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Managing Through Uncertainty

THE 2020s ARE PLACING EXTRAORDINARY DEMANDS ON organizations and the people who run them. Effective leaders must have courage and a strong sense of purpose, and be able to adapt to rapidly changing circumstances. Many of the biggest challenges call less for vision and the ability to inspire — the historically vaunted hallmarks of leadership — and more for being able to consider new perspectives and test new approaches to getting work done.

Companies that have diverse perspectives and a broader range of experiences on their leadership teams and boards may be better able to navigate the volatile business conditions of the 2020s. Yet, despite pressure from shareholders and investment firms, companies struggle to bring in new directors with markedly different points of view and instead too often merely replace outgoing board members with people of similar backgrounds, identities, and experiences, according to research by Cynthia E. Clark and Jill A. Brown. Their article, "Meet the New Board — Same as the Old Board," provides advice on how to ensure that board refreshment achieves its desired goals in this critical time.

In addition to navigating strategic uncertainty, many organizations are experimenting with untested models in one of the most fundamental aspects of business — that is, where, when, and how work gets done. Some are exploring four-day workweeks while others are considering reduced schedules. Most are trying some form of hybrid or flexible work for knowledge workers. To do this while balancing the equally pressing needs for productivity, engagement, and results, organizations need leaders who will roll up their sleeves, test, and learn.

Remote, hybrid, and flexible work models are putting more strain on employee connections and collaboration. In their winter 2021 article, "Are Your Team Members Lonely?" Constance N. Hadley and Mark Mortensen — the winners (announced in this issue) of this year's Richard Beckhard Memorial Prize for the best article on organizational development — explored the challenges we encounter when teams are more flexible, less stable, and more time-pressed. And in this issue, Deb Mashek writes that, despite the importance of collaborative work in the 2020s, most organizations fall short in building workers' collaborative relationship skills.

Managers play a pivotal role in all of this. Being able to manage well — to design good jobs, develop people, foster collaboration, manage performance, and create equity — is a supremely valuable but often-not-valued competency, according to researchers Jim Detert, Kevin Kniffin, and Hannes Leroy. Our predilection to venerate "leaders" while minimizing the contributions of good managers has led to underinvestment in needed management skills, they write in "Saving Management From Our Obsession With Leadership."

We're still at the beginning of the 2020s, a decade already marked by volatility and uncertainty. Developing managers' skills and capabilities and incorporating different perspectives into decision-making will provide a strong foundation for moving forward.

Abbie Lundberg // @abbielundberg
Editor in chief
MIT Sloan Management Review

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MITSloan Management Review

FEATURES

Editor's note: *Some articles in this issue were originally published online. They have been adapted for print.*

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MIT Sloan Management Review leads the discourse about advances in management practice among influential thought leaders in business and academia. We equip our readers with evidence-based insights and guidance to innovate, operate, lead, and create value in a world being transformed by technology and large-scale societal and environmental forces.

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The 2022 Richard Beckhard Memorial Prize

The editors of *MIT Sloan Management Review* are pleased to announce the winner of this year's Richard Beckhard Memorial Prize, awarded to the most outstanding *MIT SMR* article on planned change and organizational development published in our winter 2021 through fall 2021 issues.

THIS YEAR'S AWARD goes to Constance N. Hadley and Mark Mortensen for their winter 2021 *MIT Sloan Management Review* article asking the somewhat counterintuitive question, "Are Your Team Members Lonely?"

As the authors point out, workplace teams have traditionally been relatively stable, with long-lasting group member roles underpinned by close working relationships. In today's organizations, teams have not only become ever present in our work lives but have also grown in number and scope, and become more flexible, less stable, and more time-pressed. The result is that we are often "alone together" in the organization.

In one of the surveys behind this article, 76% of respondents reported difficulties making connections with their work teammates, and 58% agreed that their social relationships at work are superficial. Loneliness or the lack of social connections is often thought of as an individual issue, but in organizations, it is also a structural one that can emerge from the composition, duration, and staffing of teams. Four features of current team design foster such disconnection: fluid membership, with rapid turnover in team composition; modularized roles, with members chosen for discrete skills the team requires; part-time commitment, such that members can serve on many teams simultaneously; and short duration, with teams forming for short periods before disbanding. Such scenarios tend to promote transactional, limited, and shallow relationships among members.

Hadley, a lecturer on management and organizations at Boston University's Questrom School of Business, and Mortensen, an associate professor of organizational behavior at INSEAD, advise monitoring feelings of loneliness among employees. Leaders might create what the authors call core teams, with longer durations, stable membership, low turnover, common affinities or interests, and a shared work location. The authors' call for managers to exercise more responsibility for the well-being of employees and their social interconnections would resonate with Dick Beckhard: He was a strong advocate for the use of diverse teams in organizations and was keenly aware of the features that encourage and discourage positive intrateam dynamics.

Our panel of judges consisted of the following members of the MIT Sloan School of Management faculty: Katherine Kellogg, the David J. McGrath Jr. Professor of Management and Innovation; John Van Maanen, the Erwin H. Schell Professor of Management; and David Robertson, a senior lecturer in operations management.

The Winners

Constance N. Hadley and Mark Mortensen

Authors of

"Are Your Team Members Lonely?"

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RICHARD BECKHARD

One of the founders and architects of the field of organizational development, professor Richard Beckhard was a member of the MIT Sloan School of Management faculty for more than 20 years. A longtime friend of *MIT Sloan Management Review*, Beckhard was known for his efforts to help organizations function in a more humane and high-performing manner and to empower people to be agents of change.

His books include *Organizational Development: Strategies and Models*; *Organizational Transitions: Managing Complex Change*; *Changing the Essence: The Art of Creating and Leading Fundamental Change in Organizations*; and his autobiography, *Agent of Change: My Life, My Practice*.

The prize was established in 1984 by the faculty of the MIT Sloan School of Management upon professor Beckhard's retirement, and it was renamed the Richard Beckhard Memorial Prize after his death on Dec. 28, 1999.

FRONTIERS

INTERNATIONAL BUSINESS

Multinationals Need Closer Ties as Globalization Retreats

Global companies would do well to cultivate relationships in the countries where they operate to counterbalance increasingly powerful governments.

BY QUY NGUYEN HUY, CATERINA MOSCHIERI, AND DAVIDE RAVASI

Globalization is in retreat, and multinationals are on the defensive. Across the world, countries rich and poor have erected trade barriers and set up outright export bans to cope with the pandemic and the war in Ukraine. In 2020, respirators, surgical gowns, medicines, and other lifesaving equipment were hard to come by. Two years later, it's wheat, palm oil, beef, and other food products — and that's not including other items related to the sanctions that nations have imposed on Russia.

Citing national interest, governments have reclaimed much of the power multinationals had acquired over decades of almost unfettered globalization. The tilt in the balance of power can be traced back to the 2008 global financial crisis, when banks and corporations had to be bailed out by governments with taxpayers' money. In the years since, world trade growth has faltered as China has turned inward and the United States has embraced an "America First" policy. The pandemic and Russia's war in Ukraine, neither of which were thought probable, have added momentum to de-globalization — and government fiat.

CHRIS GASH/THEISPOT.COM

As a result, multinational corporations (MNCs), whose very rise was premised on free movement of goods and labor, are at a disadvantage. Accustomed to friendly governments and easy access to overseas markets, they have not cultivated the sophisticated political judgment to manage government and public expectations.

Alibaba founder Jack Ma, for one, openly criticized financial regulations in China in October 2020, crossing a line that led Chinese authorities to scupper his fintech conglomerate's initial public offering and launch a crackdown on the country's Big Tech companies. Last year, India's commerce minister publicly took the country's largest conglomerate to task for similar intransigence, after Tata Group griped about tough new e-commerce rules.

If conditions for MNCs in their home countries are now less cozy, spare a thought for their operations in foreign countries. Relationships between MNCs and host governments may deteriorate over time, along with the bargaining power that MNCs initially enjoyed on entry. Yet little is known about what makes some MNCs better able than others to deal with host hostility.

To find out, we studied eight MNCs involved in disputes with foreign governments in South America between 2001 and 2012: Cemex in Venezuela; Telefonica, Repsol, Vivendi, and Endesa in Argentina; Telecom Italia in Bolivia; Shell in Nicaragua; and Iberdrola in Guatemala. As history seems to repeat itself with regularity, the wave of globalization led to widespread use of local partnerships by many expanding multinationals, which believed it was the fastest and arguably most successful way to internationalize. Then, as globalization receded, its retreat revealed the drawbacks of local partnership, and former advantages became debilitating weaknesses. Our research shows this fatal side effect.

Our findings, published in the *Journal of Management Studies*, show that reliance on local partners could inadvertently create what we call a liability of insiderness. Local partners, whom MNCs often collaborate with in the form of joint ventures, isolate foreign investors from local stakeholders. This precludes the multinationals from developing direct contacts, nurturing local ties, and building local reputation — all of which can make a significant difference to the MNCs' capacity to react and adapt to the sudden hostility of local governments.

Liability of Insiderness

We focused on sectors — including construction, energy, and mining — in which high sunk costs reduce bargaining power and can make exits difficult and costly. We also zeroed in on disputes that occurred in countries with similar institutional systems. All of the companies analyzed had filed expropriation claims with the World Bank's International Centre for Settlement of Investment Disputes (ICSID), the leading entity for settling investment disputes between foreign firms and host governments.

We conducted 63 semistructured interviews with 43 MNC executives, managers of peer companies, government officers, representatives of political associations, diplomacy and political economics experts, and labor union experts. We also examined analyst reports, newspaper articles, and corporate, legal, and government documents.

Anticipation, Escalation, Expropriation

We charted three phases of increasing hostility from political authorities: anticipation, escalation, and expropriation. Four of the cases we studied underestimated the expropriation threat at the first sign of trouble. They took remedial action only after the government hostility became evident, and they ultimately failed to secure local and international support. Most of these companies exited their host countries and received minimal or no compensation for their losses.

A second group of companies picked up on early warning signals and mobilized promptly to gather information, disseminate their own narratives, and strengthen local and international support. Three of them maintained operations in the host country, even after the expropriation, and/or received compensation from the host government.

Anticipation. Disputes typically begin with symbolic, ambiguous actions that hint at the government's intention to intervene in an industry or the economy, usually in the name of protecting its people's interests. The actions might include setting price ceilings, increasing corporate taxes, or using trade unions to pressure MNCs through public protests or strikes.

In response to this first phase of government hostility, four of the companies — Telecom Italia, Vivendi, Iberdrola, and Endesa — relied on local partners to gather additional information and monitor the situation. What they got was filtered information that painted a partial and inaccurate picture that led them to delegate action as well.

"We were myopic," a director of Telecom Italia told us. "We delegated and we should have intervened in first person."

These four companies had adopted a networking strategy that we refer to as mediated embedding. This arm's-length approach often stems from companies' narrow focus on profits. According to our interviewees, Telecom Italia saw the local investment as merely "a cash cow" while Iberdrola, a Spanish electric utility company, did not think it was necessary to invest in the local communities. Telecom Italia even incurred local anger by violating an agreement with a local trade union and firing workers.

Endesa, another of the MNCs that relied on a local partner to manage its relationship with the host government, built goodwill with local people by giving aid to the underprivileged and providing training and other benefits. This might explain why the Spanish electricity company managed to mobilize local support and renegotiate tariffs with the host government in Argentina. It ended up staying in the country for five more years.

In contrast, four other companies in our sample — Shell, Telefonica, Cemex, and Repsol — sought information from local lobbyists, trade unions, or other MNCs. This helped them connect the dots of incipient government hostility and spurred them to take early action.

These MNCs directly owned and managed their local investments, had built relationships with a broad range of local stakeholders, and liaised with the central government through lobbyists, "high-level contacts," or informal interactions with political authorities. We call their networking strategy proximal embedding.

Local stakeholders helped these companies detect subtle signals of targeted hostility. Managers at the Mexican building materials company Cemex and Spanish energy company Repsol, for example, noticed that some contractors were delaying payments and some large clients had changed providers. The companies sprang into action. A Cemex executive recalled: "We collected evidence and documents. [Political authorities] were saying or doing something one day. We would take note of it and write it down. We had it documented. We never feared that we lacked arguments."

Escalation. In this phase, the MNCs began to face targeted government accusations of failing to fulfill their investment commitments or causing pollution. They also had to contend with demonstrations, fines, increased taxes, class action lawsuits, and media criticism.

Managers of multinational corporations operating through local partners misjudged the situation even more. In the case of French water services multinational Vivendi, managers maintained that the hostility they faced in Argentina was due to "unfortunate events" rather than a deliberate plan to seize their assets.

They also preferred to avoid direct confrontation, seeking instead to appease the authorities. As a Telecom Italia director lamented, "In Bolivia, my impression is now that the local partner knew [of the threat] but did not say. …When there is no partnership, you have a better understanding of what happens."

In contrast, managers of proximally embedded companies had already sensed danger and actively sounded out local stakeholders to gauge whether they shared the government's hostility.

Cemex's managers, for example, contacted suppliers to renegotiate the terms of their contracts. They met with clients that had stopped or delayed payments, and set up meetings with local employees to discuss rumors that senior executives were negligent. Cemex also reached out to friendly government contacts and mobilized lobbyists to gather information about the government's motives.

Proactive managers of proximally embedded MNCs thus concluded that a confrontation with the government was inevitable and began to plan accordingly. All of them sought to highlight how their investments had contributed to local economic development and to convey that the actions proposed by the government would harm, not help, local communities.

For example, Telefonica stressed how its "modern management technologies increased business efficiency and quality of services and goods offered to the community."

It asserted that the government did not have the capacity to finance the necessary investments in telecommunications. Repsol, meanwhile, warned that casting out MNCs would have a chilling effect on foreign investment in Argentina.

Expropriation. Threats and accusations finally gave way to the formal cancellation or modification of concessions (Iberdrola and Endesa), expropriation of assets (Cemex, Repsol, Telefonica, and Telecom Italia), or seizure of rent sources (Shell and Vivendi) without compensation.

Managers of companies operating through local partners (Vivendi, Iberdrola, and Telecom Italia) now faced broad-based hostility from local stakeholders. These MNCs' only recourse was to file complaints with ICSID, even while they prepared to exit their host countries.

In contrast, proximally embedded MNCs intensified their efforts to mobilize local stakeholders and put pressure on host governments to settle disputes amicably, or at least not to cause further harm to their remaining assets.

Endesa, the only MNC to pursue a hybrid strategy, lost control of its board and was forced to sell its majority stake in its Argentinean subsidiary. But, with the help of local supporters, it was able to persuade the government to renegotiate tariffs and continue its operations in the country.

OUR STUDY REVEALS the importance of MNCs nurturing direct, local ties and investing in social initiatives that benefit local communities. In our study, companies that operated in foreign countries through joint ventures with local businesses tended to rely too much on their partners to relate to stakeholders. Often, this created a liability of insiderness and caused them to be complacent and miss early warning signs of hostile government actions. In comparison, MNCs that operated through directly controlled subsidiaries were more hands-on and more likely to gain the goodwill of locals, enabling them to react quickly to government hostility.

Quy Nguyen Huy *is the Solvay Chaired Professor of Technological Innovation and a professor of strategic management at INSEAD.* ***Caterina Moschieri*** *is an associate professor at IE Business School in Madrid.* ***Davide Ravasi*** *is a professor and the director of the UCL School of Management.*

TRANSITIONS

The CEO Is Leaving. Now What?

A three-phase process can help your organization navigate the boss's departure and transition smoothly into new leadership.

BY DAVID GILLESPIE AND TONY SIMPSON

An increasing number of CEOs are deciding to leave their posts on their own terms in the wake of COVID-19, for factors ranging from burnout to wanting to move on to the next stage of their careers and lives. Others are simply coming to the end of their agreed-upon term in office. Most want to minimize disruption to the company and preserve a positive legacy, but best practices on how to navigate the last 100 days of a CEO's tenure are an under-researched topic. Beyond the first step of the CEO and board agreeing to an orderly transition, including timing and financial terms, how should the CEOs and boards proceed?

A CEO's last 100 days typically can be divided into three phases: *preannouncement*, when only the CEO, chair, and board are aware of the planned departure; a *post-announcement* phase, when the departure has been announced but the business carries on much as before; and a *pre-transition* period, when a successor has been picked but is not yet in office.

How an organization and individuals manage these phases is crucial to an effective transition and continued momentum for the organization. Get it wrong, and the dislocation from one leader to the next increases the risk of organizational disruption. For the departing CEO, reputation and business relationships are valuable assets to take on to the next stage of a career. But for many, the motivation is primarily emotional: a desire to make a success of the last chapter of their service to an institution, its people, and its customers.

Examining CEO transitions across numerous sectors, it is possible to identify

best practices for boards, the departing CEO, and the successor alike. Here's a guide, informed by the experiences of three senior leaders who have recently left their very different organizations in the U.K. and whose experiences apply to CEOs everywhere.

Preannouncement: Form a Common Narrative

CEO departures can be read in different ways internally and externally, and it can be difficult to achieve the optimal positioning. While the CEO might prefer to personally announce their departure at a time of their choosing, it risks making the company board look weak, given that the departing leader is preempting one of its most important prerogatives: the power to decide who is chief executive. Both CEO and board will benefit from communicating the departure around a common narrative that is positive for all parties and will not destabilize the company, cause concern among colleagues, or unsettle the external market.

After six years at the helm, Joe Garner decided in September 2021 to step down from his job as CEO of Nationwide Building Society, the United Kingdom's largest mutual financial institution. His first act was a long walk in Windsor Great Park with the chairman of the board, to discuss the timing and nature of the transition. His departure was mutually agreed upon at the September board meeting, and only then did he speak to his direct reports.

Garner then wrote a blog post and made a video before the announcement to ensure that the internal narrative was defined and agreed to upfront. There were no further communications until a press release went out at 7 a.m. on Sept. 23. At the same time, the blog post was published on Nationwide's intranet and the video was emailed to all 17,000 employees, 9,000 of whom watched it. "Video enables you to do a very personal, emotional piece

JON KRAUSE/THEISPOT.COM

of communication," Garner said. "And it meant that I owned the messaging and killed any alternative story dead, because it answered the questions."

The key takeaway: Keep the news among a small group and jointly prepare detailed messaging — both the narrative and the way it will be communicated. Get the message out to colleagues personally and to the market before any external commentator does.

Post-Announcement: Let Go of the Longer-Term Future

Chief executives are still accountable for everything that happens in the company until their final day. But inevitably, they also progressively lose influence, which lessens their capacity to fulfill their duties. The period after the announcement but before the transition to a successor is particularly challenging, and it is easy to remain in denial that any change is underway.

While David Ellis was CEO of leading English rugby team Harlequins, he used to divide his work into three types: business as usual, growth, and experiments. After his departure was announced, he and the board agreed that he should focus on business as usual. He handled ticket sales, contracts, and stadium finances but let go of longer-term decisions about personnel and strategy.

To make sure he could remain accountable, Ellis went back to a habit from his first 100 days, when he was learning the business. "Back then, I was trying to figure out where the really bad risks were," he said. "In my last 100 days, I found myself defaulting to watching all those risks again. I almost reverted back in an arc and was asking myself, 'Are all these risks OK to hand over?'"

The key takeaway: Set out the time frame of various types of work and decisions. Let go of longer-term strategic goals and focus on day-to-day management — on ensuring that things do not go wrong. Don't let the selection process for a new CEO distract from the day-to-day business.

Pre-Transition: Champion the Successor

Not all transitions should be seamless. When a CEO is fired, the board is often demanding change to keep pace with an industry in flux or to stabilize a company in turmoil. But many companies want continuity from one leader to the next, and some industries codify the transition. For example, the Senior Managers Regime for U.K. financial services details the information a departing CEO must provide to their successor. Less formally, recently departed leaders often note the importance of serving their successor; one even recommended being "subservient" to them, for the benefit of the organization. Newly departed CEOs also say they were keen to pass on their institutions' culture to an outside appointee.

Even more than other organizations, the armed forces require seamless succession, and they have developed a model of leadership to ensure this. If a commander is lost on the battlefield, someone else must be ready to step up immediately. When the U.K.'s Gen. Sir Nick Carter was preparing to stand down as Chief of the Defence Staff in November 2021, he decided to spend some of his remaining time helping his successor learn the job. The aim: to ensure continuity, particularly in important personal relationships. "There is merit in having structures and systems that are resilient enough to be able to withstand the change of leadership," he said. "If the cult of personality becomes too much of a feature of military life, there's a risk that you'll end up being one-man or one-woman deep when you actually need to be rather deeper than that."

The key takeaway: The incumbent CEO should champion the incoming leader by publicly reassuring staff members and emphasizing continuity. Arrange for a short period of overlap, if possible, during which the newcomer could shadow the work of the departing CEO, by sitting in on meetings, for example.

Moving On — to Next Time

The rise in voluntary CEO departures suggests it is time for companies to draw up plans for future successions. The public sector is a good source of templates because it often carries out essential services and cannot run the risk of a temporary period of disorder. That's why its leadership roles often come with formal or informal term limits, and handovers tend to follow established procedures that make the process smooth and predictable.

Private-sector companies could start by creating a playbook based on these and other best practices, combined with lessons learned from their own transitions. They could also consider an informal term limit for an incoming CEO — say, five years — and agree on goals for that time frame. The board could then decide in good time whether it wants the CEO to continue beyond that. If a company has recently installed a new CEO, it might not be too early to start thinking about their departure.

Departing CEOs remain accountable for everything that happens in the company until their final day, but they progressively lose influence.

David Gillespie *heads up the U.K. and Ireland businesses of consultancy Oliver Wyman in London and leads its financial services practice there.* ***Tony Simpson*** *is a partner in Oliver Wyman's communications, media, and technology practice as well as its people and organizational performance practice.*

Reprint 64113. *For ordering information, see page 4.*

PERFORMANCE METRICS

How to Evaluate the Impact of Corporate Purpose

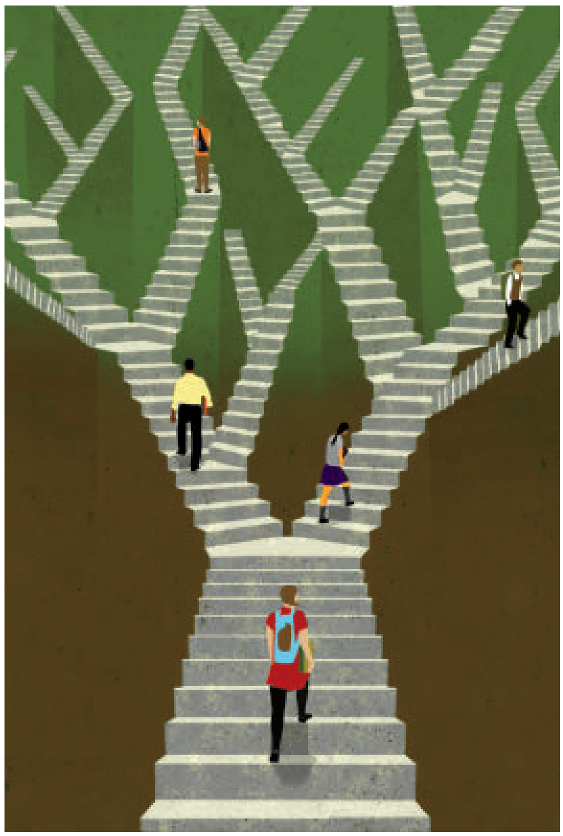
Companies must develop the capacity to accurately assess whether they are making progress toward social and environmental goals.

BY CHRISTIAN BUSCH AND LISA HEHENBERGER

Confronted by employees seeking meaningful work, customers demanding sustainable and traceable products, and investors who want companies to do both well and good — while inequality is rising and climate change is an increasingly dire threat — business leaders are redefining the purpose of their organizations. These days, one is hard-pressed to find a major company that has not incorporated the greater good into a statement that lays out the organization's reason for existing.

But if corporate purpose is to be more than window dressing and deliver on the promise of an engaged, motivated workforce and more loyal customers, companies must develop a capacity that is still lagging for most: They must be able to accurately assess the results of executing their purpose-driven strategy, particularly when that strategy extends to making a positive social and environmental impact. If companies measure this at all, they often outsource it to consultants, silo it in a corporate social responsibility function, or even delegate it to an intern. This attitude has led to suboptimal approaches that fail to look holistically at the core business, are not taken seriously by key stakeholders, or produce poor data that is not actionable.

Even companies that are making a sincere effort to implement purpose often focus largely on aligning employees with the organization's raison d'être. Consequently, their efforts to track the impact of purpose may lean toward measuring



employees' understanding of purpose and its effect on engagement and retention. But for an organization's stated purpose to be sustainable, companies must begin to engage in the hard work of assessing how it is made manifest (or not) in all business activities in terms of specific objectives, outputs, and outcomes. At truly purpose-driven companies, managing purpose is inseparable from managing the business.[1] They evolve into what we call *impact organizations* that strategically define, measure, and manage their financial, social, and environmental objectives.

Start by Understanding Current Impact

As companies define specific, purpose-driven objectives and the ways in which they will manifest their purpose, it is tempting to focus attention on new initiatives and to track the impact of only those activities. However, it is important to consider the whole organization and uncover potentially negative effects of current operations.

For example, a company that provides a platform for food delivery services and defines its purpose as feeding all communities might launch a program in which delivery personnel collect food that restaurants would otherwise throw away and deliver it to people in need. It would be disingenuous to measure the positive impact of that project and not consider the potential food insecurity of delivery workers earning minimum wage or the job insecurity of gig workers.

Identify Performance Indicators That Track Outcomes, Not Just Inputs

Many organizations are accustomed to quantifying their positive contributions to society in terms of the amount of money they invest in "good works." Shifting from merely measuring inputs (resources

BRIAN STAUFFER/THEISPOT.COM

invested) to outputs or outcomes is necessary but not easy to accomplish. The smaller and more focused the scope of an activity, the easier it tends to be to measure outputs and outcomes. Starting with outputs (such as the number of people fed) can be helpful, because they are often directly related to an organization's efforts, and data is more readily available.[2] Measuring outcomes, in turn, often requires outside information. For example, "improving food security" could be measured by polling community members.

Furthermore, an organization needs to identify to what extent its own efforts contributed to these results.[3] Especially for longer-term outcomes, it can often be difficult to disentangle the causal relationship between an organization's activity and the long-term effect. Understanding whether outcome changes were caused by the organization's actions or someone/something else often requires a look at the counterfactual — what would have occurred had the organization not made that particular effort. Businesses can gain this insight by capturing the activities of other actors in the area, as well as those of partners who contributed to the organization's efforts — measuring impact at the level of a system, such as a community.[4]

One indicator should be chosen that assesses scale and another that measures depth per outcome area. If an organization develops an educational program to prepare youths for jobs in its sector, for example, program leaders will likely want to understand both how many students completed the program (scale) and how the program helped them get jobs (depth).

Output measures under an organization's direct control should be tracked at least quarterly. Outcomes — the changes the organization aims to achieve — might be tracked less frequently, given that change requires time.

Qualitative data that connects outputs to the lived reality of program participants adds depth and can inform the design of future activities. For example, students who successfully completed an apprenticeship program might report getting a job, but also describe how the program awakened broader interests and inspired them to begin a higher education course.

> Formal systems for collecting and tracking impact data should meet the same data quality standards as financial information.

Systematize Data Collection and Analysis

As companies become serious about measuring the impact of purpose, they also need to develop formal systems for collecting and tracking impact data — and apply the same standards of data quality that they do to their financial information. Business leaders should integrate the data into the company's reporting and governance systems such that it is transparent and accessible, and they should communicate results to key stakeholders. Senior leaders who are sincerely committed to purpose will demand no less — and data must withstand scrutiny from stakeholders who seek to hold the company accountable for living its purpose, such as activist employees and customers, and impact investors.

Good data on outputs and outcomes doesn't just verify the value created by the organization; when it is fed into management analytics dashboards and decision support systems, it can reveal opportunities for iterating, learning, and improving upon execution of a purpose-based strategy. The right impact data will be relevant to daily activities. For instance, the data a company collects on the energy efficiency of its plants to track its progress toward sustainability commitments is material to decisions on how it manages its entire value chain.

DEVELOPING STRATEGIES and systems that track and report impact data, hold the organization accountable, and provide decision makers with actionable and timely operational data is paramount for making a purpose statement a mission rather than just a motto. In a fast-changing world, data can also offer up serendipitous associations that might lead to new solutions — especially welcome as businesses take on the more complex challenge of fulfilling a purpose that embraces multiple stakeholder needs.[5] This can make companies into impact organizations and turn rhetoric into reality.

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SUSTAINABILITY

Every (Repurposed) Product Has a Story

Goods made from reused or upcycled materials are more appealing when customers are primed to spin a narrative about a product's history.

BY BERNADETTE KAMLEITNER AND CARINA THÜRRIDL

Turning trash into treasure through repurposing and recycling can be a very sustainable materials sourcing strategy. But marketing the products that result can be a challenge, particularly for upcycled items with visible traces of their past, like bags made from old bicycle inner tubes, tables made from decommissioned boats, and laptop sleeves made from used mosquito nets.

Visible traces of a product's past might show that the repurposing process has minimized energy use, making a product particularly sustainable. However, repurposing products and materials comes with unique production challenges, so they are typically not low cost. Rather than paying a premium for products made from trash, many consumers would rather spend their money on brand-new items.

How can we convince consumers to pick repurposed products that might show signs of wear and tear compared with new products? While some people seek out the greenest goods and are willing to pay more for them, our initial research made clear that most consumers aren't so motivated. In fact, some research finds that highlighting the sustainable aspects of a product might effectively reduce demand.[1]

We investigated ways to make repurposed products desirable to the broader market by overcoming the potential stigma associated with used, discarded materials. We focused on how to potentially make people feel special when they opt for a repurposed product despite its having been made from waste. Our key insight was that there can be a benefit to tapping the human affinity for a narrative. We found that by priming consumers to think about an item's transformation into a new product rather than its origins on the trash heap, the item gains value by being perceived as unique and special, with its own life history.

Turn Consumers Into Storytellers

Humans have a deep-rooted affinity for stories: Narratives engage us and are how we make sense of experience.[2] Stories are a great way to imbue information with meaning, which people seek wherever they can find it.[3] Marketers have long been aware of and leveraged this affinity. However, the prevailing practice is to craft stories that put the brand on center stage and evoke certain feelings toward it, which to us seems ill suited to the problem at hand.

The story we need to tell is not about peripheral characters, such as a spokesperson or mascot, or even the brand. If we are to get people to understand that a repurposed product is special, the product itself has to be the main actor so that it can be imbued with all the specialness of the story. Following the principle of "You are what you have," obtaining a special, storied product should allow people to feel special themselves.

However, telling a lengthy story about all of the stages that a repurposed product went through might be cost-efficient for rare and high-ticket items but is impractical and not feasible at scale. We decided to capitalize on a little-recognized characteristic of humans' storied minds: We have the ability to infer and self-complete stories, even if all we can draw on are individual bits of information. (Just think about how little it takes for people to speculate on juicy gossip or form assumptions from fragments of information.)

That human ability gives rise to a very practical mechanism: minimal storytelling. Minimal storytelling is based on the

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chronological nature of stories. The key premise is that people are able to infer a story as long as they are aware of at least two sequential episodes in it: a before and an after. This storytelling mechanism is not well known and is rarely used when companies decide on their storytelling strategies. However, we found that it's very appropriate in the context of repurposed products with a life story.

Testing Minimal Storytelling

In line with the principle of minimal storytelling, when we set up our experiment, we created very simple cues for our repurposed products' transformation stories that simply showed or mentioned what a product used to be and what it had become. We mentioned only these two pieces of the products' history, and left it to consumers to string them together into a story.

We ran several studies to test whether this minimal storytelling technique would be able to raise the appeal of repurposed goods. For example, we tested two different promotional messages in an actual pop-up store. In one message, we stressed the benefit ("I am a trendy wallet," for instance) that people presumably wanted from the product. In the other message, we cued the product's life story and highlighted its past identity ("I was a bike tire," for example). This story cue was a game-changer. When people saw the cue about the product's past identity, the number of purchases tripled, and revenues quadrupled.[4] We found similar effects when running real-world social media campaigns, in which we tested two approaches: simply showing the repurposed product and stating what it was now, or telling what the product had been.

To the rational mind, this might sound bizarre. After all, the ad describing the product's past life had nothing to do with the purpose of the product customers were after. Moreover, we essentially reminded customers that they were buying a product made from trash. In fact, the positive effect of highlighting information about the past tends to be even stronger for products that do not wear their past as waste on their sleeves, such as bags made from parachutes, or recycled products that have literally shredded all visible traces of their past.

Several follow-up studies, including an analysis of thought protocols, replicated the success of minimal storytelling and confirmed why mentioning the product's past was so successful: People used it as a cue to the product's story, and this made them owners of a unique product, which in turn made them feel special. One study participant's story was, "It is recycled from a deployed airbag — something that saved someone's life. That's pretty cool." What's more, self-told stories are customized and memorable stories. Consumers use their own experiences to complete the missing bits and create a story that's to their liking. The story likely sticks because people are doing the telling themselves. While we looked at the effect only at the time of purchase, this particular aspect of the mechanism suggests that it might even have long-term benefits. If customers are able to remember why the repurposed product is special, they might have an easier time telling others about it, and they could be more forgiving of potential flaws. What might otherwise be an imperfection or disadvantage — traces of trash — turns into an actual product advantage.

There are limits to the power of this technique when the product's past evokes disgust, however. We tested this with laptop sleeves made from visibly old and dirty mosquito nets. When we compared the effects of embracing an unfavorable past to being entirely silent about it, we found that highlighting the history did not hurt demand, but the push we usually observed wasn't there either.

ALL IT TAKES FOR minimal storytelling to work is some input that will activate customers' story-prone minds. In our case, this was simply mentioning the product's past identity. This might work best when stories use concrete cues about the product's past that are easy to visualize, and if you give the product a voice. Also remember that stories are sequential: Present the product's past before highlighting its present.

Minimal storytelling reminds us that people do not simply want to passively consume stories. The case of repurposed products highlights the potential of awakening consumers' innate ability to tell stories to themselves. While this is good news for companies selling repurposed products, we think this technique can be more widely applied. Minimal storytelling saves marketers time and money and can be used across a wide range of media where story content is limited.

Our research shows that it is possible to use the power of storytelling to turn a disadvantage into an advantage with one low-cost marketing tweak.

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TEAMS

Collaboration Is a Key Skill. So Why Aren't We Teaching It?

New research finds that despite the importance of collaboration, most organizations fall short when it comes to helping workers build their relationship skills.

BY DEB MASHEK

Americans spend more time on work than on all other waking activities *combined*. Many of these working hours are spent collaborating with colleagues. We think together in meetings. We act together on project teams. We manage up and manage down. Across sectors and levels, collaboration is the name of the game.

In spring 2022, Dev Crasta and I fielded the Workplace Collaboration Survey to better understand collaborative relationships in the modern workplace. The 1,100 people who participated in the survey were employed full-time in the United States; to qualify for inclusion, they had to work with others at least some of the time.

We asked respondents what proportion of their job entails collaborating with others to advance shared goals. Nearly three-quarters (71%) of the sample reported collaborating at least 41% of their work time. This means that in a 40-hour, five-day workweek, people spend an average of 3.2 hours per workday collaborating with others.

Given how much time people spend working and being with others at work, it's no surprise that relational challenges generate stiff and persistent headwinds in the workplace. In fact, 72% of respondents said they have been involved in at least one workplace collaboration that was "absolutely horrendous." Such collaborations create operational drag, bust timelines and budgets, trigger managerial headaches, and occupy already overloaded HR staffs.

What is surprising, especially considering these costs to organizations' bottom lines, is how little professional development people reported receiving on how to build healthy and productive collaborative relationships at work. (See "Professional Development Training Time on Collaboration Skills," p. 18.) When asked how much professional development they had received on this front in total, 31% of the respondents said "none." Six percent said "a few minutes," which is roughly the length of a TikTok video or the time it would take to read a Dilbert cartoon. An additional 14% said "about an hour," 23% said "a couple of hours," and only 26% said they had received substantial development — "more than a couple of hours" — in this critical workplace skill. Yet professional development in how to build collaborative relationships correlates positively with a host of desirable mindsets that benefit both organizations and individuals.

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Professional Development's Untapped Potential

With the caveat that this is correlational data and thus causal links among the variables cannot be known, the pattern of findings points to the likely value of professional development.

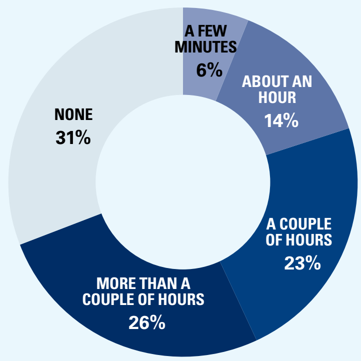
As respondents' professional development increased, so too did their job satisfaction. They also held more positive attitudes toward workplace collaboration and were interested in spending a higher proportion of their work lives engaged in collaboration. In other words, those who had spent more time learning how to build collaborative relationships were more favorably disposed toward deploying those skills in service to the organization.

Positive workplace relationships also matter to individuals' well-being. Regardless of how much respondents liked collaborators or found them influential, the quality of their collaborative relationships positively predicted job satisfaction, good mental health, and positive attitudes about workplace collaboration. Having even one low-quality collaborative relationship may drive undesirable outcomes, including poor mental health that contributes to burnout and job dissatisfaction that contributes to turnover.

Given that collaborative relationship quality is important both to individuals and to bottom lines, why don't organizations provide more opportunities for people to develop collaborative skills? It could be that companies do, in fact, make development opportunities available but that individuals fail to see those opportunities as either available or related to collaboration. Or it could be that such offerings are precluded by underlying assumptions that people pick up relationship skills via osmosis rather than direct training, that they are just naturally "good" or "not good" at relationships, or that these skills cannot be learned. Or perhaps organizational leaders are unsure how best to help individuals and teams develop high-quality collaborative relationships.

PROFESSIONAL DEVELOPMENT TRAINING TIME ON COLLABORATION SKILLS

The following were responses to the survey question, "How much professional development, if any, have you received on how to build healthy and productive collaborative relationships at work?"



SOURCE: DEB MASHEK

Boost Your Team's Collaboration Skills

Here are six interrelated suggestions for helping individuals, teams, and organizations develop their collaborative capacity.

Frame the conversation. With your teams, first address positive collaborative relationships' importance to the experiences and well-being of individuals, then highlight the role these relationships play in the organization's success. If these skills have a clear tie-in to the organization's stated values, make that resonance explicit. Emphasize that strong relationships make the world of work more positive for all.

Assess thoughts, feelings, and behaviors. Rather than working from intuition or hearsay, conduct a survey to directly assess collaborative culture and relationship quality. Ask individuals about their attitudes toward collaboration, their feelings about their "least liked" and "most liked" collaborators, and the specific collaborative behaviors they see (or don't see) among members of their team.

In addition to providing attitudinal scales and behavioral checklists, include open-ended questions such as:

- "In what ways have you and your work been affected — positively or negatively — by your collaborators, your collaborative relationships, or the collaborative culture at our organization?"
- "What three words or phrases best describe the collaborative culture here?"
- "From your vantage point, in what ways has our organization's ability to fulfill its mission been affected — positively or negatively — by its collaborative culture?"

Encourage reflection to identify strengths, vulnerabilities, and needs. Invite individual contributors to attend small, facilitated sensemaking conversations to share the assessment's findings, extract key insights about collaborative strengths and vulnerabilities, and identify specific interventions that could potentially strengthen collaborative relationships and culture within the organization. If you have reason to believe people may be unwilling or unable to speak freely in such sessions, consider providing a video brief of the survey results and then inviting anonymous input on the issues above.

Offer development opportunities. In partnership with your chief people officer, decide whether to offer development opportunities broadly across the organization or to focus resources on particular divisions, teams, or individuals. Development opportunities could include 360-degree reviews for specific people, individual or team coaching, workshops, courses, or audits of how collaborative work is structured, measured, and rewarded. In cases where an individual regularly sours the interpersonal dynamics on their team, consider a performance improvement plan explicitly tied to these non-optional collaboration skills.

Model collaboration skills consistently. In your own work, model a collaborative orientation by, for example, inviting input on early drafts of work or half-formed ideas, giving credit to those who played behind-the-scene roles in a successful outcome, providing responsive and timely input on shared work, cocreating and upholding expectations around engagement during virtual meetings, and chipping in more than required in order to support a colleague who could use a boost.

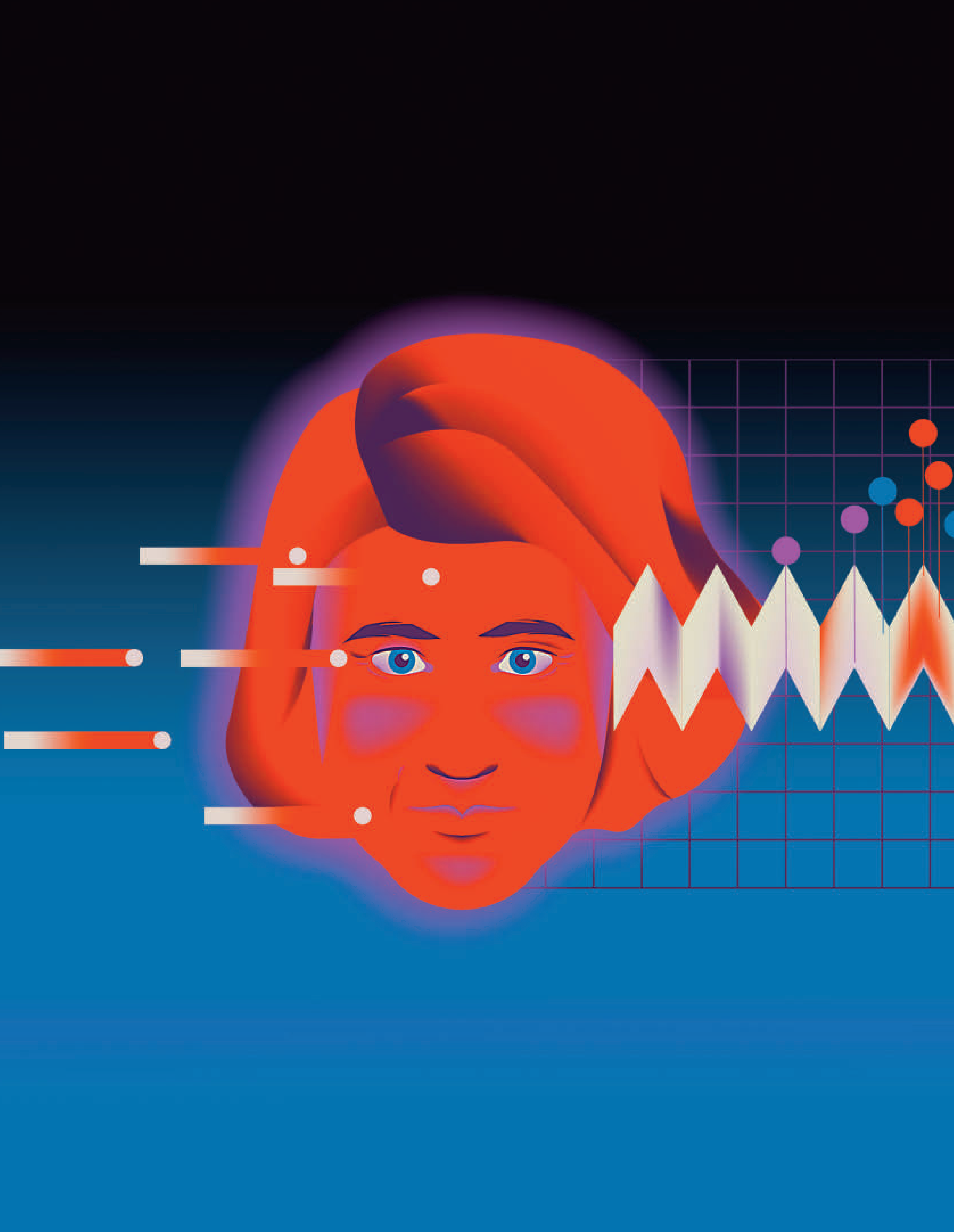
Integrate the collaboration message broadly. Finally, integrate discussions of collaborative know-how into one-on-ones with team members, in personnel reviews, and in public recognition of accomplishments and growth. A steady drumbeat of attention to the form and function of collaboration within the organization will help establish it as a lived value.

Rinse and Repeat

Like all relationships, collaborative relationships in the workplace require ongoing investment and maintenance. Keep a finger on the pulse of these relationships to increase the likelihood that they will serve the needs of your organization.

Amid the Great Reshuffle, associated turnover, and a tight talent marketplace, companies can no longer afford to disengage from the critical topic of workplace collaboration. Whether they're looking to reduce employee churn, quickly onboard newcomers to established culture, or leverage the competitive advantage of collaboration, organizational leaders would be wise to focus on helping people build collaboration skills. Strong collaborative relationships are not just nice to have in the workplace. They are essential.

***Deb Mashek**, Ph.D., an experienced business adviser, professor, and national nonprofit executive, is the author of the forthcoming book* Collabor(h)ate: How to Build Incredible Collaborative Relationships at Work (Even if You'd Rather Work Alone) *(Practical Inspiration Publishing).*



UNLOCK CUSTOMER VALUE:

Building Relationships That Fuel Innovation and Growth

Few pieces of business advice are as common and noncontroversial as "Stay close to your customer" — but many companies could be doing much more to heed those words. The articles that follow offer new insights into opportunities to grow revenue by developing novel or enhanced value propositions for your customers.

New research from Fred Selnes and Michael D. Johnson yields best practices for managing your portfolio of customer relationships in order to maximize the lifetime value they will generate for your business. The authors' 2005 article in *MIT SMR* explained why it's important to build relationships with customers at every level, from distant to very loyal. Their updated framework further develops the art of customer portfolio management, with insights into how to convert, leverage, and defend relationships to drive future revenue and lower costs.

Customer relationships can also be key to innovation, as Neil C. Thompson, Didier Bonnet, Mark J. Greeven, Wenjing Lyu, and Sarah Jaballah report. They studied approaches to innovating around the world and found that companies operating in China's enormous and fast-growing market are much more likely to source innovation and new product ideas from their customers and market-facing employees compared with businesses elsewhere in the world. This also holds true for multinational companies' subsidiaries in China, even if their innovation activities outside of China follow the more common model of a centralized R&D unit.

Finally, Mohan Subramaniam provides insight into digital customers — those using connected products that generate usage data, which in turn provides deep insights that can lead to new products and services. Digital transformation often means turning existing customers into digital customers, and Subramaniam reviews the strategic shifts that ambition requires.

— *The* MIT SMR *Editors*

SPECIAL REPORT

OLA JASIONOWSKA

Manage Your Customer Portfolio for Maximum Lifetime Value

How converting customers to closer relationships, leveraging them, and defending them can drive future revenue and lower costs.

BY FRED SELNES AND MICHAEL D. JOHNSON

MANY COMPANIES HAVE embraced the importance of creating closer, more valuable relationships with customers. But most do little to actively manage their portfolios of weaker and stronger relationships, other than keeping them diversified. They're missing significant opportunities.

When we wrote about customer portfolio management (CPM) and our research into customer portfolio lifetime value (CPLV) for this publication in 2005, we emphasized the need to balance a "large, leaky bucket" of weaker customer relationships alongside closer and higher-value customer relationships.[1] But according to our latest research, there is much more that businesses can and should be doing to drive future revenue. These actions depend on both market conditions and a company's resources.

Growing a company's customer portfolio requires continual investments across a range of weaker to stronger relationships. Our updated CPLV model shows that a clear understanding of when and how much to invest in, leverage, and defend different customer relationships is an essential determinant of both current and future revenues and costs.

Most companies lack a basis for developing this understanding. Business leaders seeking to optimally manage the ecosystem of customer relationships face a complex problem — and for most, de facto CPM practices are more likely to focus myopically on either current sales or their most valuable customers.

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However, our model shows that what's really required is to integrate multiple dimensions (not just scale, but also variances in customers' needs and wants) and tactics (relationship conversion, leverage, and defense) across the whole customer portfolio.

Our CPM framework and CPLV model enable executives to answer the following key questions as they seek to grow and optimize their company's customer portfolio:[2]

- How central is developing customer relationship strength to our strategy and competitive advantage? More specifically, when and how much should we invest in converting weaker relationships to stronger relationships?
- How do we leverage these investments once relationships are created?
- How do we protect the relationships we have created to minimize customer churn?

The CPM framework we've constructed and applied over the past two decades rests on a fundamental principle: It's in a company's best interest to view its market strategy as a long-term investment in the strength of relationships over an entire portfolio of current and future customers. Its core element is the segmentation of customers by their relationship with a brand — progressing from strangers to acquaintances to friends and, finally, to partners.

Our CPLV model illuminates how these relationships relate to the value proposition of a company by predicting a seller's future revenues from and costs associated with the different relationship segments. These predictions are based on a set of parameters that includes market growth over the course of a product life cycle, unit cost over time, the cost and probability of deepening relationships, relationship premiums, and switching costs and probabilities. By running extensive simulations within the model, we have identified three explicit goals for an effective CPM growth strategy: *relationship conversion, relationship leverage,* and *relationship defense*.

Relationship Conversion

Customer relationship conversion is the process of turning strangers into acquaintances, acquaintances into friends, and friends into partners. It accomplishes two important goals. First, customer loyalty and profit per customer improve, thanks to an increase in strong relationships. And second, the addition of weaker relationships to a portfolio provides both a source of future loyal customers and economies of scale.

Customers' perceptions of brand value develop along with relationship strength. (See "Different Relationships, Different Brand Value Propositions," p. 24.) Acquaintances view a brand as offering similar value to competing brands, and their purchase decisions are based mostly on a brand's availability, familiarity, and price. Friends have a stronger preference for and connection with a brand, based on its perceived quality and uniqueness, and will make repeat purchases even at a higher price than competitive brands. Partners have an active relationship with a brand. They are willing to work with the brand to develop customized solutions and to adapt their own behaviors to the brand's systems, services, and processes to obtain its value.

Growing a customer portfolio requires conversion strategies at all levels. Strategies for converting strangers to acquaintances follow the well-established process of creating awareness, encouraging the trial use of a product or service, and driving repeat purchases. Advertising and distribution are the keys to this early in a product life cycle. As markets evolve and become more heterogeneous, market segmentation, differentiation, and positioning become important practices, especially when attracting customers who are acquaintances or friends of a competing brand. Brand extensions help to add customers and build market share later in a product life cycle.

Converting acquaintances into friends requires building a brand's qualities, communication strategies, and an effective customer relationship management (CRM) system to enhance differentiation, brand choice (share of wallet), and profit margins. This process may involve some forms of adaptation on the part of customers, such as a willingness to use a brand's apps and loyalty programs. Converting acquaintances to friends is aimed at changing the customer's perception from "The brand has equal value" to "The brand has more value" compared with competing brands. To convert acquaintances to friends, brands must develop a relevant value proposition that connects with customers' underlying needs. This requires a deep understanding of the heterogeneity of customer demand — that is, the degree to which customers in any given market or point in time have different needs or wants.

THE RESEARCH

The study draws upon the authors' applications of the customer portfolio management framework in companies and numerical analysis of customer portfolio lifetime value (CPLV).

The CPLV analysis derives from a pro forma model that calculates future revenues less costs from different customer relationships under various market and company conditions.

Friends are converted into partners by incentivizing customers to adapt and invest further in their relationship with the brand. This is done by customizing the value proposition and/or reducing customers' costs, thus creating a stronger defense against competing brands and a foundation for brand extensions. This process is increasingly important as products and services are delivered via digital means, and it often requires customers to share information. Partnerships foster knowledge sharing that promotes more successful innovation and customized value. A company's investment in customer-friendly and highly functional IT systems and applications plays a large role in this process.

While stronger customer relationships tend to be longer lasting and more profitable than weaker relationships, it does not necessarily follow that companies should seek to convert all customers into friends or partners. Rather, the value of relationship conversion is closely tied to the heterogeneity of customer demand and a company's ability to tailor its product and service offerings to that heterogeneity. The foremost need of business travelers, for example, is a comfortable hotel room and place to work, while leisure travelers seek more amenities and services.

As demand heterogeneity increases, so do the opportunities to create closer customer relationships. Such relationships have well-documented positive effects on a company's performance, including market share protection, price premiums, lower transaction costs, lower marketing costs, and greater overall market value.[3] The result should be a more valuable portfolio of customers that generates greater cash flows over time.

The experience of large hotel companies that serve a very heterogeneous population of travelers, who vary by country, culture, location, frequency of travel, sophistication, and usage occasion, bears this out. Until recently, digital intermediaries, such as Expedia and Kayak, and alternative providers, such as Airbnb and Vrbo, accounted for more than half of room bookings. While these intermediaries provided hotel companies with more distribution channels, the unintended consequence for the hoteliers was an erosion of customer relationship strength and a loss of control over inventories and pricing. In short, the entrance of digital intermediaries reduced friends and partners to acquaintances.

Hilton and Marriott, the market leaders, responded in two ways. They created larger portfolios of brands and locations, largely through consolidation, to meet the demands of a very heterogeneous global market. Through its merger with Starwood, for example, Marriott now boasts 30 brands tailored to very different market segments. Importantly, the hotel companies also created better online systems and loyalty programs that offer customers the benefits and experiences that foster relationship conversion (Hilton's Honors program and Marriott's Bonvoy program, for example). The result has been quite remarkable:

DIFFERENT RELATIONSHIPS, DIFFERENT BRAND VALUE PROPOSITIONS

Stronger customer relationships are enabled by the promise of increased brand value to the customer.

No Perceived Value: Customers have little or no familiarity with or awareness of the brand.

Parity Value: Customers perceive little significant differentiation among competitive offerings. Purchase and use are based more on price and availability.

Differential Value: Customers perceive higher quality for a brand relative to competitors, making it more attractive, even at a higher price.

Customized Value: Customers perceive themselves to be embedded in the brand's ecosystem of products and services through their adaptation and investments in the brand's systems and processes.

Both Hilton and Marriott have more than doubled bookings by loyal customers through their websites and apps. These strategic moves improved inventory control, pricing power, and financial performance by not only restoring weakened customer relationships but also converting them to stronger relationships.

But what happens to the value of relationship conversion when demand and the resulting supply are relatively homogeneous, as they are for commodities like grain and natural gas? In this scenario, a company's economies of scale and its ability to compete on price are the keys to profitability (versus differentiation, customization, and closeness to the customer), and that suggests that a larger portfolio of weaker relationship segments will be more profitable than a smaller portfolio of closer relationships.[4]

When we incorporated high versus low levels of demand heterogeneity and high versus low levels of economies of scale in our CPLV model, it confirmed these effects on customer portfolios.[5]

The accompanying table, "How Market Conditions Affect Customer Portfolio Lifetime Value," shows that demand heterogeneity and scale have comparable impacts. CPLV more than doubles when heterogeneity increases and scale is low (from 100 to 212), and when scale increases and heterogeneity is low (from 100 to 224). The value more than triples when both heterogeneity and scale are high (from 100 to 332). This highlights the importance of both differentiation and cost as overriding market strategy considerations.

When demand heterogeneity and economies of scale are both high, acquaintances provide the primary source of CPLV early on, while friends and partners become the dominant contributors over time. All the results underscore the value of relationship conversion as heterogeneity grows.

Relationship Leverage

There are opportunities to leverage investments within each relationship segment. Investing in developing some level of brand awareness or familiarity for strangers, as through advertising, lays the foundation for establishing a relationship. Superior distribution and pricing strategies enhance purchase frequency and scale for acquaintances. Innovation and the continuous improvement of products and services enhance differentiation, purchase frequency, and margins for friends. Brand extensions and bundled offerings enhance the speed of innovation diffusion and lower marketing costs for partners.

The conventional view of the benefits of brand extensions and bundling is focused on the leverage they offer with regard to production costs, such as the ability to use an existing production line or service process to deliver a new product or service. But companies often overlook and thus underleverage the marketing benefits associated with closer relationships and, particularly, partnerships.

These benefits accrue from the greater willingness of partners and, to a lesser degree, friends to purchase brand extensions and bundles connected to an existing brand compared with strangers and acquaintances. Amazon has successfully leveraged its customer relationships to market and sell a growing array of product and service categories. Satisfied, loyal Prime customers are, for example, inherently more likely than new customers to follow Amazon's recommendations and purchase additional products, at a lower relative marketing cost within a larger solution space.

To better understand the value of leveraging all customer relationships, we further extended our CPLV model to incorporate a brand extension three-quarters of the way through an initial product life cycle. We varied the probability of customers adopting the brand extension in a given market period, setting

HOW MARKET CONDITIONS AFFECT CUSTOMER PORTFOLIO LIFETIME VALUE

The table shows CPLV for the focal brand by market condition. For illustrative purposes, we indexed the CPLV values at 100 for the low heterogeneity of demand and low economies of scale market condition and used it as a benchmark for subsequent comparisons, in which we modeled relationship leverage and relationship defense.

Market Condition	Low-Demand Heterogeneity	High-Demand Heterogeneity
Low Economies of Scale	100	212
• With Brand Extension	117	251
• With Relationship Defense	103	238
High Economies of Scale	224	332
• With Brand Extension	232	359
• With Relationship Defense	226	357

the probability lower in conditions of low heterogeneity of demand (where weaker relationships are more common) and setting the probability higher when heterogeneity is high (where stronger customer relationships are more common).

The table shows the resulting CPLV values for the focal brand across market conditions when adding a brand extension. While CPLV improves in all conditions, the brand extension has its greatest impacts when heterogeneity is high. The percentage of CPLV coming from acquaintances, friends, and partners in these cases is 26%, 29%, and 45%, respectively, underscoring the importance of both relationship conversion and leverage.

Relationship Defense

The use of CRM systems to continuously improve customer relationships and limit defections is commonplace. Nevertheless, we find that executives continue to be surprised and dismayed by high levels of churn in their customer portfolios. Some customer defections are clearly unavoidable: Even the most loyal customers will leave if their needs, preferences, or situations change. Nevertheless, defections are higher than they should be at many companies.

A key reason for this is an underinvestment in the information systems and data analytics required to understand the factors that affect customer satisfaction and relationship strength. Many companies do not completely understand why customers purchase their products and services or why customers leave. They also are unable to track how customers behave in response to changes in product and service performance. As a result, they do not know when or how to protect customer relationships.

To defend against customer churn, companies need two key inputs: impact and performance.[6] First, they must be able to identify the statistical impact of variances in product and service qualities and costs on customer satisfaction and behavior, as well as financial performance. Second, they must be able to determine how well their products and services perform on those qualities and costs, both in an absolute sense and relative to competitors.

Moreover, companies must understand how the drivers of satisfaction and their relative impacts vary not only by relationship segment (friends versus partners, for instance) but also by sub-segments within a given type of relationship (such as business traveler partners versus vacation partners). An impact-performance analysis by relationship segments will reveal the following:

- Competitive advantages that must be continuously maintained and improved to retain and convert relationships (high-impact, high-performance qualities).
- Competitive vulnerabilities that require immediate attention to avoid defections (high-impact, low-performance qualities).
- Product and service qualities to be maintained and/or investments to be reduced to lower costs (low-impact, high-performance qualities).
- Product and service qualities that can be ignored or eliminated (low-impact, low-performance qualities).

A granular understanding of the variance in performance qualities and its consequences enables companies to pinpoint the root causes of customer defections. When these causes are known, companies can undertake product and process responses, which often span functional and operational boundaries.

When Sector Alarm, a supplier of home alarm systems across Europe, saw a significant and unexpected increase in customer churn, it took a close look at its customer feedback. The data revealed that the defections were directly related to a particular alarm system that suffered from frequent false alarms. The company used that knowledge to communicate the issue throughout the organization, improve its alarm systems, align incentives from manufacturing to sales to service, and bundle services (adding an automated system to notify customers when to change batteries,

Even loyal customers will leave if their needs, preferences, or situations change — but defections are higher than they should be for many companies.

and a battery replacement service). The result was closer, more profitable customer relationships.

We investigated the effect of an increase in defensive retention activities in our CPLV model through the customer retention probability from period to period. In our baseline scenarios, the focal brand has the same probability of losing customers in a given period as its competitors. The table shows the impact of a 20% increase in the focal brand's investment in relationship defense (retention activities), which decreases the probability of losing a customer from one market period to the next. Relationship defense improves CPLV in all conditions.

It's hardly surprising that defense increases CPLV as demand heterogeneity grows, given relationship management's focus on retaining loyal customers. What is interesting is that defense has close to the same impact on CPLV as economies of scale grow. This is perfectly logical within the integrated framework of CPM. When CPLV is more reliant on a larger number of weaker relationships (low-demand heterogeneity) and scale economies (volume) to reduce costs, retention has a large impact. The negligible impact of retention when both demand heterogeneity and economies of scale are low is a function of low margins for each customer (predominantly acquaintances) and marginal cost advantages with higher volumes.

The greater the heterogeneity of demand in a given market, the greater the long-term value of closer relationships.

IN THE END, CPM boils down to investing in building relationships with current and future customers. Setting specific goals regarding relationship conversion, leverage, and defense is a natural place to start, but it requires a clear understanding of the heterogeneity of customer needs as they emerge over time and of economies of scale. The greater the heterogeneity, the greater the long-term value of closer relationships. The greater the economies of scale, the more important it is to include weaker relationships in a portfolio to both lower costs and provide a basis for future loyal customers.

Companies need two things to inform and act upon this understanding. They need customer information systems capable of revealing the impact and performance of a brand's qualities and costs to guide relationship conversion, leverage, and defense. And they need organizationwide alignment around the basic principle of CPM to ensure that production, marketing, and sales strategies are viewed as an integrated investment in relationships across an entire portfolio of current and future customers.

CPM enables an integrated approach that balances competing priorities, most importantly the future revenues from investments in closer customer relationships versus the economies of scale from current sales. Such an approach requires a careful consideration of market conditions and company resources. Do this work well, and it will pay off both now and in the future.

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Why Innovators in China Stay Close to the Market

Businesses in China increasingly source their innovations from customers, competitors, and front-line employees, bucking trends seen elsewhere in the world.

BY NEIL C. THOMPSON, DIDIER BONNET, MARK J. GREEVEN, WENJING LYU, AND SARAH JABALLAH

MICHAEL GLENWOOD GIBBS/THEISPOT.COM

LOOK AT THE ELECTRIC shavers on offer from Philips at stores in New York, London, or Tokyo, and one will seem much like another. But go to Shanghai, or a smaller Chinese city like Yantai, and you'll see something different. There, Philips has products that arose from local innovations and are customized for Chinese consumers.

It's not surprising that a multinational company would be willing to adapt its offerings to serve a large market — as a Philips executive commented, a second-tier city in China might have a larger addressable market than most European countries. What is surprising is that Philips doesn't feel the need to do this market-specific innovation in many large countries but does so in China. What is so different about competing in the Chinese market that it demands an entirely different approach than is dominant elsewhere in the world?

Over the past three years, we conducted two large representative surveys of corporate innovation. The first looked at innovation practices across eight countries, most of them highly developed. The second focused specifically on innovation practices in China, by both domestic and foreign companies operating there. We found that in China, innovation is different. Everywhere else we've looked, we've found that companies take a similar approach to corporate innovation.[1] But the companies in China — be they domestic or foreign — have chosen a different path in a market where fast growth is producing a disproportionately large share of new customers for many industries, and advanced digital infrastructures, including widespread digital platforms, provide the means to access them.

Diverging Paths to Corporate Innovation

Our research shows that outside China, large companies are converging on a pattern for sourcing innovation. Internally, they are centralizing innovation. If they don't have central R&D units, they are building them. And, increasingly, they are building centrally controlled innovation labs located in rich innovation ecosystems, such as Silicon Valley. Meanwhile, the appetite for seeking innovation from inside individual business units is decreasing, with ever fewer important innovations coming from these sources.

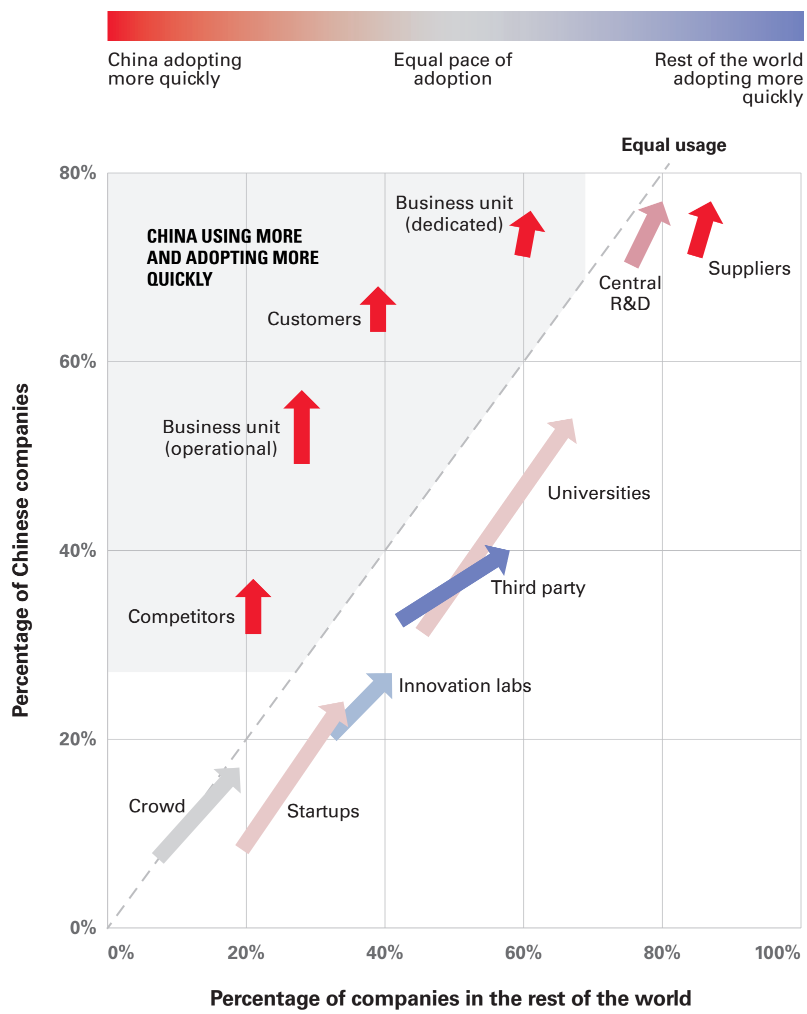
Externally, companies are rapidly expanding their innovation portfolios to get access to expertise, particularly for digital technologies. More businesses are turning to crowdsourcing and working with universities, startups, and third-party experts. At the same time, some external sources, like customers and suppliers, are becoming less important.

The trends we identified in China are markedly different and reflect an orientation toward generating ideas closer to customers to drive more market-led innovation. (See "Enterprise Innovation Sources in China Versus the Rest of the World.") Chinese companies are about twice as likely as those elsewhere in the world to use customers, competitors, or business unit operational employees as a source of innovation. They are also 27% more likely to use business unit staffers who are dedicated to innovation full time (rather than those contributing to innovation alongside their day jobs). This is happening not only in manufacturing and consumer products but across many other industries as well.

Our research indicates that the choice of this approach to innovation is, in a way, itself market-driven. Even within China, companies do more market-led innovation when they produce for the internal market than when they export, on average using 46% more market-led innovation sources when they produce entirely for internal consumption than when they export all their production. So even among Chinese businesses, it is those that are trying to capture domestic customers that are focusing on market-led innovation.

ENTERPRISE INNOVATION SOURCES IN CHINA VERSUS THE REST OF THE WORLD

The arrows show the evolution of large enterprises' use of innovation sources over the three years preceding the survey.



How Chinese Companies Stay Close to Market Needs

Three ingredients from the Chinese recipe for corporate innovation stand out: involving customers in innovation, leveraging competitor innovation, and sourcing insights from employees in market-facing business units. Let's take a closer look at how companies in China use these strategies.

1 **Involve customers in innovation.** With so many winnable customers in China, competition is fierce; foreign companies want to enter Chinese markets, and domestic companies want to defend

their territory. Tailoring offerings to specific consumer niches is a way to escape the bevy of competitors. But creating new offerings that address particular niches is not easy: It requires learning about those customers and innovating alongside them. Our research indicates that in China, widespread digital platforms are key to how companies innovate with their customers. China-based multinational Haier uses the Haier Open Partnership Ecosystem platform to generate ideas from an online community of thousands of external experts and hundreds of thousands of customers.

Smartphone maker Xiaomi has taken a customer-focused approach to innovation to fuel its growth. It has extended its product range to over 100 smart consumer electronics products, ranging from smart rice cookers to air purifiers and health wearables. Xiaomi's product development focuses on getting prototypes to market as soon as possible and actively involving users in updating the technology and design. Users, who are called "fans" at Xiaomi, can submit recommendations and questions via various online platforms, and an algorithm distributes this input to the relevant employees at Xiaomi. The result is products that are codeveloped by the community and a better fit for market needs.[2]

2 **Leverage competitor innovation.** With rapid growth and market niches the size of many countries, competition in the Chinese economy is robust. (A common measure of market competition, the Herfindahl-Hirschman Index, pegs China as being more like developed countries than emerging markets in this regard.) As has been much discussed elsewhere, this has led to copycat products: The innovations of one company are reverse-engineered and built upon by others. But this is only one part of how businesses in China innovate with their competitors. Improvements in Chinese companies' technological capabilities have increasingly opened the doors to direct collaboration in the innovation process.

Daimler is a case in point. China is by far the iconic

THREE FALLACIES ABOUT CHINESE INNOVATION

OUR RESEARCH punctures holes in some widely held opinions on why innovation is more market-led in China.

1. It's due to the customer-oriented corporate culture. While there are differences between corporate culture at firms in China and at those in the rest of the world, it does not explain the market-led innovation pattern we see in our data. After all, when foreign companies enter China, they follow the Chinese way of innovating. If it were culture driving innovation behavior, we would expect these foreign companies to look more like those in their home countries.

2. It's because Chinese innovation is more incremental than transformational. This long-persistent hypothesis about Chinese innovation being more incremental is not borne out by either the literature or our data.[i] For example, OLED panel manufacturer BOE Technology first worked with Japanese, Taiwanese, and Korean companies to develop display technology. Then it graduated to building its own TFT-LCD production lines and subsequently to building R&D capabilities that made it one of the top 10 international patent applicants from 2015 to 2019.

Our data also rejects this idea of Chinese innovation incrementalism in terms of investments, innovation skills, and outcomes. Like companies in the rest of the world, Chinese companies invest about a quarter of their innovation budgets in projects with transformational goals (the polar opposite of incremental projects). In addition, 17% of Chinese businesses indicated that their innovators have industry-leading capabilities, while only 8% of the companies in the rest of the world feel that way about their own companies' innovators. And, crucially, Chinese companies report that a similar share of their innovation projects yield persistent competitive advantage.

3. A tough intellectual property regime discourages technology-led innovation in favor of market-led innovation. Our research finds that the way both domestic and foreign companies operating in China view the country's intellectual property protections are broadly similar to the views that companies in the rest of the world have about their home countries' protections. To be sure, our survey covers only *companies that have chosen to stay in China*. It could well be that there were substantially disadvantaged companies that chose to exit the market.

Perhaps more important, our data does not show that Chinese firms are doing much less sourcing of technology-led innovation, just more market-led innovation. As the figure "Enterprise Innovation Sources in China Versus the Rest of the World" shows, the innovation sources most associated with technology-led innovation (such as central R&D, universities, innovation labs, and startups) are close to the diagonal line — meaning that Chinese firms use them almost as frequently as companies elsewhere in the world.

German car brand's fastest-growing market, and one where there is strong demand for innovative next-generation electric vehicles (EVs). In 2019, around 1.2 million EVs were sold in China — twice as many as in Europe, and four times more than in the United States. Daimler recognized this shift and in January 2020 announced a global joint venture with Chinese car company Geely to produce a fully electric vehicle by 2022 as part of its reinvention of the Smart car brand.

3 **Source insights from employees in market-facing business units.** Many companies outside China are increasingly turning to centrally run R&D and innovation labs, and these have successfully produced important innovations. Our research shows that at the same time, companies are placing less importance on innovators whose work brings them closer to customers. In China, however, this shift has not happened. On the contrary, the practice of using internal, market-facing innovators is growing rapidly and producing some companies' most important new offerings.

Haier, for example, gets many product ideas from repair technicians and sales representatives, who are in a position to directly observe how customers actually use, or would like to use, its products. This can mean changing washing machine characteristics in its Crystal series because of user feedback, or designing refrigerators with built-in foldout tables to target students who use them as desks in cramped dorm rooms.

Implications for Global Innovators

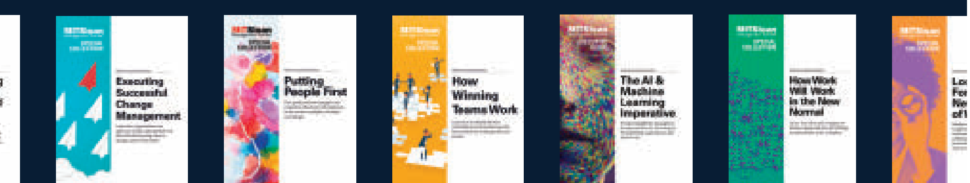
Many foreign businesses operating in China have adopted the local approach to innovation. In fact, our data shows that they are more similar to Chinese companies in this regard than to companies in their home countries.

Historically, Philips relied on market insights from the U.S., Germany, and Poland for global innovation. But, having committed to the Chinese market, it decided to invest in innovation specifically targeting China. For its professional health business, Philips developed a 4D strategy: design for China, decide in China, deliver at China speed, and digitize China business. From 2016 onward, Philips moved from selling equipment to selling total solutions to customers, thereby aiming to work much more closely with local customers. Since 2018, Philips has embarked on numerous local product development partnerships, such as with Digital Health China and Ping An Good Doctor, to gain insights into local preferences. The China-specific, newly launched Shinefly health care platform, which includes imaging, radiology, and PACS (picture archiving and communication system) modules at lower prices, is one innovation outcome. Philips also started to actively invest in and partner with leading local competitors, such as SinoUnited Health and Shenzhen Goldway, to co-innovate new medical imaging and patient-monitoring solutions. China is now one of Philips's four largest innovation hubs. The company also now develops products targeted specifically for consumers in Chinese second- and third-tier cities, with the aim of leveraging those innovations to grow new markets in Southeast Asia.

Honeywell's experience is equally telling. Since 2013, China has become Honeywell's largest market beyond the U.S. The company's long-term view and big bet on localizing innovation played an important role. Besides building up significant R&D muscle over the past two decades, with a large lab in Shanghai since 2003 and numerous new labs in Wuhan, Nanjing, and Xixian in the past five years, the company overhauled its innovation process for China. The aim was to build an end-to-end innovation organization, bringing innovations closer to customers. For instance, it let the whole innovation team connect with and colocate with the customer. It also became more flexible in using Chinese standards — instead of international ones — for products like hydro-purification units. Moreover, it realized that the sales team had to become more of a customer relationship team, continuously taking note of customers' changing requirements for upgrades. "Little by little, we had this Chinese-ness in our bones," emphasized the architect of the company's China strategy, Shane Tedjarati, who spent two decades transforming Honeywell.[3]

As these examples highlight, establishing local innovation hubs or full-blown innovation centers in China is no longer unheard of for foreign companies. Our study suggests that firms innovating in China should leverage their business units' operational and dedicated innovation staffs, even if this goes against their home-country experience.

Foreign companies must also tap the rich landscape of digital platforms in China — among the most advanced in the world. Even a newcomer in the



market, U.S.-based Bissell, the world's largest producer of floor-care products, stayed resilient during the COVID-19 pandemic by leveraging the Taobao Live livestreaming platform to stay on top of customers' wants and needs. And through Alibaba's Tmall Innovation Center, companies can access real-time consumer data to accelerate innovation.

OUR RESEARCH MAKES CLEAR that most of the world is converging on a common innovation recipe — one that makes innovation easier to manage because processes can be standardized and innovation models replicated across geographies. But China is an exception. Its market is unlike that anywhere else in the world, and so is the innovation required. This means that global companies that want to capture the benefits of being in China need to accept that they have to have a dual model: one for China, and one for the rest of the world.

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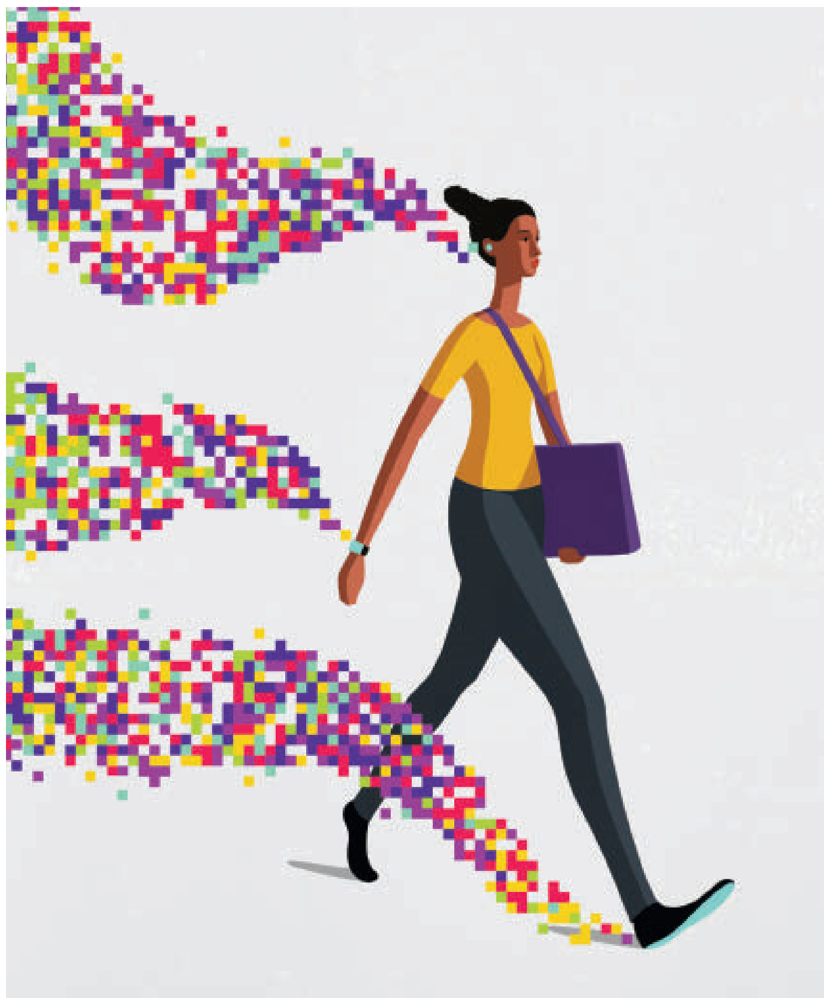
How Smart Products Create Connected Customers

The data streams generated by customers using smart, connected products can lead to new products and services.

BY MOHAN SUBRAMANIAM

AS LEADERS OF LEGACY product and service companies anchored in traditional value chains seek ways to prosper in the digital economy, one of the most important questions they can ask is, "How can we turn our existing customers into digital customers?" Digital customers don't simply buy products and services: Their interactions with those products and services generate data that companies leverage to provide them with greater value over time. Those data insights also help companies attract new customers, create fresh revenue streams, and expand the scope of their businesses. This customer-generated data, which is often combined with other data streams, has fueled the growth engines of companies built on digital platforms, like Amazon and Google.



Legacy companies typically collect episodic data from discrete events — the sale of a product or the shipment of a component, for instance. Amazon and Google capture a continuous stream of data at every customer touch point on their platforms that is used to generate a new class of insights that play a more expansive role in their businesses.[1] All of their customers are digital customers. Now, thanks to technologies such as sensors, the internet of things (IoT), and artificial intelligence, legacy firms, too, can transform their customers into digital customers who generate streams of data via their interactions with connected products.

Sleep Number uses sensors in its mattresses to track its customers' sleeping heart rates and breathing patterns. This data enables the company to identify chronic sleep issues, such as sleep apnea and restless legs syndrome, and expand its business scope beyond mattresses to wellness provision. Sensors on Caterpillar heavy machinery produce data that enables the

JON KRAUSE/THEISPOT.COM

company to track wear and tear, predict component failures, and create new revenue streams from maintenance services. Chubb is installing sensors in the buildings it insures to detect water leaks before they become claims. In this way, the company is expanding beyond damage compensation to damage prevention.

For all its promise, harnessing value from digital customers also brings new challenges for legacy companies. They must develop new value propositions, build out their data infrastructures and strategies, staff for new digital and product design capabilities and competencies, and rework innovation processes to create a feedback loop using valuable customer interaction data. And they must learn to market and sell their new value proposition to create a new digital customer base — and reap the benefits of their digital transformation.[2]

New Value Propositions Create Digital Customers

Transforming legacy customers into digital customers requires the development of a new value proposition that convinces them to switch from buying a standard product to using a sensor-equipped product. To appreciate this effort, consider the recent introduction of smart inhalers for the prevention and treatment of asthma by pharmaceutical companies, including AstraZeneca, GlaxoSmithKline, and Novartis.

The standard asthma inhaler consists of a canister that holds the medication and a plastic actuator with a cap that releases the right dose of the medication when pressed. A smart inhaler, on the other hand, has a sensor on the plastic actuator that can collect various kinds of data and transmit it via Bluetooth connectivity to a mobile phone or wearable device, and to the manufacturer and its partners from there.

Asthma sufferers who use smart inhalers are digital customers. They use a smart inhaler the same way as a standard inhaler, but when they do, the smart inhaler generates data, such as the time and date, the patient's location, and the dose inhaled. Because its sensor can capture the angle at which the inhaler is held when the medication is released, a smart inhaler can estimate the amount of medication that went into the lungs of the user (as opposed to the amount sprayed into the mouth).

With the help of APIs that enable communication between different software programs, smart inhalers also can collect and use environmental data from other IoT devices within homes, such as those that detect mold or dust mites. Outside the home, they can tap other environmental data sources that provide real-time updates on pollen, humidity, pollution, and other irritants that can cause an asthma attack.

All this data enables the makers of smart inhalers to offer a broad range of features to their digital customers, such as reminders to take preventive doses and to carry inhalers when leaving home. Indeed, a key benefit of smart inhalers is improved adherence to medication regimes and hence better control of asthma and fewer acute attacks.[3] Smart inhalers also can send help to users who are experiencing a severe attack — a feature that could save lives.

The deeper analysis of the data enables advanced features. Smart inhalers can not only predict acute attacks by detecting known irritants but can also customize predictions by knowing precisely which irritants are more likely to trigger attacks in an individual patient. They can help physicians fine-tune medication dosages for individual patients too.

Introduced in 2014, smart asthma inhalers are still in their infancy, and they account for less than 1% of the market.[4] Moreover, most of the smart inhalers on the market today offer relatively basic features, like reminders. But the market is expected to grow from an estimated $34 million to $1.5 billion by 2025.[5] This growth could be far more robust depending on how successfully producers address the strategic

Companies must build out their data infrastructures and strategies, staff for new digital capabilities, and rework innovation processes.

THE STRATEGIC CHALLENGES OF ACQUIRING DIGITAL CUSTOMERS

Growing a business based on serving digital customers requires rethinking the customer's role, the company's value proposition and how that's delivered, and the business model.

FACTORS	CUSTOMERS: LEGACY	CUSTOMERS: DIGITAL	STRATEGIC CHALLENGES
Customer Role	Customers buy and use standard products.	Customers buy and use sensor-equipped products and provide data.	Expanding strategic mindsets
Value Proposition Development	Standard product features don't change with greater customer adoption.	Data-driven features improve with greater customer adoption.	Establishing credibility for future benefits
Value Proposition Delivery	Value-chain activities deliver product features.	Digital ecosystems deliver data features that expand customer benefits.	Transforming prevailing business models by engaging with new digital ecosystems
Revenue and Profit Generation	Pricing strategies are consistent with value-chain business models.	Pricing strategies need to be adapted to platform business models.	Developing new revenue- and profit-generation models

challenges entailed in converting legacy customers into digital ones. (See "The Strategic Challenges of Acquiring Digital Customers.")

Expanding Strategic Mindsets

Harnessing the power of digital customers and their data for digital transformation requires leaders to move beyond outdated strategic mindsets. This begins with changing prevailing views on the role of the customer. Most companies see buying products as the customer's role, but digital customers play a broader role as generators of the data that can fuel new services and revenue streams. The more clear-eyed leaders are about this broader role, the more likely it is that they will invest in acquiring digital customers and make the necessary changes in business models to harness their value.

Leaders also might need to refresh their understanding of the relationship between products and data. Managerial perspectives anchored in the product value chain can make it difficult to envision the full spectrum of opportunities offered by the data that user interactions generate. Even companies that have launched smart products might use what they learn from the resulting data streams only to enhance the product's functionality. This can be limiting: A robotic vacuum's sensor that detects obstacles can produce data that, when analyzed, points to ways to improve the appliance. But the vacuum could also be equipped with sensors that detect the presence of rodents or termites, enabling vacuum makers to offer pest activity alerts and connections to pest control companies, in addition to a cleaner floor.

Finally, taking full advantage of digital customers and the data they generate requires that leaders think beyond economies of scale to embrace network effects. Growing numbers of digital customers and additional partners, such as environmental data providers, produce greater volumes of data and thus can strengthen the algorithms that power smart inhalers, for instance, which in turn will deliver more insights that offer greater value to all network participants. This attracts more participants and creates a virtuous cycle of growth. Legacy companies that unleash network effect advantages on top of scale advantages can not only win market share away from incumbent competitors but also maintain the scale advantages that help block new digital competitors.

Establishing Credibility for Future Benefits

Smart products are a marketing challenge for legacy companies: They must sell digital customers on a product's value proposition before the value has been proved. The customer benefits of standard products are embedded in their features — think the medicinal properties of a conventional inhaler or the number of blades in a razor. But for smart products, the customer value proposition includes data-driven features and benefits that might materialize only after a substantial number of digital customers have adopted the product. For instance, the ability of a new smart inhaler to predict asthma attacks is nonexistent when it is first launched in the market. This benefit materializes only after digital customers have generated the data needed to power the inhaler's predictive algorithms.

One way to communicate and sell digital customer value propositions that has gained some traction in the B2B arena is outcome-based pricing. When GE launched its sensor-equipped jet engines, locomotives, and turbines, it adopted this pricing strategy to show that it stood behind its ability to deliver the as-yet nonexistent data-driven services associated with its products. The ability of GE's jet engines to provide pilots with guidance on how to achieve fuel efficiencies, for instance, would only materialize after enough data was available from the engines' sensors. To underscore its confidence that such guidance would be forthcoming, GE redesigned its commercial terms, selling the sensor-equipped engines at a reduced price and then charging customers a percentage of the actual savings derived from the improved fuel and operational efficiencies that would eventually be realized from its digital services.

Transforming Prevailing Value Chains Into Digital Ecosystems

The value chains designed to produce and sell standard products are insufficient for delivering data-driven features to digital customers. Companies need data-generating and -sharing networks that comprise both production and consumption ecosystems. Each part enables legacy companies to use the interactivity data captured from smart products to provide data-driven services, but each delivers data-driven services of different kinds and in different ways.

Production ecosystems emerge from conventional value chains as various assets and activities involved in producing, selling, or servicing products become networks that generate and share data. They started emerging with IT systems that used data to automate business processes. Now, the addition of sensors, IoT, and AI further enriches these ecosystems and elevates their capacity to generate data-driven services.

For example, Caterpillar evolved its traditional after-sales services into data-driven predictive maintenance services by building out its production ecosystem to channel data from thousands of its products in the field to data centers equipped with sophisticated AI capabilities needed to pinpoint likely breakdowns. These centers are digitally linked to various other value chain entities, such as spare parts warehouses and service centers, that enable Caterpillar to deliver predictive maintenance services to its digital customers.

Consumption ecosystems are focused on connections external to value chains. They, too, are data-generating and -sharing networks, but they link the independent entities that complement a product and its sensor data — such as the providers of data on local levels of asthma triggers like humidity and pollution levels.[6] Unlike the units and entities inside a legacy company's value chain (such as Caterpillar's data centers and spare parts warehouses), the company does not directly control the participants in this network. Consumption ecosystems also require the development of new technology infrastructure: a digital platform through which customers access data-driven services, and partners deliver complementary services.[7]

Pricing for Digital Customers

Attracting and serving digital customers requires new revenue models. Standard product pricing strategies

Leaders must ensure that customers are informed and comfortable with sharing the data generated by their engagement with a connected product.

don't factor in the significance of network effects — which may allow companies to tap new revenue sources other than product sales.

Consider Samba TV, vendor of a video content recommendation engine and viewer-tracking app. Since 2011, Samba TV has been providing sensors to TV manufacturers, including Sony, TCL, and Sharp. Rather than charging for the sensors, Samba TV pays manufacturers to use them and earns its revenue by selling the resulting data and insights to content producers and advertisers.

The smart inhaler producers, by contrast, charge a premium for the enhanced value proposition of their sensor-equipped products — but one consequence of this approach has been a slow rate of adoption.

When catering to digital customers, legacy firms must find a balance between recovering costs to reach breakeven and driving smart product adoption to generate network effects. To do this, they must find creative approaches to engaging digital customers in ways that not only help build network effects but also generate revenues.

THE CHALLENGES OF turning a legacy company's customer base into digital customers don't end with fundamental changes in strategic mindsets and the adoption of new marketing, business, and revenue and profit generation models. Leaders also will need to ensure that customers are informed and comfortable with sharing the data generated by their engagement with a connected product, and they must continually appraise their products vis-à-vis evolving and newly emerging digital technologies.

The privacy concerns of digital customers, in particular, must be top of mind. Companies must maintain customer privacy and data security and ensure that they don't use digital technologies and data in ways that cause harm or violate ethical norms. And it's essential to communicate privacy and data collection policies in an easy-to-understand way — not via pages of legalese. When the business of harvesting data from smart TVs emerged, it certainly raised concerns among consumers, who didn't expect their television sets to surveil their viewing habits or collect information on other internet-connected devices in their homes.

Digital customers are one of the key enablers of a legacy firm's digital strategy. The data acquired from these customers empowers businesses to dramatically expand their value scope — but to win these customers, companies must differentiate their offerings through innovative data-driven services. Achieving sustained success and a strong competitive position requires a commitment to both investing in production and consumption ecosystem infrastructure and enhancing value-added services via complementary partnerships that ultimately contribute to positive network effects.

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Strategically Engaging With Innovation Ecosystems

Where startups, researchers, and investors cluster, opportunities to accelerate corporate innovation abound.

BY PHILIP BUDDEN AND FIONA MURRAY

Competitive pressure to innovate is driving companies to seek new ideas well beyond their own walls. But sponsoring the occasional hackathon or having one-off, uncoordinated interactions with a startup accelerator won't contribute much to boosting an organization's innovation capabilities. Many companies are missing an opportunity that's close to home by overlooking or failing to effectively tap innovation ecosystems in their regions.

These ecosystems occur where innovation and entrepreneurship activity are highly concentrated. As we define them, ecosystems are places that engage five stakeholder types — research institutions, entrepreneurs, corporations, investors, and governments — linked by a strong social fabric of mutual interest, complementary needs and resources, and trust. (See "Complementary Stakeholders in Innovation Ecosystems," p. 40.)

Our research shows that new innovation ecosystems are emerging globally, beyond well-known hubs. While often smaller or more specialized than, say, Silicon Valley, these clusters of activity are expanding the regional opportunities for corporate engagement in new locations. Meanwhile, digital interactions enable wider participation across geographic boundaries.

To achieve their goals for innovation, companies need to take a systematic approach to identifying and securing competitive advantage from working with these innovation communities.

The framework we present here, developed from our global work with hundreds of corporate leaders, provides a practical approach to such strategic engagement.[1] It helps leaders avoid the common pitfalls of deciding how and where to engage before they have identified what they need, and of deciding with whom to engage before they have determined which ecosystem players are essential for relationship-building.

Flawed Approaches to Tapping Ecosystems

Many corporations seeking to reap the benefits of innovation ecosystems fall into a series of traps and end up having little to show for their efforts. Besides causing considerable internal frustration, the following

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missteps — which typically arise because executives haven't established clear goals for their interactions — often mean reduced benefits for corporations and lost opportunities for the ecosystem as a whole.

First, we find that corporate leaders spread their efforts too thinly — across not only different locations but also different activities. They engage in a flurry of superficial activities that often feel transactional and performative to startups and providers of risk capital.

Second, corporations often engage in a fragmented and uncoordinated fashion: Their HR engagements for spotting talent are disconnected from the work undertaken by innovation units looking for new ideas or early-stage startup teams. In turn, corporate development and corporate venture capital (CVC) teams exploring new deals for M&A or investment may be unaware of the early-stage startup relationships established by their colleagues in the R&D group. This creates unnecessary noise in the system and often comes about because there is little clarity on whom to engage and for what purpose.

Our research has found that leaders get better results with a more structured and focused approach to getting involved with these ecosystems. This does not rule out serendipity or threaten the creativity of the innovation process. Rather, it speaks to the old adage that "chance favors the prepared mind" — it helps companies to be ready when the right encounters happen with innovators, entrepreneurs, and risk capital providers.

Alongside thoughtful planning, companies must commit to credible and sustained interaction; other stakeholders in the innovation ecosystem will be watching to see whether they will become trusted partners or merely engage sporadically or superficially. This commitment to relationship-building includes senior management and extends to relevant managers in different units as well as entrepreneurial leaders throughout the organization.

In this article, we focus on what can be the most challenging relationship among the five key ecosystem stakeholders: that between corporations and entrepreneurs. However, our framework can be applied to direct engagement with other stakeholders, including universities where many entrepreneurs begin their venture-building journey and the risk capital providers who work closely with entrepreneurs, particularly VCs and angel investors. We have also found the framework to be useful for governments looking to engage with entrepreneurs in their most pressing delivery challenges.

Start With 'What'

Our systematic approach to developing a strategy for engagement with innovation ecosystems requires that leaders consider and answer three critical questions in turn:

1. **WHAT** do you want to acquire from (and offer through) your ecosystem engagement?

2. **WHOM** do you wish to engage with, and who will engage from your side?

3. **HOW** will you engage, and will the approach ensure effective interactions?

Identifying what innovation resources an organization hopes to gain should follow from leaders' high-level strategic innovation priorities and a clear-eyed assessment of internal innovation capabilities. This analysis will also inform an understanding of the assets and capabilities the organization might offer to ecosystem players.

Asking what innovation resources your organization wishes to access might yield additional questions before it produces answers. Do you need technical talent for your hiring priorities, or perhaps entrepreneurs with new and novel projects who can contribute cutting-edge solutions to your innovation portfolio and open up new customer segments? Or do you seek the opportunity to engage with and be part of a more innovative culture to help retain talent or reenergize your internal corporate culture? Where are your internal gaps and weaknesses most acute? Each of the potential resources above may resonate differently with different parts of the organization. That is why this is a top-level strategic issue: Effective ecosystem engagement means answering the "what" question for diverse parts of the organization while also prioritizing the benefits to the enterprise as a whole.

The varied answers to the question can be combined into a unified strategy for engagement (albeit one that might be executed by individual departments). However, in order to present a coherent and welcoming face to the innovation ecosystem, it is important to at least map out the whole landscape of the corporation's needs from, and engagement with, the ecosystem. Our experience suggests that having well-articulated needs and a shared awareness of what each part of the organization seeks increases the likelihood that multiple channels of engagement will benefit the whole organization.

A good case in point is MassMutual, an insurance company based in Springfield, Massachusetts, whose leaders wished to explore how they might more effectively engage with the growing startup community in the Greater Boston area. While the company had experienced success with internal innovation, it wanted to expand its visibility into startup activity in both fintech and insurance technology.

A traditional corporate play might have been to dispatch an M&A team to buy a few fintech startups in Boston, but the leadership of MassMutual determined that the company needed sustained engagement that would inform and accelerate its strategy for internal innovation as much as it sourced externally. The leaders recognized that these resource needs would require them to engage with a large number of early-stage startups so that they could assess a range of different segments, business models, and startup approaches. What they wished to understand was how startup entrepreneurs approached the innovation process. They also hoped to gain a new perspective on the market opportunities in fintech and to observe and better understand startup cultures in order to build a more entrepreneurial culture at MassMutual.

To that end, MassMutual partnered with the sector-agnostic MassChallenge accelerator in downtown Boston to get an overview of the startups in its programs. Although this did not provide near-term deal flow (a typical CVC or M&A benchmark), that was not the company's target metric. MassMutual executives' strategic engagement provided opportunities for them to spend meaningful time with a curated group of startup teams.

By providing space in its new Boston seaport building for the MassChallenge accelerator, MassMutual bought itself a ringside seat to a huge slice of the local ecosystem, and its team was able to simply get to know entrepreneurs and interact informally with them day to day.

Working with MassChallenge as a trusted intermediary also helped MassMutual overcome the sorts of missteps we laid out above, and the challenges that often come with large corporations engaging agile entrepreneurs within an ecosystem. Building on this, the company has started to work with a wider set of ecosystem partners to establish a shared understanding of the opportunities and challenges facing Massachusetts in becoming a world-class fintech ecosystem.

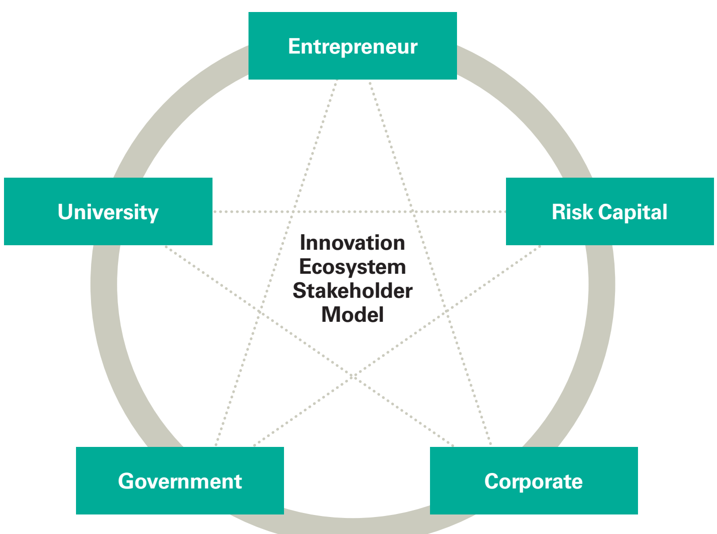
Once the question of what they wish to acquire from the ecosystem has been addressed, organizations need to turn the tables and ask what they have to offer in return. Ecosystem engagement is about reciprocal interaction and mutual exchange. Engagement is not a one-way street.

Our experience shows that funding is often part of the offer from a corporation but not always — and not at the level companies might expect. While risk capital is often a top priority for entrepreneurs, teams building new ventures often want corporations to provide them with a window into customer needs as much as they want funding. They also seek expertise in navigating complex regulatory and supply chain pathways to reach an end user, and access to infrastructure to support testing, customer access, scaling up, and supply chains.

When corporations fail to understand the needs of others — whether entrepreneurs, risk capital providers, or universities — they can fail in their engagement and in meeting expectations, even when

COMPLEMENTARY STAKEHOLDERS IN INNOVATION ECOSYSTEMS

A healthy innovation ecosystem draws value from — and delivers value to — five different kinds of stakeholders.



they have many of the resources their ecosystem partners might find useful and complementary.

Build the Right Relationships

Defining what the organization seeks to gain helps focus the question of who the right partners among the stakeholders in the ecosystem are likely to be.

If a company needs to engage teams of diverse individuals to build novel solutions for critical market opportunities, then it will likely seek to work with startups. However, it is important to understand how innovative entrepreneurial ventures develop and the stage at which engagement will be most productive.

We characterize startups exploring new and uncharted solution spaces or providing solutions to emerging problems as innovation-driven enterprises (IDEs).[2] These are the entrepreneurial ventures that large organizations will be most likely to target as potential partners rather than the more traditional small and medium-sized enterprise startups. IDEs work in milestone-driven cycles of funding, experimentation, and learning that we call innovation loops, to gain information about possible paths forward and determine which ones to explore more deeply and which to close off. Over time, they reduce uncertainty and increase their readiness. At each stage, innovators strive to improve product/market fit, the maturity of their solution, and its readiness to be scaled.

Against this backdrop, large organizations must consider not only who among startups is working on particular innovations or technologies of interest but also their stage of innovation readiness.

Is the corporation really interested in very early-stage ventures that are not yet incorporated — often a university team with a deep understanding of the solution and a working prototype but limited experimental evidence? Or, is the company interested in startups that have formed a legal corporation and have limited risk capital but demonstrated evidence of meeting critical milestones? Or, is it looking for a late-stage, plug-and-play startup with a solution to a well-defined problem and market traction as a possible CVC or M&A target or partner?

The answer depends on whether the corporation has a clear sense of what it needs from the innovation ecosystem. Organizations that see a strategic gap in their insights into future innovations and truly novel ideas will likely seek links to very early-stage ventures. Those that have a particular gap in their near-term portfolio will be looking to engage with a handful of late-stage startups that have the potential to fill that gap.

A good example of a company taking this systematic approach comes from Philips, the Dutch electronics conglomerate that successfully transitioned to a strategic focus on health care technology over the past decade. Its U.S. operations — especially those in Greater Boston — became critical to its global innovation efforts as it pursued that end. Leaders realized that Philips's internal innovation pipeline was not likely to deliver on a sufficiently wide variety of health care opportunities, and they were concerned that the company would not identify investment, acquisition, and partnership targets early enough. They decided to engage early-stage startups and founders who could bring more creative innovations and perspectives into health care and complement the digital strategy being pursued by Philips's business units and corporate labs.

Philips understood that such ventures would not yet be fully formed startups backed by extensive venture capital, but this was its sweet spot in the ecosystem — where it could explore a large number of startup ideas, especially those generated by emerging talent with alternative perspectives on health care and wellness. Key Philips executives got involved with the then-new MIT Sandbox, which supports early-stage student-initiated entrepreneurship ideas. They not only contributed to MIT Sandbox's seed funding but also made themselves available for mentoring and networking with the entrepreneurs.[3]

Through this activity, Philips was able to identify and assist the startups likely to help it in its pivot to health care. Moreover, it earned a reputation within the ecosystem for being a corporation that early-stage startups — sometimes wary of corporate venture capital and M&A teams — could trust. In each of its engagements with startup teams, the exchange was relatively modest for Philips but meaningful for the startup. That included useful but not overwhelming resources at each stage and, most important, executive engagement and mentoring that enlightened startup entrepreneurs about markets, regulatory challenges, or supply chains.

Realizing that such entrepreneurs then needed follow-on support for innovation, Philips built on these relationships by establishing its Philips HealthWorks

Too often, leaders launch into the ecosystem with a shiny new space or a single massive event but gain little from these efforts other than publicity.

accelerator program, which supports particular startups beyond the seed stage. Its clear focus on whom it wanted to engage with among early-stage entrepreneurs created a pipeline to its more focused corporate accelerator. That accelerator provided a clear second stage for engagement with, and more resources for, a hand-curated group of startups. It also allowed Philips to deepen its relationships with the startups and provide them with more mentoring.

The flip side of the question about whom to engage in the ecosystem is whom the corporation should choose from among its staff to lead its engagement with the ecosystem. Executives who are placed in this type of role but lack deep knowledge of the company and its resources often fail because they cannot navigate the choppy waters where external innovators and entrepreneurs meet internal systems and processes.

Philips assigned this role to one of its innovation executives, Brian Rosnov. Rosnov had just earned an executive MBA at MIT and was serving as an entrepreneur in residence in the Philips Digital Accelerator in Cambridge, Massachusetts, after having spent more than 10 years working on a range of product lines at the company. Rosnov led Philips HealthWorks's involvement with MIT and the rollout of its accelerator program. His long experience within the company enabled him to select effective mentors from within the corporation for each project team and ensure that they had a reasonably smooth journey accessing internal resources.

Develop Productive Ways to Engage

We can't overstate how vital it is to plan your engagement with innovation ecosystems only after considering what your organization needs and with whom it wants to work. Too often, leaders put the cart before the horse — for example, by launching their organization into the ecosystem with a shiny new space or a single massive event while gaining little from these efforts other than publicity. We've also seen government agencies and corporations enter an ecosystem by funding a large number of disparate hackathons, accelerators, university competitions, challenges, and the like. This scattershot approach fails to deliver because it is unfocused, creates confusion among ecosystem stakeholders, and occurs without an eye toward whether the significant time and energy invested will align with what the organization needs and with whom it should be engaging.

We have seen many corporations express surprise and disappointment when they sponsor hackathons and early-stage business plan programs and find that the pitch days at the end yield nothing with the sort of robust financial models and technology road maps they are used to seeing internally. That mismatch in expectations typically reflects the sponsor's insufficient clarity on goals and appropriate types of partners.

This is not to say that a hackathon is a waste of time — it can be an effective way of engaging, when the sponsor is clear that its goals are to uncover inspiring ideas and new talent, and the event is well designed. Similarly, getting involved with early-stage competitions and accelerators is a good approach when organizations are looking for very young venture teams that they can learn from and mentor. Later-stage accelerators will address the needs of companies that seek robust solutions on an already well-charted path to readiness. The challenge is to determine which mode of engagement matches the "what" and "who" answers that have been carefully developed.

As a starting point, companies should leverage existing communities where entrepreneurs already gather. Even with ongoing COVID-19 disruptions, communities of startups tend to colocate in shared workspaces, communities, and ecosystem programs. By interacting with such communities, large organizations can more easily develop a broad array of relationships than they could by targeting startups on an individual basis. Engagement designed around immersion in a particular region also helps ensure that structure and serendipity coexist.

There are, of course, numerous choices for how to structure engagement, and we've discussed how some of these tactics have been employed by MassMutual and Philips. The U.S. subsidiary of U.K. defense contractor BAE Systems provides another good example of a thoughtful engagement strategy that draws on several different ways of working with innovation ecosystems.

As BAE's leaders sought to build relationships with the Greater Boston ecosystem, they were clear on their goals: They wanted to engage with startup teams whose innovations promised to bring new functionality to BAE's innovation portfolio — especially to projects in its advanced technology and defense R&D labs that focused on next-generation emerging technology.

Rather than simply setting up shop in Cambridge's Kendall Square and hoping that entrepreneurs would find their way there, BAE rented space in the Cambridge Innovation Center (CIC), a coworking space that boasts the most densely populated startup community on the planet. By running programs at CIC's Thursday night Venture Café community events and fielding a diverse and entrepreneur-friendly team of managers led by MIT alumni, BAE was able to connect with the right startups and founders to learn about technologies that might align with the company's R&D priorities.

Beyond engaging in a visible and regular way with the entrepreneurial community, BAE leaders also recognized the role of key programs — hackathons, competitions, and accelerators — in the ecosystem. They realized that initiating their own programs would be an unnecessary challenge and might be seen as undermining existing ecosystem activities. Instead, much like Philips's leaders, they made a commitment to connect with and support local accelerators whose missions and startups were aligned with what the company sought from the ecosystem and with whom it wanted to engage.

Working with accelerators such as Techstars, BAE could seek out startups whose technology might have military and intelligence applications as well as civilian ones, and that had an interest in partnering with and learning from an experienced defense contractor. BAE created opportunities for these startups to benefit from its close relationships with the U.S. Department of Defense. Because BAE's success in ecosystem engagement is a source of its competitive advantage, the details are of course commercially sensitive, but its continued engagement shows that it judges these efforts to have paid off.

WHEN ORGANIZATIONS PUT in the work to define their ecosystem strategy, they are best positioned to reap the benefits of working with innovation communities. Using our "what," "who," and "how" questions is a systematic and practical way to secure competitive advantage through the strategic engagement of innovation ecosystems.

Companies' disappointment when their efforts fall flat is often mirrored by entrepreneurs and innovators who engage with them. When they look to large corporations and government agencies for access to experts, or even for critical venture capital, they are often confronted by lawyers, human resource experts, and accounting departments. Each of these corporate functions might create value for ambitious startups, but, absent meaningful engagement with key players at the company, the potential for deep and productive collaboration will likely go unrealized.

While simple in their formulation, our three questions can be challenging to answer, especially for large organizations that may have many answers and thus wish for many modes of engagement. Our advice is simply to work across your organization and take the time to seek internal alignment on what resources you want, what you can offer, and who the most appropriate partners are. This will ensure that how you engage your ecosystem yields results that advance your innovation goals.

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The Cognitive Shortcut That Clouds Decision-Making

Merely repeating false claims increases their believability, leaving business leaders vulnerable to basing decisions on misinformation. Here are four strategies to prevent this.

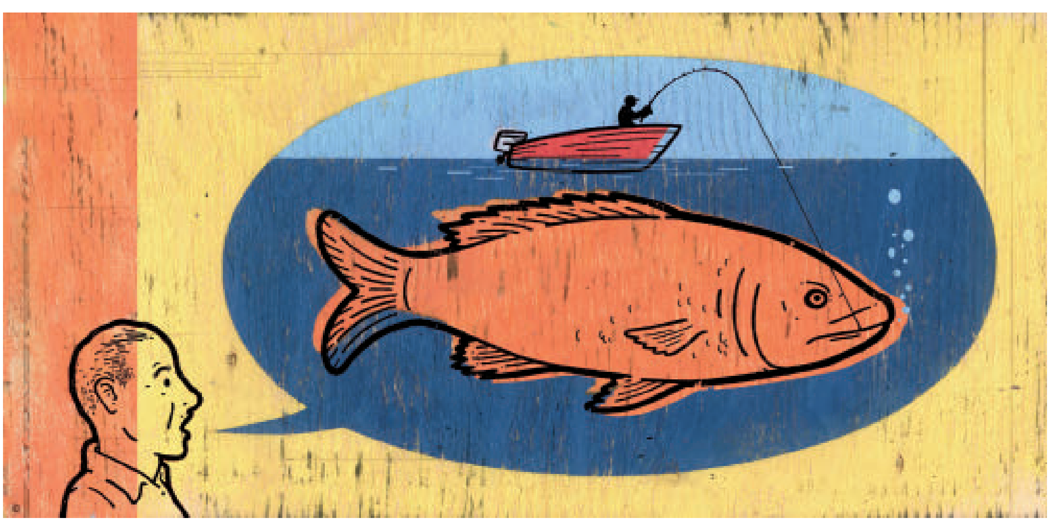
BY JONAS DE KEERSMAECKER, KATHARINA SCHMID, NADIA BRASHIER, AND CHRISTIAN UNKELBACH

Meetings are as effective over Zoom as they are face-to-face. A four-day workweek makes employees more productive. Few complaints means customers are happy. Innovation requires disruption.

Business leaders regularly confront these and similar claims. But what makes people believe that they are true? And, more critically, how do such claims affect strategic decisions?

We live in a time of unprecedented access to information that's available anytime and anywhere. Even when we don't actively seek out opinions, reviews, and social media posts, we are constantly subjected to them. Simply processing all of this information is difficult enough, but there's another, more serious problem: Not all of it is accurate, and some is outright false. Even more worrying is that when inaccurate or wrong information is repeated, *an illusion of truth* occurs: People believe repeated information to be true — even when it is not.

Misinformation and disinformation are hardly new. They arguably have been impairing decision-making for as long as organizations have existed. However, managers today contend with incorrect and unreliable information at an unparalleled scale. The problem is particularly acute for Big Tech companies like Facebook, Google, and Twitter because of the broad societal effects of misinformation on the platforms. A recent study of the most-viewed YouTube videos on the COVID-19 pandemic found that 19 out of 69 contained nonfactual information, and the videos that included misinformation had been viewed more than 62 million times.[1]



In the world of corporate decision-making, the proliferation of misinformation hurts organizations in many ways, including public-relations spin, fake reviews, employee "bullshitting," and rumormongering among current and

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future employees. Executives can find themselves on the receiving end of falsified data, facts, and figures — information too flawed to base critical decisions upon. Misinformation, regardless of whether it was mistakenly passed along or shared with ill intent, obstructs good decision-making.

All employees, from CEOs to front-line employees, consistently face the challenge of deciding whether a piece of information is true. This is not always an easy task — and it gets complicated by a strikingly banal but powerful bias in how we make sense of information. It's a glitch of the human mind: We have a tendency to perceive repeated information as more believable than information we hear for the first time, regardless of whether the information is in fact true. Our judgments about the truth of a statement are influenced not only by the actual content of the information but also by our tendency to believe repeated information more than novel information.

Why Does Repeated Misinformation Ring True?

In 1939, U.S. President Franklin D. Roosevelt famously warned, "Repetition does not transform a lie into a truth." Unfortunately, decades of research have shown that repeating false information can create at least an *illusion* of truth. Psychologists refer to this phenomenon as the repetition-based truth effect or, in short, the *illusory truth effect*.[2] Information we hear again and again acquires a "stickiness" that affects our judgment, and the effects are neither fleeting nor shallow. The illusory truth effect is in fact extremely robust, and its power has been shown repeatedly across a range of domains, from political speeches to product claims. One unsettling finding is that people fall prey to the effect not only when the original information is still fresh in their memories but also months after exposure. In addition, people judge repeated information as truer even when they cannot recall having previously encountered the information.

Repeated information can be persuasive even when we "know better" — when false claims contradict well-known facts or come from an untrustworthy source. For example, a manager might know that an employee is a notorious gossip but could still be influenced by a rumor the employee spreads. This is because over time, content (the rumor) often becomes disconnected in memory from its source (the untrustworthy employee). It's the well-known feeling of being sure that you have heard or read a piece of information before but being unable to recall where it came from. Some of our own research suggests that the illusory truth effect even persists when people are offered monetary incentives to make accurate judgments, such as when rewards are offered to employees. Enlisting a trusted expert to counter false information doesn't help either; studies show that people believe repeated misinformation even when a reliable source argues that the information is incorrect.

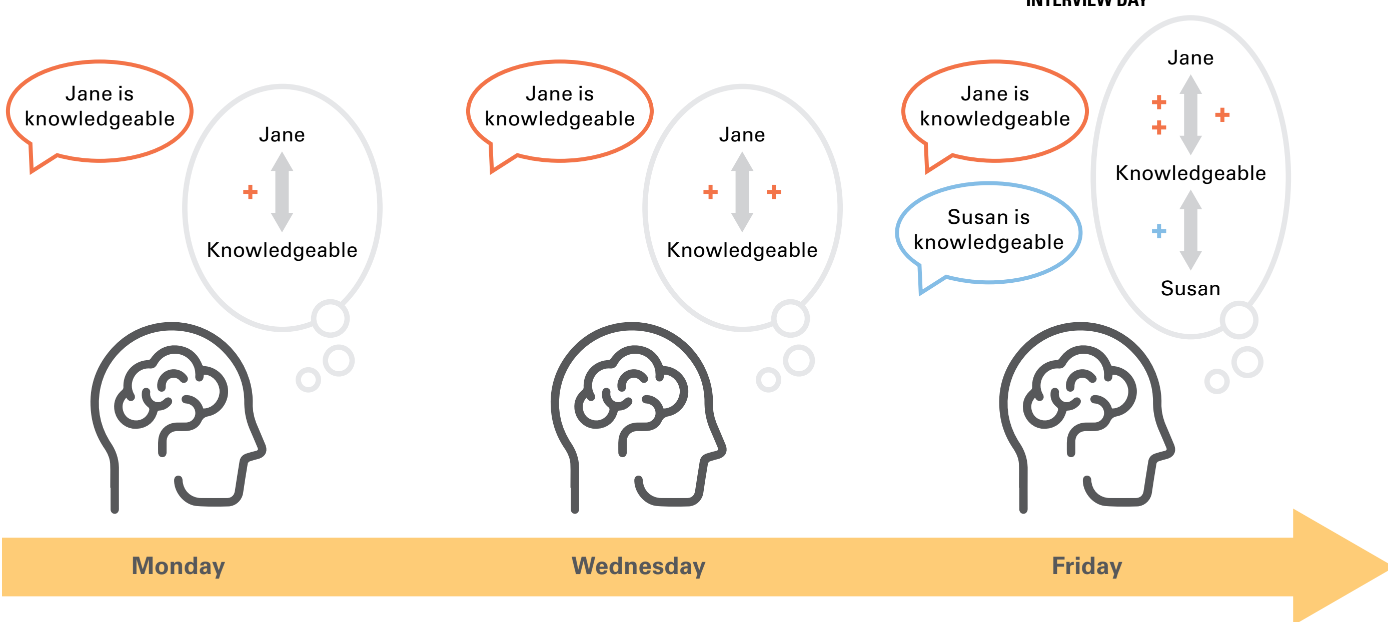
While important organizational actions are typically based on a rigorous assessment of the available facts, the illusory truth effect can still influence people when they are gathering information and discussing the decision. For example, a team member might repeatedly but incorrectly argue that moving production to another country won't hurt the company's image. This alone might not be the force that drives the decision, but it could be one of the many pieces of information that contributes to the choice. Not every fact can be verified, especially in situations with some degree of uncertainty.

Why do people tend to believe repeated information more than new information? The following scenario shows how this commonly happens.

- A manager looking to hire a new member of the sales team has short-listed two candidates with comparable profiles, Jane and Susan, and interviews are scheduled for Friday.
- On Monday, a team member remarks that Jane is very knowledgeable about the company's product lines. This is new information, and the manager's mind makes a connection between the candidate "Jane" and the concept "knowledgeable."
- On Wednesday, the same team member again mentions that Jane is knowledgeable about the company's products, reinforcing the existing connection between "Jane" and "knowledgeable."
- On Friday, both Jane and Susan say they know a lot about the company's products. Because the information about Susan is new and the information about Jane is not, the connection between "Susan" and the concept "knowledgeable" is not as strong as the connection between "Jane" and "knowledgeable." And because the repeated

HOW REPEATED INFORMATION GAINS CREDIBILITY

The information we read or hear forms a network in memory that helps us process the information later. This is used as a cue to judge information as true.



information about Jane feels more familiar than the new information about Susan, the manager processes it more easily. This ease with which we digest repeated information is termed *processing fluency*, and we use this as evidence of truth. The manager is more likely to hire Jane.

Given the capabilities of the human mind, it seems remarkable that people so easily accept information simply based on their repeated exposure to it. Yet consider: How do most people know that Tim Cook is the CEO at Apple? Or that bitcoin is volatile? It's because they have encountered this information multiple times in the past. Repetition is central to how people learn and acquire knowledge, and it makes sense that information encountered repeatedly should be more credible. Experience teaches us that most of the information we are exposed to every day is probably factually correct, especially if we encounter it more than once. Accepting repeated information as true helps us navigate an increasingly complex information landscape. The mind has learned a functional shortcut that uses processing fluency as a sign that information is valid and accurate.

Because this shortcut is so efficient, we tend to overrely on it. But in today's complex and uncertain information ecosystem, quick processing and repetition aren't sufficient or useful for judging truth. Leaders must not only be able to distinguish facts from falsehood but — critically — also must guard themselves, their teams, and their organizations against being intentionally or unintentionally misled.

Four Strategies to Combat the Illusory Truth Effect

The illusory truth effect occurs effortlessly, but effort is necessary to combat it. While its negative effects can never be fully avoided, its influence can be limited through diligence and a focus on accuracy. This is especially critical for managerial decision-making, where believing inaccurate or false information can lead to biased hiring, firing, and promotion decisions; missed opportunities for growth; or flawed choices when venturing into new markets.

How can managers guard against these negative consequences? We've identified four strategies that can improve the likelihood that leaders and their teams will base their decisions on credible information.

Strategy 1:
AVOID THE BIAS BLIND SPOT

Recent research shows that people high in intelligence or with superior analytical skills are just as prone to the illusory truth effect as everyone else.[3] So the first thing managers can do is accept that they aren't immune.

Too many decision makers fall prey to the *bias blind spot*, a well-documented psychological phenomenon where people believe that biases cloud other people's actions but not their own.[4] One of the authors of this article regularly teaches courses on leadership and decision biases to MBA students and experienced managers, and every year several attendees openly claim that they would never fall into such decision traps. However, when put to the test in a simulation designed to illustrate biases and their impact on critical leadership decisions, the same individuals exhibit the same biases to which they claimed to be immune.

Nobel laureate Daniel Kahneman has said that if he had a magic wand to remove a single judgmental bias, he would eliminate overconfidence, since it is the one that makes people particularly resistant to the idea that they will fall prey to other biases. Understanding the illusory truth effect, and accepting that you are as vulnerable to it as anyone else, is a productive first step toward minimizing its dangers.

Strategy 2: AVOID EPISTEMIC BUBBLES

Strategic decisions often depend on information shared by team members and other key stakeholders. It is of vital importance that this network does not constitute an *epistemic bubble*, where members encounter only similar opinions and don't consider alternative points of view. Studies show that teams reflecting diverse perspectives outperform more homogeneous groups even when the latter have members with higher individual abilities on average.[5]

Consider this: The director of human resources hears from a team member that research shows that employees are more productive with a four-day workweek, and a week later, another member of the team says the same thing. Even though the decision to adopt a shorter workweek will require extensive analysis, research, and strategic meetings, the notion that such a change would improve productivity has been lodged in the director's head and will become one part of their calculation in making the decision.

The HR director needs to ask whether the sources of the information are truly independent and not merely repeating each other's arguments. It is well known that team members spend too much time discussing information that many of their other team members already have instead of considering novel information held by only some. This has negative consequences if the novel information is critical for reaching an optimal solution.[6]

To avoid epistemic bubbles, managers should foster an environment in which opposing and differing perspectives can be generated and where they are actively and openly discussed. Is the team positioned to critically consider opposing ideas and counterproposals? When someone voices an opinion, would others dare to speak up if they disagreed? It's worth remembering that the repetition of an argument by several like-minded people might make it psychologically more convincing but not necessarily more accurate or valid.

Strategy 3: QUESTION FACTS AND ASSUMPTIONS

Much of the time, we accept new information that we would reject if only we thought a little harder. An *accuracy mindset* can help short-circuit the illusory truth effect with an emphasis on evaluating whether information fits with one's knowledge, and it can promote a culture in which the default is to consider the truthfulness of new information when it arises.

This strategy might sound straightforward, but in fact few people routinely critically evaluate the information they are presented with — and they will share information without considering whether it is actually true. Developing an internal fact-checking capability can be a powerful antidote to the illusory truth effect. Recent research has shown that when someone is presented with new information, simply asking them whether it is true makes it less likely that the person will believe the false information when it is repeated.[7]

Managers can develop an accuracy mindset through a few simple practices. One is to explicitly inform their teams about the prevalence of the illusory truth effect and to highlight the importance of approaching new information critically. They should also encourage their team to always ask "Is this true?" or "Does this fit with what I know?" when faced with information, suggestions, and opinions. Further, managers can ask team members to justify their decisions and to provide details about the information on which they're based.

While this practice is vital, there are many instances when teams do not have sufficient expertise about a topic and internal fact-checking isn't enough. Managers also need to promote *external fact-checking* to ensure that information used in decision-making has been verified by a trustworthy source.

To foster external fact-checking, managers should ask whether there are objective data, facts, and figures to support the information under consideration, and whether there is information that contradicts it. It's also important to question whether sources are reliable. Do they have hidden motivations underlying the information they provide? How has the information been gathered, and is this a satisfactory methodology?

While external fact-checking is a highly effective strategy, it takes time and can delay decisions. It's also impractical to verify *every* piece of information. Managers should weigh the potential consequences of acting on false information with the costs incurred by validating it. When the stakes are high, it pays to go to greater lengths in checking facts.

Strategy 4: NUDGE THE TRUTH

Because information gains credibility with repetition, managers can nudge the truth by repeating true and relevant information.[8] This tactic is especially relevant given that the ongoing COVID-19 pandemic has contributed to a high degree of uncertainty around business conditions and workplace policies. This has created an environment with a greater risk of repeated misinformation and disinformation.

To counter this, managers should be prepared to respond with facts and repetition, repetition, repetition. Decades of scientific research within psychology, rhetoric, and philosophy have shown the value of repeating an argument. It is especially powerful to restate claims verbatim rather than using different phrasing.

This strategy does hold a risk, though: The manager might be inadvertently repeating incorrect information. Before reinforcing a message, it is critical to evaluate the information being conveyed. Be aware of bias blind spots, maintain an accuracy mindset, perform external fact-checking, and don't get stuck in an epistemic bubble.

IN THE DIGITAL AGE, information is power; it gives managers a competitive edge. Yet inaccurate or false information, if repeated often enough, can acquire an illusion of truth, placing executive decision-making at risk. One of the most important challenges leaders will face for years to come is preventing inaccurate data, false information, and pseudo-facts from compromising their companies' integrity and success. The four strategies we have outlined above will help them achieve this and create lasting and sustainable value for companies and their clients.

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Closing the Governance Gap in Joint Ventures

Businesses are increasingly partnering to meet their strategic objectives — but neglecting governance puts JVs and their shareholders at risk.

BY JAMES BAMFORD AND GEOFF WALKER

COMPANIES ARE ENTERING into joint ventures at an unprecedented rate. Across a wide range of industries, firms are using JVs and other partnerships as a way to make their businesses more sustainable and to gain access to capabilities, capital, and scale. Pepsico recently entered into a joint venture with Beyond Meat to develop and market sustainable protein-based snacks and beverages. General Motors has entered into more than 10 JVs in the past two years alone, including one with Plug Power to develop hydrogen fuel cells for light commercial vehicles. Globally, the number of material new JVs has more than doubled in the past two years, outstripping merger and acquisition activity during the same period.[1]

While JVs make meaningful contributions to corporate revenue and can enable new growth strategies, they also increase their shareholders' risk exposure, often in ways that are hard to manage; this is especially true of ventures that are not majority owned or controlled. Over the years, joint ventures have been at the center of numerous corporate scandals, missteps, and catastrophes, including bribery schemes, antitrust violations, environmental incidents, worker and public health and safety breaches, and human rights violations.[2] And as large global companies seek new capabilities through JVs, many choose nontraditional partners — industry disrupters, venture-backed startups, sovereign wealth funds, and state-owned enterprises in less-developed countries — which makes managing risk via good governance even trickier and more important.

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However, despite joint ventures' importance and risks, the governance of most is not good — and executives serving on their boards recognize it. When we asked JV board directors and CEOs from more than 250 JVs about the governance of the joint ventures they oversee and run, less than 10% viewed them as high performing, while almost half saw them as weak. More tellingly, when we closely examined the underlying policies and practices of governance in large joint ventures — including the tenure, time commitment, independence, and training of directors, as well as board preparation and the management of conflicts of interest and competitively sensitive information — we saw significant gaps. Our in-depth investigation of more than 100 joint ventures around the world shows that the median JV has in place barely 50% of the basic practices of good governance.

Good governance matters in JVs. We see a clear statistical correlation between good governance and the medium-term financial and strategic performance of JVs. For instance, joint ventures with top-quartile governance scores are four times as likely to be exceeding the owners' financial and strategic expectations compared with JVs with bottom-quartile governance scores. Good governance allows joint ventures to quickly spot and respond to risks; access synergies with their owner companies; and grow, restructure, and otherwise evolve in a manner that reflects the needs of the owners and the changing demands of the market. JVs with weak governance are more likely to stagnate and suffer from swings between excessive overreach and alarming lapses in oversight. And the consequences of good governance will only grow as companies come under more pressure from investors, regulators, and advocacy groups to elevate environmental, social, and governance performance, including in their joint ventures.

Learn how a major player in the mining industry improved its approach to governance: Read "**BHP's Journey to Better JV Governance**" in the online version of this article at ***https://sloanreview.mit.edu/x/64118***.

Governance Challenges in JVs

Governance in joint ventures is pound for pound more challenging than governance in public companies. To understand the differences, it is useful to compare JV and public company governance on a few dimensions.

For starters, consider the number of shareholders and their goals. In public companies, the shareholders number in the thousands and are united only in maximizing dividends and share price and, perhaps, making a positive contribution to society. In JVs, there are usually just two to four shareholders, who are corporations and often competitors. In JVs, shareholders almost always have their own strategies and objectives that go beyond maximizing the entity's profits and valuation, and they feel entitled to see these specific objectives reflected directly in the direction of the business. For instance, companies often enter into JVs to build capabilities and learn, or as a way to gain a foothold in a market. These participants' individual strategies, as well as their investment and risk appetites, often change over time and are prone to misalignment. Therefore, at its core, JV governance is about not only overseeing the business but also bridging shareholders prone to divergence.

Or consider the commercial relationship between the shareholders and the company. In public companies, shareholders almost never have material business relationships with the enterprise. Yes, a shareholder of Apple or Toyota may buy the company's products, but they are never a material customer, supplier, or service provider to it. This is not the case in many JVs. In joint ventures, it is quite common for shareholders to be major suppliers, customers, or service providers of the JV; receive licensing or other fees from the JV; or secure other synergies with the JV. Because these commercial flows and operational interfaces are rarely symmetrical and not always fully transparent among the shareholders, they create additional governance challenges.

Airbus, the global passenger aircraft maker, illustrates the problems such challenges create. Structured as a joint venture for its first quarter century, its four European aerospace company owners each designed and manufactured major component systems, which they sold under a complex transfer pricing arrangement to the JV. Airbus then performed final assembly, marketing, and sales. These complex commercial arrangements with opaque costs reportedly meant that no one knew whether the JV was actually profitable. Airbus's annual pricing meeting was famously referred to as the Liar's Club, with each partner trying to maximize profits on components sold to the JV while trying to expose the pricing bluffs and sleights of hand from other partners.

A third dimension is to look at the composition of boards. In public companies, the directors are collectively elected by the shareholders and are either

Time and again, governance fails because the partners lack a shared view of the JV's purpose and operating model.

independent nonexecutives or other members of management. In all instances, they are structurally positioned to represent the interests of the shareholders *as a whole*. This is not exactly the case in JVs. In JVs, directors are nominated by — and almost always current executives of — an individual shareholder. As such, they must invariably balance their fiduciary duties to the JV with their loyalty to their employer.

Laying the Foundation for Great JV Governance

Having worked with hundreds of JVs, we've come to realize that the most essential enabler of governance has nothing to do with boards, committees, and other visible structures and mechanics of governance. Rather, it comes from clarity on the JV's purpose and operating model. Without it, the JV owners and board directors will be unable to do the work of governing the company and will constantly be dragged down by partner skirmishes and mistrust.

It seems obvious that the shareholders should agree on such things before closing the deal. After all, such basic parameters affect the strategy and business plan, funding model, management selection, organizational design, role of the board, needed director skills, and so on. But often, shareholders bring differing views that are not reconciled during negotiations.

Consider a 50/50 basic materials JV in the United Arab Emirates that was building a multibillion-dollar production facility. Three years into its life, just as the production facility was coming online, it became clear that one of the shareholders saw the JV as a true business with its own brand, independent management team, and sales and marketing function, with the intent of maximizing profits and growth. In contrast, directors from the other shareholder saw the JV as simply a production asset that would sell its output through the shareholders, not have its own brand, and continue to leverage shared services and technology from that one shareholder. While the directors and board meetings were cordial, below the surface the governance of the JV was highly dysfunctional. The CEO hired to oversee the startup phase was caught in the middle and was constantly whipsawed by his directors as he tried to get the JV going. This delayed hiring and marketing decisions and prevented a cohesive organizational culture from emerging.

The JV described above is not an isolated example. Time and again, we have seen governance fail because the partners lacked a shared view of the JV's purpose and operating model. To avoid this trap, shareholders must establish agreement on the following two questions:

How independent will the JV be, and how might this change over time? Some prominent JVs, including Dow Corning and Chevron Phillips Chemical, evolved to become highly independent businesses, while others, such as Orbitz and Mastercard, went even further and became publicly listed. But in most instances, joint ventures are quite interdependent with their owners from the start and maintain some dependency throughout their lives. Defining what this will look like, including what roles each partner will play in the business, is essential to building a winning JV business and a governance model that can function effectively.

What is the JV's economic model? Not all JVs are structured as true P&L entities. Rather, it may be more appropriate that the joint venture be a cost center or a managed margin business where, for example, the owners receive privileged pricing as customers of the JV. It is also important to agree on whether the JV is intended to be a business with its own strategy and growth agenda or an asset with a scope limited to operating, say, a manufacturing plant. There are no universal answers to such questions. What is essential is that the shareholders have a *shared and specific view* on the answers for their JV.

Alignment on the answers to those questions is the foundation of a JV operating model framework — a set of jointly agreed upon principles that includes a well-thought-out approach to governance (more on that below). It should also provide a fairly detailed road map for what specific roles the partners will play in the JV, including defining whether there are certain markets, assets, functions, or processes where one partner will take a lead role or provide support — and how this will change over time.

The Five Pillars of JV Governance

Once the partners are aligned on the venture's purpose and operating model, five things are key to getting the mechanics of JV governance right. Each reflects unique elements of the shared ownership structure of JVs and are additive to the general good governance practices found in public or private companies, many of which also apply to joint ventures.

BOARD POSTURE. It is self-evident that any board should be involved in reviewing and approving the company's strategy, major investments, annual plans and budgets, financial and operating performance, management compensation, succession planning, and other matters. In JVs, however, it is far from obvious *how involved* the board should be. For a corporate board, the answer is clear: Delegate to management, and play an active role in reviewing, challenging, and approving the plans developed by management. For public companies, regulators and other market bodies help define standard expectations for a board's role. But for JVs, such generally accepted norms do not exist. In fact, less than 10% of JV boards act like a corporate board and give the JV CEO the high levels of delegated authority and autonomy typical for a corporate CEO.

Indeed, it is common for individual directors and other shareholder executives to have highly divergent views on the right posture. For example, in one power industry JV, the CEO of one shareholder got in the habit of calling the JV CEO weekly to discuss electricity prices, updates on contractor activities and schedules, and granular operating metrics. There was no bad intention; the shareholder CEO was deeply familiar with the industry and interested in what was happening with the JV, which was strategically material to his company. The parent CEO wasn't the only shareholder executive who was engaging with JV management outside the board. Functional experts, including those from finance, compliance, and marketing, routinely sought information, made requests, and offered advice to functional leaders in the JV. This level of involvement was confusing to the JV management team, which was spending 30% to 40% of its time addressing shareholder requests.

A better approach is for a JV board to start with a principles-based discussion on what type of board it wants to be. It can be helpful to think about possible board models on a continuum of engagement — from a hands-off "corporate-style board" to a highly interventionist "board of managers," with a few models in between. Then, an explicit conversation with management about the JV board's posture will make it clear what to expect.

Once the board is directionally aligned on where it would like to be and how this might evolve over time, it can be valuable to go deeper. The board could identify eight to 12 core governance processes — such as strategy setting, capital allocation, financial management, operations, and pricing — and agree on the appropriate level of board and shareholder involvement in each. (See "Clarifying the JV Board's Posture.") As a general rule, we believe that the shareholder companies, operating through the JV board, should play an activist role in three governance areas: capital allocation, risk management, and performance management. Involvement in these areas is central to ensuring sufficient performance pressure and protecting shareholder interests. On the other hand, the parents should work to limit their interventions in more operational processes, such as staffing, pricing,

The JV board should play an activist role in capital allocation, risk management, and performance management.

procurement, and product development. Distance on these dimensions gives the JV management team the freedom to act as entrepreneurial managers.

A JV board's posture might change over time. For example, as a JV starts up, the management team might be thin, and it might be necessary for the board to play a much more hands-on role. As the JV management team matures and the business stabilizes, JV boards often choose to reduce their level of involvement. What's critical is that the board discusses and agrees on how directors, committee members, and other parts of the shareholder organizations will collectively and individually interact with management. They should further translate this into reporting and audit processes, delegations of authority, and the scope and composition of committees, among other items.

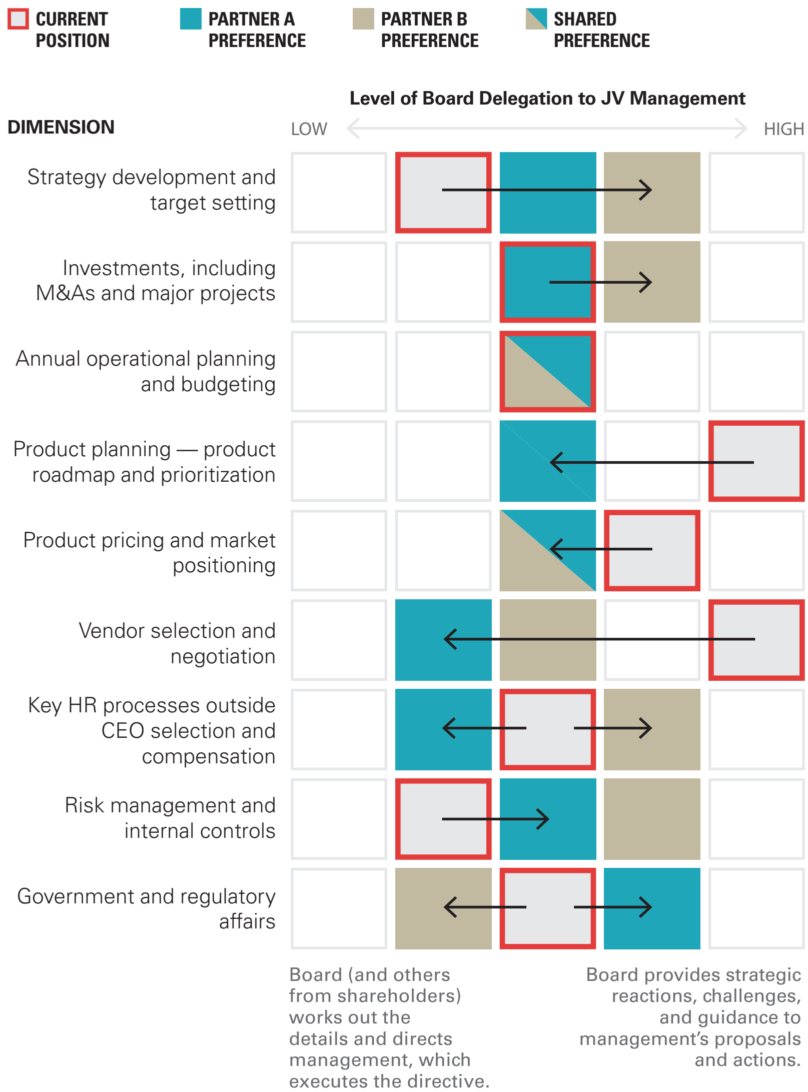
BOARD COMPOSITION. Boards are only as good as the people on them. In JVs, board composition introduces a number of unique features. For starters, it is often valuable to have each shareholder designate a lead director — a first among equals of its board representatives. A lead director will spend relatively more time on the JV than fellow directors and will work with the JV CEO and the other lead director(s) between board meetings. Lead directors serve as a sounding board to the CEO, help to identify and address issues, and ensure that their company is providing needed support to the JV. When no directors take on such a role, JV boards tend to lack a sense of personal accountability, as directors are busy executives with their attention drawn elsewhere. A number of leading companies — including Dow and Australian mining giant BHP — require each JV board to have a lead director from their company. And companies have found that when these directors hold integrated accountability within their companies for the strategy, performance, and risks of the JV, it drives ownership of problems and performance.

Another best practice in JVs is to limit the number of nondirectors in board meetings. The number of formal directors on JV boards tends to be fairly small, with JV boards having a median of six official directors. But JV boards often have far too many people in the room, including shareholder functional experts, nonboard committee members, and the full management team, which can swell the number of people in the boardroom to 15 or 20, or more. When JV board meetings are filled with backbenchers, board discussions are less open and probing, more prone to grandstanding, and less inclined toward compromise. Perhaps most important, such expanded attendance tends to undermine the board's ability to build a collective sense of itself.

Also key is promoting the need for continuity and time commitments among directors. A typical JV board director spends just 10 to 15 days per year in their capacity as a director and serves on the board for just 30 months. This is far less than what is needed

CLARIFYING THE JV BOARD'S POSTURE

The diagram illustrates where the shareholders of a hypothetical joint venture believe the JV board is — and should be — on key dimensions of governing the venture. Note that not all dimensions are shown and not all dimensions will be the same for all JVs.



JV boards tend to spend substantial time on finance and operations, and not enough on strategy and talent.

— and less than the 30 to 35 days per year and 8-to-10-year tenure of public company directors. When selecting directors for a joint venture, shareholder companies need to make sure that those who are nominated actually have the time to fulfill their roles. They should also consider ways to reduce turnover — for instance, by not linking the role on the board to a specific position in the parent company or by selecting more senior executives who are less likely to rotate jobs every few years.

JV boards also have a significant opportunity to increase gender diversity. Our data shows that only 10% of JV board directors are women — with the oil and gas, mining, and chemical industries below 5%. A failure to appoint more women to JV boards potentially harms the performance of joint ventures, increases risks, and contributes to broader gender inequity in companies, given that JV board roles can be powerful credentials for promotions to senior leadership positions.

BOARD TIME ALLOCATION AND WORKINGS. JV boards tend to do a good job — and spend a substantial amount of time — managing the current financial and operating performance of the JV. This is hardly surprising, given that most JV directors are finance or operating executives within their parent companies. Conversely, JV boards tend to not spend enough time on other areas — notably, strategy and talent, where the typical JV board spends a median of just 15% and 10% of its time, respectively.

JV boards are also prone to spending far too much time listening to a parade of management presentations and not enough time discussing critical issues, soliciting the input of directors, and building consensus. Because JV directors are busy shareholder executives, many use board meetings to get educated on the issues. This is not a good use of the board's precious time. As one senior JV board director told the CEO, "As directors, *we owe it to you* to have read and absorbed the pre-reading, and *you owe it to us* to not present it to us."

JV boards should discuss how they want to spend their time. It's easy to define and track how much time is spent on different topics or whether time is spent in presentation versus discussion mode. The board of Prime Therapeutics — a JV established by 19 Blue Cross and Blue Shield health plans, subsidiaries, and affiliates of those plans, and the fifth-largest pharmacy benefits manager in the United States — has taken this one step further. During a period in which it was trying to elevate its governance, it tagged each board agenda item based on its purposes — such as educating the board, testing ideas and soliciting advice, or gaining approval — and used it as a tool after board meetings to reflect on whether the goal was achieved.

BOARD COMMITTEES. In corporate boards, the purpose and use of committees is well established. Committees are generally helpful to the workings of the board, as they allow a subset of directors to review and work out the details in areas such as finance, audit, and compensation, and to make recommendations to the full board.

In JVs, committees can also be extremely useful; they allow the board to make better use of its time and leverage the expertise of committee members. But in JVs, committees can also create real problems and dysfunction. In JVs, committees tend to proliferate and cover numerous individual functions of the business, such as purchasing, operations, safety, regulatory affairs, and marketing. They also tend to be composed of shareholder functional experts who do not serve on the JV's board of directors. Left unmanaged, committees can seriously undermine management accountability. At an extreme, a committee can trigger an insatiable appetite for information among shareholder functional organizations. More than a few JV CEOs lament the double-jeopardy situation they have landed in, when every decision has to be vetted by a committee before being taken to the board. In the worst situations, committees with decision authority that do not include board members can subvert the primacy of the board-CEO relationship, the principle of which is that the JV CEO should report to, and only to, the JV board.

It doesn't have to be this way. In our experience, effective JV boards will limit the number of committees and legislate that each committee have at least one board director on it, ideally as chair, to help preserve the board-CEO relationship. And, to avoid confusion, effective JV boards sharply define each committee's scope, composition, and powers in a charter that is endorsed by the full board and shared with all committee members.

INTERNAL SHAREHOLDER GOVERNANCE. Governance in JVs is not just about the board, committees, and management. The most sophisticated shareholder companies think deliberately about how they *organize themselves internally* to enable good governance. The work of internal shareholder governance includes such critical activities as supporting the company's JV board directors, managing internal approvals and audits, coordinating services and support to the JV, and ensuring that the venture is receiving the needed expertise and other help from the company to succeed.

There are different ways to configure these internal governance teams. For larger JVs, it often makes sense to designate a JV manager — that is, someone 50% to 100% dedicated to the JV who reports to the lead director and manages the integrated day-to-day relationship with the venture. It also can be quite helpful to designate *functional focal points* — that is, named individuals from finance and planning, marketing, operations, safety, legal and compliance, and sustainability who are part of the shareholder governance team and serve as the lead for that function in its interactions with the JV.

The size of this shareholder governance team should reflect the materiality and risks of the JV, as well as the complexity of the shareholder company's operational interactions with it. The oil and gas industry tends to have quite robust shareholder governance teams in place. With larger JVs that are not operated by the shareholder, such governance teams tend to include five to seven full-time equivalents (FTEs). Other industries tend to underinvest in these teams. For instance, large mining companies dedicate a team consisting of a median of 2.3 FTEs to oversee their largest noncontrolled JVs, which leaves little bandwidth available to influence partners and JV management teams to better manage environmental issues, human rights, and community engagement. Companies in the chemical, industrial, aerospace and defense, automotive, and power sectors have even smaller shareholder governance teams.

FOR DECADES, THE GOVERNANCE of joint ventures has escaped the close scrutiny of corporate boards, leadership teams, regulators, and external stakeholders. To be fair, some JVs have been extremely well governed — likely because they were lucky enough to have a few skilled and committed directors who understood the general principles of good governance and how to marry that with the unique aspects of JVs. Most JVs have mediocre governance — and, in too many cases, suffer from dysfunctional and ineffective boards and owners.

The pressures are building for this to change as regulators, investors, and advocacy groups are starting to ask tougher questions about a company's joint ventures. Companies will need to respond.

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Meet the New Board — Same as the Old Board

Many companies are just going through the motions of recruiting more diverse board members. It's time to get serious about board refreshment.

BY CYNTHIA E. CLARK AND JILL A. BROWN

INCREASED SCRUTINY FROM INVESTORS, REGULATORS, THE MEDIA, AND other stakeholders is pressuring public companies to refresh their boards of directors to achieve greater diversity. Shareholders have sued at least a dozen public company boards since mid-2020, accusing them of failing to diversify. From July 2020 through June 2021, investment manager BlackRock voted against more than 1,800 directors at close to 1,000 companies for insufficient action to increase board diversity. Proxy advisory firm Institutional Shareholder Services now recommends withholding votes from, or voting against, directors with nominating or governance roles on boards that don't have at least one non-White director and at least one woman. The Nasdaq exchange, with the approval of the U.S. Securities and Exchange Commission, will soon require listed companies to have at least two demographically diverse directors (or explain why they don't).

Diverse boards representing a broader range of experience may be better able to quickly navigate volatile business environments and unexpected disruptions, such as a global pandemic. Recent data from BoardReady, a nonprofit group that promotes corporate diversity, found a positive correlation between the diversity of S&P 500 boards and revenue growth during the pandemic.

Despite increased *board refreshment* — the addition of new directors with an eye toward ensuring that the board has the necessary expertise and breadth of perspective — many companies still struggle to appoint directors who are women, people of color, or members of other underrepresented groups. Our interviews with board directors (see "The Research") revealed that corporations go through the motions of refreshment but ultimately accomplish little, replacing an outgoing director with someone similar rather than with a person who has a different professional background, identity, or perspective. We also found that the independence of the board's nominating committee is often compromised by substantial CEO

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influence over the process, perpetuating a tendency to select directors who reflect the opinions, and often the identity, of senior management.

The result is the persistence of the very problem that refreshment is supposed to solve: board directors with the same narrow demographic profile (White and male) and the same limited expertise. Dysfunctional refreshment processes compromise board independence and effectiveness in overseeing management of the company, which can affect corporate performance.

In this article, we explain how companies seeking to refresh their boards fall prey to the phenomenon of *structural elaboration* — a process that is intended to further certain goals but in practice undermines them. We examine the challenges of achieving true refreshment, explain how and why those goals are subverted, and propose ways that companies can more effectively refresh their boards.

Vague Definitions, Loose Processes

One of the most significant factors underlying ineffective board refreshment initiatives is a lack of clear definitions and regulatory guidance. We prefer to define *refreshment* as a regular, ongoing process of assessing and rebalancing a board's collective skill set, diversity of identity, and diversity of thought in order to provide the most effective oversight and the best fit between board members and the company's strategic mission and values. But there is, as yet, no commonly accepted understanding of refreshment — which can vary significantly by context — or how to achieve it.

Governance experts often advocate taking passive approaches, like setting director term limits and mandatory retirement ages. But most companies aren't doing even that. According to the U.S. Spencer Stuart 2021 Board Index, only 6% of boards in the S&P 500 have explicit term limits for nonexecutive directors. Most (73%) of that 6% set the limit at 15 years or more. Boards are more likely to use mandatory retirement to trigger refreshment: Some 70% report having a mandatory retirement age. However, that age is *increasing*. Half (51%) of boards with a mandatory retirement age set it at 75 or older, according to Spencer Stuart, compared with 48% in 2020 and 20% a decade ago.

Increasing the board's size to add diversity has become a common practice, but it's hardly an effective one: Adding one person from an underrepresented group does little to change the dynamics of a group of directors that has worked together for many years.

Another factor contributing to inconsistent goals and approaches to board refreshment is a lack of regulatory guidance on diversity. The SEC does not require companies to disclose information on board demographics. It does require companies to disclose whether, and how, they consider diversity when hiring directors, but the SEC uses the term very broadly. While *diversity* commonly refers to characteristics such as gender, race, and ethnicity, SEC guidance on the topic includes characteristics such as functional skills and industry experience. This unfortunately leaves the door open for companies to cherry-pick attributes, and many choose to focus primarily on skills and experience.

Such undefined terminology and nonspecific regulatory guidance enables companies to claim — and even to believe — that they are diversifying their boards when in fact they are simply hiring a new director with slightly different skills rather than one with a truly different identity. Our interviews bore this out. Directors told us that searches often start by focusing on a specific industry and a list of skill sets (such as financial expertise). Only after that first cut do they consider diversity factors. In other words, it is an afterthought. Considering diversity only after skills can reinforce existing inequities, because board members typically tap their existing networks — of people similar to themselves — to identify candidates.

The Influence of the CEO

The other major factor undermining board refreshment is the influence of the CEO: Many directors are chosen based on their predisposition to favor the policies of the existing CEO.

Homophily — a strong bias toward people who are similar to oneself — is a persistent problem in the director selection process. If the majority of current and former CEOs are White and male, then most board members tend to be White and male as well. Our interviews revealed that referrals from the CEO and current board members dominate the process, while referrals from search firms play a minor role. The recruiter we interviewed said that CEOs make 50% to 60% of the nominee recommendations and that only about 10% of candidates are unknown to the CEO or the board.

THE RESEARCH

The authors interviewed 12 directors involved in 51 director selection and hiring processes across 51 U.S.-based public companies in a range of industries. They also interviewed a recruiter who was involved in 20 additional selections. Interviews were conducted first in 2015 and again in 2019 to identify any changes in trends, but none were found.

The interview content was combined with information gathered from company websites and annual reports.

The authors then used a combination of content analysis software and analytic induction to look for recurring themes.

In recent years, many companies have separated the CEO and chairman roles in an attempt to limit CEO power and influence. In addition, the nominating committee is supposed to be made up of independent directors — who do not currently hold executive management positions and who satisfy additional conditions that establish their independence. Nevertheless, directors described the nominating committee as a symbolic rather than substantive player. "There was no independence," said one interviewee; rather, the board nominating committee's decision reflected a choice that company management had already made.

CEO influence over a process that is meant to be independent stems from a number of factors. First, the CEO is usually the only insider board member and is thus the main conduit of information about the company to the board — so the board tends to value the CEO's insight into what skills and experience the company needs. Second, board members need a good working relationship with the CEO. Even if the CEO has not recommended a candidate, most candidates will want to talk with the CEO before accepting an offer to make sure it's a good fit. Third, the CEO might have better access than the nominating committee to prestigious, high-status candidates.

Best Practices to Freshen Your Board

How can boards avoid these pitfalls and achieve meaningful refreshment? Leaders who want to change the culture of the board should take the following actions.

Focus on diversity of identity and thought in a meaningful way. Boards should specify what they mean by *diversity*, making sure to explicitly state that *diversity of identity* encompasses gender, race, and other such attributes. They can then evaluate nominees against that definition. Prudential Financial, for example, specified in its 2021 proxy statement that "'diverse' includes people of color, women, LGBTQ+, differently-abled, and veterans." Boards should also encourage nominees to talk about what type of diversity they believe they would bring to the board. These practices will serve companies well, because institutional investors are increasingly demanding public disclosure of such information. In describing its approach to evaluating corporate board diversity, BlackRock has said, "We expect boards to disclose their approach, actions, and progress toward achieving diverse representation, including the demographic profile of the incumbent board." In addition, new Nasdaq rules require companies listed on its stock exchange to disclose data on the diversity of their board members in terms of race, gender, and LGBTQ+ status. If they don't have two members who fall into those categories, they must explain why.

Make refreshment, not replacement, the norm, and refresh frequently. Long tenures tend to compromise the true nature of director independence, so set earlier mandatory retirements and shorter term limits. Institutional investors like BlackRock and Vanguard oppose the reelection of directors who have served on a board for more than nine years. Many boards are considering limiting tenure to seven years. In industries where business models and operational contexts change fast, tenures might need to be even shorter.

Boards can also adopt a rotation system, setting, for example, a five-year term for each director, with staggered hiring. This would systematically move some members off the board each year while regularly bringing in new people.

Conducting regular, formal evaluations of individual directors would also be an effective tactic. Today, less than half of S&P 500 boards conduct such evaluations. In a 2021 survey of corporate directors by PwC, 47% of U.S. directors thought that at least one fellow board member should be replaced. Evaluating the

A rotation system with term limits and staggered hiring moves some members off the board each year while regularly bringing in new people.

Hiring a director with the same attributes as their predecessor is not board refreshment, but rather replacement.

board and rebalancing its mix of skills, identities, and perspectives on an ongoing basis will ensure the best fit between the board and the firm's strategic mission and values.

Activists are focusing on individual director skills when pressuring companies to refresh their boards. In May 2021, activist hedge fund Engine No. 1 successfully pressed ExxonMobil to add three new directors, forcing three existing ones off the board. The hedge fund asserted that the existing directors lacked the appropriate industry experience and were not transitioning the company to a low-carbon future quickly enough.

Limit CEO involvement in director selection. A CEO might recommend that the board consider a particular person, but after that, they should step back from the process. The CEO should not have a vote in the hiring decision, implied or otherwise. A tactic that could help reduce CEO influence over director hiring would be to use an executive session — a board meeting without the CEO or chairman — to discuss board nominees.

In general, boards hold executive sessions when discussing sensitive topics, including CEO performance and compensation, or when there is a scandal of some kind. We think boards could normalize the use of executive sessions and reduce any stigma associated with them by holding them more frequently, including when evaluating director candidates. The New York Stock Exchange requires executive sessions once a year and Nasdaq at least twice a year, although neither specifies that the sessions be used in the nominee search and hiring process.

Work to change culture. Board refreshment and culture go hand in hand. It's hard to truly refresh an old, stagnant board with new people and ideas unless culture also changes. A group of directors with similar experiences, opinions, skills, and identities will naturally tend toward consensus much too often. In a 2019 PwC survey, 43% of U.S. directors said that it was difficult to voice a dissenting view in the boardroom.

Prompt directors to think about and freely discuss the existing board culture, including their own behavior and whether it needs to change. Consider hiring a consultant to help diagnose and possibly change your board culture. Focus board discussions on constructive interaction, including new ideas and fresh perspectives, rather than consensus. Encourage board members to voice their opinions, especially when they challenge the consensus. And reward directors who bring fresh insight and new dynamics to the board, perhaps giving them higher profiles through special assignments.

Define and clearly state what values and behaviors you expect from board members, then evaluate current directors against those expectations. Evaluating director candidates in the same way can help bring in new people who may help change the culture.

REGULATORS AND INVESTORS are paying more attention to board refreshment and diversity. Companies can head off potential trouble by improving how they nominate and hire new directors. Hiring a director with the same attributes as their predecessor is not board refreshment, but rather replacement. Our research highlights the practices that are confounding efforts to include new people with diverse identities and perspectives. By identifying and understanding current practices and the risks they pose, companies can amend their processes to ensure that they invigorate their boards with new types of people and fresh thinking, which will benefit the company and its stakeholders.

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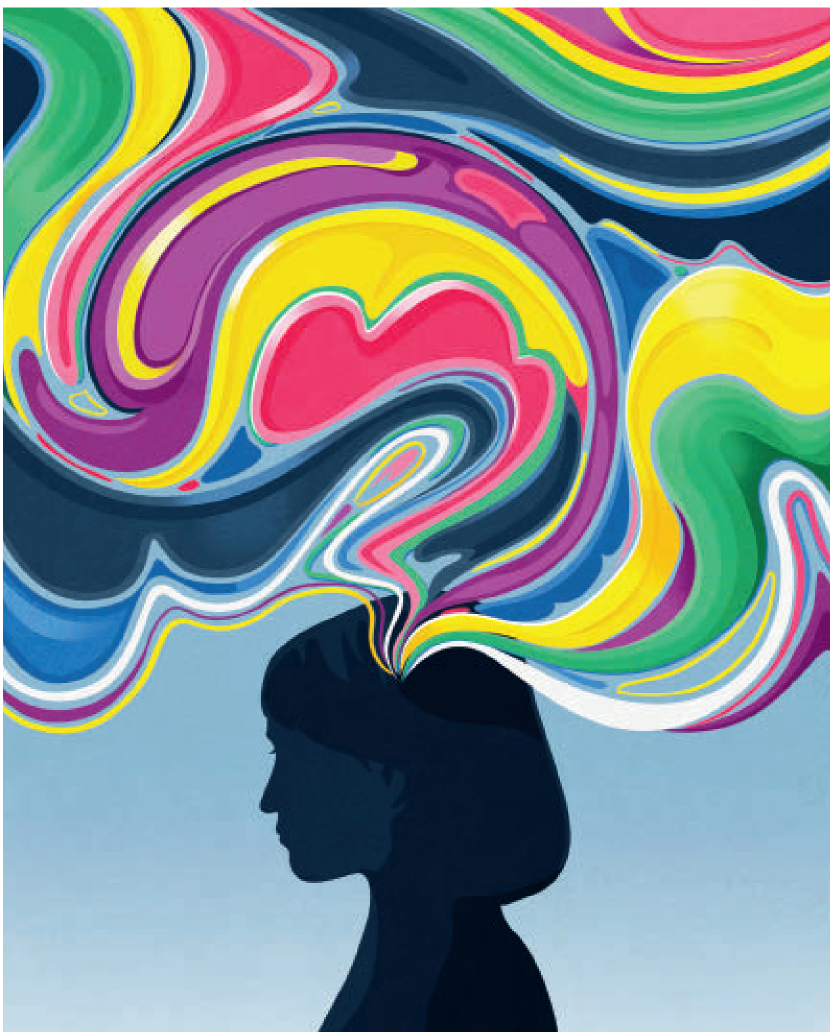
Can Design Thinking Succeed in Your Organization?

Many leaders become discouraged when design thinking doesn't get the results they expect. They can improve the odds of success by assessing the readiness of their organizations and preparing their teams for a different problem-solving process.

BY DAVID DUNNE, THERESA ERIKSSON, AND JAN KIETZMANN



DESIGN THINKING OFFERS A way to explore uncharted territory, uncover options, and solve complex business problems. But as much as leaders need new approaches to create competitive advantage, inspire innovation, and discover new paths for growth, they often don't get the results they expect.[1]

Participants in design thinking exercises frequently neither understand the process nor have the skills needed to practice it successfully. In such cases, it's no wonder that they become disenchanted or think they have failed.[2]

To get the benefits of design thinking, leaders need to know when to apply it, and they have to prepare both their employees and managers to do so. Our research has identified the characteristics that make an organization "design thinking-ready" as well as a strategic approach to adopting it.

Why Use Design Thinking?

Design thinking is a discipline that emerged in the last half century or so from studies of innovation processes, problem-solving, and creativity. It takes an iterative, experimental approach to problem-solving that involves gaining a deep understanding of customer needs; defining a problem area; ideating new solutions; and then prototyping, testing, and refining them.

SAM FALCONER/THEISPOT.COM

Many organizations that turn to design thinking have innovation in mind.[3] Some look to it to devise new business models, products, or services. Others use it to identify pain points in the user experience and tweak their existing offerings. An organization might, for example, create digital experiences to improve access and ease of use for customers.

Among its many advantages, design thinking is well positioned to mitigate the sources of cognitive bias that prevent people from accurately describing what they want, and to help people visualize previously unimagined solutions to problems. It promotes empathy with customers, as well as reflection and learning. In addition, it points the way to a model of leadership that encourages empathy for those affected by problems, and support for divergent thinking (that is, a broad search for possible solutions).[4] As a result, organizations can have a range of goals for design thinking other than product, service, or business model innovation.[5]

Some organizations adopt design thinking to change their culture: to become nimbler or more responsive to customers. Design thinking helps because it involves active reflection, in which the nature of a problem is continually questioned.[6] Thus, it encourages learning that in turn changes minds and behavior.[7]

Many organizations also see an opportunity to address so-called wicked problems through design thinking.[8] Wicked problems are beyond ambiguous: They involve a tightly interwoven set of causes and effects, and defining the problem itself is central to the challenge. Even seemingly straightforward business challenges, like introducing a new vehicle model, can have wicked aspects: Think about balancing customer preferences with costs and technical considerations like fuel efficiency.[9]

Think Like a Designer

Designers' methods are appealing in these situations precisely because they demand that people think outside the boundaries of business as usual. When we interviewed more than 50 design thinking experts in North America, Europe, and Australia, including business leaders who were skeptical of the approach, we found eight important differences between how designers and business managers think, work, and define their purpose. (See "Managerial Thinking Versus Design Thinking.") The extent to which people in an organization — from top executives to employees — can learn to approach problems and define solutions along the following eight dimensions the way designers do will determine whether design thinking can succeed.

MANAGERIAL THINKING VERSUS DESIGN THINKING

The eight dimensions of design thinking capture important differences in how managers and designers perform their work and make decisions.

DIMENSION	MANAGERIAL THINKING	DESIGN THINKING
PURPOSE	Shareholder first	User first
COLLABORATION	Managing departments	Problem-solving through cross-functional teams
WORK STYLE	Formal, hierarchical	Flexible, informal, flat
THOUGHT PROCESS	Deductive, inductive	Deductive, inductive, abductive
KNOWLEDGE GENERATION	Numbers (quantitative)	Stories (qualitative)
CONSTRAINTS	Limit options	Create opportunities, stimulate creativity
FAILURE	To be avoided	To be welcomed as a chance to learn
WORKFLOW	Exploitation of existing value	Exploration of future value

Purpose. Designers see their purpose as making life better for *users* — whether they are customers, patients, students, patrons, or employees. Many managers would argue that this is what business is about, too. However, for designers, improving users' lives is the end in itself, not a means to making a profit for shareholders like it is for managers.

Approach to collaboration. Next, designers tend to take a holistic view of the user experience. They work best when they collaborate across functional silos and can see the organization the way the user sees it. Managers, on the other hand, tend to view their organization from where they sit, and they can be blind to the broader view. For example, when personnel at a Toronto hospital were asked to define the patient experience, they described only what happens in their department, rather than the totality of what happens to a patient from the onset of symptoms until they are (hopefully) cured.

Work style. Managers oversee hierarchies of people in predefined roles engaging in set processes and working toward established goals. Designers are more freewheeling: They will form ad hoc teams as needed to solve a problem. Contrast the typical business meeting with a design meeting. In the business meeting, participants work through a defined agenda methodically, and digressions are discouraged. When designers meet, they might be focused on a particular topic too, but going off script is often integral to the creative process, because it leads to ideas that might not have otherwise been considered. Managers who are used to tidy discussions with defined outcomes may find designers' approach to be confusing or unproductive.

Thought process. Designers also make sense of problems differently. Managers thrive on *deductive reasoning* (applying a general rule to a specific situation) and *inductive reasoning* (inferring a general rule from observing specific situations). For example, using deductive reasoning, one can apply the established rule that umbrella sales go up when it rains and base sales forecasts on the weather outlook. Using inductive reasoning, one could observe that people are prepared to pay more for umbrellas when it is raining and infer that the best time to raise umbrella prices is during a rainstorm.

In both cases, decisions require concrete, reliable information, and managers might be discouraged from speculating when they don't have it. In such situations, however, designers shine. They are skilled at *abductive reasoning* — considering the most likely explanation from incomplete information. By drawing inferences from limited information when that is all they have, they imagine what *could* be (such as a new type of umbrella that withstands windstorms).[10]

Knowledge generation. Managers tend to understand their customers through quantitative data, which tells them what people buy, when, and how. But numbers aren't as good at revealing *why* people buy, what is missing from their lives, or what they *might* buy in a future they cannot envision. Designers get insight into how people think about their needs by gathering qualitative information from firsthand stories about how they live. However, because many organizations emphasize quantitative analysis, descriptive narratives can be dismissed as anecdotal and lacking in rigor and thus invalid.

View of constraints. Many managers view constraints — whether due to cost, technology, regulations, or time — as barriers that limit potential solutions to a problem. Designers, on the other hand, tend to welcome constraints as both a source of structure and a catalyst for creativity.[11]

Attitude toward failure. Designers experiment to figure out what works. Failure is an essential step toward uncovering the right answer. In many organizations, however, the prospect of failure provokes anxiety in managers, who might fear that a project is off the rails and resources are being wasted. Of course, any product or service has aspects that must be failure-proof. But failure-phobic managers make no distinction between critical and noncritical failure, thereby leaving no room for trial and error.

Adherence to established workflows. Finally, designers specialize in *exploration*, which leads them to question basic assumptions about how business is done and why. It is, in fact, their job. On the other hand, managers tend to favor *exploitation*: efficient, profitable results that may or may not solve customers' problems. They have every incentive to continue applying what they know and taking for granted the way things have always worked, because doing so enables them to achieve their performance goals.

In summary, ways of thinking and working that make managers successful are often different from those that best serve designers. One way is not better than the other, and each has its place. In fact, it would be both unrealistic and undesirable for managers to think and act like designers, or vice versa, most of the time.

However, to succeed with design thinking, people at every level of the organization need to be ready and

Designers are skilled at abductive reasoning — considering the most likely explanation from incomplete information.

willing to adopt a designer's mindset when called for — that is, when innovating, changing the corporate culture, or tackling wicked problems.

Is the Organization Ready?

Because the desired outcome of design thinking is to change something, adopting it requires a high degree of readiness among employees, managers, and executives alike. As noted, the goal is not to turn everyone into a designer or to apply design thinking to every problem. However, people need to understand — and become comfortable with — how designers operate.

Leaders can determine the extent to which the dimensions of design thinking are already understood and practiced within the organization using an assessment tool like the one we provide. (See "Design Thinking Readiness Assessment," p. 65.) By surveying both managers and employees, business leaders can uncover any disconnects between them that would threaten the success of a design thinking program.

In a large organization, whoever leads the design thinking initiative will want to survey the senior leadership team or, if they are starting with only a part of the company, the leaders of that segment. They would then survey the corresponding groups of employees: all employees or the employees of the relevant business units.

A high overall score indicates strong agreement among managers and employees that the dimensions of design thinking are prevalent in the organization: In that case, the organization is ready. A low score, indicating deep disagreement, suggests that design thinking isn't right for the organization currently. In the middle, leaders will be able to identify areas of concern and see where they need to provide education and training, or use pilot projects, to shift the mindset of the organization. They can conduct a follow-up survey to evaluate the impact of such measures.

Next, we outline the steps to take in each scenario.

NOT READY: Stop and Reevaluate

If the dimensions of design thinking have no foothold in the organization, the approach is unlikely to succeed. Business leaders must decide whether to maintain their traditional approaches or begin a long process of changing the organization culture.

If they choose the latter, they can start by encouraging employees to explore how design thinking is applied by other companies in their own industry — even if it does not deliver products or experiences directly to consumers, like in mining, maritime engineering, and the military.[12] Similarly, by participating in industry networks, employees can meet design thinking devotees and like-minded newcomers with whom they can share and explore how design thinking can be applied in their own environment. (For instance, the Design Management Institute and the global Service Design Network bring together participants from a variety of sectors and industries.)

If the company has no in-house expertise, it will have to develop it. Meanwhile, a small pilot project led by external design-thinking experts can help managers and employees alike gain hands-on experience.

POCKETS OF READINESS: Proceed With Caution

The assessment might reveal pockets of readiness. Managers might be ready to embrace a design thinking mindset while employees are not — or vice versa. By looking at how each group scores the different dimensions of design thinking, leaders can determine which area they need to work on.

For example, managers might give a high rating to cross-functional collaboration whereas employees rate it low. Such results would indicate that collaboration is more illusion than reality — promoted in principle, perhaps, but not necessarily practiced.

If employees are not on board, leaders should resist the temptation to impose design thinking from the top and instead identify champions within the company to educate their colleagues. These evangelists usually are not professional designers but businesspeople who have been trained in design methods and who excel at communication and collaboration. (One example is Judy Mellett, who held positions in retail marketing and pricing before pioneering service design at Telus, a Canadian telecommunications carrier.) Such champions can provide workshops for employees to learn about design principles and how they might be applied to problems they are facing.

A narrow problem that a team has tried to solve using traditional approaches can be a good starter project to show employees the benefits of design thinking. In 2012, students at the University of Technology Sydney used design thinking when revisiting the persistent problem of drunkenness and petty

THE RESEARCH

This article draws on design thinking case studies and literature, as well as over 50 interviews with design experts — including designers, leaders of design firms and labs, academics, and consultants — and with business leaders.

About half of the interviews were conducted from 2014 to 2017, with the remaining interviews conducted between 2019 and 2021.

The interviews were semi-structured and explored design mindsets within organizations along with designers' experiences with implementing design thinking in organizational settings.

crime in one of the city's entertainment neighborhoods. Past attempts at solutions had focused on enforcement; instead, the team looked at the problem from the perspective of "users" (young people out for a night of fun) and discovered that better signage, transportation, and lighting would help them to avoid danger.[13]

Stories that illuminate the user or customer perspective can help to build commitment and collaboration. At Royal Bank of Canada, such a story illustrated to senior leaders the value of design thinking in creating an attractive hybrid work environment for employees when some had returned to the office after the worst of the pandemic and others had not. A design team observed that when more people were working at home, the increased use of teleconferencing exacerbated noise levels for employees onsite in the open-plan offices. Design thinking provided a simple solution. "We [had] the world's best technology when it comes to ergonomics, seats, webcams, docking stations — and then we realized the most important things were headphones," said Peter Chow, director of innovation and future of work at the bank.

Employees might think like designers, especially when they are on the front lines, dealing with users directly and empathizing with their problems. And they might have innovative ideas. However, whether those ideas are ever implemented depends on support from managers.

Managers who aren't open to fresh thinking might have good reasons, such as pressure to hit quarterly revenue numbers. In a situation like this, short-term success trumps long-term sustainability through innovation. Numbers beat stories.

When an organization encounters this mindset, attempting to push design thinking from the bottom up will be frustrating. Managers will be hesitant to give employees freedom to explore new solutions. Champions of design thinking will need to demonstrate its value. One way to do so is to pair employees who are predisposed to design thinking with an external design-thinking consultant. These cross-functional teams can explore user journeys and generate novel insights that show managers the value that design thinking can bring to the organization.

READY TO GO:
Move Ahead, and Provide Support

When managers and employees alike are ready for design thinking, adopting and maintaining the practice still takes effort. At this stage, business leaders might be most concerned with how they balance running the business with exploring innovations.

To foster design thinking — and to balance running the organization with creating its future — leaders need to provide appropriate support. Specifically, they need a senior leader as a champion. They also need to provide mental and physical space to work on design projects. They must integrate the practice into the organization so that everyone feels part of it, and choose appropriate projects. And they need a way to measure the results that allows design thinking to thrive.

Find a champion. Leaders will need to stress the value of exploring disruptive ideas when making a public and sustained commitment to design thinking. In our research, we found that successful design-thinking programs have an executive sponsor to advocate for funding and to protect them when the ideas they generate create controversy. Leadership turnover makes such programs vulnerable, however. For example, the Danish government's MindLab, established in 2002, grew to world renown under the wing of a farsighted deputy minister, but commitment to the lab faded over time as new leaders came into office. The lab shut its doors in 2018.

Create space. Given that design thinking projects can take weeks to years to implement, employees

Design thinking can support many aspects of change — even business strategy. But don't push design thinking where traditional problem-solving methods will do.

DESIGN THINKING READINESS ASSESSMENT

Leaders can use this survey to assess whether their organization is ready for design thinking. The survey includes eight sections — one for each dimension of design thinking and its underlying principle. Each section has two questions to ask both managers and employees. To score the survey: For each dimension, average the answers of managers and employees separately. Add the average scores for each dimension to determine a total score (0-80) for each group. Use the following grid to compare managers' and employees' scores to determine an organization's readiness.

DIMENSION	DESIGN THINKING PRINCIPLE	ASSESSMENT QUESTIONS	0-10 SCALE: 0 = NEVER, 5 = SOMETIMES, 10 = ALWAYS	
			MANAGER SCORE	EMPLOYEE SCORE
Purpose	The organization puts users (such as customers or employees) first.	• Does your organization prioritize user experiences over traditional performance goals? • Does your organization empathize with users' problems and actively seek out users' point of view?		
Collaboration	The organization encourages work in cross-functional teams.	• Do members of your organization have a high level of trust in people from other departments or functions? • Do members of your organization work together to achieve common goals rather than representing their department's (or their own) interests only?		
Work Style	The organization is informal and flexible.	• Does your organization allow for a flexible and informal style of working and form networks or teams to create solutions to business problems? • Do members of your organization practice what-if scenarios or allow discussions to go "off the rails"?		
Thought Process	Decisions can be based on hypotheses when information is limited or uncertain.	• Does your organization tolerate ambiguity when making decisions? • Do individuals in your organization feel comfortable with (or even excited by) uncertainty?		
Knowledge Generation	Stories are valued as a way to understand customers.	• Is your organization open to using both qualitative (numbers) and quantitative (stories) kinds of data? • Does your organization employ user stories to inform its decisions?		
Constraints	Constraints provide structure for creative problem-solving.	• Do individuals in your organization treat constraints as opportunities rather than reasons to stop trying? • Are individuals in your organization inherently optimistic and energized by difficult problems?		
Failure	The organization encourages people to experiment and learn from mistakes.	• Does your organization encourage experiments, even when they might fail? • Does your organization have a formal process to analyze and learn from failure?		
Workflow	The organization enables individuals and teams to explore alternatives to business as usual.	• Does your organization give individuals time away from day-to-day demands to work on exploratory projects? • Do individuals in your organization have time, energy, and motivation to work on projects outside of their normal routine?		

need dedicated space to work on them. Many organizations set up design labs that offer a consistent space for cross-functional teams to work. Typically, these labs look and feel different from other offices and meeting places in the organization, with flexible space, egalitarian furniture arrangements, areas for focused discussions, and facilities for prototyping. (Consumer products company Procter & Gamble, for instance, converted a former brewery several blocks from its Cincinnati headquarters into a dedicated innovation space.)

Participants also need mental space: opportunities to think freely, speak openly, and focus. In one lab, the carpet in the center of the room was dubbed the "green carpet of safety," where contributors from across the company could speak without worrying about political repercussions. In its early days, Google had its "20% rule," which encouraged employees to spend one-fifth of their time working on anything they thought would most benefit the company. Three of its enduring products — Gmail, AdSense, and Google News — emerged from this program.[14] Some companies engage in design sprints during which user-centered teams tackle design problems over several days. Some use a participatory, or codesign process, in which users are invited to join the design team for a series of workshops where they cocreate a new product or service.

Build connections. Starting a design lab will not by itself bring about broad change. In fact, managers should take care that setting up a separate space for design thinking doesn't inadvertently send the message that innovation is only for an isolated elite. Departments charged with implementing what the design lab devises might not feel that they own the ideas or might find that these proposals fail to take technical or organizational realities into account.

Design thinking has to belong to everyone, especially if cultural change is the goal, and design labs need to build connections and support across the organization. To aid this effort, one lab recruited designers with strong social skills that people in other departments would want to work with. Other labs have asked that staff members be assigned from the departments that stand to benefit from the design thinking initiatives.

Choose the right projects. As noted earlier, design thinking has advanced from its roots to support many aspects of change — even business strategy.[15] Yet it is important that leaders do not push design thinking when traditional problem-solving methods will do. If a decision will not benefit from a deep understanding of users, or if it is a well-defined problem (such as a manufacturing process for an extension of an existing product line), design thinking is unlikely to produce a solution that could not have been arrived at in other ways. In such cases, over-application of design thinking can invite cynicism.

Define the right metrics. Organizations might also require metrics that are specific to employees' work on disruptive initiatives. Typical efficiency, productivity, or financial metrics that judge performance based on numbers are antithetical to the design process. For example, stage-gate innovation processes, in which prospective innovations have to jump ROI hurdles, can kill early-stage ideas before they are fully formed.

For design thinking to thrive, organizations need to emphasize qualitative metrics. These can be derived from observations of consumers using a product, or ethnographic interviews with them. These research techniques can reveal shifts in their experiences when using a product, uncover emerging patterns in behavior, or detect latent opportunities that haven't been captured by quantitative surveys. Such data can show that an initiative is on the right track even if the initial evidence is mixed.

HOW TO INTERPRET THE READINESS ASSESSMENT

After scoring the design ready assessment, use the results to identify the quadrant applicable to your company.

A Powerful Way to Innovate

Under the right conditions, design thinking can be a powerful way to innovate and solve challenging problems, especially ones that are characterized by ambiguity and uncertainty. It offers a way for managers and employees to see their operations from the outside in — as stakeholders experience them — and make discoveries that are unlikely to occur when they are focused on productivity, efficiency, and other business-as-usual goals. But it can easily fail if people don't understand the process or the principles behind it, and if leaders don't provide support.

With any change initiative, the likelihood of success is far greater when it is built on a strategic approach, and design thinking is no exception: It should be based on a clear-eyed assessment of the company's capabilities and culture. Leaders cannot implement it by fiat, nor can they leave employees and managers to puzzle through it on their own without courting rejection or disillusionment. Employees will need education and training commensurate with their commitment and knowledge, as well as support and incentives.

Because creating the future demands a different way of thinking than running a business in the present does, it takes sustained effort to instill the design mindset in most organizations. But the payoffs — new ways to see problems, greater empathy with customers, and better-targeted solutions — are worth the investment. In a world of wicked problems, every business needs to consider design thinking for the opportunities it offers.

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Women Are Stalling Out on the Way to the Top

Here's what we've learned from 40 years of data on executives in the largest U.S. corporations.

BY MONIKA HAMORI, ROCIO BONET, PETER CAPPELLI, AND SAMIDHA SAMBARE

A decade ago, we were poised to make serious progress: Employers started showing considerable interest in both measuring and improving gender diversity. They dug into the analytics and kicked off initiatives with hopes of turning the numbers around — only to shelve a lot of those efforts during the COVID-19 pandemic, when many companies struggled to stay afloat. As those that have survived begin some kind of restart, they face an exceedingly tight labor market where employees have no shortage of career options. So now is a good time to assess where we are in the advancement of women — particularly in the most visible leadership roles in our biggest businesses, where inequities can be clearly seen.

To do so, we've analyzed the career histories and demographics of the executives in the 10 highest-ranking jobs in Fortune 100 companies during the past 40 years. We began the project in 2001 and looked back to 1980 as the baseline, given the evidence that the wave of organizational restructuring that followed the 1981 recession marked a turning point in career advancement generally. Since then, we have

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checked in on who has these top jobs every 10 years, gathering detailed biographical information about 4,000 executives.[1]

Gender representation has certainly improved, because there was nowhere to go but up: Not one woman held any of the top 1,000 jobs in 1980. Since then, women have actually advanced more quickly than their male counterparts into executive positions. But they remain largely stuck in support functions rather than moving into key operating roles. At the oldest companies, women's numbers are backsliding even in those functional jobs.

So organizations seeking gender diversity at the top still have a lot of work to do. We'll provide more details on where they've made strides and where they've fallen short — and offer recommendations on how they can do better.

We're Seeing More Women Overall, But ...

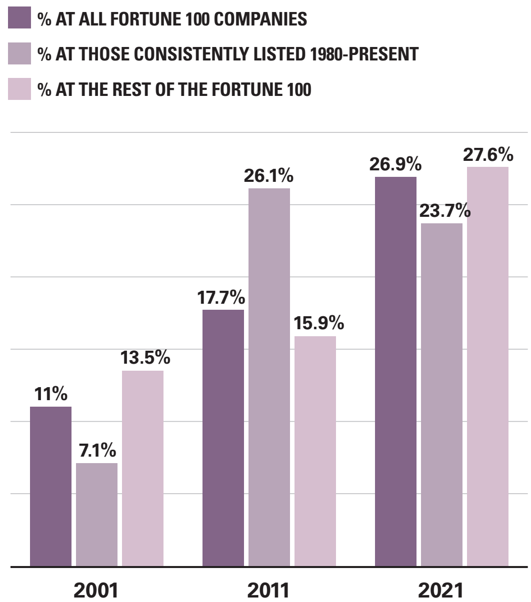
Despite accounting for 47% of the U.S. labor force, women held just 27% of the Fortune 100's top leadership positions in 2021.[2] That represents a huge advance since 1980, but it is still far from equal representation. (See "Women Are Gaining Ground in the Top 10 Executive Jobs.") One reason for the increase is because the composition of the Fortune 100 shifted from industries that tended to employ fewer women (manufacturing and steel in 1980) to those that employ more (financial services, health care, insurance, and retail in 2021).

But industry is not destiny. Some Fortune 100 players in traditionally male sectors have relatively high percentages of female executives. For instance, women hold more than half of the top positions (58%) at Northrop Grumman, a defense and aerospace company. Caterpillar, Ford, and Phillips 66, also in male-dominated industries, have higher proportions of women in these roles than average.

That's surprising, but even more so is the extent to which gender diversity among executives skyrocketed from 2001 to 2011 at the older, more traditional companies that have consistently appeared in the Fortune 100 rankings since 1980. That spike (from 7% to 26% women) was much steeper than in the other F100 companies (from roughly 13% to 16%). But then, among those same traditional companies, the percentage of women actually dropped a few points in 2021.

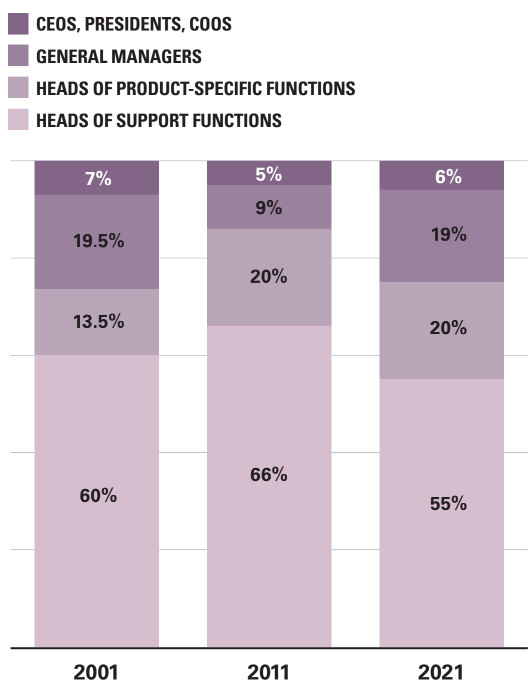
WOMEN ARE GAINING GROUND IN THE TOP 10 EXECUTIVE JOBS

The representation of women in top jobs in Fortune 100 companies overall has grown steadily over the past two decades. Women made enormous gains at younger companies in 2011 but lost some ground in 2021.



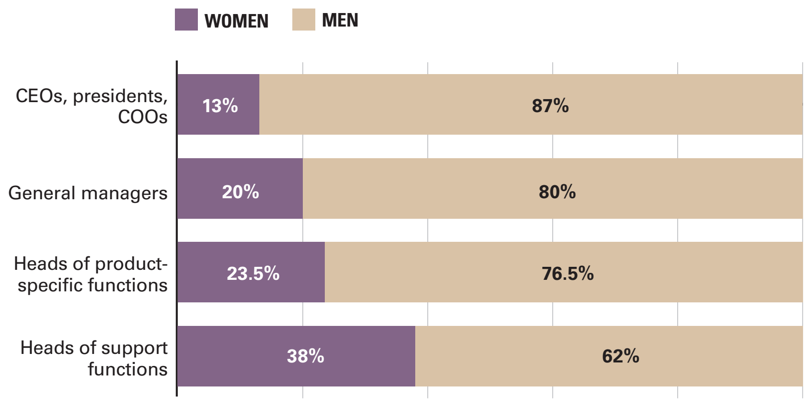
WOMEN'S LEADERSHIP ROLES

A lower percentage of women are heading support functions than 20 years ago, potentially positioning more for the top leadership track.



LEADERSHIP ROLES BY GENDER, 2021

Four out of five general management roles — feeders for top jobs — were held by men.



WOMEN REACH THE TOP FASTER

It takes less time for women than men to reach a top-tier executive position from the start of their careers.

That decline seems to center on a few companies that had seen enormous gains in 2011. That year, women accounted for 50% of the top executives at Pepsico and Lockheed Martin, and 40% at Coca-Cola, General Electric, and IBM, but by 2021, those percentages had dropped by half at some of these companies. One lesson from this is that the advancement of women has not been anything like a linear process. In fact, General Motors is the only company in that older set where the ranks of women were substantial *and* increased continually throughout the study. In nearly every other company listed since 1980, there has been a huge uptick followed by backsliding.

Women Are Mostly Stuck in Support Roles

Although gender diversity has grown overall among executives, the distribution of women is uneven across types of roles, and that hasn't changed much over the past 20 years. Among all of the leadership positions held by women in 2021, just 6% were at the highest tier (CEOs, presidents, and COOs) — hardly any change from 5% in 2011 and 7% in 2001. Most were support roles, overseeing enterprise functions such as HR, finance, and legal: 60% of the leadership roles held by women fell into this category in 2001, 66% in 2011, and 55% in 2021. (See "Women's Leadership Roles," p. 69.) Representation of women was middling to poor among heads of product-specific functions, such as marketing, R&D, and sales, and among general managers (GMs), who have P&L responsibility for a region, unit, or division.

When we look at the distribution of leadership jobs between men and women for the most recent year, we see the greatest inequities in the highest-tier roles and the GM position, which are feeders for top operating roles. (See "Leadership Roles by Gender, 2021.") It appears that the drop in the proportion of women in GM roles in 2011 might have kept their numbers from growing in the top tier in 2021. Although their percentages had increased in functional roles, those jobs rarely put leaders on track to become CEO.

Women Advance Faster than Men

Speed of advancement from the beginning of a career to an executive job is another way to measure progress. Moving up sooner means having more time to make an impact and to keep advancing. Individuals can and do follow different paths upward. Some skip over what have previously been seen as required steps or make lateral moves to avoid dead ends, and others get promoted with less "time in grade" than their peers.

Over the past two decades, the women in our sample advanced faster than the men — typically two to four years faster — and that difference held across types of executive roles. (See "Women Reach the Top Faster.") Partly as a result, the women in high-ranking jobs were, on average, younger than the men (by almost two years in 2021, and by four in 2001). Both differences — in speed and age — are in step with the findings of a small but growing body of literature showing that the gender gap in advancement, which typically favors men, might actually reverse under certain circumstances.[3] More broadly, our analysis contradicts the prevailing notion that promotions are increasingly harder for individual women to get as they move up, with the caveat that fewer women than men are positioned to advance to the very highest levels.

It's not entirely clear why female executives advanced faster than men. Some of the difference is explained by the fact that the women appeared to be more qualified, but even controlling for qualifications, they still moved up faster. That probably reflects pressure from stakeholders to diversify leadership.

Women Switch Employers More Often

One of the most striking differences between the female and male executives is length of tenure in their organizations. In 2021, for example, the women had been with their companies an average of three fewer years than the men (14.6 versus 17.5), and their tenure in their current role was also almost three years shorter (10.9 versus 13.7). (See "Career History for Men and Women, Past 20 Years," p. 72.) We saw similar patterns in 2001 and 2011.

Since women moved around more often than men, it naturally follows that a higher percentage of women came to their leadership roles as outside hires (33% of them, compared with 23% of men), like UPS CEO Carol B. Tomé, who was previously Home Depot's CFO. (UPS is otherwise a company known for internal employee advancement.) They also gained experience in more companies than men did (3.4 versus 3.1, on average). Among women of color in our sample, these company-switching patterns are even more pronounced: In 2021, their tenure with their employer was shorter than the tenure for White female executives (11.8 versus 15.2 years), and a greater percentage were outside hires (41.4% versus 31.5%). One likely reason why we saw more female outside hires at the top tier is that succession pipelines are smaller for women, given their relative absence in general management roles. Those pipelines are smaller still for women of color, who are "outsiders" in even greater percentages than White women.

Some of the differences in tenure between women and men are related to the fact that most female executives lead functional areas — finance, accounting, HR, legal — that are "far from the product" and therefore require skill sets that transfer across employers and industries more easily. Empirical research bears this out.[4] So does our analysis: In 2021, for instance, women's attachment to employers wasn't as strong in support function roles (they stayed 13.2 years, on average) as in general management (17.5 years) and product function roles (15.6 years).

Women at the top tier are more likely to be hired from outside than female GMs (25% versus 18%, respectively). They also have shorter tenures at their company (by 2.5 years, on average) than female middle- and lower-tier GMs. Among male top-tier executives, the pattern is different: They are *less* likely to be outsiders (13.7% versus 15.2%, respectively) than their male GM counterparts, and they have a longer tenure with their employer (17.0 versus 16.5 years, respectively).

How Companies Can Do Better

What can be done to increase numbers of executive women where they've gained the least traction — in top-tier and general-management roles? Here's what we recommend, given our analysis.

Don't count — or count on — board diversity. Although some research suggests that having more female directors on boards boosts gender diversity in Fortune 100 leadership roles, we found a more nuanced story there.[5] While the companies with more women on their boards indeed have more female executives overall (and more who have advanced internally), this result is driven largely by a

THE ANALYSIS

To gauge progress toward gender diversity in leadership, the authors analyzed 4,000 Fortune 100 executives' career histories and demographics from the past 40 years, focusing on the 10 highest-ranking roles in each company.

The data showed that despite gains made in gender diversity overall, the distribution of women remains uneven across types of leadership roles: Most of the women have been relegated to support functions.

Given the results, employers must provide more equitable access to growth opportunities that prepare executives for key roles in general management and operations, opening doors for advancement to the very highest tier.

A higher percentage of women — 33% — came to their leadership roles as outside hires, compared with 23% of men.

CAREER HISTORY FOR MEN AND WOMEN, PAST 20 YEARS

Women had worked for more companies than men and were more likely to be outside hires in their current roles. (Differences in lighter text are not statistically significant.)

	2001		2011		2021	
	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN
Age	47.7	51.8	51.8	54.8	53.9	55.6
Years with employer						
Years with employer when starting current role						
% outsiders	26%	17%	24%	26%	33%	23%
Number of employers	2.7	2.5	2.9	2.7	3.4	3.1
Number of industries	2.2	2.1	2.4	2.2	2.6	2.4

much higher percentage of women who lead support functions. In these organizations, we actually found *fewer* women in top-tier positions and in feeder roles than we did in companies with a lower percentage of female board members. Since the board is highly visible, adding women there can create the appearance of diversity, often without promoting advancement to the very top. Key decision makers, if they're merely checking off a box, may "count" board representation as gender-diverse leadership. Even if their intentions are better than that, they might assume that having women in those board seats shapes leadership teams more than it really does.

Boost external hiring. To make more meaningful progress, we can take a cue from companies within male-dominated industries that still managed to have a large percentage of female business leaders: They were much more likely than the others we analyzed to bring in female executives from outside the organization, hiring 47% (versus 32%) externally in 2021.[6] In such companies — including Northrop Grumman, where Kathy Warden is CEO — executive women had, on average, a much shorter organizational tenure than men when they started their current role (7.9 versus 11.2 years). They were also much less likely to have spent their entire career at their current company (9% of executive women, compared with 18% of the men). In contrast, men at the same companies were much more likely to be "lifers" (29% of them in the subsample, compared with 21% in the rest of the companies analyzed). Knowing that women are less likely to hitch their future to a single organization, the only way these companies can possibly increase gender diversity in senior leadership roles is to bring in more women at that level. And so they do.

Other companies can follow their lead in external hiring by working with executive search firms, which do a better job targeting female candidates and supporting their hiring than employers do on their own.[7] Additional possibilities include tapping places with a high proportion of female members (such as professional associations or niche job boards) and getting the company's male executives involved in its efforts to recruit women; both approaches have been shown to increase gender diversity.[8]

Of course, outside hiring that simply moves women around does not increase the number of women in executive roles. It helps when organizations find women whose advancement has been blocked or slowed and move them to better jobs where they can develop and advance.

Promote more women to "feeder" roles. Companies should also think about where their own promotion pathways lie. While promoting women in general helps the diversity picture, it helps more when they advance to general management and operating roles that feed the highest tier.

In our sample, companies in the top quartile of gender diversity overall (those where 33% or more of executives were women) also had a higher percentage of female GMs than companies in the bottom quartile (those where less than 19% of executives were women). Those feeder jobs are critical because people who hold them report directly to the CEO, which means they have a say in strategy and other high-stakes decisions. GM roles also involve overseeing P&Ls, products, divisions, and multiple job functions. That combination of exposure and experience can prepare executives to do similar work on a larger scale later on, running a whole company.

Double down on development. Promotions are important, but they're not the whole story. Employers must also provide more developmental support overall and more opportunities for women to gain the experience needed for bigger jobs. Two basic places to start are making the internal pathways for advancement clearer for *all* employees interested in going after GM roles, and removing common barriers, such as requiring permission from the current manager to move (as employers have increasingly done since the 2008 recession). Organizations can also explicitly encourage people to step up for feeder opportunities.

No doubt, some of the difficulty companies are having supporting the advancement of women is related to organizations' lack of career management generally. For the most part, we don't give enough attention to our talent pools below the C-suite; we don't have serious high-potential programs, plans for succession, and so forth. And at least under U.S. law, we cannot increase diversity by making gender a criterion for advancement into executive roles. To move the needle closer to parity, we have to invest more in leadership development overall *and* give women more equitable access to opportunities for growth.

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see page 4

Saving Management From Our Obsession With Leadership

Lofty notions of leadership have captivated our collective imagination — and we've underappreciated and underinvested in the everyday management skills that organizations desperately need.

BY JIM DETERT, KEVIN KNIFFIN, AND HANNES LEROY

For decades, business thinkers and the executives who look to them for insight have elevated the visionary, inspirational leader over the useful yet pedestrian good manager. But evidence all around us suggests that we devalue management practices at our peril: What we've come to denigrate as mere management (done by those who are *merely* managers) is incredibly difficult and valuable.

It becomes all the more vital during times of disruption and crisis. Take the COVID-19 pandemic: Whether we're talking about navigating supply chain disruptions, operating safely on the front lines, or simply keeping doors open for customers, businesses have desperately needed people who know how to coordinate action, solve technical problems, and deal skillfully with the myriad human challenges that employees and other stakeholders face. The same goes for organizations involved in developing, manufacturing, distributing, or administering vaccines and treatments. To meet the moment, we've needed managers who can keep things running and support employees — not leaders who give stirring speeches but remain detached from day-to-day operations.

The so-called Great Resignation has been quite telling in this regard. The people quitting in droves haven't done so because their company's top executive is insufficiently visionary or inspirational. Rather, people have quit lousy jobs — jobs that lack autonomy, variety, or opportunities to grow; jobs that pay poorly and don't reward performance fairly; jobs that aren't clearly defined and structured; jobs that lack guardrails that prevent chronic overload and frustration.[1] They've also quit their direct bosses, whose lack of everyday managerial competence,

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trustworthiness, inclusiveness, and care is no longer tolerable.[2] And they've quit organizations that have breached their psychological contracts with employees by violating the unwritten rules of trust, fairness, and justice.[3]

While the number of workers who have left jobs has been extraordinary, particularly in certain sectors, the reasons aren't new and shouldn't surprise us. Organizational researchers have been studying turnover for decades. The causes cited today — including the low job satisfaction, commitment, and engagement associated with poor management — are the same ones identified in hundreds of individual studies and multiple meta-analyses. In the decade before the pandemic hit, for example, the percentage of highly engaged employees never exceeded 22% among millions surveyed, and the relationship between low engagement and high turnover was well documented.[4] The COVID-19 pandemic might have created a tipping point for what people will or won't put up with at work, but it has not created or significantly changed the underlying problems — they've been widespread for a long time.

Why are these problems so ubiquitous and enduring? Because organizations and top teams downplay or ignore how hard it is simply to be a good manager — to skillfully hire, engage, develop, coach, supervise, evaluate, and promote people. Leadership workshops are widely available, but they tend to center on high-level concerns and spend little to no time teaching these critical, fundamental skills. Most managers aren't held accountable for building and exercising them, nor are they given sufficient psychological safety to focus on developing these basics, which people often assume anyone with a brain can readily master. Instead, they've internalized the strong message that qualities like strategic vision and executive presence matter much more, leaving them and their organizations poorly equipped to deal with reality.

To turn the tide, we recommend taking actions that directly address the reasons good people quit (or stay, but with low levels of motivation, commitment, or engagement). These evidence-based suggestions might look like nuts-and-bolts fixes, and in part, they are; we need to work on essentials. But they also require managers to recognize and appropriately respond to complex human needs and emotions — perhaps the very skills that are least likely to be replaced by automation or artificial intelligence anytime soon.

Before delving into our recommendations, let's take a closer look at how we got to this point, because understanding that can help us move past it.

A Flawed Distinction

In 1977, leadership scholar Abraham Zaleznik argued that managers and leaders are fundamentally different types of people.[5] Leaders, he contended, are bold, visionary, and inspiring; they create and articulate compelling missions and strategies. Managers are just implementers, he said; they organize people and tasks. Whether intentionally or not, Zaleznik placed leaders and leadership on a pedestal and, in comparison, denigrated the mundane activities of management and the managers who perform them.

The distinction Zaleznik made resonated widely: Forty-five years later, his views are widely held, despite little proof that prioritizing a narrow type of leadership consistently leads to positive outcomes. We recently conducted extensive research with nearly 2,200 participants from multiple countries and documented a strong preference for all things *leadership* over *management*.[6] Across multiple samples, the majority of people believed that prototypical leadership behaviors are harder to learn and more valuable than management behaviors, and by a hefty margin, they saw the designation *leader* as more flattering than *manager*. They were also more likely to want to hire and pay more for someone with strong leadership skills than for someone with strong management skills, even when the role clearly called for the latter. It was hard to get people to override this preference, even when we slowed them down and asked them to name the most important capabilities for the role before making their decisions. What we found, in short, was strong, persistent evidence of the "romance of leadership" others have described, where notions of leadership are based on conscious, rational assessment only loosely, if at all.[7] So much for the decades of scholarship and teaching about matching people to situations.[8]

If this preference for leadership over management were only a matter of semantics, or it showed up only as a hypothetical preference, there would be no need for this article. Mental models affect what we do, though. Consider how business schools describe what they're up to. Back in 1977, when Zaleznik's article

Researchers have dramatically shifted their focus away from studying managerial behaviors and toward the study of leadership styles.

was published, nine of the top 10 graduate business schools (as rated by *U.S. News & World Report*) used manager- or management-related words in their mission statements; only one mentioned leadership. But in 2017, nine of the same 10 schools' missions explicitly referred to leadership; only two mentioned management. Even researchers have dramatically shifted their focus away from studying managerial behaviors — like structuring employees' work, holding people accountable, making evidence-based decisions, and managing risk — and toward the study of transformational, charismatic, visionary, and other alluring leadership styles.[9]

Media coverage has taken a similar turn. For decades, the business press has lionized visionary leaders such as Elon Musk and Steve Jobs while dismissing managers as "paper-pushers, perpetuators of groupthink and symbols of organizational bloat."[10] Meanwhile, in organizations, HR professionals are scrounging for resources and respect, despite their expertise about everyday management processes and behaviors that research shows are critical to individual and group performance.

We're not claiming that no one else says good management matters. Zaleznik himself conceded that it does, as have other high-profile thinkers over the years.[11] But noting that it matters falls well short of acknowledging how hard or important it is and providing concrete guidance on what good managers do. That's our aim here.

Good Managers Design Good Jobs

Careful work design is often associated with organizational efficiency. It certainly has that benefit, but there's also a psychological upside: Managers can meet employees' needs for self-determination — that is, for belonging, autonomy, and a sense of competence — by crafting jobs that engage people without burning them out.[12] Missions and visions alone don't serve these functions.

Work design might sound like HR territory, but good managers understand its importance and have a hand in shaping it. They view and treat their HR colleagues as trusted partners rather than denigrating them as bureaucrats. Good managers help create jobs where people can do their best work without feeling confused, overwhelmed, or boxed in.

They define roles and tasks, and provide resources to do them. Exhaustion, frustration, confusion, mistakes, outbursts, and burnout: These are the consequences of jobs that lack clarity and boundaries — the things that happen before people quit or get fired. We've known about these negative outcomes for years, long before COVID-19.[13]

Good managers prevent them by defining employees' roles and tasks in detail. They spell out goals and expectations, explain the work to be done, specify what to prioritize, lay out reporting relationships and communication channels, and periodically check for understanding about these parameters to see whether clarification is needed. These "structuring" activities, largely ignored in recent decades despite reams of research showing their importance, provide stability, which allows employees to feel competent and in control.[14]

Often, the problem isn't that roles have *never* been defined; rather, it's that they haven't been updated to keep up with organizational changes or they haven't been defended against "job creep," which turns initially manageable roles into overwhelming ones. If you ask any employee what's been added to their plate in the past few months or years, they can most likely rattle off an impressive list. But if you ask what's been taken off their plate or what's OK to stop doing, they'll probably have a harder time coming up with examples.

In most organizations, managers are much better at adding work to meet ever-escalating needs than they are at stopping things that are no longer truly important or worth the problems they're causing.[15] Stopping things, it turns out, often requires courage because someone is invested in "what we've always done" or "the way things are." Stopping things means that some people might feel less competent initially or see their status decline, or that some groups now have less power or fewer resources. And so, fearing backlash (or protecting themselves from these same possibilities), many managers fail to subtract responsibilities and tasks to help employees stay sane.

A more constructive approach is to fight to match resources to new requirements. Good managers don't just accept mandates from above to massively increase the number of clients served or sales made without pushing for the necessary budget, staffing, tools, technology, and even time away (yes, balance is a resource) to reasonably meet these expectations. And if no amount of support will make new demands reasonable for those tasked with carrying them out, good managers find respectful but firm ways to say enough is enough. This isn't a sign that managers or their people are lazy or unwilling to go the extra mile; it's a sign they understand that what can be done for a short time in emergencies isn't sustainable and leads to major long-term problems with employee performance and well-being.

That's why Martin, an IT professional at a Fortune 50 technology company, describes Charlotte as the best manager he's had in his two-decade professional career. Looking back on their time working together, Martin told us he had been providing key technical expertise on a significant IT project with a demanding, inflexible client when his wife gave birth. Despite "sharp criticism" from the client and those above her, Charlotte insisted that Martin take some time to be with his family and rescheduled project deadlines. She strongly defended Martin's right to paternity leave and explained that calling him back early and burning him out would serve no one well. When we followed up with Charlotte, she said, "I knew when he came back he would continue to give 100% and beyond, which he did. In the end, [the project] was a success and was delivered ahead of time."

"Enough is enough" also has to be modeled at every level. There's no point talking about setting reasonable boundaries and expectations if managers themselves — and *their* managers — send emails at all hours, work through every vacation, and say yes to every new request from above. It shouldn't require courage to say no or post "out-of-office" messages. When managers do these things first, they enable others to follow their example without fear of repercussions.

They design for motivation. Making the work more manageable is an important start, but it isn't enough. The work itself must also have the potential to be motivating on an ongoing basis. This involves factoring task variety and significance into job design, making sure it's clear what success looks like, and building regular opportunities for growth into the job. Unfortunately, many jobs still lack one or more of these features, even though we've long known about their motivational benefits.[16]

Good managers take the time to identify problems that can make a job feel mind-numbing or meaningless. They can do this through candid conversations with current employees or focused questions asked during exit interviews. And good managers address the issues they find, ideally by allowing employees a say in how their jobs might be recrafted to be more motivating. Sometimes they need to recognize that a job's least engaging parts (or even the entire job) should be automated. But often they can switch up the tasks — through scheduled job rotations, for instance — or underscore the impact of the work by directly exposing employees to the people who benefit from it. For example, the crushing boredom and rejection involved in fundraising can be mitigated by having workers meet with those their efforts help.[17] Managers can also incorporate enjoyable experiences into otherwise dull, repetitive work. Warehouse managers, for example, can build gamified friendly competitions or celebrations of professional and personal accomplishments into the workday to help fulfill the desire for competence and belonging.

By also building decision-making into roles, even when certain tasks are inherently rote, good managers address employees' need for autonomy. While clear structure prevents burnout, micromanaging extinguishes creativity and initiative. Having clearly defined what needs to be done, at what quality level, for whom, and by when, good managers get out of the way and trust people to do their jobs. Debates about who must be in the office or work "normal" hours on the other side of the pandemic are telling in this regard, but they're not new: People have long desired the autonomy to determine when, where, and how they get their jobs done.

Good Managers Hold People to High Standards

For decades, we've been telling managers to be "considerate," "warm," and "relational." The evidence is clear: Treating employees nicely helps meet their need for belonging.

Although some managers struggle on this score, many others go too far in the other direction and fail to show tough love when it's needed. When being friendly veers too close to being friends — sometimes out of a desire to be adored rather than feared by employees — managers often leave the dirty work of having difficult conversations to others.[18] They stop telling hard truths about areas for improvement or confronting bad behavior, undermining both employee growth and organizational performance.

Good managers understand that such feedback is essential, and they don't shy away from delivering it to support employees' development and hold people accountable.

They tell the whole truth about development and performance. Everyone has room for improvement. Even the strongest performers need more than recognition for a job well done; they also need constructive feedback about where they've fallen short or what skills they should work on. Failure to provide that might be a byproduct of trying to build close relationships with employees, but it actually undermines trust. All but the biggest narcissists are aware that they're not perfect. Employees intuitively know that managers who aren't willing to give honest feedback on development and performance are probably not telling the whole truth about a lot of other things.

Ultimately, it's not "nice" to withhold information that would facilitate improvement and save people valuable time or energy. For example, in too many cases, employees are strung along rather than told why they're not going to get a desired opportunity or promotion. This isn't kind. It's cowardly — evidence of a manager who is too afraid to have difficult, emotional conversations. Withholding honest feedback is also a sign of disrespect — an implicit statement that employees are too fragile to hear the truth and that they would rather have a distorted positive view of themselves than the full story.[19]

A few years ago, as part of a research project on a national hospitality chain, one of us asked a set of managers to tell him about times when their own boss had done something for them that they considered courageous. Almost every response involved the boss telling the hard truth to the subordinate. One respondent said, "I desperately wanted to get promoted to the next job. I kept asking for the opportunity, but [he] was very honest with me, telling me, 'You're not ready. You need to work on getting these skills first.'" Was this kind of feedback well received in the moment? Often not. But over time, people came to understand and appreciate their manager's honesty, and it increased trust. As another respondent put it, "At first I was ticked off. … Then I saw it was reasonable. … Then the anger subsided, and I was able to see it as courageous."

They confront bad behavior. Good managers also call out bad behavior. They don't wave it away by pointing to the employee's supposed intentions. They don't just say, "It's no big deal," or tell themselves they'll address it later to avoid having the hard conversation or making the tough decision now.[20] In short, they don't engage in rationalizations that blind them to what's really involved: their own fear of uncomfortable confrontations or an unwillingness to deal with the fallout.

Here's an example from a case study: The CEO of a real estate investment trust was at a crucial juncture of a rapid expansion he was leading when he learned that Nate, a well-liked manager with a rare combination of skills, had hacked into and been reading his boss's emails.[21] When confronted, Nate admitted he'd done it and apologized profusely, saying he'd been terrified of letting anyone down and only wanted to stay ahead of the curve. Pointing to Nate's critical role in all that was happening and his motives for this first-time breach of trust, Nate's boss urged the CEO to

Having clearly defined what needs to be done, good managers get out of the way and trust people to do their jobs.

give Nate a second chance. But the CEO insisted that Nate be fired immediately. You don't make excuses for someone when they cross a bright line like this, the CEO reasoned, because other moments of stress will surely come.

The CEO had it right: Rationalizing the behavior rather than enforcing consequences would have put the company's culture and external reputation at risk.[22] Firing a critical employee at a critical point demonstrated that ethics and trustworthiness were core values, not just nice ones to espouse when it was easy.[23]

Good Managers Focus on Fairness

Management doesn't happen in a vacuum. How employees feel about their job, their organization, and their relationships with coworkers and their manager rests mostly on relative judgments. It's not just how much you pay someone or how you speak to or evaluate them that matters; they also care about how you pay, treat, and evaluate *those around them*. Perceptions of fairness matter a lot, and those perceptions are based on comparisons.[24]

When perceptions of unfairness and injustice rise, employee satisfaction, commitment, and effort drop. Why? Because these perceptions undermine trust, robbing employees of the clarity, stability, and safety they seek.[25] That's why good managers don't just avoid the obvious trust breakers like yelling insults, stealing ideas, or blatantly discriminating against others. They also do the hard work involved in creating and sticking to fair processes and holding people accountable for following them.

They prioritize processes. To stem quitting, many organizations are increasing pay and starting to offer more generous benefits. But even in settings where those changes are badly needed, such as food service and retail, they're not sufficient. Employees also care a whole lot about *how* things get decided. What are the processes for determining how people get compensated, rewarded, promoted, selected for special assignments or learning opportunities, and so on? And is everyone subject to the same processes? In the workplace, these aspects of procedural justice often matter as much to people as equitable outcomes do. Good managers understand this. They establish clear guidelines for decision-making, explain what those are and how they're followed, and apply them consistently — all of which plays a huge role in employee satisfaction and intent to stay.[26] They also explain *why* decisions are made — for instance, that fewer people will be receiving top ratings because the company seeks to better differentiate and reward excellence and more honestly inform employees about where they stand — even when they know those decisions won't be popular with those affected.

Good managers also create processes so that employees can regularly articulate their needs and provide candid feedback on decisions that affect them. These include regular, informal coffee chats or lunches with the boss, as well as formal participation on key committees or task forces. By seeking this input, managers can avoid the classic trap of telling people something is important without actually operationalizing it.[27] For instance, they're less likely to espouse diversity and equity in principle while leaving unchanged the hiring and promotion processes that undermine these objectives. And they're less likely to tell people that the organization values long-term thinking without reworking evaluation and rewards systems and metrics that emphasize short-term performance.

In addition, good managers know that there's no point having sound rules and processes if they don't get consistently enforced. They don't make excuses and exceptions for selfish jerks who excel on individual metrics or for underperformers who are well connected.

They address injustices. Unintended harm happens no matter how well designed an organization's systems or how well meaning the people in charge of them are. For example, negotiations to hire or retain a high-value employee — or, for that matter, just to fill critical roles with available bodies — can result in other employees feeling they're now underpaid or not appreciated. And decisions kept confidential at one employee's request can leave others feeling excluded from something that directly affects them. This is particularly true in dynamic environments, where not every promise made can be kept and not every system proves durable as conditions change. Those are just realities, not signs of bad management.

The quality of management is determined by what happens next in these instances. For example, good managers push back against changes made at higher levels that are unduly affecting their own people. They don't hide behind displacement of responsibility, passively accepting that "someone above me made

Implementing a mission or vision is every bit as critical as imagining it, and we need to start treating it that way.

the decision." Instead, they seek to get bad decisions reversed — as Karim, the regional head of the luxury segment of a hotel chain, did.[28] Even though his business unit far exceeded revenue targets and operated at "unheard-of profit levels," Karim was told to cut management positions by 30%: "No questions; just do it!" But he wouldn't do it and instead wrote a letter saying that they could start their cost savings with his salary if they insisted on proceeding.

Being a good manager doesn't require putting one's own job on the line to get every justice violation rectified. It does, however, involve a willingness to undertake some risk trying to right the wrongs against employees. Your organization had to offer more to get new employees on board? Fine. Now fight to get other people the same deal.

Good managers also address their own broken promises and inconsistencies directly. They listen when people express anger or disappointment, and they try to find acceptable alternatives. And when they really can't fix something, they own it and apologize for failing to make things right. Even if this doesn't prevent a breach of trust, it can still avert a full-blown breaking of the implicit agreement that keeps employees connected to their organization.[29]

Clearly, it would be much easier for managers to say they're doing everything they can to uphold fairness but then throw up their hands when things don't work out as hoped. But doing so undermines behavioral integrity — a commitment to following through on fairness as a value rather than just talking about its importance.[30] This requires real strength, and, sadly, research shows that it happens way too infrequently.[31]

NONE OF THIS IS to say that bold, visionary leadership *isn't* important. In certain situations, it can be essential — for instance, for turning around a stagnant or failing organization, navigating technological disruption, or starting a new line of business. Nor do we buy into a dichotomized view of human beings and their capabilities. There are clearly people who can envision the future *and* persuasively share their plans *and* work with others to carry them out.

But implementing a mission or vision is every bit as critical as imagining it, and we need to start treating it that way. That means bringing in more executives who value good management and continue to practice it in the upper ranks — and deliberately building these skills when developing midlevel folks who aspire to take on bigger jobs.

Organizational success depends at least as heavily on this daily work as on the lofty stuff. Without strong execution, grand thinking — principled missions, compelling visions, and clever strategies — will amount to very little.

Despite the massive attention given to the inspirational aspects of leadership, the evidence is clear that most people in the workplace still aren't inspired, engaged, or truly committed. Many are heading for the exits. Good management can help solve these problems. It isn't less valuable than good leadership — if such a distinction should even be made — nor is it any easier. It requires guts, grit, and a lot of practice. And it's crucial to how people feel about their organization, how they perform, and whether they stay. Let's stop pretending that it's a lesser skill set — and get serious about building it.

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EXECUTIVE BRIEFINGS

FALL 2022 • VOLUME 64 • NUMBER 1

Manage Your Customer Portfolio for Maximum Lifetime Value

Fred Selnes and Michael D. Johnson **pp. 22-27**

Key Insight: Having a clear understanding of when and how much to invest in, leverage, and defend different customer relationships is an essential determinant of both current and future revenues and costs.

Top Takeaways: Setting goals regarding how customers are acquired and retained can provide long-term value and requires a clear understanding of the heterogeneity of customer needs and economies of scale as they emerge over time. To inform and act upon this understanding, companies need an integrated approach to customer portfolio management and customer portfolio lifetime value.

REPRINT 64119

Why Innovators in China Stay Close to the Market

Neil C. Thompson, Didier Bonnet, Mark J. Greeven, Wenjing Lyu, and Sarah Jaballah **pp. 28-32**

Key Insight: Chinese companies are about twice as likely as those elsewhere in the world to use customers, competitors, or business unit operational employees as a source of innovation.

Top Takeaways: While most of the world is converging on a common innovation recipe, running it out of centralized innovation groups, China is an exception. Companies there, both domestic and foreign, are much more likely to turn to market-facing sources for innovation, including customers, competitors, and front-line employees. Global companies that want to capture the benefits of being in China need to accept that they have to have a dual model: one for China, and one for the rest of the world.

REPRINT 64117

For ordering information, see page 4.

How Smart Products Create Connected Customers

Mohan Subramaniam **pp. 33-37**


CUSTOMER VALUE: DIGITAL STRATEGY

How Smart Products Create Connected Customers

Key Insight: Data acquired from digital customers — those who use smart, connected products — empowers businesses to dramatically expand their value scope.

Top Takeaways: Leaders of companies anchored in traditional value chains can drive growth by transforming their existing customers into digital customers. Digital customers' interactions generate streams of data that can be used to create fresh revenue and expand the scope of product and service businesses. To achieve this, however, leaders must shift strategic priorities and develop new marketing, business, and revenue- and profit-generation models.

REPRINT 64126

Strategically Engaging With Innovation Ecosystems

Philip Budden and Fiona Murray **pp. 38-43**


GROWTH

Strategically Engaging With Innovation Ecosystems

Key Insight: A common pitfall for companies looking for new innovation partners is focusing on how to connect before identifying what they need or which ecosystem players to approach.

Top Takeaways: Companies aiming to accelerate their innovation efforts can find opportunities by connecting to regional clusters of startups, researchers, and investors. The key to success is to have a well-considered strategy for engagement that is clear on what the business hopes to gain and what it can contribute. Leaders must understand the needs and interests of the different stakeholders in the ecosystem and make a long-term commitment to building relationships with them.

REPRINT 64101

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The Cognitive Shortcut That Clouds Decision-Making

Jonas De keersmaecker, Katharina Schmid, Nadia Brashier, and Christian Unkelbach **pp. 44-48**


MISINFORMATION

The Cognitive Shortcut That Clouds Decision-Making

Key Insight: When information is repeated, it gains credibility — regardless of whether it is true.

Top Takeaways: Business leaders are routinely confronted with bad information, including falsified data, facts, and figures, making them vulnerable to biased judgment if misinformation is repeated. Researchers call this the *illusory truth effect* — believing repeated information to be true, even when it is not. Understanding that you might have bias blind spots is the first step in combating it. So too is avoiding *epistemic bubbles*, where members of a network encounter only similar opinions and don't consider alternative points of view.

REPRINT 64120

Closing the Governance Gap in Joint Ventures

James Bamford and Geoff Walker **pp. 49-55**

Key Insight: As global companies increasingly seek new capabilities through joint ventures, many are choosing nontraditional partners, making managing risk via good governance even trickier and more important.


PARTNERSHIPS

Closing the Governance Gap in Joint Ventures

Businesses are increasingly partnering to meet their strategic objectives — but neglecting governance puts JVs and their shareholders at risk.

Top Takeaways: JVs make meaningful contributions to corporate revenue and can enable new growth strategies, but they increase their shareholders' risk exposure, often in ways that are hard to manage. To build a foundation for good governance — and increase the likelihood of better medium-term financial and strategic performance — JV owners must reach clarity and alignment on the JV's purpose and operating model.

REPRINT 64118

Meet the New Board — Same as the Old Board

Cynthia E. Clark and Jill A. Brown **pp. 56-59**

Key Insight: Many companies still struggle to appoint directors who are women, people of color, or members of other underrepresented groups. That needs to change.


GOVERNANCE

Meet the New Board — Same as the Old Board

Many companies are just going through the motions of recruiting more diverse board members. It's time to get serious about board refreshment.

Top Takeaways: Investors and regulators are increasingly pushing for greater diversity on boards, but many companies' efforts to do so, known as *board refreshment*, are falling flat. Vague terms, loose requirements, and CEO influence work against change and favor the status quo. Meaningful refreshment requires organizations to articulate specific intentions and guard against too much CEO input. Organizations can also make refreshment, not replacement, the norm — and refresh frequently.

REPRINT 64103

Can Design Thinking Succeed in Your Organization?

David Dunne, Theresa Eriksson, and Jan Kietzmann **pp. 60-67**

Key Insight: Under the right conditions, design thinking can be a powerful way to innovate and solve challenging problems, but good results depend on the right organizational culture.


PROBLEM-SOLVING

Can Design Thinking Succeed in Your Organization?

Top Takeaways: Design thinking offers a way to make business decisions that is especially suited to exploring uncharted territory and solving complex problems. But many leaders become discouraged when design thinking doesn't get the results they expect. Leaders need to know when to apply it, and they have to prepare both their employees and managers to be "design thinking-ready" — in part by finding a champion, creating a dedicated space to work on ideas, and choosing the right projects.

REPRINT 64123

Women Are Stalling Out on the Way to the Top

Monika Hamori, Rocio Bonet, Peter Cappelli, and Samidha Sambare **pp. 68-73**


DIVERSITY

Women Are Stalling Out on the Way to the Top

Here's what we've learned from 40 years of data on executives in the largest U.S. corporations.

Key Insight: Despite accounting for 47% of the U.S. labor force, women held just 27% of the Fortune 100's top leadership positions in 2021.

Top Takeaways: Although gender representation among senior leaders has improved since 1980, there's still a lot of work to do. An analysis of Fortune 100 executives' career histories and demographics shows that women in senior leadership positions are largely stuck in support functions, not moving into key operating roles. To get closer to parity, employers must invest more in leadership development overall and give women more equitable access to growth opportunities.

REPRINT 64112

Saving Management From Our Obsession With Leadership

Jim Detert, Kevin Kniffin, and Hannes Leroy **pp. 74-81**


LEADING TEAMS

Saving Management From Our Obsession With Leadership

Lofty notions of leadership have captivated our collective imagination — and we've underappreciated and underinvested in the everyday management skills that organizations desperately need.

Key Insight: Organizations and top teams downplay or ignore how hard it is simply to be a good manager — to skillfully hire, engage, develop, coach, supervise, evaluate, and promote people.

Top Takeaways: We've underappreciated and underinvested in the everyday management skills that organizations desperately need, including the ability to adeptly hire, engage, develop, coach, supervise, evaluate, and promote people. Most managers have internalized a message that qualities like strategic vision and executive presence matter more. But organizational success depends at least as heavily on the daily work as on the lofty stuff.

REPRINT 64104

For ordering information, see page 4.

Unleash the Superpowers of Your 'One and Onlys' (Continued from page 88)

The Upside of Embracing Anomalies

Sometimes scientists choose to deal with anomalies not by discarding them from the data set but by analyzing them to figure out why they exist. How is it that a few metastatic breast cancer patients survive when most do not? How is it that when an entire community contracts COVID-19, one or two people fly through with no symptoms? How is it that most people die before the age of 100, but a select few live to be centenarians? These are questions that are obviously worth embracing.

We don't need to look far to find proof that when anomalies are not discarded but treated as royalty, they can change the world. Just think about the story of Henrietta Lacks, an African American woman who was diagnosed with terminal cervical cancer in 1951. After her cancer cells were collected and cultivated, they were found to be unusually resilient in the lab, and they were used to unlock some of the biggest advances in medical science. They were the first immortal cells to live outside the human body, and for the past 60 years, Lacks's cells, called HeLa cells, have been essential to marvelous medical advances ranging from the polio vaccine to chemotherapy and gene mapping. Of course, her cells were taken without her explicit permission, which is counter to the practices that organizations should follow when they encounter anomalies.

Anomalies have the ability to make a big difference, both in laboratories, like with Lacks's cells, and in the professional world, the way Jackie Robinson did.

Unleash the Talent in Your Own Business

For organizations, anomalies can be seen as that talent that lies within their own ranks — people who stand out from their peers and whom many might consider an unexpected success.

To maximize competitiveness, businesses should not only lean into cultivating One and Onlys but also create a supportive environment where they can thrive even before they are identifiable as that rare anomalous gem.

Here are three ways businesses can utilize differences to lead in change:

Put anomalies in positions of leadership. The fact that One and Onlys are present in worlds where they stand alone in the first place means they've navigated tougher challenges than most. One study, for instance, found that while the number of women-owned businesses grew nationally by 21% from 2014 to 2019, the numbers for Black women grew even faster, by 50%. When One and Onlys are put in positions of leadership, they must be actively supported by management — especially as many are less likely to receive help from organizational structures, be openly provided the resources they need to succeed, or have their accomplishments promoted.

Support bravery. It can take a huge amount of courage for One and Onlys to speak up, especially if their opinions are different from what's being voiced by everyone around them. Leaders have an important role in creating an environment that encourages divergent viewpoints. Leaders must explicitly ask for everyone's opinion during team meetings to encourage that anomalous discovery. Don't shut down any ideas, even if they make you uncomfortable. Just like when working with neurodiverse talent, giving feedback that is tailored in response to the individual's diverse viewpoint can help create a more inclusive work environment.

Go back to the well. Companies should revisit the sourcing pipelines that got them to a broader range of job candidates. There are other One and Onlys who may be in the same place where the first one was found. Once Robinson broke through into the mainstream major leagues, the baseball world realized there was an entire group of players in the Negro Leagues who could be tapped. It changed the normative for the entire sport.

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— Deborah I. Gallagher

COLUMN

Unleash the Superpowers of Your 'One and Onlys'

BY AYANNA HOWARD

"JACKIE ROBINSON SYNDROME" is the condition where, as a member of an underrepresented group, you are the first in something, the "One and Only," and there is a perception that you must both be exceptional and perform at a higher standard than others. (This "syndrome" is named for the American superstar athlete who, in 1947, became the first Black player invited into Major League Baseball.) Many who operate with this status are often seen as anomalies.

Although embracing these anomalous qualities can cause isolation, especially at the beginning, as anomalies continue to survive, over time they set new baselines for "normal." One and Onlys are often seen as trailblazers because they show us what is possible. They instinctively understand this human peculiarity: They work hard to embrace their differences, to stand out and not blend in. When One and Onlys live their lives always being different, it means they inherently have learned to think outside the box.

Providing support for unique employees doesn't come naturally in most organizations. There can be bias against embracing the exceptions, even though they are exceptional. But One and Onlys have the power to lead change, which organizations should embrace and provide scaffolds to amplify.

The Bias Against Outliers

In the engineering world, we are typically encouraged to get rid of anomalies. Since they can negatively impact our data analysis or how we design a normative solution, anomalies are often discarded.

This bias against outliers and difficult-to-measure data can get baked into processes in extremely detrimental ways. In 1977, for instance, a U.S. Food and Drug Administration policy recommended excluding women of childbearing age from early drug trials following the discovery that a drug used to prevent morning sickness could cause severe birth defects, such as missing limbs. Many absurdities ensued, including a trial study on whether hormone therapy was an effective treatment for mitigating heart disease after menopause that had 8,341 men enrolled and zero women. It wasn't until 1993 that the FDA explicitly reversed the recommendations from its 1977 policy. The damage they caused has yet to be fully resolved, because most of the advances the medical sciences have made are still rooted in original studies involving the male body exclusively. A 2020 study based on data from over 2 million patients revealed that women with heart disease are less likely than men to receive the recommended medication.

A similar bias to test with the male as the norm has plagued the auto industry. Since the 1970s, most crash tests created to assess car safety designs have used crash test dummies that are standardized to the average American male body. The National Highway Traffic Safety Administration, an agency of the U.S. federal government that has oversight of automobile safety, didn't begin to make wider use of female dummies in crash tests until 2003. The consequences? A female car occupant is 73% more likely than a male to be seriously injured in a frontal car crash.

These examples show what can happen when the experiences and voices of those outside the defined "normal" are muted in the innovation process. (Continued on page 87)

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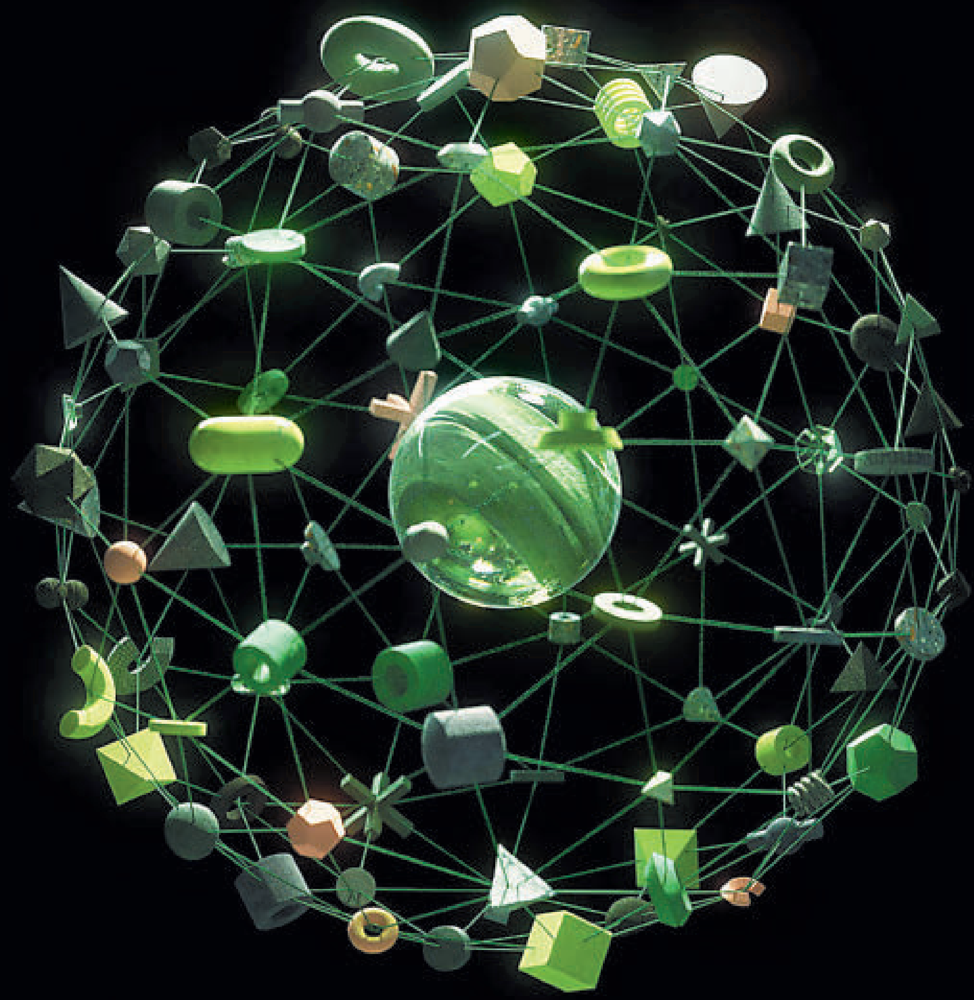

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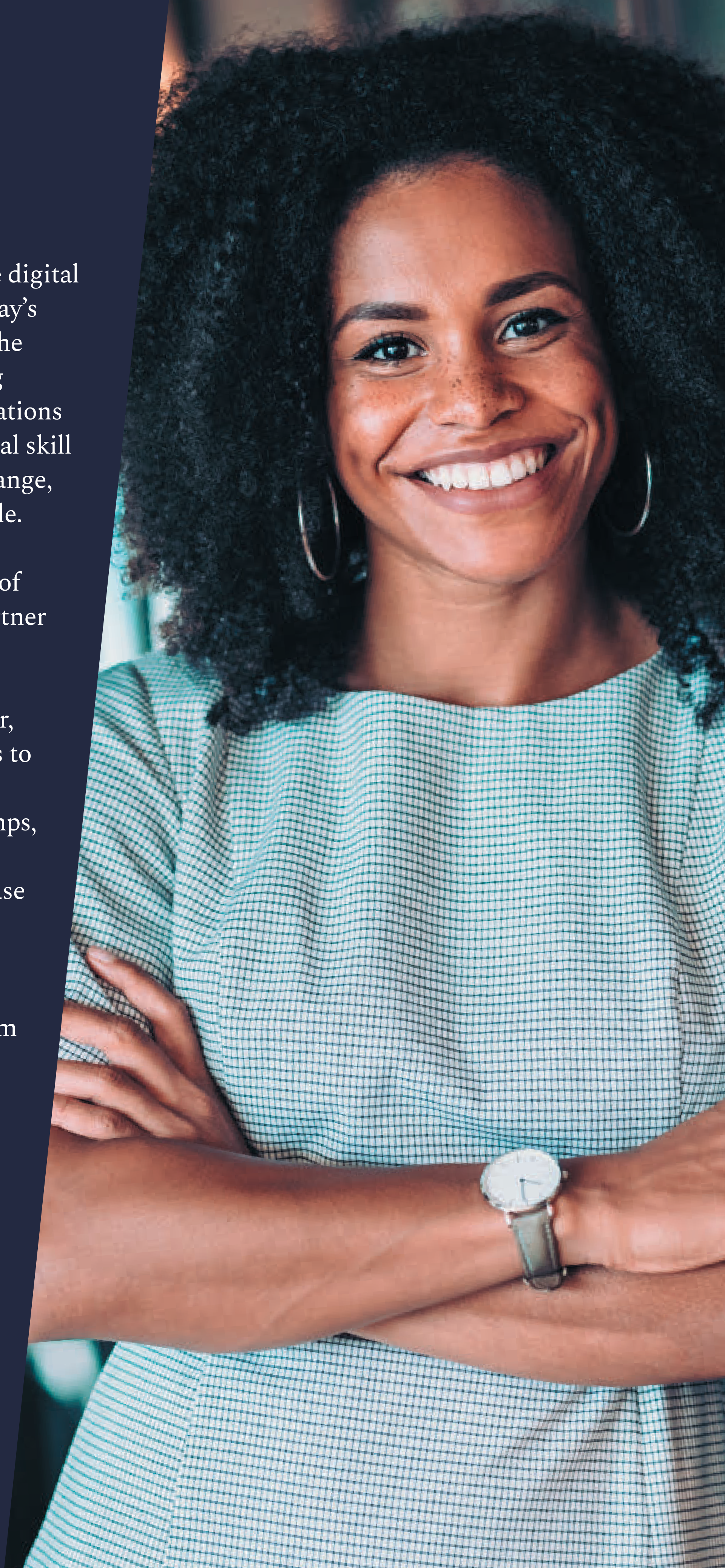

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