Harvard Business Review

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September–October 2023

Reskilling in the Age of AI

New approaches for managers and employees

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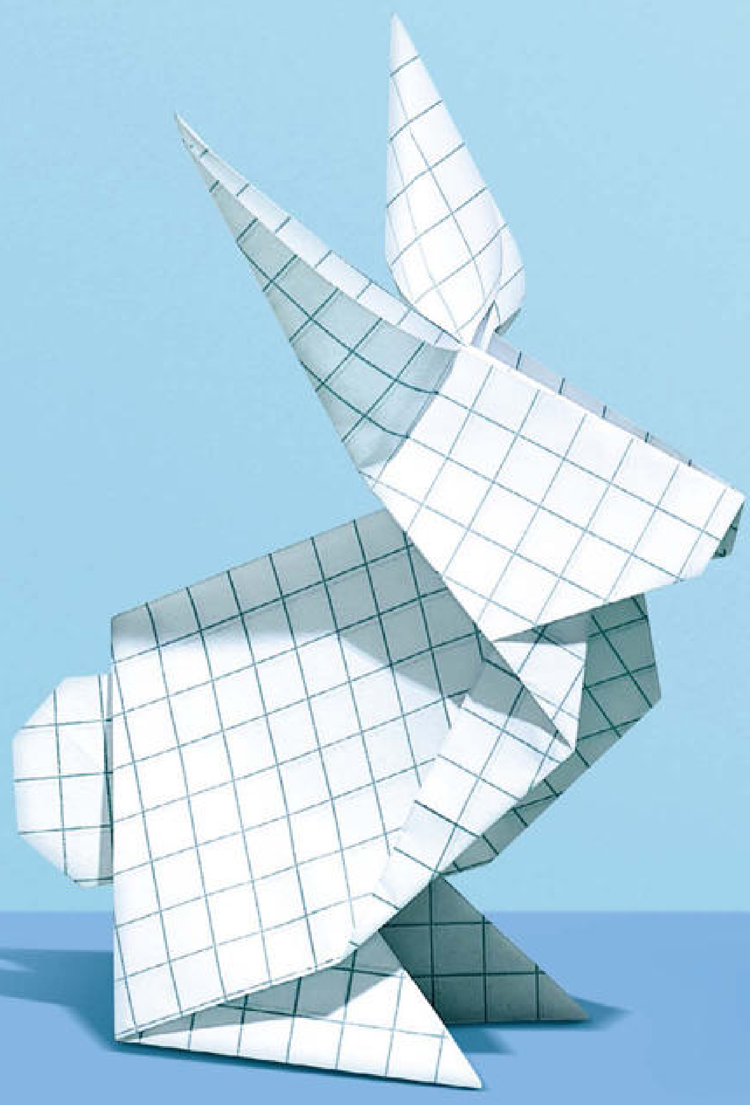


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“Many employees are grappling with stressors such as social isolation, economic uncertainty, and lingering effects of the pandemic.”

“HELPING AN EMPLOYEE IN DISTRESS,” PAGE 38

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Illustration by BLAKE CALE

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"Our new corporate purpose is 'to unlock the power of nature to enrich the quality of life.'"
–JUAN RICARDO LUCIANO, CEO OF ADM

Courtesy of ADM

NEW PROGRAM

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Adi Ignatius

The Ever-Expanding Job of Managers

FOR MOST OF OUR 100 YEARS, *Harvard Business Review* has emphasized expert advice. Since around the time of the Covid-19 pandemic, however, we've taken on an additional objective. We still try to deliver smart guidance, but it's often combined with a call for empathy. More than ever, our authors recognize that no matter how much expertise leaders acquire, they face unique pressures that can require a particularly human response.

That sensibility comes through in this issue's Spotlight, "Leading the Anxious Workforce." In the article "Helping an Employee in Distress," clinical psychologist Kiran Bhatti and University of Cambridge professor Thomas Roulet write that until a few years ago, bosses were taught to steer clear of employees' personal issues. Today, they say, many employees—especially those from younger generations—talk openly about their mental health and view therapy as a normal part of life. That's changed what people expect from managers, especially as pandemic-related anxiety is now compounded by the stress of uncertain economic times. In their article, Bhatti and Roulet outline a set of skills called "mental-health first aid," which many firms are already training managers to practice.

It may seem unfair to expect leaders to be first responders when mental health crises arise in the workplace while they must also adapt to hybrid work, identify the risks and opportunities of generative AI, and search for new sources of growth in a tough economy. But the business landscape is changing, and smart managers need to equip themselves to succeed in the new world.

Thanks for reading,

ADI IGNATIUS
Editor in chief

Robyn Twomey

Contributors

INSEAD professor **Erin Meyer** has long been interested in exploring cross-cultural tensions in organizations, having written four HBR articles and a book, *The Culture Map,* on the topic. In this issue she focuses on the challenges of giving and getting feedback in increasingly diverse workplaces. “When it comes to sharing feedback and advice, diversity often leads to complications, which, if not understood or managed, can create an environment rife with bad feelings, defensiveness, and ruptured relationships,” she writes, going on to explain how managers can navigate the divides better.

86 When Diversity Meets Feedback

Now a doctoral candidate at University of Cambridge’s Judge School, **Haijian Si** has been the CEO of three companies in China’s solar energy and EV battery sectors. Throughout his career he has struggled to understand the rationale for projects that R&D departments select and has suspected that large portions of their budgets were wasted. His article in this issue grew out of a deep dive he and his coauthors took into the innovation process at his latest venture and at companies in other industries. Si found this work so interesting that he left his CEO role to pursue a career in academia and study smarter ways to innovate.

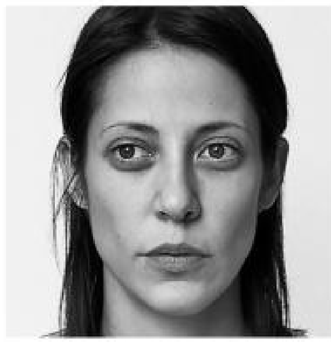
120 A New Approach to Strategic Innovation

When **Matt Abrahams** was in middle and high school, seating assignments were done alphabetically by last name, making him an easy front-row target for teachers’ spur-of-the-moment queries. Being in the hot seat initiated him into the world of spontaneous speaking—not just the anxiety it can cause but also the chance to shine it presents. In his article in this issue, Abrahams, now a lecturer at Stanford studying strategic communication, introduces a suite of techniques for handling Q&A sessions, toasts, small talk, and other extemporaneous speaking opportunities.

139 How to Shine When You’re Put on the Spot

Jorge Tamayo, an assistant professor at Harvard Business School, studies labor markets within companies. Lately he’s been looking at how managers can adjust them to meet the fast-growing demand for new digital skills. The answer is reskilling, his research has shown. To help organizations learn how to do it better, he and Raffaella Sadun, also of HBS, have founded the Digital Reskilling Lab. In this issue Tamayo, Sadun, and three coauthors lay out some of their insights about the best way to approach reskilling in times of rapid technological change.

56 Reskilling in the Age of AI



The graphic artwork of **Anna Parini,** an Italian illustrator based in Barcelona, has been featured in publications including the *New Yorker* and *Vogue.* In her illustrations in this issue, she tried to capture the delicate balance between the benefits and the challenges of artificial intelligence. “I hope to provoke introspection and encourage dialogue about the intricate relationship between AI, automation, and our perception of self,” she says. “By confronting these complex emotions, we can understand the impact of technology on our lives and embrace its opportunities while ensuring the preservation of our individuality.”

130 How AI Affects Our Sense of Self

Harvard Business Review

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IdeaWatch

New Research and Emerging Insights

IN THEORY

Should You Launch Products During a Recession?

Countercyclical rollouts can be a smart tactic—but you need to keep several factors in mind.

Economic downturns are frightening. Consumers curb spending, companies cut costs, and we all wait anxiously for the economy to recover. In such a climate, launching a product—an expensive and uncertain endeavor in the best of times—would seem to make little sense. But a new study finds that products launched during recessions outperform on several important measures.

The researchers explored three questions: How do products introduced during recessions perform relative to ones launched during booms? Does the severity of the recession affect performance? And does the timing within the recession matter? They analyzed 8,981 product launches in the UK in 20 fast-moving consumer goods categories

Illustrations by ANDREW JOYCE

IDEAWATCH

from 1995 to 2012, along with 1,071 product launches in the U.S. auto industry from 1946 to 2008. They gathered information on UK launches from AiMark, a Netherlands-based marketing organization, and collected data on U.S. launches from sources including *Automotive News* and the *New Encyclopedia of Motor Cars*. Finally, they looked at data from the UK Office for National Statistics and the U.S. Bureau of Economic Analysis to track recessions in each economy as well as publicly available data on each product's sales, market share, and life span.

"I expected to see a big difference between the success of necessities, such as toilet paper and food, and that of discretionary products, such as hair dye," says M. Berk Talay, the lead author of the study and a professor at the University of Massachusetts Lowell. "I thought discretionary-product launches would be more likely to fail, because nonessential purchases tend to decline in tough economies. But the effects are consistent across products and categories. A recession might be the ideal time to launch your product no matter what it is."

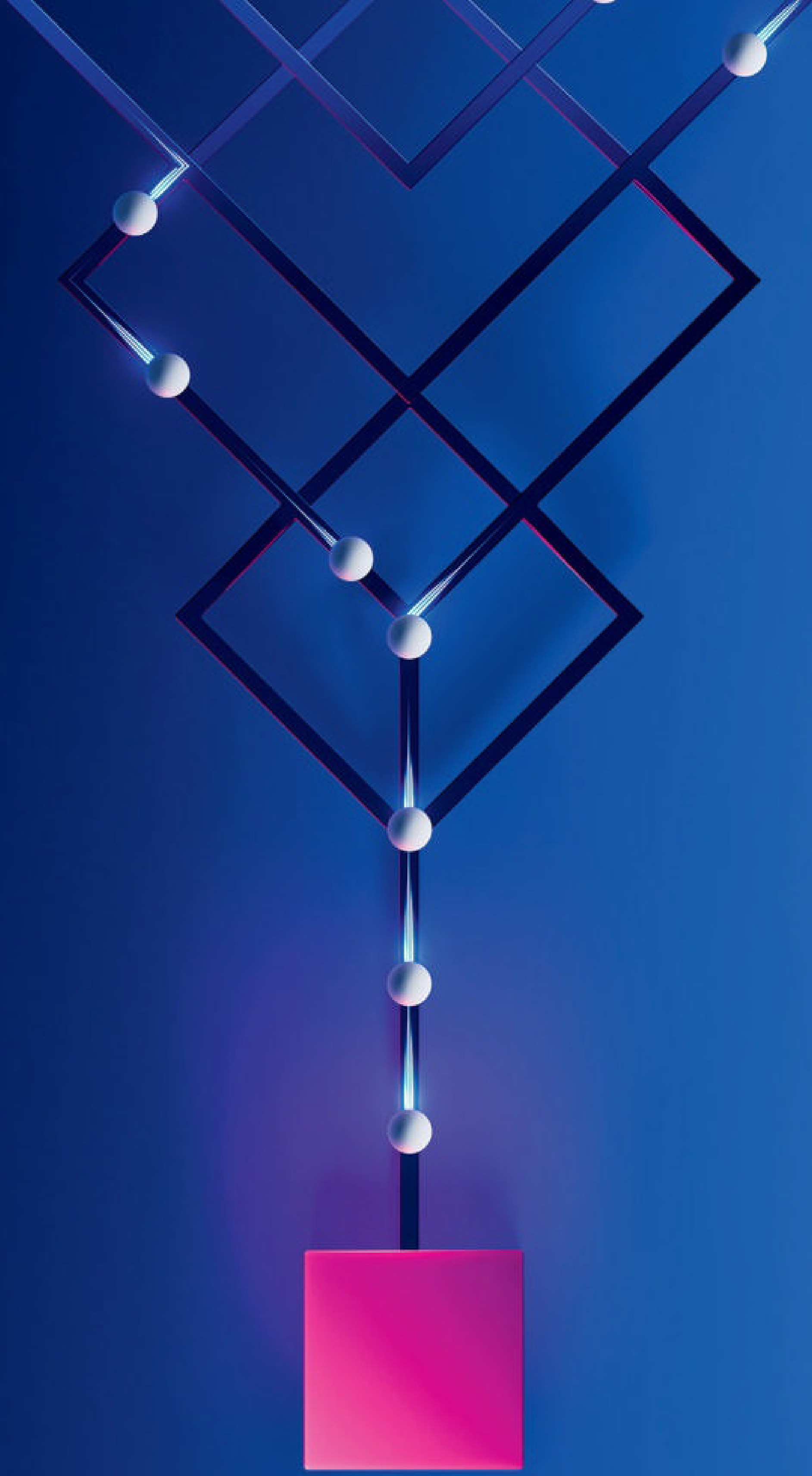
Talay and his coauthors derived several key insights from their research, each with implications for executives looking to time product launches for maximum impact and longevity.

Products launched during a recession survive longer. UK consumer products launched during a recession survived 14% longer, on average, than comparable products launched during non-recessionary periods. Similarly, automobiles launched during recessions in the United States survived 19% longer than cars introduced during economic expansions. The authors also analyzed historical market share and sales data and found that products introduced during recessions performed better on these measures as well.

Even though people tend to limit spending and companies generally scale back advertising during downturns, the timing may confer an advantage on firms that go ahead with launches, the researchers say. That's because there is less noise in the marketplace, making it easier to differentiate products and draw consumers' attention. In addition, the cost of running ads is often lower, providing more bang for the buck. Finally, going ahead with new products in the midst of a weak economy is often perceived as a signal of corporate health. As customers become increasingly anxious and risk averse, they may be wary of buying from companies that seem likely to go out of business, perceiving that those in a position to roll out new products are more likely to endure.

Launching during a severe recession can imperil survival. The study revealed an exception to the superior performance of products introduced during recessions: Items launched during severe recessions struggle to survive. Not only does consumer demand drop more sharply, but companies are also less likely to secure external financing, hampering advertising efforts. The researchers found evidence, however, that products launched during the most extreme recessions generally survived longer than those introduced during mild or severe downturns.

Products launched late in a recession fare better than those launched early on. This finding is especially counterintuitive. After all, at the start of a recession many people have savings that allow them to continue consuming.



Over time, though, their funds become depleted, so consumer demand drops. And as company bankruptcies rise and more people are laid off, demand drops even lower. Still, the research showed that late-recession launches had greater success. People adjust to recessions to some degree as time goes by, the researchers say, and they can defer certain purchases for only so long.

You might be tempted to delay your launch until the recession is over. Many companies take that tack, and it's easy to see why: Once the recovery begins, people will be getting back to work, and consumer demand will start to rebound. At the same time, though, competing firms will be resuming output and ramping up their promotion and advertising efforts. With a late-recession product introduction, the researchers suggest, you can beat rivals to market. The longer you wait, the more competition and clutter you'll face. That's an important consideration for national brands, which typically have more advertising resources than private brands do and can use them to gain consumers' attention before private brands escalate their marketing activities. The study found that among products launched toward the end of a downturn, national brands did better than private ones.

"The window of opportunity is the latter half of the recession," Talay says. It's impossible to predict exactly when the economy will turn around, of course, but "the latter half of the recession" is a large window. By closely monitoring overall economic activity and drawing on their experience and intuition, smart managers can make reasonable estimates.

The sooner after a recession that a product launches, the better its chances of survival. If you miss the end of the recession, the earlier in the recovery that you launch, the better. Again, you want as big a lead on your competitors as possible. An early-recovery product introduction can give you that head start while avoiding the depressed consumer demand experienced during the recession itself.

Products launched just before a recession underperform. The study also showed that bringing out a product as the economy starts to soften endangers the product's performance and survival. It's just as hard to predict the start of a recession as to know when one will end, but the same guidance applies: Analyze overall economic activity, tap your experience and intuition, and make a well-informed estimate. "Knowledgeable managers can act countercyclically by cutting back on product launches near the end of a boom," Talay explains. "They can wait until the coming recession is far along and use the opportunity to overtake weaker competitors."

A recession is a process, not a stagnant data point, he points out. "Manipulate your product release as much as you can in line with these findings, and you should see significant results."

HBR Reprint F2305A

ABOUT THE RESEARCH *"Why and When to Launch New Products During a Recession: An Empirical Investigation of the UK FMCG Industry and the U.S. Automobile Industry," by M. Berk Talay, Koen Pauwels, and Steven H. Seggie (*Journal of the Academy of Marketing Science, *2023)*

IN PRACTICE

"A Recession-Era Product Launch Is Like a Running Start"

DAVID FIGLER *is the executive vice president of product and brand management at Infinity Massage Chairs. Formerly a vice president at Brookstone and Sears, he specializes in retail merchandizing and product strategy. He recently spoke with HBR about the advantages and challenges of launching a product during a recession. Edited excerpts of the conversation follow.*

Did the study's finding that recessionary launches often outperform surprise you?
Not at all. Companies that stop production or pause their product launches because of an economic downturn create major disadvantages for themselves when it's time to ramp things back up. Those that stick with their plans can ride the positive momentum when the economy improves. Who do you think would win a race: the person with a running start or the person standing still? A recession-era product launch

is like a running start. The problem is that recessions are hard to predict.

Does it make sense to try?
This is where research and reality collide. My company can't turn off product development on the basis of recessionary trends; it's the lifeblood of the firm. If we knew for a fact that we should postpone a product launch because the economy would change in three months, we would. But we never really know whether we're heading into a recession and how long or severe any recession might be. Plus, what happens during times of economic growth? Would you tell your boss not to launch then because it's better to wait for a recession? Business doesn't work that way. If we think that one of our channels will be ready for a particular product, we'll start developing it. It would take a lot to stop me from introducing that product as soon as I could and beginning to recoup our development costs.

Have you ever launched a product during a recession?
Although the Covid-19 pandemic didn't cause a prolonged recession, many people anticipated that it would—they foresaw financial doom and gloom. But then everyone started making improvements to their homes, because they were trapped there during the lockdown. That included buying massage chairs. What would have happened if we had paused our launch back in February 2020 for fear that a recession was coming? We would have missed maybe the best years for our business.

You were at Sears during the 2008–2009 recession. How did you handle product launches then?
We were running lots of sales in an effort to make up for our losses. But we realized that we needed to break out of that cycle; after all, there are only so many times you can give away 30% in hopes of driving demand. So we decided to pivot and focus on innovation instead, and we came out with a product called the auto hammer. Before then, nobody had taken the manual hammer and turned it into a power tool. We shifted some of our advertising budget to promote the innovation. The goal was to get customers to walk past Home Depot and Lowe's and stop at Sears because we were showing them something no one else had. That product launch lifted the whole business. During a recession you have to work harder to bring the customer to you—or you have to go to where the customer will be.

Photograph by CODY O'LOUGHLIN

IDEAWATCH

THE POWER OF THE PRESENT TENSE

Reviews and other opinions are deemed more helpful, useful, and persuasive when they use the present rather than the past tense, according to a study involving offerings as varied as books, consumer electronics, and vacation destinations. That's because the present tense conveys greater certainty, the researchers say. "How Verb Tense Shapes Persuasion," by Grant Packard, Jonah Berger, and Reihane Boghrati (2023)

NEGOTIATON

Even Undetected Lies Can Come Back to Haunt You

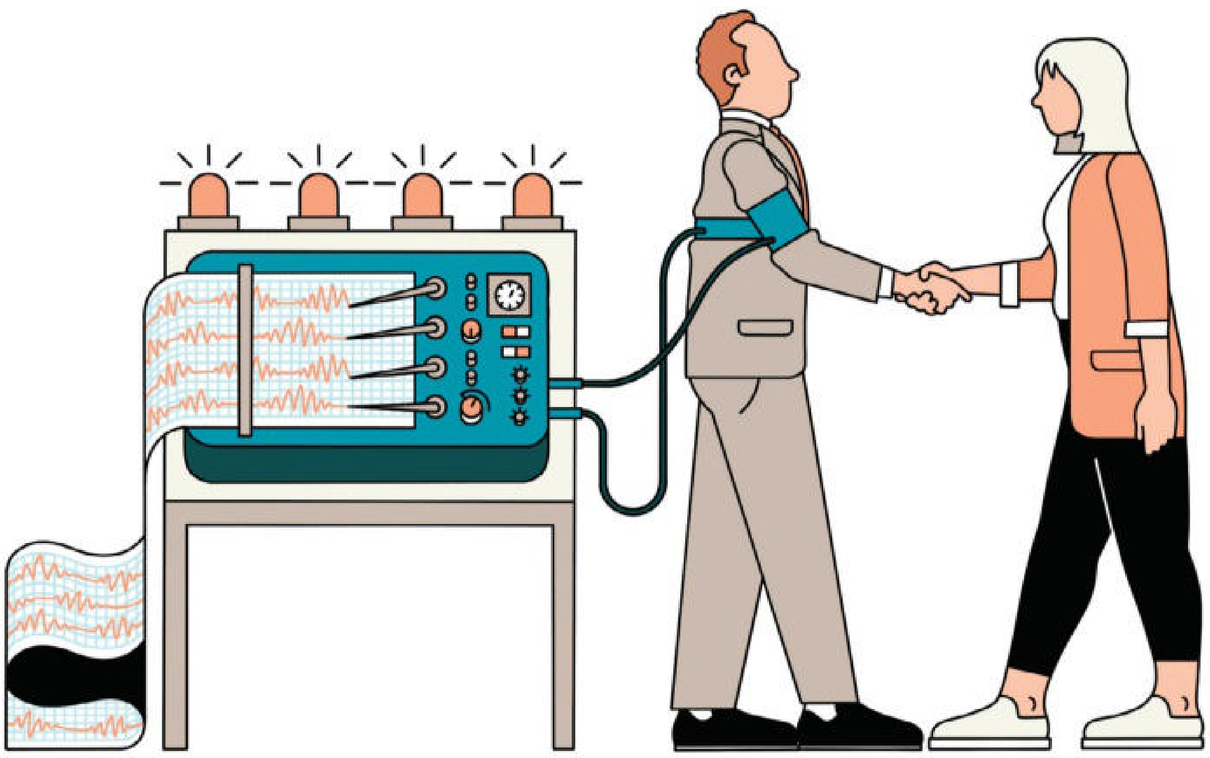
Getting caught for deceptive behavior in a negotiation has obvious consequences. What about deceptions that go unnoticed? According to a new study, while deceivers might emerge with a better deal than if they'd played it straight, they're also less likely to be satisfied with the experience—and those negative feelings cascade downstream.

Across four experiments involving thousands of participants, the researchers explored which of two emotions held greater sway in a variety of negotiations: delight at achieving a better outcome or guilt at having used dishonest means to do so. In the first experiment, 982 participants were paired up as buyers and sellers negotiating the price of a hypothetical used computer with a defect. Half the buyers were told to send their seller a message saying that when they had tested the computer, everything seemed to be fine. The other half indicated that the computer had crashed and cited the probable need for a new graphics card. All buyers were encouraged to ask about the machine's condition. All sellers were instructed to say whatever they wanted to in order to secure the best deal, and they were offered either small or large incentives to push for a high price.

Of the 246 sellers whose buyers were unaware of the computer's defect, fully 181 chose to conceal it. When surveyed at the close of the experiment, they expressed more guilt than positive emotions, and the larger the incentive they'd been given to drive up the price, the greater their guilt. They also expressed less satisfaction with the bargaining experience than the sellers who came clean and those whose buyers knew about the defect and who therefore had no opportunity to lie about it.

The remaining experiments found the same pattern regardless of other variables, including whether people saw themselves as being of high or low moral character, were negotiating anonymously with strangers or dealing face-to-face with acquaintances, or were acting as an agent for someone who had directed them to lie. They also showed that participants who had lied were less likely than others to want to negotiate again with the same counterpart and were less satisfied when they did. "Living with the costs of dishonesty might be psychologically more challenging than forgoing its benefits," the researchers conclude.

ABOUT THE RESEARCH *"Does Hoodwinking Others Pay? The Psychological and Relational Consequences of Undetected Negotiator Deception," by Alex B. Van Zant, Jessica A. Kennedy, and Laura J. Kray* (Journal of Personality and Social Psychology, *2023)*



BRAND NAMES

Do Unconventional Spellings Help Sales?

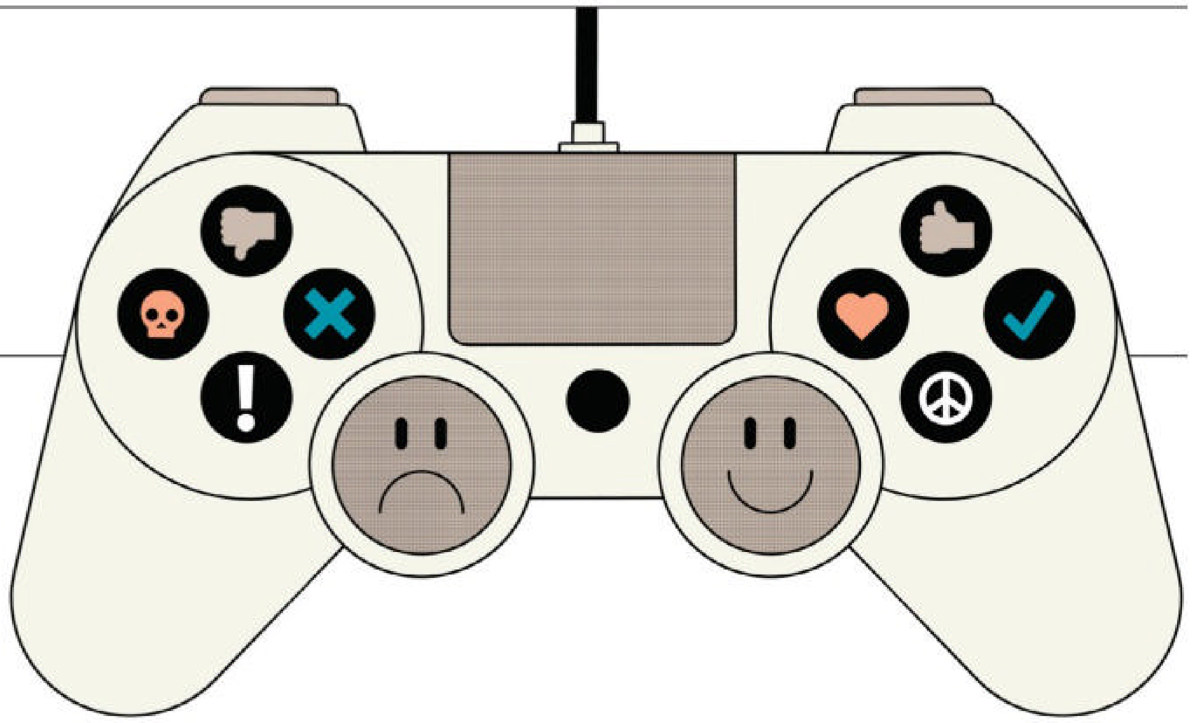
Tumblr, Lyft, Phat Buddha, Tripp: "Creatively" spelled names aren't new, but they've proliferated in recent years. New research explores their effectiveness for new-to-market brands.

In the first of eight studies, the researchers offered free samples of seltzer on a U.S. university campus. Passersby could choose from two fictitious brands: Deep and Clear—or "Klear," as it was rendered half the time. They were 14 percentage points less likely to choose the second when the display used the unconventional spelling.

Subsequent studies showed that people were not only less likely to select a brand when its name was unusually spelled; they wanted to pay much less for it. Participants indicated that they saw unusual spellings as a persuasion tactic and viewed the brands as less sincere. The backlash was mitigated by a legitimate-sounding reason for the names—for example, that they had been crowdsourced. There was one context in which unusually spelled names outperformed: when people sought a memorable experience, such as a place for drinks during a Las Vegas vacation.

There are other exceptions, of course—Tumblr and Lyft are prime examples—but the findings indicate that in general, unusual spellings carry some risk. "While marketing managers may believe that unconventionally spelled brand names make their brand seem cool," the researchers write, "the fact that such brand names are seen as overt persuasion attempts may make them seem uncool because they are trying too hard." The researchers note that in 2021, when the Scottish investment firm Standard Life Aberdeen rebranded as Abrdn in an effort to appear more modern, it was ridiculed on social media as, for example, "an old person trying to 'get down with the kids' a bit too late."

ABOUT THE RESEARCH *"'Choozing' the Best Spelling: Consumer Response to Unconventionally Spelled Brand Names," by John P. Costello, Jesse Walker, and Rebecca Walker Reczek* (Journal of Marketing, *forthcoming)*



MENTAL HEALTH

Our Beliefs About Video Games and Well-Being May Be Unfounded

Do video games erode well-being and serve as a source of addiction, or do they boost people's mental states by encouraging relaxation and the feeling of being "in the zone"? A recent study finds little support for either claim.

The researchers collaborated with the publishers of seven popular games, emailing players in several countries around the globe with invitations to help them investigate the effects of playing on well-being. This yielded a sample of nearly 40,000 active players. The players and publishers furnished six weeks' worth of playing data on each participant, and participants were subsequently surveyed about their well-being and life satisfaction. Playing time had little or no effect, on average, on either measure. One factor did make a difference: participants' reasons for playing. People who were seeking fun or relaxation saw increases in well-being and life satisfaction, while those who played out of compulsion saw dips.

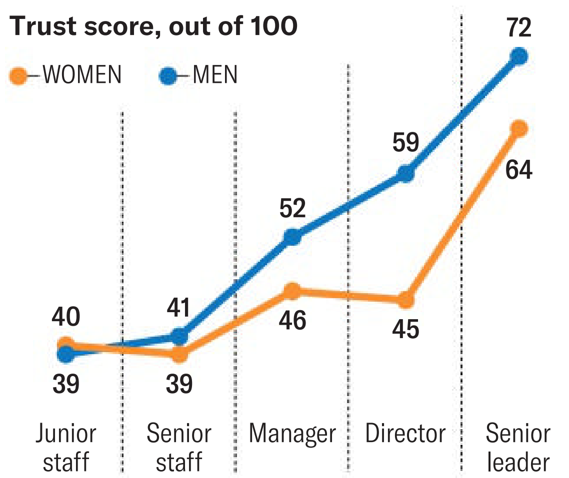
"For good or ill, the average effects of time spent playing video games on players' well-being are probably very small," the researchers write. "The subjective qualities of play may be more important than its quantity."

ABOUT THE RESEARCH *"Time Spent Playing Video Games Is Unlikely to Impact Well-Being," by Matti Vuorre et al.* (Royal Society Open Science, *2022)*

GENDER

The Yawning Trust Gap

A 2021 survey of 5,000 U.S. employees in a range of jobs and industries reveals that although men and women begin their careers with similar degrees of trust in their employers, women's trust begins to lag that of men as they climb the corporate ladder. Scores begin to converge again at senior leadership levels, but the gap never closes.



Source: "Why Women Trust Their Employers Less Than Men Do," by Ashley Reichheld, Emily Werner, and Wenny Katzenstein (HBR.org, 2023)

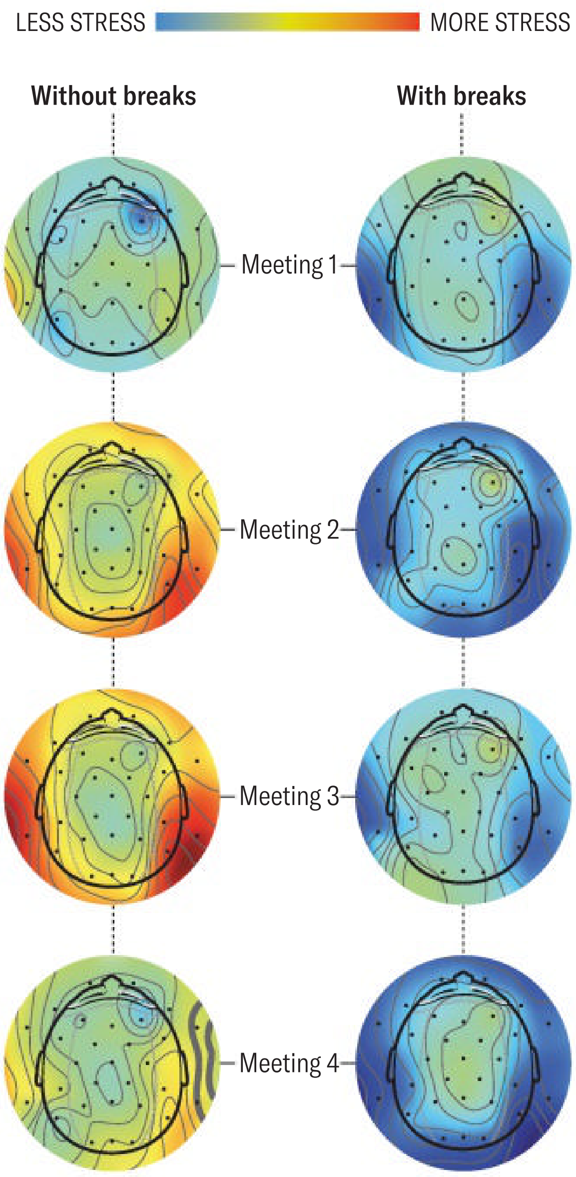
IDEAWATCH

STRESS

What Back-to-Back Video Meetings Do to Your Brain

In a recent study, electroencephalogram (EEG) tests showed that when people attended four half-hour video meetings in unbroken succession, beta-wave activity—a marker of stress—increased. When the same people were given 10-minute meditation breaks between meetings, beta-wave activity stayed at low levels.

Participants' average beta-wave activity



Source: "Research Proves Your Brain Needs Breaks," by Microsoft Human Factors Lab (2021)

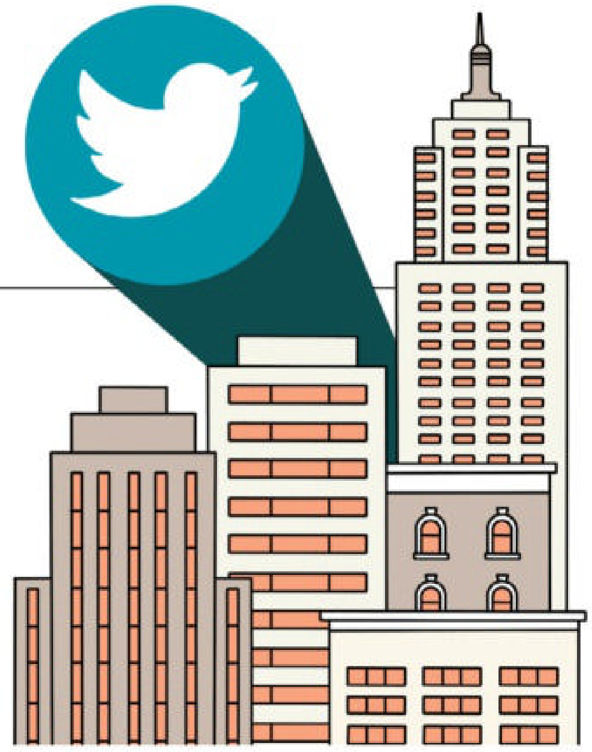
CORPORATE MISCONDUCT

Social Media Can Be a Helpful Watchdog

Research has shown that traditional media serves a monitoring function when it comes to corporate ethics. For example, when a local newspaper closes, incidences of misconduct in area businesses tend to rise. A new study finds that social media can help tamp down wrongdoing as well.

The researchers used digital maps and media reports to pinpoint the introduction of 3G networks in various zip codes across the United States. They gathered data on facility-level violations and penalties from Violation Tracker for the years 2000 to 2017, identifying 11,508 violations by 10,590 facilities of 1,360 public companies. This allowed them to calculate the number of violations and the amount of resulting penalties in the three years before and the three years after 3G's arrival. Access to the faster technology decreased violations by nearly 2% and penalties by nearly 13%.

Next the researchers examined changes in the volume of tweets in each zip code following the introduction of 3G, discovering a sharp increase. And as tweets rose, reports of misconduct and associated penalties declined, confirming the initial analysis. The drops were especially sharp among facilities of large firms, firms with many followers on Twitter, and firms with robust media coverage. They most often involved nonfinancial infractions, such as environmental violations. "While the current public debate primarily focuses on harms of social media, such as the



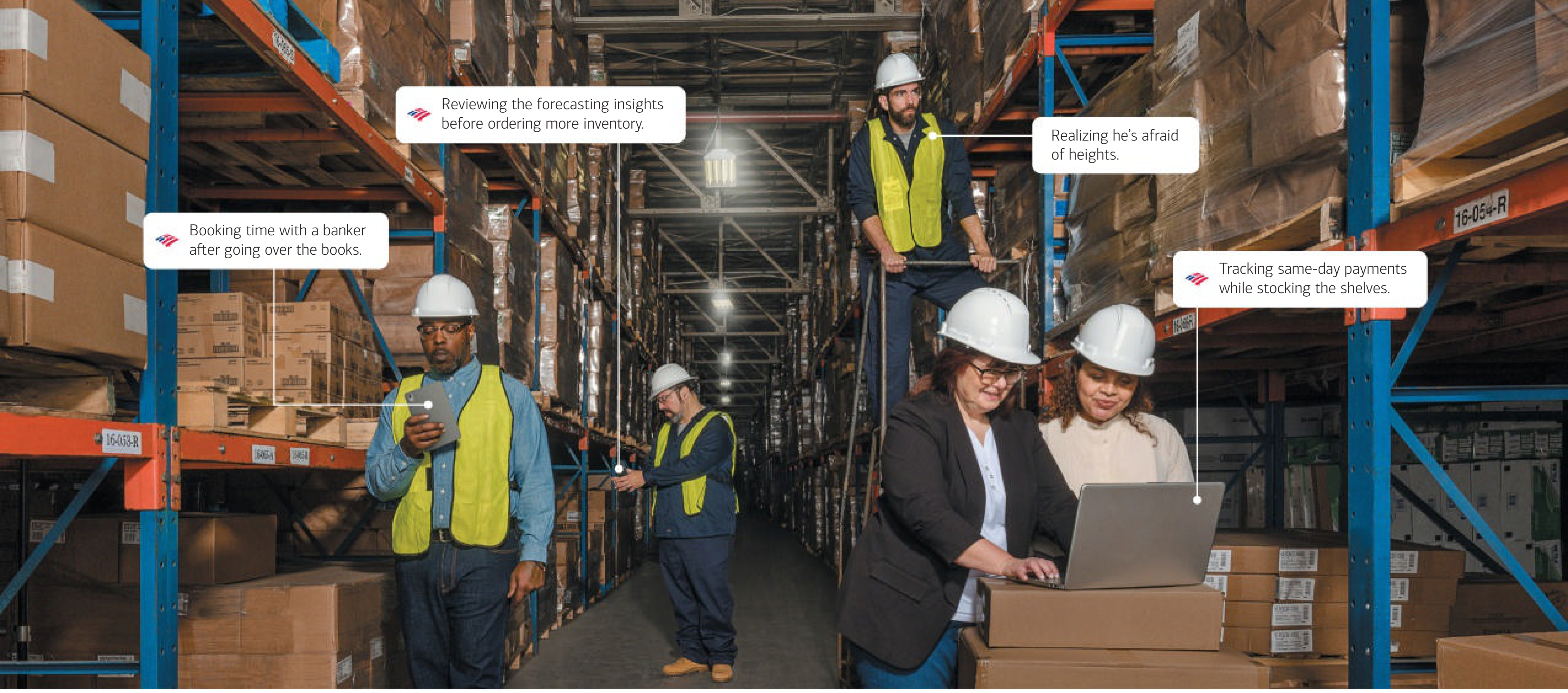
spread of 'fake news'," the researchers write, "our findings highlight a benefit: its ability to reduce corporate misconduct by, in part, empowering citizens to monitor firms' behavior."

ABOUT THE RESEARCH *"The Monitoring Role of Social Media," by Jonas Heese and Joseph Pacelli* (Review of Accounting Studies, *forthcoming)*

DIGITAL MARKETING

Why You Should Give Your Virtual Influencer a Friend

Companies are increasingly turning to virtual influencers—computer-generated characters that are endowed with a personality and deployed as social media influencers—in part because they're easier to control than their human counterparts. Research shows that three-quarters of GenZers follow at least one virtual influencer, and up to 40% have bought something promoted by one. To be effective, influencers need to connect strongly with their audience, which poses an added challenge for those that aren't real. A series of new studies finds a tactic that can help.



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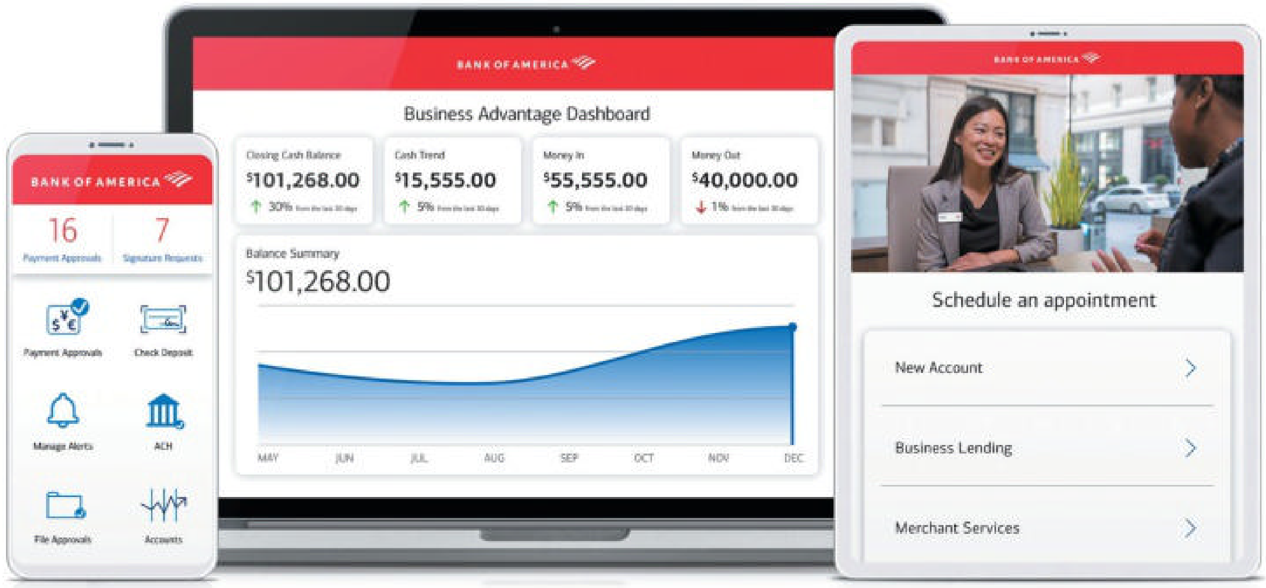

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Screen images simulated. Sequences shortened.

IDEAWATCH

SUFFERING FROM A CREATIVE BLOCK? PLAY A BOARD GAME

French university students who spent half an hour playing a creative board game—one requiring the generation of ideas—scored higher on tests of originality than students who played noncreative games or played no games at all. The boost occurred regardless of people's baseline levels of creativity. "Board Games Enhance Creativity: Evidence from Two Studies," by Maxence Mercier and Todd Lubart (2023)

In the first study, the researchers used image mining to detect the presence of a human companion or companions in nearly 10,000 Instagram posts by 28 virtual influencers from various countries. To measure engagement, they counted the likes and comments each post received. They found that engagement was 27% higher in posts that included a companion, even when numerous factors were controlled for, including aspects of the influencer, the image, and the accompanying text.

A similar pattern emerged in the remaining studies, which also showed that a companion's presence made people more likely to buy the endorsed product and that the effects were driven by trust: Being shown with others made virtual influencers appear more human, which in turn made them seem more trustworthy. In fact, "including a companion in the image increased trust almost to the level of human influencers," the researchers write. The presence of a companion in posts by human influencers had no effect on engagement levels, and the engagement bump was much smaller for virtual influencers that appeared highly human. It was stronger when trust was especially in doubt, as when the influencer was directly talking about a product. "Our results demonstrate a simple and easily implementable way to increase the impact of virtual influencer posts," the researchers conclude.

ABOUT THE RESEARCH *"What Drives Virtual Influencers' Impact?" by Giovanni Luca Cascio Rizzo, Jonah Berger, and Francisco Villarroel Ordenes (working paper)*

PERSUASION

Which Are More Effective: Spoken or Written Recommendations?

You're thinking of visiting a local restaurant for dinner. You could go online to see what others have said about it, or you could ask your smart speaker to read their reviews to you. Would the choice of medium influence your likelihood of heeding the recommendations?

Across five experiments, researchers found that people were more likely to adhere to recommendations they heard than to follow ones they read, even when the wording was identical. In one of the studies, for example, 1,177 participants received recommendations and chose among three options for each of four products: beer, credit cards, extension cords, and restaurants. Some read a handwritten recommendation for each category, some heard recommendations read by a human, and some heard recommendations read by a computerized voice. Overall, participants who heard a recommendation in either form were more likely to act on it than those who read it were.

The other experiments found similar results and explored the reasons for them. When people read recommendations, the information remains available to them, but that's not the case with spoken recommendations. "The ephemerality of auditory messages evokes a sense of relative urgency," the researchers write. That creates a need for closure, which in turn "lead[s] individuals to exhibit a speeded-up reliance on early cues" and thus to draw more heavily on spoken recommendations than if they'd encountered them in written form.

ABOUT THE RESEARCH *"The Effect of Auditory and Visual Recommendations on Choice," by Shwetha Mariadassou, Christopher J. Bechler, and Jonathan Levav* (Psychological Science, *2023)*

INCLUSION

What Trans and Gender-Nonconforming Employees Face in Their Daily Work Lives

A 2022 survey of more than 2,000 trans and gender-nonconforming workers around the world found widespread discrimination and incivility—more extreme in some countries than in others.

SHARE OF RESPONDENTS: Less than 30% | 30–39% | 40–49% | 50–59% | 60% or more

Prompt: In the past 12 months I was:	MEXICO	GERMANY	FRANCE	BRAZIL	UNITED STATES	AUSTRALIA	UNITED KINGDOM	INDIA
Discouraged from coming out about gender identity	44	42	46	55	47	48	51	68
Referred to by the wrong gender	46	48	47	59	55	60	63	68
Discouraged from using preferred pronouns	38	38	40	43	49	56	54	63
Required to wear gender-specific clothes	35	38	39	40	45	53	54	63
Required to use a gendered bathroom	36	35	43	46	45	51	57	58
Discriminated against while using preferred bathroom	37	38	42	45	43	52	56	60
Asked intrusive questions about gender	46	48	45	57	56	54	62	62
Sexually harassed or the victim of sexual misconduct	33	36	43	39	44	51	44	61
Assumed to have stereotypical interests	45	47	43	50	57	59	55	59
Denied or discouraged from career advancement	36	36	42	46	44	48	52	63
Actively excluded by coworkers	33	33	47	39	44	45	53	64
Told not to share identity with coworkers	30	35	46	40	47	47	52	60
Forced to disclose identity to coworkers	26	29	40	39	39	48	54	63

Source: "Companies Are Failing Trans Employees," by Pierre Dupreelle et al. (HBR.org, 2023)

RACIAL DIVERSITY

Stiff Headwinds for Minority-Owned Private Capital Firms

It's no secret that the private capital industry lacks diversity. That's especially concerning because fund owners of all types tend to finance ventures whose principals look like they do. A new study examines the challenges faced by private capital firms with a majority of Black or Hispanic founders or senior partners.

Using information from data analytics firms (such as PitchBook), SEC filings, LinkedIn, news reports, and other sources, the researchers examined all U.S.-focused buyout, venture capital, and growth funds raised by U.S. private capital firms from 2000 to 2021. This showed that Black- and Hispanic-owned funds struggle to enter the market, initially raising only about 25% of their target amounts, on average, compared with 50% for their white-owned counterparts. If they do well, they raise follow-on capital at rates that are slightly higher than those of nonminority funds. But if they don't, their subsequent efforts to attract investors suffer far more: They are nearly three times more sensitive than white-owned funds to underperformance.

The researchers investigated several possible reasons for the disproportionate punishment. They looked into whether minority-owned funds overvalue the businesses they've financed, have trouble attracting staff, or lack businesses to invest in, but saw no evidence to support those explanations. Two findings suggest that racial attitudes are at least partly to blame. Investments in the funds spike after high-profile police killings, when racial awareness and sensitivity are heightened. They also rise when a minority chief investment officer joins a local public pension fund (such funds are typically large backers of private capital groups). "The probability that a diversely owned fund in the same state…will get an investment from that [pension fund], and the likelihood of raising a larger fund, both increase," the researchers write.

ABOUT THE RESEARCH *"Racial Diversity in Private Capital Fundraising," by Johan Cassel, Josh Lerner, and Emmanuel Yimfor (working paper)*

Georgetown University's **Timothy DeStefano** and colleagues—Harvard's Michael Menietti and Luca Vendraminelli and MIT's Katherine Kellogg—analyzed the stocking decisions for 425 products of a U.S. luxury fashion retailer across 186 stores. Half the decisions were made after employees received recommendations from an easily understood algorithm, the other half after recommendations from one that couldn't be deciphered. A comparison of the decisions showed that employees followed the guidance of the uninterpretable algorithm more often. **The conclusion:**

People May Be More Trusting of AI When They Can't See How It Works

Professor DeStefano, DEFEND YOUR RESEARCH

DESTEFANO: Prior research has demonstrated that decision-makers are often reluctant to accept AI-generated guidance, whether consciously or unconsciously, and routinely overrule it. That's a problem for companies that spend a lot of time and money on AI systems.

We partnered with Tapestry, the parent company of Coach, Kate Spade, and Stuart Weitzman, to explore this reluctance and how to counter it. The firm has nearly 1,500 stores and annual sales of $6.7 billion, and optimizing product allocations and running an efficient supply chain are crucial to its success. Employees determine weekly inventory allocations for each store by looking at short-term forecasts, which need to be as precise as possible.

Tapestry had historically used a rule-based algorithm to help allocators estimate demand. This was a model they could understand from their day-to-day experience and whose inputs they could see. Looking to boost accuracy, the firm developed a more sophisticated forecasting model that was a "black box" to users. We randomly assigned one of the two systems to provide guidance for each product decision across the three weeks of our study. After seeing the recommendations, allocators could either ship the suggested quantity or deviate from the guidance and ship a different number of products. Turns out, shipments were up to 50% closer to the recommendations generated by the black box system than to those from the simpler, rule-based algorithm, suggesting that employees trusted the black box model much more.

HBR: That's a surprising result! Why do you think it happened? Indeed, our finding runs counter to conventional thinking, which holds that people are more likely to accept guidance from systems they can understand.

One reason allocators overruled the less-sophisticated system has to do with what we call "overconfident troubleshooting." That occurs when decision-makers believe they understand a model's reasoning better than they actually do. They use their experience to adjust for what they see as shortfalls in the model.

The employees we studied often developed stories about the inner workings of the interpretable algorithm and why they needed to overrule its guidance. For example, in an interview conducted after the experiment, one told us about adjusting the model's suggested product quantities after reasoning that

Illustration by JOEL KIMMEL

a onetime spike in sales must have been related to the NFL draft and should be discounted. We don't know whether the draft did in fact contribute to the spike, but the allocator had confidence in that explanation.

I can see why people might overestimate their knowledge of a fairly simple model. But why would they be so accepting of one that's impenetrable? Even though employees couldn't tell how much data was used in the uninterpretable model or what the model had done with it, they knew the model had been developed and tested with the input of some of their colleagues, and that gave them confidence in it. It's an example of what's known as "social proof." One allocator told us, "With the uninterpretable algorithm, we often didn't agree with particular recommendations. It's not like we trusted each recommendation the model made. It's that we trusted the model on a more macro level, because our peers had been involved in its development."

When users factored in their own experience, did they get better results? Just the opposite, because the more sophisticated model was so good! We studied more than 17,000 allocation decisions, looking at how each product fared in the two weeks after its stocking decision was made. The decisions associated with the black box model were more successful than those associated with the more transparent one, precisely because people were much more inclined to take its advice. They yielded higher sales and fewer stock-outs and generated 20% more revenue.

Did anything else affect whether people accepted or rejected the models' recommendations? The degree of uncertainty an employee felt while making a particular decision was important, and that varied with the sales volume of the store in question. Stocking decisions for high-volume stores evoked the most uncertainty because the consequences of misallocations were greater: potentially higher amounts of lost sales or excess inventory. People were far more likely to accept the uninterpretable model's recommendations than those of the interpretable model when allocating products to those stores. With the interpretable model, the elevated level of uncertainty drove people to probe its suggestions and reject them.

How would you get workers to use an algorithm's guidance all the time? You've got to constantly measure how much employees trust your system. If you find that they trust it in some contexts more than others, you'll want to dig into why. They might be skeptical of the AI because it's buggy or is offering recommendations that are vastly different from what their experience or intuition tells them. You need to determine whether they're being rational in their distrust. Once you understand what's behind it, you can develop targeted training to improve their acceptance of the tool's decision-making prowess.

This isn't a new phenomenon. Whenever new technologies are rolled out, people may initially be unwilling to accept them.

If you were introducing an AI-based recommendation tool to your employees, would you make it uninterpretable? Before I rolled out a new tool, I'd have the data science team or whoever was building it meet with the people who would be using it and include some of them in the development process. That kind of transparency and employee involvement builds trust among workers. But once all that had occurred and the system had been tested and everyone had agreed that it was working, I'd want to limit my employees' ability to overrule the algorithm.

Interview by **Juan Martinez**
HBR Reprint F2305B

HOW WE DID IT

Courtesy of ADM

The CEO of ADM on Expanding Its Focus from Commodities to Consumers

by Juan Ricardo Luciano

When I stepped into the CEO role at Archer Daniels Midland, in 2014, I had a clear vision for the future of our century-old agricultural products and services company. I'd spent the previous three years as ADM's COO, working with the rest of the leadership team to streamline and reorganize our divisions and reorient everyone in them toward smart investments and innovation. We had become much more strategic and disciplined about capital, costs, and cash, and had greatly improved our financial position. Now it was time to turn our full attention to another C: consumers.

My goal was to focus our business not just on the buying, processing, and selling of commodities—which had for too long left us vulnerable to market volatility—but also on value-added nutrition products and services, which represented a more stable sector in which we could move closer to our customers and build a broader base for growth and impact. We needed to think more deeply about the end consumers of ADM's offerings—billions of people and animals around the world—and better serve them.

Nine years later we have done just that: We've reorganized the company into three segments: agricultural services and oilseeds, which procures, transports, trades, crushes, and processes oilseeds and grains; carbohydrate solutions, which focuses on processing corn and wheat into starches, sweeteners, and inputs for industrial and consumer products; and nutrition, which develops and supplies flavors, specialty ingredients, and formulation services for food, beverage, and animal nutrition customers, along with solutions oriented toward health and well-being. In all three units we now sell not just raw or processed commodities but differentiated products. And we have identified three long-term global macro trends—food security, sustainability, and health and well-being—around which we are making capital-allocation, strategic, and operational decisions.

This transformation has been not radical but methodical and mission-driven. In 2019 we unveiled a new corporate purpose—“to unlock the power of nature to enrich the quality of life”—and I believe that over the past decade our heightened focus on innovating for the customer has brought us even closer to fulfilling that purpose.

A BRIEF HISTORY

The Daniels Linseed Company, later renamed Archer Daniels Midland and today known simply as ADM, started in 1902 with a linseed oil mill in Minneapolis. Over the next several decades the company relocated to Decatur, Illinois; began to process other oilseeds, mill corn and wheat, and operate grain elevators and transportation networks; and expanded abroad to Europe, Mexico, and South America. From 1965 through 2005 ADM continued to grow its commodity capacity and transportation network and added ethanol and biodiesel production.

In 2006 my predecessor, Patricia Woertz, was engaged as CEO to professionalize and bring more corporate governance to ADM. She was tasked with developing a more process-based culture that would prioritize employee safety, ethics and compliance, and a long-term strategic plan. She brought in many experienced outsiders to assist her: a CHRO from Citigroup, a CFO from General Motors, and, in 2011, me, from Dow Chemical, as COO.

I come from a family of farmers and lawyers in a small town in Argentina, but I grew up to be an industrial engineer with a penchant for investigating problems and opportunities and working with others to solve or seize them. After graduating from the Buenos Aires Institute of Technology and working as a computer programmer—a fascinating job, because it helped me further understand how I and others think—I joined Dow, where I worked my way up to jobs in Brazil and at its Michigan headquarters, eventually becoming president of the performance division. That’s when I got a call from Pat.

At the time, ADM still faced challenges: The internet had limited its information advantage; it was too dependent on commodity trading cycles; its then three divisions (oilseeds processing, corn processing, and agricultural services) were too siloed; and across the company people focused too much on growing existing lines of business—that is, selling more fructose, more ethanol, and more corn oil—at the expense of innovation. However, the company was full of committed, smart, energetic people, and given its size and global reach, it was perfectly positioned to seize some promising opportunities. We just needed to improve our operational effectiveness and financial performance and then focus on adding more value for our customers and end users.

When you have a lot of work to do, it’s always smart to break it up into chunks. I framed my plans for ADM as a series of strategic horizons—each with a time frame and a specific goal. The first goal was to get financially fit for the journey toward value creation and prioritize return on invested capital (ROIC) as a metric of success so that we could push ourselves from incremental innovations to transformative ones.

Ray Young, then the CFO, and I led the team through a systematic assessment of our portfolio and divested businesses that were low on both strategic fit and ROIC potential—for example, cocoa, chocolate, and South American fertilizer. We also identified new products that were high on both, such as emulsifiers, nutritional supplements, and plant-based proteins, and in 2013 we launched our specialty ingredients division around them. Simultaneously we started making better decisions regarding the three Cs I mentioned earlier—capital, cost, and cash—and training all our business leaders to do the same. For example, we cut annual capital expenditures from $2 billion to $1 billion simply by prioritizing strategic, cost-saving, and capacity-building initiatives rather than doling out money on the basis of division history or size.

REORIENTING FOR THE FUTURE

In 2014 Pat announced her retirement, and the board selected me as her successor. Until then my role had been to focus mainly on performance and strategy. Now I would need to pay just as much attention to organizational culture, talent, technological development,

> “I’m a big believer in healthy dialogue and debate. I can often be heard saying, ‘I know there are smarter people in this room than me.’”

and managing our external stakeholders. But ultimately I would have three key concerns: deciding which markets ADM should play in, appointing the leaders of our teams in each of those areas, and allocating capital across them. I was excited to learn from my colleagues and to empower them to help me analyze the evolving food industry and choose where to take our business next.

Having become a more financially sound and focused company, we were now ready to concentrate on our customers. What products and services or marketing and sales strategies would attract more and different types of them? That question led us to the three macro trends—food security, sustainability, and health and well-being—and to more problem solving and innovating around them. How could we create a secure and better food supply for the 10 billion people projected to inhabit the planet by 2050? Meet the growing demand for more-healthful foods and supplements? And satisfy the people, companies, and communities increasingly determined to do business only with corporations at the forefront of the sustainability movement?

We identified six growth platforms: differentiated grain (such as non-GMO or locally sourced); sustainable solutions (such as biofuels and eco-friendly packaging); biosolutions (plant-based industrial materials); alternative proteins; microbiome modulation (such as prebiotics and probiotics for metabolic, digestive, and immune-system health); and microbial solutions (using synthetic biology such as fermentation to produce food and sustainable materials).

To bolster the specialty ingredients (soon to be nutrition) unit that would house many of these new product lines, we started integrating a big acquisition: Wild Flavors, a privately held Swiss-German producer of natural ingredients and flavors for beverages, which ADM had bought for $3 billion in July 2014. Its business complemented rather than overlapped ours, and we retained many of its executives, hoping to learn from their experience serving various types of clients with more-differentiated products. With a deep understanding of its customers and a strong prototyping and iterative design process that could take a client idea from conception to completion in weeks, Wild was in the “concierge solutions” business that I wanted ADM to embrace.

With those changes, I issued a new challenge to our organization: to build a profitable nutrition business unit while simultaneously achieving 10% ROIC across the entire enterprise by 2020. Our capital allocation committee gave the nutrition team the money it needed to grow but also required that the team spend it responsibly and meet certain benchmarks—including surpassing industry sales-growth rates and increasing margins. Meanwhile, other parts of the business began shifting to more multi-ingredient products and turnkey services to reach more customers. For example, our oilseeds processing business began producing and marketing blends, while our agricultural services unit began delivering grain directly to customers rather than working through an intermediary.

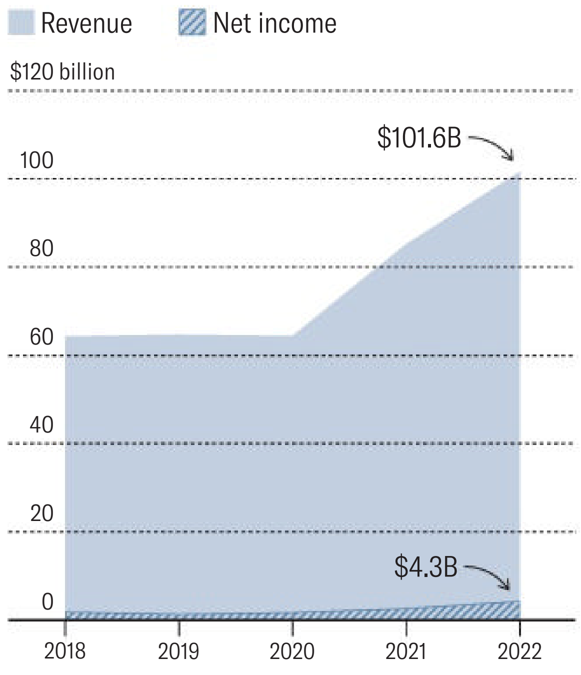
Within the C-suite we created an innovation committee, which met every other week to discuss priorities, resources, and investments. And in 2016 we went one step further and launched ADM Ventures, a dedicated group to explore new business opportunities within our six target areas.

None of this diminished our operational effectiveness. In fact, we remained determined to improve it. In 2018 we instituted a program we call Readiness, which further standardized our processes and metrics tracking across units, flattened our hierarchy from 11 layers to six without reducing head count, and equipped our frontline managers with shared practices and data. A year later we created centers of excellence so that all our operations teams could report to a central function

FACTS & FINANCIALS

ADM

Founded: 1902
Headquarters: Chicago
No. of employees: 42,000



Source: ADM


An ADM port in Veracruz, Mexico—one of more than 40 that the company operates

Courtesy of ADM

that would ensure high standards for quality, utility or energy use, procurement, and environmental health and safety across ADM.

EVOLVING THE FOCUS

Thanks to all this hard work, the resilience of our global team, and the essential nature of the food business, we were able to weather the pandemic better than many other companies did. We achieved our 10% ROIC target by the end of 2021, and 2022 delivered the strongest financial performance of ADM's 120-year history. Today we are looking to our next strategic horizon, and my thinking as CEO is coalescing around a new set of Cs: culture, cyber, climate, and consumer.

Throughout my tenure at ADM, I've tried to instill a learning culture. That starts with listening to input—not just from my executive team but from people all around the company and outside it. I'm a big believer in site visits, one-on-one meetings, and healthy dialogue and debate, and I can often be heard saying, "I know there are smarter people in this room than me."

Also critical, of course, is attracting great talent, putting the right person in every role, and ensuring that you have diverse viewpoints, especially at the top. ADM's current slate of leaders represents a variety of industries and racial and cultural backgrounds; all were chosen for the commitment and care they put into their work and what I call "activation energy"—the ability to mobilize people toward change.

After consulting with my colleagues, I, as chief executive, am responsible for allocating capital and setting strategy, but I trust others to execute on it as they see fit. Here's one example: Recently our capex committee gave the nutrition business funding to purchase a U.S.-based citrus company. When the committee's leader, Vince Macciocchi, came back asking to also acquire a second citrus company, in Europe, my colleagues initially balked. But I let Vince, as the expert in his field, make his case and eventually gave him the green light. "Prove us both right," I told him—and he did.

On the cyber front, we are diving into digital technologies, from satellite tracking to AI, that will drive efficiency and transparency in our supply chain. For example, our joint venture with the digital platform Covantis uses a blockchain process to track shipping. At the same time, we are installing enhanced automation and more-sophisticated control systems and increasing the use of analytics at more than 50 production facilities globally.

Those investments will also help us improve on the climate and consumer fronts, which are now inextricably linked, given expectations around corporate social responsibility. Food traceability and the security and safety of supply are now must-haves for any company in our business, and our vertical integration and global reach allow us to deliver them. For example, we can guarantee someone buying a plant-based burger in India that only ADM has touched the whole thing, from the Iowa farmer's beans to the finished product.

Another climate-related goal that we believe will further engage consumers is to become an enabler of decarbonization. For example, our agricultural services and oilseeds business has begun developing significant partnerships in regenerative agriculture; our carb solutions division has created a biosolutions unit, which is working on carbon-friendly substitutes for petroleum-based chemical products; and our nutrition business is innovating across the portfolio to satisfy growing consumer interest in more sustainably developed offerings.

Over the past decade ADM has come a long way in unlocking the power of nature to enrich the quality of people's lives. But our team of 42,000 people around the world have much more work to do.

HBR Reprint R2305A

EDITOR'S NOTE: *This article is based in part on the Harvard Business School case study "To Feed the Planet: Juan Luciano at ADM," by Joshua D. Margolis, David E. Bell, Damien McLoughlin, Stacy Straaberg, and James Weber, to which the author and several ADM executives contributed.*

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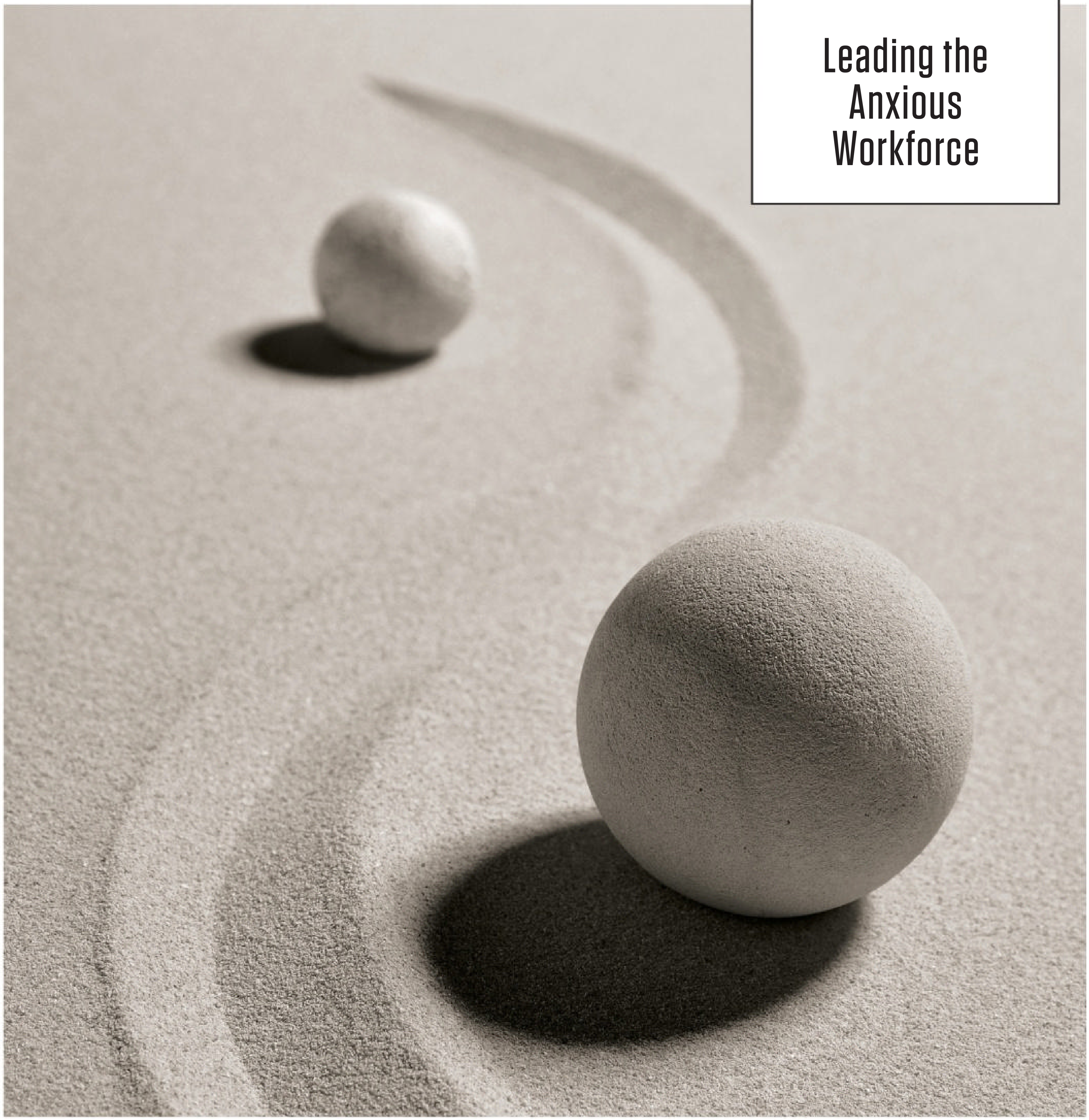
Spotlight

Leading the Anxious Workforce



Yagi Studio/Getty Images

SPOTLIGHT

Leading the Anxious Workforce

Helping an Employee in Distress

Managers shouldn't try to be therapists, but they should know the basics of mental-health first aid.

AUTHORS

Kiran Bhatti
Counseling psychologist

Thomas Roulet
Professor, University of Cambridge

AHMED COULD TELL his team was on edge. Recent layoffs in the industry and poor company performance had his people worried about job security. But he was most concerned about Melia, one of his direct reports. She had been taking more sick days than usual, and when she was in the office, she seemed distracted. In meetings, she lacked focus. Once a high-performing, enthusiastic colleague, she now seemed low-energy, and her productivity was suffering. Offhand remarks from other team members suggested she was struggling with eldercare for her ailing mother. One day, Ahmed found Melia weeping in an empty conference room. He apologized awkwardly and retreated to his desk, unsure of how to proceed.

Managers like Ahmed (a composite of clients we have worked with) often receive first aid training to address physical injuries in the workplace, but very few are armed with the skills to respond effectively to mental health crises that might arise within their teams. The need for such training is acute. Managers today are leading anxious workforces, with many employees grappling with stressors such as social isolation, inflation, an uncertain economic outlook, the lingering effects

Photographs by SAUL ROBBINS


OPEN

of the Covid-19 pandemic, and rapid technological advances.

In addition to lacking training with regard to emotional well-being, many managers have been taught that employees' personal problems are none of their business. However, younger Millennials and Gen Zs have grown up in a culture that increasingly recognizes the importance of mental health and generally views therapy as a normal and accepted part of life. Not only are younger employees more open to discussing mental health, they also are experiencing anxiety disorders at higher rates since the Covid pandemic, further indicating a need for managers to be equipped with mental-health first-aid training.

Fortunately, the principles of frontline intervention are not as complex as one might think and can be readily learned by nonclinicians. Specifically, cognitive behavioral therapy (CBT), a talking treatment that focuses on the connection between thoughts, emotions, physical sensations, and behaviors, is increasingly being taught to managers as part of mental-health first-aid courses. This is especially the case in the United Kingdom, where one of us is a counseling psychologist (Bhatti) and the other is a professor of leadership (Roulet).

No one expects bosses to conduct therapy sessions with subordinates; as the phrase "first aid" suggests, the goal is to provide rudimentary, on-the-spot care until the individual can get professional help, if it's necessary. This kind of support is particularly valuable right now, considering the difficulty many face in accessing adequate, timely, and affordable mental-health care. With the right training and tools, good managers can help reduce the gaps in treatment.

In this article, we outline how managers can use principles from CBT in a three-step process to help employees improve their emotional well-being and to build a more supportive organization.

What Is Cognitive Behavioral Therapy?

Over the past half century, cognitive behavioral therapy has emerged as the preferred evidence-based treatment for many mild psychological issues. For example, a 2016 meta-analysis of 144 studies found CBT to be an effective treatment for depression and anxiety disorders. And a 2019 systematic review of 34 randomized controlled trials confirmed its effectiveness in combating depression and recommended it for use in primary care. (Researchers agree that CBT is not an appropriate treatment for severe psychoses such as schizophrenia.) In the UK, cognitive behavioral therapy is considered the gold standard and is recommended by the country's globally respected National Institute for Health and Care Excellence guidelines as the first line of treatment for low mood and anxiety, which are the most common mental-health difficulties reported by people of working age. In the United States, many medical bodies, insurance companies, and government health providers recommend CBT as a first-line treatment for disorders such as insomnia, PTSD, and anxiety.

The efficacy of CBT in the workplace has also been well-documented. For instance, a 2020 review by Deloitte of numerous academic studies found CBT sessions with a therapist to be a cost-effective way to help employees manage issues such as absenteeism, stress, and anxiety. What's less understood is whether CBT retains its effectiveness when administered by managers, but evidence suggests that it might.

CBT is already being used safely by nonspecialists in many low- and middle-income countries experiencing severe shortages of trained clinicians. A 2020 academic review found that delivery of CBT-based interventions by

IDEA IN BRIEF

THE PROBLEM

Many managers are given first aid training in the office. But very few receive any training for dealing with mental health crises that may arise in the workplace.

THE BACKGROUND

Amidst heightened stressors, including the lingering effects of the pandemic and economic uncertainty, more employees than ever are experiencing issues such as anxiety and depression at work. And increasingly, employees are open to having—and even expect to have—conversations about mental health challenges that are affecting their performance.

A HELPFUL RESPONSE

This article introduces the basic tenets of cognitive behavioral therapy (CBT) as a mental-health first-aid tool to help employees address emotional distress and negative behavioral patterns.

ABOUT THE ART

Saul Robbins's series Initial Intake *examines the empty chairs and office surroundings of Manhattan-based psychotherapy professionals from the point of view of their clients.*

nonspecialists in such environments was "acceptable, appropriate, and feasible" for a range of common mental disorders, though the study found that more research was needed to better evaluate their outcomes.

One of the core tenets of CBT is that it can be self-administered once its principles are understood. This is backed by evidence from mental health nonprofits, such as MIND, that promote self-directed CBT learning and practice. A recent study found that CBT self-help materials were effective in supporting primary care nurses in treating patients' low-level depression.

The use of CBT-based mental-health apps by employees of major corporations further attests to the treatment's potential effectiveness outside the therapist's office. Companies such as KPMG, Uber, Bank of America, Microsoft, and Salesforce all offer online CBT-based tools to their employees. Some organizations and even national health systems, such as the UK's NHS, are experimenting with AI chatbots to deliver CBT, demonstrating growing confidence in its deliverability without a trained clinician's direct involvement.

Many companies in the UK and elsewhere are already offering mental-health first-aid training to managers and employees. In the United States, more than 3,100 companies have offered the training, which more than 3 million people have completed, according to the National Council for Mental Wellbeing. Companies that have offered the coursework include Bank of America, Gillette, Starbucks, and Unilever.

Despite this evidence base, however, many managers remain unfamiliar with CBT's principles and how simple workplace support can draw upon them. Recognizing this, let's now explore those principles and their practical applications in more depth.

How to Administer Cognitive Behavioral Therapy

CBT is far more straightforward than traditional psychoanalysis methods used by trained professionals who probe childhood memories. CBT emphasizes the specific condition being treated without delving into any underlying trauma or psychoses. It is typically conducted within a predetermined time frame, unlike other open-ended therapeutic approaches. CBT's proscribed scope and time frame not only contribute to its effectiveness but also make it more attractive to insurance companies, which favor modalities that do not necessitate long, potentially indefinite, courses of treatment.

CBT focuses on the interconnections between someone's cognitive state (thoughts and thought processes), mood state (emotions and feelings), physiological state (physical sensations in the body), and behavioral state (actions and behaviors). Using CBT, individuals take control of what they think and do, which can positively affect their emotional state and thus change their behavior, leading to a virtuous cycle.

As an example, consider a person with social anxiety who consistently avoids social situations for fear of being judged or criticized. CBT helps the person examine the way the states interconnect:

Cognitive state: The person has negative thought patterns such as "Everyone will laugh at me" or "I'll say something embarrassing."

Mood state: The thoughts lead to feelings of anxiety, fear, or embarrassment.

Physiological state: The mood state triggers physical sensations such as a racing heart, sweating, and shaking.

Behavioral state: To cope with these feelings and sensations, the person avoids social situations entirely, reinforcing the negative thought patterns.

CBT can help individuals identify and challenge their negative thoughts and develop alternative, balanced, and often more-realistic perspectives (thinking, for example, "Some people might find what I have to say interesting" or "It's OK to make mistakes"). At the same time, CBT encourages people to gradually challenge themselves by facing triggering social situations, allowing them to experience new thought patterns and behaviors and thereby gain confidence. By addressing the cognitive and behavioral aspects together rather than in isolation, individuals can experience an improvement in their mood and physiological states, ultimately reducing anxiety and enhancing emotional well-being.

So how can managers put these principles into action? We've developed a CBT-based approach we call the ARC model, which equips managers to *acknowledge, respond,* and help *change* detrimental patterns for employees struggling with poor mental health. Let's now look at how managers can use our ARC approach to provide effective mental-health first aid.

Acknowledging Poor Mental Health

Managers should start by acknowledging employees' distress, thereby increasing the individuals' own awareness of their mood and validating their feelings. If Ahmed signals to Melia (also a composite of people we've worked with) that he is aware that something is bothering her, he creates an opportunity for her to open up. So how should he engage further with her about her mental health?

We recommend that mangers use a well-established tool (a four-section diagram referred to in CBT as the hot-cross-bun map) to help employees describe the key features of their emotional and mental states. A manager can encourage employees to consider questions in each area privately if they are not comfortable sharing. For example:

Emotions: What am I feeling right now? How would I describe my mood?

Body: What's happening physiologically? Am I holding tension in my body (clenched jaw, high shoulders)? Am I breathing faster or harder than usual? Is my heart racing?

Thoughts: What is going through my head at the moment? What thoughts am I having? Can I make them stop for a while or is my mind always racing?

Behavior: What am I doing? Why am I doing it? How am I reacting to my thoughts, feelings, or bodily sensations? Am I avoiding anything?

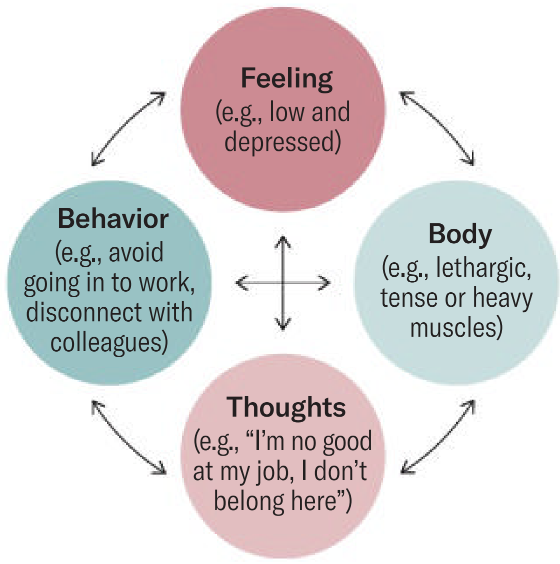
As the exhibit "One Approach to Understanding Behavior" shows, people can consider the connections among the states in any order. Hot-cross-bun maps are helpful in identifying what psychologists call maintenance cycles: patterns of behavior or thinking that fuel emotional distress. By discussing maintenance cycles, managers and employees can begin to recognize when they or someone else may be feeling stuck or repeating unhelpful patterns.

Within the workplace, typical maintenance cycles include:

Avoidance. This is common when experiencing anxiety. Many people worry about making presentations, for example, possibly because of how they

One Approach to Understanding Behavior

This cognitive behavior therapy tool, often called the hot-cross-bun model, highlights the connections among our emotions, physical state, thoughts, and behavior. Managers can use this tool to help employees understand how negative thoughts and behaviors feed off one another so that employees can respond to stressful situations in a more holistic way.



In keeping a nonjudgmental tone, managers reduce the stigma and shame often associated with poor mental health and provide an opportunity to change the narrative.

will be perceived or because they have a fear of public speaking. Therefore, they may request not to present. In the short term, this alleviates their worry, but over the long term, it perpetuates their anxiety. The next time they have to speak to an audience they will be just as anxious—and often the anxiety, fed by avoidance, is more intense.

Reduction of activity. This is typical when experiencing depression and low mood. A manager may notice that an employee is not attending team meetings—or is regularly arriving late for work—and is disengaging socially. The maintenance cycle looks like this: An employee feels unappreciated or unfairly treated. The person decides to do less, reinforcing feelings of lethargy and disconnection.

Perfectionism. The need to perform at the highest level is associated with anxiety. When we believe that a task must be done perfectly, we might abandon tasks that we realize we cannot finish to that standard. Or we avoid even starting a task for fear of doing a subpar job. We get paralyzed and become even more concerned that only perfection is acceptable.

Ahmed can help Melia break her unhealthy maintenance cycles by creating a safe space and encouraging her to articulate her feelings and thought processes. To increase her comfort, he might apply the principle of "reciprocation," sharing his own experiences of feeling inadequate or demotivated at work and explaining how avoidance only contributed to that feeling. In doing so, he offers her a lens for seeing that her current struggles could become a self-perpetuating cycle.

Ahmed should not pry beyond what Melia is willing to share. But let's imagine that Melia is forthcoming and talks about her feelings of inadequacy, the increased tension in her body, negative self-talk about her abilities, and problematic behaviors such as procrastination or disengagement from colleagues. By examining each of these components, Ahmed and Melia can identify the maintenance cycles that are feeding Melia's distress: For instance, her feelings of being spread too thin might cause thoughts about not being good enough at her job. This might lead her to avoid taking on new responsibilities, which in turn reinforces her negative self-perception and hurts her performance.

Responding to Signs of Emotional Distress

Once a manager has acknowledged that an employee is in mental distress and has identified the maintenance cycles that feed it, the manager should facilitate a conversation about emotional well-being and help the employee recognize the sources of common mental-health issues in addition to the symptoms of them. Although managers do not provide therapy or counseling, they can learn to apply therapeutic relationship skills. The most important of these is empathy, which is a strong guiding principle in building up relationships.

Empathy is not about offering sympathy but rather about being committed to fully understanding someone's experience. It requires a conscious effort of perspective taking. Empathy can help a person in distress feel less alone and more understood. In initiating a conversation with Melia, Ahmed could say something like, "I can only imagine how difficult it must be to balance your work here with care responsibilities for your mother. That must be incredibly stressful." In this statement, Ahmed is acknowledging Melia's distress, validating her feelings, and expressing his understanding of her situation—all of which is a demonstration of empathy.

When Melia speaks, Ahmed should engage in active listening, and by doing so build trust so that she feels heard and understood. Active listening takes effort and practice. Ahmed needs to give Melia his full attention, allowing her to express her thoughts and feelings without interruption, and then reflect back what he's heard to make sure he understands. For example, he might say, "What I hear you telling me is that you're feeling overwhelmed and unsure about your ability to meet all your responsibilities. Is that correct?"

As Ahmed responds to Melia, he needs to adopt a nonjudgmental stance: He should be careful not to offer his own opinions but rather accept that Melia's thoughts and feelings are valid. Suppose Melia admits to feeling like an impostor or doubting her abilities. Even if Ahmed considers her to be a very high performer, he should respond with, "It's not unusual to feel that way. Many of us have moments of self-doubt, especially when we're under stress. I can understand why this is what you are experiencing."

In keeping a nonjudgmental tone, managers reduce the stigma and shame

Managers should be guided by the employee in terms of the depth of information shared and should not inquire about outside issues unless the employee initiates the conversation.

often associated with poor mental health and provide an opportunity to change the narrative and the perception of mental distress at work. Instead of focusing on an employee's productivity or problems coping, managers can emphasize how the workplace can be a source of support and encouragement for employees through their distress. If enough managers adopt this approach, they may spark a culture shift in the organization.

Changing Behavior

When managers initiate conversations with employees about their well-being, they can introduce techniques that facilitate and encourage changes to employees' mental health. One tool is *cognitive reframing,* a process of replacing unhelpful thoughts with a more realistic and balanced view of a situation. Cognitive reframing can be an excellent tool when employees (and managers) feel stuck. There are three key steps to this process.

First, identify the unhelpful thoughts. For example, suppose Ahmed learns that Melia is resisting the idea of taking a two-week paid leave for eldercare. In his conversations with her, he realizes that she is feeling worried about how time off would affect workflow. In this step, Ahmed's first task is to help Melia identify anxiety-producing thoughts, such as: "If I go on family leave, no work will get done, and I'll have so much to do when I return!"

The next step is to evaluate the thoughts. Ahmed should encourage Melia to scrutinize her negative thoughts for evidence that either corroborates or challenges them. This keeps her from automatically accepting the thoughts and being drawn into a cycle of negative worry.

As evidence of her concerns about work not getting done, Melia may point out that she has received no offers of

assistance, that colleagues do not work up to her standards, or that other team members are also out on leave. But Ahmed can help her focus on evidence refuting negative thoughts: No one is indispensable; the organization's success does not solely hinge on her constant presence; her colleagues have demonstrated the ability to produce quality work; and she has gone on leave before without any dent to her overall performance or interruption to her projects.

The final step is to foster an alternative and more realistic perspective. Informed by Ahmed's evidence, Melia can begin to frame her situation in a different light: "There may be a lot of work to do when I return from a medical leave, but I need and deserve a break, and others are available to support me if I need them to." Holding on to unhelpful thoughts perpetuates the worry and triggers a maintenance cycle. However, by using cognitive reframing, we can develop an alternative perspective that is much more grounded in reality and allows us to shift our mood.

In addition to cognitive reframing, Ahmed could help Melia use *behavioral activation,* a tool that spurs change by increasing opportunities to experience joy. This involves deliberately engaging in pleasurable, productive, or social behaviors, all with the aim of activating a positive emotional state. Ahmed might suggest that Melia make time to get outside for a walk during a break, eat lunch with work friends, or block out time in her calendar to finish a report and feel the satisfaction that brings.

Managers can also use the principles of behavioral activation to reconsider an employee's job responsibilities and duties. Ahmed could steer Melia toward the kind of work that is most intrinsically rewarding to her. For instance, if she enjoys collaborating with others, he might suggest that she take the lead on a team project or participate in a cross-functional team. If she finds satisfaction in evidence-based problem-solving, he could assign her a challenging task that allows her to utilize analytical skills.

In addition to identifying rewarding tasks at work, Ahmed could also encourage Melia to do things outside of work that she enjoys or finds relaxing. Activities like reading a book or practicing yoga can help provide a sense of balance and positivity that can counteract feelings of stress or being overwhelmed.

Throughout the process, Ahmed should be supportive and nonjudgmental. He should express his faith in Melia's abilities and emphasize that the goal is not to increase her workload but rather to help her reconnect with the aspects of her job and her personal life that she finds meaningful and enjoyable.

It is essential to note that while Ahmed can provide support and encouragement, the critical agent in this process is Melia herself. Cognitive behavioral therapy operates on the premise of individual agency—that is, the person experiencing distress has the capacity and the responsibility to instigate change. This is not a passive process; quite the contrary. It requires motivation, active participation, and a time commitment from the individual involved.

Melia must recognize her own patterns of thinking and behaving and then start working on strategies to break the negative cycles. She should be proactive in communicating her needs and concerns to Ahmed. She should initiate regular and open conversations with Ahmed so that he can provide the right kind of support.

Making Sure Managers Don't Overstep

By no means do we expect managers to formally treat employees or provide therapy themselves. The goal is for them to encourage collaborative conversations around mental health at work and to educate employees about CBT and its benefits. This requires a relationship of trust in which confidentiality is maintained at all times and any personal information shared during discussions remains completely private. Exceptions may be made only when a disclosure indicates the potential for harm to the individual or others. This confidentiality protocol should be clearly communicated to employees, and managers should formally commit to it.

Managers should be guided by the employee in terms of the depth and detail of information shared. Indeed, a manager should not inquire about someone's life outside the office unless the employee broaches the topic. Some individuals might be willing to disclose personal details, while others might prefer discussing their feelings in more general terms.

Managers should also have a full understanding of what mental health services the company offers and be prepared to guide employees to relevant resources. This could involve counseling from internal or outsourced providers, mental health apps (which employers sometimes offer at a subsidized rate), or other tools. Mental-health first aid is often only the first step in an employee's mental health journey, which may involve further support from appropriate health care professionals.

While the guidance in this article is directed toward managers, we envision that CBT and the ARC approach will be equally relevant and beneficial for HR personnel and for employees from any organizational unit who are striving to support their coworkers. By adopting a more informed and empathetic approach to mental health in the workplace, managers, HR professionals, and individual employees can together build a supportive and understanding organizational culture.

TAKING CARE OF mental health in the workplace is as crucial as managing physical health—especially in today's postpandemic environment, when most employees are suffering from some form of anxiety or stress. Like having a first aid kit for physical emergencies, mental-health first aid should be a standard tool at every manager's disposal.

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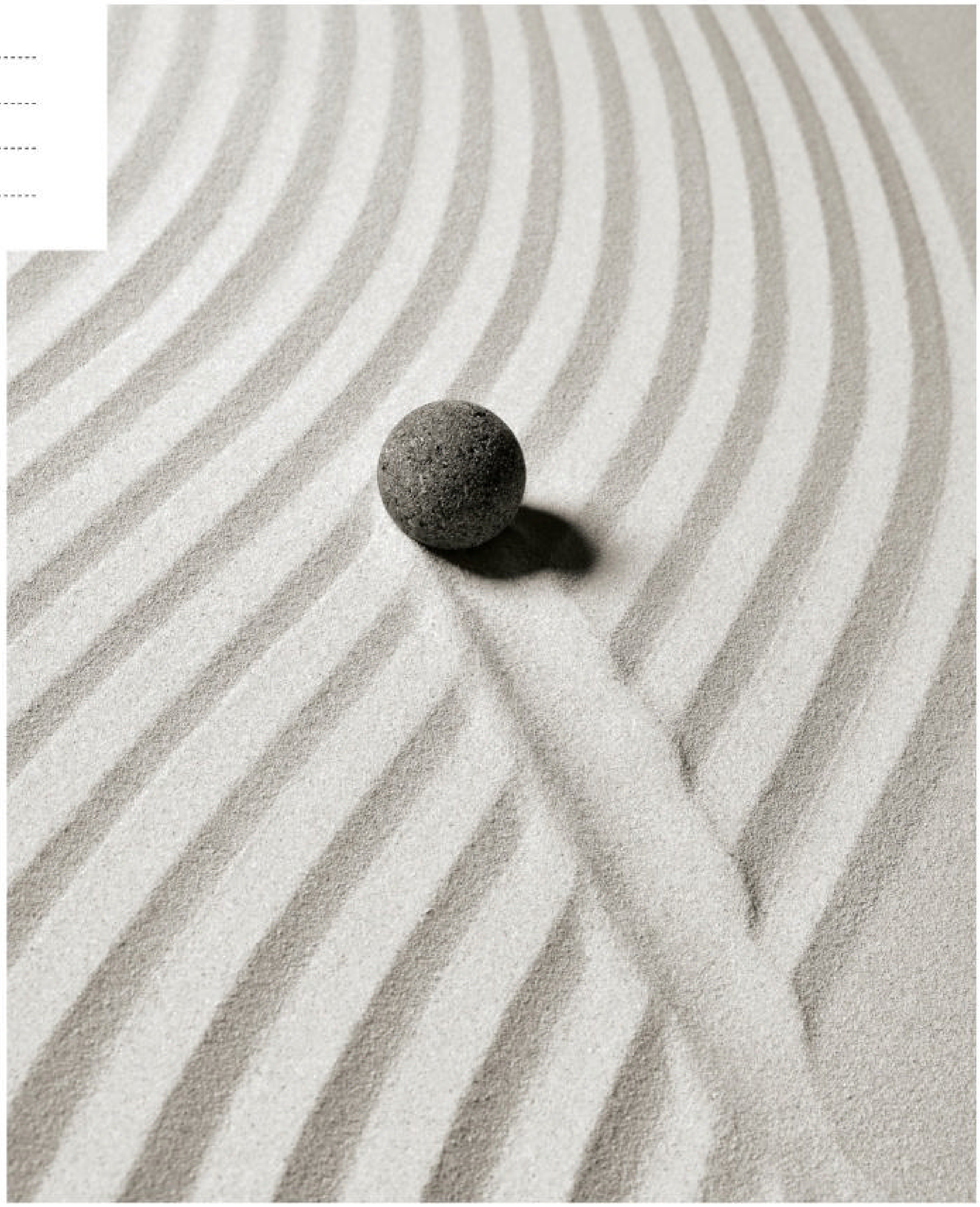
KIRAN BHATTI *is a counseling psychologist in Cambridge, England.*
THOMAS ROULET *is a professor of leadership at the University of Cambridge's Judge Business School.*



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Free Your People from the Need for Social Approval

A good manager makes sure employees don't worry about what others think of them.

AUTHOR
Michael Gervais
Performance psychologist

> The higher we rise on the career ladder, the more susceptible we are to scrutiny and public opinion—which is why the lives of high performers are rife with fear of people's opinions.

IN A GOLF skills competition, who do you think would experience the most performance anxiety: a PGA tour professional, a local teaching pro, or a total amateur? Leslie Sherlin, a neuroscientist, and I sought to answer that question as part of a research program on psychological and physiological pressure. We devised a three-stage pressure test, measured each golfer's neuroelectric activity and heart rate during each stage, and asked questions to better understand the mental strategies the golfers used during the tests.

Stage one was a low-pressure test. We scattered 18 golf balls around a green, and I accompanied each golfer individually and measured his psychological and physiological responses as he putted them into the hole. All the golfers demonstrated a slightly elevated heart rate and heightened brain activity. Rickie Fowler, the tour professional, made the most shots, holing 15 out of 18—but he considered 17 of the 18 good shots, based on how well he'd struck the ball. It was not the outcome that mattered to him but his own evaluation of his performance. "The way I think about golf is that I focus my attention on what's in my control, not on the end result," he told us.

In stage two, we turned up the pressure by placing cameras around the putting green. Fowler had an initial spike in heart rate and brain activation but quickly settled back down, with results similar to those in stage one. The amateur golfer had an increase in activation and performed slightly below the previous stage. Despite making fewer shots, he reported that the experience was "fun" and "exciting" and that he "felt like a tour pro." The local club pro had a radically different experience. He was not accustomed to playing in front of cameras, and his heart rate spiked and stayed high for the duration of his turn. His results suffered. "I looked like a fool," he said. "I'm a professional. I'm supposed to do better than that."

In the final stage, the three golfers putted in front of the cameras, one another, and a live audience of more than 100 people in a competition to raise money for charity. The results were almost identical to the earlier stages. The professional golfer used his mental skills to lower his heart rate, block out external and internal noise, and regulate his emotional and physiological reactions. The weekend warrior viewed the experience as pure enjoyment, approached it with curiosity, and had nothing invested in the outcome. The club pro was the outlier. He putted poorly and exhibited obvious distress about it.

Why? The teaching pro was used to being "the expert," so he felt that his identity was threatened, causing him to perform badly. The combination of the cameras, the crowd, and the greater expertise of the tour pro amplified his fear of what others—including Fowler, his favorite golfer—might be thinking about him. Compounding his anxiety: We held the event at his own club, so the live audience consisted mostly of people he knew. And since he wasn't aware that his anxiety and negative thoughts were triggering the cascade of chemicals driving him into a state of fight, flight, or freeze, he couldn't recalibrate. He had been thrust into survival mode. On a golf course. On a sunny, 76-degree day in Florida.

I call this anxious state *fear of people's opinions* (FOPO). Among the organizations I've worked with, FOPO is a hidden epidemic and may be the single greatest constrictor of individual and collective potential. Concern about what others think is an irrational, unproductive, and unhealthy obsession—and a big contributor to the general anxiety people feel at work.

As a performance psychologist, I've had the privilege of working with extraordinary individuals and teams. I was on the sidelines when the Seattle Seahawks won Super Bowl XLVIII against the Denver Broncos. I sat in mission control when Austrian BASE jumper Felix Baumgartner made his record-breaking skydive from 24 miles above the Earth's surface, free-falling at over 800 miles per hour. I was in the room with the CEO of one of the world's largest tech companies when it set course to be the first enterprise organization to build a culture based on mindset, empathy, and purpose.

The best performers in the world push past the perceived limits of human potential and expand our notions of what's possible. But the higher they rise on the career ladder, the more susceptible they are to scrutiny and public opinion—which is why the lives of high performers are rife with FOPO. As a leader, it's your responsibility to build an environment in which employees at all levels know that they can speak and act without fear of alienation or embarrassment. That isn't always easy in corporate environments driven by short-term performance.

In this article, I discuss what causes FOPO, what you can do to help your employees break free from it, and why a purpose-driven mindset outperforms performance-driven motivation on both an individual and a team level.

What Causes FOPO?

Fear of people's opinions has always been part of the human condition. The craving for social approval made our ancestors cautious and savvy: Your place in the tribe—and your very survival—could be threatened if others thought you were responsible for a failed hunt. Today that threat response continually gets triggered even though our survival is no longer at stake. With the proliferation of social media and our overreliance on external rewards, metrics, and validation, the pressure to succeed is intense and FOPO is even more acute.

FOPO is an anticipatory mechanism that involves psychological, physiological, and physical activation to avoid rejection. It is also characterized by a hypervigilant social readiness and a relentless scanning of the environment in search of approval. In overvaluing what others might be thinking, we become highly attuned to signals—body language, microexpressions, words, silence, actions, and inactions—of potential rejection. FOPO is an exhaustive attempt to interpret what others are thinking in an effort to preempt a negative evaluation by them. It is not the actual negative opinion that is so problematic—it's the fear of it. Though FOPO does not meet the criteria for clinical diagnosis, it creates significant distress.

Fear of people's opinions shows up almost everywhere in our lives, and the consequences can be severe. When challenged, we protect our ego and surrender our viewpoint. We trade in authenticity for approval. We try to read the room, not out of benevolence but to curry favor. We laugh when the joke isn't funny. We bite our tongue when someone says something offensive. We formulate our responses while listening to others. We pursue power and money rather than purpose.

It's human nature to try to control others' opinions and how they think about us, but in the desire for approval we give up control of our own lives. As Lao Tzu, the philosopher and reputed author of the philosophical text *Tao Te Ching* and the founder of Taoism, said, "Care about what other people think and you will always be their prisoner."

How Identity Affects FOPO

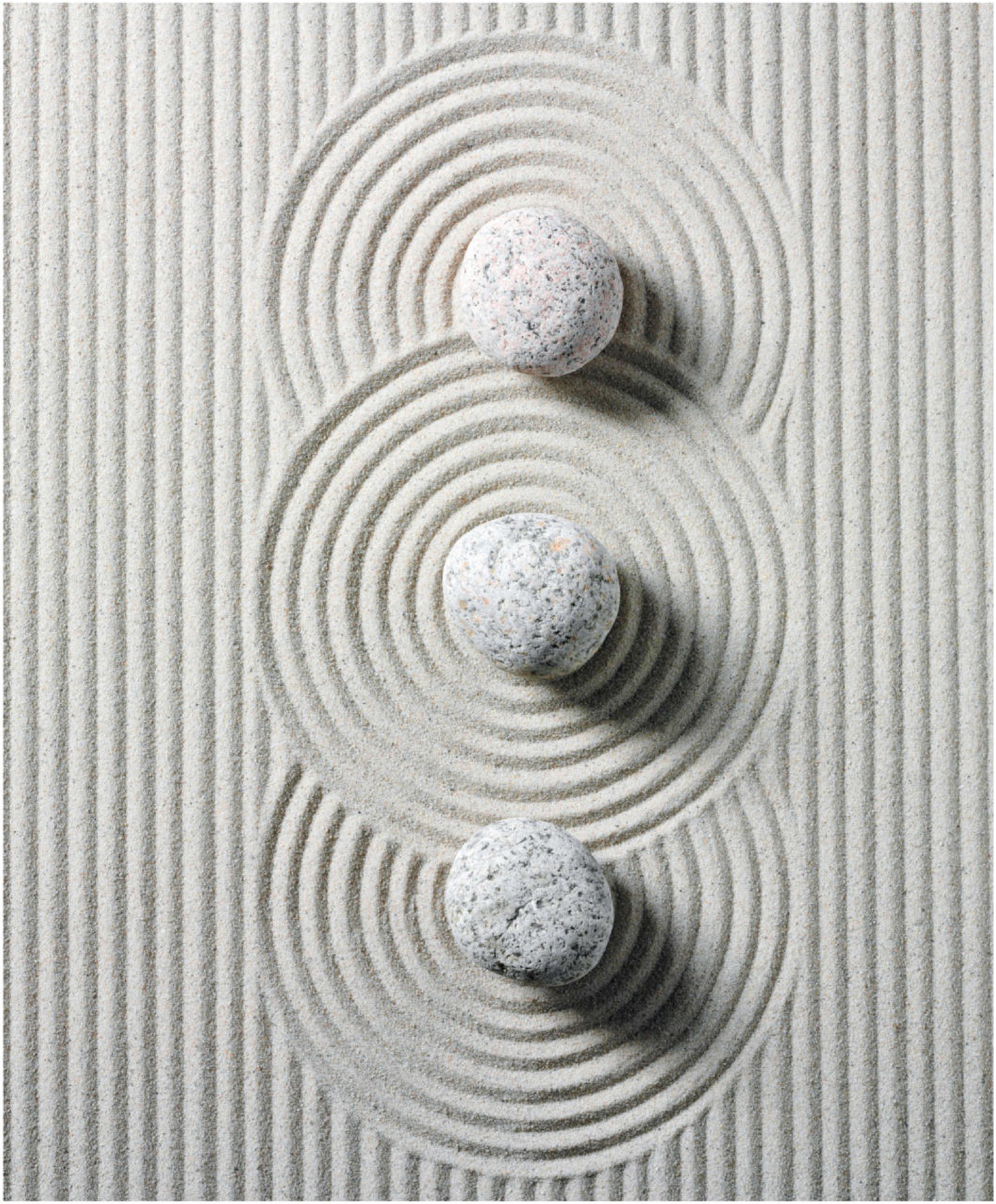
As the study with the club pro demonstrates, identity is one of the most fertile breeding grounds for FOPO. Identity is a subjective sense of self built on our experiences, beliefs, values, memories, and culture. Often derived in relationship to or comparison with others, identity provides a framework for better understanding our place in a complicated social world.

Identity draws from many aspects of us—race, gender, sexuality, relationships, family, job, interests, nationality, beliefs, religious practices, and group affiliations—but it cannot be defined by any one of those. It is also shaped by the roles that sit inside those broader categories. Priest. CEO. Mother. Pilot. Writer. Student. Athlete. Entrepreneur.

A performance-based identity means we define ourselves by how well we do something relative to others. No matter how well we perform by objective measures, our identity must be buttressed by continual external validation and hinges on the praise and opinions of others to fuel it. Developmental scientist and USC associate research professor Ben Houltberg, who has extensively studied the motivations behind the pursuit of excellence, says a performance-based identity is characterized by three negative expressions: a contingent self-worth, a looming fear of failure, and perfectionism. The exhaustive need to perform tears at the seams of well-being, relationships, and one's own potential.

A healthier alternative is to cultivate a purpose-based identity. Purpose is an internally derived, generalized intention that has intrinsic value for you but is also bigger than you. It has a forward-looking orientation. Purpose becomes the filter through which we arrive at decisions, establish priorities, and make choices. Instead of asking ourselves "Am I liked?" or "Do people think highly of my work?" our reference point becomes "Am I being true to my purpose?"

The challenge for managers is that most people have performance-based identities. To reduce FOPO, managers must find ways to shift people's identity from performance to purpose.



wragg/Getty Images

Purpose-minded managers look beyond the metrics to determine if low-performing employees are contributing to the team's overall performance in other ways.

Foster Purpose-Based Teams

One way to begin that shift is to foster purpose-based teams. Research shows that the resulting individual and organizational rewards can be significant. Wharton professor Claudine Gartenberg, along with researchers from Columbia University and Harvard Business School, studied 500,000 people across 429 firms over the course of five years. They found that companies that clearly communicated their purpose to employees saw a positive impact on both operating and financial performance and forward-looking measures of success.

A separate study from BetterUp Labs, a consultancy comprising researchers from business schools, management consultancies, and industry, surveyed 2,285 professionals across 26 industries. It found that respondents who had a sense of purpose at work had higher productivity—yielding an average of $9,000 a year more in labor output—than counterparts who didn't find any meaning in their work. They were also more likely to have received raises and promotions in the six months prior to the survey. The study also showed that participants would sacrifice, on average, 23% of their lifetime earnings—or about $21,100 a year until retirement—in exchange for work that gave them a sense of purpose.

Unfortunately, most managers are required to hit weekly, monthly, and quarterly goals—a relentless rhythm that leaves little time for purpose-building. Indeed, a short-term focus often leads managers to foster a performance-based team identity, which can be the quickest lever for achieving metric-based goals. But that is a shortsighted approach that ultimately leaves employees anxious, burned out, and less effective at their jobs. Of course, you shouldn't—you can't—completely abandon performance goals, but you must recognize the pressure that a performance-based identity puts on your people and how it negatively affects outcomes. By contrast, a purpose-based team identity can relieve stress and anxiety among team members, which will have a positive impact on achieving near- and long-term goals.

In my work, I've developed a process for fostering a purpose-based team identity. Begin with a frank conversation with your employees, making it clear that who they are and how they do their jobs have a significant impact on the culture. Explain the benefits of a purpose-based team identity and that you're now going to evaluate them not just on performance but also on how well they embody the team's purpose in their words and actions.

Next, work with them to collectively define the team's purpose. The purpose has to genuinely matter to each individual, must affect everyone on the team, and must be future-oriented; it can't be something the team will achieve today, tomorrow, or even in a year.

This is a moment for modern leadership. Use active-listening skills—ask clarifying questions, summarize what you've heard and felt, stay curious rather than critical, and so on—to help draw out the varied perspectives of the team. Be an engaged participant in the conversation, sharing your own thoughts and feelings.

At first, you'll probably hear purpose being defined in terms of metrics, sales, revenue, praise from the CEO, or other external, performance-based validation. Guide the discussion to focus instead on finding the key value that links you all. That may be ensuring that everyone feels safe and heard, or it may be group accountability or a shared desire to provide excellent service to the rest of the organization.

Once you've established your team's purpose, each time your employees experience FOPO, they will have a method for combating it. They can stop the repetitive, ruminative FOPO loop (*What will they think of me?*) and replace it with a measured response focused on the team's purpose.

For example, if your sales team agrees that its purpose is supporting one another, the team's measure of success shifts from quotas to collective support. Rather than obsessively thinking, *I'm not as good a salesperson as my peers,* a teammate wonders instead, *Have I done everything I can do to help my coworkers meet their goals?* The same goes for top performers. Rather than wilting if their performance lapses—which can happen for many, often external reasons—they can measure their success by how hard they worked to help new or low-performing employees learn and improve.

Building a purpose-based team identity can't consist of just a single conversation unsupported by your actions as a manager. You may not want to discuss purpose at every team meeting, but every interaction—whether it's a quarterly team review, a group happy hour, or a day-to-day check-in—should be conducted with your team's purpose as the essential standard. Celebrate purpose-driven achievements. Highlight success stories that go beyond performance metrics. Encourage team members to imbue their work with meaning.

Foster Purpose-Based Employees

Team purpose is a great foundation, but if individual team members continue to define themselves by their performance, their identities will be built on a house of sand. How well we do at anything in life shifts and changes. Basing our sense of self on performance and the approbation that comes with it creates a petri dish for stress, anxiety, and depression.

The single greatest bulwark against FOPO is having a clear sense of self and a strong purpose. For people with a purpose-based identity, it's not other people's praise that drives them, it's the meaning of what they're doing and the impact they can make. Those are two very different types of fuel: One is sustainable, and the other will burn you out.

Each individual's purpose is critical to the team's success. As a manager, you should regularly meet one-on-one with your employees. Ask them questions like: What is your motivation for doing this job? What inspires you to work your hardest? What vision do you hold for your future? Unlike the team's purpose, your employees' answers may be concrete, such as saving to buy a home or sending a child to college. The answers should not sound like this: "I want you to think I'm a really hard worker so that you'll give me a big bonus." Even though the bonus will contribute to paying for the home or college, the emphasis must be on the goal and not on your opinion of the employee's performance.

In your conversations, you must make sure that each individual's purpose is in alignment with the team's collective purpose. Tell your employees that you will support them in fulfilling their purpose but that you will also challenge them to carry out their roles in ways that further the team's purpose and the company's overall performance goals. Again, ongoing conversations are essential: You can't just have one meeting about purpose and never mention it again. It must be present in every interaction.

When Performance Suffers

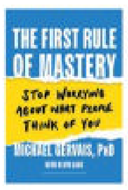
You may encounter an employee who embodies a purpose-driven mindset but for some reason isn't performing the way you need them to. Performance-minded managers would most likely move this person off the team despite their adherence to team values. Purpose-minded managers look beyond the metrics to determine whether low-performing employees are contributing to the team's overall performance in other tangible or intangible ways.

I was the sports psychologist for the 2016 U.S. women's Olympic volleyball team. The team's head coach, Karch Kiraly, was concerned that Courtney Thompson's height (she's only five-feet-seven-inches tall) would limit the team's performance. Thompson was about three inches shorter than the average player at her position, and in a sport full of tall athletes, every inch matters. But Kiraly, a two-time gold medalist as both a player and a coach, knew that there was more to his team's performance than size and strength.

When we studied Thompson's performance in relation to the team's performance, the sports-science data showed that, statistically, she made everybody around her better. Her focus was never on individual goals but, rather, on improving the performance of everyone on the team. By making unselfish plays, by making decisions that put her teammates in the best position to win, she may not have had the metrics of an elite performer. But she had a purpose-based identity, which she exemplified in her play. In doing so, she made her team better in terms of both performance and purpose.

ON THE SURFACE, the objective of competition—whether in sports or in business—is to win. But those individuals or organizations that consistently win over a long period of time tend to be driven by something more than the podium or the stock price.

As a manager, it's your responsibility to speak about and demonstrate your team's purpose at all times. Remind your employees that it's not the evaluation of other people that must drive them; it's the meaning of what they're doing and the potential to achieve what they can control. **HBR Reprint** S23052



MICHAEL GERVAIS *is a performance psychologist and the author, with Kevin Lake, of* The First Rule of Mastery: Stop Worrying About What People Think of You *(Harvard Business Review Press, 2023), from which this article is adapted.*

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The Anxious Micromanager

Why some leaders become too controlling and how they find the right balance

AUTHOR
Julia DiGangi
Founder, NeuroHealth Partners

IN MY WORK with corporations, I commonly hear managers say they are stressed because they don't have enough "self-starters" on their team. But when I analyze their interactions, I find that the same people are often micromanaging their employees by, for example, asking too many questions, checking in too frequently, or giving too much advice. On multiple occasions, I've heard managers say to team members: "I want you to take total leadership on this project—just make sure you run everything by me first." Those messages send conflicting signals and cancel each other out. Confused employees wonder: "Wait, am I supposed to be self-starting or permission seeking?" Leaders are communicating "Start! No, wait—stop! No, start!" and then don't understand why the work never gains any momentum.

In theory, the command-and-control style has been on the decline for decades. Research and lived experience have shown that organizations perform better when leaders empower, encourage, and coach employees instead of delivering orders and meting out discipline. Nonetheless, that style—which I call "command energy"—remains prevalent, though perhaps less overt or aggressive. It's not so much that bosses are explicitly demanding, "Do this now!" Rather, they're communicating emotional energy that clearly signals *I'm in charge, and you're going to do it my way.* (I also see this tendency in parenting and romantic relationships; there's often spillover between the styles people use at home and at work.) Command energy seems great in theory: *If I can just get you to be different, then I can have what I want—how efficient!*

The problem is that neurologically, such control cannot be sustained. The human brain is wired for independence. When management experts talk about things like employee choice, schedule flexibility, and bringing your authentic self to work, they are describing the brain's drive for autonomy. Regions in the brain, such as the ventrolateral prefrontal cortex and the insula, give rise to people's innate sense of self—the drive we all feel to have our own preferences, make our own choices, and express our own desires. Fighting human nature seems like a losing battle, so why do leaders continue to be so controlling? At root, the tendency to rely on command energy stems from a leader's own anxiety and lack of confidence. And as anyone who has worked for a micromanager can attest, this style of leadership tends to increase the anxiety of subordinates, too. That's especially troubling now, when rising percentages of the workforce say they already suffer from anxiety.

As a researcher and a clinician, I've studied the effects of chronic stress on the brain and on behavior and treated people for stress and trauma in business, community, and military contexts. Through that work, I created *neuroenergetics*, a model for understanding how the brain constructs our reality so that we can engineer our lives in more-satisfying ways. Neuroenergetics refers to brain energy—and as someone whose research involves putting people into MRI machines, I am not talking about brain energy metaphorically. We often imagine that the way we think and feel is some abstract, nonphysical thing. It's not. Your brain is, quite literally, the ultimate electrical machine, sending electrical impulses through your nerves at up to 260 mph and catalyzing more than 100,000 electrochemical reactions every second. The power of brain energy imbues our every word and action as leaders, and all too often, the result is command and control. In this article, I offer guidance for managers on harnessing that energy to lead in a much more effective and sustainable way.

Learning to Drop the Rope

Commanding other people to behave in a way that aligns with your interests while denying theirs cannot create strong teams, precisely because it goes against the way human brains work. While certain situations require command energy (military exercises; stopping your kid from running into a busy street), it rarely works in most realms of our lives. When parents don't create space for their child's emerging independence, it blocks the child from developing a healthy sense of autonomy and results in all-too-common parent-child conflict. In romantic relationships, command energy about seemingly minor things—how to do dishes or what show to watch on TV—can lead to deep disconnection. At work, command energy can be destructive in peer relationships and between supervisors and direct reports. People, naturally wired for autonomy, resent feeling "bossed around." I tell clients that command energy is like gravity—it's ubiquitous. Leaders hardly notice that they're using it, but it profoundly affects everything they do.

To identify instances in which you deploy command energy, look for what I call energetic tugs-of-war. Have you ever, in the face of someone's disagreement with you, repeatedly insisted that you were right while they kept insisting you were wrong? Have you ever kept trying to prove them wrong? Or gotten into passive-aggressive standoffs with people, refusing to speak to them or answer their emails? In each of those situations, you're trying to pull the energy one way while the other person yanks it back the other way. At the core of energetic tugs-of-war is the (often unconscious) sense that "I don't feel confident believing what I believe, thinking what I think, or doing what I do until you get over here with me, on my side, exactly as I require." Unless you are talking about patently objective facts (what day of the week it is, what time the meeting is, and so on), there is no room for "being right" in constructive relationships. The tragedy of tugs-of-war is that both sides expend a ton of energy, but nobody goes anywhere. People get frustrated, and over time, the relationship decays.

The great news is you can end these cycles of relational pain quite quickly. What's the fastest way to end a tug-of-war? Drop the rope. Maybe you're starting to protest, "But why do I have to drop the rope? Why can't they drop the rope?" Dropping the rope may seem like dropping out of the fight. Giving up. Losing. It's not, though. Whoever voluntarily drops the rope is the leader.

To understand why, zoom out and look at tugs-of-war in the context of the leadership you want to create. Your role as a leader is to translate your vision into collective momentum—it's about moving people from where they are to where they have the potential to be. No one will follow you while they're busy fighting you. People get locked into exhausting tugs-of-war when they feel their independence is being disrespected—when their needs are ignored and their ideas devalued. Command energy is often the cause: Human beings can handle not getting their way; what they can't handle is feeling dominated.

Take Marc, a whip-smart, fast-talking tech-company executive with

As you begin to change your command energy, you'll see meaningful changes in the behaviors of those you lead.

a personality like a trial lawyer's. (Marc is a real client of mine whose name I've changed to maintain confidentiality.) Marc's leadership strategy was to debate people until they agreed with him. Although this worked early in his career, he noted that in more-senior roles at some very successful start-ups, the "strength of people's wills and intelligence got sharper." Marc's old strategy of debating people until they capitulated no longer worked. "This made me think I needed to prove myself even more—so I tried even harder to tell people how to do things," he recalls. "I was determined to be the smartest guy in the room. Turns out, I was the clown."

After getting fired from three jobs in a row, Marc was devastated. Deep pain often provokes deep change, and with the help of coaching, he had two important realizations. First, he saw how much his sense of leadership depended on whether people agreed with him. He acknowledged that he felt "threatened" when others suggested even minor ideas that didn't perfectly mirror his own. Second, as long as he required this level of lockstep agreement, he could lead only a few people. It was feasible to get two or three people to perfectly agree with him—maybe five. But 15, 50, or 100? No way. Marc had big ambitions, and he realized that his command-and-control leadership style wasn't scalable in the smart, dynamic organizations he wanted to lead.

As Marc reflected on his leadership, he came to understand that he had been equating being right with being effective. Unconsciously, he had worried that if he didn't look smarter than everyone else, he would lose his influence. He told me, "Honestly, one of the most transformative things I've learned about leadership is the less I worry about controlling others, the more interested they are in following me." As he became increasingly focused on the substance of his work as opposed to agreement politics around it, he found that he could lead large groups of people quite effectively.

Marc ultimately landed at one of the largest tech companies in the world, where he oversees one of its largest divisions. It was his willingness to quit commanding—to drop the rope—that helped him become the powerful leader he aspired to be.

Address the Root Causes

To stop overrelying on a command-and-control style, leaders should look inward to understand what causes it. I have found that leaders are often surprised—and ultimately soothed—to learn that command energy typically comes from a lack of trust in themselves. We seek to control only what we do not trust. Do you try to command the sun to rise? No, because you trust it will. Do you ask to inspect a plane's engine before it takes off? No, because you trust that others have followed safety protocols. You might think you command other people because you don't trust them. In some cases, that will be true. But more often, the truth is that you don't trust yourself. You don't trust that your plans will be successful if people don't do things exactly your way, so you command through criticism. You don't trust that you've prepared your team sufficiently, so you command through micromanagement. You don't trust that your explanation was sufficient, so you command through overexplaining.

Leaders I've worked with are often relieved to learn they can stop paying so much attention to others and focus more on their own work. However, while many leaders are excited by what they could accomplish with less-controlled and more-empowered teams, they also naturally worry about what might happen if they start commanding less. One leader said to me recently that his team would become a "free-for-all." He was missing the central point: Releasing command energy does not mean creating a culture of irresponsibility. On the contrary, it means creating a powerful and inspiring culture of self-responsibility.

Once you start to understand how your own anxiety and insecurities fuel command energy, you can make big improvements in how you lead your team. However, cultivating a new leadership style requires a dramatic shift in thinking: Your job is not to control other people; it's to control yourself and trust that others will follow. Your job is not to be inspiring; it's to be inspired and trust that others will feel inspired too. When you embody the energy you want to see on your team, you become the energetic standard to which other people will calibrate. That's how emotions in relationships work. Neuroscience shows us that emotional energy is contagious—and you already know this is true. How often have you walked into a meeting in a good mood only to "catch" the bad energy of others in the room? Conversely, you may have been feeling

down, walked into an upbeat room, and felt your energy rising.

To strengthen your leadership, start paying closer attention to the state of your own emotional energy as the potential source of difficulty in relationships. Here are four steps to help you look inward.

1 Think of someone in whom you've invested a lot of time trying to command, convince, control, persuade, influence, or motivate. It might be an obstinate coworker who annoys you. Pick someone with whom it's important to have a positive relationship.

2 Identify two or three qualities about this person that deeply pain you. Let's say the individual is critical and judgmental.

3 Consider times when you've injected similar energies into your own relationships. In other words, where in your life are you being critical and judgmental? Notice if you have a defensive reaction to this step of the exercise, thinking, *I'm not critical; they are!* If you are pained by someone else's criticisms, chances are very good that you too exhibit critical energy yourself. Perhaps you know your own energy under a different name: demanding, precise, difficult to please, or exacting. Those labels may seem more palatable to you, but you're actually transmitting the same brand of energy that pains you to receive. It may not be easy to identify where and when you exhibit these traits: Blind spots and defensive mechanisms are real. If you struggle, ask people who are close to you where they see this energy emanating from you and weakening your relationships.

4 After you've determined where you're critical, monitor those settings and stop yourself if you lapse into the kind of energy you find painful to be on the receiving end of. Be aware that your command energy does not always show up in the same relationship where you've felt pain from it. For example, if your father has always been critical of you, you may not be critical of him—but you may criticize your employees. As you begin to change your command energy, you'll see meaningful changes in the behavior of those you lead.

To see these steps in action, consider the case of Marti, a successful executive and loving mother. (Like Marc, Marti is also a pseudonymous client of mine.) Despite her success, Marti frequently felt judged by her own mother. To combat the pain, Marti spent copious amounts of energy trying to convince her mother that she was successful enough, smart enough, and worthy enough. Marti began to realize that her own attempts to get her mother to hold a positive opinion of her were an insidious—and exhausting—form of command-and-control behavior.

As Marti and I worked together to deepen her emotional intelligence, I asked her what initially seemed like a strange question: Where was she too judgmental? At first, she was confused. It was her mother who was judgmental, she insisted, not her. But as we gently explored her life, Marti started to see plenty of places where she acted the same way her mother did. She recalled many conversations with her husband in which she complained about her colleagues' performance. She admitted that she micromanaged her team and worried that they couldn't be trusted to do things to her standard. And she confessed to regularly judging other people's lives as she scrolled through social media.

Even though Marti's presenting complaint was about how her mother treated her, she agreed to focus on her own energy first—to think about the ways she was behaving contrary to her own values. As Marti became more emotionally aware, she stopped making judgments that violated her own values. As she made that shift, she became more accepting of not just her mother but also her colleagues, direct reports, and friends. By looking inward, Marti was able to lead more confidently and authentically.

MANY PEOPLE COMPARTMENTALIZE their home lives and work lives, looking at them as separate spheres. As Marti discovered, they're not. To become a more effective leader, it's important to recognize that your leadership does not belong to any specific situation but, rather, is defined by the emotional energy you possess in times of stress. Becoming more centered, calm, and self-assured in one area of your life will often carry over to another. When you realize that your command-and-control leadership style stems from your own anxieties, you'll begin to pay closer attention to your own energy—and in doing so, you'll find the strength to drop the rope.

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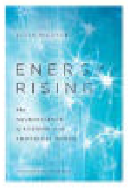

JULIA DIGANGI *is a neuropsychologist and the founder of NeuroHealth Partners. She is also the author of* Energy Rising: The Neuroscience of Leading with Emotional Power *(Harvard Business Press, 2023), from which this article is adapted.*

Reskilling IN THE

AUTHORS

Jorge Tamayo
Assistant professor, Harvard Business School

Leila Doumi
PhD student, Harvard Business School

Sagar Goel
Partner, BCG

Orsolya Kovács-Ondrejkovic
Associate director, BCG

Raffaella Sadun
Professor, Harvard Business School

Age of AI

TALENT MANAGEMENT

Five new paradigms for leaders—and employees

ARTIST NOMA BAR

TALENT MANAGEMENT

ABOUT THE ART

In his project Transitions *the artist Noma Bar plays with perspectives to reimagine his daughter's old childhood toys.*

BACK IN 2019 the Organisation for Economic Co-operation and Development made a bold forecast. Within 15 to 20 years, it predicted, new automation technologies were likely to eliminate 14% of the world's jobs and radically transform another 32%. Those were sobering numbers, involving more than 1 billion people globally—and they didn't even factor in ChatGPT and the new wave of generative AI that has recently taken the market by storm.

Today advances in technology are changing the demand for skills at an accelerated pace. New technologies can not only handle a growing number of repetitive and manual tasks but also perform increasingly sophisticated kinds of knowledge-based work—such as research, coding, and writing—that have long been considered safe from disruption. The average half-life of skills is now less than five years, and in some tech fields it's as low as two and a half years. Not all knowledge workers will lose their jobs in the years ahead, of course, but as they carry out their daily tasks, many of them may well discover that AI and other new technologies have so significantly altered the nature of what they do that in effect they're working in completely new fields.

To cope with these disruptions, a number of organizations are already investing heavily in upskilling their workforces. One recent BCG study suggests that such investments represent as much as 1.5% of those organizations' total budgets. But upskilling alone won't be enough. If the OECD estimates are correct, in the coming decades millions of workers may need to be entirely *re*skilled—a fundamental and profoundly complex societal challenge that will require workers not only to acquire new skills but to use them to change occupations.

Companies have a critical role to play in addressing this challenge, and it's in their best interests to get going on it in a serious way right now. Among those that have embraced the reskilling challenge, only a handful have done so effectively, and even *their* efforts have often been subscale and of limited impact, which leads to a question: Now that the need for a reskilling revolution is apparent, what must companies do to make it happen?

In our work at the HBS Digital Reskilling Lab and the BCG Henderson Institute we have been studying this question in depth, and as part of that effort we interviewed leaders at almost 40 organizations around the world that are investing in large-scale reskilling programs. During those interviews we discussed common challenges, heard stories of early success, and discovered that many of those companies are thinking in important new ways about why, when, and how to reskill. In synthesizing what we've learned, we've become aware of five paradigm shifts that are emerging in reskilling—shifts that companies will need to understand and embrace if they hope to succeed in adapting dynamically to the rapidly evolving era of automation and AI.

In this article we'll explore those shifts. We'll show how some companies are implementing them, and we'll review the unexpected challenges they've encountered and the promising wins they've achieved.

1 RESKILLING IS A STRATEGIC IMPERATIVE

During times of disruption, when many jobs are threatened, companies have often turned to reskilling to soften the blow of layoffs, assuage feelings of guilt about social responsibility, and create a positive PR narrative. But most of the companies we spoke with have moved beyond that narrow approach and now recognize reskilling as a strategic imperative. That shift reflects profound changes in the labor market, which is increasingly constrained by the aging of the working population, the emergence of new occupations, and an increasing need for employees to develop skills that are company-specific. Against this backdrop effective reskilling initiatives are critical, because they allow companies to build competitive advantage quickly by developing talent that is not readily available in the market and filling skills gaps that are

The average half-life of skills is now less than five years, and in some tech fields it's as low as two and a half years. For millions of workers, upskilling alone won't be enough.

IDEA IN BRIEF

THE SITUATION

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THE CHALLENGE

To cope, many organizations are investing heavily in upskilling their workforces, but those efforts alone won't be enough. In the coming decades millions of workers may need to be entirely reskilled—a profoundly complex societal challenge.

THE PATH FORWARD

Some companies have recently launched successful reskilling efforts. Five important paradigm shifts have emerged from their efforts that other companies will need to embrace if they hope to adapt to the new era of automation and AI.

instrumental to achieving their strategic objectives—before and better than their competitors do.

In recent years several major companies have embraced this approach. Infosys, for example, has reskilled more than 2,000 cybersecurity experts with various adjacent competencies and capability levels. Vodafone aims to draw from internal talent to fill 40% of its software developer needs. And Amazon, through its Machine Learning University, has enabled thousands of employees who initially had little experience in machine learning to become experts in the field.

Some companies now consider reskilling a core part of their employee value proposition and a strategic means of balancing workforce supply and demand. At those companies employees are encouraged to reskill for roles that appeal to them. Mahindra & Mahindra, Wipro, and Ericsson have policies, tools, and IT platforms that promote reskilling resources and available jobs—as does McDonald's, where restaurant employees have access to an app called Archways to Opportunity that maps skills learned on the job to career paths within the company and in other industries.

Finally, some companies are using reskilling to tap into broader talent pools and attract candidates who wouldn't otherwise be considered for open positions. ICICI Bank—headquartered in Mumbai and employing more than 130,000 people—runs an intense, academy-like reskilling program that prepares graduates, often from diverse backgrounds, for frontline managerial jobs. The program reskills some 2,500 to 4,000 employees each year. CVS used a similar approach during the Covid-19 pandemic to hire, train, and onboard people (some of them laid-off hospitality workers) to create capacity for its critical vaccine and testing services.

2 RESKILLING IS THE RESPONSIBILITY OF EVERY LEADER AND MANAGER

Traditionally, reskilling is considered part of the overall corporate-learning function. When that's the case, responsibility for the design and implementation of the program is often siloed within HR, and its failure or success is measured very narrowly—in terms of the number of trainings delivered, the cost per learner, and similar training-specific metrics. According to a recent BCG report, only 24% of polled companies make a clear connection between corporate strategy and reskilling efforts. Reskilling investments need a profound commitment from HR leaders, of course, but unless the rest of the organization understands the strategic relevance of those investments, it's very hard to obtain the relentless and distributed effort that such initiatives require to succeed.

At most of the organizations where we interviewed, reskilling initiatives are visibly championed by senior leaders, often CEOs and chief operating officers. They work hard to articulate for the rest of the company the connection between reskilling and strategy and to ensure that leadership and management teams understand their shared responsibility for implementing these programs. For example, as part of its ongoing digital transformation, Ericsson has developed a multiyear strategy devoted to upskilling and reskilling. The effort involves systematically defining critical skills connected to strategy, which correspond to a variety of accelerator programs, skill journeys, and skill-shifting targets—most of them dedicated to transforming telecommunications experts into AI and data-science experts. The company considers this a high-priority, high-investment project and has made it part of the objectives and key results that executives review quarterly. In just three years Ericsson has upskilled more than 15,000 employees in AI and automation.

Similarly, the executive team at CVS has made training and reskilling an integral part of the company's business strategies. Each individual business leader is now responsible for designing and delivering workforce-reskilling plans to help the company reach its goals, and the ability to do so is factored in to performance assessments. Amazon, too, has famously committed to reskilling as a core strategic objective and now mentions it prominently in its leadership manifesto for managers. The visibility of this commitment contributes to Amazon's ability to achieve scale in reskilling programs.

3 RESKILLING IS A CHANGE-MANAGEMENT INITIATIVE

To design and implement ambitious reskilling programs, companies must do a lot more than just train employees: They must create an organizational context conducive to success. To do that they need to ensure the right mindset and behaviors among employees and managers alike. From this perspective, reskilling is akin to a change-management initiative, because it requires a focus on many different tasks simultaneously.

Let's consider several of the most important.

Understanding supply and demand. To create a successful reskilling program, companies need a sophisticated understanding of supply (skills available internally and externally) and demand (skills needed to beat the competition). A useful way to develop this understanding is with a "skill taxonomy"—a detailed description of the capabilities needed for each occupation at a company. Employers used to put a lot of effort into creating such taxonomies from scratch, but many leading companies now rely on external providers for the bulk of the work. HSBC, for example, has adopted the taxonomy published by the World Economic Forum and customized it slightly to add skills specific to parts of its business. Similarly, SAP, which used to maintain an in-house taxonomy of 7,000 skills, has recently started working with Lightcast, which keeps a continually updated skill database. But developing a skill taxonomy is only the first step. Next comes the difficult job of deciding which skills get mapped to which jobs. Managers from different divisions may disagree about this. Such disagreement is often symptomatic of a deeper misalignment, and companies will need to resolve that before they undertake any major reskilling initiative.

Leaders must also determine what skills they will need in the future—a dynamic process that's critical for strategic reskilling programs. To do that well, they should focus on figuring out what skills the current strategy demands. Here they'll need to develop a rigorous strategic workforce-planning methodology. The European insurance company Allianz has done interesting work on this front: It regularly translates forecasted business growth into talent demand, focusing on the number of people needed in various jobs and the skills they'll require. The model, which is updated as part of the annual planning process, involves economic scenario planning and takes into account the possible effects of digitalization on the workforce.

Recruiting and evaluating. Traditionally, candidates are recruited for training opportunities or internal roles on the basis of their degrees or relevant work experience, but that obviously doesn't work for reskilled workers. A well-developed skill taxonomy can help here, by allowing organizations to think about enrollment policies in light of skill adjacencies, which can facilitate the transition from one skill set to another. Novartis has implemented an AI-powered internal talent marketplace that predicts, matches, and offers roles and projects related to employees' skills and goals. In our research we've also found that if reskilling programs are to succeed, companies must develop a clear set of enrollment criteria for employees, not all of whom will have the right combination of motivation and personality traits to be a good fit for reskilling.

Shaping the mindset of middle managers. Middle managers are often resistant to the idea of reskilling, for two main reasons: They worry (1) that their reports won't be able to keep up with their regular responsibilities while being reskilled, and (2) that once their reports *are* reskilled, they'll move to other parts of the organization. In both cases this can lead to "talent hoarding," in which managers try to hold on to their favorite reports by denying them the ability to participate in reskilling. Several of the companies we spoke with have addressed this problem by making talent development an explicit managerial responsibility. Wipro evaluates managers according to their teams' participation in training offers, and Amazon promotes leaders on the basis of a performance assessment that includes the question "How have you developed your team?" Middle managers may also resist the idea of hiring reskilled employees, believing that they're not as desirable as traditionally skilled workers. This problem can be addressed by involving managers in the design and delivery of reskilling programs and by providing sensitivity and unconscious-bias training. No matter what form the resistance takes, senior leaders' role modeling in support of reskilling is vital to overcoming it.

Building skills in the flow of work. It can be costly and logistically challenging to take employees away from their day jobs to participate in training. And adults tend not to like or learn well in classroom-style situations. In a 2021 BCG survey 65% of the 209,000 participating workers said they prefer to learn on the job. As a result, the best approach for reskilling is to do as much training as possible by means of shadowing assignments, internal apprenticeships, and trial periods. The reskilling program at ICICI Bank, for example, consists of a four-month vocational residency, during which employees take part in simulation-style trainings for the managerial role they hope to get, and an eight-month deployment in the field that involves a structured internship in a bank branch and closely shadowing a current manager.

Matching and integrating reskilled employees. Employees need to be matched with new jobs. Our interview data shows that if destination roles are clearly described in advance, employees become more interested in reskilling because new career trajectories become apparent to them, and the reskilling itself becomes more effective because it's more position-specific. Once in their new jobs, reskilled employees need several kinds of support to integrate successfully: help with learning new work norms and culture, building networks, and developing soft skills. Here coaching and mentoring can be particularly effective tools. Amazon has demonstrated leadership in this area: It runs a variety of mentoring programs for reskilled employees, among them a buddy system, part of its Grow Our Own Talent program, that connects previous and current program participants. The company also provides career coaching for employees who are making particularly difficult transitions, such as from warehouse worker to software developer.

4 EMPLOYEES *WANT* TO RESKILL— WHEN IT MAKES SENSE

Many of the companies we spoke with mentioned that one of their biggest challenges was simply persuading employees to embark on reskilling programs. That's understandable: Reskilling requires a lot of effort and can set a major life change in motion, and the outcome isn't guaranteed. The OECD reports that only a very small fraction of workers typically take part in standard training programs, and those who do are often the ones who need them the least.

But workers may be more willing to engage in reskilling than prior data suggests. BCG data shows, for example, that 68% of workers are aware of coming disruptions in their fields and are willing to reskill to remain competitively employed. The key to success in this domain, our interviews suggest, is to treat workers respectfully and make the benefits of their participation in reskilling initiatives clear. As one of our interviewees explains, "The secret to scaling up reskilling programs is to design a product your employees actually like."

So how can organizations do that? We have several suggestions.

Treat employees as partners. Because reskilling programs are often associated with organizational disruption and job loss—or at least job change—leaders often avoid talking openly about the rationale for the programs and the opportunities they present. But employees are more likely to participate if they understand why the programs are being implemented and have had a role in creating them. Aware of this, several of the companies we spoke with made a point of being honest and clear about why they were creating reskilling programs and involving workers early. One large auto manufacturer, for example, told its diesel engineers that because of changes in the automobile industry, it had less and less need for their skills; it presented its program as a way of ensuring that they would have new jobs and job security in the years ahead. The companies also told us that




TALENT MANAGEMENT

in designing and implementing reskilling programs, it's critical to align with worker councils and unions early on and to involve them in advocating for the programs.

Design programs from the employee point of view. Reskilling programs require participants to make a major investment of time. So it's important to try to reduce the risk, cost, and effort involved and to provide (almost) guaranteed outcomes. Amazon allows employees in its Career Choice program to pursue everything from bachelor's degrees to certificates—and covers all costs in advance. That has proved to be a key factor in scaling up the program, which has already had more than 130,000 participants. CVS, for its part, uses an effective "train in place" model for new employees.

Dedicate adequate time and attention to the task. Because reskilling involves occupational change, it usually requires intensive learning, which is possible only if employees have the time and mental space they need to succeed. To that end, four times a year Vodafone dedicates days during which employees may devote themselves entirely to learning and personal development. Bosch goes even further: To help traditional engineers at the company earn degrees and get training in emerging fields, its Mission to Move program covers the cost of tuition and time spent learning for as much as two days a week for a whole year. It even gives participants days off before exams to prepare.

Naturally, providing employees the time and space for skilling can be harder in industries where most workers are hourly or shift-based. Iberdrola, a renewable energy company, faced this challenge as it digitized. Because it was embracing new technologies, the company realized it would need to reskill 3,300 employees in various hourly roles. Its leaders got the job done by working closely with frontline managers to ensure that operations weren't disrupted by workers' taking time off for training. The company considered all training hours to be work hours and paid employees for them accordingly.

5 RESKILLING TAKES A VILLAGE

Companies have tended to think of reskilling as an organization-level challenge, believing that they have to do the job by and for themselves. But many of the companies where we interviewed have recognized that reskilling takes place in an ecosystem in which a number of actors have roles to play. Governments can incentivize reskilling investments by means of funds, policies, and public programs; industry can team up with academia to develop new skill-building techniques; and NGOs can play a role in connecting corporate talent needs with disadvantaged and marginalized talent groups. Coalitions of companies may be more effective at the reskilling challenge than single organizations are.

When designing reskilling programs for the rapidly evolving era of AI and automation, companies need to harness the potential of this wider ecosystem. We've identified several ways in which they can do so.

Consider industry partnerships. Instead of thinking of themselves as competitors for a limited talent pool, companies can team up to conduct joint training efforts, which may significantly attenuate some of the challenges outlined above. For example, industry-wide skill taxonomies would provide a useful infrastructure and could in some cases help companies pool the knowledge and resources needed to invest in certain types of capabilities, such as cutting-edge AI skills, which are so new that individual organizations may not yet have the knowledge or the capacity to develop solutions on their own. Industry coalitions could also reassure participants that their investments in learning might open up broader future opportunities.

The Technology in Finance Immersion Programme, offered by the Institute of Banking and Finance Singapore, a nonprofit industry association, is a case in point. The program aims to build up an industry pipeline of capabilities in key technology areas, with participation from all major banks, insurance players, and asset managers in the country, to meet the talent needs of the financial services sector. Similarly, within the European Union a variety of stakeholders have formed the Automotive Skills Alliance, which is dedicated to the "re-skilling and up-skilling of workers in the automotive sector."

Partner with nonprofits to reach diverse talent. Many reskilling nonprofits work with populations that are underrepresented in the workforce. By teaming up with these nonprofits, companies can significantly expand access to talent and employment opportunities in ways that benefit both parties, often at low cost. Some of the ongoing reskilling efforts we learned of in our research involve corporate partnerships with such innovative entities as OneTen (which helps Black workers in the United States), Year Up (which helps disadvantaged youths in the United States), Joblinge (which helps disadvantaged youths in Germany), and RISE 2.0 (a BCG program that helps workers in Singapore without a digital background move into digital roles). Year Up stands out among these initiatives for its careful use of statistical techniques to study the impact of its training on

Reskilling programs require participants to make a major investment of time. So it's important to try to reduce the risk, cost, and effort involved.

participants. Since 2011 the program has placed more than 40,000 young people in corporate roles and internships that would have been inaccessible to them without the reskilling support and network it provided. The program has an 80% placement rate at more than 250 participating companies.

Partner with local colleges and training providers. Companies have a lot to gain by teaming up with educational institutions in their reskilling efforts. Examples of such partnerships include the UK-government-funded Institutes of Technology, which bring together colleges and major employers to provide practical technical training for workers without tech backgrounds, in ways that allow companies to quickly react to new technologies and meet rapidly evolving skills needs; and BMW's collaboration with the German Federal Employment Agency and the Association of German Chambers of Industry and Commerce, which supports the transition to electric vehicles with reskilling programs aimed at industrial electricians.

MANY COMPANIES HAVE an intuitive understanding of the need to embrace the reskilling paradigm shifts discussed in this article, and some, admirably, have already made tremendous commitments to doing so. But their efforts are hampered by two important limitations: a lack of rigor when it comes to the measurement and evaluation of what actually works, and a lack of information about how to generalize and scale up the demonstrably successful features of reskilling programs. To adapt in the years ahead to the rapidly accelerating pace of technological change, companies will have to develop ways to learn—in a systematic, rigorous, experimental, and long-term way—from the many reskilling investments that are being made today. Only then will the reskilling revolution really take off.

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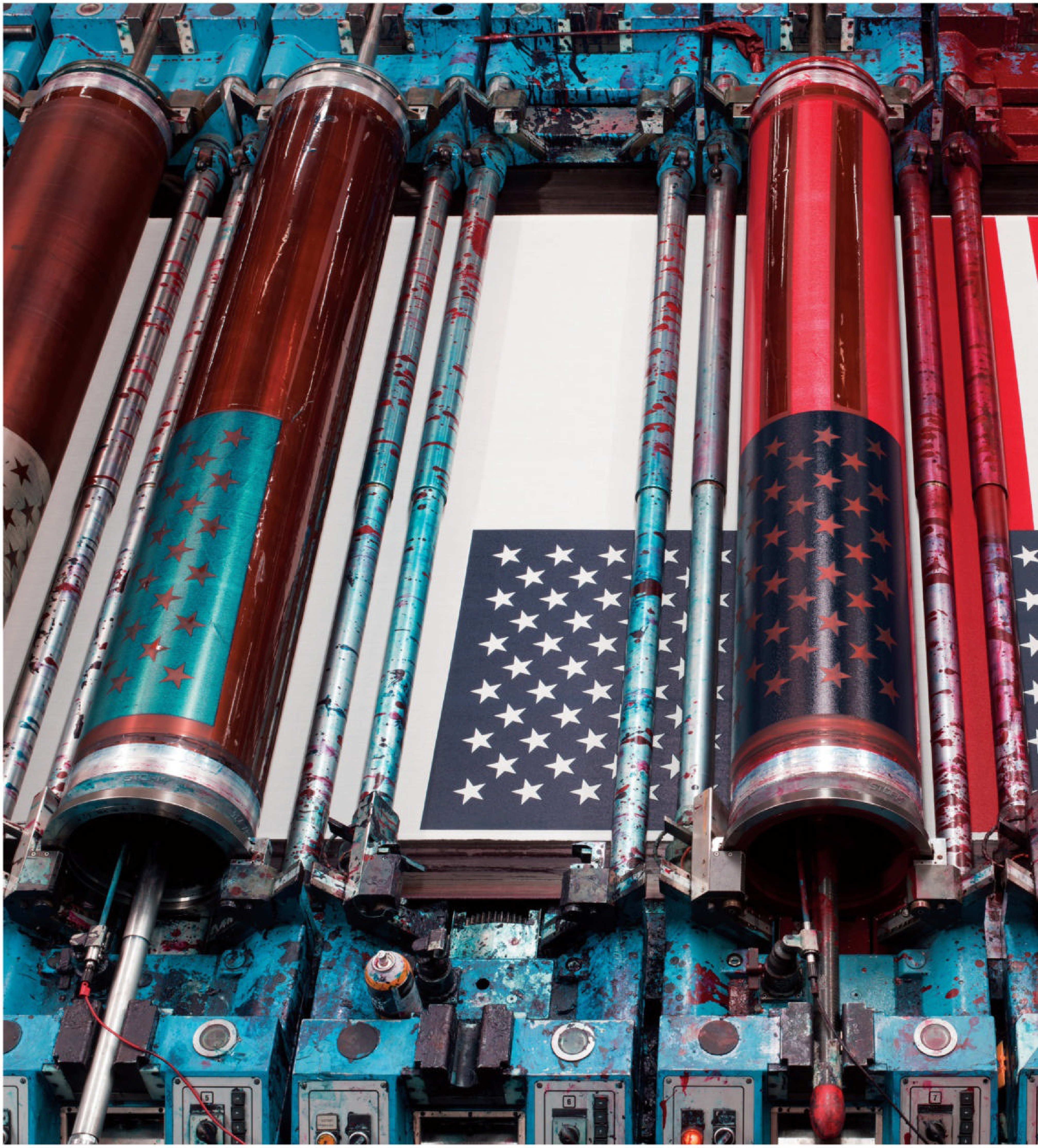
JORGE TAMAYO *is an assistant professor in the Strategy Unit at Harvard Business School.* **LEILA DOUMI** *is a PhD candidate in the Strategy Unit at Harvard Business School.* **SAGAR GOEL** *is a managing director and partner at Boston Consulting Group, Singapore, and a fellow at the BCG Henderson Institute.* **ORSOLYA KOVÁCS-ONDREJKOVIC** *is an associate director at Boston Consulting Group, Zurich, and an ambassador at the BCG Henderson Institute.* **RAFFAELLA SADUN** *is the Charles E. Wilson Professor of Business Administration at Harvard Business School.*



NATIONAL COMPETITIVENESS

The New Era of Industrial Policy Is Here

Are you prepared?

AUTHOR
Willy C. Shih
Professor, Harvard Business School

PHOTOGRAPHER **CHRISTOPHER PAYNE**

NATIONAL COMPETITIVENESS

Governments around the world are increasingly intervening in the private sector through industrial policies designed to help domestic sectors reach goals that markets alone are unlikely to achieve. As a result, companies in targeted sectors—such as automakers, energy companies, and semiconductor manufacturers—may experience dramatic changes in their operating environments. The policies could create new costs or deliver financial incentives to shift R&D or manufacturing investments. They may also incent firms to alter their supplier networks or change their trading partners. Managers who have grown up in markets without such interventions are now facing an unfamiliar environment. This article will provide an overview of policy approaches and give managers a framework for responding to them.

IDEA IN BRIEF

THE NEW WORLD

A new age of industrial policy is at hand. Governments have been increasingly intervening in the private sector as they have struggled to cope with the pandemic, rising geopolitical tensions, evolving economies, and climate change.

THE CHALLENGES

For businesses, government policies are creating new costs and forcing them to rethink where they conduct research, make products, and source components and materials.

THE SOLUTION

Business leaders should understand the competing interests shaping the policies, engage and educate political leaders and their staffs, collaborate with upstream and downstream partners, and weigh the pros and cons of accepting government incentives. They must adapt to the new rules of the game.

ABOUT THE ART

Christopher Payne photographed Annin Flagmakers, one of the oldest and largest flag manufacturers in the United States, exploring how a flag can at once be a piece of fabric and represent a nation's identity and ambitions.

THE FALL AND RISE OF INDUSTRIAL POLICY

Industrial policies are not new. Countries have long practiced them: Japan used *gyōsei shidō,* or "administrative guidance," coupled with loans, grants, subsidies, and other financial tools, after the Second World War to foster the growth of its manufacturing sector. In 1986 China launched its 863 program to modernize technology. South Korea, Singapore, and Taiwan all used programs to stimulate modernization and development. In the United States the Apollo space program and the work of the Defense Advanced Research Projects Agency (DARPA) are examples of mission-oriented industrial policies that successfully stimulated innovation. Yet over the last few decades, critics have questioned whether such interventions were the most efficient way to allocate public resources. Failures to achieve objectives, perceived anticompetitive effects, concerns about crowding out private investments, and the view that programs often ended up serving special interests all fueled the skepticism. As did high-profile failures such as the U.S. investment in solar panel maker Solyndra, the Synthetic Fuels Corporation (established in 1980 and closed six years later), and the commercial failure of the British and French Concorde supersonic passenger jetliner. Consequently, the pendulum swung the other way; many governments intervened less.

During the past five years, the pendulum has been swinging quickly back, propelled in part by the need to respond to global societal challenges such as the Covid-19 crisis and climate change. In addition, many countries fear that their strategic technologies or sectors are weakening, which poses a threat to economic growth, national security, and innovation capacity. Some new industrial policies focus on creating jobs; others on influencing international trade. Notable examples include the European Green Deal, Horizon 2020, and the Strategic Forum for Important Projects of Common European Interest (IPCEI); the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the CHIPS and Science Act in the United States; and policies in China like Made in China 2025 and its Belt and Road Initiative, which some argue was designed to grow its export trading ecosystem.

Sometimes governments intervene because the private sector may not be willing to assume as much risk as governments when it comes to providing public goods. Operation Warp Speed in the United States is a case in point. It was highly successful in accelerating clinical trials and introducing new technologies like mRNA vaccines, diagnostics, and therapeutics to fight Covid-19 because the Biomedical Advanced Research and Development Authority (BARDA) was willing to absorb large financial risks by betting on a portfolio of different technologies, including ones that had never been deployed.

A more controversial, and increasingly common, type of intervention focuses on helping specific industries or sectors. European governments' support for Airbus helped the consortium overcome the high fixed costs of entering the commercial aircraft industry; China offered the same kind of support to the Commercial Aircraft Corporation of China (COMAC) to design and produce passenger jets such as the C919. China, which has long relied on industrial policies to develop its economy, also intervened heavily with subsidies in solid-state lighting, wind energy, and solar panel manufacturing. And recognizing early on the strategic importance of transitioning its automotive industry

Christopher Payne/Esto

Industrial policies have begun to spill across national or supranational borders (like the EU) with the emergence of new alliances.

to electric, China also provided incentives to buyers of domestically made electric vehicles. The country became the world's largest manufacturer of electric vehicles, and Chinese companies such as Contemporary Amperex Technology Company (CATL) and BYD have become dominant suppliers of lithium batteries and their components. Such successes have encouraged governments everywhere to intervene more in technology-focused and mission-oriented industrial strategies.

The intensifying geopolitical competition between the United States and China is adding fuel to the fire. The U.S. government has tried to reverse the declines of strategic sectors in its manufacturing base by offering significant subsidies and loans, erecting tariffs, and providing extensive tax incentives coupled with domestic content rules, such as those provided in the Federal Advanced Manufacturing Production Tax Credit of the Inflation Reduction Act. It has issued new rules governing ownership of entities and export bans, such as those for advanced semiconductors and the equipment needed to make them. These policies have led to a big jump in manufacturing investment in the United States but have prompted other countries, including allies, to counter with their own interventions. The EU, for instance, responded with its Green Deal Industrial Plan and proposals to temporarily set aside state-aid rules that limited subsidies to companies in member countries. South Korea's parliament approved the K-Chips Act in response to the U.S.'s CHIPS and Science Act.

Industrial policies have also begun to spill across national or supranational borders (like the EU) with the emergence of new alliances and concepts like friend-shoring, or the sourcing of materials and components from trusted trade partners. Examples include the Chip 4 Alliance proposed by the Biden administration, which would create a "democratic semiconductor supply chain" that spans Japan, South Korea, Taiwan, and the United States; the Group of 7 agreement to collectively manage risks in critical mineral supply chains; and the UK–Japan semiconductor partnership.

Friend-shoring and industry-specific trade alliances add another challenge for companies that operate across borders: Executives need to understand not only the competitive dynamics of potentially unfamiliar markets in other countries but also the possible impacts of policy decisions in countries with competing sectors. For example, the United States has no flat-panel-display industry and relies on China, Japan, South Korea, and Taiwan for its entire supply of computer monitors, TVs, and displays used in cars and other equipment. But Chinese policies that resulted in overinvestment in manufacturing capacity will likely drive U.S. "friends" such as South Korea, Japan, and Taiwan out of the business, which will eventually force U.S. companies to source exclusively in China.

NAVIGATING THE CHANGING POLICY ENVIRONMENT

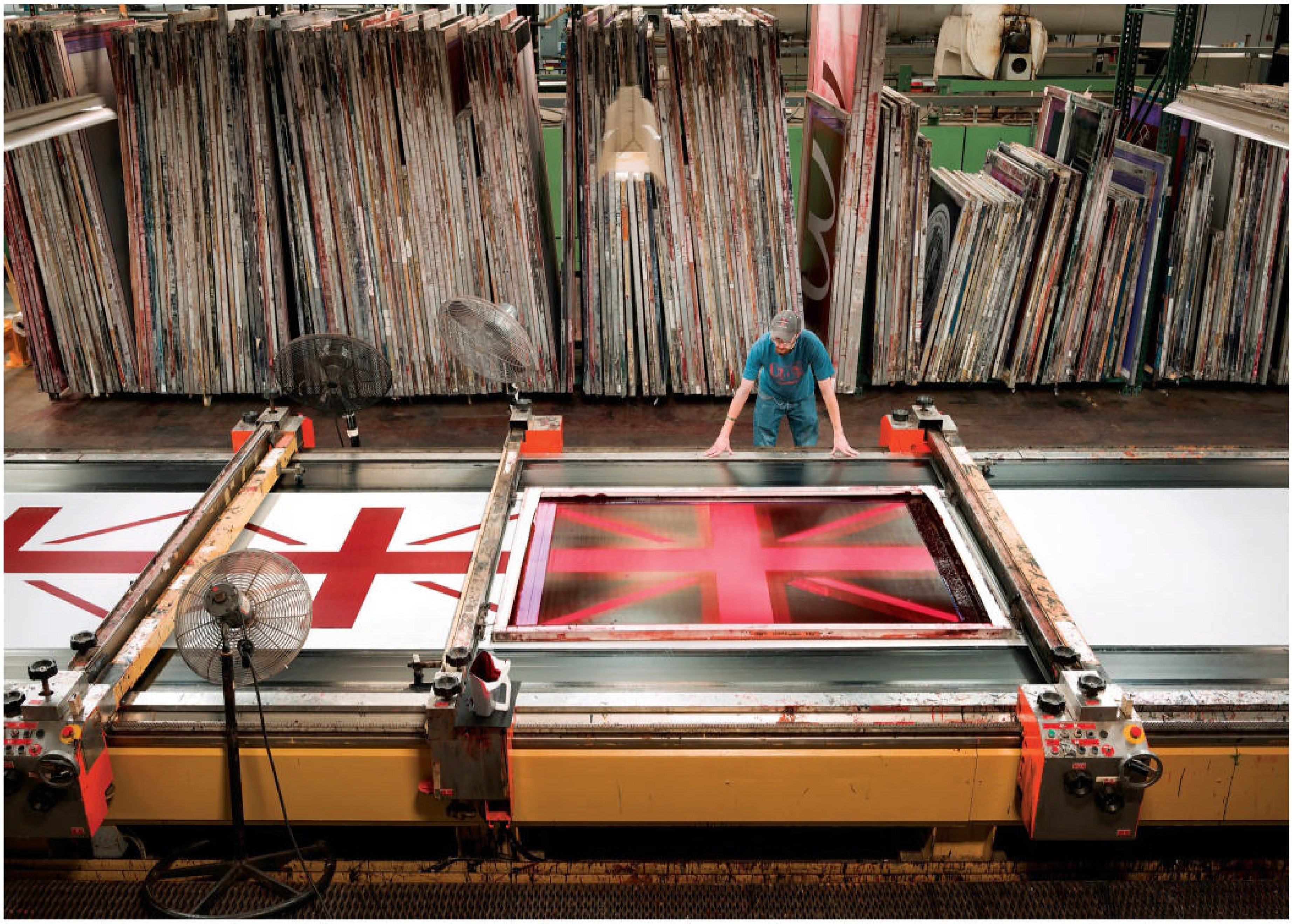
As new policies are formulated and implemented, business leaders can take steps to position themselves wisely:

Recognize the different forms of industrial policy. Industrial policies fall into four broad categories: horizontal, vertical, supply-side, and demand-side. It is helpful for managers to recognize the distinctions because each impacts market behavior and competition differently.

Horizontal policies apply to all firms irrespective of their activities, their location, or the technologies they use. They include things like R&D tax credits and accelerated depreciation, which reduce the costs of capital investments. Vertical, or targeted, policies favor a specific sector or firm. They include renewable-energy tax credits like those provided for in the IRA: a $3 per kilogram credit for the manufacture of solar-grade polysilicon and a credit of $12 per square meter for making photovoltaic wafers.

Supply-side policies mainly impact the cost of R&D or production, and they can tilt the playing field in favor of certain locations or the use of particular materials or technologies. Governments use supply-side tools such as grants, subsidies, tax preferences, and tax credits most frequently. Economists argue that they may be justified when firms don't have sufficient incentives to invest in risky projects or they underinvest because they will get only a partial share of the total return on their investment. For example, the European Battery Alliance is channeling billion of euros into research and innovation, while in the United States the IRA provides credit subsidies and loan guarantees for a range of clean energy projects.

Demand-side tools, by contrast, typically affect domestic consumption of targeted products or services. They work to



increase the size of the market overall. Examples include tax credits for the purchase of an electric vehicle and guaranteed pricing for renewable power sold to the operator of an electrical grid. Government procurement is another demand-side tool, as are tax credits for the installation of renewable-energy generation. Demand-side tools have the advantage of preserving market competition among companies vying to sell to customers, but nonetheless they distort markets, at least temporarily. Many provisions in the Inflation Reduction Act that support clean energy are essentially demand-side tools that contain domestic content rules.

Many companies focus on supply-side tools when they are lobbying because supply-side policies can be narrowly targeted to give their business an advantage. They expect that demand-side policies will create more competition for them. But lobbying for a combination of supply- and demand-side policies would often be more effective, as demand-side tools increase the size of the market, which creates more incentives for firms to invest—and lowers the risk of those investments.

Understand competing priorities and government intent. When policies are still being developed, it is important for executives to understand the multiple interests at play. For the CHIPS and Science Act, for instance, the government's highest priority was securing domestic sourcing of semiconductors for defense and critical infrastructure needs. Semiconductor makers, for their part, wanted help competing against lower-cost foreign competition; chip customers like automakers wanted a dependable supply; and organized labor wanted high-paying union jobs. Most policies are compromises that draw political support from a wide spectrum of constituencies.

Engage and educate. Before industrial policies are finalized, many organizations employ their government relations teams or lobbyists to try to shape them in ways that serve their interests. But executives often fail to appreciate the importance of educating not only political leaders and appointees but also career civil servants who write the legislation—such as congressional staffs in the United States or EU staff in Brussels. Many civil servants have minimal

experience in the business world, and areas like green energy or semiconductors are technically complex. That gives CEOs a unique opportunity to offer meaningful input, especially when they can speak for an industry sector.

Focusing on educating government officials and staff members about competing interests and issues may be a more effective way to shape the thinking of the people developing the policies than simply advocating for a particular measure. It entails temporarily setting aside a firm's specific interests and conveying the big picture: the industry's structure, existing trade dynamics, and how all the pieces connect. For example, recent semiconductor trade policies were motivated by the supply chain crisis that arose during the Covid-19 pandemic, when multiple strategic vulnerabilities were exposed. Yet many people in government and business fell into the trap of looking only one step upstream or one step downstream from where shortages appeared, which led to intense and competing lobbying around potential solutions. Taking a bird's-eye view of the highly interconnected network of chip designers, materials suppliers, chip manufacturers, and chip consumers would have been a better approach. Then policymakers would have recognized that some bottlenecks in the supply chain were connected to demand surges and stockpiling in the face of looming U.S. sanctions on Chinese companies, and that automakers shared their call on chip foundry capacity with other sectors experiencing high demand. It would also have helped them understand how U.S. sanctions on select Chinese companies had triggered the construction of excessive capacity in mature chip sectors in China and was likely to result in commoditization pressure on other global players.

In a similar vein, many people in government may not appreciate how investment levels and time horizons for earning returns vary across sectors and even within a sector. Pharmaceutical companies and semiconductor companies might spend 30% or more of their revenue on R&D, whereas consumer goods companies might spend 2% or less. As a policy tool, tax credits are beneficial only when a firm has income to apply those credits against. Capital-intensive industries such as semiconductor manufacturing and

> Corporate strategies built during what we will probably look back on as a golden age of globalization will have to be recast for a more fragmented world.

mining may not turn a profit for 10 years or more. In such cases, offering a tradable credit would allow those companies to sell the tax preference to another business. For example, U.S. energy policy between 1918 and 1970 focused on increasing domestic oil and gas reserves. It offered the industry a host of incentives, including tax tools such as the expensing of intangible drilling and dry hole costs; a percentage-depletion allowance to counter the exhaustion of underground reserves; favorable treatment of capital gains on the sale of successful properties; and special exemptions from rules for limitations on passive activity losses. Taken together, they reduced the marginal tax rate in the oil and gas industries and helped put U.S. firms at the forefront of upstream production for most of the 20th century. But those approaches were formulated long before many of today's lawmakers were born. If corporate executives spend time educating them, they'll be more likely to formulate more-nuanced policies.

Collaborate. Working with upstream and downstream partners in your supply chain can lead to commercially successful outcomes that are aligned with industrial policy objectives. In Europe, many companies that are responding to mandates to reduce carbon emissions face a "chicken and egg" problem: Companies may hesitate to switch to a more sustainable fuel because sources of supply down the road are uncertain. At the same time, potential fuel suppliers cannot or will not invest in more capacity unless they are assured that there will be sufficient sustained demand to earn a return on their investment. A.P. Moller-Maersk, the Danish shipping and logistics giant, tried to address that dilemma by signing offtake agreements with biomethanol suppliers to get them to commit to investing in new production capacity. Similarly, General Motors is investing $650 million in Lithium Americas to help it develop its new Thacker Pass mine in Nevada, a deal that includes a 10-year offtake agreement and options to secure even more of the mine's output.

Adapt. The late Harvard Business School professor Bruce Scott described business as an activity conducted on a playing field that is operating under rules set by the government. From this perspective, new industrial policies are an attempt to change the rules of play in order to achieve specific goals.

Adaptability, therefore, is critical for business leaders. The RISC-V Foundation, an organization set up to foster the adoption of its open-source processor core technology (developed at the University of California, Berkeley), moved its headquarters from the United States to Switzerland, renaming itself RISC-V International in the process. It did so to ensure that its members, which include U.S., European, and Chinese companies, could continue to use RISC-V chip designs in the face of increasing trade restrictions.

Another example of adaption: Some Western companies that have large businesses in China are bifurcating their supply chains to serve the Chinese market separately from the rest of the world. And many Western firms that are dependent on China for most of their production needs but can't move to other countries yet will need to develop road maps to diversify their production over the long term.

Decide whether to accept subsidies. Demand-side subsidies are relatively straightforward. The seller's task is to comply with requirements that enable a buyer of its product to collect the subsidy. When government programs offer supply-side subsidies, however, business leaders must decide whether to accept them. U.S. programs increasingly have strings attached, ranging from the traditional, such as meeting minimum investment or hiring levels, to the nonconventional, such as the government taking equity stakes, financial stakes, or shares in future earnings. During Operation Warp Speed, for instance, Moderna's executives accepted funding from BARDA to accelerate development and scale up manufacturing. By contrast, Pfizer's leaders took a more limited approach: The company received a government commitment to purchase 100 million doses of its vaccine after it successfully manufactured it and received the Food and Drug Administration's emergency-use authorization. Both vaccines were commercially successful, but Moderna's closer collaboration with the government probably contributed to subsequent disputes between the company and the National Institutes of Health over patent ownership and which companies had the right to license the technology.

Subsidies can bring other constraints. An extreme case in point is the U.S. government's bailout of GM during the Great Recession. The 2008 financial crisis caused a precipitous drop in sales for domestic automakers, leaving them in financially precarious positions. Concerns about the collapse of a major industry prompted the federal government

to step in. GM received more than $50 billion as part of the Troubled Asset Relief Program (TARP), but it had to grant 60.8% of shares in a New GM to the U.S. Treasury and the balance of shares to the United Auto Workers retiree health care trust fund, the governments of Canada and Ontario, and holders of the old GM's bonds. The Obama administration pressured GM's then-CEO Rick Wagoner to resign, and the company went through a restructuring directed by the administration's Auto Task Force, effectively ceding management control to the government.

Plan to live without subsidies or preferences in the long term. Once a firm accepts subsidies or tax preferences, managers need to plan for the time when that support ends. Construction subsidies offered under the CHIPS and Science Act, for example, will likely be onetime events, designed to help offset high construction costs. But these subsidies alone will not reduce operating costs except to the extent that they reduce the cost of capital and consequently lower amortization per wafer produced. Plus they come with strings attached—there may be restrictions on companies' ability to invest in other countries in the future or other constraints on their future operations. The ultimate question for executives will be how to address higher costs for materials (much of which will still need to be imported), availability of skilled workers, and other ancillary costs.

One theory behind subsidies in the IRA and CHIPS and Science Act is that manufacturers will build scale and lower their costs by moving down the learning curve, and that may be true. But it is important for businesses leaders to understand that government objectives are not necessarily focused on company profitability. For example, the CHIPS and Science Act has as its highest priority ensuring domestic access to advanced semiconductor manufacturing capacity for military and essential commercial uses. It is not designed to ensure the profitability of manufacturers' domestic operations. That's up to the companies' leadership. In a similar vein, some subsidies under the IRA or IIJA will require higher percentages of domestic content over time and will be phased out over time, so managers need a plan to be competitive when that happens.

WE ARE MOVING into a new world order, where governments around the world are increasingly using industrial policy tools to shape where companies structure and locate their operations, which products they sell, and to whom they sell them. For companies that operate in multiple countries, navigating those policies won't be easy. Managers need to understand the goals of the governments, work to educate government officials and staff to shape policies as they are being developed, and figure out how to optimally revamp their operations accordingly. Corporate strategies built during what we will probably look back on as a golden age of globalization will have to be recast for a more fragmented world, taking into account different country contexts and constraints and tailoring approaches that fit these markets. It will be much harder to have one size fit all.

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WILLY C. SHIH *is a Baker Foundation Professor of Management Practice at Harvard Business School.*

ORGANIZATIONAL CHANGE

Create Stories That Change* Your Company's Culture

*Work with these six building blocks.

AUTHORS

Jay B. Barney
Professor, Eccles School of Business

Manoel Amorim
Founding partner, MXF Investments

Carlos Júlio
Entrepreneur

ARTIST
CARA BARER

*

It’s well-known that firms where strategy and culture align outperform firms where they do not. It follows, then, that if the two *aren’t* aligned, you most likely need to change your culture.

That’s simple to say but hard to do. The values, beliefs, and norms that make up your culture are intangible and diffused throughout your organization. They’re hard to grab hold of and manipulate. And while people tend to resist most organizational change, they’re particularly hostile to cultural change because it threatens established behaviors and relationships.

To figure out the secret to cultural change, we conducted interviews about it with more than 60 business leaders from different industries around the world—including CEOs, functional vice presidents, and plant managers. Some of these leaders hadn’t tried to change their firms’ cultures; others had tried and failed. Still, in our sample we found enough leaders whose efforts were successful to draw conclusions about what does or doesn’t work.

We quickly realized that none of the successful initiatives had begun with a list of desired core values for a new culture. None had begun with detailed studies of the current culture and its relationship to strategy implementation. And none had begun by revising HR policies—including those for employee evaluation and compensation. To be sure, such actions were useful later in the process, but they weren’t decisive early on because they were all moves that could be reversed at low cost. Employees were quick to recognize them as such and, as a result, withheld their full commitment to cultural change. Yes, they attended the training sessions, agreed to follow the new corporate values, and gave lip service to implementing a new culture, but they knew that someday the latest initiative would blow over and normal activity would resume.

So what did the successful leaders do? They created stories highlighting actions that were inconsistent with a firm’s established culture but reinforced an alternative culture that was more strategically aligned. Stories about heroic employees who went above and beyond for customers, for example, helped bolster service-oriented strategies; stories about risk-taking and creative persistence helped promote

IDEA IN BRIEF

THE PROBLEM

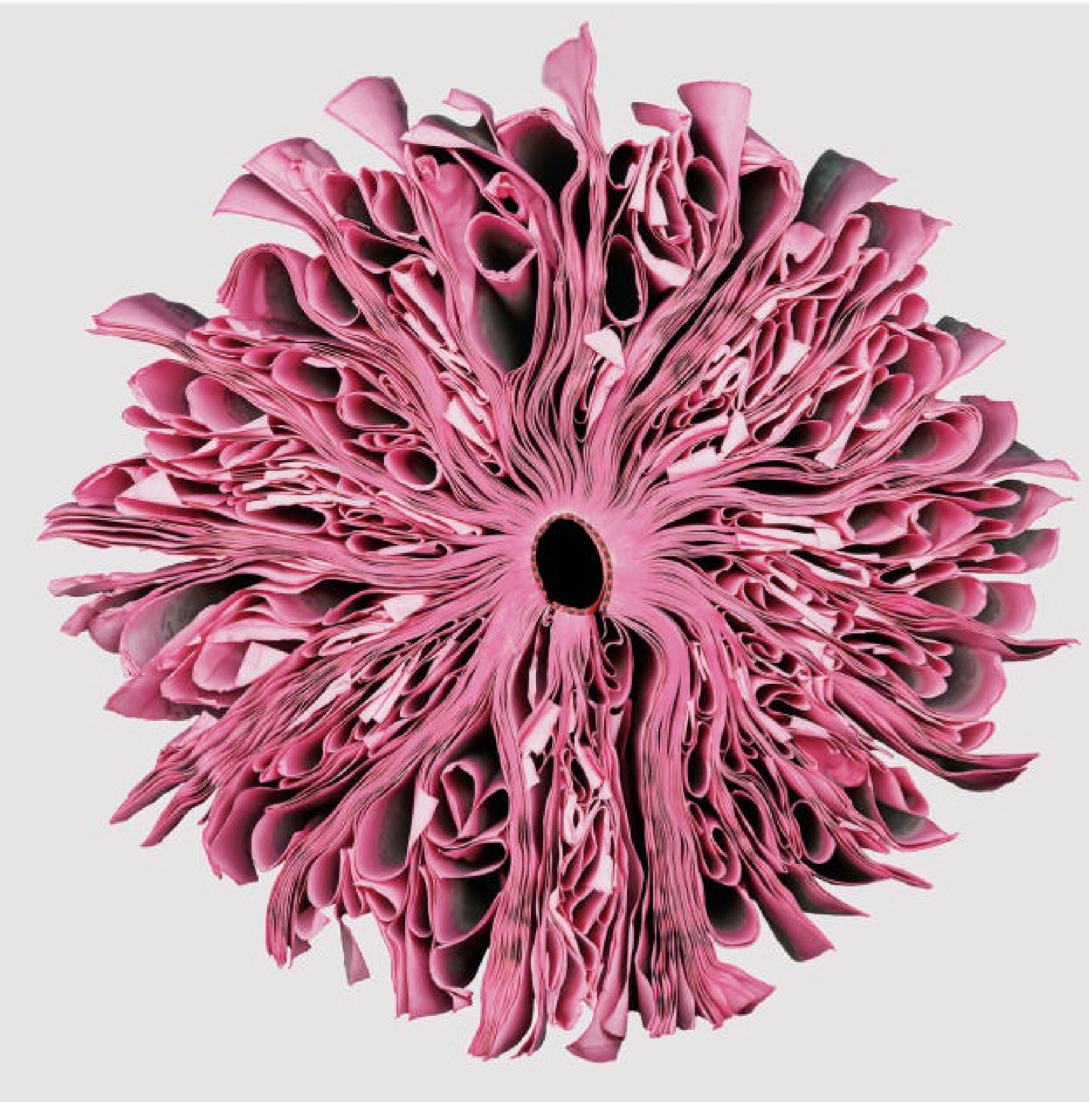
Most business leaders approach cultural change in a formal, analytic manner: by holding workshops to define values and revising HR protocols and practices. That almost never works.

WHY IT HAPPENS

The values, beliefs, and norms that make up an organization’s culture are hard to define, and people instinctively resist attempts to alter established behaviors and relationships.

THE SOLUTION

Since organizational culture is embodied in the stories employees share, start by changing those stories. Create new narratives that reinforce the desired culture and are deeply inconsistent with the old one. That will signal your commitment to cultural change and empower employees to craft their own culture-changing stories.



ABOUT THE ART

Cara Barer transforms books into art by sculpting them and presenting them anew as objects of beauty. Her work is concerned with the evolving ways we obtain knowledge in the modern world.

innovation strategies; and stories about attention to detail and dramatic process improvements helped support strategies that emphasized high-quality, low-cost production.

Crafting new stories forces business leaders to commit to cultural change in a way that creating new HR policies or cultural charters doesn't. Once the stories have spread throughout an organization, they're difficult to disavow or dislodge. And as the new stories replace narratives that reinforced the old culture, employees begin coming up with their own stories and end up co-creating a new one consistent with a firm's strategies.

What's the key to making these new stories work? Our research has identified six rules that business leaders need to follow.

1

Be Authentic

Authentic stories reflect your deeply held values and beliefs. If your stories are inconsistent with them, sooner or later your employees will spot your hypocrisy and question your commitment to change. But crafting authentic stories can feel risky because it involves opening yourself up personally. It's hard to know how people will respond to your honesty and transparency.

When Stefano Rettore became president of Archer Daniels Midland's largest division, it was underperforming financially. Rettore was relatively new to North America and had only limited knowledge of his team, and he realized that to turn the business around he'd need to quickly develop trust among his direct reports.

Immediately he scheduled a two-day off-site to talk about the division's strategy and operations. He began the first session by saying, "You don't know me. I don't really know you. But we're going to be working together. We will make mistakes, and we need to feel safe about admitting them. So I want to be transparent about who I am, how I became the leader I am, and about my expectations of each of you. I lost my father when I was 19. It happened suddenly, and then 10 years later I lost my sister and her unborn son. Look, we don't know when we're going to run out of time. I don't want to waste time doing things that I don't believe in—like silly politics. We need transparency to be successful, so I thought I would start by being transparent."

Of course, this was a risky way to start the meeting. Rettore didn't know how his reports would respond. But one by one, they started to share their own stories about how their own approaches to leadership had developed. The meeting established a norm of openness in the division that helped it grow and increase its profitability during the 14 months Rettore served as president and beyond.

We're not suggesting here that transparency, or any other particular cultural value, is important for every company. Different strategies are likely to require different kinds of cultures; culture is not a "one size fits all" concept.

The point of this story is that Rettore had concluded that employees in his division couldn't afford to waste time pointing fingers at one another and that transparency was critical to turning things around. By speaking so honestly at the first meeting, he demonstrated his personal commitment to transparency.

2

Feature Yourself in Your Stories

Another way to demonstrate that your commitment to a new culture is authentic is to make sure that you yourself play a prominent role in the narratives you craft.

A good example is offered by Alberto Carvalho. When he was put in charge of Gillette's emerging markets business, technological innovation dominated the company's product development efforts. But the new products created by Gillette's labs weren't selling well in India, even though they'd tested well among Indians living in the United States and Britain.

Clearly, Gillette needed to research what was going on in India. Typically, studying how Indian men shaved would have been assigned to a summer intern. But Carvalho didn't just want to collect information; he wanted to change the product development culture in the emerging markets business.

So he decided to do something unheard of at Gillette: He would go to India himself. He got pushback immediately. This was not how product development was done at Gillette. But Carvalho persisted, and finally a small group of senior managers accompanied him to India. Here's what happened on the trip:

"We watched potential consumers shaving," Carvalho recalls. "In many low-income neighborhoods, 30 or more homes shared a single bathroom, so men didn't shave in the bathroom. They found a room in their home—where they had a tiny mirror and a cup of water—to shave. They didn't have a place to store their razor, so they hung it on a nail. Because they didn't have running water to clean their razor, our product clogged easily. We didn't even have a hole in the handle they could use to hang up their razor."

On the flight home, the team designed a new razor for the market that not only could be sold at a competitive price point but also met the unique requirements of Indian consumers. And yes, it had a hole in the handle.

In two years, Gillette's market share for razors went from virtually zero to 18%, with more than 100 million Indian men purchasing the new product, according to Carvalho. Just as important, his decision to go to India began to shift the division's product development culture. Technological innovation was still important, but now understanding customer needs became critical. That wouldn't have been possible if he had not crafted a story in which he did something very inconsistent with the dominant culture.

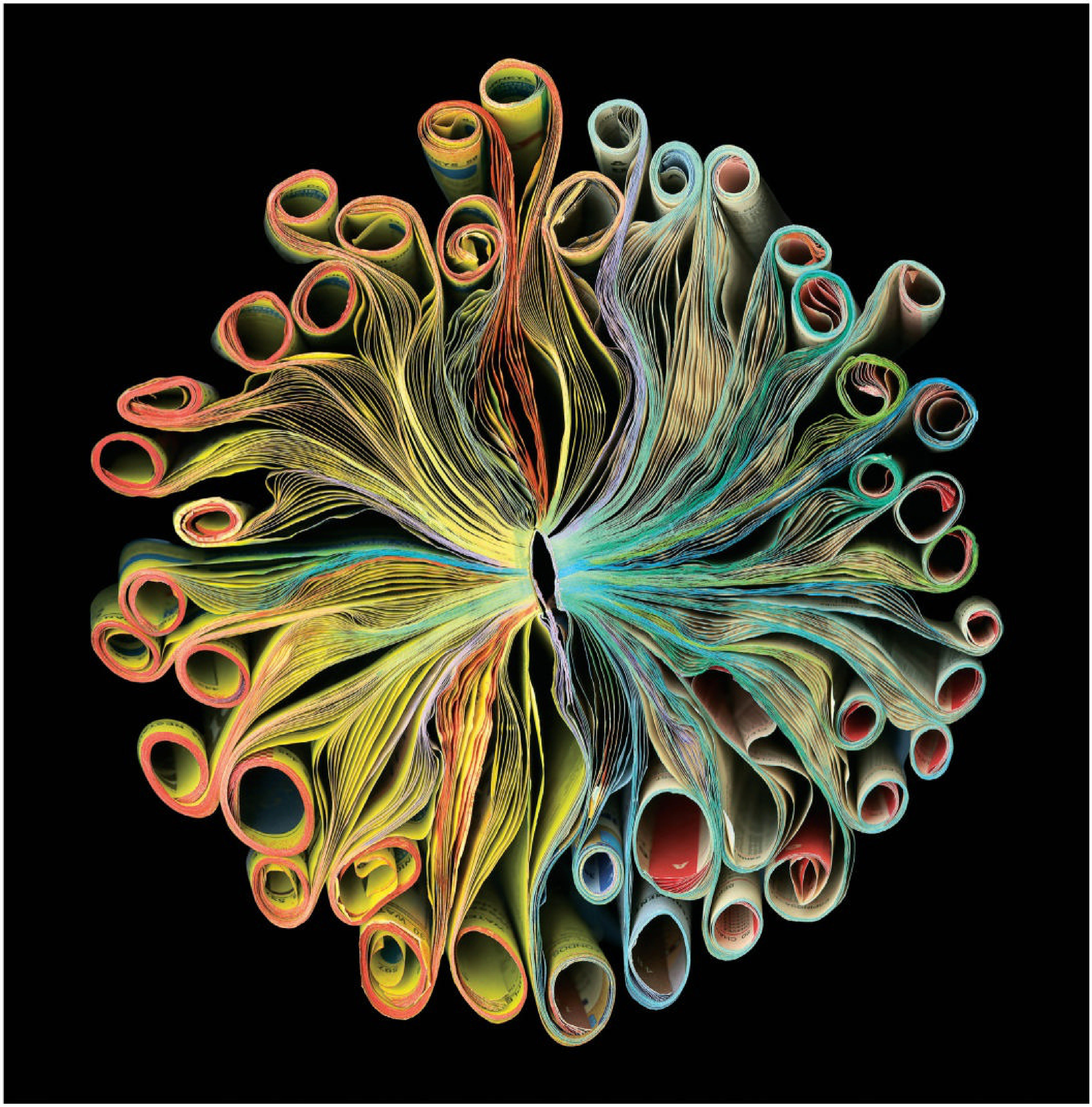
3

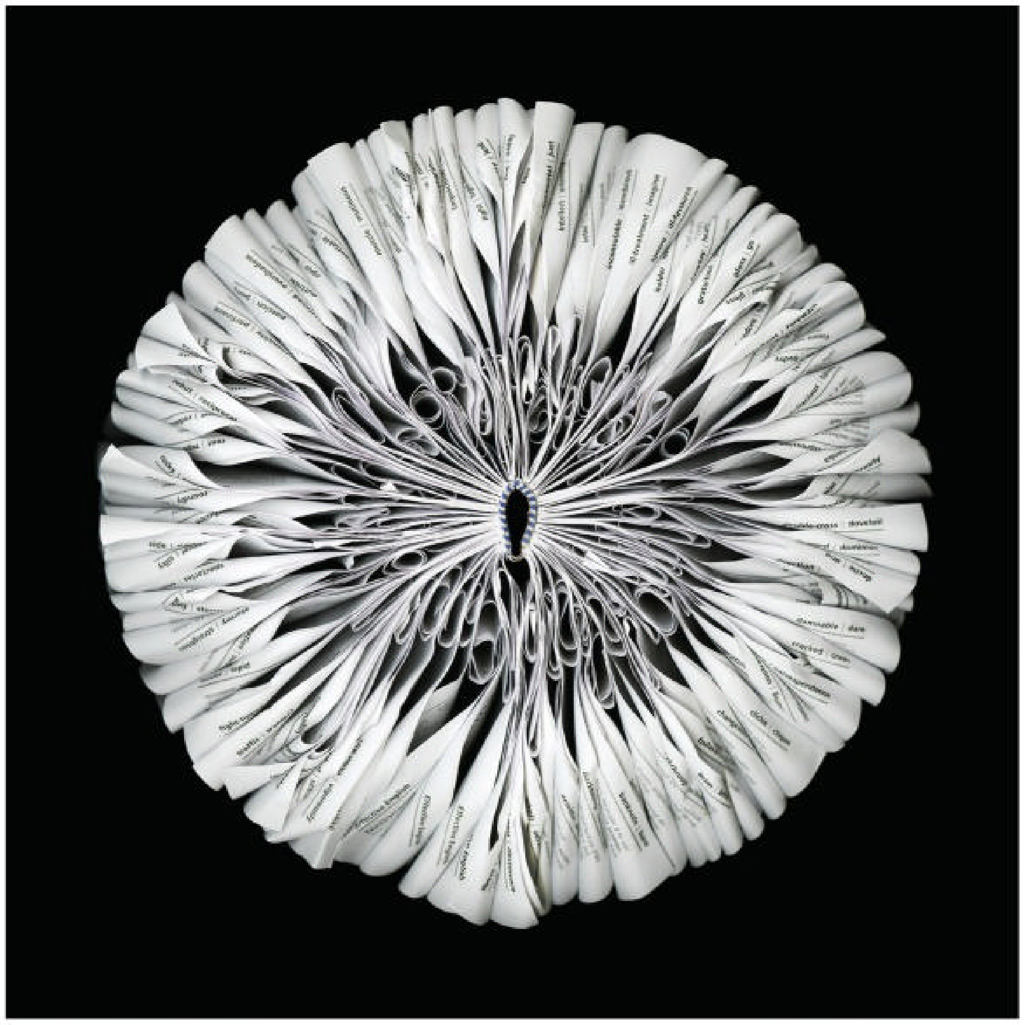
Break with the Past and Lay a Path to the Future

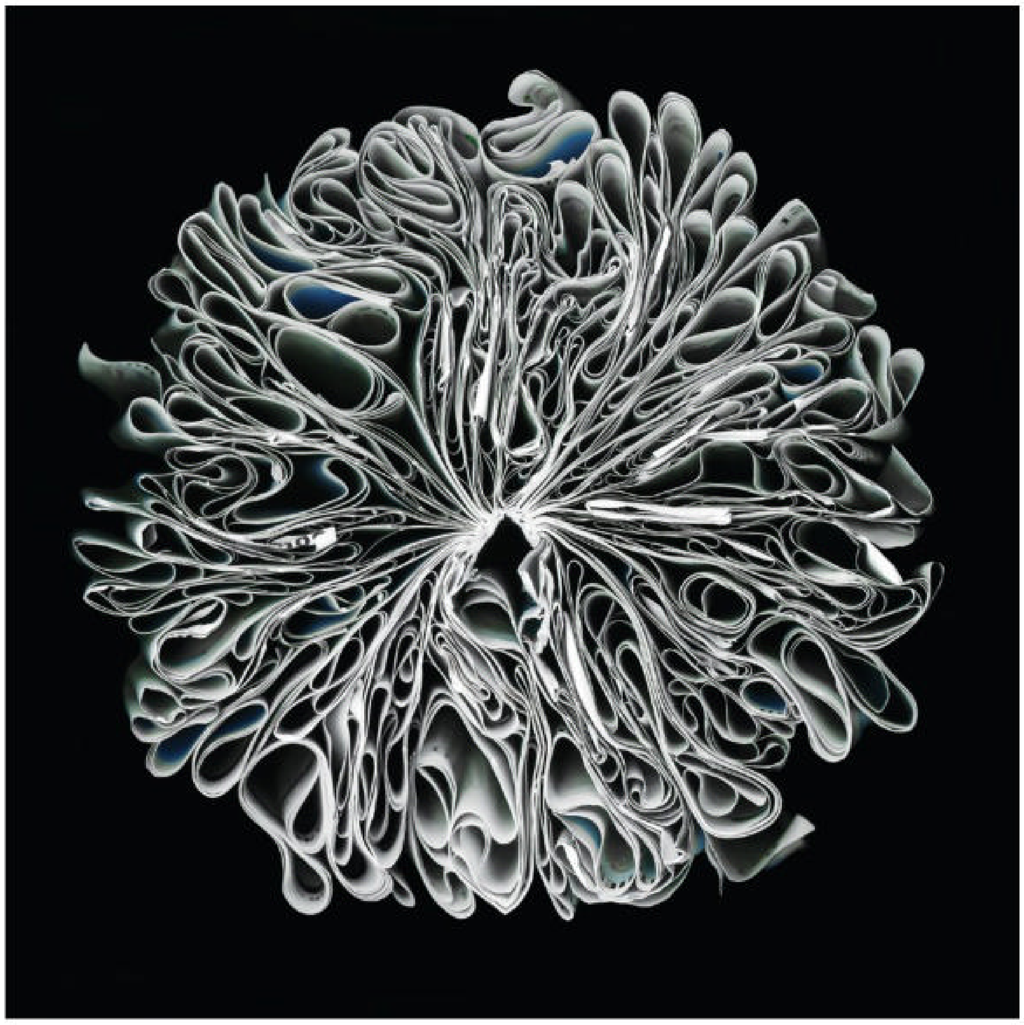
Not surprisingly, your culture-changing stories must demonstrate that the values and beliefs from the past no longer apply. They must also describe new cultural norms—but not in such detail that they stop your employees from helping create a new culture with you.

Consider the experience of Manoel Amorim, a coauthor of this article and former CEO of Telesp (a division of Telefonica), one of the largest telecom firms in Brazil. Telesp had been operating in a highly regulated market where the most important firm goals were determined by the government.

One way to demonstrate that your commitment to a new culture is authentic is to make sure that you yourself play a prominent role in the narratives you craft.







The company flourished in this setting and was among the most profitable telecoms in South America. In this strategic context it had developed an extremely top-down culture: The government gave management very specific targets, and management in turn told employees exactly what to do to achieve them. The culture was so hierarchical that regular employees weren't even allowed to ride in the same elevator car as the CEO.

Telesp's monopoly position in the São Paulo market was about to expire, and the firm would soon face new competitors that were armed with a raft of advanced technologies. It was obvious to Manoel that in this market the hierarchical culture would have to be replaced by a customer-service-oriented one.

To begin to adapt to this new reality, Telesp had recently introduced a product for the internet. Manoel purchased it for his home but couldn't get it to work. Rather than contacting the manager in charge of the product, he called the product help line. "After two hours the problem was still not solved," he recalls. "So I finally told the young man helping me that I was the CEO. He didn't believe me. I then asked what he would have needed to know to fix my problem. He gave me a list of 14 items. Then I asked if he and some of his colleagues would be willing to give a presentation to the corporate executive team about these 14 items. He was reluctant but finally agreed. A week later the call center employees made a presentation to my executive team."

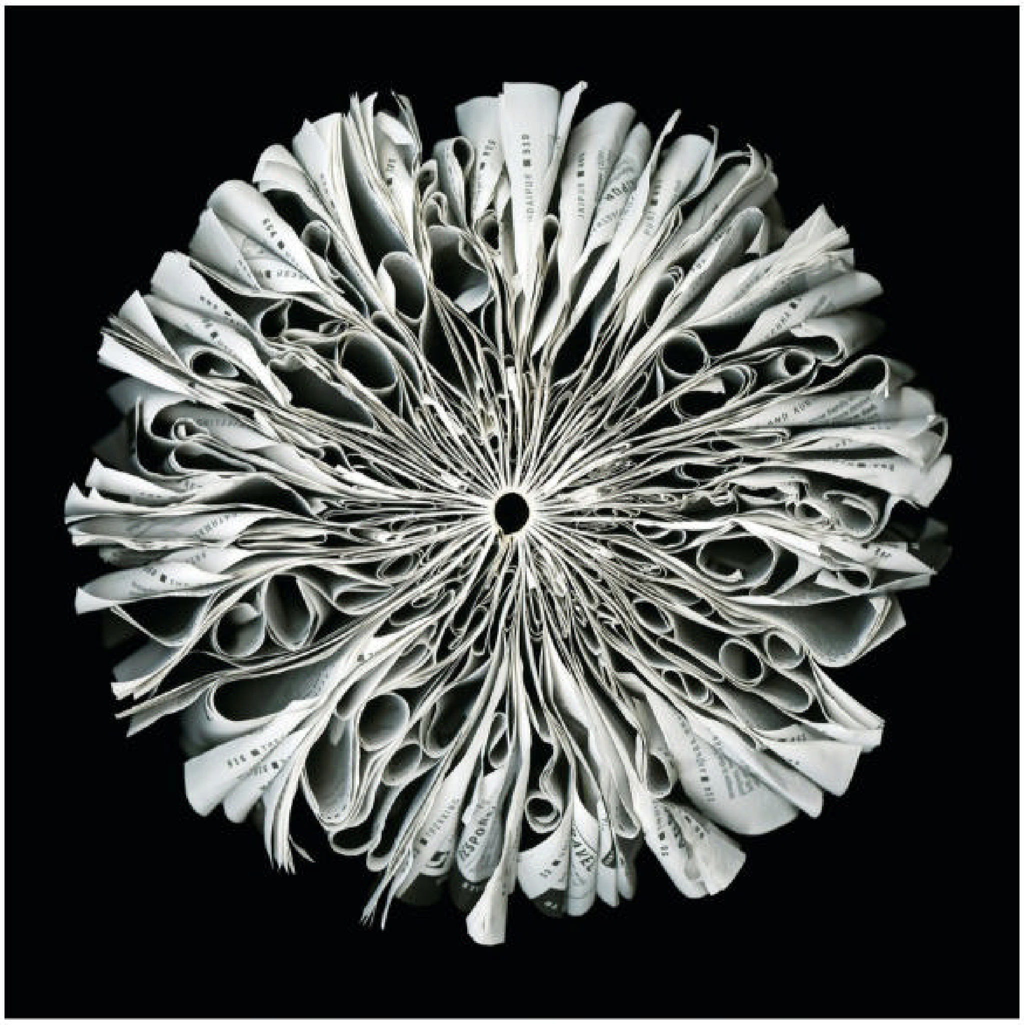
After thanking the call center employees and excusing them from the meeting, Manoel immediately suspended sales of the new product until Telesp could support it for customers. Then he assigned two executives to develop and present a plan for a solution at the next executive committee meeting—which would also be attended by the call center employees.

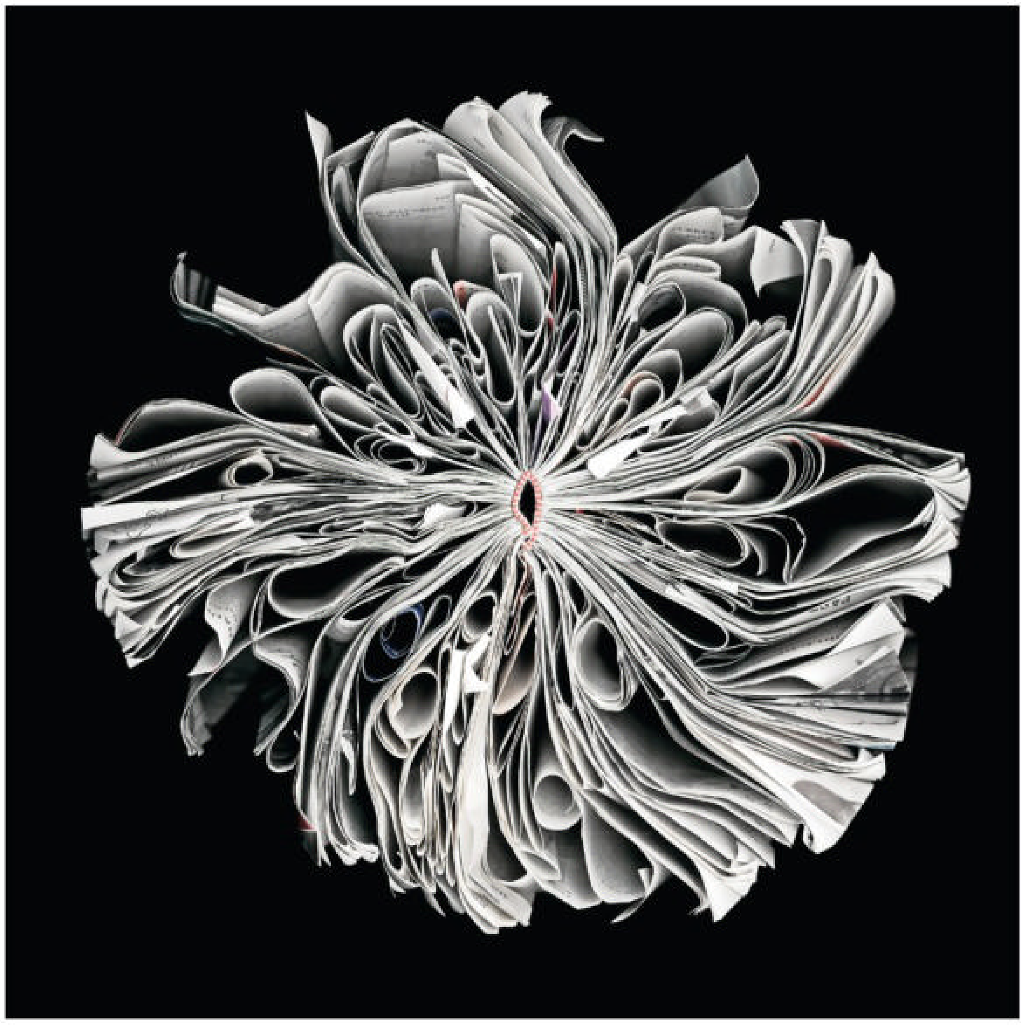
Manoel had effectively turned the hierarchical culture of Telesp upside down. As stories about his actions spread across the company, employees began creating their own customer service stories, which helped further transform Telesp's culture. The new attitudes were reflected in Telesp's performance, which continued to improve despite increased competition and new technologies. And, not surprisingly, the company hired the call center employee who had first spoken with Manoel as a new management trainee.

4

Appeal to Hearts and Minds

If the stories you craft don't present a strong business case for a new culture, your efforts could easily be dismissed as a personal ego trip. In most instances the primary business case will be that cultural change will improve your strategy implementation, generating real economic value for your firm.





But culture is about more than economic value. It's about how employees identify with and support a company's purpose, and your stories must also touch your employees' hearts. The approach taken by Melanie Healey, who became the first female general manager of Procter & Gamble's North American feminine care division in 2001, reveals how.

Though the business had a large market share, its revenues and profits had been declining. For years its culture had emphasized manufacturing efficiency and product effectiveness, but Healey wanted its products to "delight" customers and to "empower" girls as they emerged into womanhood. She needed to find a way to help her management team understand what success at those two things might mean, so she crafted a story.

After inviting groups of customers into the office, she and her team observed them through one-way mirrors. "We laid our products, our competitors' products, and other products that embraced design and function on a table and had consumers sort through them to choose what they wanted more of," she recalls. "Our customers were drawn to a string of pearls—they were smooth and attractive. It became clear that functionality was important in these products, but selling products with 'everyday delight' was critical. And our products did not delight or empower our customers."

Armed with insights from the focus groups, Healey led her team to completely revise its product development strategy. The team replaced cardboard applicators for tampon products with plastic applicators. It redesigned the packaging so that it could be opened quietly, like a purse, and built a new Pearl brand in tampons.

The result? According to Healey, Pearl became the market leader in tampons, and the division's market share for feminine pads went from 50% to 60% in six years. Would that have been possible if Healey had stood in front of her team and pleaded with its members to think about "delightful" and "empowering" products? Probably not. But by engaging her team in developing stories about what feminine products could be, Healey began to change her division's culture.

5

Be Theatrical

If you want employees to share your stories, you must make them memorable. Many leaders we interviewed adopted surprisingly dramatic approaches to story development. Take Jeff Rodek. After he became the CEO of Hyperion Solutions, an IT firm, it experienced a couple of very profitable years. But when a major downturn hit, Hyperion began to lose money.

Working with a consulting firm, Rodek devised a new strategy that would require laying off a large number of

Leaders realized that in order to push cultural change throughout their organizations, they had to make room for and celebrate other people's stories about it.

employees. Before implementing it, he decided to schedule a meeting with his top managers to get their buy-in on the strategy and the reduction in head count.

This meeting was scheduled to take place in a very fancy San Francisco hotel. Rodek said that that wouldn't work—he couldn't hold a meeting about major job cuts in such a place. But the room was already paid for. So Rodek decided to change the meeting.

"At the appointed hour, people started coming into the dining room," he explains. "It was beautiful—fine china, beautiful cutlery, just what you would expect at this kind of hotel. And then the waiters began serving dinner. They poured tap water and served bread. I then addressed the team: 'Normally, I would have canceled this event. It's not just the cost, it's the appearance. We don't have the right to celebrate our dismal performance. So the only thing on the menu tonight will be bread and water. That is all we deserve, bread and water. However, one year from tonight I'm going to schedule a real celebratory dinner—and we are going to deserve it.'"

Word of the dinner spread throughout the organization. As it did, a commitment to turn the company around emerged, and a year later the team gathered in the same room in the same hotel to celebrate a very profitable year.

6

Empower Others to Create Their Own Stories

The business leaders we interviewed realized that in order to push cultural change throughout their organizations, they had to make room for and celebrate other people's stories about it.

One such leader was Jeremy Andrus, the CEO of Traeger Grills. Seeing an opportunity to disrupt the mature outdoor-cooking market in the United States, he had invested in the firm, only to discover a toxic culture in its Oregon headquarters. To start afresh, Andrus shut down his Oregon operation and opened a new headquarters in Utah.

One of the key elements of this new culture was customer service. However, despite his efforts to retool things, he wasn't sure that the customer service value had taken hold until his head of sales came into his office one Monday morning and said, "You're not going to believe what Rob did!"

As Andrus explains, "Rob is a fairly junior guy in the company. On Friday he got a call from an assistant manager at a Costco in Seattle whose Traeger wasn't working, and he's hosting a big party the next day. Over the phone, Rob diagnoses the problem, goes to the office to get the right part, buys a ticket and flies to Seattle, fixes the guy's grill, helps him season his brisket, gets on the plane, and flies home. Then he came in on Monday like nothing special had happened. Of course, the Costco assistant manager told his manager about Rob. This manager told his VP, who called the merchant at Costco corporate, who called my head of sales, who then told me. My response: 'It's working!'"

Andrus's efforts to transform the culture at Traeger had empowered employees like Rob to develop their own stories, which in turn not only accelerated the change process but also enhanced the company's relationship with one of its key partners, Costco.

ALTHOUGH CULTURAL CHANGE is rarely easy, it is possible. As the examples we've shared here illustrate, you must begin by creating new stories that replace the old stories your employees currently tell one another. The new narratives must be authentic, feature you as the business leader, offer both a break with the past and a path toward the future, appeal to employees' hearts and minds, be theatrical, and empower others in your firm to write their own culture-changing stories. Once you see your employees sharing them, then you can start focusing on reworking the nuts and bolts of your organizational policies and practices to reinforce the emerging culture.

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JAY B. BARNEY *is a professor at the University of Utah David Eccles School of Business.* **MANOEL AMORIM** *is a founding partner at MXF Investments and was previously the CEO of Telefonica Brasil, Globex, and Abril Education.* **CARLOS JÚLIO** *is an entrepreneur, a director of several Brazilian companies, and a commentator for CNN Brazil. They are the authors of* The Secret of Culture Change: How to Build Authentic Stories That Transform Your Organization *(Berrett-Koehler, 2023), from which this article is adapted.*

FEEDBACK

When Diversity Meets Feedback

How to promote candor across cultural, gender, and generational divides

AUTHOR **Erin Meyer**
Professor, INSEAD

PHOTOGRAPHER WALTER CHANDOHA

When it comes to sharing feedback and advice, diversity often leads to complications, which, if not understood and managed, can create bad feelings.

IDEA IN BRIEF

THE PROBLEM

The more diverse a workplace is, the more likely it is that people will interpret feedback—especially negative feedback—as an act of hostility.

WHY IT HAPPENS

People of different cultures, genders, and generations have different expectations for how feedback is delivered and by whom, which may make them perceive advice as a sign that their position is in jeopardy.

HOW TO FIX IT

Be careful about how you deliver feedback. When giving it across cultures, align your choice of words with the norms of recipients. When giving feedback across genders, empower recipients first. To foster effective feedback across generations, make it an explicit part of your team's culture. To mitigate potential misunderstandings, build continuous feedback loops into operational practices.

Walter Chandoha/Trunk Archive

If you've picked up a book about raising organizational performance in the past five years, you've almost certainly read about the benefits of developing a culture of candid feedback.

ABOUT THE ART
Walter Chandoha was the most prolific feline photographer of the 20th century. Over a career spanning seven decades, he produced more than 225,000 photographs of animals, including approximately 90,000 of cats.

FEEDBACK

Kim Scott, a former Google executive, popularized the term "radical candor" in her 2017 book by that name, arguing that even "obnoxiously aggressive" feedback was better than "ruinous empathy" (keeping feedback that could otherwise help colleagues to yourself).

The hedge fund billionaire and Bridgewater founder Ray Dalio went a step further in his book *Principles,* describing a culture of "radical transparency," in which employees rate and give feedback about one another's contributions to meetings on publicly shared documents as the meetings actually take place. And in his 2020 book *No Rules Rules* (which I coauthored), Reed Hastings, Netflix's founder and executive chairman, lists candid feedback as one of the top three ingredients of an innovative organization. A popular motto at Netflix is "Only say about someone what you will say to their face." If an employee comes to the boss to complain about another employee, the boss is to respond, "What did your colleague say when you gave them that feedback?"

Most employees also recognize the benefits of frank and honest feedback, and they say they want more of it. In a 2019 survey by Zenger Folkman, 94% of 2,700 respondents said they believed corrective feedback improved their performance when it was presented well, while nearly two-thirds agreed with the statement "My performance and possibilities for success in my career would have increased substantially if I had been given more feedback." The survey's authors conclude that feedback—done right—can truly be a gift to individuals and organizations.

But there's another movement in business that has increasingly gained steam: diversity, equity, and inclusion. Bolstered by the Black Lives Matter and #MeToo movements, DEI is perhaps the most overarching organizational culture trend of the decade. Today every single *Fortune* 100 company cites DEI as a key priority on its website.

At first glance, DEI seems compatible with a culture of honest feedback. The more diverse the workforce, the more beneficial it is to hear everyone's opinions, and the more we all succeed. When Satya Nadella took over Microsoft, in 2014, he declared that he would work to turn what had become a know-it-all culture into a learn-it-all culture. While know-it-alls are focused on raising their status by showing off their expertise and hiding their weaknesses, learn-it-alls have the courage and humility to listen openly to constructive criticism and are eager to hear the opinions of teammates who have diverse viewpoints.

Unfortunately, a learn-it-all culture doesn't arise naturally. And when it comes to sharing feedback and advice, diversity often leads to complications, which, if not understood and managed, can create an environment rife with bad feelings, defensiveness, and ruptured relationships. (See the sidebar "Alarm Bells in the Brain.") That's because the vast majority of people aren't ready to receive criticism unless they feel safe with the person providing it. Do the people assessing your work really mean to help you, or are they surreptitiously trying to embarrass you, take your job, or usurp your power?

Diversity in the workplace, in fact, increases the likelihood that people will interpret feedback as an act of hostility. That means that people must be careful about how they provide it. Of course, diversity at work today encompasses many types of differences, from race and sexual orientation to religious and ethnic background. In the following pages I'll focus on how people can improve the way they deliver feedback across three specific types of diversity: cultures, genders, and generations. I'll also describe strategies for fostering a climate in which candor and diversity can coexist. I'll conclude by looking at how organizational practices can make frequent and regular feedback a standard part of working life.

FEEDBACK ACROSS CULTURES

Upgrade, Downgrade, or Wrap Positives Around Negatives

In today's interconnected, virtual world you might have a strategy meeting with a colleague in India at 9 AM, attend a financial presentation in Stockholm at 10, and run a program for new managers across South America at noon. If you're on a team that emphasizes candid feedback, at any moment of the day you may find yourself giving criticism to—or receiving it from—people from a wide variety of cultures and countries.

The risk of upsetting people in these situations is high. That's because what's considered a constructive way to offer feedback in one culture is often perceived as destructive in another. It isn't easy for outsiders to understand the nuances around feedback in other cultures. For example, people across the world most often stereotype American culture

FEEDBACK

In less-direct cultures the explicitness of the American approach to feedback is likely to be perceived as inappropriately blunt.

as exceedingly direct. In some aspects this stereotype is true. Americans tend to place a high value on clear, simple communication and on actions like recapping key points and confirming decisions in writing. This approach certainly feels straightforward to many. But the story changes when it comes to negative feedback, whether in a critical performance review or an evaluation of a colleague's less-than-ideal presentation.

In those situations Americans tend to place an especially strong emphasis on preserving the self-esteem of the feedback recipient, leading to common American practices such as giving three positives for every negative, catching people doing things right, and using superlatives to accentuate the positive, even when the negative is the key point. ("Overall it was excellent. To this part you might want to make some small tweaks.") This is downright confusing for people in countries where managers are much more likely to tell it like it is (the Netherlands, Germany, Denmark, Israel, Russia, and France—where I live—to name just a few).

A case in point is Olga, a Ukrainian human resource executive who attended my course at INSEAD. "In my culture if there is a problem, we say it clearly," Olga explained. "We don't perceive it as demotivating or unkind to say to a colleague, 'This is not OK,' or 'This behavior must change.' We don't talk about what we liked and appreciated before getting to the point or start the conversation by talking about the weather. We jump to the issue at hand."

Olga hadn't given cultural differences a lot of thought until she moved from Ukraine to West Virginia. In her job there, she says, "My colleague Cathy was responsible for payroll. Each month when the paychecks went out, there were mistakes. It was causing frustration, so I invited her into my office and said, 'Cathy, this absolutely cannot continue. Your mistakes are creating big headaches.'"

Later, when the seasonal-employee manager emailed Olga privately to complain ("Unbelievable! Cathy got the amounts wrong yet again"), Olga replied all, copying Cathy so that she could see the manager's comments herself and responding, "You are right. This is completely unacceptable, and it won't happen again." To Olga's surprise, her boss stopped by to correct *her* behavior, which he referred to as "indelicate." He informed her that Cathy had been so upset, she had asked to change jobs. He explained that Olga should not be critical of someone's work when other people are copied on the communication. He also suggested she use "might" and "should" rather than "must" and "can't." For Olga, this was a cultural eye-opener.

The complexity doesn't stop there. Americans may be masters at wrapping positives around negatives, but in some less-direct cultures the explicitness of the American approach is still likely to be perceived as inappropriately blunt. Take Jethro, a soft-spoken but forthright American working in Silicon Valley. With little understanding of cultural differences, he soon found himself in trouble for giving feedback (by video) to coworkers in Thailand using methods common in the United States. HR in Bangkok responded by complaining that he was bullying his Thai colleagues.

Jethro describes the situation like this: "I'd thought carefully about how to provide the feedback. My comments (both verbal and then in writing) were specific, explaining what actions had led to positive results and which had been problematic, and then outlining clearly what my colleagues needed to do differently to improve client satisfaction."

The head of HR in Thailand had some feedback of her own, however. "The American tendency to give feedback by explicitly stating 'the area in need of improvement' already feels aggressive to a Thai recipient," she told Jethro. "To make things worse, Americans frequently end discussions by recapping key points in writing, which makes us feel that you don't trust us to do as we say or are trying to get us in trouble."

She explained that Jethro would have more success if instead of detailing what his Thai colleagues had done wrong, he praised what was good clearly and left out what was bad. If he was specific about the things that had worked well, he didn't need to comment on the negative aspects at all; the Thai employees would understand that he was not happy with what he hadn't mentioned. For example, when commenting on a presentation he'd just seen, he might say, "I especially liked the examples you gave in the presentation last week." He wouldn't need to say, "The examples from this morning's presentation were not very good." It would be implied clearly enough.

Jethro learned the same lesson Olga did: "I saw clearly that what is normal and appropriate feedback in my culture may come off as completely inappropriate somewhere else," he reflects.

One way to gauge what feedback works best in another culture is to listen carefully to the words chosen by your counterparts. People from more-direct cultures tend to use what linguists call "upgraders" when providing criticism. These are words that make criticism feel stronger—like "absolutely," totally," or "completely." For example, "This is absolutely inappropriate" or "This is totally unprofessional." By contrast, more-indirect cultures use more "downgraders" when giving negative feedback. These are words that soften the criticism, such as "kind of," "a little," and "maybe."

Another type of downgrader is a deliberate understatement—for example, saying, "We are not quite there yet," when you really mean "This is nowhere close to complete," or saying, "This is just my opinion," when you really mean "I'm certain this is obvious to everyone."

With a little awareness you can notice when you're using upgraders and downgraders and when those around you are and make slight adjustments to get the desired results. When it comes to providing feedback internationally, the message is not "Do unto others as you would have them do unto to you" but "Do unto others as they would have done unto themselves."

FEEDBACK ACROSS GENDERS

Give the Gift of Power First

Cultural differences represent only a small part of diversity in the workplace. Gender differences add to the complexity. As a woman at a business school where over three-quarters of the faculty members are men, I began thinking early on about how gender affects when and how we share our opinions.

Research shows that leaders who are women, much more than their male counterparts, are expected to be warm and nice (traditionally seen as female traits) as well as competent and tough (traits traditionally expected from men and leaders). This line is difficult to walk, and women who provide frank negative feedback risk being perceived as combative.

While providing advice can indeed be generous and kind, it also creates the impression that you're putting yourself above the person you're giving it to.

One 2020 study conducted at Stanford University demonstrated that while women and men are equally likely to be described as having technical ability, women are significantly more likely to be described as aggressive. That's why women who provide candid feedback risk being perceived as on the attack.

The dynamics are just as complicated but completely different for men. In 2008 an essay by Rebecca Solnit inspired the term "mansplaining," which describes situations in which a man explains something to a woman who knows more about it than he does. "Manvising" hasn't made it into our lexicon yet, but most women find the phenomenon equally familiar. The term describes moments when men give women advice that they have neither asked for nor want. Solnit herself provided this very simple illustration in an article she wrote in 2022: "A few years ago, a friend of mine got married, and when I pulled up to the rustic wedding site, a man I didn't know positioned himself behind my car to make dramatic hand signals. I didn't need or ask for help, but he was giving it, and I'm sure he thought the credit for my success in parking my small car in this very easy spot was at least partly his."

Solnit's implication is that this man provided unsolicited advice because he thought that his skills were superior to hers since he was a man. That could have been his thinking, but research reveals that men are as likely to give unsolicited advice to other men as they are to women. Research also reveals that women give considerable amounts of advice to other women. It's with cross-gender feedback that the discrepancy becomes clear: One research project showed that men are five times as likely to give unrequested advice to women as women are to give it to men.

That's a problem because while providing advice can indeed be generous and kind, it also creates the impression that you're putting yourself above the person you're giving it to. In my own research I've interviewed dozens of men and women about this phenomenon. I've found that although most men don't believe they're guilty of manvising, well over 90% of women report that they have recently received unsolicited advice from their male colleagues.

One of my interviewees, a software industry marketing VP I'll call Cassandra, provided an example. At an all-hands meeting attended by 2,000 colleagues, she had to give two presentations about a major project she was leading. In the first she presented the results of nine months of work. She was anxious because the reception she got could make or break the project. Despite her fears, she felt she'd aced the presentation and, elated, made her way to the speakers' lounge to wait for the second presentation. There she bumped into her colleague Miles, who had spoken earlier that morning.

Here's what happened next: "I was pleased to relax and have a chat," Cassandra recalls. "After a few friendly exchanges, Miles surprised me with feedback: 'Your presentation was 90% perfect. The audience was eating it up! I do think you spoke a little too fast, which made you sound nervous. Also, maybe your mouth was too close to the mic because your voice somehow sounded tinny.' Although Miles's feedback in retrospect was actionable and meant to help before I went back onstage, I felt like he had hijacked my self-confidence. I had been feeling great about what I'd accomplished, and now I felt like an inexperienced child receiving coaching from a teacher. I noticed my body physically shifting back in my chair to get as far away from Miles as possible."

As Cassandra's story demonstrates, even when feedback is provided with a genuine desire to help, it clearly gives the person dispensing it emotional power over the person on the receiving end. One study has found that when people get spontaneous feedback, their heart rate jumps to a level that indicates moderate or extreme duress. It's no wonder that when one person offers feedback to another, the recipient's composure is shaken.

Research also shows that the act of providing advice makes people feel more powerful. One study asked 94 library employees how often they gave advice during their workday. The more advice someone gave, the more powerful that individual reported feeling. In another study the same researchers asked 188 students to read and respond to a written account of a student struggling to choose a major. Both the act of dispensing the advice and later being told that the student had read the advice increased the subjects' feeling of power.

All this makes cross-gender feedback tricky. A member of the majority (a male colleague, for example) who provides feedback to someone from an underrepresented group (like a woman in a management position) is likely to come off as belittling—even when sincerely trying to help.

History isn't destiny, however. Using what I call the "three A's of feedback," you can teach your workforce how to offer advice in a way that gets the useful input out there while still balancing the power dynamics. The first A is that feedback must be intended to *assist.* (It should always be provided with the genuine intention of helping your counterpart succeed and never be given just to get frustration off your chest.) The second is that it must be *actionable.* If it's not crystal clear from your input what your counterpart can do to improve, then keep it to yourself.

The third A is to *ask* for feedback before you provide it. This is especially important with cross-gender interactions. Unless someone has specifically requested your advice (in which case jump in and give it), solicit suggestions about your own work before you offer anyone your insights. If Miles had started his discussion with Cassandra by saying, "I'd love to hear any thoughts you have about my presentation this morning," he would have put her in a position of power before turning the tables, which would have led her to treat his advice as valuable help rather than an attempt to assert dominance.

FEEDBACK

Each generation has its own ideas about who should give feedback to whom and how much praise versus criticism should be articulated.

FEEDBACK ACROSS GENERATIONS

Create an Explicit Team Culture

Generational diversity in the workplace has increased significantly over the past decades, as people are living longer, healthier lives and retiring later. In today's organizations people might be collaborating with colleagues from four generations all at once—something unheard of a few decades ago.

I started to become interested in age diversity at work 25 years ago in my first management role. I had hired a woman who was exactly the same age as my mother to join my team. A pharmacist by training, Carole was elegant and worldly and was taking on her first job after spending 18 years raising children. I still remember how awkward I felt when she began having difficulty with a client and I had to give her corrective guidance. The age difference hadn't seemed a problem when things were going well, but I couldn't figure out how to avoid coming off as obnoxious when I outlined which behaviors she needed to change.

The experience I was having is sometimes referred to as *status incongruence.* This basically means that the status accorded your role in society doesn't match the part you're playing in the current context. One research project with 8,000 employees in Germany showed that when younger managers supervise older workers, status incongruence has a measurable negative impact on employees' happiness. It's not just that I feel strange treating my elder as my subordinate. As the researchers of this study concluded, the role reversal constantly suggests to the older subordinate that that person has somehow "failed to keep pace."

To complicate the challenge further, each succeeding generation has developed its own ideas about who should give feedback to whom, how formal or spontaneous that feedback should be, and how much praise versus criticism should be articulated. One member may expect that feedback will be given annually from boss to subordinate, for instance, and another that real-time feedback will be given in all directions. Here are a few of the key differences:

Baby Boomers (now in their late fifties and sixties and seventies) were the first to get graded in school on "works well with others." They were also the first to have work discussions about interpersonal effectiveness and emotional intelligence and saw feedback as a way to improve both. Though previous generations were more likely to hint at what should be done differently than to state feedback outright, Boomers introduced the annual performance review. According to the generational researcher Lynne Lancaster (coauthor of *When Generations Collide*), they learned that feedback should be formal and documented and given in annual meetings between boss and subordinate.

Gen Xers (in their forties to mid fifties) grew up with rising divorce rates and two-income families. Left to fend for themselves at home, these "latchkey kids" learned to get along without an authority figure. Do-it-yourselfers, they relied on notes from Mom explaining how to cook pasta. They tend to be considerably less formal than their Boomer colleagues and don't want to wait all year to know how they're doing. They are the first generation to begin giving upward feedback to the boss. And according to Lancaster, they're more likely to want feedback instantaneously.

Millennials, or Generation Y (in their late twenties and thirties), were raised when child-rearing psychology focused on building self-esteem. A product of helicopter parenting and the philosophy that "every child gets a trophy," they're sometimes referred to sarcastically as the "snowflake generation" (because they're sensitive and easily crushed). But according to the generational expert Neil Howe (who coauthored *Generations*), this stereotype is misleading. Millennials do have high self-esteem, he says, but their self-confidence seems to be correlated with emotional resilience.

Research conducted in 2019 showed that when it comes to accepting feedback, Millennials are less sensitive than their older colleagues are. Though members of this generation expect and appreciate frequent and copious praise, don't expect them to wilt when the criticism is tough.

Zoomers (in their teens to mid twenties) were the first generation to grow up surrounded by social media. With YouTube channels and TikTok platforms they came of age in a world of constant informal feedback. Zoomers learned to post something on social media in the morning and watch reactions come in all day long. They are more likely to expect to give and receive frequent, real-time feedback in all directions (subordinate to boss, peer to peer, and so on).

FEEDBACK

The cross-generational tensions these differences engender are captured nicely by the experience of Richard, a business writer in his late fifties who works in a major media group. Recently he attended a session where all the members of his department took turns giving one another feedback on their current projects. First a couple of other senior colleagues gave Richard both praise and tips for improving his work. Then it was Connor's turn.

A talented writer in his mid twenties, Connor was less flattering. "This is all right," he told Richard, "but you completely left your personality out. Your audience wants to feel that you're with them, but your individual voice is absent." Richard took it badly. "Something about getting feedback from this kid who has decades less experience than me felt very uncomfortable," he recalls. "My immediate reaction was to reject his comments. I wasn't ready to listen to what he was saying, let alone collaborate with him again."

Not only was Connor decades younger than Richard, leading to status incongruence, but in Richard's Baby Boomer generation, feedback from someone who is not your boss is infrequent and inappropriate. Richard left the meeting shaking his head at this inexperienced kid telling him his writing was missing a clear voice.

If you're leading a multigenerational team, the best way to deal with diverse expectations about feedback is often to outline explicit norms for how and when it should be given. That creates a common platform on which all can converge.

Despite the discomfort Richard felt when receiving criticism from Connor, he understood that Connor was behaving in line with the culture of the team. This pushed him to stop and reflect. "After I got home, I started to think about the feedback I'd received," Richard says. "It became clear that Connor's had been the most valuable. The guys who come from my generation have a similar perspective to my own, but Connor's different perspective pushed me to see how to make my writing richer. He was right. My experience as a journalist had taught me to leave myself out of my writing, and in this case it made the piece feel sterile. The fact that Connor comes from a generation where people self-disclose more openly made it easier for him to pinpoint what my writing was lacking. I went back to it with new eyes and wrote something infinitely better."

Alarm Bells in the Brain

Giving feedback is tricky even before factoring in the complications that arise from diversity, as an experiment I did with more than 3,000 executives who were my students at INSEAD shows. In it I presented them with a simple multiple-choice problem.

THE SITUATION:
You go to a meeting with a customer and a teammate. The teammate is senior to you but isn't your boss. You have a friendly relationship but aren't close. In the meeting your colleague speaks with too much intensity and volume. Your customer, a reserved person, responds with evident discomfort. In addition, when your customer speaks, your teammate often doesn't look at her, giving the impression that he isn't taking her points seriously. When the meeting is over, will you give this feedback to your colleague?

YOUR OPTIONS:
A. **Yes.** I'll give it clearly and quickly. It will help him, the client, and the organization.
B. **Maybe.** He hasn't asked for feedback. I'm not his boss, so it's not my responsibility. I'll wait and see if the right opportunity arises.
C. **No.** Unless he asks me, I won't provide it. I don't know if he is open to it, and I don't want to risk hurting our relationship.

In my research, more than 90% of participants chose option A, giving the feedback. This was consistent across industries, genders, cultural backgrounds, and job levels. Surprised, I began asking a follow-up question: "What about your teammates? Would they provide the feedback?" This led to reflection and often laughter. Overwhelmingly, participants responded, "No. My teammates would clearly not provide the feedback." (Follow-up comments included things like "In fact, I never receive any feedback at all, except occasionally from my boss.") This prompted me to tease them, asking, "Isn't it interesting that only those rare people who would provide the feedback participate in my sessions?" Apparently, most managers, when faced with this problem in a classroom, say they'll give the feedback, but in real life they don't.

The issue is that the scenario triggers a conflict in people's brains between the frontal cortex and the amygdala. The cortex, the most logical part of the brain, loves candid feedback. But the brain's most primitive part, the amygdala, doesn't. If you tell me I've acted ineffectively, it may trigger an alarm in my amygdala: "Danger! I might get kicked out of my tribe!" The stress hormones cortisol and adrenaline flood my bloodstream, throwing my body into "fight or flight" mode. The fight reaction leads me to respond defensively: "I'm not the problem. You are!" The flight reaction may result in a comment like "Thanks so much for that feedback. That is very helpful," after which I try to never speak to you again.

The challenge with feedback, therefore, is to make sure that your delivery succeeds in helping the cortex override the amygdala.

If you're leading a multigenerational team, the best way to deal with diverse expectations about feedback is often to outline explicit norms for how and when it should be given.

Getting Everyone in the Feedback Loop

Most recent research has focused on the benefits of real-time feedback. See the problem, correct the problem. That's OK if you're the boss passing feedback on to your staff. But if you're younger and less experienced (or working on any highly diverse team), stopping colleagues in the hall to tell them how they could do their jobs better is likely to put your teammates on the defensive, make you a bunch of enemies, and maybe even stunt your career.

There is one mechanism that effectively surfaces all the diverse feedback learn-it-alls need to thrive. If you build regular loops for feedback into collaborations, your team will recognize it not as a sign of condescension or malevolence but as an integral part of the job. This involves setting aside specific moments for mutual exchanges: I know I'm expected to listen openly as you give me actionable feedback about what you think I've done well and what I could do to improve. Then I will do the same for you. Just like brushing our teeth, we do it regularly, to keep team performance high.

In setting up any loop, you need to clarify how much positive versus constructive feedback each teammate should supply. You can, for example, have people structure their feedback as one thing they feel that the other person is doing well and one thing the other person could do to up his or her performance. Alternatively, you can use a "start, stop, continue" structure, describing one thing to start doing, one thing to stop doing, and one thing to continue.

Given the maturity and cohesion of your team, you may institute loops that are more or less public. Here are three possible approaches:

One-to-one chats. If your team members have never given one another feedback, a good initial step is to ask your immediate reports to meet individually with each of their team members in the coming month to share feedback, following the ground rules just described. The feedback remains between the two teammates.

"Speed-dating" sessions. If team relationships are closer, you may be ready to share a little more openly. Ask participants to prepare rapid-fire feedback for one another. Send them off in pairs for six minutes of discussion, with each giving feedback for three minutes. Then have everyone move on to another colleague. At the end of the meeting have all team members report back to the group on one helpful piece of feedback they received that they will act on.

Live 360-degree feedback circles. If you have a mature team with strong relationships, get members together over a meal and take turns. If I'm up first, the person to my left gives me feedback (in front of the group). I listen and say thank you. Then the person to the left of that team member gives me feedback. Once we've completed the circle, we move on to the next recipient. At the end each person reports one key takeaway from the feedback received.

Exchanging feedback in front of a team requires courage but offers clear advantages. It stops members from whispering behind one another's backs and encourages the entire team to see feedback as a normal and healthy way to achieve success. One person who experienced a 360-degree circle told me, "Getting publicly ripped apart sounds like torture. Each time I go to a live 360, I'm nervous. But after you get started, you see it'll be fine. Because everyone is watching, people are careful to be generous and supportive with the single intention of helping you succeed. No one wants to embarrass or attack you. Everyone gets a lot of tough advice, so you're not singled out. When your turn comes, it might be difficult to hear what people have to say, but this is one of the greatest developmental gifts of your life."

ONCE YOU HAVE the right feedback loops in place, you're on your way to building a team full of learn-it-alls who thrive on diverse perspectives. If your group is made up of people from a variety of cultures, genders, and generations, getting your employees to give feedback to one another frequently and openly allows each to get myriad ideas for how to improve, pushes the team toward excellence, exposes blind spots, and promotes greater cohesion. That's how you can make sure DEI and radical candor converge rather than collide.

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ERIN MEYER *is a professor at INSEAD, where she directs the executive education program Leading Across Borders and Cultures. She is the author of* The Culture Map: Breaking Through the Invisible Boundaries of Global Business *(PublicAffairs, 2014) and coauthor (with Reed Hastings) of* No Rules Rules: Netflix and the Culture of Reinvention (Penguin, 2020).

AI & MACHINE LEARNING

ILLUSTRATOR **BLAKE CALE**

We're All Programmers Now

With generative AI, anyone can code. Here's how to help your enterprise embrace this change.

AUTHORS

Thomas H. Davenport
Professor, Babson College

Ian Barkin
Founding partner, 2B Ventures

Kerem Tomak
CEO, MindspaceAI


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AI & MACHINE LEARNING

When Jason Allen took home the top prize for emerging digital artists at the Colorado State Fair, in 2022, he got much more than a blue ribbon and a $300 check. Allen, the president of the gaming company Incarnate Games, had created his submission, "Théâtre d'Opéra Spatial," using a generative AI tool called Midjourney.

He gave the system a text prompt, and the software designed the work in seconds, though he said he spent two weeks refining it. (He has not publicly revealed the exact prompt.) Artists and critics vented frustration about Allen's win in the *Atlantic,* the *New York Times,* and other outlets. They warned of the impact of newly released generative-AI tools, such as ChatGPT, DALL-E, and Bard, which allow technical (and artistic) novices to generate compelling text, photos, and videos in an automated and near-instantaneous fashion. But not only artists are concerned about what these tools signify for their field. IT professionals, too, have taken note. Generative AI can help employees who have no coding background become adept programmers, or what we call *citizen developers.* By simply describing what they want in a prompt, nontechnical employees can collaborate with generative AI tools to build entire applications—a process that until recently required advanced programming ability.

Citizen development, if executed aggressively and carefully, could change the relationship between employees and organizations. Information technology has historically involved builders (IT professionals) and users (all other employees), with users being relatively powerless operators of the technology. That has often led to a struggle by IT professionals to meet users' needs in a timely fashion and has created communication problems among technical experts, business leaders, and application users. Citizen development has sparked a new era in which employees not only improve or streamline their own processes and tasks but automate them entirely.

With no need for an IT professional to design and build new applications, systems developed using generative AI will be more likely to fit the specific needs of their users, increasing the probable effectiveness of the applications. IT professionals will be freed up to focus on complex systems and technologies that truly require their expertise.

IDEA IN BRIEF

THE PROBLEM

Employees with no coding background are increasingly using generative AI and other easy-to-use software tools to build business process applications.

THE CONCERN

Technology experts fear that citizen developers will introduce poor-quality systems that IT teams will have to repair, or that generative AI tools will replace IT entirely.

THE SOLUTION

Businesses should proactively recruit, train, and empower citizen developers so that they are working alongside, and not against, IT departments and other lines of business.

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Nonetheless, many IT staffers with whom we've spoken are opposed to citizen development. They fear that it will result in poor-quality systems that the IT team will have to repair—or that generative AI tools will replace IT entirely. An organization might end up with as many systems as employees. It might become dependent on citizen-developed systems known to only a few employees, or whose developers have long since left the company. This explosion of "gray IT" across the enterprise and the cost of reworking broken technical systems that would ensue is an important issue. Without proper controls and guardrails, widespread citizen development could result in chaos.

Despite those valid concerns, the need for citizen developers is obvious. Software vendors have begun adding generative AI interfaces to their products to facilitate chat- or voice-based requests for transactions, data, and analysis. We anticipate that most business software will soon be created or interacted with through similar systems. Widespread citizen development could usher in a broader and faster approach to technology-based innovation, including digitization, automation, and data analysis. AT&T, ING, Johnson & Johnson, PwC, Deloitte, and other large companies are experimenting with citizen-development initiatives. (Disclosure: One of us, Tom, is a Deloitte adviser and has been paid to speak at Johnson & Johnson events.) They're learning which employees to include in citizen-development projects, what roles they should play, how they should be trained, and how to create a culture of peer learning and collaboration.

Citizen development raises a critical question about the ultimate fate of IT organizations. How will they facilitate and safeguard citizen development without putting too many obstacles in its way? To reject its benefits is impractical, but to manage it carelessly may be worse. In this article we—an academic, a consultant, and a practitioner, with decades of experience in AI and analytics—share a road map for successfully introducing citizen development to your employees. To broaden our knowledge of citizen development, we interviewed managers at eight companies, reviewed online discussions about the topic, and discussed citizen-oriented tools with several vendors. (Tom has previously coauthored articles in HBR about both citizen data science and the previous set of tools for citizen development, called low code/no code.)

The Citizen-Developer Dilemma

The process for building an application with generative AI often starts when a user asks a chatbot (or whatever interface the system uses) how to accomplish something. For example: "How would you build an iPhone app for customer service?" The system will describe the ideal steps for building the app. The user can then ask for descriptions of each step. The level of detail will depend on the user's technical ability, but the system can guide the user through every step of the process, no matter how granular or basic. Users who get stumped, or who find that the code generated isn't working, can tell the tool what they're seeing, and it will help them figure out the problem. This process will most likely involve trial and error, but the power to generate the code and the application is at everyone's fingertips.

ING bank, based in Amsterdam and operating in 40 countries, used a similar process when it needed to develop more machine learning (ML) models to put into production. Facing a lack of professional data-science talent in many of the countries in which it operates, ING began to explore citizen data-science capabilities. The bank, where one of the authors of this article (Kerem) was recently the global chief analytics officer, is working to supply citizen developers with technical expertise and to identify the use cases that are possible with automated ML. There is no doubt that ING's employees can create some ML models—to predict, for example, the probability that customers will click on an app message or respond to an email campaign. That can free data-science professionals from doing simple and repetitive data-management and analytics tasks. But aspiring citizen developers at the bank need proper training and hands-on experience to be successful. The ML models built by ING's employees also need to be free of strict regulatory requirements, though some documentation may be required for them. Finally, IT must still deploy and manage the tools and platforms needed to support automated ML development and use. Those are just a few of the immediate issues ING is addressing as it constructs a policy for citizen development.

Few organizations have even begun to consider the challenges associated with citizen development. For example, what happens to a citizen-developed application if a

Citizen development raises a critical question about the ultimate fate of IT organizations. How will they facilitate and safeguard it without putting too many obstacles in its way?

department comes to depend on it, and the employee who developed it leaves for another company? Other challenges relate to sufficient technological expertise. For example, some data-science organizations believe that people without a professional data-science background cannot know enough about model development to do it effectively, even with automated ML capabilities. They are concerned that decisions harmful to the organization will result from citizen-developed algorithms. Other companies point out that even professional data scientists have created models with bias or drift (poor predictions over time), and if they can get data science wrong, how can novices avoid even more mistakes? But we've found no evidence of long-term damage.

We do know of some examples of citizen-developed programs that briefly went astray. One European telecommunications company, for instance, was very early to embrace robotic process automation (RPA) programs, which automate tasks by following strict business logic and inputs. The company's RPA team—composed of business, not IT, employees—was not yet fully equipped or fully understood within the broader organization. The first problem was that a loop included in the automation coding for testing purposes was not removed when the code was put into production. As a result, numerous free iPhones were sent in error to customers. The second was that an incorrectly programmed RPA bot applied credits to customer accounts, raising an alarm with the firm's audit and compliance team. One citizen developer came close to being fired.

RPA can be misused to automate one's own tasks in order to take on an additional job in another company. Executives who have voiced concern about this envision workers secretly holding down two or three full-time jobs with the help of RPA or generative AI, and we've found online discussions in which such "overemployed" individuals describe their experiences. Companies can ameliorate this problem by rewarding employees for their innovation—offering higher compensation, or more responsibilities, for those who can automate their jobs.

Perhaps the most important issue with citizen development right now is not any particular coding snafu, governance gap, or covert use of automation to collect multiple paychecks. It is the fact that many organizations have failed to pursue the potentially tremendous impact of citizen-led innovation. They are unaware of the opportunities and benefits, dissuaded by resistance from IT, or unable to develop the necessary support and governance mechanisms.

A Case Study: PwC

PwC has established a broad process for citizen development that it calls the "digital accelerators" program. Launched in 2017, the program originally had three components: data science, automation, and data management. It was recently revised to include low-code/no-code solutions and productivity improvements. The company has announced plans to teach its 65,000 employees AI skills, including generative AI. Citizen developers are recruited from among PwC employees and volunteer to take online courses in relevant technologies. After they've been certified, they may take time away from their roles to develop applications that are relevant to PwC's client service or internal administration. Employees who develop highly useful applications receive some modest compensation. The products and technology group that organized the program initially expected 500 volunteers but ultimately enrolled 2,000.

The program has produced a number of benefits for PwC. Technology-development groups used to be siloed within each business unit (audit, tax, advisory), but citizen developers have since engendered sharing and integration across them. Some projects have been embedded in enterprise capabilities; others (such as new visualization approaches) are used in client engagement. Citizen developers usually return to their business units, bringing with them technological capabilities they previously lacked.

One digital accelerator, Emily Donoghue, came from the tax practice, where she'd been frustrated by some of the tedious tasks she was required to perform. She and her team created a program that automated a workflow for extracting data from various spreadsheets. The program saved 40 hours of work on an audit engagement and eventually became a standard digital asset in PwC's internal library, which is available for use by anyone in the firm.

Organizations need to complete several tasks if they want to be as successful at citizen development as PwC is. All the tasks must be undertaken, but they needn't be done in the following order, and changes or improvements in one task can often be made without dramatically altering others.

<< TASK 01: >>

Recruit and Classify Your Citizen Developers

Formal or semiformal recruiting efforts are likely to result in significant numbers of employees who step up to build technical applications. Many functions and units include people who are experimenting with citizen development, so a companywide request for volunteers will probably result in lots of raised hands. Managers in IT groups and in automation or data-science centers of excellence will probably be aware of potential interest. Promoting courses in related technologies may also help with recruitment.

Some companies look for certain traits in the employees they recruit for these initiatives. Johnson & Johnson, for example, says that it seeks people with a logical mindset, technical competence, and an aptitude for learning, plus experience with rules-based work. Some people may be motivated to learn in order to help themselves juggle multiple tasks or have more free time. Others are motivated by the goals of the enterprise and are recruited, trained, and (sometimes) incentivized to automate, analyze, and optimize the work they perform. Their aim may be to gain recognition or to ease the boredom of tedious work, but the benefits of their efforts accrue mostly to their employer. Still others may be motivated by benefits to society; they may volunteer to help with health care or environmental research by using tools and procedures to collect, analyze, and document information. Companies in the private sector may want to promote recruitment as a path to employee growth or philanthropic achievement.

The types of citizen developers vary according to the roles they play. They include *scouts,* who identify opportunities for improvement and change; *designers/architects,* who develop new and better ways of doing things; *developers/automators,* who build the applications that deliver those process improvements; and *data scientists/analysts*, who study, analyze, and report on the status of the old and new processes.

Deloitte's AI Academy created differing internal "AI fluency" programs for AI leaders, strategists, citizen developers, project leaders, and researchers. Some programs involve certification upon completion; others are more informal. Some are full-time, some part-time. Employees have needs and desires for varying levels of technical expertise.

<< TASK 02: >>

Train and Certify Your Developers

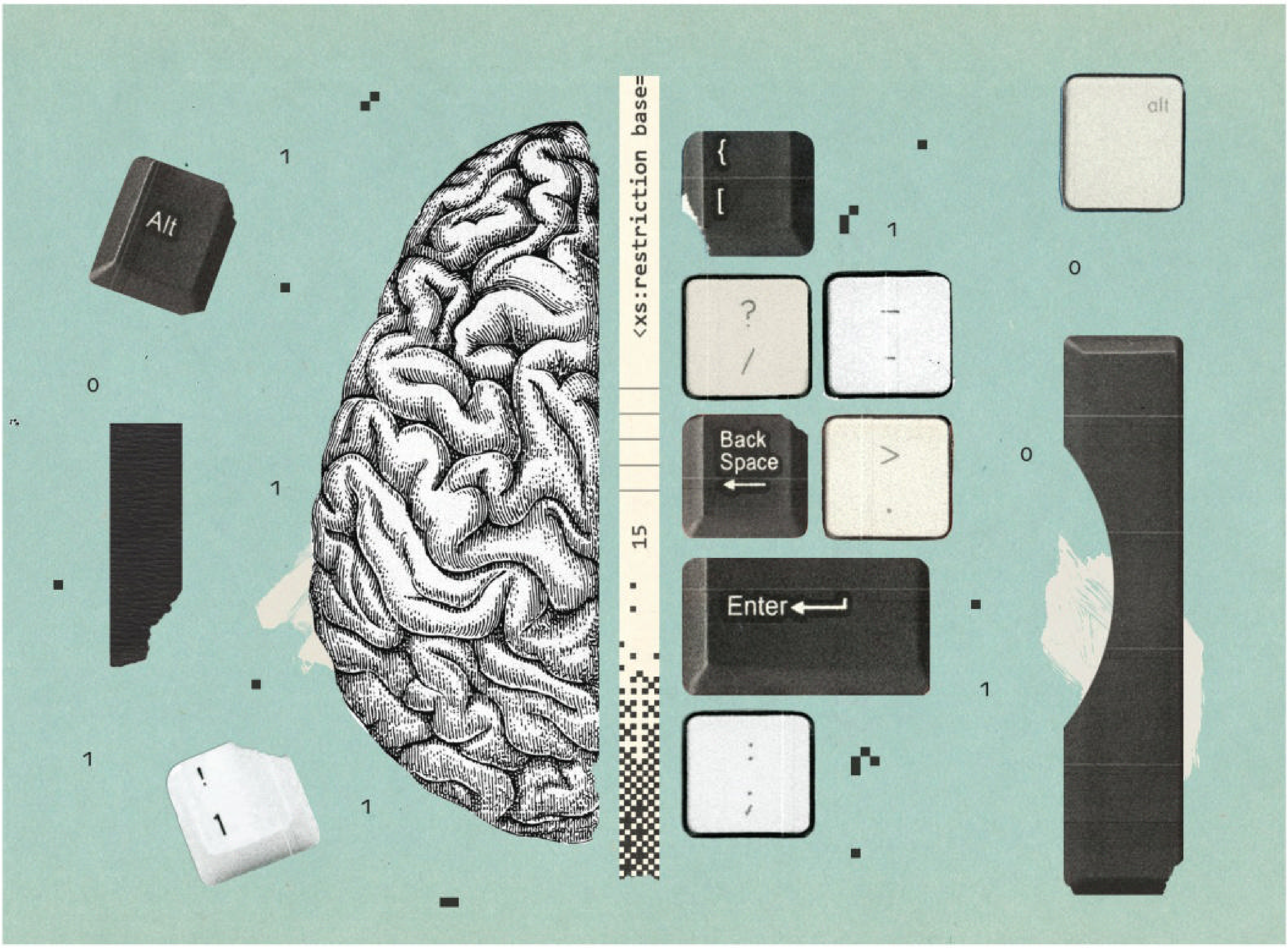
Citizen development does require some training, though not a lot. On average, the companies where we conducted interviews offer from 40 to 80 hours of instruction in the technologies and techniques needed to succeed. Some, such as Dentsu, a global advertising and marketing firm, offer hackathons at which newly trained citizen developers can build applications. Training requirements vary by how much professional supervision citizen developers are likely to have. If, for example, all the models they develop must be reviewed by professional data scientists before they are put into production, less formal training may be needed.

Because citizen-developed systems typically link to, change, or extract and analyze data from existing transactional systems, their developers also typically need an understanding of corporate IT architecture and guardrails for safe data access and usage. But again, if those systems are certified by IT or other professionals, training may be unnecessary. At the very least, someone in the organization should keep track of what applications have been developed, who developed them, what purpose they are being used for, and whether they have been certified as enterprise grade.

At companies that believe that processes should be improved before they are automated, citizen developers should receive training in incremental process-improvement techniques such as Six Sigma and Lean. Another option is to have a centralized group of process-improvement specialists available for a quick analysis before automation.

Some companies don't require their citizen developers to be certified. Others require internal tests and certification. Still others use third parties to carry out certification.

Many functions and units include people who are experimenting with citizen development, so a companywide request for volunteers will probably result in lots of raised hands.



The degree to which certification is necessary may depend on how critical the given business area is or how much external regulation it is subject to.

<< TASK 03: >>

Build a Citizen-Development Infrastructure

To help citizen developers succeed, companies should give them standard tools and build infrastructure to make development easier. Whether the tool is a generative-AI system, an RPA tool, a low-code/no-code offering, or an automated machine-learning system, companies should provide training on it and encourage the sharing of partial or complete solutions. Many vendors now offer easier-to-use, low- or no-code versions of their standard software, designed specifically for citizen developer use. Vendors are also developing hubs, marketplaces, and portals that allow citizen developers to share reusable, certified datasets and completed applications or components of them and are creating "feature stores"—repositories of reusable variables—to help citizen developers build ML models.

One important requirement for improving the impact of citizen developers is to connect solutions to production environments owned by business units. Especially with more-sophisticated tools such as automated machine learning, companies must ensure that models are accurate and robust.

<< TASK 04: >>

Empower Community Learning

Citizen developers need to learn from one another about how best to solve business problems with technology. One way to foster such peer learning is to offer regular classes, solution showcases, and presentations by external speakers. Since citizen developers are neither typical businesspeople nor typical technologists, communities can offer a bit of group therapy when challenges arise and may keep people from giving up on development. They also provide a feedback mechanism for management to create appropriate career and promotion paths, especially for those employees who want to become professional automators, data scientists, or full-time IT workers.

<< TASK 05: >>

Prepare to Manage Value Created by Automation

It's likely that some observers will question an investment in citizen development if the value it creates goes unmeasured. Citizen development typically generates insights whose monetary value can be difficult to assess (although some central analytics teams do calculate the value of their use-case portfolios). The easiest measurement is of the time saved through citizen-developer automation of previously human-performed tasks, and several companies we've observed or worked with have accumulated millions of minutes of freed-up time. At some point it is fair to ask what employees are doing with the time saved. As one skeptical CFO put it, "We can't eat hours."

A large pharmaceutical company decided that it had an enormous opportunity to use AI and automation technologies to transform and optimize key business processes. The company had a central data-science group, but it employed external consultants for robotic process-automation projects. It decided that the consultants were too expensive and concluded that it could train employees outside of IT to do automation work. The corporate services division partnered with the IT function to create technology standards and training for its citizen developers. The program went well, and many processes were substantially improved. The company met its goal of $500 million worth of employee time saved ahead of schedule.

The leaders of the initiative, however, had some doubts about where it would all lead. One manager told us, "Governance is a concern that's increasing for us in terms of business continuity and change management. Have we prepared for 30% of finance being run on citizen-developed applications? We realize that a tipping point is coming, and we wonder if we have the appropriate controls in place. We're not sure we do."

Some companies have made progress in overcoming the resistance of IT professionals to citizen-developer activities. One excellent example is in the data-science business unit of Kroger, where leaders realized the potential of citizen development and knew that the grocery chain had many capable business analysts. To enlist support for these "insight scientists," the professional data scientists were asked to teach them automated machine-learning tools, review their models, and work with them to learn more about the business.

A Case Study: AT&T

AT&T puts a strong emphasis on citizen development. The company has well-developed facilitation approaches and has undertaken many of the tasks we've discussed. With help from its several hundred professional data scientists and automation specialists and thousands of citizen developers, it is attempting to put AI and automation at the heart of its business.

AT&T has tried to aid employee efforts to analyze data with machine-learning models. The goal is to support all aspects of the ML pipeline, including obtaining the appropriate data, engineering it to create the desired features, Governance of systems may now be the primary challenge for the citizen-development movement. But governance itself could increasingly be automated.

building the model, deploying the model, monitoring and refining its performance over time, and governing it effectively. The company has created a feature store containing commonly used data to reduce the need for time-consuming data wrangling, which can take up to 80% of a data scientist's time. Its citizen developers can choose from among more than 26,000 model-building features. Both data scientists and citizen developers find the store incredibly useful.

AT&T has also put more than 3,000 bots into production. Some of the earliest ones were in the business operations area, such as providing new circuits for customers. The company has an Automation Center of Excellence and employs 20 full-time employees and some contractors there. It could not have scaled so rapidly from its start in 2015 without participation from citizen automators. The center tracks all robotic process-automation projects and has calculated that 92% of them are undertaken outside the center. Bot implementations have saved about 17 million minutes of manual effort each year, generated hundreds of millions of dollars in annual return, and achieved a 20-fold return on investment.

AT&T has developed a technical infrastructure to support both professionals and citizen developers. It includes competitions, an operations tool that coordinates all activities in the development pipeline, strategies for integrating RPA and machine learning, and a search tool for commonly used data and features. The company also maintains a "bot marketplace" of previously developed solutions, with configuration assistance from the center of excellence if necessary. About 75 reusable components are added every month to the marketplace. AT&T is exploring the use of generative AI to create machine-learning models and automation bots.

AT&T bolsters citizen development and automation with community-building activities. For data science it has created an "AI democratization forum" with weekly virtual live demos that educate employees about particular issues or new capabilities AT&T has developed. About 200 employees participate every week, few of them professional data scientists. The company offers online training materials and 575 courses on various aspects of data science, and certifications are available on vendor tools. A 40-hour training program is offered to anyone who wants to become a citizen developer. In addition, the center of excellence hosts an annual "automation summit" for groups within the company to present and share their projects.

DIGITAL TRANSFORMATION IS already necessary for almost every organization, and the shortage of qualified professionals to implement it will continue. It may eventually be the case that citizen developers are the primary engines in this effort. It's easy to imagine that in the relatively near future some companies will be able to turn all technology development activities over to them, perhaps with external vendors providing some IT infrastructure. Or what's left of corporate IT may evolve into facilitating, assessing, and certifying the work of nontechnical employees.

Technology development will continue to get easier as programs become more automated and AI-based. Generative AI will no doubt improve over time, making everyone a potential programmer. At the moment, governance of systems is perhaps the primary challenge for the citizen-development movement. However, it seems likely that governance itself will increasingly be automated. Machine-learning operations systems already structure ongoing governance and algorithm accuracy for ML models, and we are likely to see related systems for other types of citizen-developed technologies.

One vendor of low-code tools advertises that users can "turn [their] ideas into actions." The citizen-development movement is part of a new era of business change driven by technology and data.

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THOMAS H. DAVENPORT *is the President's Distinguished Professor of Information Technology and Management at Babson College, a visiting scholar at the MIT Initiative on the Digital Economy, and a senior adviser to Deloitte's AI practice. He is a coauthor (with Nitin Mittal) of* All-In on AI: How Smart Companies Win Big with Artificial Intelligence *(Harvard Business Review Press, 2023).* **IAN BARKIN** *is a founding partner of 2B Ventures; an external adviser to Bain & Co.; and formerly the chief strategy and marketing officer at Sykes Enterprises, which acquired Symphony Ventures, an automation consulting firm he cofounded.* **KEREM TOMAK** *is the founder and CEO of MindspaceAI, an AI consulting firm, and a former global chief analytics officer at ING Bank in Amsterdam.*

AUTHOR
Lynn S. Paine
Professor, Harvard Business School

ILLUSTRATOR ALEX EBEN MEYER

CORPORATE GOVERNANCE

What Does "Stakeholder Capitalism" Mean to You?

A guide to the four main types

The past few years have seen an outpouring of articles and statements heralding the arrival of a new and more inclusive form of capitalism, often called "stakeholder capitalism."

It promises to bolster companies, improve outcomes for their constituencies, produce better returns for long-term shareholders, and ultimately strengthen the economy and society as a whole. In line with the new ideology, corporate boards and business leaders have been urged to adopt a multistakeholder approach to governance in place of the shareholder-centered one that has guided their work for several decades.

In speaking with hundreds of corporate directors, executives, investors, governance professionals, and academics over the years, I've found wide differences in how stakeholder capitalism is understood. The failure to recognize those differences has been a source of much confusion and disagreement inside companies and in the public debate. The recent controversy over environmental, social, and governance investing is a case in point. In this article I describe four kinds of stakeholder capitalism—*instrumental, classic, beneficial,* and *structural*—which reflect significantly different levels of commitment to the interests of stakeholders and are based on very different rationales. (See the exhibit "Four Versions of Stakeholder Capitalism.")

As more companies embrace stakeholder capitalism, it is important that corporate leaders have a shared understanding of what, exactly, they are embracing. Espousing a commitment to all stakeholders without clarity about what that actually entails puts directors and executives on a collision course with one another when decisions requiring difficult trade-offs among stakeholders' interests arise—as they inevitably do. It also creates expectations among stakeholders that if unfulfilled will fuel cynicism, alienation, and distrust—the opposite of what most proponents of stakeholder capitalism intend. Meanwhile, shareholders are left wondering what this new ideology means for them. This article is intended as a guide to help corporate leaders define what they mean by stakeholder capitalism and thus reduce the risk of such negative consequences.

IDEA IN BRIEF

THE INSIGHT

Stakeholder capitalism can take several forms, but few leaders distinguish among them.

THE CHALLENGE

The failure of corporate leaders to establish a shared understanding of which form they're embracing leads to confusion and controversy.

THE ANSWER

To reduce the risk of such misalignment, leaders should be clear about which version of stakeholderism they are espousing and what it will take to deliver on that commitment. This article describes the four main types.

Espousing a commitment to all stakeholders without clarity about what that actually entails puts directors and executives on a collision course with one another.

Instrumental Stakeholderism

[**MAXIMIZING LONG-TERM SHAREHOLDER VALUE**]

This version of stakeholder capitalism holds that considering the interests of all stakeholders can actually help maximize returns to shareholders, because how a company treats its nonshareholder stakeholders can affect shareholder value. Investing in other stakeholders may reduce shareholder value today but pay off for shareholders in the future. Conversely, shortchanging other stakeholders may benefit shareholders for a time but be detrimental to them over a longer period. Thus even corporate leaders whose only objective is maximizing value for shareholders should consider the interests of other stakeholders.

That appears to be the dominant understanding of stakeholder capitalism in much of the investment community today. Certainly recent statements by heads of the "big three" asset managers in the United States—BlackRock, Vanguard, and State Street Global Advisors—seem to reflect this view. In his 2021 letter to CEOs, BlackRock Chairman and CEO Larry Fink stated: "The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders."

This view recognizes that actions taken today have consequences for tomorrow and that the interests of different stakeholders are often interdependent. Consider the simple example of investing in employees' development. Giving your salespeople time away from their jobs to learn new skills may dampen that quarter's sales, disappointing some shareholders and possibly hurting the stock price. But it will most likely help sales and fuel growth in the future, increasing shareholder value. By the same logic, forgoing such investment may improve the bottom line and benefit shareholders today but lead to declining sales, operational inefficiencies, and ultimately losses in shareholder value that exceed the earlier gains if your sales team's skills become outdated.

An instrumental approach to stakeholders in no way challenges shareholder primacy and is fully consistent with its four main tenets: treating shareholder-value maximization as the corporate objective; prioritizing accountability to shareholders over accountability to other stakeholders; subordinating the preferences of other stakeholders to those of shareholders; and giving shareholders the exclusive right to vote on directors and other governance matters. It differs from traditional shareholder capitalism in just two main ways: by giving explicit consideration to other stakeholders' interests, and by assessing shareholder value over a longer period.

Some commentators say those differences are inconsequential. But paying explicit attention to other stakeholders' interests can reveal risks that decision-makers often don't recognize when they're focused narrowly on shareholder value. Indeed, disregard for those interests has led to substantial destruction of shareholder value at numerous companies. Consider the fake-accounts debacle at Wells Fargo and Dieselgate at Volkswagen—to name just two. Had leaders of those companies paid more attention to the interests of constituents who were not shareholders, they might have pursued different practices or strategies and ultimately done a better job for their shareholders.

Paying attention to stakeholder interests and taking a longer view can also reveal strategic opportunities. Corporate leaders narrowly focused on near-term shareholder returns would be unlikely to choose to build a new plant in their distressed home region rather than in a lower-cost location overseas. But Cummins did just that in 2010 when

Four Versions of Stakeholder Capitalism

Proponents of stakeholderism take varying stances on the strength and basis of their commitment to nonshareholder stakeholders. The spectrum below explains those commitments, from weakest to strongest.

Instrumental	Classic	Beneficial	Structural
Managers should respect stakeholders' interests when doing so will maximize long-term returns to shareholders.	Companies have ethical and legal obligations to stakeholders that must be respected whether or not doing so is likely to maximize shareholder value.	The corporate objective is improving all stakeholders' well-being (rather than just maximizing value for shareholders).	To protect stakeholder interests, stakeholders other than shareholders should have formal powers in corporate governance.

> **Classic stakeholderism differentiates among interests, prioritizing those protected by ethical or legal norms over those based on wishes or desires.**

it decided to manufacture its new line of high-speed, low-emissions engines in Seymour, Indiana. Its decision meant that the company would have to make significant investments in the community and its schools—but it also presented an opportunity to raise educational attainment and income levels in the region and create a global hub for advanced manufacturing that would ultimately benefit the company. In 2015 Cummins began producing its new line of engines at the Seymour plant. And thanks in part to its collaboration with other companies and the region's civic and educational leaders, local residents' educational attainment, incomes, and wage rates improved as well.

Challenges for instrumental stakeholderism. This approach promises real benefits for stakeholders and society, but those benefits go only so far. Although it requires corporate leaders to take stakeholders' interests into account, it does not require them to *respect* those interests unless doing so would be financially beneficial for shareholders. From this perspective, an investment in the company's stakeholders, like any other investment, should be pursued only if it increases net present value, and investments in stakeholders that reduce long-term shareholder value should be avoided. While proponents of instrumental stakeholderism tend to focus on win-win examples like the Cummins case, corporate leaders frequently face pressure and opportunities to generate shareholder value in ways that do not benefit all stakeholders and may even do harm to some of them.

The economists Roy Shapira and Luigi Zingales have shown, for example, that polluting the environment, even when it is against the law and harmful to public health, can sometimes maximize long-term value for shareholders. Using information disclosed in numerous lawsuits, they examined the decision DuPont executives made in 1984 regarding perfluorooctanoic acid (PFOA), a toxic chemical used in making Teflon that was seeping into the drinking water of the community where it was manufactured. Documents showed that executives knew about PFOA's toxicity to humans and persistence in the environment. As the authors reported in their paper "Is Pollution Value-Maximizing?," three options were considered: ending production of PFOA, continuing production with measures to abate the harmful emissions, and continuing production without abatement measures. Shapira and Zingales modeled the decision from the perspective of a shareholder-value-maximizing manager using the present value of the long-term costs and benefits to the company associated with each option. Their analysis found that the executives' decision—to continue producing PFOA without abatement—maximized shareholder value, even after taking into account legal liabilities, regulatory sanctions, reputational effects, and other costs to the company over the ensuing 30 years. In other words, the decision was perfectly correct from the perspective of instrumental stakeholderism, because an option that respected other stakeholders' interests would not have maximized long-term shareholder value.

Proponents of instrumental stakeholderism sometimes cite the clarity of its decision rule as one of its principal virtues. But predicting which course of action will most likely maximize long-term shareholder value is fraught with difficulty, especially when it requires putting a monetary value on outcomes such as health, clean air, and justice, which have no market price, or predicting how laws, policies, or public sentiment will evolve over the long term. The longer the time frame, the more speculative the exercise. The rule to maximize long-term shareholder value may be clear on its face, but it does not eliminate difficult trade-offs, and it can sometimes result in serious harm to other stakeholders and society at large.

Classic Stakeholderism

[**RESPECTING STAKEHOLDERS' LEGITIMATE CLAIMS**]

This version of stakeholder capitalism holds that at least some stakeholders' interests must be respected as well as considered. It differentiates among interests, prioritizing those protected by ethical or legal norms over those based on wishes or desires. The core idea is that the former, more fundamental, interests give rise to claims whose validity is not contingent on their contribution to shareholder value and underpin obligations to stakeholders that sit alongside financial and strategic imperatives. This type of stakeholderism recognizes that serving stakeholder interests often contributes to shareholder value, but that some stakeholder interests should be addressed even when it doesn't. (I call

Defining Terms

How the expressions used in this article shift meaning depending on the context.

Stakeholder
What this term means and to whom it refers have been topics of much debate. The Darden professor R. Edward Freeman has defined it as "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose." In this article I use it more narrowly to refer to the groups that most companies regard as their core constituencies: customers, employees, suppliers, shareholders, and communities or the general public. A case can certainly be made for other definitions and a more extensive list, including business partners, creditors, governments, the environment, NGOs, and even competitors. For the purposes of this article, however, the narrower understanding will suffice.

Shareholder primacy
This term typically refers to one or more of four propositions: (1) Companies should be run with the sole objective of maximizing returns to shareholders. (2) Boards and managers are, or should be, accountable principally to shareholders. (3) Shareholders have, or should have, the exclusive right to elect directors and vote on other corporate matters. (4) Companies should be run according to shareholders' preferences regarding not just financial returns but also social, political, environmental, and other policy matters. These various meanings are often overlooked in discussions of shareholder primacy, but they are noted in this article when relevant.

Shareholder value
This term most commonly refers to financial returns to shareholders. A widely used metric is total shareholder return (TSR), calculated as the sum of dividends, stock price appreciation, and other payments to shareholders over a given period of time. The term is also used to refer to the economic value of the company—which is not necessarily the same as shareholder value in the first sense. Although any increase in the company's value theoretically benefits shareholders through a rise in the stock price, returns to shareholders can also be increased, at least in the short term, by taking actions that reduce the company's longer-term prospects. A third usage treats shareholder value more broadly, as encompassing other things of importance to shareholders, such as particular business strategies, practices, or policies on environmental, social, or political issues. In this article the term is used in its most common sense, to mean financial returns to shareholders, unless otherwise indicated.

it "classic" because of its similarity to early expressions of stakeholder theory.)

The idea that corporate leaders are permitted, let alone required, to act in ways that don't necessarily maximize shareholder value may sound like heresy. But that is far from the case. Even the best-known proponent of shareholder primacy, Milton Friedman, acknowledged that shareholder value should be pursued within the rules of society as embodied in law and "ethical custom." In his well-known *New York Times* article of 1970 he defined ethical custom quite narrowly, as requiring only that companies compete "without deception or fraud," but presumably he would have condemned deceiving *any* stakeholders—customers, employees, suppliers, shareholders, or communities—even if it could be shown to create long-term value for shareholders.

A more robust form of this view is found in the Business Roundtable's 1981 statement on corporate responsibility, which declared that "the shareholder must receive a good return but the legitimate concerns of other constituencies also must have the appropriate attention." And the American Law Institute's 1992 *Principles of Corporate Governance: Analysis and Recommendations* explicitly acknowledges that corporate decision-makers may pay heed to ethical considerations in their dealings with the company's stakeholders "even if corporate profit and shareholder gain are not thereby enhanced."

Recent court cases in Delaware go further, suggesting that in certain situations respect for some stakeholder interests may even be a matter of fiduciary duty. The 2021 case against Boeing's board of directors speaks to this point. After two fatal crashes of the 737 MAX narrow-body airliner, shareholders filed suit on behalf of the company, alleging that the board had neglected its duty by failing to oversee and monitor airplane safety. In allowing the case to proceed

> Beneficial stakeholderism is driven by the idea that running companies to improve the lives of all stakeholders will help address some of the inequities facing society today.

beyond the pleading phase, the court noted that although certain board and management communications mentioned safety "in name," they were not "safety-centric." That is, they focused on the financial, operational, public relations, or legal implications of safety rather than on safety itself.

To be sure, establishing a board's liability for a failure of oversight is extremely difficult, and the case was ultimately settled. For directors and officers, however, the case suggests that due regard for stakeholders' fundamental interests—not just their impact on shareholder value—is increasingly seen as integral to their roles.

Challenges for classic stakeholderism. Compared with instrumental stakeholderism, classic stakeholderism provides much stronger protection for stakeholder and societal interests. As critics of stakeholderism have noted, however, determining which interests must be respected is not always easy.

A useful starting point is the norms of corporate conduct that are widely accepted around the world. They include obeying the law, respecting human rights, truth and honesty, honoring promises, protecting health and safety, and so on. Nevertheless, corporate leaders may face difficult judgments about which interests must be protected. Consider a corporate restructuring that involves mass layoffs. The company could save millions of dollars by eliminating its customary (but legally optional) practice of giving advance notice and severance packages to departing employees. Assume further that eliminating those measures would help management meet the guidance on margins previously announced to shareholders. Some managers would see the approach as perfectly valid, arguing that employees have no legitimate claim to advance notice or severance payments in this situation, while others would find it profoundly unfair to employees and thus inconsistent with the requirements of classic stakeholderism.

An equally if not more vexing challenge for classic stakeholderism is resolving conflicts among competing stakeholder claims. Even if the universe of claims is limited to those based on legal and ethical principles, corporate leaders can face difficult trade-offs. During the early days of the pandemic, for instance, some companies in the food sector were torn between ensuring the safety of employees working in plants plagued by Covid outbreaks and meeting their responsibilities to get food to distributors and consumers. Unlike instrumental stakeholderism, which offers "maximize shareholder value" as an all-purpose decision rule for resolving such dilemmas, classic stakeholderism holds that they can be resolved only through a process of deliberation that weighs and compares competing interests and seeks to minimize harm and maximize human well-being.

Critics of stakeholder theory often point to the lack of a single decision rule for resolving trade-offs as a major shortcoming. Proponents, however, see the demand for such a rule as based on an overly narrow conception of rationality, divorced from the messy realities of corporate leadership. They have a point. By its very nature, the job of corporate leaders entails multiple obligations. It is not possible to say in advance how conflicts should be resolved or whose interests should take priority. Both depend on the facts and circumstances of the situation and the nature of the particular interests at stake.

Beneficial Stakeholderism

[**IMPROVING OUTCOMES FOR STAKEHOLDERS**]

This version of stakeholder capitalism seeks not just to meet stakeholders' basic claims but also to measurably improve their well-being. It comes in part from a belief that optimizing returns for shareholders over the past four decades has led many companies to underinvest in their other constituencies and has caused a disproportionate share of gains to go to the owners of capital. It is also driven by the idea that running companies to improve the lives of all stakeholders will help address some of the large-scale problems and inequities facing society today, thereby helping to protect the long-term health of the economy and quell growing discontent with capitalism.

I call this version "beneficial stakeholderism" because of its similarity to the benefit corporation movement, which includes efforts to certify traditional corporations as so-called B Corps and the adoption of legislation in numerous states and countries permitting businesses to organize themselves as "benefit corporations" or "public benefit corporations." Although the certification standards and statutes vary, they have in common a requirement that the company's directors "balance" or "consider" the

interests of its various stakeholders when setting policies and making decisions, and that the company periodically report on its progress in advancing stakeholders' well-being.

Beneficial stakeholderism has certain affinities with the benefit corporation approach to stakeholders, but an organization need not be a benefit corporation or a certified B Corp to adopt its basic tenets. Unilever's actions under the leadership of Paul Polman are an example. During Polman's tenure, from 2009 to 2019, the company pursued an agenda that delivered gains for many of its stakeholders. As detailed in Unilever's 10-year progress report on its Sustainable Living Plan, the company enhanced employees' health and well-being, made its pay system more equitable, paid all employees a living wage, and augmented the livelihoods of more than 800,000 smallholder farmers. It advanced human rights in its supply chain, raised the nutritional value of its products, improved the health and hygiene of more than a billion people, and made progress toward cutting its environmental impact in half by 2030. During roughly the same period, Unilever also delivered a total shareholder return of 290%—well above the median of 165% for 18 consumer goods companies in its peer group.

Beneficial stakeholderism is similar to classic stakeholderism in attributing intrinsic (not just instrumental) value to

A company can undermine its own viability if its generosity to customers (or any other stakeholders) results in too many loss-making transactions.

certain interests of nonshareholder stakeholders. However, it calls for a more expansive commitment to the well-being of stakeholders. For example, classic stakeholderism is concerned with employee safety, equal opportunity, equal pay for equal work, and other interests that are protected by basic legal and ethical norms. Beneficial stakeholderism would add to that list dignity, inclusion, meaningful work, and economic equity in the broad sense—whether employees earn a decent livelihood, receive a fair share of the value they are helping create, and have sufficient opportunities for advancement.

Beneficial stakeholderism is more demanding than classic stakeholderism in other ways as well. It envisions ongoing improvement in the outcomes delivered to stakeholders, thus implying defined goals for each stakeholder group and methods for tracking, measuring, and reporting on those outcomes, along with appropriate compensation and incentive systems. It requires an imaginative approach to strategy in which stakeholder interests are essential building blocks rather than side constraints. And it requires a holistic approach to decision-making and resource allocation. Corporate leaders must view each decision not in isolation but as part of a portfolio of choices aimed at achieving the desired outcomes for all stakeholders.

Like instrumental stakeholderism, beneficial stakeholderism rejects the short-termism of traditional shareholder-value maximization. The two versions diverge, however, in their approach to investment decisions. Instead of allocating resources solely on the basis of likely returns to shareholders, beneficial stakeholderism prioritizes projects with the potential to improve outcomes for multiple stakeholders. Although proponents have not, to my knowledge, spelled out precisely how such decisions should be made, the process presumably involves analyzing the expected impact on each affected stakeholder group and choosing either the project with the greatest benefit in aggregate or the one that by some methodology optimizes results across the groups.

Challenges for beneficial stakeholderism. Although this version of stakeholder capitalism holds out the prospect of ever-improving outcomes for all stakeholders, its critics are right to caution against expecting too much. Like classic stakeholderism, beneficial stakeholderism sometimes entails trade-offs among differing interests. But its concern for a broader set of interests can make those trade-offs even more challenging.

Moreover, there is a real question about how much corporate leaders can invest in their nonshareholder stakeholders without losing shareholder support or running afoul of their fiduciary duties. If, for example, the directors of a traditional Delaware corporation decide to sell the company, they are legally obliged to prioritize shareholders' short-term financial interests. But even when the company is not for sale, legal, economic, competitive, and capital-markets factors often constrain leaders' ability to promote the interests of other stakeholders.

Under Delaware law, considered the gold standard for corporate law in the United States, investments in other stakeholders must have a rational relationship to advancing the interests of the corporation. Commentators often brush off this limitation, noting that courts are reluctant to second-guess a board's business decisions. For conscientious corporate leaders, however, a rational relationship to the corporation's interests is an important benchmark. A proposed investment in nonshareholders that does not advance the interests of the corporation must be justified on some other basis. As noted, it might be required or allowed for legal or ethical reasons, or it could be permitted as a charitable contribution. If it cannot be justified in one of those ways, it is (legally speaking) a waste of corporate assets and grounds for legal action against the company's directors.

A more pressing issue for most corporate leaders is not what the law allows but what is realistic given the company's economic and competitive situation. Even stakeholder interests that are directly related to the business can be addressed only up to a point. Customers, for instance, almost always want better quality, better service, and lower prices, but a company's ability to satisfy those desires is not infinite. Investing more in customers typically means investing less in something else. And whether it is a traditional corporation or a benefit corporation, a company can undermine its own viability if its generosity to customers (or any other stakeholders) results in too many loss-making transactions. Many factors—the company's strategy, the expectations of other stakeholders, what resources are available, what competitors are doing, how the industry is changing—affect how much corporate leaders can invest in any one stakeholder

CORPORATE GOVERNANCE

group. Even for fast-growing companies in thriving industries, delivering on a multistakeholder strategy can be difficult. For distressed companies and those in low-growth or declining industries, it is even more so.

Corporate leaders' ability to invest in other stakeholders ultimately depends on shareholders' willingness to support those investments. Shareholders who disagree with how resources are being allocated may sell their shares. If enough of them do so, the company's stock price will fall. If the drop is severe or prolonged, the company may become the target of a proxy fight or a takeover bid. Whatever decision-making discretion the legal system gives corporate leaders, their actual choices are constrained by the preferences of shareholders who, as noted, have ultimate power over the company's direction through their rights to buy and sell shares, elect directors, vote on major transactions, and challenge directors in court.

In summary, beneficial stakeholderism holds promise, but corporate leaders who embrace it face a challenging path. In comparison with instrumental and classic stakeholderism, beneficial stakeholderism envisions a more significant shift away from traditional shareholder-value maximization in how companies deploy resources and distribute the value they create, with a greater share of both going to nonshareholder stakeholders. But, as discussed, limits on their ability to advance other stakeholders' interests are real. Only 13% of directors responding to a recent survey by PwC agreed strongly that climate goals should be a priority even if they affect short-term financial performance. Perhaps that's because few investors in public companies appear willing to forgo meaningful returns for a greener planet or a more equitable society.

Structural Stakeholderism

[INCREASING STAKEHOLDER POWER]

The three versions of stakeholderism discussed so far all focus on the first pillar of shareholder primacy: Maximizing value for shareholders is (or should be) a corporation's principal objective. They all call for refinements or changes to that objective or how it is implemented, and they are similar in leaving the traditional governance structures and processes that define the balance of power between shareholders and other stakeholders largely intact. That is to say, they all accept another pillar of shareholder primacy: Shareholders are (or should be) the only constituency with a formal voice in corporate governance. A fourth version—which I term "structural stakeholderism"—calls for giving nonshareholder stakeholders voting or other powers in the governance process. Advocates of this version seek to hard wire the interests of other stakeholders into the process, rather than relying on corporate directors and business leaders to take them into account, typically by giving those stakeholders a defined role in selecting directors or formal representation on corporate boards.

Where this idea has been widely implemented, notably in Europe, employees are the stakeholder group (other than shareholders) that is most often given board representation. Germany's two-tiered board system is an example. By law and tradition one-third to one-half of the directors on the supervisory boards of German companies are elected by employees and the rest by shareholders. Other European countries take other approaches to employee participation. Although rare in the United States, employee representation on boards is not unheard of. A 1919 Massachusetts law (still in effect) permitted manufacturing companies to adopt bylaws empowering employees to elect one or more directors, and some unions have secured a seat on company boards. The board of Delta Air Lines, for example, includes a pilot nominated by the governing body of its pilot association. In the past few years more than a dozen shareholder proposals about adding nonmanagement employees to boards have been voted on (and gotten scant support) at large U.S. companies, and several bills in the U.S. Senate would give employees of large companies the right to elect a certain percentage of the board.

The appointment of directors who represent the public interest has also been proposed from time to time. The idea gained currency among law and business academics in the United States in the 1970s, following a spate of corporate failures and scandals. It was actually tried on the boards of Irish banks that received government bailouts during the global financial crisis of 2008. Other commentators have proposed that customers, communities, and taxpayers or other stakeholders have board representation. For some, the term "stakeholder capitalism" itself implies that corporate boards should comprise representatives of various stakeholder groups.

Most advocates for adding stakeholder representatives to boards or extending voting rights beyond shareholders claim that more-robust involvement of other constituencies would strengthen companies' ability to create long-term value by boosting productivity, enhancing employee engagement, or sparking innovation. But for most, those are secondary

> The call to add representatives of employees or other stakeholders to corporate boards raises fundamental questions about the nature of boards and the duties of directors.

consequences. The principal goal is to protect the interests of nonshareholder stakeholders and increase the weight given to them in corporate decision-making.

Challenges for structural stakeholderism. The call to add representatives of employees or other stakeholders to corporate boards raises fundamental questions about the nature of boards and the duties of directors—and about the basis of directors' authority to govern. Although directors are sometimes referred to as shareholders' "representatives"—and, as noted, are elected by shareholders—they are legally more akin to trustees for the institution than to delegates representing a particular constituency. That is why other shareholders may protest when an activist hedge fund negotiates a seat on the board for its own nominee or offers additional compensation to that director for achieving its goals. As fiduciaries, directors owe care and loyalty to the corporation as a whole and are obliged to exercise independent judgment on its behalf—not to do the bidding of a subset of shareholders.

Under the traditional legal model, a corporate board is thus closer to a fiduciary board than to a constituency board. Those two orientations lead to very different mindsets and very different requirements for director effectiveness. Fiduciaries for the institution must understand the interests of multiple constituencies and how they relate to the business as a whole. To maintain their objectivity, they need to keep some distance from interested parties seeking to exert influence. By comparison, representatives of a constituency are expected to engage closely with its members, carry out their wishes, and advocate for their interests. Fiduciary directors and constituency directors can thus take very different stances on issues that come before the board.

Few if any proposals to add employees or other stakeholders to corporate boards raise this issue explicitly, but many of them seem to envision those boards as constituency boards comprising representatives of various stakeholder groups. Although constituency boards are appropriate for some organizations, the model has troubling implications for business corporations. Perhaps the most worrisome is the potential effect on the speed and coherence of decision-making. If the principal duty of directors is to serve the interests of the groups they represent rather than the interests of the company, the prospect of lengthy negotiations and contentious standoffs quickly arises. Decisions about strategy, investments, leadership, acquisitions, divestments, restructuring, and the like must often be made quickly. In a rapidly changing business environment, taking time to solicit the views of various stakeholder groups and to negotiate a resolution of the differences among them may not be feasible. Moreover, without a shared duty to the company to anchor and focus the negotiations, the odds of a suboptimal result are high.

The concept of stakeholder boards runs counter to the ideals of director independence that are at the core of good governance today. For advocates of stakeholder boards, having an interest in the business as an employee, a customer, a supplier, or another constituent is a qualification for service. But it can also compromise a director's judgment and undermine boards' ability to make overall value-creating decisions. Proponents of stakeholder boards envision them as collaborative bodies working toward a single purpose, whereas skeptics envision them as thickets of competing claims that breed distrust and impair decision-making. Before embracing stakeholder boards, it would be wise to clarify the duties of their members and consider how they are likely to function in practice.

STAKEHOLDER CAPITALISM CAN be more or less than meets the eye—and more or less of a challenge to shareholder primacy—depending on which version is being considered. Each one involves a distinctive set of commitments and challenges, and each has very different practical implications for how companies and their boards function. Corporate leaders need a clear understanding of what those implications are. They also need to be honest about what their version can actually deliver for stakeholders, what it can deliver for society, and what it means for shareholders. We have passed the point at which concern about conflicts can be brushed off with easy appeals to a presumed long-term harmony of interests among shareholders, stakeholders, and society. The time has come to clarify what we mean by "stakeholder capitalism."

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LYNN S. PAINE *is a Baker Foundation Professor and the John G. McLean Professor of Business Administration, Emerita, at Harvard Business School.*

INNOVATION

AUTHORS

Haijian Si
Doctoral candidate, Judge Business School

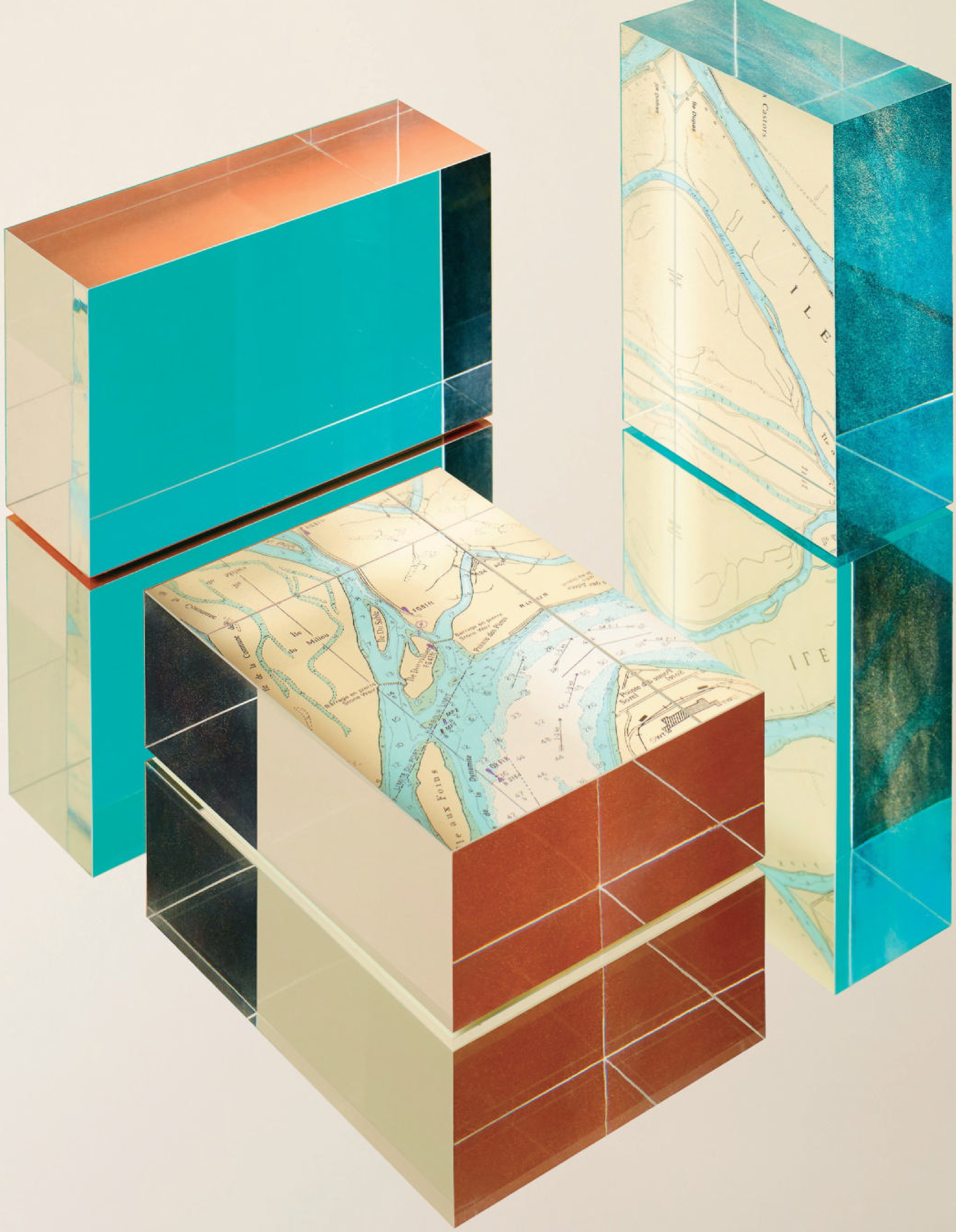
Christoph Loch
Professor, Judge Business School

Stelios Kavadias
Professor, Judge Business School

A New Approach to *Strategic Innovation*

A tool for connecting your projects with your goals

PHOTOGRAPHER **NIK MIRUS**



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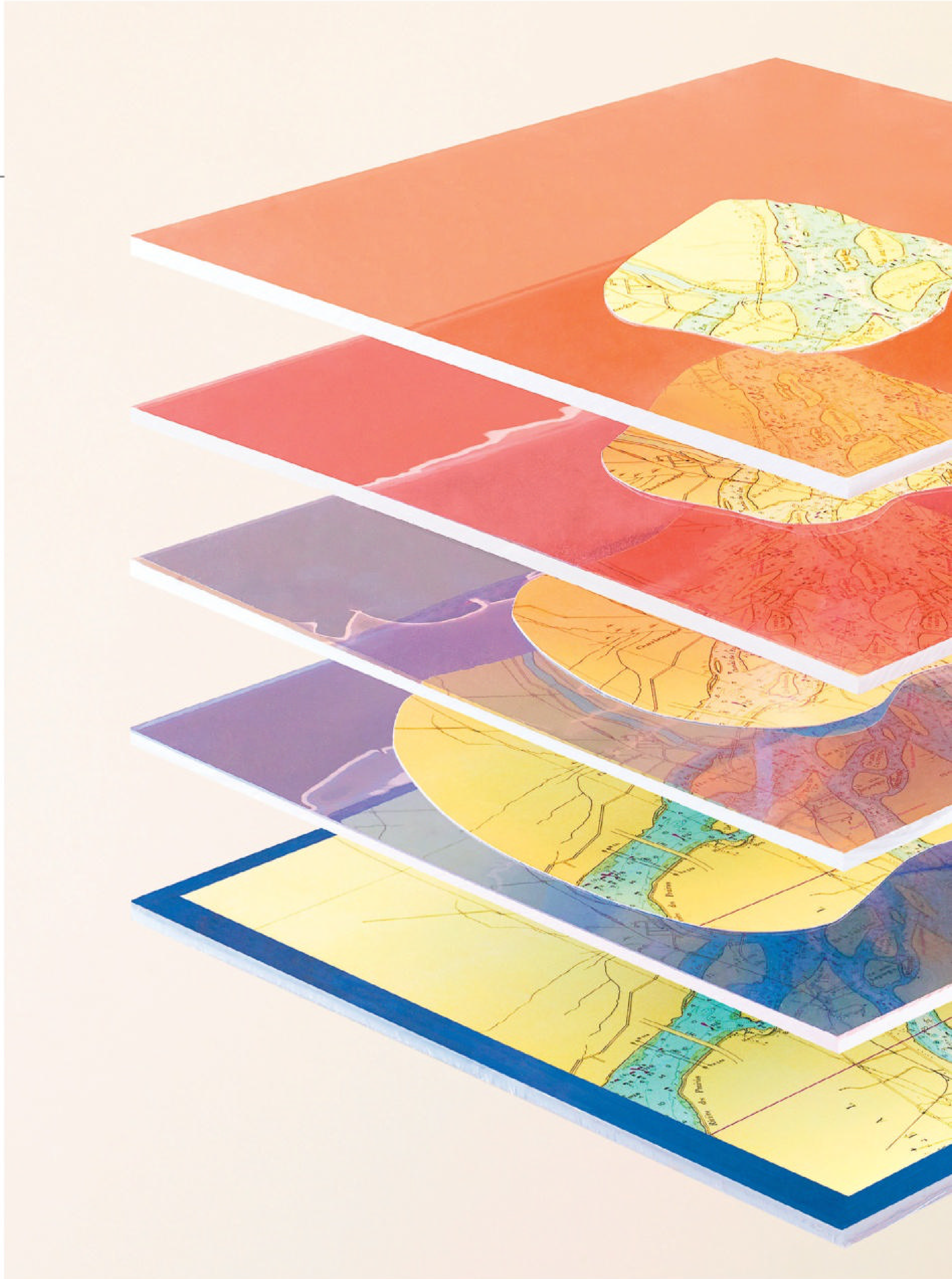


IDEA IN BRIEF

THE PROBLEM

Companies typically treat their innovation projects as a portfolio, aiming for a mix that will collectively meet their strategic objectives. But too often a company's innovation projects are only weakly related to its strategic goals, and at worst, they work against its strategy.

THE CAUSE

Portfolio objectives often pursue a standardized balance, such as between incremental improvements and applying new technologies, and projects are evaluated by standard criteria, such as net present value or risk-return.

THE SOLUTION

A new tool helps leaders align innovation investments with their specific strategies. The tool may require a culture shift as it requires a more iterative way of making decisions.

ABOUT THE ART

In his series Deconstructed Maps, *Nik Mirus rearranges and reconstructs old city plans with colored gels and plexiglass, playing with notions of experimentation and possibility.*

COMPANIES TYPICALLY TREAT their innovation projects as a portfolio: a mix of projects that, collectively, aim to meet their various strategic objectives. Some projects, for instance, will improve business processes, others develop new products and services.

But while the portfolio concept can be helpful, our research suggests that portfolio objectives have become overly standardized. Most companies, in other words, seek similar portfolio objectives, such as achieving a balance between making incremental improvements and applying new technologies. All too often, executives carefully evaluate individual projects along standard performance metrics such as net present value, but they spend little time thinking about what types of projects the company's competitive positioning needs beyond the general notion—borrowed from finance—that diversification reduces risks. As a result, companies' innovation projects tend to be only weakly related to their distinctive strategic goals, and at worst, they work against its strategy.

When we surveyed 75 companies in China, we discovered that when executives took the trouble to link their project selection to their business's competitive goals, the contribution of their innovation activities to performance increased dramatically. This article introduces a strategic innovation tool kit we developed to help companies align their innovation investments with their unique competitive strategies. We tested the tool successfully across 10 business units at five companies.

INNOVATION

CREATING STRATEGIC ALIGNMENT

Our tool kit is anchored in two graphics that, taken together, help companies relate their innovation projects to their strategic goals (see the exhibit "The Strategic Innovation Tool Kit"). Companies begin with an examination of their business strategy.

Achieving consensus and identifying strategic change needs. In almost half the companies we have worked with, members of the management team held varying understandings of their company's strategy. Our process is designed to get business unit leaders on the same page. We ask them to list their unit's strategic goals (for example, growth or profits) and succinctly characterize their business unit's strategy. For this, we use the widely known 3W1H (what, who, why, and how) framework, plus a fifth question on weaknesses, but other frameworks may also be used. Completing this exercise helps leaders articulate a shared view of their strategic position, which will enable them to reach the strategic goals.

The last question in our process identifies *change needs*. These change needs reflect weaknesses in the company's current strategic position (for example, "Our costs are too high," or "We are not addressing a key customer segment," or "Our competitors are coming out with a new product generation that will make our functionality insufficient"). These weaknesses often signal innovation opportunities; it's not coincidental that a widely accepted definition of innovation is "any deliberate change that helps the strategic position of the organization."

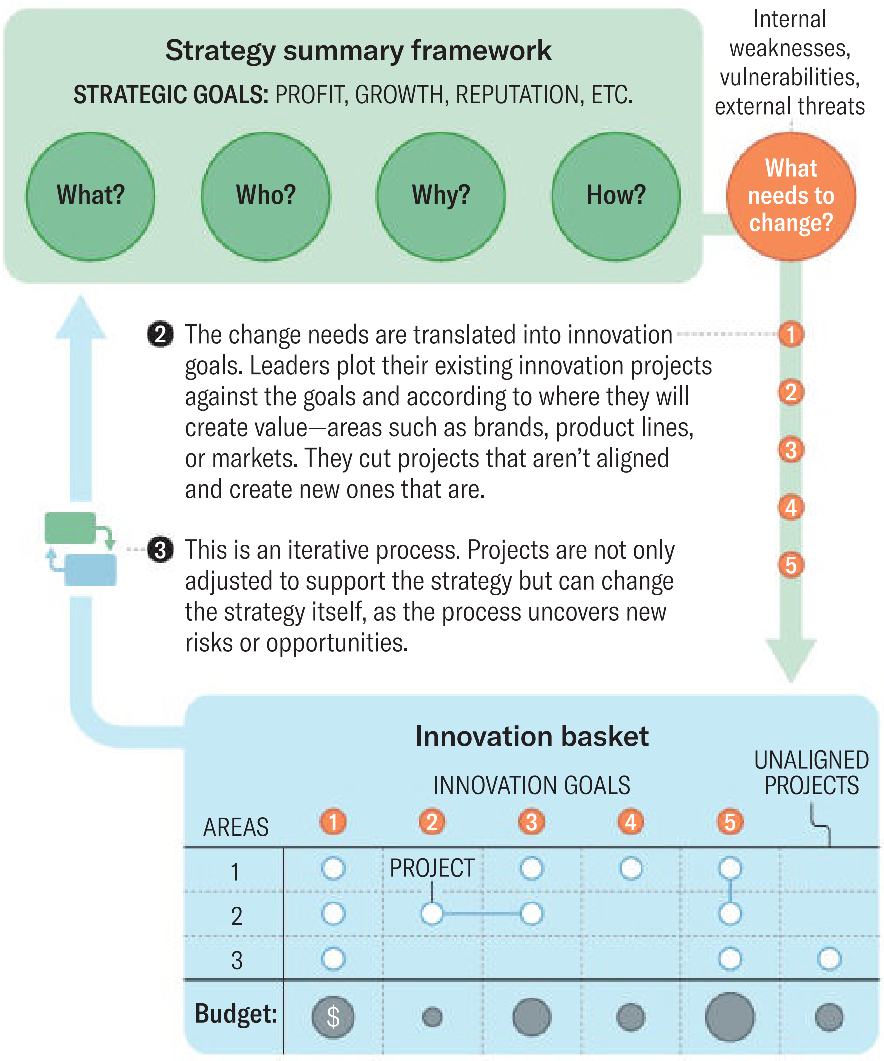
Creating the innovation basket. The process of categorizing innovation projects is the next step, and it is where our process deviates from established frameworks. We use the word "basket" rather than "portfolio" to denote a company's collection of innovation projects. In this way, we differentiate the concept from finance and avoid the mistake of treating projects like financial securities, where the goal is usually to maximize returns through diversification. It's important to remember that innovation projects are creative acts, whereas investment in financial securities is simply the purchase of assets that have already been created.

The top row of the basket lists the change needs from the first exercise, now framed as the innovation goals that

The Strategic Innovation Tool Kit

Our innovation tool kit consists of the strategy summary framework and the innovation basket. As leadership teams work through these exercises, they will gain consensus on strategy, identify threats and weaknesses, translate those weaknesses into innovation goals, and cultivate a collection of innovation projects that support their strategy. Evaluation of the basket may also trigger a change in strategy.

1. Using the what-who-why-how framework, management teams clarify their business unit's strategy. From there, they ask a fifth question: "What needs to change in order to achieve our strategy?"



projects are expected to address. Examples include reducing manufacturing costs, improving quality, developing new products, creating accelerated or more-flexible sales processes, and introducing an after-sales service process or a sales channel in a new country. The left-hand column identifies where in the unit's business model the project is

Designing an innovation basket will launch a creative discussion of what opportunities exist and how they can be translated into projects that support the unit's strategy.

expected to add value, such as its brands, product lines, or market segments.

Unlike a portfolio, the basket is customized to the business unit's strategy and organization. The goals in the framework are not generic: They directly reflect the company's strategy for the unit—and identify which part of the business model they'll add value to.

Filling the basket. Next, executives locate the company's existing innovation projects in the basket, with the understanding that some may straddle multiple goals and areas. For each project, leaders should ask, "How does this help the unit achieve its strategic innovation goals?" Or, put another way, "How does it address our strategic gaps?" If a project addresses an identified change need, it fits the strategy and belongs in the basket. But in many cases, projects may deliver different changes from those identified as opportunities, or little change at all. Those go into the "unaligned" column. Some projects may deliver a financial benefit that does not translate into sustainable competitive advantage. In those cases, if they are not too advanced they should be dropped.

Once the basket has been winnowed of projects that do not align with strategic goals, it's time to begin adding new ones that are consistent with the strategy. This should not be a top-down deductive process but rather a creative endeavor, carried out in workshops with the management team and relevant experts. It will require substantial contributions of project ideas from frontline staff, who often know a great deal more than management might expect about what adds value to the unit. Designing an innovation basket will launch a creative discussion of what opportunities exist (much as what takes place in a design-thinking workshop) and how they can be translated into a collection of projects that support the unit's competitive strategy.

After the business unit has gone through the basket cycle a couple of times, the alignment won't need to be designed from scratch again. It will evolve with the strategic environment, the strategic position, and the basket's own contents as projects are finished and removed, allowing room for new ones to enter.

Evaluation of the basket may trigger a change of strategy. It may, for example, reveal aspects of the competitive position that were overlooked or new opportunities that could deliver significant value. In such cases the management team needs to revisit the strategy to determine new goals before resuming the basket cycle.

Putting in the numbers. Only after the basket has been filled and reviewed a few times should managers introduce numbers. They can establish targets for each innovation goal (such as reducing unit cost by 10%, launching one new product for each product line, reducing product failures to less than 1% per month, or establishing a functional sales channel in the EU capable of selling 100,000 units within nine months). The basket can then be evaluated by how many of the goals the current slate of projects can deliver on (and, at the end of each year, how much was delivered). With that information, priorities across goals and areas can be established.

It's important not to get to numbers too quickly, because doing so may encourage people to shut down creative options and instead propose only what they can immediately prove. We also caution against letting this part of the process become a formal optimization exercise, in which project selection is driven by an algorithm that precisely weights each project according to its potential for achieving goals. Optimization is inflexible and not transparent and may depend upon standard metrics that do not reflect the dynamics of the environment. Discussion of and commitment to what may seem like a "suboptimal" basket is, after implementation, often superior to what appears on paper to be an "optimal" basket but the story behind which the management team does not fully grasp.

Let's look at how the entire process plays out in practice.

ACHIEVING FOCUS AT GLASS, INC.

We studied the optical devices division of Glass, Inc. (not its real name), a diversified Chinese company. Management felt that growth was suboptimal across the unit's three market segments: telescopes and binoculars, manufacturing optical sensors, and security optical sensors. These three segments became the rows of its innovation basket. The management team embarked on the process we just described in order to identify innovation opportunities within those segments that could deliver its strategic goal of 25% growth per annum.

INNOVATION

The team applied the questions of what, who, why, and how to describe the business unit's current strategic position, which is shown in the exhibit "Understanding Strategy at Glass, Inc." The exercise identified several strengths and revealed several vulnerabilities—specifically, a cost disadvantage, products whose functionality had become stale, too few new products, relatively weak service in two of three segments, and an aging technology base. (To preserve confidentiality, we aggregated information from the unit's three market segments in the exhibit.)

These weaknesses required strategic changes and became the innovation goals against which the existing innovation basket (projects that were already underway) was evaluated. This exercise revealed that the lion's share of spending was going to new products, which accounted for roughly 80% of the $42 million innovation budget. The other innovation goals were only weakly supported, especially service improvements.

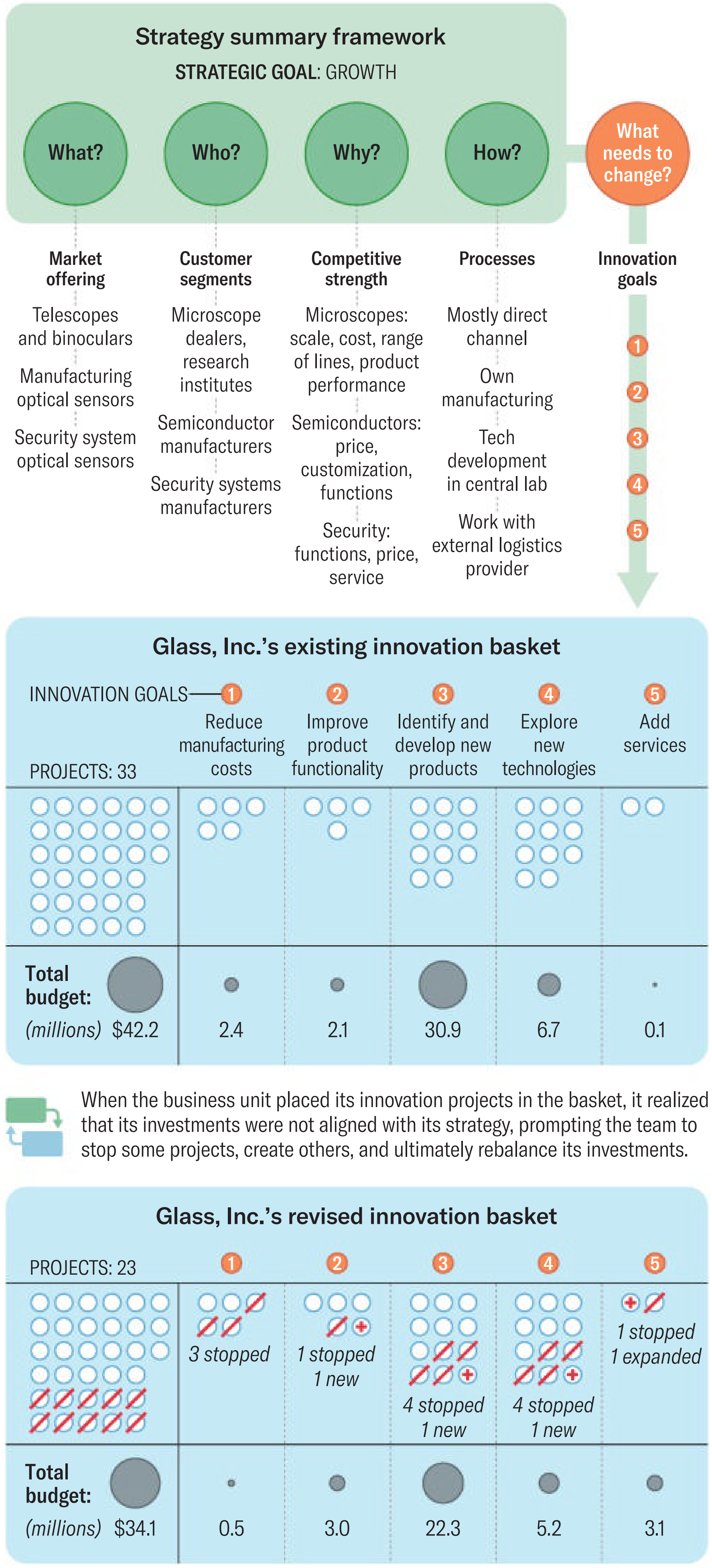
The management team members realized that they had never intended for the unit to have such a strong focus on new products. They diagnosed the cause of the disconnect. Targets for annual revenue growth had compelled management to constantly look for extra revenue, and the path of least resistance had been to develop and introduce incremental product offerings in niche markets. The resulting product proliferation spread resources thin without strengthening competitive advantage. As the unit CEO reflected, their focus on offering a wide swath of products to achieve short-term revenue goals had put them in a weakened competitive position.

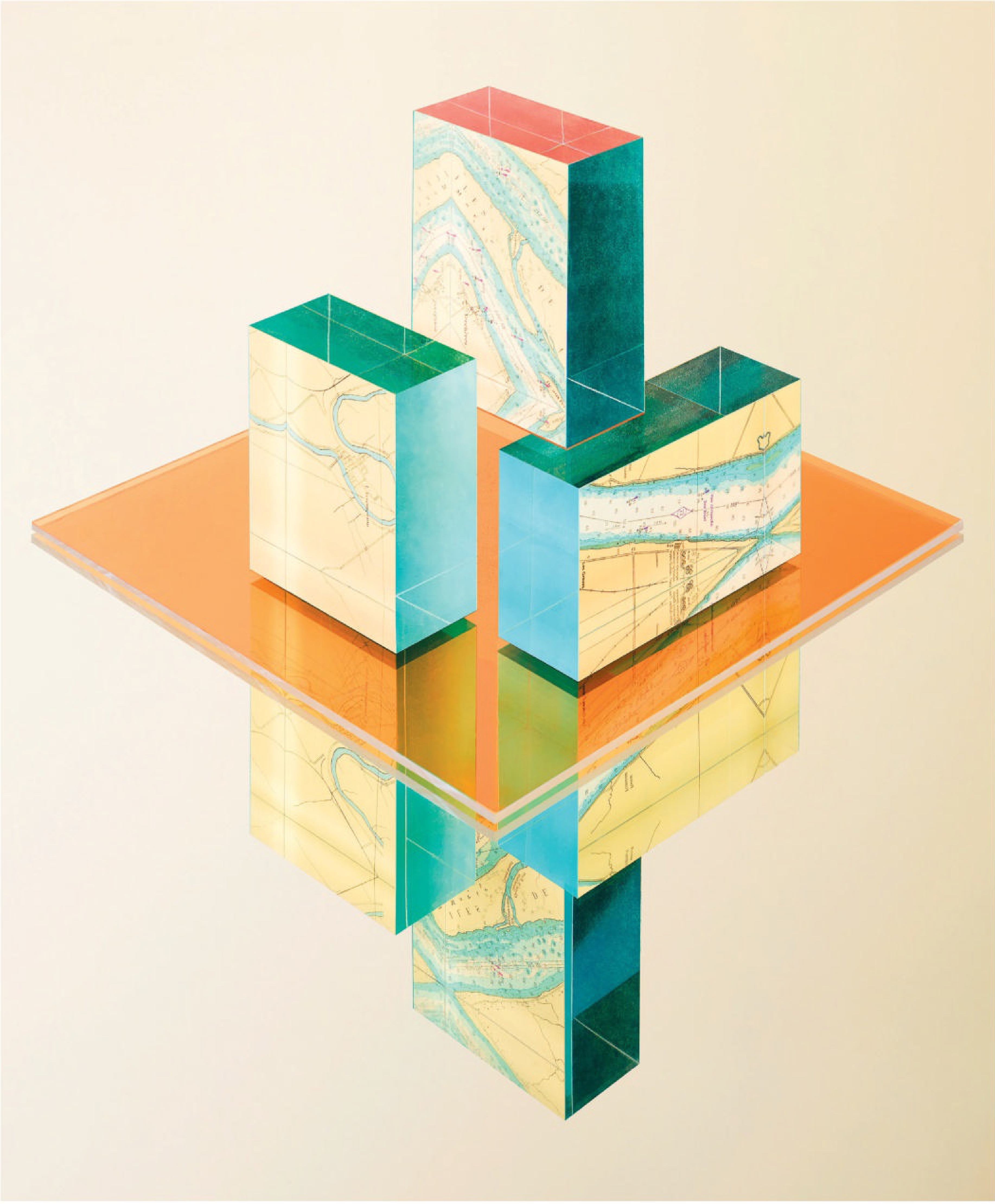
Not only did the innovation basket need to change but so did the unit's strategic goals and how it measured progress toward them. The team went back to the drawing board and embarked on a second cycle of discussions around goals and projects. A month later, the innovation basket was markedly different. The unit CEO requested that the group CEO give the unit three years to deliver a strategic change, during which time, instead of relying on the company's standard performance measures, it would track progress toward the innovation goals.

To help the unit get started, we conducted a basket-creation workshop based on the principles of design thinking, and the unit conducted three additional workshops

Understanding Strategy at Glass, Inc.

The unit started by asking four questions to clarify strategy and help set innovation goals. The answers to these questions revealed strengths and weaknesses. The weaknesses, or change needs, then became the unit's five innovation goals.





> Applying our basket analysis to the unit's innovation activities uncovered a disconnect between what the leaders thought they were doing and what was actually happening.

on its own. We asked each participant to write down three innovative ideas that would strengthen the unit's strategic position, which were then discussed, evaluated, and refined in groups of four or five people. Each group presented its three best ideas to the whole workshop, and an idea bank was created.

After much discussion, workshop participants recommended reducing their product lines from four to two, discontinuing 13 of the 33 projects in process, and creating three new projects (two of them from the idea bank). In order to ensure implementation, they created four product-development task forces and gave them each a significant budget. Each task force developed a product that it believed had a potential competitive advantage and had one of the four vice presidents as its chairperson.

The realization that Glass, Inc.'s optical devices division was working on too many unproductive niche products in response to an overly narrow performance metric enabled the group to focus on a smaller number of products with higher potential. Indeed, with more-competitive products, cost-reduction innovations became less urgent and were reduced, while functionality improvements of existing products, technology investments, and service development were increased. This resulted in a 19% decrease in the total innovation budget—from $42.2 million to $34.1 million.

It would be a mistake to conclude from this example that the primary value of the innovation basket is its ability to manage innovation more efficiently, though that may certainly be a bonus in some cases. Engaging with the basket-creation process can lead to a fundamental change in strategy. Let's look at a case in point.

STRATEGIC REINVENTION AT BAT

When the lead-acid (LA) battery unit of the battery company BAT (not its real name) used our process, it had a transformational impact on both competitive and organizational strategy. BAT saw considerable opportunities in the rise of renewable energy and had created a specialist unit for developing large lithium batteries to store energy produced by wind farms, solar arrays, and other renewable sources. But it still believed there was growth potential for the "old" lead-acid technology in car batteries, and it set an annual growth target of 30% for this market.

The LA battery unit's primary customers were automotive manufacturers (for new batteries) and dealers and repair shops (for after-sales replacement sales). As long as combustion-engine cars continued to be sold, BAT thought, lead-acid batteries would remain profitable. The LA unit had significant strengths: in particular, low-cost and high-quality products, a wide product range, effective service processes, and competitive product features. It also had a relatively large innovation budget for its size; it invested roughly $20 million annually in approximately 40 projects. But generating growth at the targeted level would require winning new customers, which meant developing new products with novel features and premium product performance. The unit needed to identify which projects to double down on.

When we worked with the unit's top managers to apply our basket analysis to its innovation activities, we uncovered a disconnect between what the leaders thought they were doing and what was actually happening. They thought their innovation projects were focusing on new-product development and significant feature upgrades as a means to drive new growth. But in the unit CEO's words: "To our dismay, the innovation basket showed us that we were spending an excessive share of our innovation budget on cost and quality." The team had been drawn to low-risk projects, in part because the company used quantitative (NPV-related) criteria to choose projects. As a result, new proposals had "drifted toward conservativism," the CEO told us.

The unit managers held two rounds of discussions to identify potential LA opportunities from industry trends and analyses of customer demand. They identified just one: developing extremely compact LA batteries with a slightly lower charge capacity, which would marginally reduce the costs of producing traditional cars. This led to an epiphany: Focusing on LA technologies could not generate sufficient growth in the automotive battery market. Even for combustion-engine cars, LA batteries would gradually give way to denser low-voltage lithium batteries. Moreover, electric vehicles used, in addition to their high-voltage power packs, low-voltage auxiliary batteries that required lithium.

The management team decided it was finally time to consider switching technologies and organized a task force to develop new lithium batteries for the low-voltage car accessories network. The unit did not have to develop the technology from scratch; it could build on the power packs in the lithium battery business unit and in collaboration with a university partner, modifying the technology from high to low voltage and building capability in the new technology in the process. From a company perspective, this decision made sense: The existing lithium unit did not have access to carmakers and dealers, and it was easier for the LA unit to adapt the technology to customer needs than for the lithium unit to develop an understanding of the market needs. This represented a major departure from the business unit's original strategy, and it enhanced collaboration across units.

After four months of work, BAT had a significantly changed innovation basket. Cost reductions and quality improvements remained important and were strengthened. However, management's decision to pursue the large growth opportunity in lithium auxiliary batteries resulted in the doubling of the innovation budget to $40.6 million, with a $20 million investment in an R&D project to develop lithium starter batteries in collaboration with an external research institute and the BAT lithium unit.

As this case illustrates, explicitly exploring the links between a company's strategy and its innovation investments can be transformational. The process helped BAT reposition itself to take advantage of strategic changes in its markets, resulting in a major new investment in a project that straddled traditional boundaries.

A CULTURE SHIFT

The process we've explained in this article won't always feel comfortable for managers. In the idea-generation workshops and during strategy discussions, people must feel safe to comment outside their area of expertise and to engage their colleagues—even those above them in the hierarchy—in constructive debate. C-suite executives must be willing to be challenged by colleagues. Not all management teams are prepared to do this.

Functional departments, which often enjoy relative autonomy if they meet their KPI targets, will also experience a culture shift. For the basket process to fulfill its potential, each functional unit must be ready to negotiate its priorities more explicitly with colleagues in other functions. Marketing must negotiate with R&D, and both with manufacturing and service groups. The behaviors necessary for such negotiations cannot simply be mandated; they must be learned.

A more general challenge is that managers tend to favor decide-then-act processes, a bias that was present at both our case examples. Once leaders reach a decision and set a progress goal for employees, they move on and stop paying attention to what's been decided. But for our process to work, top management cannot do that. Reducing the connection between a company's strategy and its innovation activities to KPIs hamstrings the organization's ability to respond and change.

It has long been said that action comes not from rational deliberation but from emotional engagement, and we see this time and again in our work. The alignment of the change goals to the strategy that the managers have embraced triggers a sense of urgency, and the bottom-up creative involvement sparks enthusiasm and positive energy. Used in this way, our innovation project-alignment process does not merely help decision-making, it fosters motivation and a readiness to act.

THE EXAMPLES WE'VE discussed demonstrate how the innovation basket process not only helps managers implement strategy but also helps them shape it. It gives them a window into what their innovation activities are really doing for their strategy. The generic risk-reward criteria of traditional portfolio approaches are unlikely to generate much insight, and therefore do not stimulate the type of discussion top managers need to have. Ask yourself: Do you really know how well your innovation investments are aligned with your strategy?

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The former CEO of Chinese new energy companies Linuo Power Group Co., Huanyu Power, and Hanergy Thin Film Power, **HAIJIAN SI** *is a doctoral candidate at the University of Cambridge's Judge Business School.* **CHRISTOPH LOCH** *is a professor and the former director (dean) of the Judge Business School.* **STELIOS KAVADIAS** *is the Margaret Thatcher Professor of Enterprise Studies in Innovation and Growth at the Judge Business School and the director of its Entrepreneurship Centre.*

AI & MACHINE LEARNING

AUTHORS

Gizem Yalcin
Assistant professor, McCombs School of Business

Stefano Puntoni
Professor, The Wharton School

ILLUSTRATOR
ANNA PARINI

How AI Affects Our Sense of Self

And why it matters for business

IDEA IN BRIEF

THE CHALLENGE

Now that people are interacting meaningfully with AI and automated technologies, it's time to switch our focus from what we think about these technologies to how they make us feel about ourselves.

WHY IT MATTERS

Those feelings can affect a variety of business success factors, including sales, customer loyalty, word-of-mouth referrals, employee satisfaction, and work performance.

THE NEW MINDSET

To make the most of AI and automation, companies will need to design processes, products, and communications that strategically take into account how these new technologies affect the self-image of customers and employees alike.

If you ever took a marketing course, you may remember the famous case from the 1950s about General Mills' launch of Betty Crocker cake mixes, which called for simply adding water, mixing, and baking.

Study participants whose requests were granted by a person felt more joy than did those whose requests were granted by AI, even though the outcome was identical.

Despite the product's excellent performance, sales were initially disappointing. That was puzzling until managers figured out the problem: The mix made baking too easy, and buyers felt they were somehow cheating when they used it. On the basis of that insight, the company removed egg powder from the ingredients and asked customers to crack an egg and beat it into the mix. That small change made those bakers feel better about themselves and so boosted sales. Today, 70 years later, most cake mixes still require users to add an egg.

We can take a lesson from that story today. As companies increasingly embrace automated products and services, they need to understand how those things make their customers feel about themselves. To date, however, managers and academics have usually focused on something quite different: understanding what customers *think* about those things. Researchers have been studying, for example, whether people prefer artificial intelligence over humans (they don't), how moral or fair AI is perceived to be (not very), and the tasks for which people are likely to resist the adoption of automation (those that are less quantifiable and more open to interpretation).

All that is important to consider. But now that people are starting to interact frequently and meaningfully with AI and automated technologies, both at and outside work, it's time to focus on the emotions those technologies evoke. That subject is psychological terra incognita, and exploring it will be critical for businesses, because it affects a wide range of success factors, including sales, customer loyalty, word-of-mouth referrals, employee satisfaction, and work performance.

We have been studying people's reactions to autonomous technology and the psychological barriers to adopting it for more than seven years. In this article, drawing on recent research from our lab and reviewing real-life examples, we look at the psychological effects we've observed in three areas that have important ramifications for managerial decision-making: (1) services and business-process design, (2) product design, and (3) communication. After surveying the research and examples, we offer some practical guidance for how best to use AI-driven and automated technologies to serve customers, support employees, and advance the interests of organizations.

SERVICES AND BUSINESS-PROCESS DESIGN

Today AI and automated technologies are embedded in a wide range of services and business processes that directly or indirectly affect consumers and employees. Upstart, for example, uses AI to decide which applicants to lend to, and Monster and Unilever use it to assess job candidates' potential. GEICO's DriveEasy program uses it to evaluate customers' driving skills and determine car-insurance premiums, while IBM and Lattice help businesses adopt AI-based performance-feedback processes, which have an impact on promotion and layoff decisions.

Given this trend, we need to ask: How do people react to decisions and feedback from AI and automated technologies? And how can businesses best incorporate them into their services and business processes to maximize customer and employee satisfaction?

Let's start with the first question. Together with Sarah Lim of the University of Illinois Urbana-Champaign and Stijn M.J. van Osselaer of Cornell University, we've recently examined situations in which the applications that people made to companies (perhaps for a loan or some benefits) were either accepted or rejected. In 10 studies, which involved a total of more than 5,000 participants, we found that in the case of acceptance, they reacted differently to decisions made by AI than to those made by humans.

Their reactions were psychologically revealing: Study participants whose requests were granted by a person felt more joy than did those whose requests were granted by AI, even though the outcome was identical. Why? Because the latter felt reduced to a number and thought they couldn't take as much credit for their success. When their requests were turned down, however, participants felt the same way whether the rejection was by a person or by AI. In both cases, and to the same degree, they tended to blame the decision-maker for their failure rather than themselves.

The takeaway here is clear: People's feelings about themselves may differ depending on who or what evaluates them, and that has important consequences for business.

Consider the results of one of our studies, in which we asked people to imagine applying for a bank loan. Half the participants were told that a loan algorithm would evaluate their applications and the other half that a loan officer would evaluate them. Later half the participants in each group were told that their application had been approved and the other half that it had been denied.

Participants whose applications had been approved by an algorithm gave lower ratings to the bank and were less likely to recommend it to others than were people whose applications had been approved by a loan officer. But all the participants whose applications had been denied rated the bank similarly and felt the same degree of interest in recommending it to others.

We've observed this pattern in real-world contexts as well. For example, we asked workers who were part of an online labor platform to apply for membership on a select panel formed by a research company. Half were told that AI would evaluate their applications, and the other half that a human employee would do so. Those who won admission to the panel through AI evaluated the research company less positively than those who won admission through an employee, but everybody who was rejected felt the same way about the company.

In short, when delivering good news about decisions and evaluations, companies can generate more-positive reactions among customers and employees if they rely on humans rather than on AI—but that effect disappears when they deliver bad news.

Most of the experienced leaders and managers we've interviewed in our research seemed unaware of these effects. In a survey we found that almost none of them could foresee the actual results. Executives will need to understand people's probable reactions if they hope to effectively engage customers and employees with new AI and automated technologies.

Let's now turn to our second question: How can businesses integrate AI into their services and business processes to maximize customer and employee satisfaction? Our experimental findings offer some suggestions.

First, when AI or automated technologies are adopted for the purposes of evaluation and feedback, we recommend having some active human involvement in those processes and making that involvement clear to customers or employees. In one of our studies, we assessed how people rate a company when a human is only passively involved in evaluations (perhaps just monitoring algorithmic decisions). We compared that condition with one in which a human is in charge of the evaluation process and one in which just an algorithm is, and we found that participants reacted positively only when human involvement was active.

Second, we recommend that managers be selective about the degree to which they rely on their (expensive) human workforce for decision-making. Because people tend to react the same way to negative news, whether it comes from a person or from AI, companies may not need the "human touch" to deliver it—even though that contradicts traditional managerial thinking. They should, however, consider using humans as often as possible to deliver good news.

Another research project also throws light on when humans can most effectively be deployed in business processes. Stefano worked with Armin Granulo of the Technical University of Munich and Christoph Fuchs of the University of Vienna to study symbolic products and services, which offer consumers more than just instrumental functionality. Such products and services embody abstract concepts that convey something about personality, beliefs, social-group membership, class status, or other intangibles. A few examples are tattoos, fashion jewelry, and varsity jackets. It's important to remember, though, that a single product may have both physical and symbolic uses. Eyeglasses, for example, consist of lenses, which allow consumers to see (a physical use), and frames, which both hold the lenses in place (a physical use) and serve as a fashion accessory that may be central to self-expression (a symbolic use).

For that project—which consisted of four experiments using different product categories and involving more than 1,000 respondents—the authors compared consumers' attitudes toward symbolic products that had been made by either automated technologies or humans. What they consistently found was that human labor adds distinctive value to symbolic products. In one of the experiments participants revealed that they preferred eyeglass lenses made by automated technology—presumably for their machine-based precision—but frames made by humans. In another study participants were more likely to purchase a poster designed by a human than one designed by AI.

These findings lead us to a third recommendation, which is that companies should carefully consider why customers

Because people tend to react the same way to negative news, whether it comes from a person or from AI, companies may not need the "human touch" to deliver it.

are likely to buy their offerings—and whether they might add distinct value to the product by maintaining at least some human involvement in the production process, even if they intend to automate most of it.

PRODUCT DESIGN

AI technologies and advanced automated features are integrated in many products and are transforming how we accomplish a variety of tasks in our personal lives: iRobot's Roomba cleans your floors, Tesla's Autopilot lets you enjoy the ride, Jura's fully automatic coffee machine prepares your coffee from bean to cup and even cleans itself. Increasingly, too, people are working with AI-driven applications on the job. IBM's Watson teams up with employees at many companies on a wide range of business tasks, including financial estimates and the management of marketing communication strategies; Adobe's AI empowers designers and enhances their creative expression with Photoshop and other applications; and workers at Toyota operate highly automated tools and machinery. The recent advent of large language models and generative AI, such as OpenAI's DALL-E and ChatGPT, is likely to accelerate these trends. How will our interactions with all these automated technologies influence our sense of identity and accomplishment? And how will that influence the demand for products?

Our lab has explored how people react to automated products in the context of identity-based consumption, which helps people define who they are. Stefano worked on that project with Eugina Leung of Tulane University and Gabriele Paolacci of Erasmus University Rotterdam. In six studies and across various product categories, they found that people who identify with a particular activity, such as fishing, cooking, or driving, may experience automation as a threat to their identity, leading to reduced product adoption and lower product approval.

To learn more about this phenomenon, the authors conducted a study with Dutch participants and focused on cycling, an activity that is central to many Dutch people's sense of self. To temporarily make them identify even more strongly with cycling, half the participants were asked to write a short essay about the Dutch national passion for it, and the remaining half were asked to write an essay about the Dutch passion for flowers (the control condition). After that task they took part in an ostensibly unrelated study. The authors told them about a special offer from a bike shop and asked about their interest in adding a free automated feature to their own bikes: a rechargeable battery to assist with pedaling. Participants who had written about cycling were 20% less likely to accept the feature, even though it was free.

In another project, with the same team and Maria Cristina Cito of Bocconi University, the researchers examined a complementary issue: how people who are motivated by identity-relevant goals respond to companies' digitalization efforts. Across three main studies and five follow-up experiments, they found that symbolic products are adopted less often in digital form than they are in physical form. People simply can't express who they are as easily with digital products. Seeing the collected works of Shakespeare on your Kindle is not nearly as powerful a way of validating your literary identity as seeing that same collection on your living room bookshelf.

Findings from these two projects indicate that when people identify with a certain product category, or when products help them express their beliefs and personalities, they sometimes resist any technological enhancement of those products. When that's the case, what should businesses do?

First, we recommend that companies refrain from targeting identity-motivated consumers with fully automated products, and that when they do target such consumers, they focus on features or tasks that allow users to feel proud and involved. Consider the case of a bicycle-component manufacturer we worked with. Sometime earlier the company had introduced an expensive automatic gear-shifting device in the European market and had targeted cycling enthusiasts, who are more willing to pay for mechanical gadgets. But those consumers showed little interest in the device, because they felt that it would eliminate a central part of the cycling experience for them. If the company had marketed to commuters or casual bikers or had designed the feature in a way that gave riders a feeling of more control, it might have had greater success.

Second, we recommend that companies conduct market research to assess the extent to which automation risks triggering an identity threat.

> Many people's sense of self is rooted in their professional identity, and AI and automation can be perceived as undermining it.

COMMUNICATION

With the adoption of AI and automated technologies, as with so much else, communication matters. In our research we've discovered three important ways that companies can optimize their communication strategies to minimize the risk of resistance or backlash.

First, companies that use AI interfaces to communicate with customers or employees should consider humanizing those interfaces. This is particularly important, we've found, in business processes that involve evaluation and decision-making. In one of our studies we tested whether adding humanlike features to AI would lead people to internalize positive news and rate the company more favorably. When we gave the AI a name (Sam), added an avatar, and made its interaction with people more conversational, they responded much as they would to a human employee. For companies that cannot employ humans for various reasons—such as a high volume of requests, limitations on time, or computational restrictions—this finding suggests that simply humanizing their AI might mitigate less-positive reactions to feedback or news from it.

Consider the case of a fintech company we worked with, which relies on AI technology to evaluate users' financial health. In its interactive and fully automated process, users fill out a questionnaire, the AI evaluates their answers, and the system produces an assessment of their financial health. At that point users are encouraged to click on a link for information about the company's services. In an attempt to boost consumer interest in those services, the company, working on behalf of a major global bank, created a chat format in which the AI engaged users with emotionally expressive cues such as emojis. When users received positive feedback about their financial health from the humanized AI versus the standard display format, they were more likely to click on the link and seek more information.

Second, we recommend that businesses modify how they communicate with customers and employees about their automated products. As noted, when people identify with a certain domain or activity, they sometimes resist automation if they feel that they can't attribute outcomes to their own skill or effort. But what if companies describe automated features not as replacing people but as complementing their skills?

Part of Stefano's project with Leung and Paolacci tested whether people's reaction to an automated product can be changed if it's framed in those terms. The authors created two advertisements in which they described an automated cooking machine in different ways: One ad read that the appliance would handle all the cooking steps "at the touch of a button," and the other that it would guide the cooking process and prepare the meal with the help of the user. Participants were randomly given one of them. Although the ads were for the same product, the results revealed that framing does indeed matter: When the appliance was described as allowing people to at least partly use their skills, identity-motivated consumers had more-positive attitudes toward it.

Although our studies were conducted primarily in the context of consumption activities, identity-related motivation is often important in the workplace as well. Many people's sense of self is rooted in their professional identity, and AI and automation can be perceived as undermining that identity if they threaten to devalue skills, expertise, or status. Internal communication about their complementary potential will be crucial if companies hope to deploy them at scale.

AUTOMATED TECHNOLOGIES ARE changing not only product and labor markets but also how the people using those technologies feel about themselves. Increasingly, companies will need to overcome psychological barriers by strategically designing their business processes and products to take human feelings into account and by employing well-thought-out communication strategies. In some cases automation may introduce the risk of reduced employee commitment or customer satisfaction, and companies will need to weigh its benefits against that risk. In such situations the appropriate question when considering a move to AI and automation is not "Can we?" but "Should we?"

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GIZEM YALCIN, *an assistant professor of marketing at the McCombs School of Business, University of Texas at Austin, focuses on how AI and automation are changing the way consumers behave and feel about themselves, companies, and others.* **STEFANO PUNTONI,** *the Sebastian S. Kresge Professor of Marketing at The Wharton School and a codirector of the Wharton Impact of Technology Initiative, investigates how AI and automation are changing consumption and society.*


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MANAGING YOURSELF

How to Shine When You're Put on the Spot

A guide to spontaneous communication

by Matt Abrahams

IN 2017 A tech-company product manager—let's call him Gabe—experienced a career surge that was both thrilling and stressful. His software started selling rapidly, causing his business unit to expand significantly. Instead of managing a small team, he now led hundreds of employees. But he was uncomfortable with the increased visibility and performative demands of the job. Not only was he expected to deliver several presentations to large audiences each year, but he constantly had to speak informally to a diverse group of customers, prospects, partners, and top leaders at meetings and events.

Though Gabe managed to improve his delivery of planned remarks and product demos with coaching and practice, he still struggled with the impromptu talks his new role required,

Illustrations by **GRACIA LAM**

> Research shows that the fear of public speaking is common—scaring many of us even more than do heights, bugs, snakes, or flying.

and he began to lose sleep worrying about them. He knew he was expected to speak fluently and intelligently off the cuff, but he didn't feel equipped to do so.

You may recognize yourself in Gabe's story. Research shows that the fear of public speaking is common—scaring many of us even more than do heights, bugs, snakes, or flying. However, although most of us work hard to shine at the presentations and speeches we can prepare for, we pay less attention to the equally daunting—and more common—challenge of spontaneous communication, which can have an even bigger impact on career success.

Whether you have to answer a probing question from a boss or a customer, must unexpectedly deliver a toast or an introduction, want to give in-the-moment feedback to a colleague, or need to socialize at an informal gathering, you must learn not only to survive the situation but to seize it as an opportunity to excel, impress others, and make progress toward your goals.

Fortunately, as I've seen in my two decades of working with corporate clients and MBA students, anyone can become good at spontaneous speaking. Contrary to popular assumptions, you don't need to be extroverted or inherently charming to communicate effectively when put on the spot. You just need to learn specific skills, tactics, and behaviors. Here are a few pointers.

AVOID THE DEFAULT RESPONSE

One surefire way to do poorly with your audience—or to make no impression at all—is to fall back on conventional responses when speaking off the cuff. For example, when the CEO passes you in the hall and asks, "How are you?" do you say, "Good, thanks" or use the opportunity to make a memorable comment? When a colleague tells you that a customer meeting went poorly, do you reply, "It is what it is" or offer a helpful suggestion? When you're asked to make a public introduction, do you simply tick off the roles on the person's résumé or tell a story about how that individual added value to the team?

Although standard responses may save you from the awkwardness of trying to think of something meaningful to say, they prevent you from connecting with others in ways that might be more genuine, appropriate, creative, and productive. A better approach is to invoke analogies or shared references that can help you engage your listeners.

I once worked with Catherine, a senior VP of sales, who at company dinners was often asked either to pay tribute to a team member or to introduce a new hire. She had developed a way of handling this task in less than a minute: give the person's name and title, say a quick word about what he or she did and how it would benefit the organization, and wish the person well.

This approach was organized and concise, but it was also impersonal, overly formal, and not memorable. Catherine and I worked together to open up her spontaneous speaking while keeping it structured. We introduced a few new elements: Start with a timely reference chosen on the spot or just before the event—something in the news, perhaps, or a corporate occasion that everyone had previously attended—to bring her audience together. Then elaborate a bit on the person's impact by connecting it to something in her own career or telling a story. For example: "I'm so excited about Sarah's new sales initiative. It reminds me of what we did when I first started at the organization, 10 years ago. I think we're going to be extremely successful with it."

This allowed Catherine to forge stronger bonds with her colleagues while being more memorable. Many started thanking her for her remarks—often days or weeks after she'd given them.

BUT KNOW THAT LESS IS MORE

As you work to keep from being brief and sterile in your spontaneous speaking, take care not to swing too far in the opposite direction. For many people, the desire to sound intelligent and avoid awkward silences often leads to verbosity. They forget that, as Shakespeare put it, "brevity is the soul of wit."

To find the right balance, begin by quickly identifying a communication goal (changing minds, prompting action, building rapport) and then consider what your listeners already know about your topic. Having a clear goal paired with an awareness of your audience will narrow your focus, so you can prioritize what to say and choose your exact words more wisely.

Next challenge yourself to deliver your message as concisely but effectively as possible. After you've tried to get your initial point across, pause before adding a story or an idea. Ask yourself, *Have I made my point? Can I end now?*

To be sure, you can take brevity too far—leaving concepts or arguments ill-defined and omitting jokes, stories, or illustrations that might keep the audience engaged. The best way to find the communication sweet spot is to review what you've done in the past. If someone has recorded your impromptu remarks, watch the video, listen to the audio, or read the transcript to see what you could have left out (or added). If there's no record of what you said, try to remember it and consider where you might have been more concise. Ask for feedback from the people you were talking to. Try looking at your text, email, or Slack messages to see whether you tend to be too loquacious (or too terse) and adjust accordingly.

Another client of mine, Devin, was told by his boss that his answers during the Q&A portions of virtual town-hall meetings tended to run long. When we watched the recordings, we noticed that he often began a response by restating the question, which the audience had already heard. He also used a lot of corporate jargon and repeated key points a few times in slightly different ways. Devin worked on changing this, practicing with sample questions generated by an AI chatbot and recording his answers. He was soon able to reduce their length by 25% or 30% without sacrificing the quality and usefulness of his responses.

DARE TO BE DULL

A big part of why impromptu speaking feels so challenging is the desire to always say the right thing in the right way at the right time. But that just leads to excessive self-evaluation and criticism, consuming precious mental energy, adding stress, and preventing you from dynamically, fluidly, and authentically engaging in the moment.

Instead recognize that there is no single "correct" way to answer a question, give feedback, welcome a colleague, or raise a toast—only better or worse approaches. Don't worry about wowing others, because demonstrations of competence and authenticity are impressive in themselves. I often advise people to follow an improv comedy maxim: "Dare to be dull." That is, don't feel you need to give a standout performance. Just as the best comedy comes from truth, the best communication comes from being real.

Another popular directive also applies here: "Don't let the perfect be the enemy of the good." Listeners are more apt to trust and approve of you when you speak like a human being rather than an actor or a robot. For example, research shows that the most effective speech includes moderate use of fillers such as "um" and "ah." So when you need to speak spontaneously, tell your inner critic to stand down. Refocus your attention on your listeners. Attempting to serve their needs will take your mental spotlight off yourself, relieving some of the pressure you feel. Allow yourself to experiment, make mistakes, and learn during spontaneous interactions. Avoid trying to memorize or stockpile explanations or responses you think you might need. That will only increase your chances of stumbling when you forget or are forced off the script.

Micah, a student of mine, was fearful that his class contributions would be seen as inadequate or silly. To avoid embarrassment, he planned and rehearsed the points he wanted to make. But because he was always working to remember them and find the right time to use them, he was preoccupied and failed to get the most out of discussions. With my help he focused on relaxing and silencing his inner critic. He began offering more ideas, sometimes imperfectly formed, and in just a few weeks he became less anxious and more confident. He—and the rest of the

class—appreciated the dialogue that his contributions helped spark.

LISTEN AS WELL AS YOU TALK

Most people obsess over what to say during impromptu encounters. You should do the opposite: focus on *listening* so that you can better understand the in-the-moment needs and interests of your conversation partners and respond more effectively.

I recommend considering "space, pace, and grace," which I heard about from my Stanford colleague Collins Dobbs on my podcast *Think Fast, Talk Smart*. First, allow yourself space to process the information. Paraphrasing or asking open-ended follow-up questions can help confirm your understanding and provide extra time to think about your response.

Second, slow down and focus on being present. Maintain eye contact and observe nonverbal cues as well as spoken words. (Does your colleague constantly look at his watch? Does her vocal inflection match her expressed emotions?)

Third, be aware of and sensitive to how others are presenting themselves and in what context. Assume positive intent and demonstrate compassion. The tone of a high-stakes leadership meeting will differ from that of a routine virtual update. Listen not only to other people but also to your inner voice, which will guide you in communicating empathetically and making necessary adjustments as you go. By heightening your situational and interpersonal awareness, you can better understand the reactions of others, read between the lines, and be more gracious in your responses.

Gabe practiced those techniques—and it paid off. At one point, when his team merged with another, he had to help orient several new managers and address their questions and concerns on the spot. One of them asked how quickly he was planning to release a particular product. Listening closely to what was said and how it was said, Gabe realized that the timeline was of less concern to the manager than job security: That manager and others joining the team had been working exclusively on the product and were worried that they'd be out of a job after it launched. So when Gabe answered, he also detailed the new offerings those folks would work on next, putting everyone at ease.

ORGANIZE YOUR THOUGHTS

When making formal presentations, most people give them a nice, logical structure that audience members can easily follow. But few of us adequately organize our thoughts in impromptu situations. We may presume that it's impossible to do so on the fly. Or perhaps we think that too much structure will make us seem stilted—the opposite of spontaneous. But how often have you encountered people whose meandering, hard-to-follow answers made you look longingly at the exit?

The best speakers maintain audience interest by demonstrating connections among specific points, ideas, or examples. Adhering to a structure enhances comprehension, emotional engagement, and retention. It can sharpen your thinking by forcing you to stay focused on essential points only.

Some people equate structured thoughts with lists. Lists can be boring or confusing. Consider crafting a story with a beginning, a middle, and an end in which ideas are logically and naturally linked. Having a few simple frameworks ready can help in any spontaneous situation. (See the sidebar "Structure in Action.") One of my favorites is useful in so many situations

Structure in Action

Here are four spontaneous speaking situations you might encounter, along with structures you can use for each. These aren't the only ways to frame strong impromptu responses, but they provide a starting point.

Pitching an idea or a product

STRUCTURE: *Problem, solution, benefit*

First discuss a challenge, a pain point, or an issue. Then present a product, an offering, an idea, or an action that would solve the problem. Conclude by describing the relevant advantages that would ensue.

EXAMPLE: You're trying to gain support for a new customer resource management (CRM) system.

→ *"Product satisfaction is slipping because of our inability to quickly track and deal with complaints and product requests from customers, partners, and our field staff. A CRM system would let us easily view the status of any issue raised and route it to the appropriate team. That should cut our response time in half while also helping us prioritize future fixes."*

Responding to someone who seeks your opinion on the spot

STRUCTURE: *Comparison, contrast, conclusion*

First articulate how the ideas, approaches, products, or arguments involved are similar. Next discuss how they differ. Then come to a conclusion and provide a rationale.

EXAMPLE: You're offering an opinion on two proposals for building the customer base.

→ *"Bob and Tina's proposals both focus on building market share by targeting untapped groups via a phone app. Tina wants us to go after college students and people new to the workforce; Bob wants us to market to affinity groups. Either approach will win customers, but I favor Tina's strategy, for two reasons: It's easier to target college students and new employees, and they're likely to be more tech-savvy and open to using an app."*

Answering questions

STRUCTURE: *Answer, detailed example, relevance*

First answer the question clearly and simply, preferably in one sentence. Next offer an illustration or an example that supports your answer. Then describe your answer's relevance to your listeners or its benefits if they adopt it.

EXAMPLE: You're interviewing for a senior leadership position in the digital media industry, and the owner of the company asks you to describe your vision for it.

→ *"I believe that your success hinges on releasing your current media assets as short-form videos. When I was at Company XYZ, we migrated our content to short-form video over a three-year period and doubled our market share. On the basis of what I learned in my previous job, I think you could double your market share within 18 months."*

Making conversation

STRUCTURE: *What? So what? Now what?*

First ask people what they think of the situation you are in or ask them to identify something that interests them. Next ask why they responded as they did. Finally, ask what will follow as a result.

EXAMPLE: As your kid's first soccer game wraps up, you chat with another parent on the sidelines about what just transpired.

→ *"How do you think I should help my kid get over the mistake he made during the game?" [The other parent responds with advice.] "Has that worked for you in the past?" [The other parent describes the positive results.] "When do you suggest I have a talk with my son?"*

that I call it the "Swiss army knife" of frameworks. It has three parts: *What? So what?* and *Now what?* First introduce an argument, a product, an idea, or a point of view. Then explain how it is relevant to your audience. Finally, convey the next steps, such as potential actions, applications of new knowledge, or future plans.

Maya, the organizer of a large virtual meeting, employed that structure when one of the speakers, who was slated to give an update on a new product, didn't show up at the last minute. Rather than postpone the update, Maya decided she was familiar enough with the product to talk about its features, explain its benefits to prospects and customers, and describe the launch plan. Executives at her company later made a point of complimenting her on her presentation, having no idea that it had been framed on the spot.

THE REAL PROBLEM we face when speaking spontaneously isn't an inherent inability to communicate. It's being so nervous that we strive for perfection or use default responses, talk too much without listening or observing, and fail to create structure around what we're saying. But there's no need to shrink back in fear when you're put on the spot. A measure of experimentation, thought, and practice can make impromptu speaking opportunities your time to shine. As you learn to think faster and talk smarter, your authentic personality can fully emerge. The result will be a more enjoyable, enriching, and memorable experience—for you as well as for your audience.

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MATT ABRAHAMS *is a lecturer in organizational behavior at Stanford Graduate School of Business. He hosts* Think Fast, Talk Smart: The Podcast *and is the author of* Think Faster, Talk Smarter: How to Speak Successfully When You're Put on the Spot.

Case Study

When the CEO Dies, What Comes First: His Company or His Family?

by C. Maria Rex Sugirtha

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the Xavier Institute of Business Administration Case Study "The Turnaround of Café Coffee Day," by C. Maria Rex Sugirtha, which is available on SSRN.com.

IN THE BOARDROOM, Priya Gowda greeted four men in suits—the creditors of her husband, Partha, who had died suddenly of a heart attack 10 days earlier. She felt numb and exhausted—but also strangely reassured by the setting. The past week[1] had been spent dealing with the funeral home, lawyers, the media, and grieving family members. She had barely slept or eaten. But here, in the headquarters of Splendid Ice Cream, the business she'd watched Partha build from a small dairy farm into a major Indian conglomerate, she felt his energy animating her.

As sole heir to his majority stake in the private company, Priya was now its de facto CEO and chairperson, responsible for a diverse portfolio that included hotels, real estate, and venture capital investments as well as dairies and ice-cream shops. However, she'd learned only the day before from Splendid's lead accountant that the company was in a precarious financial position owing to huge debts her late husband had hidden from his investors and from her. Over the past year he'd been taking out short-term, high-interest loans in the form of debentures to pay off

Illustrations by **ANUJ SHRESTHA**

long-term debt. Stress over the firm's finances had contributed to his death, she suspected.

"Thank you all for coming today," Priya ventured cautiously.

"I wish we were visiting under different circumstances," replied Vijay Gupta, the president of a local bank. "We were all shocked by Mr. Gowda's death.[2] He was a visionary entrepreneur. He was also our friend and partner. But he left behind a lot of debt, which is why we're here today."

Priya opened the document the creditors had prepared. She had seen the figures the day before, but they were still shocking. While Splendid's core ice-cream business had been growing steadily and profitably, thanks to young urban Indian consumers with global tastes and disposable income, the broader company now encompassed more than 40 subsidiaries, many of which were in the red. Partha had clearly been trying to channel funds from his cash cow into unrelated ventures, but he'd taken on excess leverage, and the company now faced a liquidity crisis and was struggling to find the money to cover high interest payments, taxes, and legal fees. It had a net debt to EBITDA ratio of seven—well above the four considered a threshold for concern. And loans worth more than 40 million rupees would soon come due.

"Priya, I'm sorry to be the one to tell you this, but we must face the music," Vijay said. "You need to find new sources of capital, sell Splendid to a buyer willing to take on the debt, or liquidate the business."

Coming into the meeting, Priya hadn't been sure what she wanted to do. So it surprised her when she blurted out, "No. I'm not willing to give up my husband's legacy. I can save this company. If you push me to liquidate it, you'll get pennies on the dollar. Give me time, and I'll pay off 85% of the debt. All I ask is that you freeze interest payments for 24 months."

Vijay leaned back. "Would you give us a few moments?" he asked. Priya nodded but didn't budge. This was Splendid's boardroom—she had no intention of vacating it. Vijay smiled and signaled to the other executives that they should leave the room with him. A few moments later the group returned. "We agree in principle," said Vijay. "We just ask to see your plan in writing and that you keep us regularly updated on your progress."

After showing the men out, Priya sat down at the conference table. She felt a steely resolve building inside her. Opening her laptop, she began typing her first memo to Splendid's 25,000 employees as their leader.[3] "Dear colleagues," she wrote. "Splendid has a legacy worth preserving…."

THE FAMILY'S PLEA

After all the heartache, today was to be a happy day. Three months after Partha's death, his and Priya's younger daughter, Anjali, was getting married. As Priya and her older daughter, Garima, watched, Anjali sat on the hotel bed while a makeup artist attended to her Solah Shringar, the Indian beautification ritual.

When a mobile ringtone sounded, the sisters looked up in alarm. "Ah, this is our PR firm," Priya said. "It's about that article on our turnaround in *Business Today*. I know I said no work today, but I really should take this, since it will go to press tomorrow, and I need to make sure they have all the facts straight. It will just take a min—"

Suddenly, Anjali stood, tears welling up in her eyes. "Garima, please take the phone from Mom."

Case Study Classroom Notes

1. Some argue that demands on grieving workers are unrealistic and that firms don't make enough allowances for mourning. In 2016, for example, U.S. employees received, on average, four days of bereavement leave.

2. Grief.com's David Kessler says to avoid these phrases with colleagues who have lost loved ones: "She lived a long life." "I know how you feel." "Aren't you over him yet? He's been dead a while." "You can still have another child/remarry." "Be strong."

3. While 20% of all businesses in India are owned by women, they are overwhelmingly single-person enterprises, and many are in fact controlled by men.

Her sister sighed, reached over, and hit dismiss on the screen.

Confused, Priya looked back and forth between them. Now Anjali was crying.

"Mom, I've hardly seen you for months. I know how much you want to save Splendid—and dad's legacy. But it's all you've thought or talked about since he passed. You're running yourself ragged. Today is my wedding day, so for once could we focus on something other than the company?"

Priya felt herself stiffen. "I'm just trying to keep the business going, to honor your father…"

"We know, Mom," Garima chimed in, with more melancholy than anger. "But Anjali is right. And liquidating the business would give you more than enough to retire and even an inheritance to pass on to us and your grandkids[4] one day." Garima had two sons in preschool, and Anjali had long joked that she planned to get pregnant on her honeymoon. "There's no guarantee that you can rescue Splendid, and if you do, it will take years and years," Garima continued. "Do you really want to spend your sixties in business meetings instead of with family and friends?[5] How much have you seen your grandsons lately? Have you done any walking with your neighborhood ladies? Are you sleeping at all? We're worried about your health. And we can't lose another parent." Now tears dripped down her face, too.

"You're not going to lose me," Priya said, pulling both daughters into a hug. "Don't cry, my sweeties. You're right that the business can and should wait for today—and other days, too. I'll try to be less single-minded going forward. But don't discount your old mom, either. I'm tougher than you think." She untangled one arm and flexed it like a bodybuilder to get Anjali and Garima to smile. When they did, she patted them each on the back. "OK, now. Let's not keep our guests and the groom waiting!"

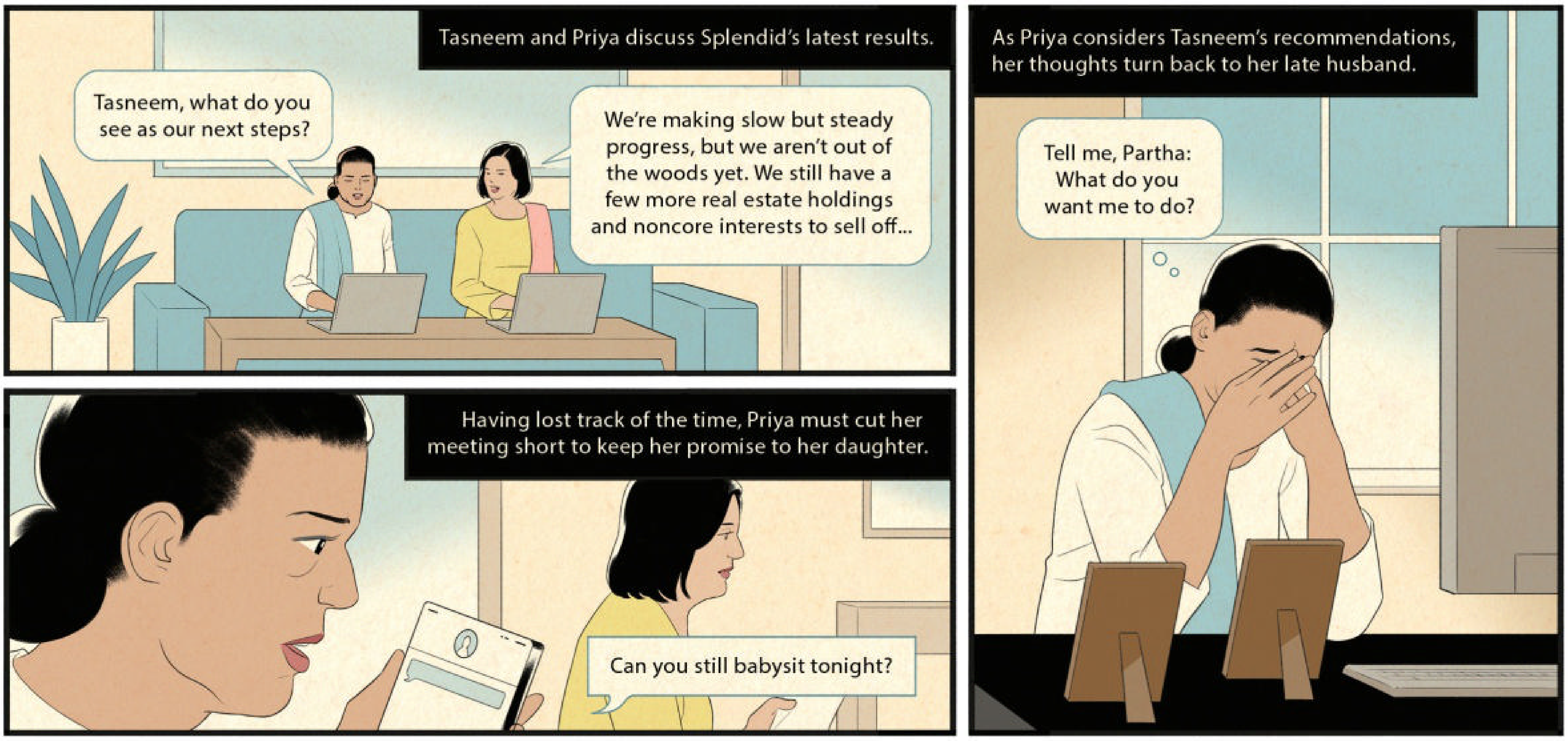
THE COO'S UPDATE

Priya sat in her office and looked at the financial documents in front of her. In her 40-year marriage to Partha, the pattern had always been the same. He would charm everyone he met and regularly bring new friends home for dinner, staying up into the small hours of the morning eating, drinking, and laughing with them. Then, when they were gone and Partha slept, Priya and her household staff would do the cleaning up.

And now it seemed he had left her another mess to deal with at Splendid. So what was driving

4. *At what point is it irresponsible to continue a doomed business? Should an entrepreneur always fight to keep a business alive?*

5. *In 2012, an Australian palliative care nurse published a book about the five most common regrets her patients expressed at the end of their lives. In the top five was "I wish I hadn't worked so hard."*



her to mop it up? Love for her husband? Marital duty? Resentment? The need to tie things off and move on from him?

She heard a knock at the door. It was Tasneem Rangwala, Splendid's long-standing COO,[6] who had been increasingly sidelined in the last few years of Partha's tenure—something that should have been a warning sign to Priya and the board. Talented and honest, Tasneem wouldn't have signed off on the high-interest debt.

Now, however, she was Priya's right-hand woman, having helped articulate the turnaround vision and begun to execute on it with enthusiasm. The duo had worked tirelessly to sell off noncore assets, cut costs, renegotiate debt, and streamline operations while also trying to reinvigorate the company's core business by opening new stores, replacing displays, and launching a campaign to reaffirm Splendid's position as India's favorite ice-cream brand. Tasneem had also brought some new ideas to the table, such as diversifying into cold chain logistics—the transport of temperature-sensitive products—which could not only create a new revenue stream for Splendid but also help solve India's food waste problem.

"Is now still a good time to discuss the latest financial statements?" Tasneem asked.

"Of course," Priya said. "Let's sit together on the sofa."

Tasneem opened her laptop and pulled up a spreadsheet. There was some good news. The net debt to EBITDA ratio had dropped from seven to five. Revenue had increased by 8%. Customer satisfaction had improved by 20%. However, the company's operating margin had decreased by 2% because of higher costs associated with the turnaround, and cash reserves were dwindling.

Priya sighed, thinking back to Garima's questions about how long it would take to turn around Splendid—and if it could even be saved. "Tasneem, what do you see as our next steps?"

"I think we're making slow but steady progress, so we should keep on our path. We still have a few more real estate holdings and noncore interests to sell off—we just need to wait for the right buyers. We can set up meetings with the bankers to walk them through our thinking, and I think they'll see that we're nearly on track to meet your 85%-in-two-years promise. In the meantime I wonder whether it's time for us to work up a pitch deck for the cold chain idea,[7] organize a road show, and drum up some fresh capital."

Priya's phone dinged with a text message. It was Garima.

6. *In 2000, 48% of S&P 500 companies had a COO; by 2018 only 32% did. But COOs are making a comeback. As of 2022, 40% of leading companies had one, and the role has become bigger and more transformative, according to McKinsey.*

7. *Should a struggling business continue to try to innovate and invest in R&D?*

“Can you still babysit tonight? We need to leave for our dinner in a half hour.”

Priya looked at her watch and felt a surge of guilt. She’d lost track of time and would have to leave within the next 10 minutes to get to her daughter’s house when she’d promised to. “On my way!” she texted back.

“Tasneem, I’m so sorry. Can we pick this up tomorrow?”

“Sure,” the COO responded. “Shall I go ahead and set up a meeting with Vijay for later this week? And with the REIT that was interested in acquiring the technology park? And start putting together that pitch deck?”

Priya felt a wave of exhaustion wash over her but mustered a smile as she responded, “Yes, please do. Thank you.”

After the COO left, Priya hastily gathered her things from her desk but then found herself pausing to stare at a framed picture of Partha. She realized she hadn’t wept since he’d died—not even tears of joy at Anjali’s wedding.

“I’m still mad at you, but I love you and miss you,” she said to the photo, a sob catching in her throat. “So tell me, Partha: What do you want me to do?”

C. MARIA REX SUGIRTHA *is an assistant professor of finance and HR at Xavier Institute of Business Administration (XIBA), St. Xavier’s College (Autonomous), in Tirunelveli, India.*

Should Priya try to save Splendid, let it go, or find a third way? The experts respond.

CHARLES READ *is the president and CEO of GetPayroll.*

Priya faces a hard choice: liquidate or sell the firm, which could make her relatively wealthy, or strive to save it and upset her daughters.

Liquidation seems like the easy choice, but it would have its own set of repercussions. In India bankruptcy has a significant social stigma and often leads to personal and professional ostracism. But more than that, I sense that saving the company is Priya’s true calling. Too often talented women opt out of leadership roles because of family responsibilities or societal expectations. If Priya steps away from the company, it will be a loss not only for her personally but also for the business world.

That isn’t to say her journey will be easy. I’ve faced the profound grief of surviving the loss of both my wife and my daughter while running a company. I also know the stress of managing a cash-strapped business. Navigating all that at once requires immense strength and resilience. I cannot emphasize enough the importance of self-care in this context. For instance, I know from my own experience that Priya is likely to find dates like Partha’s birthday and their wedding anniversary overwhelming, so it might be best to avoid being in the office on such days. The good news is that it does get easier. The sun continues to rise. Life overtakes mourning.

In addition, as a widow Priya might be able to open hearts and doors for Splendid that would otherwise be closed. Her creditors are human and not impervious to her situation. Their sympathy could translate into increased patience, giving her an advantage in the quest to save the company. Priya should set up regular meetings or calls with them—perhaps weekly or monthly. You want to overcommunicate with creditors; never hide from them.

Most important, Priya needs to have an open and honest conversation with her daughters. They may yearn for her to assume the role of doting *nani* (grandmother), but she seems drawn to a different path. She needs to explain to them that she has chosen to be a warrior. She loves them dearly and will make time for them on Diwali, birthdays, and other special occasions, but for now she is primarily focused on the business. This is not a negation of her affection for them but a testament to her strength and determination to carry on her late husband's legacy.

SARAHJANE SACCHETTI *is the chief business officer of Cleo.*

Priya's focus on firefighting to save Splendid, while commendable, is causing her to neglect the task of reforming its governance, the most important step to getting it back on track.

To start with, a detailed report that exposes the root causes of the company's missteps is needed. Unanswered questions, such as how Partha's actions went unchecked and why his COO felt voiceless, must be addressed. That will pave the way for an environment with greater transparency and accountability and a "no surprises" rule.

Second, it's vital for Priya to avoid the myth of a corporate savior, which led Partha (and Splendid) astray and could recur if she's not careful. Instead of heroics, she should invest in building a strong team that can work to prevent misconduct and ensure higher levels of transparency. Private companies that let charismatic founders run unchecked often become cautionary tales, as Theranos and FTX illustrate.

She should also consider a co-CEO model. That approach was instrumental for me when I had to step back from my CEO role and become a caregiver for a parent with ALS. I'd recommend that the co-CEO be an external hire—someone from industry who can bring a fresh perspective and dilute the cult of personality that grew up around Partha and could be re-created with Priya. While this move may risk alienating Tasneem, it will prepare the organization for future contingencies and transitions.

Last, Priya's determination to shoulder the burden of Splendid's survival is not only damaging to her health and family but also potentially detrimental to the company. Traditional perspectives might suggest that she should just lean in to the work and let her mental and family health suffer, but doing so can be unsustainable for her and risky for the business. The fact is, about 70% of U.S. caregivers are women, and the percentage is even higher in other countries. Rethinking the executive team with a sustainable model is a solution that can help all leaders—not just female ones—balance competing demands and future-proof a company. At Splendid it might better ensure long-term success.

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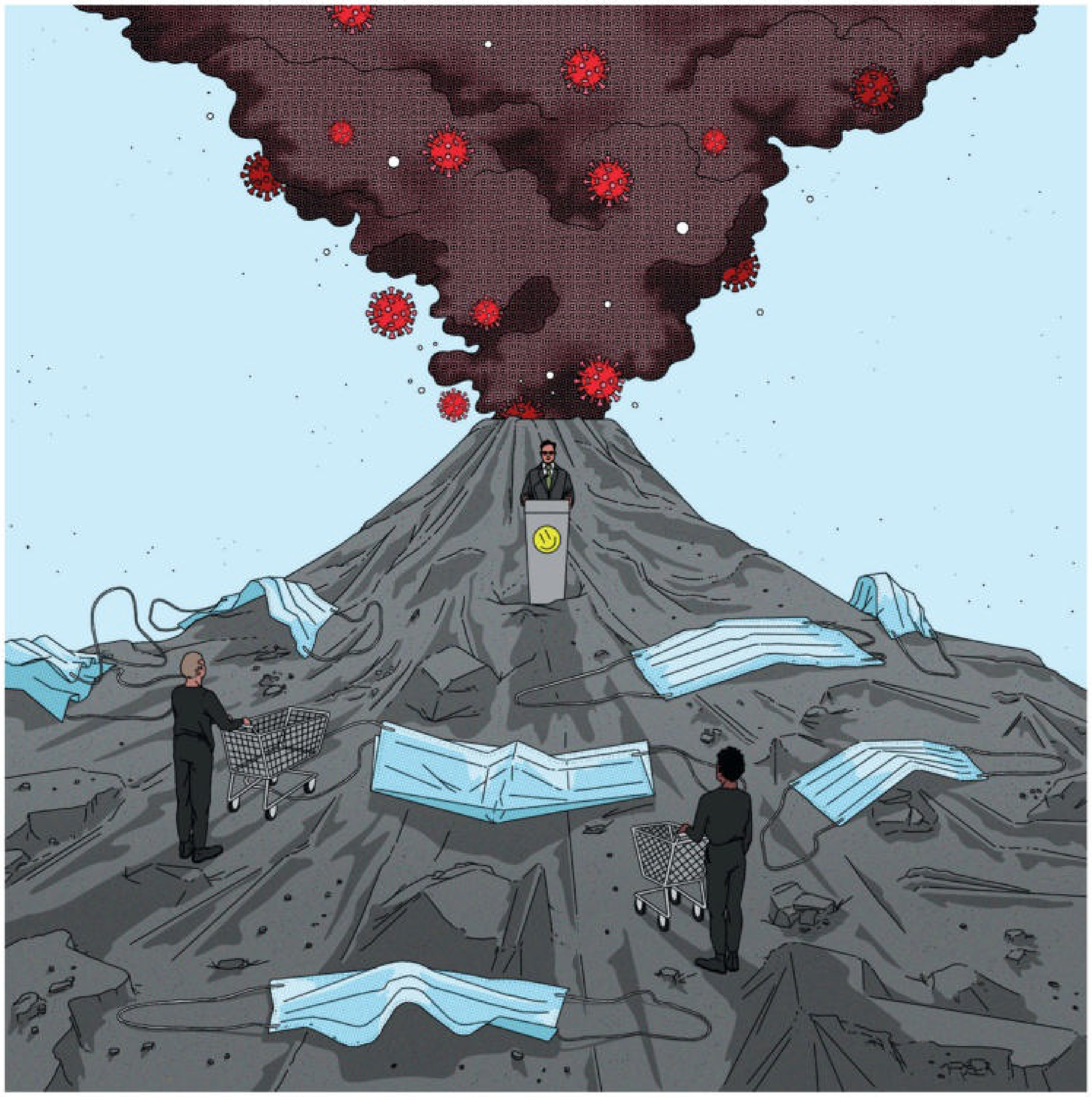
Reprint Case only R2305X
Reprint Commentary only R2305Z



SYNTHESIS

Commerce After Covid

Lessons from (mis)managing a crisis

by Walter Frick

THE COVID-19 PANDEMIC exposed just how fragile the global economy really is—and simultaneously transformed it forever. Books about the crisis tend to focus on one effect or the other: They either catalog the things we learned and cannot unsee or explain why we are never going back.

The most obvious Covid-related revelation was that the world—and especially the United States—wasn't prepared for a pandemic. In their upcoming book, ***The Big Fail: What the Pandemic Revealed About Who America Protects and Who It Leaves Behind,*** two veteran reporters, Joe Nocera and Bethany McLean, detail the myriad missteps in our response. They acknowledge that the uninterested Trump administration deserves considerable blame for its inept handling of the outbreak but point out that it was just one failure among many.

For example, the scramble to secure personal protective equipment highlighted just how much mask production had been outsourced—despite warnings that in a crisis, the countries making masks would prioritize their own populations, so trade in them would wither. Neither hospitals nor governments had the foresight to understand that resilience was worth the higher cost of stockpiling inventory or keeping manufacturing close to home.

Lessons from the Covid War: An Investigative Report, written by a group of academics, offers an explanation for many of the failures that Nocera and McLean describe. The authors outline three modes of governance, centered on processes, research, and operations. (This sounds a lot like the work of lawyers, scientists, and managers, respectively.) While private corporations focus on and prioritize operations,

Illustration by CAROLINA MOSCOSO

within the U.S. government that capability has atrophied even as the number of formal processes has grown, the authors contend. Covid revealed that the public sector in many cases has lost the ability to connect ends to means; at least in a crisis it lacks good management.

Then there are the wider lessons we learned. In a series of posts for ***Crooked Timber,*** the excellent group blog that recently turned 20, the economist John Quiggin uses the pandemic as a lens into the role of luck in financial success and physical health. For instance, some young people had the misfortune of entering the job market during the pandemic. They're no different from their peers who are three or four years older, but that chance circumstance will most likely dampen their earnings for a long time to come. Luck also played a part in who got sick and who didn't. "Some of these differences may be traced to individual choices… such as deciding whether to wear a mask in public places," Quiggin writes. "But mostly they are a matter of being in the wrong (or right) place at the wrong (or right) time." Class looms large here: "As is usual, the poorest members of society have been most exposed both to the risk of death and disease and to economic hardship," he writes. Quiggin notes that social class is often the result of luck too, because it may hinge on where you're born and to whom and isn't a matter of choice or merit.

Regardless of the random nature of its effects, the pandemic was a deadly reminder of just how much we burden individuals with responsibility for navigating even an extreme crisis on their own. In the early days of Covid, as communities applauded essential workers and studied up on the core tenets of public health, it briefly seemed possible that people would emerge more attuned to their dependence on others and become more communal in their outlook. But that sort of shift in public consciousness proved temporary. Instead, the transformations we got were Zoom calls, meme stocks, and the return of inflation.

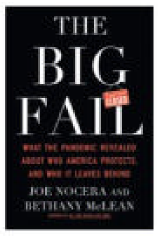
In ***The Phoenix Economy: Work, Life, and Money in the New Not Normal,*** the journalist Felix Salmon explores the world that will rise from the ashes of the crisis. He touches on the obvious shifts, like more remote work and companies' favoring resilience as much as efficiency. But his primary thesis is more abstract and interesting: The world will continue to become more unpredictable. In business, in politics, and in life we will wake up to the combination of "inequality, uncertainty, and precarity" that defines our era.

Who benefits from a more uncertain world? One answer is traders. Salmon has a chapter on the meme stock mania of the pandemic, but ***Chaos Kings: How Wall Street Traders Make Billions in the New Age of Crisis,*** by the journalist Scott Patterson, is all about the hedge funds that profit from "black swan" events. Even when times are good, these funds help their clients hedge against worst-case scenarios. Unsurprisingly, some of them were warning about the coronavirus in January 2020, when most people around the world were still blissfully unaware. The book opens with the story of the investor Bill Ackman, who began worrying about the virus early in the year and by late February was purchasing credit default swaps in anticipation of a crash. That bet paid off, and within a few weeks he was selling those swaps to investors who were just waking up to the severity of the crisis.

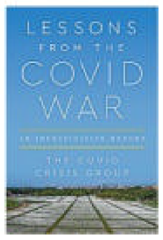
The chaos kings are the apex predators of Salmon's phoenix economy. They're sometimes impressive in their foresight and clearheadedness; they face up to the risks that many of us would rather ignore. But they're not always so admirable—as Nocera and McLean also make clear. *The Big Fail* has a memorable chapter on the market for personal protective equipment. In 2020 hedge funds tried to buy it and its manufacturers up, while fraudsters tried to get paid for equipment they never even had. Without transparency and oversight, the market proved all but useless. Some speculators may have profited, but hospitals and health officials were unable to get critical supplies.

Are we doomed to repeat that grim scenario more and more frequently in an increasingly unpredictable world? Salmon manages to end on an optimistic note, emphasizing the potency of compassion and generosity. But those qualities are often inadequate without the power of collective action—usually by the government. That's why the conclusion of *Lessons from the Covid War* is so chilling: We seem to have lost the ability to collectively manage crises at the same time that we are expecting more of them.

HBR Reprint R2305N

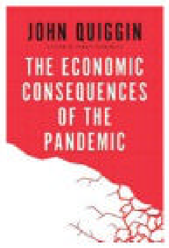


The Big Fail
Joe Nocera and Bethany McLean
(Portfolio, 2023)

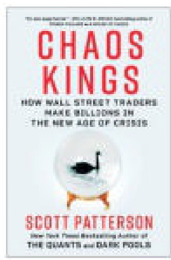


Lessons from the Covid War
Covid Crisis Group
(PublicAffairs, 2023)

"The Economic Consequences of the Pandemic"
John Quiggin
(Crookedtimber.org, 2020)



The Phoenix Economy
Felix Salmon
(Harper Business, 2023)



Chaos Kings
Scott Patterson
(Scribner, 2023)

WALTER FRICK *is a contributing editor at HBR.*

Executive Summaries
September–October 2023

SPOTLIGHT

Leading the Anxious Workforce

This spotlight offers managers tools for helping employees—and themselves—address mental-health challenges, improve their emotional well-being, and build a more supportive organization. | **page 37**

Each article in this Spotlight is available as a single reprint. The complete Spotlight is also available as a package.

HBR Reprint R2305B

Helping an Employee in Distress

Kiran Bhatti and Thomas Roulet | page 38

Many managers are given first-aid training in the office. But very few receive any training for dealing with mental health crises that may arise in the workplace.

Amid heightened stressors, including the lingering effects of the pandemic and economic uncertainty, more employees than ever are experiencing issues such as anxiety and depression at work. And increasingly, employees are open to having—and even expect to have—conversations about mental-health challenges that are affecting their performance.

This article introduces the basic tenets of cognitive behavioral therapy (CBT) as a mental-health first-aid tool to help employees address emotional distress and negative behavioral patterns.

HBR Reprint S23051

Free Your People from the Need for Social Approval

Michael Gervais | page 46

The best performers are able to push past the perceived limits of their potential, but the higher they rise on the career ladder, the more susceptible they become to scrutiny. They often fall prey to an anxious state the author calls *fear of people's opinions*. FOPO is a hidden epidemic and may be the single greatest constrictor of individual and collective potential.

Concern about what others think is an irrational, unproductive, and unhealthy obsession—and a big contributor to the general anxiety people feel at work. This article discusses the causes of FOPO and how to help your employees break free from it.

HBR Reprint S23052

The Anxious Micromanager

Julia DiGangi | page 52

The command-and-control management style has been on the decline for decades. Research has shown that companies perform better when leaders empower, encourage, and coach employees instead of delivering orders, micromanaging, and meting out discipline. Nonetheless, that style remains prevalent.

At root, the tendency to micromanage stems from a leader's own anxiety and lack of confidence. To stop overrelying on a command-and-control style, leaders should look inward to understand what causes it.

This article offers guidance for managers on harnessing their energy to lead in a much more effective and sustainable way.

HBR Reprint S23053

HOW WE DID IT

The CEO of ADM on Expanding Its Focus from Commodities to Consumers

Juan Ricardo Luciano | page 32

In the early 2010s ADM, a century-old agricultural products and services company, embarked on a big transformation. It streamlined and reorganized its divisions, refocused its teams on smart investments and innovation, and became more strategic and disciplined about capital, costs, and cash. But then the leadership team turned its attention to another important C: customers. The goal was to reorient the business toward value-added nutrition products and services, a more stable sector in which it could build a broader base for growth and impact.

Now the company is split into three segments: agricultural services and oilseeds; carbohydrate solutions; and nutrition. All three units sell not just raw or processed commodities but differentiated products. And ADM's leaders have identified three long-term global macro trends—food security, sustainability, and health and well-being—around which the company is making capital-allocation, strategic, and operational decisions.

This transformation has been methodical and mission-driven. In 2019 ADM unveiled a new corporate purpose—"to unlock the power of nature to enrich the quality of life"—and over the past decade its heightened focus on innovating for the customer has brought it even closer to fulfilling that purpose. This story offers lessons for other companies that are trying to envision and execute similar change efforts.

HBR Reprint R2305A

MANAGING YOURSELF

How to Shine When You're Put on the Spot

Matt Abrahams | page 139

Mastering the art of spontaneous speaking is important for leaders. They must do more than just deliver a good prepared keynote—they need to nail the Q&A and small talk afterward, or crush off-the-cuff toasts and speeches. The author suggests that anyone can become proficient at this art using the right tactics and behaviors: Toasts, Q&As, and small talk don't require any specific personality traits. He offers key strategies that include avoiding conventional responses in favor of establishing genuine connections, and prioritizing brevity while delivering messages. He also highlights the need to speak authentically without the pressure to be perfect—which means daring to be dull. An equally important aspect is active listening to understand and respond effectively to others' needs. And structuring thoughts logically during impromptu conversations is a useful tactic. Fear or nervousness need not deter anyone from communicating effectively on the spot.

HBR Reprint R2305L

Features

TALENT MANAGEMENT

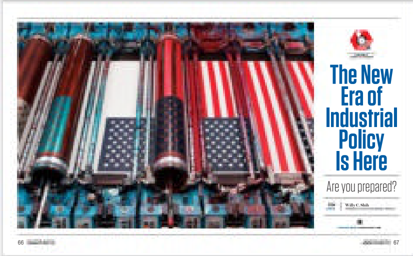
Reskilling in the Age of AI

Jorge Tamayo et al. | page 56

In the coming decades, as the pace of technological change continues to increase, millions of workers may need to be not just upskilled but *re*skilled—a profoundly complex societal challenge that will sometimes require workers to both acquire new skills and change occupations entirely. Companies have a critical role to play in addressing this challenge, but to date few have taken it seriously. To learn more about what their role will entail, the authors—members of a collaboration between Harvard Business School's Digital Reskilling Lab and the Boston Consulting Group's Henderson Institute—interviewed leaders at some 40 organizations around the world that are investing in large-scale reskilling programs. In synthesizing what they learned, they became aware of five paradigm shifts that are emerging in reskilling: (1) Reskilling is a strategic imperative. (2) It is the responsibility of every leader and manager. (3) It is a change-management initiative. (4) Employees *want* to reskill—when it makes sense. (5) It takes a village. The authors argue that companies will need to understand and embrace these shifts if they hope to succeed in adapting dynamically to the rapidly evolving new era of automation and AI.

HBR Reprint R2305C

NATIONAL COMPETITIVENESS



The New Era of Industrial Policy Is Here

Willy C. Shih | page 66

Governments around the world are increasingly intervening in the private sector through industrial policies designed to help domestic sectors reach goals that markets alone are unlikely to achieve. Companies in targeted sectors—such as automakers, energy companies, and semiconductor manufacturers—may experience dramatic changes in their operating environments.

The policies could create new costs or deliver significant financial incentives to shift R&D or manufacturing investments. They might also incent firms to alter their supplier networks or change their trading partners. Managers who have grown up in markets without such interventions are now facing an unfamiliar environment.

In this article, HBS professor Willy C. Shih outlines some of the policy approaches and offers a framework for responding to them. Business leaders need to understand the competing interests shaping the policies, engage and educate political leaders and their staffs, collaborate with upstream and downstream partners, and weigh the pros and cons of accepting government incentives.

HBR Reprint R2305D

ORGANIZATIONAL CHANGE

Create Stories That Change Your Company's Culture

Jay B. Barney, Manoel Amorim, and Carlos Júlio | page 76

Does your firm's culture support its strategy? If not, you'll need to retool your culture, and that's not so easy to do. The values, beliefs, and norms that make it up are intangible and diffused throughout your organization, and employees tend to resist anything that threatens established behaviors and relationships.

To figure out the secret to doing cultural change well, the authors examined how business leaders around the world approached it. They learned that successful ones didn't begin with workshops, studies, or new HR policies. They began by creating stories highlighting actions that were deeply inconsistent with a firm's established culture but reinforced an alternative culture more aligned with its strategies. The most effective stories were authentic, featured the leaders themselves, offered a break with the past and a path to the future, appealed to hearts and minds, and were dramatic and memorable. Most critically, they empowered employees to begin crafting their own stories about cultural change so that everyone in the organization ended up co-creating a new culture together.

HBR Reprint R2305E

FEEDBACK

When Diversity Meets Feedback

Erin Meyer | page 86

In recent years leading executives—from firms like Google, Bridgewater, and Netflix—have touted the advantages of a work environment marked by candid feedback. Employees seem to have bought into the benefits too. In a 2019 survey, 94% said that corrective feedback improved their performance when it was presented well. Unfortunately, the increased diversity of our workplaces has made it much more likely that feedback *won't* go over well and will be misinterpreted as an act of hostility. That's because people from different cultures, genders, and generations have varying expectations for how feedback is delivered and by whom. What's standard in America, for instance, can come off as harsh or baffling in other countries. Boomers and Millennials hold radically different ideas about what's appropriate too. And gender differences add to the complexity. Women who are frank are often seen as aggressive, and men have a bad tendency to offer unwelcome advice.

This article explains how to navigate the divides: Understand the norms of feedback recipients and adjust for them. Follow the three A's—make sure any advice is intended to *assist*, *actionable*, and *asked for*. Last, get everyone on your team on the same page by establishing a common approach and building regular feedback loops into your collaborations.

HBR Reprint R2305F

AI & MACHINE LEARNING

We're All Programmers Now

Thomas H. Davenport, Ian Barkin, and Kerem Tomak
page 98

Generative AI and other easy-to-use software tools can help employees with no coding background become adept programmers, or what the authors call *citizen developers.* By simply describing what they want in a prompt, citizen developers can collaborate with these tools to build entire applications—a process that until recently would have required advanced programming fluency.

Information technology has historically involved builders (IT professionals) and users (all other employees), with users being relatively powerless operators of the technology. That way of working often means IT professionals struggle to meet demand in a timely fashion, and communication problems arise among technical experts, business leaders, and application users.

Citizen development raises a critical question about the ultimate fate of IT organizations. How will they facilitate and safeguard the process without placing too many obstacles in its path? To reject its benefits is impractical, but to manage it carelessly may be worse. In this article the authors share a road map for successfully introducing citizen development to your employees.

HBR Reprint R2305G

CORPORATE GOVERNANCE

What Does "Stakeholder Capitalism" Mean to You?

Lynn S. Paine | page 108

Business leaders are being urged to adopt a multistakeholder approach to governance in place of the shareholder-centered approach that has guided their work for several decades. But through hundreds of interviews with directors, executives, investors, governance professionals, and academics over the years, the author has found wide differences in how those leaders understand stakeholder capitalism. That lack of clarity can put boards and executives on a collision course with one another when decisions requiring difficult trade-offs among stakeholders' interests arise. It also creates expectations among stakeholders that if unfulfilled will fuel cynicism, alienation, and distrust.

To help reduce the risk of such negative consequences, the author has created a guide for corporate leaders that illuminates four versions of stakeholder capitalism: *instrumental, classic, beneficial,* and *structural.* They reflect significantly different levels of commitment to the interests of stakeholders and rest on very different rationales.

HBR Reprint R2305H

INNOVATION

A New Approach to Strategic Innovation

Haijian Si, Christoph Loch, and Stelios Kavadias | page 120

Companies typically treat their innovation projects as a portfolio, aiming for a mix of projects that collectively meet their strategic objectives. The problem, say the authors, is that portfolio objectives have become standardized, and innovation projects are often only weakly related to a company's distinctive strategy.

This article introduces a new tool to help leaders better align their innovation investments. The strategic innovation tool kit has two elements: a strategy summary framework and an innovation basket. Leaders start by clarifying a unit's strategy and determining what needs to change to achieve it. The change needs are translated into innovation goals, and leaders create their "innovation basket" by plotting each project against those goals. They can then cut projects that aren't aligned and create new ones that are. It's an iterative and creative process: Projects are adjusted to fit the strategy but can also shape it.

Examples from the authors' research demonstrate how the process of creating an innovation basket gives managers fresh insight into what their innovation activities are really doing for their strategy.

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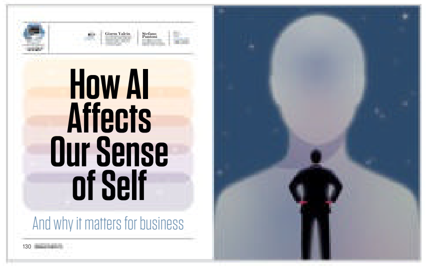
AI & MACHINE LEARNING



How AI Affects Our Sense of Self

Gizem Yalcin and Stefano Puntoni | page 130

The increasing frequency of interactions we have with AI and automated technologies means it is vital to understand how those things make people feel about themselves. Why? Because how people feel about themselves affects a wide range of success factors, including sales, customer loyalty, word-of-mouth referrals, employee satisfaction, and employee performance. The authors have been studying people's reactions to automated technology for more than seven years. In this article they focus on psychological responses to AI and automated technologies that they've observed in service and business-process design, product design, and communication, and offer practical guidance to help leaders and managers figure out how best to use these new technologies to serve customers, support employees, and advance the interests of their organization. **HBR Reprint** R2305K

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> "It may be a cliché, but you're only going to get out of it what you put into it. Do the work—and have fun."

Erik Tanner/The New York Times/Redux

Chris Paul

Growing up, basketball star Chris Paul learned from family role models. In college he was mentored by a top coach, and at the start of his NBA career he soaked up lessons from league veterans. Now 38, Paul *is the seasoned vet: A 12-time All-Star, he has played for multiple pro teams, was the president of the National Basketball Players Association for eight years, and is widely regarded as one of the best point guards of all time. His new book is* Sixty-One: Life Lessons from Papa, On and Off the Court. **Interview by Alison Beard**

HBR: Your grandfather, "Papa," was a beloved local businessman and church deacon. What are some of the principles he taught you?

PAUL: One was the importance of hard work. He had the first Black-owned service station in North Carolina. So me and my brother grew up pumping gas, rotating tires, and changing oil. We saw what real work looked like, and I'm grateful for it. My grandfather might have had the money in his pocket for sneakers or whatever else we wanted, but he never just gave it to us. He told us that if we wanted it, we had to earn it.

How did Wake Forest head coach Skip Prosser recruit you to his program over others?

He was real with me. When he came to see me play in high school, he would be like, "Man, you don't play defense." And I knew that if I wanted to become the player I hoped and strove to be, I would need people who were honest with me.

You've played on many teams. How has your approach to leadership evolved with each move?

It continually changes. In New Orleans I was crazy in my intensity, wanting everyone to approach the game like I did and making sure I got the best out of them. Later, in Houston, a coach told me that the biggest challenge I have is playing with guys who don't care as much as I do. Going from team to team, you learn about different personalities and understand that while maybe you can get on this guy, you can't get on that one. Sometimes you don't have a lot of time to figure out how to communicate with a teammate. But I always try with the right intention.

Why did you want to lead the players' union?

I didn't. In 2013 a few of the guys came to me the day before we were set to vote on a new president and said, "Yo, Chris, we need you to run." And I was like, "What? I ain't got that kind of time." Because to do the job, you have to always be accessible. But my wife said, "If they came to you, they really must need you, so go for it." And I brought something to the table because I was experienced but also had curiosity. This was an opportunity to learn.

Talk about navigating the Covid-19 crisis and the racial reckoning of 2020.

It took constant communication. I was on Zoom every day with [NBA commissioner] Adam Silver and others trying to figure out how to get the season going again. The NBA has 450 players, and they're not always on the same page. But everyone wants to be heard and taken seriously. Through it all, we let everybody share their insights and then talked about where we wanted to go. After George Floyd, we went to the [biosecure] bubble to play and tried to raise awareness. Then the Jacob Blake shooting [by police] happened. So we got all the players in a room and decided to stop games for a day. After that I got calls from the presidents of all the other league unions—and nonsports unions too. It shows the power of the NBA and the WNBA. Everyone watches to see what we're going to do.

HBR Reprint R2305P

FOR MORE FROM CHRIS PAUL, GO TO **HBR.ORG**.


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We understand that even good drivers have bad days.
For 150,000 drivers in India each year, their destination becomes all too final. With road fatalities mounting at speed, Fractal took action. Lives depended on it.
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THE COLOR OF EXCELLENCE

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