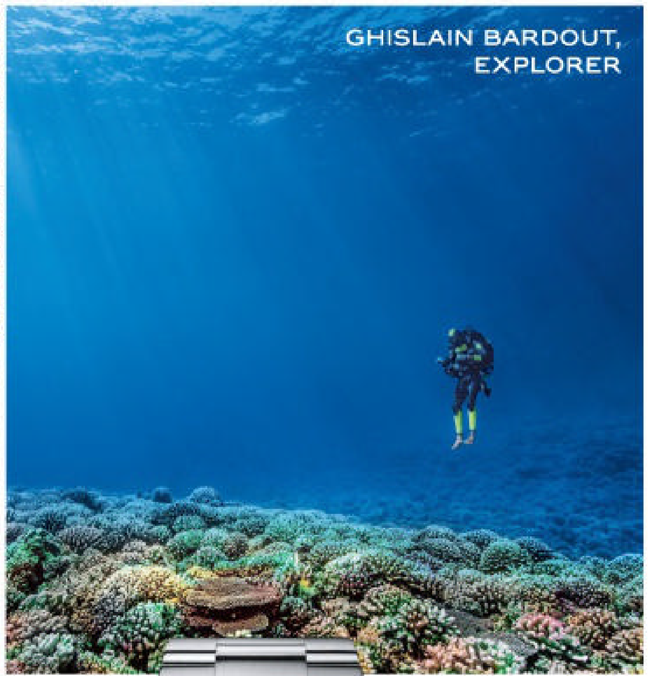
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WHAT DO THEY SEEK?

Explorers, adventurers, scientists. Men and women who always broadened the horizons, for all humankind to share. Rolex was at their side when they reached the deepest point in the oceans, the highest summits of the Earth, the deepest jungles and both poles. But now that we know, more than ever, that our world has its limits, why do they continue to venture out there, again and again? Certainly not for kudos, accolades, or an ephemeral record. What they truly seek is to understand more intimately how complex and delicate our planet is, to document its change and how together, we can affect it for the better. So as long as they need it, we will be at their side. Because today, the real discovery is not so much about finding new lands. It's about looking with new eyes at the marvels of our planet, rekindling our sense of wonder, and acting to preserve our pale blue dot in the universe… **Doing our very best for a Perpetual Planet.**

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