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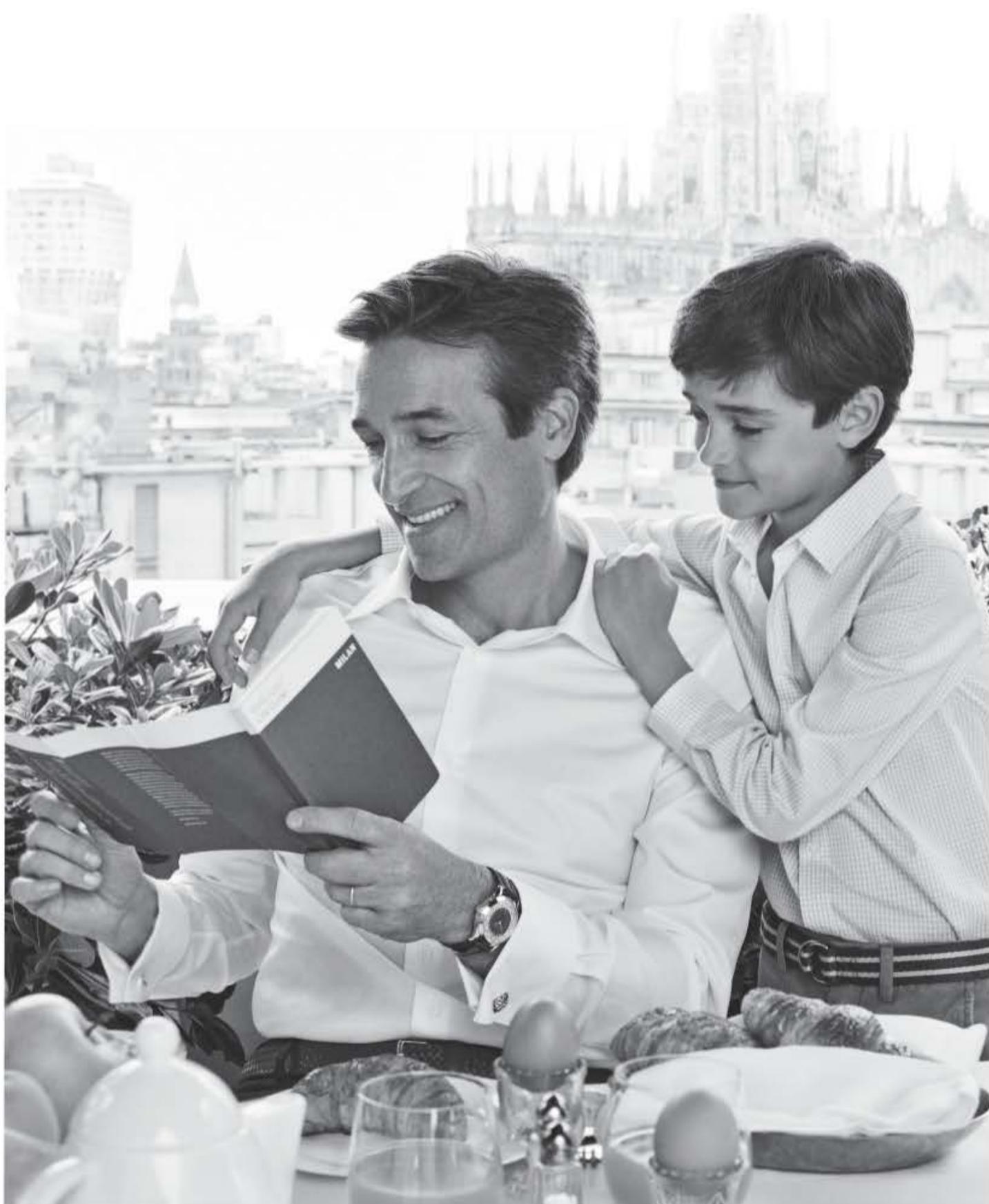
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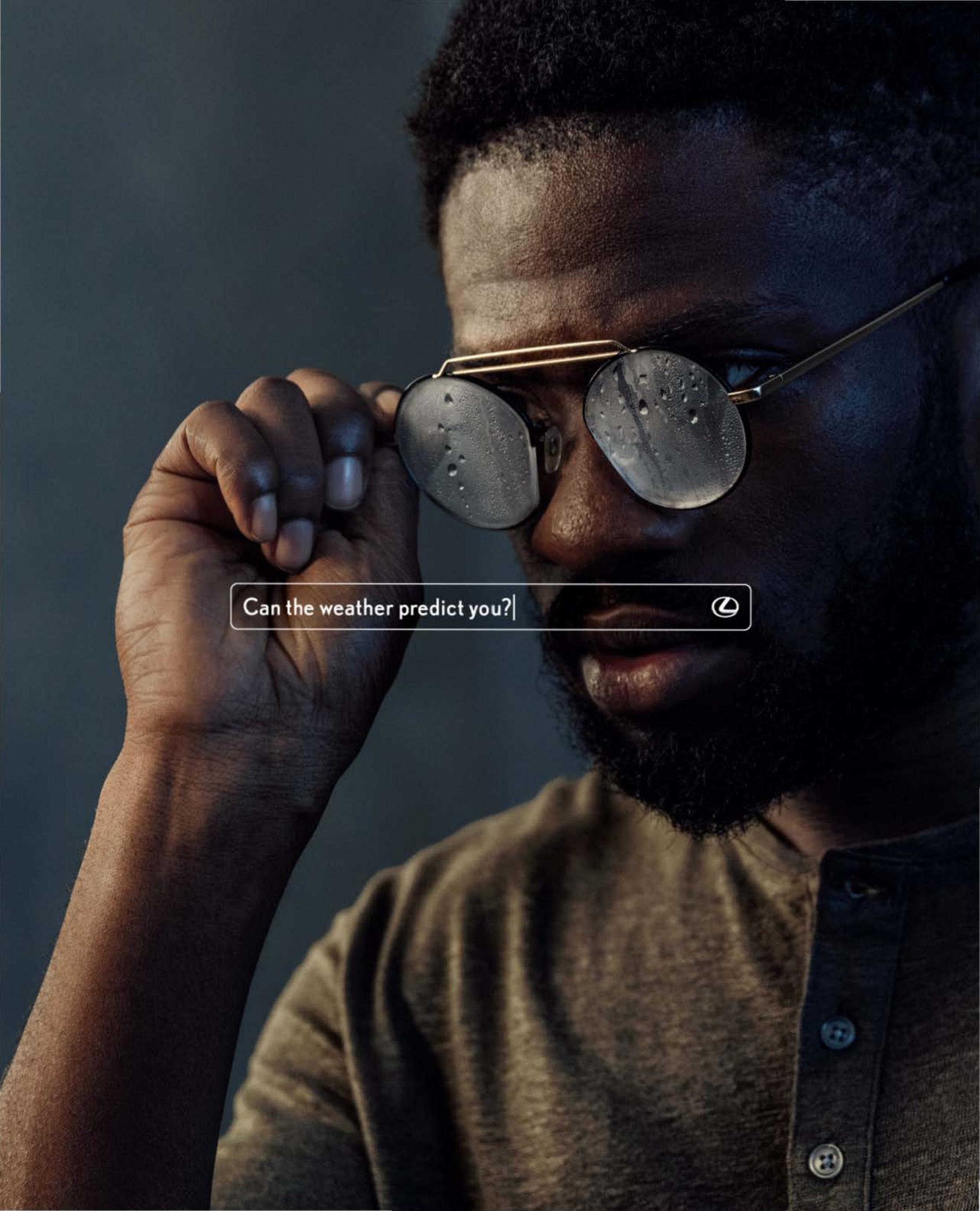
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Advice That Endures



Adi Ignatius

The photo of my workspace at HBR was taken just a couple of months ago, but now it looks impossibly distant. We planned and edited this issue in our offices, but as the magazine went to press, we joined our readers in adjusting to mandatory work-from-home protocols as stock markets crashed, businesses closed, and people coped with the uncertainties of life during a worldwide pandemic.

I joined HBR in 2009, in the middle of the global financial crisis. I recall how hard it was to choose articles that struck the right note as the challenges facing managers seemed to change by the hour. Yet when I reread the issues HBR published during the world's previous major crisis, I'm struck by how relevant they remain. I hope the same proves true for this one.

In "Begin with Trust," Frances Frei and Anne Morriss explain how leaders can establish trust—a precondition for accomplishing anything, especially amid pervasive anxiety. In "Building a Transparent Supply Chain," Vishal Gaur and Abhinav Gaiha describe how technology can give companies new visibility into business partners' operations—something that can only help as firms restart production. Myriam Sidibe, the author of "Marketing Meets Mission," tells what she learned from her years at Unilever on a global campaign to encourage handwashing—a public health goal that has never felt more crucial.

I wish you, your families, and your teams good health during this surreal and scary time—and thank you for reading.



ADI IGNATIUS

Editor in chief

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When **Rory McDonald**, an associate professor at Harvard Business School, was a graduate student, he and his wife noticed that their four young children often played near but not with their siblings while watching one another closely—a phenomenon childhood development experts call *parallel play*. While studying entrepreneurs, he observed that start-ups, too, often develop side-by-side, in watchful imitation. In this article he and his coauthor, Kathleen Eisenhardt, explain why parallel play offers an unlikely source of inspiration for companies setting strategy and designing business models in new-to-the-world markets.

74 The New-Market Conundrum



Vishal Gaur's interest in combining data and algorithms to solve supply chain problems dates back to research he conducted for his dissertation 20 years ago: An algorithm he created for routing trucks to distribute merchandise to stores resulted in a nearly 20% reduction in transportation costs. More recently Gaur, a professor at Cornell's SC Johnson College of Business, was drawn to explore blockchain's potential for improving supply chain operations after reading about initiatives at IBM and Walmart. In this article he and Abhinav Gaiha, a former student of his, share what they learned.

94 Building a Transparent Supply Chain



In 2017 **Frances Frei** took a leave from Harvard Business School to become a senior VP for Uber and help the company turn itself around. "People thought I was out of my mind," she says. Uber's reputation was on the rocks, and its culture seemed irredeemably toxic. But Frei embraced the challenge—and today, thanks in part to her efforts, the company is in a better place. Writing in this issue with Anne Morriss, the executive founder of The Leadership Consortium, Frei lays out the principle that informed her work with Uber: True leadership must be built on a foundation of trust.

112 Begin with Trust



While she was growing up in Mali, **Myriam Sidibe** recalls, dinner-table conversations with her activist parents revolved around social justice. That early exposure inspired her to pursue a doctorate in public health and conduct a handwashing research program in Senegal, which led to her role as Unilever's first global social mission director. During nearly 15 years at the company she spearheaded hygiene and nutrition programs that have reached a billion people and developed a framework to help other companies build social mission into their business models and brands. She describes it in this article.

134 Marketing Meets Mission



In the early stages of an illustration **Bianca Bagnarelli** likes to work quickly, drawing "many fast and unintelligible sketches" before moving on to a more polished digital draft. "In the beginning, I'm not really focused on the art but on ideas," she says. Bagnarelli went to a high school dedicated to art in Milan and then studied comics and illustration at the Academy of Fine Arts of Bologna. "Comics have been my greatest influence," she says. "I've always been interested in creating colorful art with a strong narrative power."

104 The Case for a Chief of Staff



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IN THEORY

HOW TO KEEP COMPLAINTS FROM SPREADING

Limiting the fallout from negative social media posts

AFTER UNITED AIRLINES baggage handlers smashed Dave Carroll's \$3,500 guitar during a 2008 flight, he spent months fruitlessly seeking compensation. Then he created a music video about the experience and posted it on YouTube. "United Breaks Guitars" amassed 150,000 views within a day, prompting the airline to try to remedy matters—but the reputational damage had been done. Within three days the video had been viewed by 1.5 million people, many of whom "liked" and shared it and

chimed in with their own grievances. United's stock plunged, with many observers attributing the drop in part to the PR debacle.

For Dennis Herhausen, an associate professor of marketing at KEDGE Business School in France, this incident and others like it brought new focus to his and his colleagues' research on digital assets. "Firms are using social platforms, but they don't seem to have a coherent strategy for managing posts that convey customers' concerns," he says. "When someone puts up a complaint and other customers enter the conversation, a firestorm can erupt. We wanted to understand this new phenomenon."

In a recent study, the researchers looked at 472,995 negative comments posted in the public Facebook communities of 89 U.S. firms in the S&P 500 from October 2011 through January 2016. Drawing on previous studies suggesting that the contagiousness of a complaint depends largely on the sender's emotions and the relationship between sender and receivers, they used computerized textual analysis to measure the intensity of emotions in each post. To assess the relationship between a post's author and the rest of the online community, they counted their communications; the higher the number, the stronger the tie and the greater the likelihood that the person served as an influencer. They also measured the linguistic similarity between each post and the community's overall content.

Next the researchers analyzed firms' responses, looking at what, if anything, the companies had offered an unhappy customer; measuring the amount of empathy and explanation in each



response; and in the case of multiple responses, assessing the degree of variation in the messages. To measure virality, they added up the likes, comments, and shares inspired by each post and compared the total with the average for the community in which it appeared. Posts generating greater-than-average activity were considered to be viral.

As a result of this work, the researchers developed several recommendations for identifying and preventing potential firestorms and limiting the damage if a complaint goes viral nonetheless.

Identifying posts at risk of going viral. Of the nearly half a million posts in the study, 15,762, or 3%, went viral. The researchers identified several patterns: Posts containing intense emotions—especially "high-arousal"

emotions such as anger, fear, anxiety, and disgust—were more likely than others to spread. Strong ties between a post's author and the community drove contagion, as did linguistic similarity—and both those factors amplified the virality effects of intense high-arousal emotions. "An active member of the community saying 'hashtag delete this company' in language very similar to the rest of the community's—that's a volatile situation for the firm," says Dhruv Grewal, a Babson College professor of marketing who participated in the research.

Preventing potential firestorms from igniting. The first takeaway: Companies should respond to negative posts, and fast. "The worst thing you can do is ignore the customer," Herhausen says;

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doing so increases the odds that others will jump in to support the complaint. Most of the posts in the study (70%) garnered at least one organizational reply. The responses fell into five main categories: Firms suggested moving the conversation to a private channel (61%), apologized (53%), provided an explanation (8%), expressed empathy (6%), and offered compensation (3%).

Which tactic worked best? Apologies and requests to switch to a private channel generally lowered virality, as long as they were communicated right away. Offering to compensate an unhappy customer had the opposite effect—a result that took the researchers by surprise. Expert opinion is mixed regarding the use of compensation as a service-recovery tool; it might ease a complaining customer's frustration, the researchers say, but if companies suggest compensation immediately, other members of the community may see it as an opportunity to post a complaint in the hope of receiving something from the company themselves.

In general, early expressions of empathy were more effective than explanations. But there was an important exception: posts reflecting an unusual degree of high-arousal emotions. If customers are extremely upset, the researchers say, an empathetic reply may feed their agitation, whereas a rational, fact-based explanation often helps cool them down.

Limiting the damage if a negative post goes viral. Not all complaints can be contained, of course, and in those instances, companies need to adapt their strategies. The study showed that once a complaint had galvanized others in the

online community, the firm's attempts to disengage by apologizing or suggesting a channel change were not only ineffective but tended to fuel the flames. A disgruntled customer's desire for revenge may grow over time, the researchers say, and community members who are following the altercation may resent being blocked from seeing how it plays out. Conversely, offers of compensation very late in the game may tamp down virality, but they need to be paired with explanations. Otherwise, they risk being seen as tacit admissions of guilt.

Finally, as a firestorm evolves, the organization should take care to make each response distinct and to vary the use of empathy and explanation from one message to the next. "In some cases, the people in social media departments follow a script—the replies are always the same," Grewal says. "That's a clear sign that the company is not really attending to the situation."

There's no one-size-fits-all approach to online complaints, and companies can reap considerable benefits from agile, appropriate handling. An effective response strategy can reduce a negative post's virality by as much as 11%, the researchers calculate—which could translate to hundreds or thousands fewer likes and shares of complaints and limit any enduring damage to the company's reputation and fortunes. ☰

HBR Reprint F2003A



ABOUT THE RESEARCH "Detecting, Preventing, and Mitigating Online Firestorms in Brand Communities," by Dennis Herhausen, Stephan Ludwig, Dhruv Grewal, Jochen Wulf, and Marcus Schoegel (*Journal of Marketing*, 2019)

IN PRACTICE

"Managing These Incidents Is a Full-Contact Sport"

Stephen Hahn-Griffiths is the executive vice president of brand and reputation intelligence at RepTrak, a Boston-based reputation measurement and management firm. He previously served as chief strategy officer at leading ad agencies and has worked on brand engagement for companies including Coca-Cola, Expedia, and Allstate. Hahn-Griffiths spoke with HBR about strategies for deflecting and managing social media firestorms. Edited excerpts follow.

What's the first thing a company should do when encountering a negative post?

If someone is expressing real anger in the heat of the moment, the firm needs to conduct a risk assessment to identify the right response; it needs to understand what is being said and by whom. Is the person an influencer of the online community? Is this a storm in a teacup or potentially a full-scale firestorm? These fires flare up fast, so firms have

minutes—occasionally a few hours—to make a judgment call.

With speed of the essence, can chatbots be an effective part of the response strategy?

A chatbot can buy some time, but its wording is critical. There's the trap of sounding generic—and something that comes across as a knee-jerk reply shows a lack of empathy and makes matters worse. There's also the risk of setting false expectations. Having a bot acknowledge that the firm hears you and will get back to you as soon as possible is helpful. But if it makes promises about just how quickly the firm will resolve the issue and exactly what it's going to do, it may intensify the firestorm.

Can you describe a company response that was particularly successful?

When Panera took French onion soup off its menu last fall, the brand community was up in arms. The chain tweeted that it wasn't canceling the item but was making room for seasonal offerings, and it provided a timeline for the soup's return.

And it adeptly turned the incident into an advertising campaign when it reintroduced the item: It made an online video in which the actress who portrayed Phyllis in *The Office* plays a social media coordinator reading aloud some of the most negative tweets. This provided a moment of levity and made the community feel listened to and empowered.

How about an especially unsuccessful response?

During the 2019 holiday season, Peloton faced a widespread

backlash after airing an ad in which a man gives a woman one of its high-end stationary bikes as a gift. Some viewers saw the ad as sexist and classist, among other things. The firm issued a press release saying it was disappointed that some people had misinterpreted its message—thus causing an additional firestorm. Peloton didn't empathize with or even try to explain to the people who were offended. It should have immediately apologized and pulled the ad, and perhaps engaged with the Peloton

brand community on social media rather than choosing the bullhorn of a press release.

The people who monitor social media are often young. Can employees early in their careers manage such complexity?

This is a relatively new phenomenon, so you're not going to get someone with a generation's worth of expertise. People with two or three years of experience can probably handle the majority of incidents, but they need a playbook, one covering issues like

those the research addresses. And for posts of a certain intensity, escalation to a senior leader is required; just one person on the front lines is not going to get it done. That's true not just for big companies but for all businesses in the public domain. Managing an online firestorm is a full-contact sport. It demands a heightened level of alertness and a SWAT team that can rapidly mobilize. It requires humans—not just bots—who can show empathy and resolve the issue in real time. ☺



GENDER

The Persistent Gap in Equity-Based Pay

When companies take measures to ensure that women are compensated at the same rate as men, their efforts largely focus on salaries and bonuses. A group of researchers wondered, What about equity-based awards—stock and stock-option grants? It's an important question given that equity-based compensation is on the rise and in many cases dwarfs recipients' annual pay.

The researchers began by interviewing more than two dozen HR professionals about their practices regarding equity-based awards. Most of the interviewees reported that their companies were examining the fairness of base pay—and some firms were also examining performance-based pay—and were acting to reduce any gaps. But few of the companies were taking the same steps for equity-based awards. The interviews also revealed that managers generally had discretion in the granting of equity awards, and their criteria were more subjective than those applied to other forms of compensation. Prior research has shown that such subjectivity often results in gender bias.

Next the researchers analyzed a year's worth of demographic, compensation, and other personnel data in two U.S. companies that had made public commitments to fair pay. In the first, a small private technology firm, no significant gender gap existed with respect to base and performance-based pay, but on average, women earned more than



15% less in equity-based awards during their tenures than did men with similar attributes and jobs. In the second, a large public tech company, the pattern was similar; here women earned over 30% less in equity-based awards.

Though the sample of companies is small, these findings may be the tip of the iceberg. "If firms which are praised for equality efforts have within-job gender pay inequality, it seems likely that firms which are less attentive [will] have similar, if not worse, pay gaps," the researchers write.



ABOUT THE RESEARCH "The Road to Inequity Is Paved with Good Intentions: Examining the Gender Pay Gap in Equity Awards," by Felice B. Klein et al. (*Academy of Management Proceedings*, 2019)

INNOVATION

Does Competition Spur or Stifle Creativity?

Creative work often takes place in a competitive environment. For example, firms pitch against rivals for new projects, and entrepreneurs vie for VC funding. Opinion is divided regarding how this affects individual creativity, with some scholars arguing that competition inspires the risk-taking necessary for innovation and others believing it suppresses intrinsic motivation or causes people to "choke." A new study finds that for top performers, competition heightens creativity—up to a point.

The researcher studied 122 logo design contests hosted on a widely used

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SIBLING RIVALRY AS PREPARATION FOR THE C-SUITE

CEOs with older siblings take more strategic risks than other chief executives—a finding that fits with evolutionary theories suggesting that the further down people are in the sibling hierarchy, the more chances they will take in pursuit of parental favor.

“Born to Take Risk? The Effect of CEO Birth Order on Strategic Risk Taking,” by Robert J. Campbell, Seung-Hwan Jeong, and Scott D. Graffin

online platform. Participants could submit as many designs as they wanted during the course of each contest, and they could see in real time the ratings (one to five stars) given to their own designs along with the overall distribution of scores—so they had a sense at each turn of how they were doing and the level of competition they faced. Using image comparison algorithms to assess the originality of each entry, the researcher found that in the absence of stiff competition, participants receiving five stars for a design typically just tweaked it for their next submission. When competition was more intense, they were more likely to come up with more-original designs—but when it became too severe, they dropped out. The sweet spot—the point at which participants were most likely to submit another original design—came when entrants had just one similarly rated competitor, giving them a 50/50 chance of winning.

“Competition can motivate creativity in professional settings, provided it is balanced,” the researcher writes. “Some competition is needed to motivate high performers to develop original, untested ideas...but heavy competition drives them to stop investing altogether.” He adds that “in practice, this ‘Goldilocks’ level of competition may be difficult to achieve,” and the precise threshold will depend on the context and setting.

 **ABOUT THE RESEARCH** “*Creativity Under Fire: The Effects of Competition on Creative Production*,” by Daniel P. Gross (The Review of Economics and Statistics, forthcoming)

EMOTIONAL INTELLIGENCE

Small Lies, Large Costs

Small fibs are often seen as a harmless or even necessary part of workplace life; for example, an employee might color his or her account of an event to avoid hurting a colleague’s feelings. But new research shows that even seemingly inconsequential lies carry a cost: They erode the teller’s ability to read other people, which can heighten misunderstandings and weaken professional relationships.

The researchers conducted eight studies involving more than 1,500 participants. In one, 250 pairs of people exchanged stories about looking for a job and then assessed their own and their partners’ emotional states. Half the participants were instructed to make up a job-hunting story to amuse their partners or make them feel better about their own searches, and the rest were asked to stick to real experiences. Those in the first group were significantly less able to discern what their partners were feeling.

Other studies in the series, in which some subjects were given an opportunity to cheat in a game, established a reason for this result: Those who behaved dishonestly were less likely to define themselves in terms of their relationships with others and were more likely to dehumanize people around them, and this distancing made them less accurate in judging emotions.

What’s more, the behavior tends to snowball. “The link between dishonest behavior and empathetic accuracy may create a vicious cycle, in which an individual who engages in dishonest acts becomes increasingly more socially isolated and unsupported, thus making it easier to rationalize future dehumanization and dishonest behavior,” the researchers write.

 **ABOUT THE RESEARCH** “*The Interpersonal Costs of Dishonesty: How Dishonest Behavior Reduces Individuals’ Ability to Read Others’ Emotions*,” by Julia J. Lee et al. (Journal of Experimental Psychology: General, 2019)



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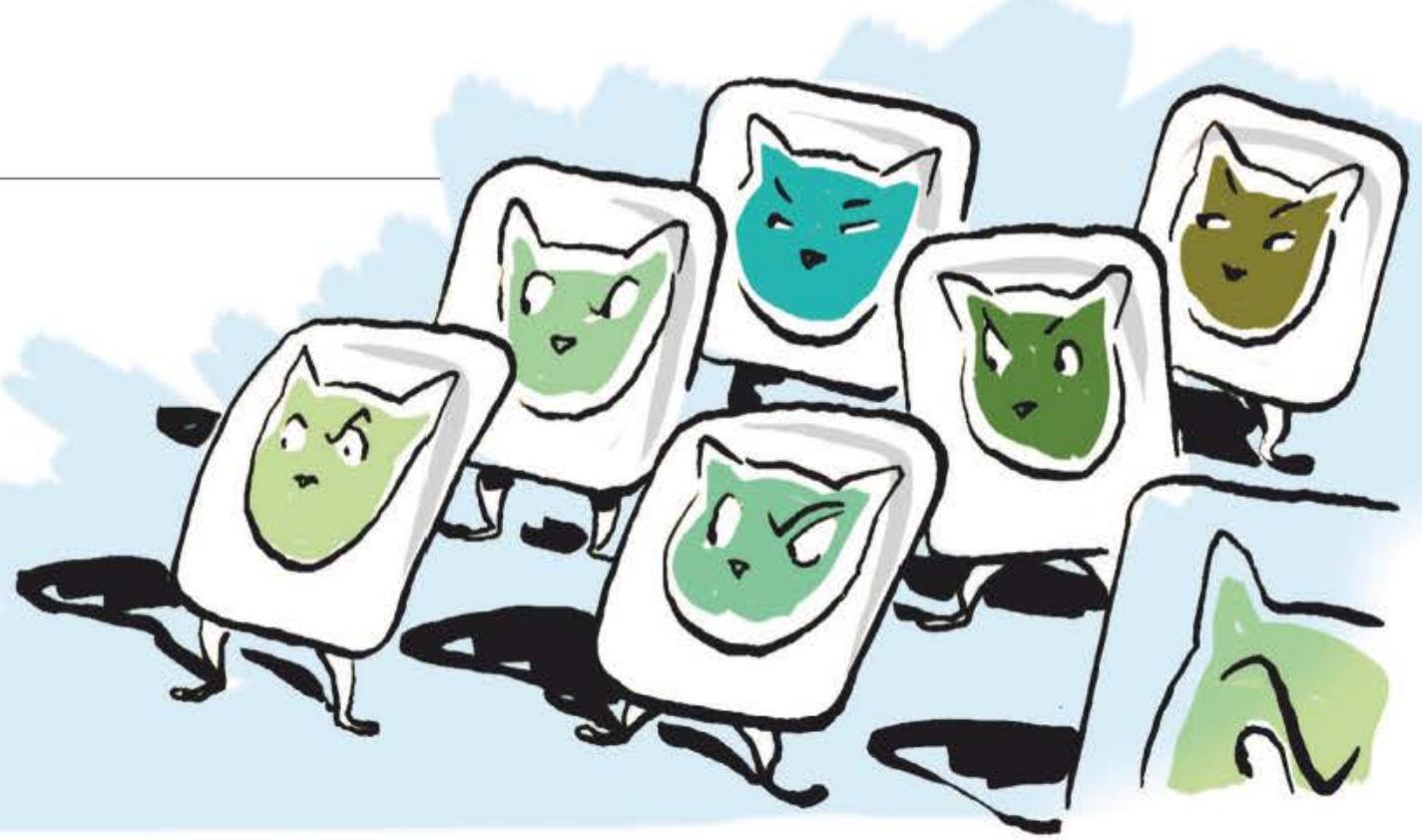
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INTELLECTUAL PROPERTY

For App Developers, Knockoffs Are a Double-Edged Sword

Mobile apps are easy targets for copycats, given that they are cheap to produce and are largely unprotected by intellectual property laws; in fact, studies show that half the mobile apps released today are imitations. Developers have called on platforms to take protective measures, to little avail. New research suggests that in some cases their worries may be unfounded.

To understand how copycat apps affect demand for the originals, the researchers conducted an econometric analysis of more than 10,000 action-game apps released over the course of five years. They used natural-language processing, image analysis, and other machine-learning techniques to classify each as original or imitative. They identified two basic groups of imitations:

nondeceptive ones, which are easy to distinguish from the originals, and deceptive ones, which closely mimic the originals. Whether an app was deceptive, along with its quality as measured by consumer ratings, determined whether it undercut the original's sales. "Copycat apps can be either friends or foes of original apps," the researchers write. For each 10% increase in downloads of a high-quality nondeceptive imitation, downloads of the original app fell by nearly 5%. But for each 10% increase in downloads of a low-quality deceptive imitation, downloads of the original rose by nearly 9%. That happened, the researchers believe, because similar but low-quality imitations boost awareness of the original without presenting serious competition—essentially serving as free advertising for the original app.



ABOUT THE RESEARCH "Copycats vs. Original Mobile Apps: A Machine Learning Copycat-Detection Method and Empirical Analysis," by Quan Wang, Beibei Li, and Param Vir Singh (*Information Systems Research*, 2018)

CEOs

Another Reason to Value Humble Leaders

Humility is a fast-growing topic of interest among management scholars, with studies showing that humble leaders foster more-collaborative top teams, model participative leadership, and increase information sharing across the organization. A new study finds an additional point in their favor: The companies they lead do better on the stock market.

Working with publicly available videos, the researchers studied the speech and mannerisms of 185 executives who headed S&P 500 companies at some point from 2000 to 2013, assigning a humility score to each in accordance with a commonly accepted personality scale. Then they looked at financial analysts' earnings-per-share forecasts and found that other things being equal, analysts announced lower expectations for firms with more-humble

THE EXTROVERT ADVANTAGE

When people who scored high on “openness” brainstormed with extroverts during a start-up boot camp, they generated better ideas than other participants. When paired with introverts, they came up with worse ones.

“Conversations and Idea Generation: Evidence from a Field Experiment,” by Sharique Hasan and Rembrand Koning

CEOs—thus setting them up to meet or beat forecasts. A subsequent analysis showed that the ability to perform well in relation to forecasts led to superior market returns.

“Humble CEOs have a natural trait that provides their organizations with less-optimistic performance expectations and bodes well for...market performance,” the researchers write. By contrast, “the grandiose and overconfident leaders that have traditionally been the choice of external stakeholders may have been ultimately setting their firms up for lower performance in the market.”



ABOUT THE RESEARCH “The Case for Humble Expectations: CEO Humility and Market Performance,” by Oleg V. Petrenko et al. (*Strategic Management Journal*, 2019)

GLOBAL BUSINESS

What's the Best Pace of Expansion?

When seeking to enter new markets, companies should go full speed ahead, some experts argue; otherwise they risk being left hopelessly behind. Others believe that by pursuing more-moderate growth, firms can better deal with increased complexity and challenges and will achieve their ultimate objectives more quickly. A new study of Chinese multinationals suggests that both arguments are partly right: The pace of expansion depends on the location of the new markets.

The researchers examined the return on assets and other financial measures of 767 publicly listed Chinese manufacturing firms that opened subsidiaries either in their intraregional, or home, geography (East, South, and Southeast Asia) or in interregional, or more-distant, geographies from 2002 to 2014. They found that when expanding into home-region countries, companies that moved quickly performed better. Given the considerable knowledge overlap between their own country and those nearby, they could exploit existing firm-specific advantages (FSAs), especially technological and marketing ones.

For more-distant expansions, the opposite was true: Companies that moved slowly did better. The researchers attribute this in part to so-called time compression diseconomies, meaning that learning is less effective when it's jammed into a short period of time. In addition, FSAs are less relevant in distant and unfamiliar regions, they say, and fast movers have trouble adjusting managerial resources quickly enough to handle the swiftly increasing organizational complexity.

“Managers are advised to rapidly venture into and focus on intra-regional host countries,” the researchers write. “They should be cautious when rapidly expanding into inter-regional host countries [which] may tax their technological resources in particular.”



ABOUT THE RESEARCH “Chinese Multinationals’ Fast Internationalization: Financial Performance Advantage in One Region, Disadvantage in Another,” by Heechun Kim et al. (*Journal of International Business Studies*, forthcoming)

THE ECONOMY

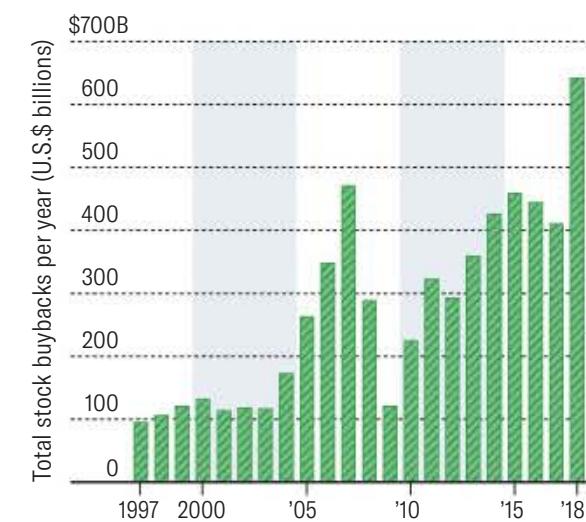
A Risky Uphill Climb

When companies repurchase their stock on the open market, investors often profit in the short term, because by reducing the number of outstanding shares, buybacks boost the price of those that remain. But the purchases drain firms of liquidity, increasing their fragility in the event of hard times. Spending on buybacks by the 373 companies listed on the S&P 500 from 1997 through 2018 has soared in recent years—raising fears about firms’ resilience in the face of a downturn or a crisis like the one we are currently experiencing.

As the stock market boomed...



...spending on buybacks rose.



Source: “Why Stock Buybacks Are Dangerous for the Economy,” by William Lazonick, Mustafa Erdem Sakinç, and Matt Hopkins (HBR.org, 2020)

THE TRUST DISCOUNT

Auditors charged 5.6% less in initial fees to firms with trustworthy-looking CFOs (as assessed by a face-detection algorithm)—a reduction worth \$242,000, on average.

"Seeing Is Believing? Executives' Facial Trustworthiness, Auditor Tenure, and Audit Fees," by Tien-Shih Hsieh et al.

TEAMS

How Narcissism Affects Group Performance

Research has shown that a person's narcissism has little effect on his or her work—but does it affect the performance of that person's team? A new study suggests that the answer is yes.

The researchers examined data on the 2,460 NBA games played in the 2013–2014 season. They analyzed the language and photographs in players' Twitter accounts to assign each player a narcissism score (the relatively few players without accounts got a score of zero). They looked at teams' mean scores, their highest individual scores, and the scores of their "core" players—point guards, who typically initiate plays. Then they investigated correlations between those scores and teams' level of coordination, measured

by the number of assists: passes that directly lead to a field goal. Teams with high narcissism scores in any of the three dimensions had poorer coordination than low-narcissism teams, and performance followed suit. For example, the New York Knicks, which had the highest mean narcissism score, failed to make the playoffs even though the team had been ranked near the top by sports analysts and bookies; the Charlotte Bobcats, which had the lowest mean narcissism score, had a winning record and advanced to the playoffs although they had been expected to trail the league. And teams with low mean and core-role narcissism scores improved in coordination as the season went on and players gained familiarity with one another, whereas teams with high mean and core-role narcissism did not.

These findings have implications for managers overseeing teams of any sort. "Organizations should consider narcissism when forming teams and

proactively monitor teams' narcissism composition to allow interventions before problems arise," the researchers write. "In particular, we recommend that companies should avoid putting highly narcissistic members in the most critical team roles." ☐

 **ABOUT THE RESEARCH** "Examining the 'I' in Team: A Longitudinal Investigation of the Influence of Team Narcissism Composition on Team Outcomes in the NBA," by Emily Grijalva et al. (*Academy of Management Journal*, 2020)

SOCIAL RESPONSIBILITY

What Inspires Leaders to Focus on CSR?

Nearly six in 10 C-suite officers surveyed say that making a positive impact on society is a top desired outcome when investing in new technologies. Asked for the top two reasons for focusing in this area, they cited the following:



Note: Based on a survey of 2,029 global leaders in 2019.
Source: "The Fourth Industrial Revolution: At the Intersection of Readiness and Responsibility" (Deloitte Global, 2020)





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Cait Brumme, Managing Director (left); Scott Bailey, Chief Growth Officer (center); Siobhan Dullea, CEO (right)



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Lauren Eskreis-Winkler and Ayelet Fishbach of the University of Chicago's Booth School gave subjects an extremely hard test, asking them to choose one of two possible answers for each question. Half the subjects then received feedback on what they'd gotten right (success feedback) and the others on what they'd gotten wrong (failure feedback). Though all received full information on which answers were correct, in follow-up tests the people given success feedback were able to answer the same questions accurately, but those given failure feedback had learned much less—and often nothing. **The conclusion:**

Maybe Failure Isn't the Best Teacher



Lauren Eskreis-Winkler,
DEFEND YOUR RESEARCH

ESKREIS-WINKLER: Our culture tells us that we learn from failure. Successful people reflecting on their journeys advise us to “fail forward.” In a recent commencement speech, [U.S. Supreme Court] Chief Justice John Roberts actually wished the students “bad

luck”—so that they’d have something to learn from. Yet my coauthor, Ayelet Fishbach, and I find that failure often has the opposite effect. It undermines learning.

When people fail, they feel threatened and tune out. This surprised

us. Many negative experiences are attention-grabbing. Next time you pass an accident on the highway, try not looking at it. Yet when it comes to *personal* failures, people look away to protect their egos, and as a result they don’t learn—unless they are highly motivated.

HBR: Why weren't your study participants highly motivated?

People tend to ignore failure when it’s safe to do so. Not knowing the answers to questions like “How much money do U.S. companies lose to poor customer service each year?” and “Which of the following characters in an ancient script represents an animal?” isn’t a huge deal.

By contrast, when failures are so large that they cannot be safely ignored, people do tune in and learn. There’s a phenomenon in psychology called *aversion learning*. For example, lab rats who taste poison, receive shocks, or experience other painful “failures” learn from the experiences. There is a threshold above which we learn from failure, but many everyday failures don’t pass muster.

Where is that threshold? The unsatisfying answer is that it depends. It’s somewhere between getting a multiple-choice question wrong and tasting poison. In a set of follow-up studies, we tested whether a large bonus incentive would help people learn from failure. We also tested whether making the content of the test more social in nature would improve outcomes, because people have a propensity to tune in to social



When people fail, they feel threatened and tune out. People look away to protect their egos, and as a result they don't learn.

information. For example, we asked questions such as “Which of the following two couples are engaged?” Yet neither change affected the results.

In another experiment we raised the stakes in a different way: We approached about 300 U.S. telemarketers and gave them a challenging test about customer service, a topic directly relevant to their jobs. But, again, our results were similar. The telemarketers who received success feedback on the questions they answered right demonstrated learning, while those who got failure feedback on the questions they answered wrong didn’t. Sure, performing poorly on a customer service test might have made those participants feel a little rotten, but the failure wasn’t so big that they felt compelled to attend to it. They preferred to protect their egos.

So we all struggle to learn from failure? In our experiments people learned less from failure than from success, on average, but that was not true of every individual. There was notable variation among the subjects. Some participants paid attention to failure and learned a lot from it. Previous research by Ayelet shows that the effect may depend on expertise. Experts have been shown to respond better to failure than novices do. When people have many successes under their belts, one mess-up feels less threatening.

Alternatively, in our studies the resilient minority may have had what Carol Dweck at Stanford University calls a “growth mindset.” They may

have believed in their own potential for improvement, which motivated them to stay in the game. Perhaps if we had taught everyone in our studies to adopt a growth mindset, we would have seen learning from failure across the board.

How can you teach people to have a growth mindset? Simply by explaining that the brain can grow and that their abilities are not fixed but open to improvement.

Are there other ways to reduce the threat to ego and promote learning? Yes, people can learn from others’ mistakes. In one of our studies, participants reviewed other people’s answers to test questions and got feedback on how those other people had performed. Our participants felt ego-threatened and tuned out from personal failures, but they had no problem paying attention to and learning from others’ failures.

Is the takeaway for managers to put employees in situations where they fail less frequently? Or to help employees change their mindset so that they can always learn from failure? What is your timeline? If you need immediate results, go for easy wins. People pay attention to and learn from success. Consider drawing your employees’ attention to what they’re already doing well and reinforcing it. Or offer feedback in ways that build the ego up instead of breaking it down.

If you’re not in a rush, you can make systematic changes: You can shift people’s mindsets, alter your

organizational culture, or reframe the nature of the challenge itself to help people tune in to and learn from failure.

Your study involved American and British subjects. Would the results have been different in a non-Western culture? Great hypothesis—we’d have to test it and see. There is evidence that schools in some countries, like Japan, teach kids healthy attitudes toward mistakes and setbacks. Our results might not replicate, and might even reverse, if participants weren’t threatened by failure.

Have you applied this research to your own life? I’ve tried. I was on the job market this year, and the day that the research article was published, I had a failure. I can’t remember what—I think I got rejected for a job. I thought, “I should try to put that research I published into practice.” But that’s as far as I got. I tried to think about the failure in a way that made it feel less defining and less bad, but I couldn’t.

It’s interesting that you can’t remember what the failure was. Is that the same lack of information retention following a setback that you observed in your experiments? Possibly! I hadn’t made that connection. Alternatively, it might be that I’ve had so many recent failures that it tests the limits of memory. The academic job market is an experience I wouldn’t wish on anyone. ☺

Interview by **Eben Harrell**
HBR Reprint F2003B

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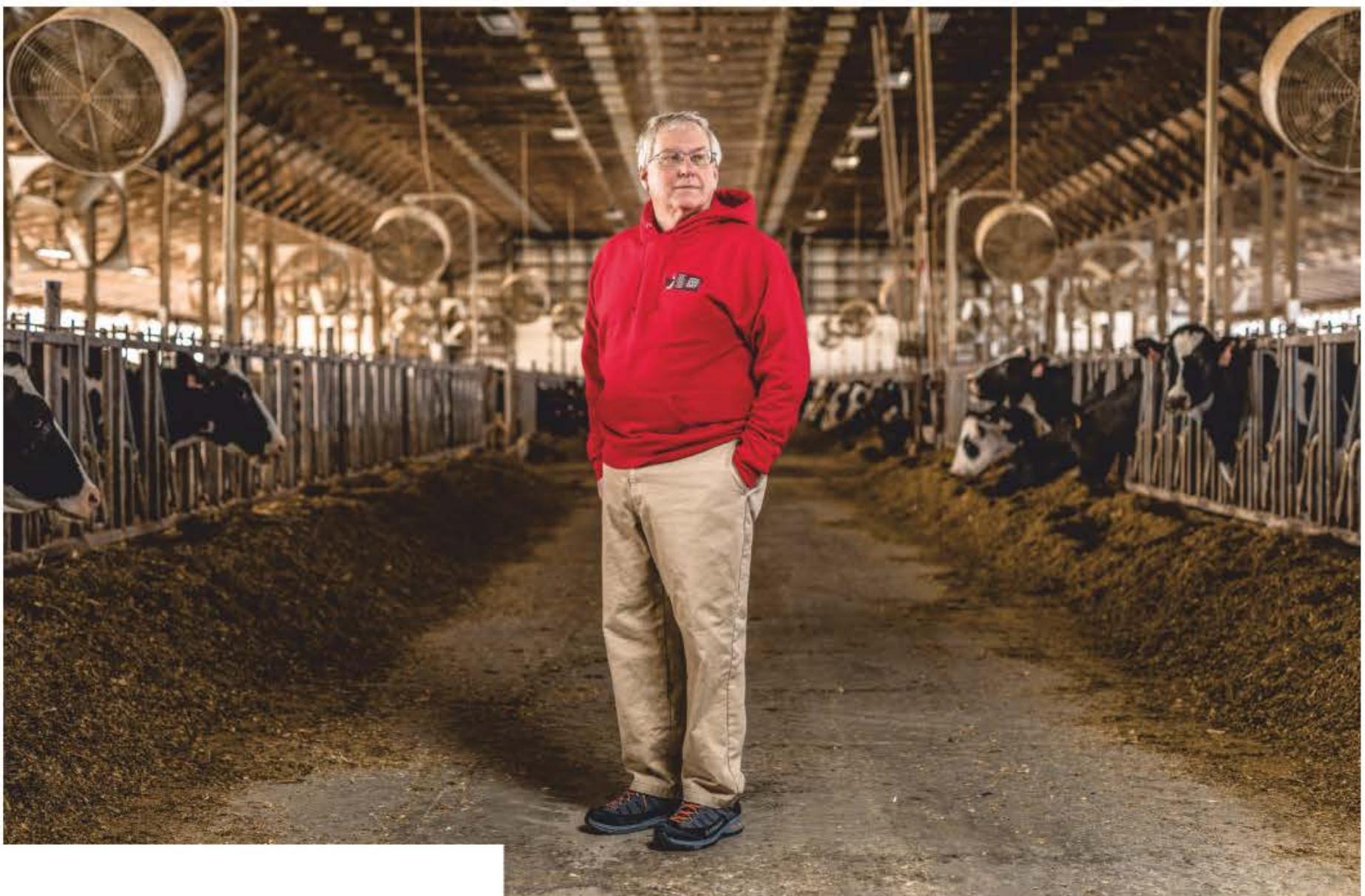
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HOW I DID IT



THE CEO OF CABOT CREAMERY ON BEATING SUSTAINABILITY BENCHMARKS

by Ed Townley

A DECADE AGO, when I first heard the term “B Corp”—a designation for companies that commit to pursuing not just profits but also purpose—I was skeptical. At the time, I was CFO of Cabot Creamery, one of the largest dairy cooperatives in the United States, and a great many questions ran through my head: Was this just another certification—like the Real milk seal and the Real Vermont seal that we’d already earned? Would the customers who bought our cheese and other products really care about this new

label? What kind of burden would it place on our farmers, who, owing to our cooperative structure, were also our shareholders? How much work would it create for employees? How much would it cost us—up front and on an annual basis? And why on earth was it called a B Corp when it could be an A? That made the whole thing sound second-rate.

Roberta MacDonald, Cabot’s marketing chief, was the one who introduced me to the concept. She explained that becoming a B Corp

The photos on the next page show scenes from Conant's Riverside Farm, in Richmond, Vermont, and cheese ready to be packaged and sent to stores from a Cabot plant

meant serving not just shareholders but also the environment, one's community, employees, and consumers. We would need to score above a certain level on a range of environmental, social, and governance (ESG) measures outlined by B Lab, a nonprofit founded in 2006 to promote the growth of mission-driven companies. For us, that would involve ensuring that our farms, factories, and distribution channels were low-waste and energy-efficient and that our animals were well treated; supporting the towns and cities in which we operated; providing a healthful workplace and fair benefits to our employees; and caring deeply about our products and customers.

In that conversation Roberta reminded me that Cabot was already committed to all those things; in fact, she had persuaded us to adopt sustainability goals and reporting several years before. She acknowledged that only about 200 companies had attained B Corp status up to that point but made a compelling case for why we should join them. Her pitch went something like this: "It adheres perfectly to our values, and it's going to be really important in the future. It might not catch on with customers right away, but eventually all corporations will need to operate this way." Also (and this was important to a CFO), "we can cover it within our existing budget."

I was sold. We asked Rich Stammer, who was then the CEO, to join our conversation, and he was soon on board. We decided in that very meeting to go for it. Because it wouldn't involve any fundamental changes in our existing business practices, we weren't required to consult with our board: 14 farmers elected by their peers. But we soon earned their

endorsement too, and Roberta and her team, with help from a director who'd previously worked as a lawyer, started the process.

It took us two years to get scored on every metric and overcome a few legal hurdles relating to our co-op status. Then, in 2012, the B Lab standards analysts officially certified us as a B Corp. We didn't celebrate with any fanfare, but for the executive team it was meaningful recognition. We had always been a company determined to do the right thing. This was affirmation of that mission and a big part of why I was proud to take over the role of Cabot CEO in 2015.

Over the years we've learned a great many things by taking on sustainability projects like that one. The first lesson is to find (and listen to) people who have a knack for predicting the future. For us, on ESG issues, that was Roberta. Second, don't be afraid to lead the pack: It's better to identify your own meaningful metrics—and have them ready when stakeholders start asking—than to play catch-up. Third, know that success really does stem from focusing on the common good rather than on the enrichment of certain groups. Great things come from working together.

COOPERATION FROM THE START

Just over a century ago, in 1919, a group of farmers in Cabot, Vermont, had a problem: They were producing more milk than the local community could consume. Then they had a bright idea: If they pooled their excess and transported it to other towns, or turned it into longer-lasting products such as butter and cheese for wider distribution, they

could generate a healthy income and divide it among themselves. The Cabot cooperative was born.

In the 1940s the group, then 56 farms, added a cheese-making facility, and in the 1960s and 1970s, with added capacity from even more farms, it started making cultured products—sour cream and cottage cheese. But those goods were sold locally—within about a 40-mile radius and to a few Vermont ski areas and restaurants, none of which advertised their use of Cabot cheese. In the early 1980s the co-op, by then comprising about 500 farms, finally started marketing to food-services groups in Boston. But not until 1989 did it realize that its products had much greater growth potential.

Sensing that Cabot cheese was a cut above competitors' in quality, the co-op decided to enter it in a national competition, where it was named the best cheddar in the United States for 1989. The ensuing recession left Cabot with little marketing money to capitalize on the award, but that changed in 1992 when it merged with Agri-Mark, a larger, 1,000-farm co-op. The broader group (which is officially called Agri-Mark Family Dairy Farms, though we still refer to ourselves as Cabot) was able to push its products beyond Vermont and Boston into other areas of the northeastern United States.

Our cooperative now includes 900 farms (many farms close when no one in the next generation takes over) spanning Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut, and New York. The board of directors meets for two days each month to review tactics and strategies and to share best practices. This is what I love about the co-op structure: Although each farm operates as an independent business supplying our joint production facilities, our members collaborate for the benefit of the group. If there's a problem anywhere, they rush in to support one another.

When suppliers are shareholders, however, they do have the power to put



the management team in a tricky position. Our farmers provide high-quality milk; they could vote to pay themselves well above market rates. But they understand that if the co-op is to survive and thrive over the long term, our branded products must be priced competitively enough to sustain customer demand.

Personally, I love having those farmers as my bosses. I appreciate the fact that the people doing the most and hardest work, caring for and milking their cows every day, are the ones who profit the most from our business. I'm glad that the production, distribution, and marketing functions I oversee provide them with a secure marketplace. I know they understand our products inside and out; they are our best salespeople. And I applaud their longtime commitment to protecting their land, animals, and localities, treating the people who work for them (on their farms and throughout our business) like

family, and providing our customers with top-notch milk and cheese.

I joined the company in 2004, and in my second year the co-op lost money. It had been a tough year for the farmers, too. If that had happened at my previous employer, IBM, I suspect that management would have laid off thousands of people. But I'll never forget how the farmer-owners of Cabot responded at our annual meeting to our going into the red. One asked, "How do the employees [in the production facilities] feel? Because we know they've been working so hard." There was literally no thought of cutting staff. At the end of the session, the executive team received a standing ovation.

OUR BIG SUSTAINABILITY PUSH

Although Cabot had always operated with respect for ESG issues, we began a more deliberate push toward sustainability in the mid-2000s. By that time

I had moved up from vice president of the Cabot-branded product division to SVP of finance for the commercial division, which included Cabot, McCadam cheese, and Agri-Mark whey products. Roberta gathered us—Richard, me, our manufacturing chiefs, some of her team members, and an outside consultant—for a serious powwow.

I remember the meeting vividly. She threw something like 30 corporate sustainability reports on the table—documents prepared annually by big companies such as GE and IBM and smaller ones such as Green Mountain Coffee Roasters (now a brand of Keurig Dr Pepper)—and told us we needed something similar: Financial reports were no longer enough. She explained that an ESG report wouldn't fall under marketing. It was an operational imperative.

That sounded like it would be very difficult for us, and our big distributors—Walmart and Costco—weren't

How Does Your Company Measure Up on Sustainability?

To be certified as a B Corp, a company must first complete the B Impact Assessment. This free and confidential test uses 200 questions developed (and updated every three years) by the non-profit B Lab's independent Standards Advisory Council to measure an organization's governance and the impact of its business model and operations on workers, the community, and the environment. To account for varying size, industry, and geography, the assessment has more than 50 versions, and the scoring methodology (also guided by B Lab) may vary. But it favors outputs and outcomes (71% weighting) over policies (5%) and practices (24%). Once a company has an initial score, B Lab will verify whether it has met the 80-point threshold for certification.

Sample Questions

(Multiple-choice answers appear on the assessment; some questions have been lightly edited for clarity.)

GOVERNANCE

1. What portion of your management is evaluated on corporate social and environmental targets?

2. Has your company worked to develop social and environmental standards for your industry?

3. Have you ensured that the social or environmental

mission of your company will be maintained over time, regardless of company ownership?

COMMUNITY

1. What percentage of management is from underrepresented populations (women, minority members, people with disabilities, individuals living in low-income communities)?

2. Are full-time employees explicitly allowed paid or unpaid time off for community service?

3. Which underserved populations does your business impact or target? If you are a business-to-business company, who is the ultimate user of your product or service?

WORKERS

1. What is the minimum number of vacation days, sick days, personal days, holidays, offered annually to full-time workers?

2. What percentage of full-time workers were reimbursed for continuing education opportunities in the past fiscal year?

3. What percentage of the company is

owned by full-time workers (excluding founders and executives)?

ENVIRONMENT

1. What is the broadest community with which your environmental reviews or audits are formally shared?

2. What percentage of energy used is from renewable on-site energy production?

3. Does your company monitor and record its universal waste production?

to our farm, factory, and transportation emissions.

At the next annual meeting we spent about an hour talking about expanding our ambitions and educating our members on these issues. We explained that we had to be able to answer customers who asked, "What farms and factories does this dairy product come from, and what are their values?"

Our farmers created a sustainability committee that ever since has reviewed and shared new ideas and discussed what's doable, what's not, and what could be in the future. We have also appointed a director of sustainability who works with farmers to maintain the best animal care (from handling to feed and antibiotics), to adopt more eco-friendly land-management practices, and to install windmills, solar panels, and manure digesters. (Some of them now harness so much energy that they add electricity to the grid rather than draw from it.) The person currently in this role, Jed Davis, also tracks our progress on carbon footprint and other metrics and assesses the impact of any new capital project we're debating.

This work paid off within just a few years. When Costco came to us in 2009 asking about a sustainability program, we could say, "Yes, we have one. Would you like to see our scores?" When Sam Walton's children began urging the Walmart board to request that its manufacturers engage in ESG, the company also appreciated our B Corp commitment (we had already been named its best comanaged dairy supplier in 2002). Our cheese is now sold in every Walmart and Costco outlet in the United States, and in grocery stores up and down the East Coast.

asking us to do it at the time. But in a preview of the conversation we later had about becoming a B Corp, Roberta and the consultant persuaded us that this was an opportunity, not a burden—a chance to proactively chart our own course rather than eventually be forced to follow along. They also made the case that the net result wouldn't be significantly higher farming and manufacturing costs, most of which we knew we couldn't pass on to customers. It would actually help us create a more efficient business, leading to higher profits over the long term.

Roberta has always been a visionary: In 1995 she predicted that demand for organic products would skyrocket. Although we were way too early and then gave up on the business too soon, the market ultimately proved her right—which meant we eventually jumped back in. We suspected that in her new push for sustainability tracking and reporting, her instincts were still good and her timing had improved. So we backed her. Cabot was going to become a much better, more transparent organization in terms of everything from our treatment of cows and fields

The next step was to start powering our factories with natural gas instead of oil, sometimes installing conversion stations when our sites lacked pipelines. We would have loved to jump to wind or solar, but current technologies don't yield enough energy for a manufacturing site. We completed the natural gas initiative in 2015 at a cost of more than \$5 million, but the result was a 40% reduction in our carbon footprint and annual savings of \$4 million, because oil had been so much more expensive. As more gas lines reach more facilities, we're also using fewer trucks for transport.

We've taken the mantra "Reduce, reuse, and recycle" to heart. Another example is how we handle milk. Once our cows produce it, we're careful to use every component of it. One part goes into cheese. From the whey that remains, we filter out whey protein for sale to fitness-oriented consumers, and permeate and lactose, which go into animal feed. Finally, we purify the leftover water for use in our facilities. Twenty years or so ago, those other components were dumped back on the land and eventually ended up in rivers. Our current approach is much better for the environment and for our business.

UPPING OUR GAME

When we decided to embark on the B Corp process, we knew we could satisfy many of the criteria set by B Lab's Standards Advisory Council in its five categories: governance, environment, workers, community, and customers. (To see if your company might qualify, go to bimpactassessment.net.) But we also knew that it would be arduous to prove that we could check every box in every area; in some, such as suppliers' practices, we would need to do a bit more than we had been doing.

When we presented our initial scoring to the B Lab standards analysts, we had enough to qualify—a total of 82.4 points (just above the 80-point minimum

required, but well above the 50.9 median score for all companies that try)—and that was gratifying. Now, however, our goal is to keep pushing our numbers higher and higher. Every two years we go back to B Lab to report our progress; our current score is 92.7. Our highest marks come in the workers category, notably on benefits and compensation; in the community category, for local involvement and job creation; and in the environment category, for transportation, distribution and suppliers, and land, plant, and office use.

There are now some 2,500 B Corps in more than 50 countries, and the top scorers are listed on the B Lab site every year. We look at true leaders like Patagonia, with scores in some categories that are 20 or 25 points above ours, and use them as motivation to get that much better. Competition within the group is healthy.

I hope we've also inspired others in the food industry to follow in our footsteps. None in the dairy sector have done so yet, but I know of one other co-op that is trying. Unilever, which owns Ben & Jerry's ice cream and the eco-friendly cleaning products maker Seventh Generation, spun those businesses off into independent units so that they could qualify as B Corps. Danone has done the same with several of its entities. More than a year ago a supplier to Ben & Jerry's came to me asking for advice on becoming a B Corp. The group was motivated but worried about overcoming certain hurdles. Twelve months later it had succeeded.

My advice to other organizations that want to pursue B Corp status—or simply commit to sustainability—is this: Just get started. Trust those future-oriented employees who are telling you

it's important. Don't be afraid to be first in your industry, sector, or country, or the first organization of your size to do it. Analyze your carbon footprint and begin to reduce it. Find greater efficiencies by reusing and recycling. Benchmark your employee benefits against the world's best places to work. And track the impact you're having on communities and customers. Then start talking to your suppliers about all the same issues so that you can bring a whole new group of people along in this mission.

OUR FOCUS ON the common good has truly been a net positive for our business. It energizes the entire Cabot operation—from milking barn to cheese-making plant to grocery store to customer's kitchen. When we take our farmers down to New York City to a food purveyor such as Zabar's and have them tell our story—about being both a co-op and a B Corp—shoppers love it. The last time we did that, we sold a week's worth of cheese in one afternoon. Some people told us, "I'm never going to buy another cheese again." This does translate into very modest pricing power: Superior flavor (backed by more than 150 taste awards) plus a sustainable mission might not justify a dollar more, but an extra dime is probably reasonable. More important, it earns us elevated demand and increased loyalty. Since 2013 our sales of dairy products have increased by tens of millions of pounds.

It may sound like a cliché, but the Cabot Creamery co-op is proof that purpose and profits go together, just as our farmers do. We all hope that the sustainability and B Corp movements continue to grow.  **HBR Reprint** R2003A



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FIRST PLACE

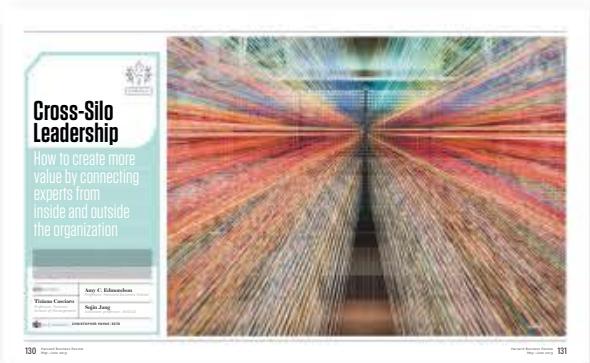
The Hard Truth About Innovative Cultures

JANUARY–FEBRUARY 2019

Innovative cultures are generally portrayed as collaborative, psychologically safe, tolerant of failure, and just plain fun. Research does support the hypothesis that those characteristics translate into better performance. But they're just one side of the coin, according to Harvard Business School professor **Gary Pisano**. They must be counterbalanced by rigorous discipline, no tolerance for incompetence, brutal candor, and a high level of individual accountability.



THE FINALISTS



Cross-Silo Leadership

MAY–JUNE 2019

It is devilishly difficult to break down silos and increase collaboration across boundaries, partly because it happens only if people can appreciate and understand very different forms of expertise. Leaders need to master a new, sometimes uncomfortable skill set to meet this challenge, according to **Tiziana Casciaro** of Rotman, **Amy C. Edmondson** of Harvard Business School, and **Sujin Jang** of INSEAD.



Operational Transparency

MARCH–APRIL 2019

Customers who have no window on business operations are less likely to appreciate behind-the-scenes work—and thus more likely to place a lower value on the product or service they're buying. Harvard Business School professor **Ryan Buell** looks at how greater visibility into well-designed operations can increase their satisfaction and willingness to pay while also improving employee engagement.

THE JUDGES

Bharat Anand
Professor, Harvard
Business School

Cheryl Bachelder
Director, US Foods,
Chick-fil-A, Pier 1

Claudio Fernández-Aráoz
Former partner, Egon Zehnder

Francesca Gino
Professor, Harvard
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Darja Isaksson Director General, Vinnova, The Swedish Innovation Agency

Julia Middleton Founder & Innovation Officer, Common Purpose

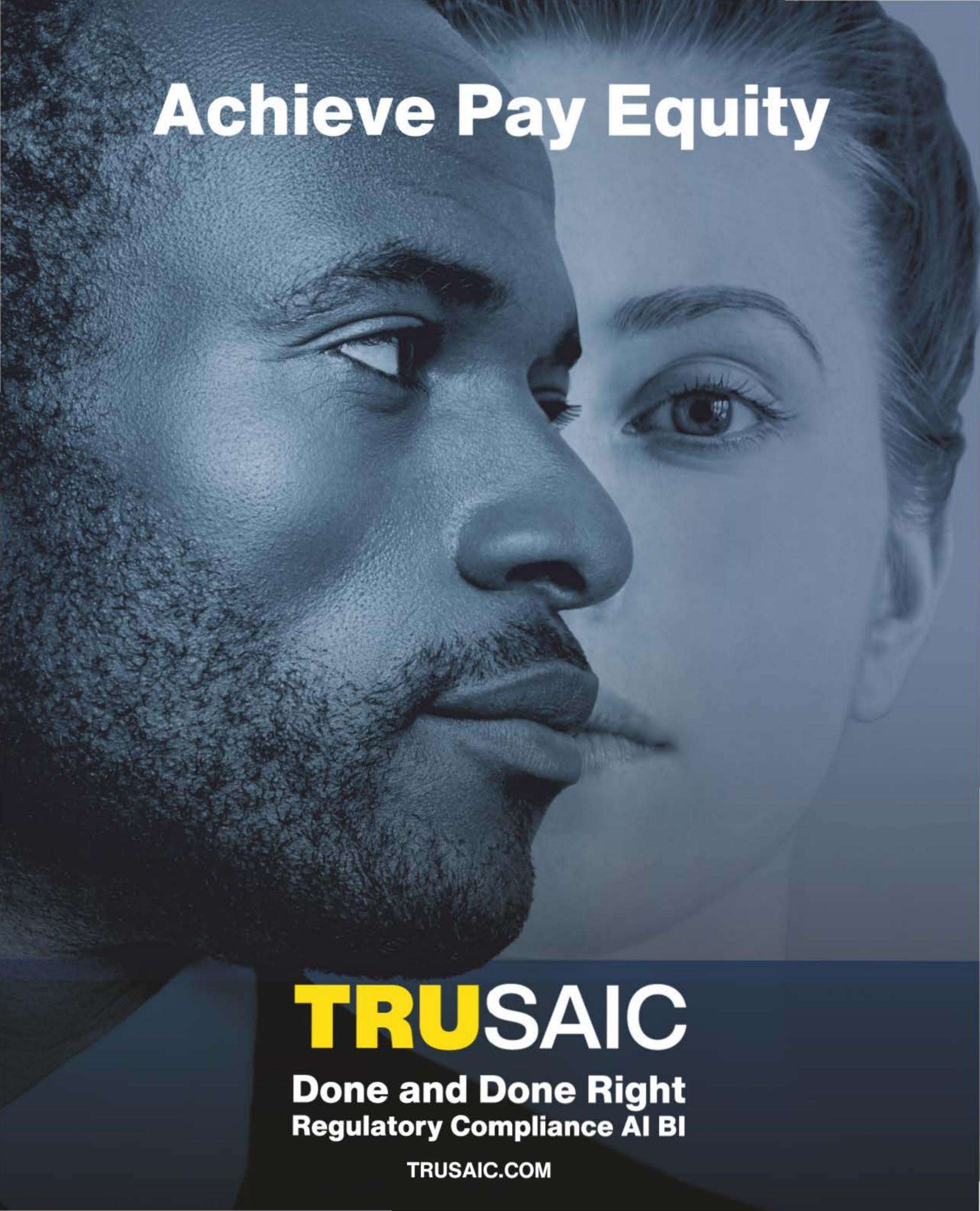
Helga Nowotny Professor emeritus, ETH; former President, ERC

Dinesh Paliwal CEO, Harman; Director, Bristol-Myers Squibb, Nestlé, Raytheon

Paul Polman Co-Founder & Chair, IMAGINE; former CEO, Unilever

David Weinberger Senior researcher, Harvard's Klein Center for Internet & Society

Ya-Qin Zhang Chairman, Blue Entropy; former President, Baidu



Achieve Pay Equity

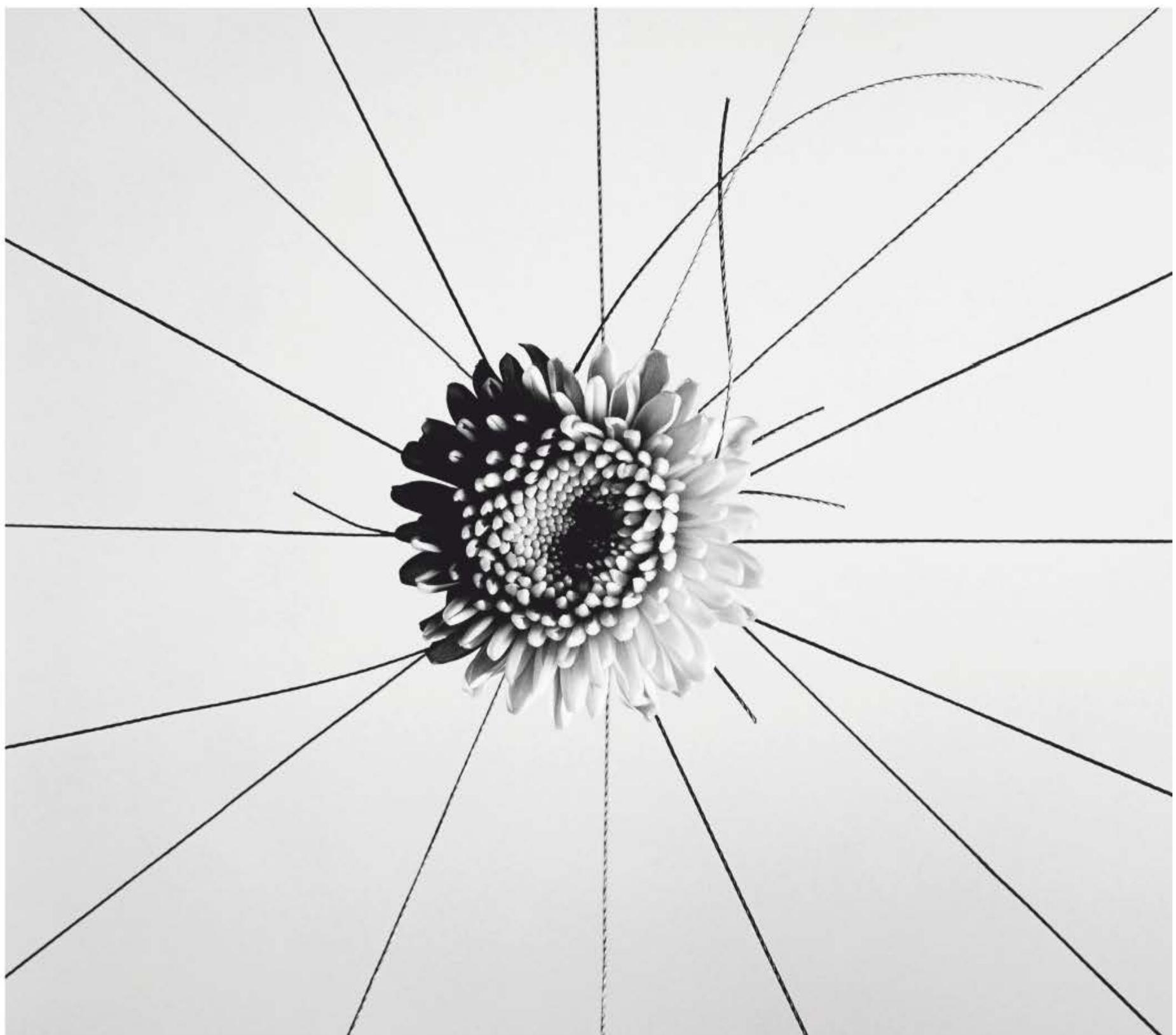
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Spotlight

CONFRONTING SEXUAL HARASSMENT



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Frank Dobbin
Professor, Harvard
University

Alexandra Kalev
Associate professor,
Tel Aviv University

Why Sexual Harassment Programs Backfire And what to do about it

HE TERM *SEXUAL HARASSMENT* spread through academic circles in the 1970s and began to gain traction as a legal concept in 1977. That year the feminist legal scholar Catharine MacKinnon put forward the argument that workplace harassment constitutes sex discrimination, which is illegal under the Civil Rights Act of 1964. Federal judges had previously rebuffed this idea, but by 1978 three courts had agreed with MacKinnon, and in 1986 the Supreme Court concurred.

The watershed moment for the concept came in 1991, during the Supreme Court nomination hearings for Clarence Thomas, when Anita Hill accused Thomas of having sexually harassed her while she was his assistant at the Equal Employment Opportunity Commission. Hill's televised testimony

rocketed sexual harassment into public awareness and prompted many women to come forward with their own stories. Recognizing the extent of the problem—and growing increasingly worried about their legal and public-relations exposure—many companies decided they had to address it. They moved fast. By 1997, 75% of American companies had developed mandatory training programs for all employees to explain what behaviors the law forbids and how to file a complaint, and 95% had put grievance procedures in place for reporting harassment and requesting hearings. Training and grievance procedures seemed like good news for employees and companies alike, and in 1998 the Supreme Court ruled in two separate cases that companies could protect themselves from hostile-

environment harassment suits by instituting both.

For a couple of decades most organizations and executives felt good about this: They were dealing with the problem. But sexual harassment is still with us, as the #MeToo movement has made clear. Today some 40% of women (and 16% of men) say they've been sexually harassed at work—a number that, remarkably, has not changed since the 1980s. In part that could be because women are now more likely to use the term "harasser" than "cad" for a problem boss. But given how widespread grievance procedures and forbidden-behavior training have become, why are the numbers still so high?

That's an important question, and we recently decided to try to answer it. We did so by taking a serious look at what happened at more than 800 U.S. companies, with more than 8 million employees, between the early 1970s and the early 2000s. Did the programs and procedures that these companies introduced make their work environments more hospitable to women? We focused in particular on how those initiatives affected the number of women in the

managerial ranks. We tested two hypotheses: First, if the programs and procedures are working, they should reduce the number of current and aspiring female managers who leave their jobs because of sexual harassment—and thus we should find more women in management over time. Second, if the programs and procedures are backfiring, current and aspiring female managers should be leaving their jobs in even greater numbers, and the overall number of women in management should be declining.

Our study revealed some uncomfortable truths. Neither the training programs that most companies put all workers through nor the grievance procedures that they have implemented are helping to solve the problem of sexual harassment in the workplace. In fact, both tend to increase worker disaffection and turnover. To us the takeaway seems clear: The programs and procedures that the Supreme Court favored in 1998 amount to little more than managerial snake oil. They are doing more harm than good.

We have to do better. The good news is that our study revealed ways in which we can.

THE TROUBLE WITH HARASSMENT TRAINING

Does harassment training that focuses on forbidden behaviors reduce harassment? Apparently not. When companies institute this kind of training, our study revealed, women in management lose ground. To isolate the effects of these programs, we used advanced statistical techniques to account for other changes in a firm, its industry, and its state that might be affecting the numbers of women in management. We found that when companies create forbidden-behavior training programs, the representation of white women in management drops by more than 5% over the following few years. African American, Latina, and Asian American women don't tend to lose ground after such harassment training is instituted—but they don't gain it either. White women make up three-quarters of all women in management and half of all women in the workforce, so as a group they bear most of the training backlash.

Why would training designed to educate employees about harassment create

IDEA IN BRIEF

THE PROBLEM

Although most organizations have long had training programs and grievance procedures in place to address the problem of workplace sexual harassment, today some 40% of women say they've been harassed at work—a number that hasn't changed since the 1980s.

THE RESEARCH

The authors examined the programs and procedures used by more than 800 U.S. companies from the 1970s to the early 2000s and discovered that most of them had done more harm than good.

THE WAY FORWARD

Employers should redesign training programs so that they treat all workers as victims' allies rather than identifying some of them as potential perpetrators. And they should supplement legalistic grievance procedures with less-formal complaint systems to provide victims with quick responses that don't spark retaliation.



Research shows that harassment training actually makes men *more* likely to blame the victims and to think that women are overreacting.

a backlash? That seems counterintuitive. The problem is with how the training is presented. Typically it's mandatory, which sends the message that men have to be forced to pay attention to the issue. And it focuses on forbidden behaviors, the nitty-gritty, which signals that men don't know where the line is. The message is that men need fixing.

Start *any* training by telling a group of people that they're the problem, and they'll get defensive. Once that happens, they're much less likely to want to be a part of the solution; instead they'll resist. That's what happens with harassment training: Research shows that it actually makes men *more* likely to blame the victims and to think that women who report harassment are making it up or overreacting. No surprise, then, that in a 2018 study carried out by the Pew Research Center, more than 30% of men said that false claims of sexual harassment are "a major problem." And no surprise that 58% of women who had been harassed said that not being believed is a major problem.

This dynamic plays out in predictable ways—one of which is that men, put on the defensive, make jokes about the training scenarios and about harassment itself. The phenomenon is so common that the writers of *The Office* devoted an entire episode to it. At one point Pam, the receptionist, wearily tells the camera, "Usually, the day we talk about sexual harassment is the day everyone harasses me as a joke."

What about men who are prone to harass? The reason we make training mandatory is to reach those men. Does training help them, at least? No.

Research shows that men who are inclined to harass women before training actually become more accepting of such behavior after training.

Even so, what do companies usually do when they find men culpable in a grievance process? Sentence them to more training. Six states, including California and New York, now require all employers to provide harassment training to all workers.

George Orwell, meet Franz Kafka.

TRAINING ALTERNATIVES

If the typical harassment training leads to the loss of female managers and makes the bad guys a little worse, it's probably time to start thinking about more-effective types of training. We've identified two in our research.

Bystander-intervention training. This is the most promising alternative we've come across. Sharyn Potter and her team at the University of New Hampshire's Prevention Innovation Research Center have long conducted interesting experiments with it on college campuses and military bases, where harassment and assault are rampant. A dozen years ago they piloted a college bystander-intervention program that has since been used on more than 300 campuses. In 2011 it was adapted for the U.S. Army.

In their programs, Potter and her team start with the assumption that trainees are allies working to solve the problems of harassment and assault rather than potential perps. Everybody's job is to nip misbehavior in the bud. It's the "If you see something, say (or do) something" approach. Properly trained

bystanders interrupt the sexual joke. They call out the catcallers. They distract the drunk pair who have just met but are set to leave the party together. The approach is surprisingly effective. Students and soldiers who have taken part in bystander training consistently report that it has helped them know what to do when they see signs of a problem. Most important, even months after the training, trainees are significantly more likely than others to report having intervened in real-life situations.

Word is getting out about the merits of bystander training. Potter now chairs a nonprofit that develops programs for organizations of all sorts. The U.S. Air Force has developed its own. When the city of New York mandated in 2018 that all employers provide harassment training, it also required them to cover bystander intervention and offered a model online program that is free to employers. Unfortunately, the whole program lasts only 45 minutes and covers five topics, including forbidden behaviors. That's a far cry from what studies have found to be effective for college students and military personnel: several hours of live training that focuses on bystander intervention.

Manager training. Training delivered exclusively to managers is also quite effective. In our study, companies that adopted distinct manager-training programs saw significant gains in the percentage of women in their managerial ranks, with white women rising by more than 6%, African American and Asian American women by 5%, and Latinas by 2%.

Manager training works because it presents harassment as a challenge that

all managers must deal with. In that way it resembles bystander training. Participants, men and women alike, are encouraged to imagine what they might see *other* people doing wrong; the focus is deliberately not on what they themselves might do wrong. Trainers advise participants on how to recognize early signs of harassment and how to intervene swiftly and effectively to prevent escalation.

Our research shows that men pay attention during manager training. Why? In part because they feel they're being given new tools that will help them solve problems they haven't known how to handle in the past—and in part because they're assumed to be potential heroes rather than villains. Everybody's in it together, learning how to recognize and curb dubious behaviors in ways that will improve the overall work environment.

THE TROUBLE WITH GRIEVANCE PROCEDURES

The evidence on forbidden-behavior training is clear: It isn't helping us address the problem of workplace sexual harassment. But what about legalistic grievance procedures?

Every *Fortune* 500 company we've looked at has a grievance procedure. These procedures were first cooked up by lawyers to intercept victims who were planning to sue, and then were adapted to protect companies against suits by the accused. But they haven't improved the situation for women. After the companies in our study implemented them, in fact, the total number of women working in management declined.



The biggest declines occurred in companies with few female managers. That's because women are more likely than men to believe reports of harassment. When there are few female managers to receive reports, victims who complain are sometimes given the third degree, which prompts them to quit. At companies with the fewest female managers to begin with (those in the lowest quartile), the introduction of harassment grievance procedures led to significant declines, over several years, of 14%

among African American, 10% among Latina, and 10% among Asian American female managers. The negative effects were smaller at companies with more women in managerial roles, and they disappeared in organizations with the most. Numbers of white women in management weren't affected by grievance procedures.

Why did women of color suffer most? Studies show that they are significantly more likely than white women to be harassed at work. Because these women



One survey of federal workers found that two-thirds of women who had reported their harassers were subsequently assaulted, taunted, demoted, or fired.

bear the brunt of harassment, as a group they file the most complaints—and, naturally, suffer the most when grievance procedures backfire.

But why do those procedures backfire? The answer, according to a variety of studies, is retaliation against victims who complain. One survey of federal workers found that two-thirds of women who had reported their harassers were subsequently assaulted, taunted, demoted, or fired by their harassers or friends of their harassers.

This kind of retaliation has long-term effects. Women who file harassment complaints end up, on average, in worse jobs and poorer physical and mental health than do women who keep quiet. And retaliation may be the only thing many victims get after filing a grievance, because most procedures protect the accused better than they protect victims.

Part of the problem is that confidentiality rules are unenforceable and thus can't prevent retribution. Both the accused and their accusers are told that the complaint is confidential because the accused is innocent until proven guilty. Those accused often think they are free to tell their friends, and managers who hear complaints may also tell others, looking for either corroboration or support for the accused. No matter how word gets out, friends of the accused may retaliate. After an Ohio waitress complained of harassment, the female manager she told revealed her complaint to coworkers, who subjected the waitress to nonstop jokes.

Another part of the problem is evidentiary rules. Many companies use the “beyond a reasonable doubt” standard

to determine guilt, not the lower “preponderance of evidence” standard that the courts use for harassment claims. That makes it nearly impossible to prove guilt without a confession or a witness. Even if the accused is found guilty, confidentiality generally applies to the ruling, and thus word doesn't get out that, say, women should steer clear of Jerry.

Yet another is a reluctance to punish perpetrators. Companies sometimes offer to transfer victims to other departments or locations, but they almost never actually transfer or fire the accused, because they worry that the accused will sue. Instead they typically mandate more training. Many companies even keep verdicts secret from accusers, which can lead to a perverse outcome: A victim who has “won” her case sees her harasser roaming the halls, and believing that this means she has lost it, she becomes dispirited or frustrated or angry and decides to leave her job.

But victims who face retaliation often quit well before the process is complete. That's what happened in September 2019, after Broti Gupta, a writer for the CBS sitcom *Carol's Second Act*, complained of intimate touching by an executive producer with the network, which had just revised its complaint system to improve the treatment of accusers. HR went legalistic and approved new rules to keep producers and writers apart. Gupta quit, saying she'd been cut out of the creative process in retaliation. Margee Magee, a writer who took her side, told the *New York Times*, “All we wanted was for him to watch like a 45-minute harassment video. None of this had to happen.”

The evidence is unambiguous: Our current grievance system puts victims at a distinct disadvantage, through unenforceable confidentiality rules, a high evidentiary bar, and punishments that leave harassers in place. Moreover, everybody knows that the system is rigged. That's why HR officers often counsel victims against filing grievances—and why studies show that only about one in 10 victims makes a formal complaint. The messages you can read in posts at #WhyIDidntReport say it all: *They won't believe me. They'll put me through a sham hearing. The guy will get off. He'll try to get back at me. His buddies will think I did something to deserve it.* Accusers have only two real options: report harassment and suffer the consequences, or don't report it.

It's a lose-lose situation.

ALTERNATIVE COMPLAINT SYSTEMS

If the current system isn't working, how can you and your organization do better? We've identified a few good options.

The ombuds office. This is an entity that sits outside the organizational chain of command and works independently to resolve sexual harassment complaints. An ombuds (formerly ombudsman) system is informal, neutral, and truly confidential—only the ombuds officer needs to know of the complaint. This approach has two advantages over the current system: It allows accusers to determine whether to make their complaints known to the accused, and it avoids legalistic hearings entirely.

Consider what happened at MIT, the first major employer in the United

Spotlight

States to address the problem of sexual harassment directly. In 1973 the university created an ombuds office to handle harassment and related complaints, and by the early 1980s the office was receiving 500 complaints a year. In the 1980s, when the program was well established, more than 90% of those who took their claims to the office wanted an informal, confidential process; 75% worried that a formal complaint would bring reprisal, rejection, or the silent treatment from their bosses, coworkers, or even their own families, and said they didn't want their harassers punished—they just wanted the problem to stop.

MIT worked with complainants to give them what they wanted. As a result, the university today brings forward lots of complaints, many of which it resolves to the victims' satisfaction. According to Mary Rowe, a labor economist and adjunct professor of negotiation who served for 42 years as the head of MIT's ombuds office, employers who genuinely want to expose and address harassment in the workplace *must* offer this sort of alternative to formal grievance systems. Why? Because victims don't want to bring formal complaints, and only one in 100 complaints, Rowe says, can survive the rigors of a legalistic grievance process. If such a process is the only option, most victims simply won't come forward.

Ombuds offices have spread across academia, law firms, and major news organizations over the past few decades. To help resolve harassment problems, these offices should make explicit that employees can come to them confidentially with their claims and concerns. When the University of Pennsylvania

announced that victims of harassment could use its existing ombuds office, complaints and resolutions jumped. These offices are becoming more popular in the rest of the corporate world: Thirteen percent of U.S. companies have them, to handle issues ranging from bullying to termination. Among these are American Express, The Cheesecake Factory, McKinsey, Nike, Chevron, Mars, and Uber. The Cheesecake Factory created its office in response to sexual harassment complaints in 2009. In 2017, after an Uber employee published a scathing blog about the company's culture of harassment, Uber hired the former U.S. attorney general Eric Holder to investigate. Holder recommended creating an ombuds office to encourage employees to bring problems forward, and Uber's board did just that. The rise of #MeToo has brought a sea change in the attitudes of executives: *See no evil* has been replaced by *Bring it on*, as they realize that it's better to know about problems than to pretend they don't exist.

What's most important about the ombuds system is that it puts victims in the driver's seat. If they don't want the accused to know they're talking, that's OK—the ombuds can hear them out confidentially and help them think through their options. Ombuds offices hold no formal hearings, are guided by no rules of evidence, and impose no restrictions on discussing the problem with others. Moreover, by tracking complaints by department and location, they can identify problem spots that need attention and alert leaders. They track complaints more effectively than grievance officers can, because people actually bring complaints to them.

Setting up an ombuds office isn't hard. You need ground rules for complaint handling, which a professional officer can help you design, working along International Ombudsman Association guidelines. (A tip: You should be explicit about the fact that the ombuds will help with harassment.) You can even turn to one of the Silicon Valley start-ups that now offer online complaint systems. One of them, tEQuitable, operates a virtual ombuds office. Employers can subscribe to the service, which is confidential and gives their employees access to written advice online. If they need more than that, the company makes trained experts available for phone conversations. It doesn't report individual harassment complaints to employers, but it sends aggregate stats to executives, allowing them to identify hot spots. Corporate ombuds offices do the same.

Voluntary dispute resolution. For an alternative that falls somewhere between a formal grievance procedure and an ombuds office, consider a dispute-resolution system that relies on mediation. In this model, mediators hear claims, notify the accused, and try to find solutions that satisfy both sides. Some employers use professional mediators; others train their own workers to do the job. The system is less adversarial than a legalistic grievance procedure. This often suits victims, many of whom simply want their harassers to cut it out. But the victim must feel comfortable being identified to the accused, and both parties must be committed to finding a solution. Obviously, this approach doesn't work for the most egregious cases of harassment, for which the only sensible solution is to fire the perpetrator.

The U.S. Postal Service has long done interesting work with dispute resolution for discrimination and harassment complaints. For a while it experimented with outside professional mediators, and later it trained employees to do the job. Both options have worked well.



Mandatory arbitration is all the rage today in Silicon Valley and on Wall Street. That's because it does the best job of protecting companies from litigation.

Here's how the USPS system works: After an accuser has filed her (or his) complaint and submitted a request for mediation, the accused is required to come to an initial meeting with the mediator, who in some cases is joined by a union rep as co-mediator. Participation is entirely voluntary for the accuser, and the accused may opt out of mediation after that first meeting. Mediation sessions are scheduled within two to three weeks and typically last three or four hours. Most participants feel good about how these sessions are conducted. The USPS has done exit surveys of all participants without breaking out accused and accusers, on the dispute-resolution principle that no party is on trial. They show that more than 90% of respondents are satisfied with their mediator's impartiality and with how they were treated during the process, and at least 60% are satisfied with the outcome. This alternative system led to a four-year decline of more than 30% in *formal* discrimination and harassment filings.

The advantage of voluntary dispute resolution is that accusers can decide at key points in the process whether to proceed. Once the process is initiated, if they feel the accused isn't engaging in good faith, or that the complaint needs to be handled in a more legalistic way, they can bow out and file a formal grievance.

An option to avoid. Mandatory arbitration is all the rage today in Silicon Valley and on Wall Street. When an employer adopts mandatory arbitration, all current employees and new hires are required to sign away the right to sue for any employment-related dispute, including claims of harassment. In exchange they are promised that any

claim they file will be turned over for independent review to an external arbitrator who will hear both sides of the dispute and render a binding decision.

That may sound like dispute resolution, but it's far from it. Signing the arbitration contract means agreeing to keep any dispute confidential, to abide by arbitrators' decisions, and to refrain from taking employment disputes to court. If victims feel that arbitration isn't working, they have no recourse to a formal grievance system. And they don't choose the arbitrator, which may put them at a disadvantage: Because arbitrators hope to be hired again by the company, they may be reluctant to find it seriously at fault. If an arbitrator had ordered a California hospital chain to pay a harassment victim \$168 million, as a federal court did in 2012, would the chain still be using that arbitrator?

In 2018 the New York State Legislature decided that employers shouldn't be able to require employees to sign away their right to sue under the Civil Rights Act, and it outlawed mandatory arbitration. But in 2019 a federal judge overrode that decision. So mandatory arbitration remains legal, and the number of companies requiring it is on the rise. By a recent estimate, more than a fifth of private-sector workers are now subject to mandatory arbitration.

Employees are pushing back, however. In late 2018, 20,000 Google employees walked out in protest, and in response Google agreed to end mandatory arbitration for sexual harassment cases. Then, in early 2019, the company ended *all* mandatory arbitration. Perhaps that will spur other companies to follow suit. But to date mandatory arbitration

is the only option of the three listed above that has really caught on. That's not because it serves victims well but because it does the best job of protecting companies from litigation.

Will either of the more promising alternatives catch on? As long as the courts require grievance procedures, companies won't scrap them in favor of those alternatives. That's fine, because victims should always have a formal grievance system available as a last resort. But everybody would surely be better off if most harassment claims were addressed through a live or virtual ombuds office or a dispute-resolution system.

CHANGING THE CULTURE

The changes we propose address shortcomings of the programs that the Supreme Court backed in 1998. But reducing harassment will require more than that. It will require changing the culture of your organization so that fighting harassment becomes part of your mission. You'll need to engage as many people as possible in the effort and create systems of accountability that get everyone involved in oversight.

Three tools offer promising ways to do that: train-the-trainer programs that turn employees into harassment experts; harassment task forces that put employees in charge of diagnosing problems and designing solutions; and openly published numbers so that everyone can track progress.

Train-the-trainer programs.

Employees who volunteer to be trained as harassment trainers tend to become



The beauty of a harassment task force is that it allows solutions to be tailored to the needs of a given company.

leaders committed to changing the culture. This approach is less expensive than using outside trainers, and it's much more effective than tick-the-box online courses.

Promisingly, it's getting some traction. Sharyn Potter's team at the University of New Hampshire uses a train-the-trainer model to address assault and harassment on college campuses. The University of Michigan has developed a fine-tuned model as part of its diversity-recruitment training. The U.S. Air Force has adopted a train-the-trainer model to deal with sexual assault, dating violence, and domestic violence throughout its ranks. Whether you train 10 trainers or 1,000, you've created a group of experts committed to change. If you hire a train-the-trainer organization, however, choose carefully: Some still spend most of their time on the failed forbidden-behavior curriculum.

Harassment task forces. When we conducted research on diversity programs, we discovered that establishing a task force is the single best way to improve diversity in the workplace. It also promises to help curb harassment by engaging more people. A CEO might commission a harassment task force and ask department chiefs to join it or send a lieutenant. The task force can look at HR data on harassment complaints, interview people across the company about their experiences, study company data on what kinds of workers are quitting, and more. Once the members have figured out what and where their company's specific problems are, they can brainstorm solutions and take them back to their own departments. Maybe they'll decide that work teams need to be mixed up so

that women aren't so often outnumbered. Maybe they'll decide that the company needs to get more women involved in recruitment or more men involved in conducting harassment training.

The beauty of this approach is that it allows solutions to be tailored to the needs of a given company. Who better to dream up those solutions than people who know the workplace and the culture? And how better to align your managers and employees with the goal of stemming harassment than by putting them on the task force? That's a lesson straight out of Psych 101: The best way to convert people to your cause is to get them to help you with it.

Published numbers. There's something to the adage "You can't manage what you can't measure"—or in this case, "what you *don't* measure."

If you publish data that exposes a problem, managers will focus on it, and solving the problem will become part of the culture. Uber was acting on this principle when it published the number of sexual assaults that allegedly took place in its vehicles in 2018. Tech firms have acted on it by publishing data on diversity in their workforces, and Intel recently published pay data for men and women, whites, and people of color. Emilio Castilla, of MIT's Sloan School of Management, has conducted cutting-edge research demonstrating the efficacy of this approach when it comes to pay. Your ombuds office could post the number of complaints, broken down by department. An annual employee survey could surface problems by department and location. Most managers have no idea how their own departments are faring, because people rarely file formal

complaints. Shining a light on where problems lie can change the culture.

COURTS HAVE BEEN allowed to dictate how companies handle harassment for too long. Rates of harassment haven't budged for decades. The work that we and others have done suggests that we can't solve the problem by tagging all men as potential harassers in training sessions or by making victims navigate a complaint system designed to prevent the accused from suing. The research suggests that what's most helpful is to design training that treats all workers as victims' allies and gives them problem-solving tools, and to design complaint systems that provide the typical victim with a quick response that doesn't spark retaliation.

In the end, though, we need to change corporate cultures to get more people involved in solving the problem. Culture is ultimately created by leaders. They need to publicly take responsibility for the problem and try to solve it on their teams, setting an example for all managers. Increasing the numbers of female managers and executives may help as well, because women are less likely to react negatively to training and more likely to believe victims who come forward with complaints. That might encourage victims to come forward and make it more likely that they get satisfaction from the complaint process. ☐

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Spotlight

LIKE MANY OTHER professional women, I've experienced workplace sexual harassment. Here are two such episodes and the very different ways my then employers responded.

First, while thriving at a media company, I was being harassed by a high-level colleague whom I refer to as Ulterior Motive Mentor. Under the guise of helping me with my career, he'd been coming on to me, and I learned from coworkers that he claimed we were dating. (We were not.) I sat down with a supervisor I trusted and opened up about the situation. The supervisor told me I must use the company-mandated process to make a "formal complaint." In order to do that, I had to sit for an interview with a male HR screener whom I had never met or seen before.

Several days later I had to go to a different building to sit for yet another interview, this time with a female HR director. During that interview I learned not only that another woman had reported similar concerns about

Empower Managers to Stop Harassment

Smart solutions don't always require HR.



Adrienne Lawrence
Attorney, television host, and author

Spotlight

my harasser just one year earlier, but also that the female HR director had been friends with the Ulterior Motive Mentor for 20 years. Several days later I was asked to trek up to the office of a male HR director to sit for yet another interview. The formal process was a dehumanizing waste of time that was meant to discourage me from ever complaining about sexual harassment again. After the female HR director apparently helped Ulterior Motive Mentor cover up his misconduct, and when I wouldn't drop the matter, my contract wasn't renewed. I have few positive things to say about my time with that company. Shocker.

Second, earlier in my career I was employed at an elite car dealership, where a highly successful salesman (let's call him Shameless Dude) had a habit of grinding his crotch against the backsides of young professional women at the office, as though he was dancing in a nightclub. One day a female coworker and I casually went to our supervisor's cubicle and mentioned to her that we wanted Shameless Dude to stop grinding up against us. Our supervisor simply walked across the showroom floor to the male sales manager and in so many words said, "Can you please tell Shameless Dude to stop touching the girls?" Without missing a beat, the sales manager summoned him over the PA system and unequivocally ordered, "Stop touching the girls!" Shameless Dude replied, "Okay." We thanked the sales manager. Everyone dispersed. The grinding stopped. Problem solved. My career continued to thrive at that company, where I made numerous contributions without

issue or retaliatory interference. I think highly of that employer to this day.

These experiences involved two very different but male-dominated environments in traditionally male professions at companies with anti-sexual-harassment policies and training. In both cases multiple women raised the same issue about a "superstar" male colleague who was also a harasser—and someone with whom we would have to continue working. The media outlet's formal approach failed largely because it punished me for reporting the harasser by putting me through a drawn-out and unnecessary process with people I neither knew nor trusted—not to mention abruptly ending my future at the company when I insisted on a fair process. The informal approach at the car dealership, in contrast, was seamless, direct, and swift, making me feel comfortable and valued, in addition to ending the harassment.

The former approach illustrates much of what's wrong with the way many employers handle sexual harassment. An everyday issue between employees (unproductive or unprofessional behavior, for example) is dealt with by the team's supervisor; but when the problem involves sexual harassment, most companies respond to it as a legal issue, quickly calling for HR intervention and then activating a highly choreographed, often biased, quasi-judicial process. These HR-led responses rarely show sufficient concern for the employee who is being harassed and rarely lead to solving the actual problem. Typically, employers are primarily concerned with limiting their legal liability. At many companies the bureaucratic response will leave the harasser in his role, continuing the behavior. Consider CBS, NBC, and Google: Each has a large HR team and a thick policy manual, yet according to media reports, Leslie Moonves, Matt Lauer, and Andy Rubin allegedly spent years

sexually harassing coworkers without deterrence or impediment.

TYPES OF RESPONSES

How do people usually respond when sexually harassed? There's no simple answer. For most it's less a single act than a process. Here's what researchers have identified as the typical response route:

Ignore → Avoid → Self-help → Tell family/friends → Tell coworkers → Tell supervisors/HR → Contact attorney or government agency

Each of those actions falls into one of three categories: nonresponses, informal responses, or formal responses.

Nonresponses, which include ignoring the harasser, downplaying the behavior, or leaving the company without telling people why, are more common than one might think. In a 2015 study 32% of people who'd been severely sexually harassed at work said they had told no one about it, compared with just 3% who filed a lawsuit; 80% wound up simply leaving the company.

Informal responses include behaviors that try to address the problem without filing an official complaint. They include confronting the harasser (in person or in writing), threatening to tell others, seeking bystander help, or using humor or sarcasm to defuse the situation.

Formal responses are the ones we typically think of when we hear about sexual harassment. They include filing a report with the employer's HR department, filing a complaint with the Equal Employment Opportunity Commission (or a similar state agency), calling the police (if the behavior is



Formal reporting is the rarest of all responses chosen by both men and women, yet most companies focus solely on formal reports.

criminal), or hiring an attorney and pursuing a civil suit.

The stronger your company's stance against sexual harassment, and the more supportive your supervisor and colleagues, the more likely it is that you would formally report sexual harassment if it occurred. That's not surprising. A supportive supervisor wouldn't want you to suffer in silence, and good colleagues wouldn't want you to "take one for the team" by saying nothing. In upstanding companies, sexual harassment violates the written *and* unwritten rules defined by corporate culture. When the culture appears to condone harassment, it's unlikely that people will file complaints. For instance, I once worked at a law firm where my supervisor casually told me that the firm's chairman referred to me as "a hot piece of ass." After hearing that, do you think I reported to HR when my supervisor started coming on to me? No.

Formal reporting is the rarest of all responses chosen by both men and women, yet most companies focus solely on formal reports. Typically, however, if an employee makes a formal report, that means all other avenues have been exhausted or the harassment is severe, such as touching or sexual coercion.

Two reasons that formal reporting is rare are the prevalence of retaliation and the outdated nature of most employers' reporting processes. Many employers have recycled the same old-school approach for decades, despite advancements in research confirming what does or does not work. This research suggests that new-school approaches are often more effective at preventing harassment.

THE OLD-SCHOOL APPROACH

The old-school approach touts a zero-tolerance sexual harassment policy. Employees must file a formal complaint, which may involve interviews with management and/or a written, signed statement outlining the allegations. After the official report is made, the employer decides whether the alleged behavior constitutes sexual harassment; if so, the investigation begins. The harasser and any witnesses are notified and interviewed, and relevant evidence is collected. The employer may reinterview the reporting employee or invite her to submit supporting evidence. After the investigation concludes, the employer decides whether the harasser violated company policy and if so, whether and how the harasser should be punished. Sometimes employers using this approach try to appear progressive by throwing in a reporting hotline.

The old-school approach does have some benefits—such as allowing for greater accountability and employer-sanctioned punishment, tracking repeat offenders, and using a set structure. It also has significant drawbacks: It does not help reduce sexual harassment, because the many redundant hurdles discourage people from reporting. The person experiencing harassment may not want or need the harasser to be formally punished if the harassment is minor and she simply wants the behavior to stop. Also, the sterile formalities of this approach do not encourage employees to raise sensitive and emotionally upsetting issues. Unfortunately, despite these and other known shortcomings,

many employers still offer only the old-school approach.

THE NEW-SCHOOL APPROACH

A progressive approach offers more options—generally informal, formal, anonymous, and confidential—for filing and resolving sexual harassment reports. Here are a few examples based on research by Frank Dobbin and Alexandra Kalev and the 2018 sexual harassment solutions tool kit created by the bipartisan think tank New America:

- In place of "zero tolerance," a progressive policy offers responses that are appropriate for problematic behavior, from helping the parties maintain a professional working relationship to removing a predatory, serial harasser from the workplace.
- A confidential electronic reporting system allows an employee to request that his or her report be held until someone else makes a complaint about the same person.
- Employees may make a complaint to any manager with whom they are comfortable. The manager is authorized to either informally address the matter with the harasser or escalate it to designated personnel for investigation.
- Neutral third-party mediators are available to resolve issues between employees, with the goal of professional and peaceful interaction rather than punishment.
- A third-party entity or an independent board is retained to investigate complaints, recommend action and punishment, track complaints, and stay watchful for retaliation in the aftermath.

→ Before an employee is fired for sexual harassment, the seven-part test used for labor union grievances is applied to determine whether termination would be appropriate. The test looks at, among other things, whether the employee was adequately warned and whether the allegations were investigated in a fair and objective manner.

Such new-school approaches to addressing harassment prove worthwhile, particularly because they give employees options for resolving the matter. They help ensure that the process is fair and the outcome just.

DEALING WITH NEGATIVE REACTIONS

Even if someone experiencing sexual harassment works for an employer that offers the best of the new-school approaches, remember that a harassed employee is interacting not with policies but with people, all of whom come with their own personal experiences and biases. Some individuals react to reports of harassment with empathy and compassion; others do not. When those who have been harassed are trying to decide among non-, informal, and formal responses, I urge them to prepare for potential negative reactions from unempathetic supervisors, HR personnel, and colleagues, which are all too common. Some examples:

Disbelief. Many women don't report sexual harassment for fear of not being believed. Decent employers combat this by training report takers to show empathy and compassion. If the person taking your report lacks those skills or

communicates that he or she doesn't believe you, do not be deterred. You know the truth, and no one can take that away. You don't need someone to believe you; you need someone who is open-minded and impartial. If your first interaction with the person suggests that's not the case, consider requesting that someone else be assigned to take your report and investigate. If that's not granted, insist that your report be taken nonetheless. You may also have the option of going directly to the Equal Employment Opportunity Commission or an analogous state agency to file a complaint.

Dismissiveness. Although it may be less common since the #MeToo movement gained momentum, some employers summarily dismiss sexual harassment complaints. That violates any policy that promises complaints will be handled promptly and fairly. If your report is being ignored, you may want to insist on speaking with someone else, submit a detailed complaint in narrative letter format, or go to a government agency.

Retaliation. Retaliation is illegal—yet it happens in at least 75% of instances where sexual harassment is reported: The reporting employees are demoted, given bad shifts, fired, sexually assaulted, or further harassed. When it comes to handling retaliation, consider alerting top management or going straight to a government agency. Whatever you do, document any retaliation, just as you would sexual harassment, and consider consulting an attorney.

EVERY PERSON WHO experiences harassment on the job must decide how to respond. Given the potential negative

reactions, I recommend that individuals reflect on these key questions when deciding how and whether to report sexual harassment to an employer: Does the behavior you're experiencing violate company policy or the law? Has it happened more than once? Have you tried, or might it be possible, to resolve the situation informally? Do you have documentation or witnesses, or is this a he said/she said situation? Is anyone else experiencing the same problem? How well-liked or successful is the harasser, and how does that compare with your status at the company? Do you know how your employer has responded to past formal complaints about sexual harassment, and do you know whether the people who filed the complaints felt well treated? Do you feel that you'll need to leave your job if the behavior doesn't stop? If you file a formal complaint, are you willing to risk being ostracized or forced out of your job in retaliation?

Retaliation and ostracism don't always follow reports of sexual harassment. But as long as they often do, it's vital to ask yourself those key questions, because some employers are not sincerely invested in stopping sexual harassment. ☰

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"If Something Feels Off, You Need to Speak Up"



Asha Santos
Employment attorney

VER THE PAST DECADE bystander-intervention training has become a common approach for colleges trying to reduce on-campus sexual assault and harassment. Research has shown that teaching observers to step in when someone is behaving inappropriately or aggressively can reduce such incidents—and in recent years the training has spread beyond campuses to the military and corporations. To understand why companies have begun offering this training to employees, HBR spoke with Asha Santos, an employment attorney who conducts intervention workshops. Edited excerpts follow:

How did you get involved in bystander training?

As part of my practice I've been doing traditional sexual-harassment-prevention training for many years. The workshops typically included a small section on bystander interventions. After the #MeToo movement gained momentum, in 2017, Mita Mallick, the head of diversity and inclusion at Unilever, asked me to create an hourlong workshop focused exclusively on bystander intervention. The company wanted to offer practical tools and to move away from the legal compliance issues that dominate



"The biggest issue that silences people is the potential for personal costs—particularly retaliation."

traditional training programs. I worked with Unilever to design the curriculum, and it was very well received. Since then I've done workshops with several *Fortune* 500 corporations and also law and public relations firms. My employer, Littler Mendelson, is the largest global employment law firm; that has helped get the word out about the effectiveness of these sessions.

Are companies offering bystander training instead of traditional sexual harassment training, or is it supplemental?

It depends on the company. I'd say it's 50/50. Many states have laws requiring or encouraging certain legal curricula that include typical sexual harassment training. But over the past two years I've expanded the traditional content to provide more focus on bystander intervention, which now takes probably 20 minutes of a one-hour workshop. When a company chooses to offer a stand-alone bystander-intervention workshop, it sends a signal to employees: The company is serious about this issue.

What do you cover in a bystander-intervention workshop?

I start by describing the "bystander effect," which is the tendency to look away or freeze when unexpected or inappropriate conduct is happening in front of you. I describe some psychological studies from the 1960s that identified the phenomenon. We talk about why people don't intervene when it comes to workplace sexual harassment. The biggest issue that silences people is the potential for personal costs—particularly retaliation.

In a sexual harassment situation, how do you want people to intervene?

Coworkers should respond by taking whatever actions they are comfortable with that might help. There is no wrong answer. Some people have no qualms about being direct. They have no problem telling someone, "That's inappropriate. You're being sexist. You need to stop." Other responses can be indirect. For instance, in the workshop I show a video of a creepy guy at a holiday party who has focused his attention on a female colleague. We talk about ways to intervene by entering the conversation and changing the subject, distracting the harasser, or moving the person being harassed away.

How do you train people to overcome the tendency to do nothing?

Research shows that people respond to instructions, so I directly instruct them in the workshop: If you witness something or sense that something feels off, whether it's banter or inappropriate jokes or commentary, you need to speak up. There's also research about the "helping effect," which describes the contagion that can result when one person offers assistance: Suddenly everyone tries to help. That's what we're looking to achieve.

If people successfully intervene, should they also report the incident to HR?

As a lawyer, I always advocate erring on the side of reporting something. From a legal perspective, the company needs to know about the conduct in order to address it. The bystander shouldn't be overly concerned about the consequences for the person being

reported—let the company make that call. As I mentioned, the major reason people shy away from reporting is that they fear retaliation. I emphasize that retaliation is illegal and against companies' policies and that employers take that prohibition very seriously. Concerns about retaliation frequently come up during Q&A, and I can understand why. It's human nature to worry about the cost to yourself—that someone you've reported for harassment is going to treat you differently. But reporting these incidents is important.

Are there scenarios in which bystanders should be especially attentive?

Yes. One is third-party service work, in which professionals are interacting with clients or customers. In this situation people often feel that they can't respond or intervene, because they don't want to hurt the business relationship. Another common scenario is socializing outside the office, especially if it involves alcohol. I defend sexual harassment claims against companies, so I have a lot of stories about both situations, and I use them in the workshop.

Give us an example.

I had a case in which a manager took her team of 15 people out to a restaurant to celebrate their unit's hitting an important milestone. Everybody had a lot to drink. At some point in the evening the manager asked each person at the table to share a unique sexual encounter. This topic was highly inappropriate, of course, and everyone felt deeply uncomfortable. A couple of people escaped to the bathroom to avoid it. But nobody spoke up to stop the conversation. The next

day several employees went to HR and filed a complaint, but that didn't prevent the people at the table from having to go through this terribly awkward encounter. Someone's intervention could have prevented significant discomfort.

If intervention is aimed primarily at disrupting an incident in progress, and that intervention leads people not to report it, is there an argument that intervening may inadvertently allow such incidents to recur?

My experience is the opposite. Many of the claims I see result because some behavior started out relatively minor and was allowed to grow. I call this a *gateway behavior*. When people look the other way during an incident of low-level harassment, it allows the harassment to intensify over time. By intervening early, at the first sign of a red-flag moment, bystanders can break the cycle and prevent the problem from worsening.

You and I are speaking during the Harvey Weinstein trial. His crimes went beyond sexual harassment—but have you considered how a bystander intervention might have made a difference in that case?

I would like to think that if bystander-intervention training had been popular 15 years ago, we would not have people coming forward with decades-old complaints about someone who has exhibited serial predatory behavior for many years. It is my hope that bystander-intervention training will empower people and make them feel comfortable stepping in before the inappropriate conduct intensifies and becomes a legal issue. ☰

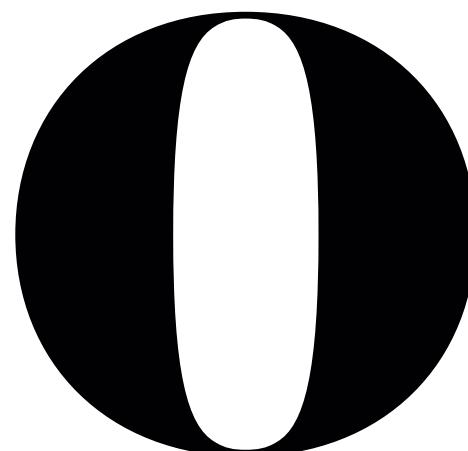
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What Happens When an Employee Calls the Ombudsman?



Charles L. Howard

Executive director, International Ombudsman Association



OMBUDSMEN EXIST FOR one simple reason: to help people and organizations. They help employees by providing an individual (or a team) with whom to have confidential conversations, whether about someone who is taking bribes, a supervisor who's using drugs, sexual harassment, a personal conflict, or some other issue. Some employees see HR, compliance officers, and managers as agents of the company whose job is to protect it rather than employees'

interests. Like people who are reluctant to report something to the police, they don't know how an investigation will turn out, and they're afraid the law won't protect them. Yes, whistleblower-protection laws and anti-retaliation policies exist; but people know that far too often, whistleblowers are penalized, and retaliation occurs anyway. Thus they need a confidential, informal, neutral, and independent alternative to help deal with such issues. That's what an ombudsman provides.

The concept dates back to 18th-century Sweden. The role first appeared in the United States on university campuses in the 1960s, and corporations began embracing it in the 1980s, though corporate ombudsmen are not as common as they should be. Some companies forgo one because of the cost. This is tremendously shortsighted: An

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ombuds (now the more popular term), operating under a promise of confidentiality, may deliver a far greater return on investment than leaders ever know. The company can learn of issues and systemic problems that won't be raised through other channels, and problems are most often resolved effectively and confidentially. An ombuds office that helps avoid a single lawsuit may pay for itself several times over.

Typically, when an employee calls the office, the ombuds first describes how the program works, with an emphasis on confidentiality. Then the ombuds and the employee discuss possible responses to the problem. Sometimes the employee just wants information—say, whether something the boss is doing is against company policy. The ombuds will take action only with the employee's permission; in many cases the entire discussion focuses on options and potential consequences. Although people in this role are always neutral, favoring neither the employee nor the company, they needn't be passive. The ombuds may consult a supervisor or HR about an issue, but the process can also be more creative. I've seen one help an employee draft an anonymous letter to HR. I recall a case in which another arranged for an article highlighting the employee's concern to be published in the company newsletter—subtly sending a message and exposing a problem.

What happens when someone experiencing sexual harassment contacts an ombuds? Every case is different. Here are three real-life examples:

A female postdoc working in a lab under a renowned male scholar—someone who could make or break her

career—approached a university ombuds office. She called the office multiple times over several months without disclosing her name or even the issue she was calling about; such "check out the process" calls aren't unusual, and callers may take a while to trust in the confidential nature of the relationship. Eventually she said the professor was sexually harassing her. She didn't want to engage in any formal process with HR, but she wanted the harassment to stop. After much discussion, she decided she wanted to move to another lab. In the research world, leaving a postdoc fellowship early is unusual and requires a recommendation from one's current supervisor, so this could be complicated. At the woman's request, the ombuds had a confidential, informal, and frank conversation with the professor—who realized that it would be in everyone's best interest for him to enthusiastically support her leaving. She found a new lab where she flourished.

In another case, an employee called a corporate ombuds after a manager commented in front of several employees that their work area "smelled like a whorehouse." After discussing various options, the employee gave permission for the ombuds to report the incident—but not the employee's identity—to HR. The company conducted an investigation, which confirmed that the incident had occurred. The manager was disciplined, and HR provided additional harassment training to the entire unit.

In a third instance, a female employee who had previously filed a formal complaint about a male employee's sexual harassment of her called the ombuds some time later. After her formal complaint, the male employee had been reprimanded and moved to another location, and she had been given protection, including an escort to her car at the end of each workday. But now she had heard that the same man was engaged in the same inappropriate conduct with a female employee in the new location.

The original victim didn't want to make a formal complaint, because her information was secondhand and she was not the victim this time. But she wanted to protect other women from what she had experienced. After talking through the options, she permitted the ombuds to contact HR and report that an anonymous employee had concerns—but no direct proof—that the harasser was at it again. HR investigated and confirmed that harassment was taking place, and the male employee was terminated.

The success of these programs depends in part on getting the right person for the role. A good ombuds is a superb listener who knows how to establish trust in people at all levels. He or she needs to be especially skilled at thinking through solutions to problems. Some in this role have a legal background, but that's not necessary—and many good ones aren't lawyers. The person must also have the respect of senior executives and be comfortable taking issues to the CEO or the board if necessary. Understanding the corporate culture and who has influence is also important—which is why many capable people in this role are promoted from inside the company.

I'm optimistic that more companies will embrace this model in the future. An ombuds serves as a knowledgeable sounding board for people experiencing difficulties at work, a supplement to formal channels for reaching those who have the authority to act, and a unique resource for expanding management's insights into the company's work life and culture. Our society and its organizations would be better off if such programs were ubiquitous.  **HBR Reprint R2003B**

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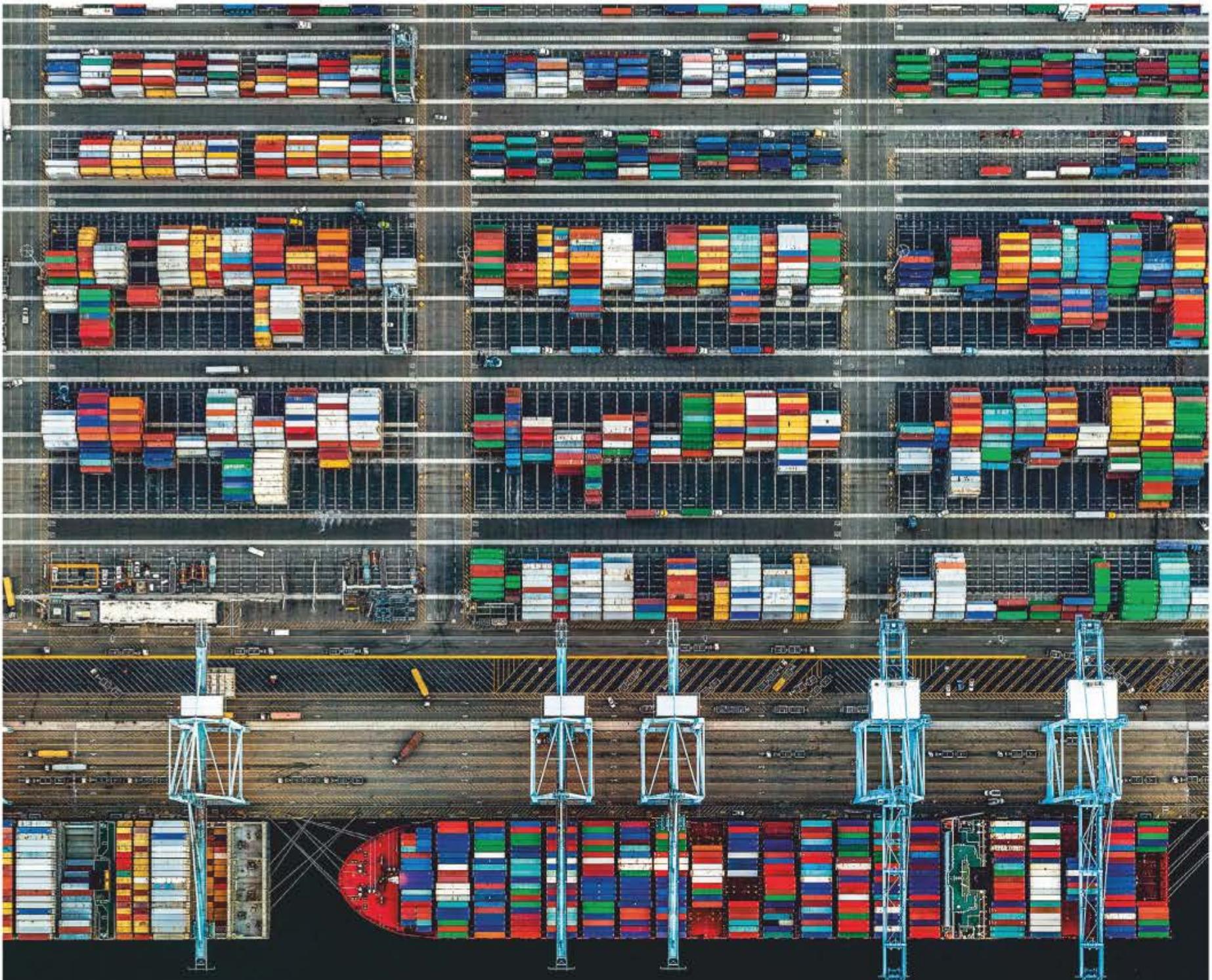
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Features



“It is time for supply chain managers who are standing on the sidelines to assess the potential of blockchain for their businesses.”

—“BUILDING A TRANSPARENT SUPPLY CHAIN,” PAGE 94



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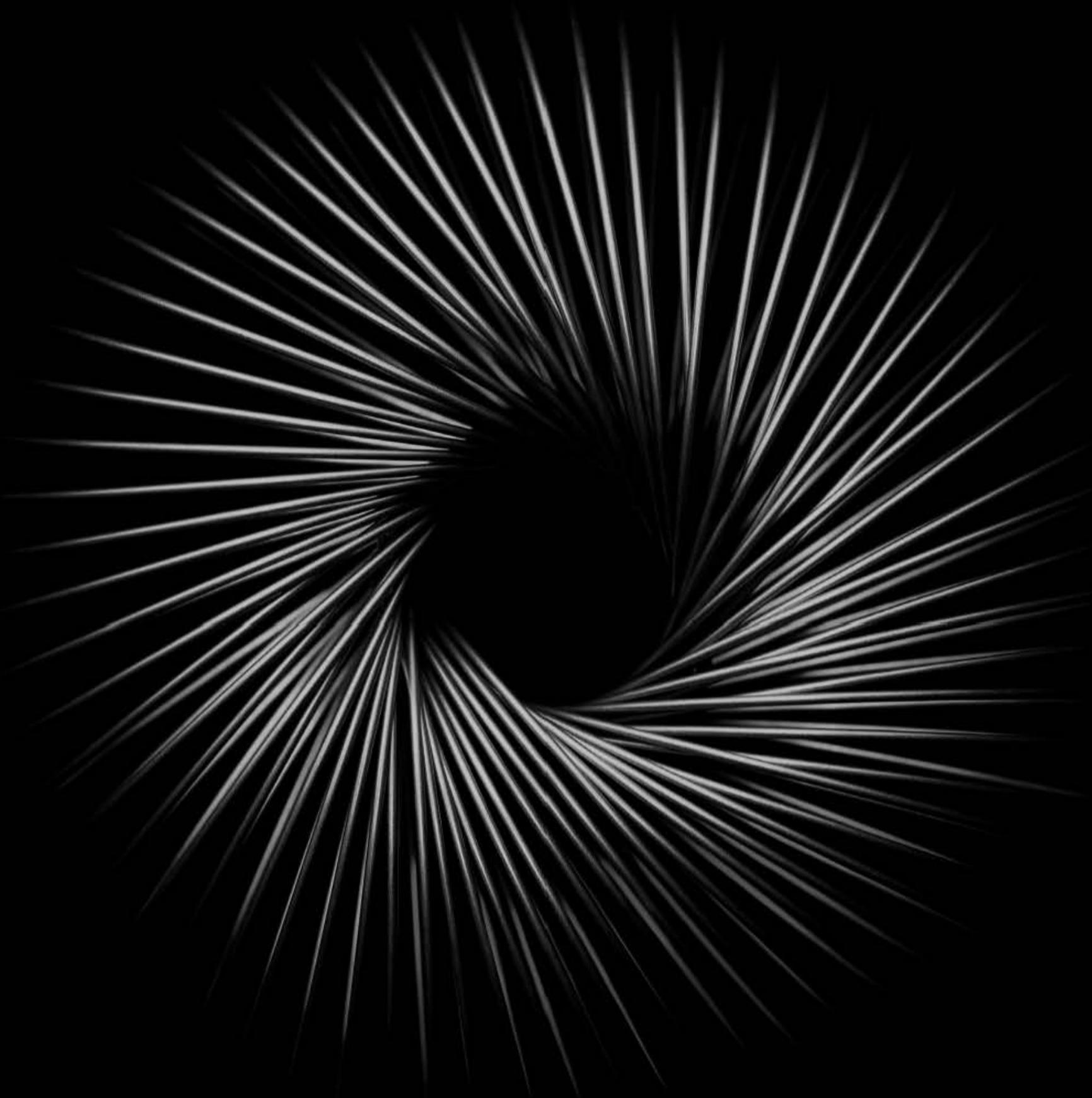
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LEADERSHIP

the *agile* c-suite

A NEW APPROACH
TO LEADERSHIP
FOR THE TEAM AT
THE TOP





“BRIAN JOHNSON” IS THE CHIEF EXECUTIVE OF A MAJOR CONSUMER-GOODS COMPANY THAT HAS BEEN REMARKABLY SUCCESSFUL OVER THE PAST DECADE.

Like his predecessors, Johnson runs a tight ship in all aspects of operations, boasting excellence in product and service quality and a finely tuned supply chain. The company capitalizes on economies of scale and enjoys the lowest costs in its industry.

But when we first spoke with him a year and a half ago, he was worried that those managerial assets were turning into liabilities. “We’re seeing focused competitors in nearly every segment of our business,” said Johnson. (We’ve changed his name and other details to protect the confidentiality of our conversations.) “They’re small, but they attack like piranhas.” The new entrants were bringing out products and services that distributors loved. Their lenient return policies encouraged customers to try their offerings. Their faster deliveries within tight time frames reduced distributors’ warehousing costs and inventory levels. Johnson’s company was having trouble responding to the pressure, particularly when doing so required the denizens of its well-guarded organizational silos to collaborate with one another on innovations.

As consultants, we hear similar concerns from many executives like Johnson interested in creating agile leadership teams. One of us (Darrell) has written about the opportunities and challenges of ramping up agile by adding more and more teams (see “Agile at Scale,” HBR, May–June 2018). But after studying hundreds of companies for our new book, we believe that if a company wants to be fast on its feet, transform customer experiences, and continuously outpace competitors, it needs more than lots of agile teams. To create a truly agile enterprise, the top officers—most, if not all, of the C-suite—must embrace agile principles too. This article explores how agile leadership teams function, how they differ from conventional executive committees and from other agile teams, and what agile means for senior executives’ day-to-day work lives.

CREATING BALANCE FROM THE TOP

The job of a conventional agile team is to create profitable, innovative solutions to problems—come up with a new product or service, devise a better business process, or



Building an agile enterprise means finding the right balance between standardizing operations and pursuing (sometimes risky) innovations.

develop an advanced technology to support new offerings. The job of an agile leadership team is different. It is to build and operate an agile system—that is, an agile enterprise.

Building an agile enterprise does not mean replacing traditional operations with agile teams everywhere. Agile is primarily for innovation, and the testing and learning it involves can compromise critical operating processes. Imagine the adverse consequences of encouraging wide variation, on-the-spot experimentation, and decentralized decision-making—all hallmarks of agile—in areas such as food or drug safety, antidiscrimination and harassment policies, accounting standards, and quality control. Thus, building an agile enterprise means finding the right balance between standardizing operations and pursuing (sometimes risky) innovations. If you were running a restaurant, you would want to make sure that the food and service were of consistently high quality and that the decor was always clean and appealing. At the same time, you would need to innovate: for example, introduce new menu items, new kitchen or front-of-the-house procedures, or new features such as a customer personalization program. If you pay insufficient attention to operations, quality slides and costs rise, harming both customers and the business. If you devote insufficient attention to innovation, your restaurant becomes boring and unable to adapt to a changing environment.

In a large firm, it's not easy to maintain balance. A business's operating system is made up of many components—for example, the firm's purpose and values, its talent engine, and its data and technology systems—and each of these can get seriously out of whack, becoming either too static and

hidebound at one extreme or too risky and chaotic at the other. (See the exhibit “Balancing the Agile Enterprise.”)

There's no set formula for finding the right balance. Every company and every activity within each company will differ. Managing R&D activities for a robotics business, for example, demands a different balance point than managing operations for a salt-mining company. To find the optimal balance, the agile leadership team typically begins by creating new metrics to help determine how agile the company is, how agile it should be, whether it is moving in the right direction at the right speed, and which constraints are impeding progress. Surveys of internal and external stakeholders to obtain their subjective views of business processes combined with objective measures—such as innovation cycle times, flow efficiency (work time versus wait time), and market share changes—are useful for determining the existing state of the operating system components. The team then develops a sequenced list of activities aimed at achieving an optimal balance for each component. The agile process forces leaders to get out of their silos and work together as a multidisciplinary group, breaking through impediments and pivoting when necessary. By rebalancing whichever of the components are out of alignment, they will, over time, create an operating system for an agile enterprise.

THE AGILE LEADERSHIP TEAM

Typically, the agile leadership team includes part or all of a company's executive committee. At a minimum, it consists of the CEO and the heads of finance, human resources,

IDEA IN BRIEF

THE PRINCIPLE

If a company wants to continually outpace competitors, it needs more than lots of agile teams. It requires the company's top officers—most, if not all, of the C-suite—to embrace agile principles too.

THE TEAM

An agile leadership team must focus on striking the optimal balance between standardizing operations and pursuing innovations.

THE CHALLENGE

Executives on the team have to play multiple roles: build and run the agile enterprise operating system; oversee business units and functions; serve as mentors and decision makers; and handle the crises of the moment.



LEADERSHIP

technology, operations, and marketing—the individuals most critical to the components of the operating system.

For most types of agile teams, members are allocated 100% to a single initiative. That's not possible for agile leadership teams. Executives must simultaneously play multiple roles. They have to build and manage the agile enterprise's overall operating system, diagnosing which components need to be improved and figuring out when and how to strike the optimal balance in each. They have to sponsor and lend their expertise to teams tasked with redesigning and rebalancing one or more components. At the same time, they must continue to oversee business units and functions and ensure that operations run reliably and efficiently. They must serve as mentors, coaches, and decision makers. And they must handle corporate governance issues such as compliance and shareholder communications—not to mention the crises of the moment. While performing such operating roles, leaders should keep agile values and principles in mind, but they do not organize into formal agile teams with all the associated roles, ceremonies, and artifacts.

Handling these responsibilities is a tall order, far different from both a traditional executive committee's work and that of textbook agile teams. Let's examine how this plays out in practice, returning to Brian Johnson and his company.

The CEO. After our initial conversations, Johnson decided to create an agile leadership team consisting of the CFO, the CHRO, the CIO, the COO, the CMO, and himself. Then he took on the role of “initiative owner” for building an agile enterprise.

It took about five months, he told us, for the executive committee to begin thinking and acting as an agile leadership team. Johnson's first step was to articulate the need for change and restructure the agenda for the team's six-hour Monday meetings to spend less time on operating details and more on strategic issues. In those meetings, the group clarified the company's strategy, reassessed the value of current activities, and decided to stop a number of projects. And it committed to using agile approaches to focus on a major strategic initiative dubbed Project Fusion, which targeted a large customer segment with the goal of significantly growing market share and increasing revenues by billions of dollars. The team broke the initiative into three components: One focused on improving the product development process.

Another examined ways to broaden distribution channels and improve the supply chain. The third explored marketing programs to increase awareness, trials, and purchases. Team members laid out their ambitions for each component and established metrics to track progress.

They then identified all current work related to those areas and decided how to convert the most innovative activities into 25 agile teams. Some existing work was curtailed; some was combined and reconfigured. All of it was coordinated using agile principles and practices to prioritize activities and develop flexible road maps. The product team, for example, first sequenced a list of products to develop and then sketched out scenarios for collaborating with third-party partners on each one.

Johnson led the creation of a management structure for Project Fusion, consisting of a star senior manager from the operations department to head the project and three other respected managers to serve as “initiative owners” of the 25 agile teams. (An initiative owner—the person ultimately responsible for delivering value to internal and external customers and to the business—usually comes from a business function with expertise vital to the initiative and divides his or her time between working with the team and coordinating with key stakeholders, such as customers, senior executives, and business managers.) All four managers were assigned full-time to the project. The executives on the agile leadership team sponsored the parts of the initiative that were related to their areas of expertise. As sponsors, they mentored the initiative owners, helped them make tough trade-off decisions and find experts, and ensured that key departments executed the agile teams' recommendations. (For more on how agile teams are structured and operate, see “Embracing Agile,” HBR, May 2016.)

Meanwhile, Johnson led the members of the leadership team in drafting an agile manifesto to guide their own behaviors. (See the exhibit “An Agile Leadership Team's Manifesto.”) The document would serve as a kind of north star to help keep them on track and prevent backsliding in their interactions with the team.

In the past, similar “transformation” programs were managed on a part-time basis by mediocre people whose time was relatively easy to free up. The programs consistently failed. So this time around the leadership team decided to dedicate some of the company's best, most admired managers to the effort and to design the work by starting with the customer. They further agreed to give the leaders of Project Fusion whatever support they requested, using short daily meetings (often called stand-ups) to help remove impediments—a topic we'll discuss below.

At least once a month, Johnson asked all 25 agile teams on Project Fusion to rate his leadership team on

- For most types of agile teams, members are allocated 100% to a single initiative.
- That's not possible for agile leadership teams.



its adherence to the principles of the manifesto. He spurred the CIO to install software tools that increased the visibility of agile teams throughout the organization, with the goal of minimizing duplicative work and increasing collaboration. He encouraged the leadership team, other decision makers, and other agile teams to use the system to see in real time what everyone was working on, what their backlogs were, what they planned to accomplish by when, and what interdependencies existed among teams. He went out of his way to represent the voice of the customer in leadership work sessions.

The CFO. Johnson's chief financial officer quickly became one of the most active members of the agile leadership team. She worked closely with Johnson to focus work-session agendas on decisions and roadblocks and to call out behaviors that were inconsistent with the leadership manifesto. She applied financial tools to help the agile leadership team build and sequence the corporate backlog of initiatives. (The executive committee had historically struggled to prioritize its activities and wound up trying to do too many things at once.) The CFO taught leaders of all agile teams to sequence their activities by constructing a simple financial scenario: How much value would be lost if each initiative began six or 12 months from now rather than today? Initiatives that had the highest cost of delay—either because the benefits were so big or because seasonal opportunities or competitive advantages would be squandered—rose to the top of the backlog.

Her most important work lay in her own domain. She began revamping the planning, budgeting, and reviewing process—first for Project Fusion and then for other parts of the company that were tackling innovation programs. She reset corporate objectives to reflect the new priorities. She created new financial reports for the strategic agile initiative. She also commissioned agile teams to develop planning and budgeting processes similar to those used by venture capital firms with start-ups. Previously done annually, the processes would now occur more frequently—at least quarterly—but would be less onerous. Rather than relying strictly on financial forecasts, teams would increase the transparency of key assumptions, create ways to test them, and identify potential impediments. For example, teams would not simply forecast sales; they would break them into the number of customers per year, frequency of purchases per year, number of items



per purchase, and average revenue per item. The most critical and risky assumptions could thus be tested first, and deviations from expectations could be examined and refined. As data began to come in, frequent feedback loops would accelerate decisions to grow gains and limit losses, just as in the venture capital world.

The CHRO. The head of human resources focused on revamping the company's talent engine to power the transformation. Now that agile teams were using fully dedicated people rather than part-time allocations, the CHRO needed to develop new career paths and appropriate reward systems for members of the major agile initiative, along with processes for backfilling their previous positions. To identify the kinds of people who should be hired or moved and the skills they would need to succeed, he studied the effectiveness of previous agile teams in the IT department, which had adopted agile long before the rest of the company (a common phenomenon). A key determinant of a team's success, he discovered, was its initiative owner, so he analyzed the characteristics of successful versus unsuccessful people in that role. He developed hiring, training, and coaching programs to build common agile skills across technology and business areas. He clarified decision rights among agile teams and operating managers—a frequent source of confusion in many agile transformations.

The CIO. Since the IT department had the most experience with agile, the CIO took on the role of coach for the agile leadership team. He pointed out when team members were following agile principles and practices and when they were slipping into dangerous shortcuts or dead ends. He also developed templates that outlined for agile teams what was required before launching. To be “ready to begin,” each team had to identify a major customer opportunity; take responsibility for specific outcomes; staff the team with dedicated, multidisciplinary experts; and commit to applying agile values. It had to prove that it could work autonomously, create rapid prototypes, and collaborate closely with customers, and it had to have the support of a senior sponsor.

The COO. This executive took on the role of chief integration officer, creating the processes that agile innovation teams and the operating units would need to work together and scale up. For example, he ensured that agile teams designing new pricing strategies connected regularly with his

pricing execution team, and that teams studying the products that customers said they wanted worked closely with his product managers. He freed up several senior leaders from his department for Project Fusion. He committed to coaching them and to breaking through operational impediments.

The CMO. The chief marketing officer's role expanded from traditional branding and advertising activities to helping business units identify and prioritize strategic opportunities. She consolidated fragmented and often conflicting reports from various business units into a centralized source of data on customer segments, documenting their size, growth rates, changing needs, and satisfaction levels with the company and its competitors. She increased the frequency and depth of customer feedback, and she worked with the CIO to install state-of-the-art technologies for learning from customer communities. She also gathered intelligence on competitors, including their market shares by segment and their innovation activities. She shared this information with the agile leadership team weekly.

THE TIME PROBLEM

Asking senior leaders who are already flat out to take on the new tasks and rhythms that agile requires sounds like a bridge too far. What Johnson and other agile leaders have found, however, is this: Agile enables top executives to delegate many of their activities to subordinates so that they can focus on what only they can do. Executives come to understand that an hour spent reviewing or second-guessing the work of experienced operating managers creates far less incremental value than an hour invested in developing major cross-functional innovations—a task those operating managers are not in a position to handle.

We studied the calendars of three senior executives whose companies became agile organizations, quantified how they spent their time, and then interviewed them. We ran the findings past about a dozen other agile executives, and the results were consistent and eye-opening. By the end of the transition to agile (a three-year process for those firms), the leaders had quadrupled the time spent on strategy (from 10% to 40%) and reduced the time spent on operations management by more than half (from 60% to 25%). The time spent managing talent had risen slightly (from 30% to 35%).

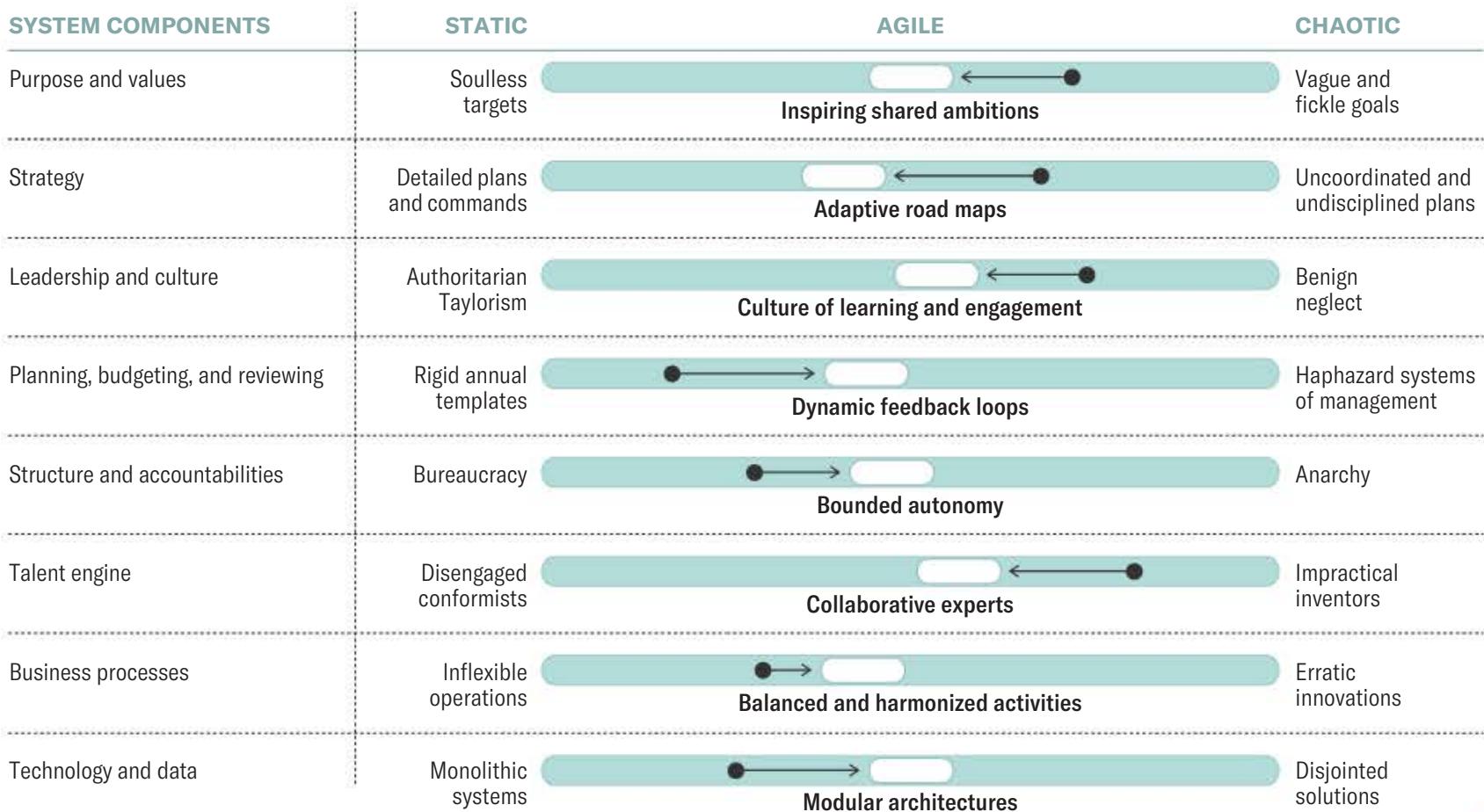
AGILE WAYS OF LEADING

Senior executives of large companies know a lot. They brim with self-confidence. These are the characteristics that helped make them successful, but the same characteristics can turn into liabilities: Some executives believe they know more than they do; some issue orders without having all the

Balancing the Agile Enterprise

A business operating system comprises many components, each of which can get out of balance. To create an agile enterprise, the agile leadership team identifies the optimal balance point for each component—this may not fall in the center, depending on the firm's context and circumstances—and then assesses where rebalancing is needed.

SAMPLE COMPANY
Ideal agile balance point
Where the company actually is
Rebalancing needed



Source: Bain & Co.

facts. An agile environment has a way of challenging such leaders. People who work on agile teams—even if they don't rank high in the organization—are likely to respond to orders with comments like these: "That might be the right answer, but we'd like to test it first." Or "Our data shows that customers don't value the feature you're proposing." Or "We tried that idea and rejected it. Here's why."

Agile, in short, requires humility from leaders. We don't mean a false humility but rather the sort that accelerates learning and bolsters the confidence of every team member. Humble people recognize the futility of predicting the unpredictable and instead build rapid feedback loops to ensure that initiatives stay on track. They understand that good ideas can come from anyone, not just from those with the highest status. They view their job as helping team members learn and take responsibility, rather than telling every team member what to do and how to do it. An agile leadership team has to adopt such attitudes or its pronouncements will ring hollow.

Let's now look at three examples of this kind of humble, agile mindset in practice to see how it affects everything an agile leader does—including operations management, coaching, and even administrative governance.

Rapid feedback everywhere. Agile innovation teams famously use short sprints (one- to four-week work intervals) and daily stand-up meetings to create feedback loops that identify and resolve impediments to progress as quickly as possible. Johnson is taking these feedback loops to another level. Each of the 25 agile teams on Project Fusion meets at 8:30 AM to talk for 15 minutes about plans for the day and potential bottlenecks. At 8:45, the leaders of the 25 teams meet in three teams-of-teams to share perspectives and jointly solve as many of the problems as they can. At 9:00, the leaders of the three groups—the initiative owners—meet together with the owner of Project Fusion to share their findings, resolve as many unaddressed problems as possible, and prepare to meet with the agile leadership team. At

 Most leaders aren't fighting agile. They simply haven't understood how it applies to their roles or how to perform those roles in ways that enhance agility.

9:15, the four of them meet with the agile leadership team to summarize plans for the day and present a list of decisions and impediments that they need the agile leadership team to resolve. Not every C-suite team member is able to attend every meeting, of course, and people on the road often join by video conference. But the team recognizes that coming together each day to make decisions—for just 15 minutes—is essential to avoid confusing and conflicting guidance. By setting aside this time and forcing discussions frequently, the executives dramatically speed the pace of decisions.

This approach is working so well that Johnson is now experimenting with the process in more parts of the organization, including business units and functional departments. This is similar to the system of daily huddles that Marc Harrison, CEO of Intermountain Healthcare, uses to accelerate improvement in his network of hospitals and clinics (see his article “How a U.S. Health Care System Uses 15-Minute Huddles to Keep 23 Hospitals Aligned” on hbr.org).

From commanding to coaching. As a management board member and chief technology officer of Bosch Power Tools, Henk Becker was asked to launch the division’s agile transformation in 2016 as part of a larger, enterprise-wide initiative. He set up agile teams that developed collaborative approaches consistent with agile values and principles.

Becker told us that he had to change himself as the teams changed their ways of working. A few courageous leaders had begun giving him feedback of a sort he’d never heard before. They told him that they wanted to be led differently. His leadership style, they said, wasn’t bringing out the best in people, nor was it positioning Power Tools to win in the marketplace. They cited times when he undermined their authority or unnecessarily delayed their work. The experience, he says, was “a click in my brain and in my heart.” He realized he needed to change his attitude and his behavior.

So he began a process of self-reflection and asked for more and more feedback. At first people were dubious: Was this just a passing fad? Slowly, Becker began to build trust and broaden the group of people giving him feedback. He shifted his focus to concentrate on the potential of his people and the organization. He started using positive language, asking “How can we?” instead of focusing on why something couldn’t be done. He engaged in two-way communication instead of issuing one-way direction. To demonstrate his

AN AGILE LEADERSHIP TEAM'S MANIFESTO

An agile leadership team should document the principles and behaviors that members will adhere to. Such a “manifesto” can serve as a mechanism for holding people accountable. This template, based on the original Manifesto for Agile Software Development, is an effective starting point for customization.

Individuals and interactions, not processes and tools

We set a clear ambition (“what” and “why”) and metrics for success but delegate the “how” to the team.

We empower teams and believe that the right answer lies not with us but within the team.

Customer engagement, not rigid contracts

Customer engagement, not rigid contracts

We encourage teams to seek feedback from a diverse set of customers and promote a culture of rapid adaptation to feedback.

We believe that things can always be improved.

Working solutions, not excessive documentation

We strive for “good enough” working solutions rather than demanding perfection.

We protect teams so that they can focus; we rapidly unblock key impediments.

We support teams in breaking down complex problems and frequently iterating in order to rapidly deliver solutions.

Flexibility, not concrete plans

We celebrate learning and create a safe environment for teams to take prudent risks and test unconventional hypotheses.

We embrace ruthless and constant prioritization and stop activities that are not yielding results within the defined time frame.



commitment, he gave up his office and parking spot. He also stopped asking people to make him PowerPoint presentations; instead, he began relying on the information they were already using. It took time, he says, but he became a different leader—the kind who could successfully guide an agile transformation. Becker is now CEO of Bosch Power Tools.

From meetings to work sessions. Once Johnson and his CFO got comfortable with agile principles and practices, they grew increasingly frustrated with old-style management meetings. Most started with unclear objectives. People shared their thoughts on random topics in random order. After hours of discussion, meeting participants were in apparent agreement—but when it came time to act, participants frequently refused to do what others thought they had signed up for. They would say that circumstances had changed and that actions proposed earlier were now impractical.

Johnson eliminated as many meetings as he could. He shifted the remainder from tedious reviews of activity reports to collaborative problem-solving sessions. He began every work session with a list of the issues to be resolved and barriers to be removed. When decisions required tough trade-offs among several functions, he pulled all the key people together into “swarming sessions” that made decisions in hours rather than weeks. He taught participants to address problems by describing the options, evaluating the trade-offs, recommending the preferred option, outlining the assumptions behind it, describing the action steps necessary to test the assumptions, and communicating explicit action items for each member of the leadership team.



LEADERSHIP

Executives noticed the difference. Many referred to the “constructive conflict” that replaced passive participation. The team pushed discussions into decisions. The decision-to-action pace increased. People left work sessions with a clear understanding of their responsibilities and a greater commitment to their goals. Johnson encouraged people to create flexible road maps that enabled everyone to visualize what would be accomplished, how soon, and by whom. Over time, this approach to meetings spread throughout the organization.

AGILE TEAMS OFTEN cite leadership and culture as the greatest barriers to the successful scaling of agile. But most leaders aren’t fighting agile. They simply haven’t understood how it applies to their roles or how to perform those roles in ways that enhance agility.

Agile leadership demands that executives create a carefully balanced system that delivers both stability and agility—a system that runs the business efficiently, changes the business effectively, and merges the two activities without destroying both elements. An agile leadership team views development of the agile system as an agile initiative—in fact, as the most vital of all agile initiatives. Senior executives learn to manage the transition as an agile team. They view it as a continuous improvement program, not as a project with predictable end points or fixed completion dates. They realize that going too slowly may fail to achieve escape velocity, and that changing too fast will create chaos. So they sequence and balance all the components, recognize the value of role-modeling agile behaviors, and appreciate that how they make decisions will be as important as the decisions themselves. When it all works, they improve business results, unleash the potential of employees, and enhance their personal job satisfaction. ☺

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ENTREPRENEURSHIP

The New-Market Conundrum

In emerging industries
the usual rules
of strategy
don't apply.

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ABOUT THE ART

In his photographs, Julien Mauve imagines what it would be like to discover an entirely new world. His work explores our desire to affirm our presence in the landscapes around us.

IDEA IN BRIEF

THE CHALLENGE

Executives struggle to formulate strategies and business models for newly emerged markets because the forces of competition there are constantly in flux. In such an environment, conventional strategic approaches just don't work.

THE INSIGHT

Research shows that in brand-new markets, the most successful start-ups practice something we call parallel play, exploring and testing their world the way young children do.

THE CONCEPT IN PRACTICE

Early on, forget about differentiation. Instead, observe what others in the market are doing and borrow from them. Experiment relentlessly and then commit to a single template for creating value. But don't go full speed ahead with it; leave your model purposely undetermined and wait until the market settles before optimizing it.





ENTREPRENEURSHIP



The past two decades have seen the birth of an unprecedented number of new-to-the-world markets.

Technologies such as cloud services, warehouse robotics, and smartphones have redefined entire industries, making old business categories obsolete. A steady stream of emerging innovations—from commercial drones and autonomous trucks, to virtual and augmented reality, to plant-based meat substitutes—suggests the era of market creation will continue for the foreseeable future.

From a strategic point of view, new markets are like science fiction’s wormholes, where conventional rules of time and space do not apply. In new markets the questions that typically define a company’s strategy—where to play and how to win—have no easy answers. Large companies that invest millions may find themselves outflanked by brash start-ups; today’s winners may be tomorrow’s losers. PayPal, for example, is now the clear leader in online payments, but in the market’s first years the top competitor was a company called Billpoint. 23andMe took an early lead in personal genomics, but who will ultimately dominate that market remains up in the air.

It’s tempting to think of pioneers of new markets as conquering a totally foreign terrain with no recognizable landmarks or proven navigational tools. But in our research into



patterns of success and failure in new markets, we've uncovered something unexpected. Over the past few years, we've conducted more than 200 interviews with entrepreneurs and corporate innovators in fields ranging from personal genomics and augmented reality to drones and technology-enabled finance ("fintech"). What we learned is that the most successful of these pioneers follow the same set of implicit rules and share specific behaviors. These rules and patterns often defy conventional precepts of strategy and business building, however. In our eyes they amount to a new strategic framework—one that can help other innovators chart a course in new markets and avoid the pitfalls they present.

An Alternative to Conventional Strategy

In traditional business thinking, the essence of strategy is choosing to perform activities differently than rivals do. A winning strategy positions a company to deliver some sort of

value better than anyone else does: to serve a particular set of customers more effectively or to provide greater benefit at lower cost, whatever the source of the intended advantage may be. The job of the strategist is to identify competitors—both existing and potential—and then outmaneuver them. Venture capitalists reinforce this mindset by requiring founders of start-ups to list their competitors and explain how they plan to distinguish themselves from the pack.

In a new market, however, this approach makes little sense. When a market (or a business category) is just forming, a company can't possibly know which points of distinctiveness are likely to be most important to customers. Moreover, the competition typically consists of small ventures that are equally in the dark. Conventional strategy frameworks just don't apply. An analysis of Michael Porter's famous five forces that affect a competitive environment—existing rivals, the bargaining power of suppliers and of customers, alternative offerings, and new entrants—is apt to be less productive when those forces are in constant flux and may suddenly emerge or disappear. (Porter has acknowledged as much: In a new industry, he has written, "managers face a high level of uncertainty about the needs of customers, the products and



The behavior of successful new-market pioneers bears a striking resemblance to the behavior of preschoolers.



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services that will prove to be the most desired, and the best configuration of activities and technologies to deliver them.”)

Established companies by definition have established business models. They know how to create value in a given space, and the primary strategic question is how to do so in a way that outstrips the competition. By contrast, companies in a new market don’t know what business model will actually make sense; most can’t even answer the age-old questions “Who is the customer?” “What does the customer value?” and “How will we deliver that value at an appropriate cost?” They may have hypotheses, but they cannot know whether their hypotheses will pan out.

Consider the early days of the ride-sharing business. In early 2012, Uber offered black cars operated by drivers with commercial licenses and charged premium prices. Zimride was a carpool-matching service for universities and companies. A company called Sidecar was seeking to become a multipassenger, multistop ride service featuring drivers with ordinary licenses. None of those fledgling business models survived intact.

The uncertainty of new markets requires a different framework for strategic thinking. We call it *parallel play*. Its inspiration comes from an unlikely setting: early childhood. As child psychologists have long known, three- and four-year-olds typically behave in a distinct fashion in a social setting: They play near one another but not together. They keep an eye on what their peers are doing (and sometimes copy them) but then return to their own projects—building a block structure, say, or creating a costume from old clothes. Occasionally, they’ll grab a toy from another child. The more precocious among them may pause periodically to assess what they’ve done and then continue on a slightly different tack. Though aware of other children’s efforts, they focus primarily on their own activities and on figuring out what “works” as they make progress toward whatever goal they have in mind.

In our research we asked executives operating in new markets to describe the strategic steps they had taken as their companies and industries evolved. We identified patterns in those descriptions and then compared the patterns with the companies’ progress. That’s when we discovered that the behavior of *successful* new-market pioneers bears a striking resemblance to preschoolers’. They learn about

their markets and their customers—and about what is likely to work—in much the same way that young children learn about their world.

How Parallel Play Sets Companies Apart

Parallel play is a natural way to behave when you don’t know very much. Three kinds of parallel play behaviors in particular distinguish high-performing new-market companies from their less-successful rivals.

1 Early on, forget about differentiation. Borrow ideas instead. Young children learn individually, but because they observe one another, any group of them is performing a kind of collective experiment, enabling each one to learn more than he or she could alone. Indeed, preschoolers often imitate one another. Rarely do they bother trying to outdo one another. Borrowing is also typical of successful new-market innovators. Again, the nascent ride-sharing category offers a good example. Sidecar opted to reduce the complexity inherent in its multipassenger, multistop model and focused instead on one-passenger, one-stop rides. The drivers would be non-professionals using their own cars, and the system would include such in-app features as electronic payments, GPS navigation, and a rating system for drivers. Suddenly, those features for creating value made the most sense to everybody. Zimride’s service emulated Sidecar closely, and the company eventually changed its name to Lyft. Uber was not far behind, creating what it then called UberX to distinguish the peer-to-peer service from its corporate black-car service.

Astute borrowing can make the difference between a winner and an also-ran. In 1999 Google founders Larry Page and Sergey Brin knew that they had created a search engine superior to anything else available at the time. What they didn’t know was how to make money with it. Display ads were out—Page and Brin considered them ugly, and they took too long to load. But the company was hemorrhaging



Trying to differentiate early on in a new market can lead a company down a blind alley. It's more effective to treat other companies in the space as a treasure trove of ideas.

cash. The two founders looked around and decided to take an idea from GoTo.com, a rival search engine that was generating ample revenue by allowing advertisers to pay for prominent placement in search results—but charging them only when users clicked on their ads. Google’s new product, AdWords, introduced in 2000, maintained the integrity of the search but let advertisers buy small text ads that would appear above the results. Like GoTo, Google charged only for clicks, not for views.

The practice of borrowing runs directly counter to the conventional strategic imperative of differentiation—which traditional strategists argue is essential to avoiding the negative spiral of competing only on cost. But trying to differentiate early on in a new market can lead a company down a blind alley. A more effective approach, we argue, is to treat other companies in the space as peers rather than competitors. When we interviewed executives in a nascent fintech category, we discovered one firm that was so focused on distinguishing itself that it spent millions developing a slick user interface and proprietary algorithms to scrape data directly from brokerage accounts, nearly going broke in the process. Meanwhile, a successful rival pursued a different approach: It reproduced a peer’s user interface (rather than spending resources to develop its own) and opted for a financial-analytics provider that other fintech companies had hired to gain access to shared brokerage data. Borrowing enabled the company to develop a working prototype of its product quickly and cheaply.

To be sure, borrowing is unlikely to produce an optimal business model, which is the foundational task of a new enterprise. It won’t identify the product that all customers value over existing solutions or the best mechanism to profitably deliver it. But it typically lowers the amount of money and time needed to design a good-enough-for-now offering, by treating peers as a treasure trove of ideas and resources from which a company can draw. Firms can then spend more on other aspects of the business model and on testing assumptions. Borrowing also helps entrepreneurs resist the temptation to strive for an optimal solution right away—an unrealistic and unnecessary aim in a brand-new market. At this very early stage, quickly assembling a rough prototype for hands-on learning is nearly always a more useful aim than pursuing a perfect solution is.

Of course, entrepreneurs could always borrow faulty ideas. But because they focus on how to profitably deliver value to customers, they’re likely to be reasonably astute judges of whether a given idea is good.

This is not to say that new-market entrepreneurs don’t or shouldn’t differentiate. But initially, we argue, their primary competitive focus should almost always be on an existing substitute—what the customer currently uses—not on their new-market rivals. Ride-sharing companies came to view themselves as competition for the taxi industry and ultimately for private car ownership. Google’s objective was to supplant conventional advertising. The successful fintech companies we studied saw their true competition as established investment and wealth-management firms. In their messages to prospective customers and investors, they all presented themselves as superior to traditional sources of financial guidance. They mostly ignored their fintech peers (preferring to “play the course, not the players,” as one company founder memorably expressed it).

A focus on established substitutes helps entrepreneurs create a realistic value proposition. Peers at this stage are likely to have few users, but established substitutes are already providing value to customers. As one fintech founder noted, viewing established substitutes as the true rivals prevented his team from “worrying about the wrong things.” To be sure, this focus can be hard to achieve in practice, as many venture capitalists demand benchmarks against other start-ups, but enlightened investors and founders find other ways to measure progress. “At the early stage we are looking for companies that are nonconsensus, not companies that are better than competitors,” says Ann Miura-Ko, a partner at Floodgate, a seed-stage VC firm that has backed Twitter, Lyft, and Cruise Automation. “The point isn’t to fit in to someone else’s landscape or category.”

2

Test relentlessly—but then commit. When they play, young children explore a variety of projects but then commit to the one that engages them most. The idea of innovation through experimentation is by now widely accepted, though many companies continue to make the mistake of launching without much testing. But in a new market, we discovered, high-performing ventures didn’t just test and learn. They used that learning to choose a single



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template for creating and capturing value (that is, for monetization) and spent scarce resources *only* on it.

This goes against conventional strategic teaching, which holds that the cost and the loss of flexibility of commitment can't be justified in uncertain markets. However, our research revealed it to be key to success—provided that firms tested alternative business-model templates first. Less-successful enterprises either committed without testing (often missing out on more-lucrative opportunities) or flitted among several templates, hedging their bets without making a choice.

When the app Burbn—which enabled users located near one another to connect, make plans, and post photos of their meet-ups—proved too complicated, discouraging people from engaging with most of its features, founder Kevin

Systrom began running tests to discover a template that captured what users really wanted. The outcome was a business model centered on photo sharing. Systrom next doubled down on making it possible to post a good photo with three clicks and scrapped everything else. He then renamed the app Instagram. Later, Systrom shamelessly borrowed the “stories” feature from Snapchat and incorporated it into Instagram. (“They deserve all the credit,” he acknowledged to a reporter.)

Evernote offers a cautionary counterexample. It started as an elegant note-taking app but tried to spin into a lifestyle brand after strong interest from investors. The company built a chat app, a recipe app, a contact-management app, and a flashcard app, splitting itself along two very different



business-model paths: apps with a freemium model (basic product offered for free, enticing users to become paying customers for a higher-end version) and online sales of goods. Although Evernote lives on, it failed to live up to expectations. It started with a strong, useful concept, but the company's lack of commitment to one template for creating and capturing value derailed it.

For new-market enterprises, the choice of a template is a decisive fork in the road. Look at the experiences of PayPal and its erstwhile rivals in the nascent digital-payments sector. Both eMoneyMail and Billpoint forged close relationships with established banks with the aim of combating fraud. Both also limited their markets: After less than a year of operation, eMoneyMail made its service available only to Bank One customers. Similarly, eBay discouraged the use of Billpoint outside its own auction site. Executives at both companies regarded a close banking relationship and a limited customer base as the only ways to elicit trust from consumers and to keep fraud expense within manageable limits. Meanwhile, PayPal took a different road. It committed to an open, stand-alone web-based model available to all and learned from testing that ease of use was more critical to users than tight antifraud controls. Thus, as *Wired* reported, the company came to view fraud as "something akin to an R&D expense." PayPal "reimbursed customers for their losses, learned how the crooks worked, and engineered ingenious fixes" such as the now-familiar "type this" codes presented in a GIF file. Commitment to a different business model encouraged PayPal to innovate in ways that its rivals on another road never even thought about.

3 **Pause, watch, and wait.** Preschoolers' parallel play frequently involves making things, such as a sandcastle or a doll's costume. As we noted earlier, some children stop periodically to reflect on their projects before continuing. We observed similar behavior by high-performing innovators in new markets: After they committed to a general approach to creating and capturing value, they paused and looked around before nailing down the specifics of that business model.

This may be the most striking challenge to conventional theories of strategy, which nearly all assume that commitment and "full speed ahead" are the same thing. At classic

lean start-ups, entrepreneurs and corporate innovators try to identify potential customers, pinpoint what they value, and aggressively optimize their operations to deliver it in a profitable way. If something goes awry, the theory is, the venture can quickly pivot to a new business model ("fail fast"). But in an evolving market, trying to perfect a business model—even one that appears to be working well—too early can be problematic. And pivoting can be costly, difficult, and time-consuming, since it typically involves unwinding and rebuilding aspects of a company's business model.

It's preferable, we learned, to leave a business model purposely undetermined. The most successful companies initially specify the basic elements of their business models (for example, a product that some customers will find superior to existing solutions and the resources to deliver it) but leave other elements undefined. In other words, they commit to a single template for creating and capturing value but postpone optimizing it.

Dropbox's early history provides insight into the benefits of watchful waiting. The start-up created enormous value by giving customers instant access to their files from any computer via a simple drag-and-drop interface; it committed to an easy-to-use product and a freemium model for capturing some of that value. Interestingly, though, the venture stopped short of tailoring its offering to consumers (although they were Dropbox's primary users at the time) or building operations around the original and most salient use case (backing up files). With its robust but undetermined model, Dropbox was able to accommodate additional use cases—sharing files and collaboration—and profitable new customers: enterprises. By the time it filed to go public, in 2018, about 30% of its 11 million paying users were on a Dropbox Business team plan.

Any new market is likely to present surprises—unforeseen customers and uses that no amount of testing would have revealed. An incomplete, partially elaborated business model increases the likelihood that innovators will acquire information that they could not easily have anticipated. As one fintech investor described it, "The fewer constraints we impose, the better, because there's more room for emergent behavior, more room to discover." A purposely undetermined business model also allows entrepreneurs' activities to evolve in step with a changing market. Users'



The new-market graveyard is filled with companies that got trapped within their original business models.

preferences shift frequently in nascent markets as people engage with innovations in unexpected ways. For example, the portable-ultrasound pioneer SonoSite created a website (*SonoSite Moments*) where health care providers could share how they used its ultrasonic stethoscope. That helped SonoSite learn of unintended uses and customers, such as nurses finding patients' veins before inserting a needle and medical missionaries diagnosing heart defects in children. These discoveries enabled SonoSite to adapt its business model accordingly.

The new-market graveyard is filled with companies that got trapped within their original business models. Take Shyp, which aimed to pick up and ship consumers' packages for as little as \$5 (on top of postage). The company grew fast for a while, reaching a \$250 million valuation; then growth slowed and losses caught up with it. Instead of pausing to explore other potential sources of value—such as shipping for businesses—it kept rushing onward. It ended up shutting down in early 2018. Companies that take a breather before refining their models, in contrast, learn by waiting and observing—which is more likely to produce unanticipated insights than other types of learning are. Because pausing is inexpensive, it is relatively low-risk. Entrepreneurs can readily resume refining the business model when the team is no longer learning much or when peers seem to be sprinting ahead.

Consider the experience of Rent the Runway, a company operating in the brand-new market for stylish rental clothing. Founders Jenn Hyman and Jenny Fleiss initially envisioned a “closet in the cloud” from which women could rent designer clothes for occasions like weddings. They tested the idea by inviting 140 women to two pop-up events. These tests helped them profile potential customers and provided insight into peripheral questions, such as whether renting clothing was an activity that women would do alone or together.

Though the initial business gained popularity, the company wanted to expand its range of offerings. A subscription-based offering of accessories and handbags met with lukewarm success. So the founders turned to watchful waiting: They looked closely at their customers and at how they hoped to use RtR. Most customers, the company realized, spent five days a week at an office. They didn't just want special-occasion clothing; they wanted stylish apparel for work. When RtR expanded in that direction, its growth

was assured. Companies in mature markets have long used customers and the insights they provide to drive innovation; new-market companies can too.

It makes sense to ask why committing to a business-model template is effective in new markets but fully executing it immediately is not. Investing in two or more distinct models is simply too confusing and too costly. But once the commitment to one is made, entrepreneurs can moderate the pace at which they refine the elements of the model and gather serendipitous insights through passive learning.

THE PRECEPTS OF new-market strategy do not mean that the conventional rules of strategy should be abandoned. After a few years—the interval varies considerably, depending on the industry—a few companies will become leaders in the new markets. They are likely to reap the usual benefits that strategists identified long ago: network effects, economies of scale, market power, and so on. Rent the Runway now operates in an increasingly crowded market, with both start-ups and established retailers dipping their toes into subscription clothing services, and might need to leave a parallel play approach behind. At some point start-ups grow up, the markets they pioneered become established industries, and they must begin to observe the traditional laws of strategy and focus on competition. Every company that hopes to succeed over the long term eventually will need one or more sources of differentiation.

Entrepreneurs in new markets resemble children in that there is much they don't yet know. They operate in utterly strange but fascinating environments, where discovery and surprise are common. It makes perfect sense, then, that the most successful of them behave like preschoolers, engaging in parallel play and borrowing, testing, and watching to see what happens. ☺

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In 2013

Ellen Kullman, then the CEO of the chemicals giant DuPont and under pressure from shareholders to improve results, decided to sell the company's performance coatings business, a low-growth, low-profit part of the portfolio. Carlyle Group, a private equity firm, paid \$1.35 billion to gain full ownership of the business and renamed it Axalta. Carlyle immediately embarked on a major overhaul of the unit, which involved fairly aggressive investment, especially in developing markets.

A mere 21 months later Axalta was doing so well that Carlyle took it public and recouped almost its entire investment by selling just 22% of the company. By 2016, three and a half years after the acquisition, Carlyle sold its remaining stake, realizing a total of \$5.8 billion on its initial investment.

This is a familiar story, and one that has given PE investors like Carlyle, KKR, and Blackstone a reputation as farsighted management geniuses that can unlock hidden value in the most unpromising assets through a combination of rigorous management, good governance, careful cost control, and, above all, freedom from the short-term results required by investors in the public markets.

Small surprise, therefore, that investors, ever on the lookout to boost their returns, are ramping up holdings in PE funds. The public markets are increasingly seen as a mug's game. And with a flood of capital pouring in, PE firms have moved from buying undervalued business units to buying whole companies whose shareholders are unhappy with management's performance.

Yet celebrated PE turnarounds are usually led by managers with long track records in large public corporations, and the exits take place in a relatively near-term five to seven years. Cost cutting is hardly rocket science, and most of the management practices and strategic tools that PE firms apply—such as design thinking and Six Sigma—are well-known and widely taught. Given all that, why are large public corporations like DuPont so willing to off-load lucrative opportunities to private investors?



The basic mistake many corporate managers have made is to anchor performance measurement in a historical number that very quickly loses relevance.

The answer is rooted in the way many—though not, of course, all—corporations value their businesses and projects. The basic mistake many corporate managers have made (and, the data suggests, continue to make) is to compare estimates of future cash flow with the amount of cash put into the business. Although that sounds perfectly reasonable, it anchors performance measurement in a historical number that very quickly loses relevance.

As I'll explain in the following pages, once an investment has been made in an asset, the company's expectations for the value it will create are, in effect, publicized. So if a listed company like DuPont makes a large investment in, say, its coatings unit—perhaps to build a manufacturing plant or to enter a new market—those expectations are immediately factored in to the share price. If the unit beats expectations, the perceived value of the investment will increase, resulting in a higher share price. If it simply meets expectations, the value won't budge, and the share price (absent other factors) will remain unchanged. But if the unit falls short of expectations, the market will reduce DuPont's share price, even if the investment continues to generate returns on the cash put in—because those returns were not as high as expected.

What this means is that when measuring the performance of their investments, corporations should consider not the cash put in but the current value of the asset or capability they've invested in, which—and this is the critical point—includes *the value that the market already believes the company will create or destroy with that asset or capability*.

As we'll see, the failure of corporate managers to recognize this explains why PE firms like Carlyle continue to

make huge profits from the businesses they buy from the likes of DuPont. I will begin, however, by comparing the various types of assets that corporations invest in, because the disconnect between the market's perception of investment performance and how the performance is measured is rooted in the nature of the assets involved.

Capital and Its Convertibility

A corporation invests its capital in many types of assets. At one end of the spectrum is what I call *unfettered* capital—cash and its equivalents, such as marketable securities or, indeed, any asset that is tradable and can be swiftly converted into cash. Such assets are typically valued on the balance sheet at their market price, which incorporates all current expectations about the value they will create.

At the other end of the spectrum is *embedded* capital, which has been sunk into an asset that is not readily convertible into cash or its equivalents. It may be a production facility, a distribution network, or a software system. It may also be a brand or a patent. In the absence of available market prices, these assets are assessed on the balance sheet at their purchase value less accumulated charges for depreciation or amortization (calculated according to standard accounting rules). For most corporations, such assets represent the majority of capital investments—they are what enable companies to produce, market, and distribute

IDEA IN BRIEF

THE PROBLEM

Large public corporations frequently off-load business units they believe are underperforming—only to see the private equity firms that buy the units reap a handsome profit by turning them around and selling them.

WHY IT HAPPENS

Managers at large corporations are wedded to a valuation model anchored in the amount of cash invested in a business rather than in expectations of value to be created. PE firms can exploit this serious misvaluation.

THE SOLUTION

Managers should recognize that any investment in an asset presupposes that value will be created or destroyed in the future—and that should immediately be reflected in the valuation of the capital represented in the asset.



It seems perverse to factor in expectations of future value when appraising a whole portfolio but not when estimating the value of that portfolio's assets.

the products or services they offer, through which value is created.

Typically, companies convert unfettered capital into embedded capital. When a chemical company, for example, builds a polyethylene plant, it is embedding capital it has received from banks or equity investors in an asset that may not be easily sold in exchange for cash. If the polyethylene market heads south—or if the plant turns out to cost more than expected—it can probably be sold only at a big loss. Of course, if the plant was brilliantly built and located, it may be sold for a substantial gain. But either way, it can be sold as a functioning plant only if it has been maintained and is fit for the intended purpose.

That's not as bad as it may sound. Investors and banks give corporate managers capital not to invest in cash and marketable securities but to identify and effectively manage productive assets. As the strategy professor Pankaj Ghemawat has argued in his book *Commitment: The Dynamic of Strategy*, the key to competitive advantage is to make investments that commit the corporation to a particular capability and course of action. If you buy the right assets and capabilities and use them well, they will create value for you in the form of a healthy and sustained cash flow. And the less convertible they are, the more value they will create.

Ghemawat's argument has empirical support. The economists William Baumol, John Panzar, and Robert Willig, in an obscure but important book called *Contestable Markets and the Theory of Industry Structure*, showed that industries in which the key productive assets were reasonably convertible performed worse than industries that featured what the authors called *irreversible assets*. For example, in the U.S. scheduled air transport industry, two of the most expensive assets are planes and gates. It turns out that the market in both planes and gates is very liquid, which means that when an entrant invests capital in the industry, it can extract that capital relatively quickly. The trouble is that when the industry is doing well, companies tend to over-invest, because the cost of commitment is relatively low. Thus the industry suffers from systematic overcapacity. In this environment, it is hard for a company to consistently and sustainably create value.

Ultimately, corporate managers are there to invest in assets that are not easily convertible. It is by embedding

the unfettered capital they receive from investors that companies create value. But how can we tell objectively whether those managers are doing a good job?

How Companies Measure Value Creation

Kellogg professor Al Rappaport (author of the influential 1986 book *Creating Shareholder Value*) and the consulting firm Stern Stewart were instrumental in developing the standard methodologies for measuring shareholder value creation. Rappaport's shareholder value added, or SVA, and Stern Stewart's economic value added, or EVA, were very similar, and both involved comparing two numbers: the return on capital invested and the average cost of capital, weighted to reflect the proportions of debt and equity financing. For simplicity, I'll use EVA here, because it has become more common.

EVA expresses expected net cash flow as a percentage of the dollar value of the amount the company has raised through borrowing and equity issuance, as reported on its balance sheet. To generate EVA, managers typically apply the capital asset pricing model, the inputs of which are publicly available. If the return on capital invested exceeds the cost of capital, the corporation is creating value. If it is less, value is being destroyed.

To make this concrete, let's look at the venerable U.S. pharmaceutical, medical devices, and consumer products giant Johnson & Johnson. In 2018 it sold \$81.6 billion worth of goods and services and earned \$15.3 billion in post-tax cash flow. To generate that cash flow, J&J deployed an average of \$89.1 billion of capital—made up of outstanding equity and long-term debt, booked as the amounts raised. (It started the year with \$90.8 billion and ended with \$87.4 billion.) So J&J made a healthy 17% cash-flow return on its capital invested over the year. During the same period, outside organizations estimated J&J's weighted average cost of capital (WACC) at around 6%. So its positive EVA was 11 percentage points. The other way to think about it is in absolute dollar terms. J&J implicitly incurred



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The Common Mistake in Calculating Value Creation

Most companies use return on invested capital (ROIC) to evaluate how a business is performing. But calculating ROIC requires accurately estimating the firm's cost of capital—and many managers do that incorrectly, by focusing on the book value (or historical cost) of the investment rather than the market value of that capital today (based on the company's stock price). Consider this example from Johnson & Johnson to understand the pitfalls of that approach.

AVERAGE BOOK VALUE APPROACH

Most management teams use the **average book value** of capital when assessing returns. Even after subtracting its cost of capital (6%), J&J's businesses appear to be performing well. (All figures are in billions.)

Business unit	Average book value of capital	2018 cash flow total (% return)	Cost of capital (6% of average book value)	Real cash flow
Pharma	\$40.8	\$8.9 (21.8%)	-\$2.4	= \$6.5
Devices	\$31.1	\$4.4 (14.1%)	-\$1.9	= \$2.5
Consumer	\$17.2	\$2.0 (11.6%)	-\$1.0	= \$1.0

For example, on J&J's books, the company has invested \$40.8 billion in its pharma business...

...which would give it \$6.5 billion in real cash flow after adjusting for the cost of capital.

MARKET VALUE APPROACH

But if we make the same calculations using the **market value** of the capital J&J has invested in each business instead, the results are very different. In fact, J&J's businesses are generating negative cash flow after its real cost of capital is correctly incorporated, which helps explain J&J's lackluster stock performance during this period.

Business unit	Market value of capital	2018 cash flow total (% return)	Cost of capital (6% of market value)	Real cash flow
Pharma	\$236.5	\$8.9 (3.8%)	-\$14.2	= -\$5.3
Devices	\$115.1	\$4.4 (3.8%)	-\$6.9	= -\$2.5
Consumer	\$53.9	\$2.0 (3.7%)	-\$3.2	= -\$1.2

But the market value approach shows that investors consider \$236.5 billion to be their investment in pharma...

...which makes its real cash flow negative.

a capital charge of about \$5.3 billion (6% of \$89.1 billion) and produced a cash flow of \$15.3 billion: It had created about \$10 billion in value. This is known as residual cash flow (RCF)—that is, the dollar amount generated over and above the capital charge. If the RCF is positive, the corporation created shareholder value; if negative, it destroyed shareholder value.

In due course, EVA practitioners began applying this corporate-level analysis to individual business units to see which were contributing to or diminishing corporate value creation, because the majority of a firm's embedded-capital

investment decisions are made within those units. (At J&J only 16% of total assets by dollar value are held at the corporate level.) To calculate the capital charge, analysts identify (from the financial report) the book value of the net assets (fixed assets plus net working capital) associated with each unit (adding in, if they want to be more precise, a pro rata share of corporate assets). Multiplying that adjusted number by the firm's average cost of capital gives a dollar value for a year's capital charge for each business unit.

This type of analysis enabled corporate managers to rank their company's units in terms of RCF, from those generating



By embedding unfettered capital they receive from investors, corporate managers create value. How can we tell if they're doing a good job?

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the most absolute shareholder value to those diminishing it to the greatest extent. For example, J&J divides its business into three main units: pharmaceuticals (which features blockbuster drugs such as Remicade and Xarelto and earns about \$8.9 billion of the adjusted cash flow while utilizing about 46% of the company's \$89.1 billion in invested capital at book value); medical devices (such as stents and contact lenses; \$4.4 billion and 35% respectively); and consumer products (Band-Aids, baby shampoo, Neutrogena, and so forth; \$2.0 billion and 19% respectively).

Corporate managers quickly adopted this approach as the basis for important investment and divestiture decisions. Shareholder-value-creating businesses justified more investment; shareholder-value-destroying businesses justified austerity—not throwing more good money after bad.

Nothing about this reaction to the new measurement tool was crazy on its face. Why wouldn't one fund businesses that generate cash in excess of capital costs and be very careful with those that don't cover capital costs? Isn't that what shareholders want? Shouldn't one divest losing businesses before they add yet another year of shareholder value destruction?

So why did J&J's share price fall in 2018, leaving it with a market-value loss of \$30 billion or so? We can explain away \$23 billion as a reflection of a drop in the overall market—but that still implies that the market believed that J&J destroyed more than \$7 billion in value instead of creating the \$10 billion or more that the standard analysis identified. If we assume that the market is always right, something must be wrong with the calculation I've just dragged you through. This brings me to the one thing you need to know about capital.

Realizing Value at the Moment of Investment

A company's stock price reflects the value investors expect its portfolio of projects to generate. Now, let's imagine that J&J surprised the market by announcing that a new blockbuster drug, previously thought to be a long shot, had received regulatory approval, and that the expected annual

profits from it were likely to be some \$6 billion a year. Let's further imagine that the analysts covering J&J concurred with that estimate. Other things being equal, with a cost of capital of approximately 6%, that \$6 billion a year in profit would probably cause J&J's market capitalization to rise by \$100 billion.

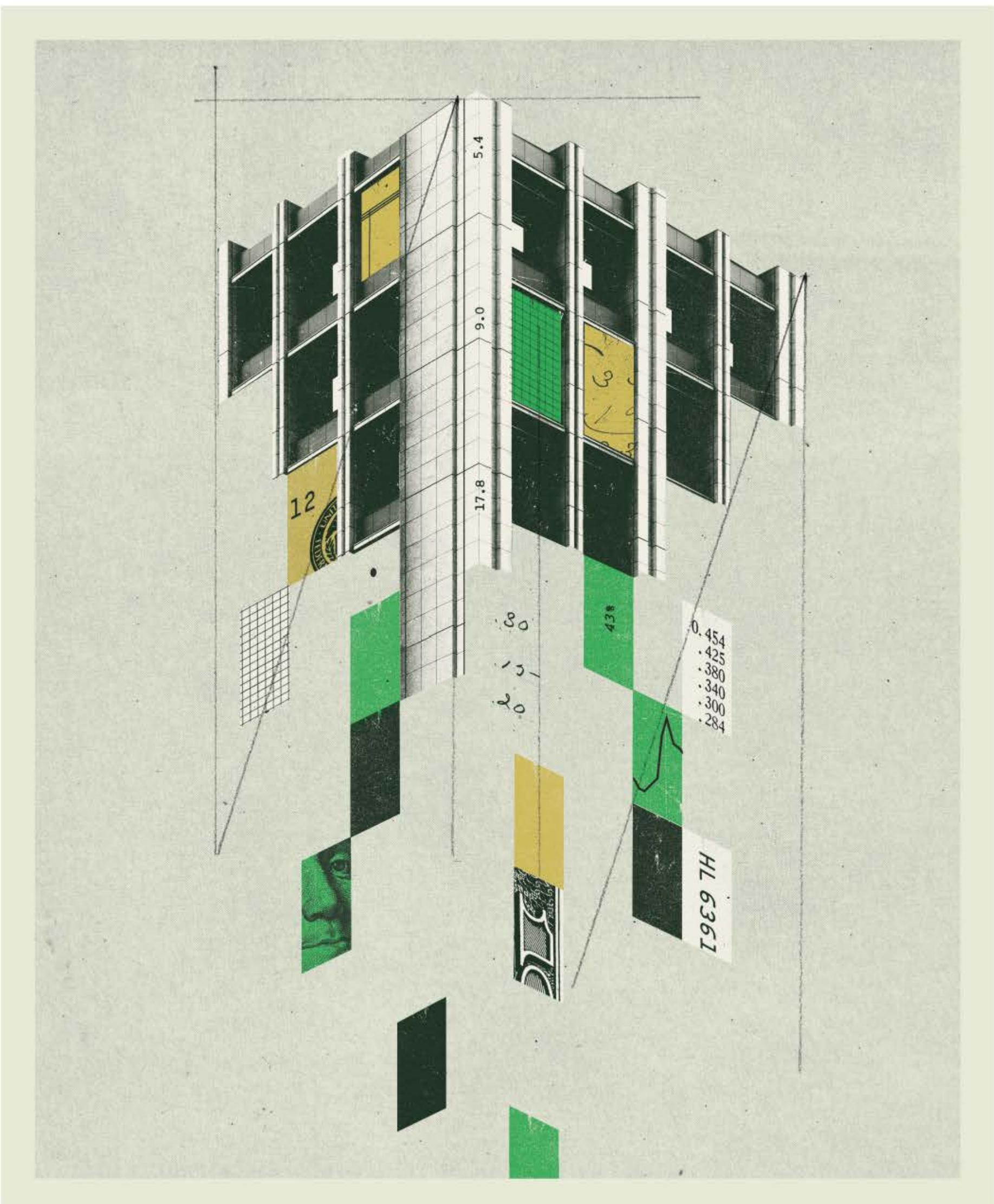
What's more, the J&J stock price wouldn't rise at a rate of \$397 million per trading day (252 a year), because that amount is the extra profits J&J would earn each trading day. Rather, the market would take the news, discount all future extra cash flows stemming from the new drug back to the present, and push the market cap up by \$100 billion immediately. That is, of course, with perfect information. If the information trickled out slowly and selectively, it might take some time for the \$100 billion bump to materialize. But regardless, the bump was foreordained the moment the surprise regulatory approval occurred.

So again, this is the one thing you need to know about capital: *Any investment in an asset establishes expectations that value will be created or destroyed in the future, which should be immediately reflected in the value of the capital.*

This is precisely why Alphabet trades overall at four times its book value. Investors have long since revalued upward the capital embedded in the Google search business—a spectacularly profitable business, which traditional calculations would reveal to have a very high EVA. But that alone would not cause Alphabet's stock price to rise. Investors would bid up the stock only if they discovered that the company had figured out how to generate a positive RCF after making a capital charge that incorporated the value already embedded in the stock price, not the historical investment. The only thing that pushes up a stock price is positive new information.

Now recall how embedded capital is valued: It is booked as the cash paid to acquire the asset, adjusted by depreciation and amortization. It seems perverse that we factor in expectations of future value when we value a firm's whole portfolio, but not when we're estimating the value of that portfolio's assets—and thus of embedded capital—at the individual business unit or project level.

What's more, by not immediately factoring in the value that an investment is expected to help create, the traditional method implicitly assumes that the next dollar invested will





The idea that the value of capital should always incorporate current expectations may help explain why private equity firms do so well.

CEOs: In the Expectations Gap

Many CEOs and CFOs I speak to confess that they feel caught between the expectations of the people they manage and those of investors. Investors are interested in one thing: Are they getting a return on what they paid for their shares? If they happen to have bought the stock at a particularly elevated level, they don't ask, "Why did I buy the stock at that price?" At earnings meetings they ask the CEO and the CFO, "Why aren't you producing an acceptable return on my investment?"

Meanwhile, other people in the company are focused on earning a return on the capital allocated to their business, which is usually estimated at book value. If that return is above the book cost of capital, they feel they've done their job and expect to be rewarded for it. Unfortunately, shareholders' expectations may be so high that the stock price has reached a level where even superlative returns on book value don't produce an attractive market return—let alone an acceptable one.

CEOs and CFOs are caught between these two worlds—the inward one that is dominated by book value, and the outward one that's dominated by market value. When market value substantially exceeds book value, those worlds are very far apart.

Some CEOs and CFOs attempt to bridge the gap by setting high-enough goals for return on book assets to equate to high-enough returns on market assets—but that can be a tough sell internally and may risk fueling investors' expectations even more.

produce the same returns the previous dollar did. That is, if the investment already embedded in a business is destroying (or creating) shareholder value, added investment will do likewise. Of course, that may be the case: There is a good chance that winning businesses picked a winning strategy or business model, so doubling down would indeed create yet more shareholder value. And losing businesses may well have chosen a losing strategy, so doubling down would just produce more value destruction.

But history is not destiny, and it is rarely at all clear that an incremental dollar of capital investment in a high RCF on book (that is, as traditionally calculated) business will also

create value. It depends entirely on the nature of the project involved. The trouble is—and here's the trap—if the business already earns a high positive book RCF, it will almost certainly continue to do so after the additional investment, because that investment is unlikely to be large in comparison with the cumulated historical investments. So even if the new investment actually *destroys* shareholder value, the overall book RCF will still be high—leading executives to think that investing in the business continues to be a good idea when it really isn't.

Similarly, it is not at all clear that the next dollar of capital investment in a negative book RCF business won't create value. It is quite conceivable that more than anything else, the business needs an injection of capital. However, unless that injection is dramatically successful, the business will probably still earn a negative book RCF overall, because even if the new investment actually creates a lot of shareholder value, it probably can't undo in one go all the sins of past investments—leading executives to think that it's a poor investment when it isn't.

How can we avoid falling into this trap?

A New Approach

The answer lies in how the capital charge is calculated. It should immediately reflect the expectations of value created or destroyed at the time unfettered capital is transformed into embedded capital.

At the company level, this is a fairly straightforward calculation: At any given time, a corporation's expected cash flow divided by the market value of its combined equity and debt yields a metric called *expected cash flow return on market capitalization*. That's the rate of return an investor would expect to get from buying shares at that time.

At the business unit level, the value of embedded capital can be calculated by dividing the unit's cash flow by the corporate parent's cash flow return on market capitalization. The capital values of all the business units will add up to the market cap of the whole corporation. Finance experts may point out that this approach does not properly account for differing levels of systematic risk and differing



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optimal capital structures among businesses and projects within the corporation, so the weighted average cost of capital for each business, and therefore the capital charge, would require further adjustments. But in general, that's a minor quibble, because most investors default to simply applying the company's overall WACC to each project or business unit.

If the market cap immediately takes into account all available information about value, including the value known by the market to have been created or destroyed, the RCF at the moment of investment should be zero, and the cost of capital is equal to new investors' expected return on capital.

After the investment is made, what creates or destroys the value of capital is new information that causes managers and analysts to revise their expectations about future cash flow; the new consensus causes the share price to change. To return to J&J and the hypothetical good news from the regulator: The capital charge for the business in which the new blockbuster drug was created—say, oncology—should immediately have been increased by \$6 billion a year: the amount shareholders started to expect from the business the moment the regulatory news was incorporated into the stock price. New investors buying that capital from current investors by acquiring shares would be paying for the added value. Similarly, if J&J had instead delivered an indication that it was revising its expectations for year-end profits in oncology upward or downward by, say, 10%, that information should have led to an adjustment of its capital charge.

Let's now see if using this approach can explain why J&J ended up destroying \$7 billion or so rather than creating the \$10 billion suggested by the basic EVA calculations. As noted above, J&J's businesses generated a cash flow of \$15.3 billion in 2018. Data in the annual report indicated that it used \$89.1 billion of capital to produce those returns. (See the exhibit "The Common Mistake in Calculating Value Creation.")

However, at the end of 2017 the market value of J&J's long-term debt and equity amounted to \$405.5 billion—about \$316 billion above book value. That is the value that the \$89.1 billion cash investment had created or was expected to create as of the end of 2017, according to everything investors then knew about the assets, management's

plans, and J&J's business environment. Anyone wanting to invest in J&J at that time would have to pay for the added value then embedded, as reflected in the price. That means that investors who bought J&J shares on January 1, 2018, would be looking at the expected annual return on \$405.5 billion, not on the \$89.1 billion on the books; otherwise they wouldn't have invested at the \$405.5 billion valuation. The return on the next dollar of investment is what would be relevant to them, and they would be expecting that return to be, at a minimum, the company's WACC of 6%. So what did they get?

By typical measures, J&J had a terrific year in 2018. Sales were up almost 7%. After-tax return on book capital was 17% against the cost of capital of 6%. But the return on market capitalization of the cash flows was, as the exhibit shows, far less impressive, coming in at 3.8%—more than two percentage points below J&J's cost of capital. That represents a destruction of shareholder value amounting to \$9 billion (just above 2% of \$405.5 billion) over the year, which would more than account for J&J's notional \$7 billion share of the \$30 billion loss in the market value of its capital. In fact, as the exhibit shows, none of J&J's three businesses earned a return on its cost of market capital.

THE IDEA THAT the value of capital should always incorporate current expectations may help explain why PE firms do so well. Large corporations that evaluate business performance on a traditional EVA basis probably look to divest themselves of what they see as businesses that offer few prospects for value creation and are thus undeserving of time or money. What PE firms see is an arbitrage opportunity to purchase capital at a price that captures the corporation's artificially low expectations. If companies could truly appreciate that capital markets deal in expectations rather than historical fact, and make investment decisions accordingly, PE firms would probably lose one of their biggest sources of profit. ☺

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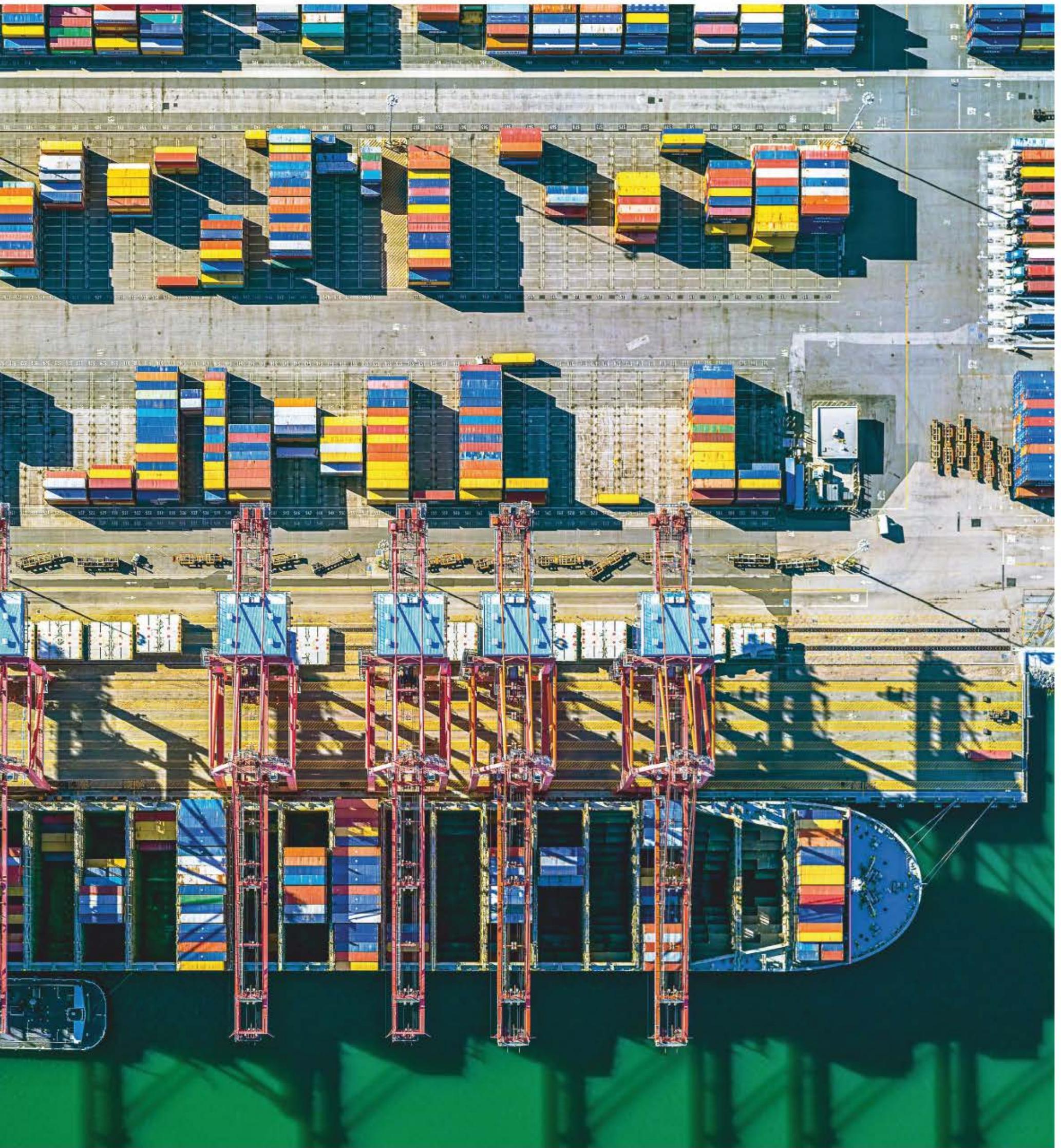
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Building a Transparent Supply Chain

Blockchain can
enhance trust,
efficiency, and
speed.



PHOTOGRAPHER JEFFREY MILSTEIN



IDEA IN BRIEF

THE PROBLEM

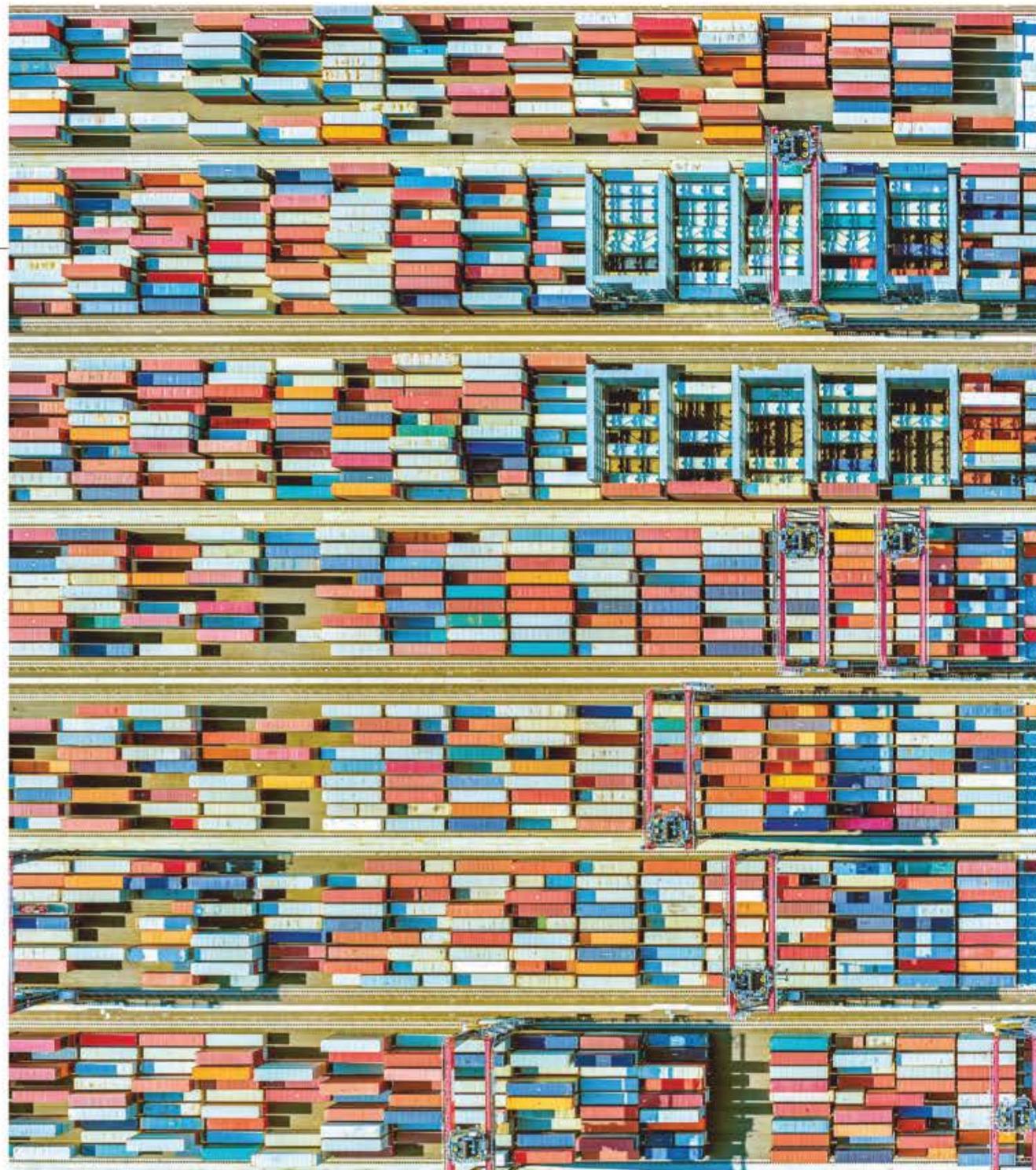
Current approaches to recording the flows of information, inventory, and money in supply chain transactions leave a lot to be desired. There are blind spots, causing problems for the purchasers, suppliers, and banks involved.

A POTENTIAL SOLUTION

Blockchain technology may help. Early explorations by seven major corporations show that blockchain record keeping can make product delivery faster and more cost-efficient, increase traceability, enhance coordination among partners, and streamline the financing process.

WHAT WILL BE NEEDED

Successful use of blockchain in supply chain management requires a trusted group of permissioned participants, a new consensus protocol, and protections to prevent the introduction of contaminated or counterfeit products.



Blockchain,

the digital record-keeping technology behind Bitcoin and other cryptocurrency networks, is a potential game changer in the financial world. But another area where it holds great promise is supply chain management. Blockchain can greatly improve supply chains by enabling faster and more cost-efficient delivery of products, enhancing products' traceability, improving coordination between partners, and aiding access to financing.

To better understand this opportunity, we studied seven major U.S. corporations that are leaders in supply chain management and are trying to figure out how blockchain can help solve the challenges they face. These companies—Corning, Emerson, Hayward, IBM,



ABOUT THE ART

Jeffrey Milstein photographs the colors, patterns, and complexity of large container ports from the air, observing the huge quantity of consumables moving in and out of America.



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Mastercard, and two others that wish to remain anonymous—operate in varied industries: manufacturing, retailing, technology, and financial services. Some of them are just beginning to explore blockchain, a few are conducting pilots, and others have moved even further and are working with supply chain partners to develop applications. This article describes what we've learned about the state of play, the advantages that blockchain can provide, and how the use of blockchain in supply chains will differ from its use in cryptocurrencies.

A blockchain is a distributed, or decentralized, ledger—a digital system for recording transactions among multiple parties in a verifiable, tamperproof way. The ledger itself can also be programmed to trigger transactions automatically. For cryptocurrency networks that are designed to replace fiat currencies, the main function of blockchain is to enable an *unlimited* number of *anonymous* parties to transact privately and securely with one another without a central intermediary. For supply chains, it is to allow a *limited* number of *known* parties to protect their business operations against malicious actors while supporting better performance. Successful blockchain applications for supply chains will require new permissioned blockchains, new standards for representing transactions on a block, and new rules to govern the system—which are all in various stages of being developed.

THE ADVANTAGES OF BLOCKCHAIN

Led by companies such as Walmart and Procter & Gamble, considerable advancement in supply chain information sharing has taken place since the 1990s, thanks to the use of enterprise resource planning (ERP) systems. However, visibility remains a challenge in large supply chains involving complex transactions.

To illustrate the limitations of the current world of financial-ledger entries and ERP systems, along with the potential benefits of a world of blockchain, let us describe a hypothetical scenario: a simple transaction involving a retailer that sources a product from a supplier, and a bank that provides the working capital the supplier needs to fill the order. (See the exhibit “Capturing the Details of a Simple Transaction: Conventional vs. Blockchain Systems.”) The transaction involves *information* flows, *inventory* flows, and *financial*

flows. Note that a given flow does not result in financial-ledger entries at *all* three parties involved. And state-of-the-art ERP systems, manual audits, and inspections can't reliably connect the three flows, which makes it hard to eliminate execution errors, improve decision-making, and resolve supply chain conflicts.

Execution errors—such as mistakes in inventory data, missing shipments, and duplicate payments—are often impossible to detect in real time. Even when a problem is discovered after the fact, it is difficult and expensive to pinpoint its source or fix it by tracing the sequence of activities recorded in available ledger entries and documents. Although ERP systems capture all types of flows, it can be tough to assess which journal entries (accounts receivable, payments, credits for returns, and so on) correspond to which inventory transaction. This is especially true for companies engaged in thousands of transactions each day across a large network of supply chain partners and products.

Making matters worse, supply chain activities are often extremely complicated—far more so than the exhibit depicts. For example, orders, shipments, and payments may not sync up neatly, because an order may be split into several shipments and corresponding invoices, or multiple orders may be combined into a single shipment.

One common approach to improving supply chain execution is to verify transactions through audits. Auditing is necessary for ensuring compliance with contracts, but it's of limited help in improving decision-making to address operational deficiencies. Consider the problem a food company faces when its products reach the end of their shelf life in a retail store. A study that one of us (Vishal) worked on with a major manufacturer of packaged foods found that an audit or an inspection of inventory in a store can reveal the number of expired items, but it won't explain the causes. Those can include glitches in any part of the supply chain, such as inefficient inventory management upstream, suboptimal allocation of products to stores, weak or sporadic demand, and inadequate shelf rotation (failure to put older products in front of newer ones). A record of all those activities can help reduce expirations.

Another way to strengthen supply chain operations would be to mark inventory with either RFID tags or electronic product codes that adhere to GS1 standards (globally



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accepted rules for handling supply chain data) and to then integrate a company's ERP systems with those of its suppliers to construct a complete record of transactions. This would eliminate execution errors and improve traceability. However, the experiences of the companies we studied showed that integrating ERP systems is expensive and time-consuming. Large organizations may have more than 100 legacy ERP systems—a result of organizational changes, mergers, and acquisitions over time. Those systems often do not easily communicate with one another and may even differ in how they define data fields. One large company told us it had 17 ledgers in separate ERP systems associated with a single activity—trucking—and its suppliers and distributors had their own ledgers and ERP systems.

When blockchain record keeping is used, assets such as units of inventory, orders, loans, and bills of lading are given unique identifiers, which serve as digital tokens (similar to bitcoins). Additionally, participants in the blockchain are given unique identifiers, or digital signatures, which they use to sign the blocks they add to the blockchain. Every step of the transaction is then recorded on the blockchain as a transfer of the corresponding token from one participant to another.

Consider how the transaction in our example looks when represented on a shared blockchain (refer again to the exhibit). First, the retailer generates an order and sends it to the supplier. At this point, since no exchange of goods or services has taken place, there would be no entries in a financial ledger. However, with blockchain, the retailer records the digital token for the order. The supplier then logs in the order and confirms to the retailer that the order has been received—an action that again gets recorded on the blockchain but would not generate an entry in a financial ledger. Next the supplier requests a working-capital loan from the bank to finance the production of the goods. The bank verifies the order on the shared blockchain, approves the loan, and records the loan's digital token on the same blockchain. And so on.

A blockchain is valuable partly because it comprises a chronological string of blocks integrating all three types of flows in the transaction and captures details that aren't recorded in a financial-ledger system. Moreover, each block is encrypted and distributed to all participants, who maintain

their own copies of the blockchain. Thanks to these features, the blockchain provides a complete, trustworthy, and tamperproof audit trail of the three categories of activities in the supply chain.

Blockchain thus greatly reduces, if not eliminates, the kind of execution, traceability, and coordination problems that we've discussed. Since participants have their own individual copies of the blockchain, each party can review the status of a transaction, identify errors, and hold counterparties responsible for their actions. No participant can overwrite past data because doing so would entail having to rewrite all subsequent blocks on all shared copies of the blockchain.

The bank in our example can also use the blockchain to improve supply chain financing. It can make better lending decisions because by viewing the blockchain, it can verify the transactions between the supplier and the retailer without having to conduct physical audits and financial reviews, which are tedious and error-prone processes. And including lending records in the blockchain, along with data about invoicing, payments, and the physical movement of goods, can make transactions more cost-effective, easier to audit, and less risky for all participants.

Furthermore, many of these functions can be automated through *smart contracts*, in which lines of computer code use data from the blockchain to verify when contractual obligations have been met and payments can be issued. Smart contracts can be programmed to assess the status of a transaction and automatically take actions such as releasing a payment, recording ledger entries, and flagging exceptions in need of manual intervention.

It's important to note that a blockchain would not replace the broad range of transaction-processing, accounting, and management-control functions performed by ERP systems, such as invoicing, payment, and reporting. Indeed, the encrypted linked list or chainlike data structure of a blockchain is not suited for fast storage and retrieval—or even efficient storage. Instead, the blockchain would interface with legacy systems across participating firms. Each firm would generate blocks of transactions from its internal ERP system and add them to the blockchain. This would make it easy to integrate various flows of transactions across firms.

Capturing the Details of a Simple Transaction: Conventional vs. Blockchain Systems

The financial ledgers and enterprise resource planning systems now used don't reliably allow the three parties involved in a simple supply-chain transaction to see all the relevant flows of information, inventory, and money. A blockchain system eliminates the blind spots.

KEY



Information flow
Inventory flow
Financial flow





THE APPLICATIONS

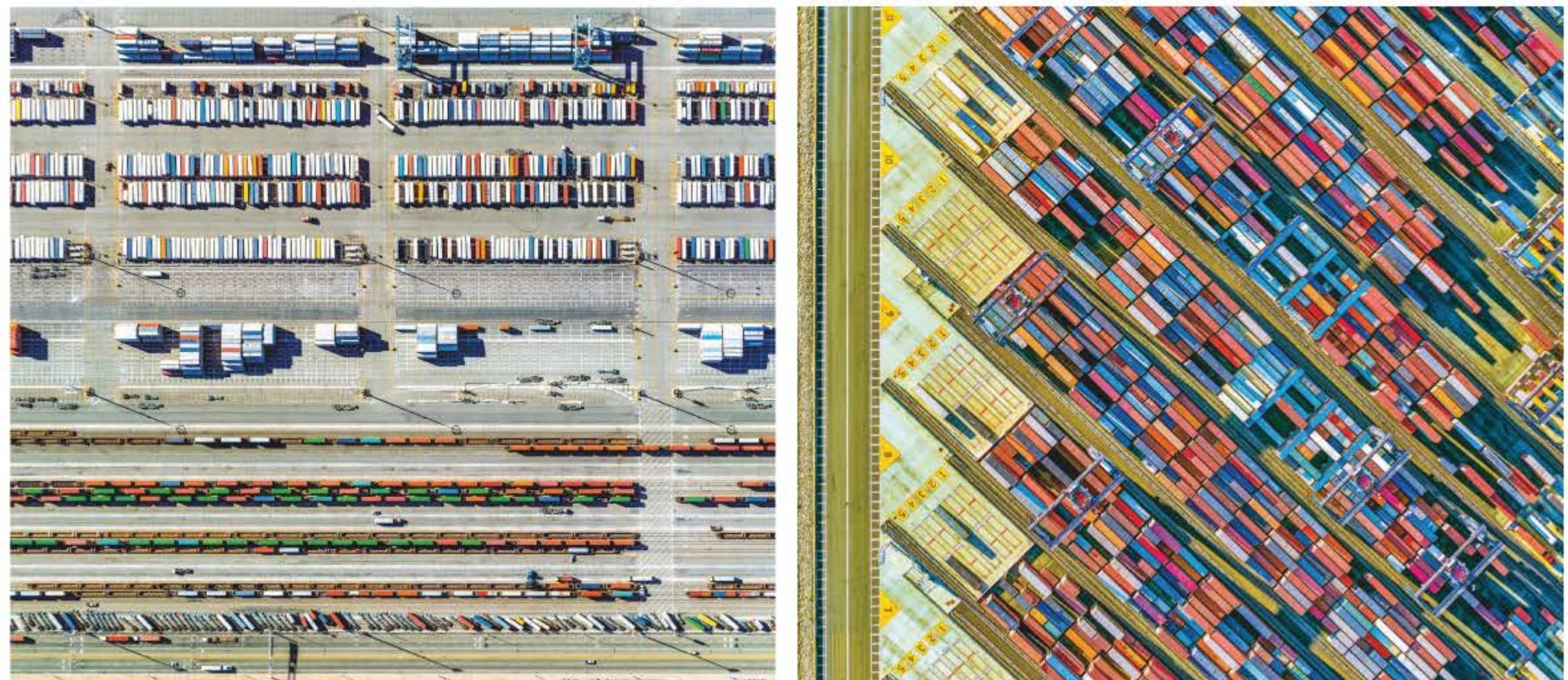
Let's now take an in-depth look at how the companies we studied are applying blockchain to tackle needs that current technologies and methods can't address.

Enhancing traceability. The U.S. Drug Supply Chain Security Act of 2013 requires pharmaceutical companies to identify and trace prescription drugs to protect consumers from counterfeit, stolen, or harmful products. Driven by that mandate, a large pharmaceutical company in our study is collaborating with its supply chain partners to use blockchain for this purpose. Drug inventory is tagged with electronic product codes that adhere to GS1 standards. As each unit of inventory flows from one firm to another, its tag is scanned and recorded on the blockchain, creating a history of each item all the way through the supply chain—from its source to the end consumer. Some early success in piloting this approach in the United States has led the company to conduct more pilots in other locations and to move toward broad implementation in Europe. Meanwhile, IBM is working on a similar effort to create a safer food supply chain. It has founded the IBM Food Trust and entered into a partnership with Walmart to use blockchain for tracing fresh produce and other food products.

These kinds of applications require minimal sharing of information: Purchase orders, invoices, and payments do not need to be included on the same blockchain. As a result, companies that are wary of sharing competitive data are more willing to participate on the platform.

The benefits are clear. If a company discovers a faulty product, the blockchain enables the firm and its supply chain partners to trace the product, identify all suppliers involved with it, identify production and shipment batches associated with it, and efficiently recall it. If a product is perishable (as fresh produce and certain drugs are), the blockchain lets participating companies monitor quality automatically: A refrigerated container equipped with an internet of things (IoT) device to monitor the temperature can record any unsafe fluctuations on the blockchain. And if there are concerns about the authenticity of a product that a retailer returns, the blockchain can allay them, because counterfeit goods would lack a verification history on the blockchain. (We'll talk later about how companies are trying to prevent corrupt actors from introducing counterfeit goods into both supply chains and their blockchains.) Companies across industries are therefore exploring this application of blockchain—motivated either by regulations requiring them to demonstrate the provenance of their products or by downstream customers seeking the capability to trace component inventory.

Increasing efficiency and speed and reducing disruptions. Emerson, a multinational manufacturing and engineering company, has a complex supply chain. It involves thousands of components across many suppliers, customers, and locations. Michael Train, the president of Emerson, told us that such supply chains often have to contend with long, unpredictable lead times and lack of visibility. As a result, a small delay or disruption in any part of the supply



chain can lead to excess inventory and stock-outs in other parts. He believes that blockchain could help overcome these challenges.

Here's a simple illustration of the problem and how blockchain could address it. Consider product A, which uses components C1 and C2, and product B, which uses components C1 and C3. If the manufacture of product B is held up because of a disruption in the production of component C3, the optimal move is to temporarily allocate inventory of C1 to product A until the disruption is resolved. However, if all products and components are manufactured by different companies with limited visibility into one another's inventory, what could easily happen is that excess inventory of C1 piles up at the company making product B even if the maker of product A has a stock-out of C1.

One solution is for the companies in question to agree to centralize their data on production and inventory-allocation decisions in a common repository. But imagine the level of integration that would entail: All involved companies would have to trust the others with their data and accept centralized decisions, regardless of whether they are partners or competitors. That's not realistic.

A more practical solution is for participating companies to share their inventory flows on a blockchain and allow each company to make its own decisions, using common, complete information. Companies would utilize a kanban system to place orders with one another and manage production. Kanban cards would be assigned to the produced items, and

the blockchain would record digital tokens representing the kanban cards. This would enhance the visibility of inventory flows across companies and make lead times more predictable.

Emerson is not the only company that thinks blockchain could increase the efficiency and speed of its supply chain. So does Hayward, a multinational manufacturer of swimming pool equipment. (Disclosure: Vishal has done a small amount of consulting for Hayward. He has also been hired to advise a start-up that's developing blockchain applications for the palm oil industry.) According to Don Smith, Hayward's senior vice president of operations, it is possible to treat finished goods, process capacity, work-in-process inventory, and raw materials like digital currency. If you do, he says, machine time and inventory at various stages can be reliably assigned to customer orders. Blockchain makes this possible by solving the double-spend problem—the erroneous allocation of the same unit of capacity or inventory to two different orders.

Walmart Canada has already begun using blockchain with the trucking companies that transport its inventory. A shared blockchain makes it possible to synchronize logistics data, track shipments, and automate payments without requiring significant changes to the trucking firms' internal processes or information technology systems.

Part of the appeal of using blockchain to enhance supply chain efficiency and speed is that these applications, much like those for improving traceability, require participating companies to share only limited data—in this case, just



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inventory or shipment data. Moreover, these applications are useful even within large organizations with multiple ERP systems.

Improving financing, contracting, and international transactions. When inventory, information, and financial flows are shared among firms through a blockchain, significant gains in supply chain financing, contracting, and doing business internationally are possible.

Consider the matter of financing. Banks that provide working capital and trade credit to firms face a well-known problem of information asymmetry regarding a borrower firm's business, the quality of its assets, and its liabilities. For example, a company might borrow money from several banks against the same asset, or request a loan for one purpose and then use it for another. Banks design their processes to control such risks, which increases transaction costs, slows down access to capital, and reduces the capital available to small firms. Such frictions are detrimental not only to banks but also to firms that need cheap working capital.

Another activity ripe for improvement is accounts payable management, an elaborate process that involves invoicing, reconciling invoices against purchase orders, keeping track of terms and payments, and conducting reviews and approvals at each step. Even though ERP systems have automated many of these steps, considerable manual intervention is still needed. And since neither of the transacting firms has complete information, conflicts often arise.

A third area of opportunity is cross-border trade, which involves manual processes, physical documents, many intermediaries, and multiple checks and verifications at ports of entry and exit. Transactions are slow, costly, and plagued by low visibility into the status of shipments.

The retailing and financial services companies we studied are conducting pilot blockchain projects or developing platforms in all three areas. By connecting inventory, information, and financial flows and sharing them with all transacting parties, a blockchain enables companies to reconcile purchase orders, invoices, and payments much more easily and to track the progress of a transaction with counterparties. When the supplier receives an order, a bank with access to the blockchain can immediately provide the supplier with working capital, and when merchandise is delivered to the buyer, the bank can promptly obtain payments. Since there

is a readily available audit trail and reconciliations can be automated, using smart applications that rely on the blockchain data, conflicts between the bank and the borrowing firm are eliminated.

CREATING A WORKABLE TECHNOLOGY

The companies we studied have found that using blockchain in supply chain management will require the creation of new rules, because the needs of supply chains differ from those of cryptocurrency networks in important ways. The blockchain protocol for the Bitcoin network is a marvelous system that simultaneously achieves several goals. It provides a remarkably secure, irrevocable record of financial transactions, minimizes the double-spend problem, and provides proof of ownership of a digital coin. And it does so without relying on a centralized authority and while allowing participants to remain anonymous and enter and exit the network freely. To achieve all this, however, the Bitcoin network sacrifices speed, consumes a large amount of energy to mine bitcoins, and has some vulnerability to hacking.

Supply chains do not need to make the same trade-offs because they operate in a different way and have different characteristics. Let's examine those in depth.

Known participants. Supply chains require private blockchains among known parties, not open blockchains among anonymous users. So that members of a supply chain can ascertain the source and quality of their inventory, each unit of it must be firmly coupled with the identity of its particular owner at every step along the way. Consequently, only known parties can be allowed to participate in such a blockchain, which means that companies must receive permission to join the system.

Moreover, permission must be granted selectively. That's because the open and decentralized structure of blockchain poses a risk to data privacy. When companies post transactions on a blockchain, that data can be accessed by any participant. As the volume of data swells, it could potentially be misused to gather competitive intelligence, trade stocks, or predict market movements. For security reasons, therefore, the blockchain participants need to be vetted and approved.

Building a trusted group of partners with which to share data on a blockchain will entail overcoming several challenges. One is the need for a governance mechanism to determine the rules of the system, such as who can be invited to join the network, what data is shared, how it is encrypted, who has access, how disputes will be resolved, and what the scope is for the use of IoT and smart contracts. Another challenge is figuring out how to address the impact that blockchain could have on pricing and inventory-allocation decisions by making information about the quantity or age



If a counterfeit or an error is detected, it can be traced to its source using the blockchain trail of the transactions for that asset.

of products in the supply chain more transparent. It's hard to predict where in the supply chain the costs and benefits of this transparency will fall.

For these reasons, the companies that we studied were focusing on narrow applications such as the traceability of drugs and food products and the management of accounts payable—applications that are supported by well-defined use cases or regulatory requirements. Firms limit the types of information recorded on the blockchain to reduce the risk to data privacy and make the system more readily acceptable to supply chain partners.

Simpler consensus protocols. Blockchain requires a consensus protocol—some mechanism for maintaining a single version of the history of transactions that is agreed to by everyone. Since cryptocurrency networks are peer-to-peer without a central authority, they use a complex method called *proof of work*. It ensures that all transactions on the network are accepted by the majority of participants, but unfortunately, it also limits the speed at which new blocks can be added. Consequently, it is too slow to handle the speed and volume of transactions in supply chains.

Consider the pharmaceutical industry, where 4 billion salable units enter the drug supply chain every year in the United States. Each unit is handled three to five times, on average. That translates to roughly 33 million to 55 million transactions a day, on average. The Bitcoin network, in contrast, allows only about 360,000 transactions a day.

Fortunately, if a blockchain is permissioned and private, the proof-of-work method is not necessary to establish consensus. Simpler methods can be used to determine who has the right to add the next block to the blockchain. One such method is a *round-robin protocol*, where the right to add a block rotates among the participants in a fixed order. Since all participants are known, a malicious actor would be discovered if it used its turn to modify the chain in a harmful or illegitimate way. And disputes can be resolved easily by participants' validating previous blocks.

Security of physical assets. Even when a blockchain record is secure, there is still the danger that a contaminated or counterfeit product might be tagged and introduced into the supply chain, either in error or by a corrupt actor. Another danger is inaccurate inventory data resulting from mistakes in scanning, tagging, and data entry.

Companies are addressing these risks in three ways. First, they are stringently conducting physical audits when products first enter the supply chain to ensure that shipments match blockchain records. Second, they are building distributed applications, called dApps, that track products throughout the supply chain, check data integrity, and communicate with the blockchain to prevent errors and deception. If a counterfeit or an error is detected, it can be traced to its source using the blockchain trail of the transactions for that asset. Third, companies are making the blockchain more robust by using IoT devices and sensors to automatically scan products and add records to the blockchain without human intervention.

One area where tokenization is sufficient to provide trust and security is the trading of assets like digital books and music. If the ownership of these assets is tied to a blockchain platform, counterfeits can be completely eliminated. For instance, universities commonly use digital reading packets for many courses, working in partnership with publishers and copyright owners. Significant efficiency gains could be generated by knitting this digital supply chain into a blockchain platform with smart contracts that can help participants access products, verify ownership, and handle payment.

THERE IS CONSIDERABLE room to improve supply chains in terms of end-to-end traceability, speed of product delivery, coordination, and financing. Blockchain can be a powerful tool for addressing the deficiencies, as the companies we studied have proved. It is now time for supply chain managers who are standing on the sidelines to assess the potential of blockchain for their businesses. They need to join the efforts to develop new rules, experiment with different technologies, conduct pilots with various blockchain platforms, and build an ecosystem with other firms. Yes, this will require a commitment of resources, but the investment promises to generate a handsome return. ☰

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THE CASE FOR A *Chief* OF STAFF



LEADERSHIP



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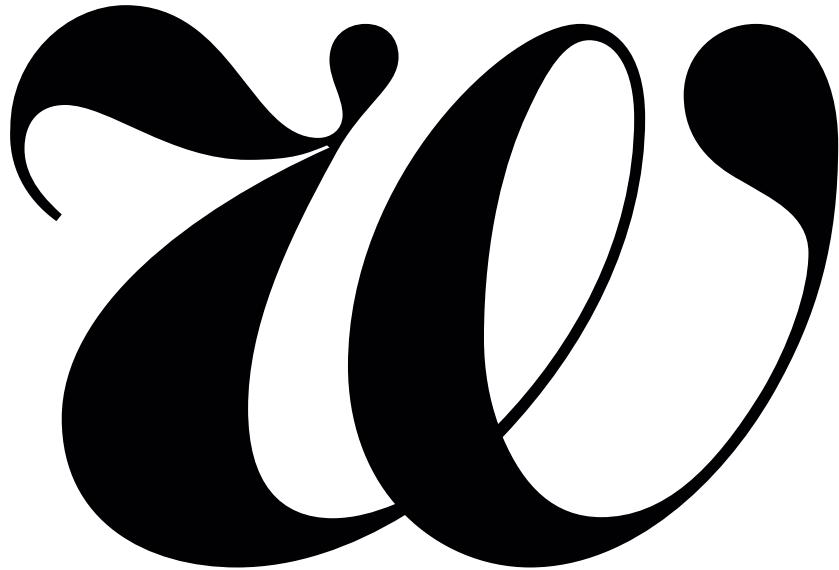
ILLUSTRATOR

BIANCA
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CEOs need more support than an executive assistant can provide.



LEADERSHIP



hen new CEOs with a change mandate take over a company, they typically invest time in reshaping its strategy and determining the kind of culture needed to succeed. Those choices guide other decisions, including who their senior managers will be and how the leaders will allocate their time.

Most new CEOs pay little attention to a key factor that will help determine their effectiveness: the administrative system that guides day-to-day operations in their offices. This system ensures that leaders make the most of their limited time, that information arrives at the right point in their decision-making process, and that follow-up happens without their having to check. Many new CEOs default to the system they've inherited, even if it is poorly suited to their style or to the operational changes they must make. Often there's a better way to handle the information flow necessary for a CEO to succeed—and very often a chief of staff (CoS) can play an essential role.

During the 25 years I spent working at a consulting and software firm—a dozen as chairman and CEO—I had a chief of staff myself. As an adviser and as a board member, I've recommended to several dozen executives that they add the position to their teams—and in some cases I've helped them hire for and structure the job.

Although each leader should tailor the position to his or her own needs, the CoS should handle several principal duties, all focused on making time, information, and decision processes more effective. Patrick Aylward, a vice president and CoS at Horizon Blue Cross Blue Shield of New Jersey, breaks the job down into five roles: serving as an *air traffic controller* for the leader and the senior team; as an *integrator* connecting work streams that would otherwise remain siloed; as a *communicator* linking the leadership team and the broader organization; as an *honest broker and truth teller* when the leader needs a wide-ranging view without turf considerations; and as a *confidant* without an organizational agenda. Aylward points out that “while a CEO’s other direct reports typically emphasize their own areas, a good CoS can consider the needs of the whole enterprise.”

The most sophisticated chiefs of staff also assist CEOs in thinking through and setting policies—and making sure they are implemented. They anticipate problems and are especially sensitive to issues that require diplomacy. They function as extra eyes and ears by pointing out political potholes their bosses may not recognize (especially if the bosses are new to the company). Importantly, a CoS acts with the implicit imprimatur of the CEO—something that calls for humility, maturity, and situational sensitivity.

The CoS role is decidedly different from that of the leader's executive assistant (EA). Unlike an EA, a chief of staff works autonomously and does not handle routine correspondence or manage the leader's day-to-day schedule. The highest-level CoS should be a full-fledged member of the senior leadership team, albeit without the rank or compensation of a C-suite officer.

Regardless of specific responsibilities, a CoS can help a leader achieve sharp gains in productivity and impact. Take an executive I'll call Joe, who was promoted from head of sales and marketing to president of a midsize company that had just been acquired—meaning that Joe was now reporting to a chairman and CEO at a distant headquarters, adding political complexity to the job. A few months in, he was struggling. “I wasn’t myself,” he recalls. “I was a step slower. I was working longer hours than I ever had but not getting as much done and not spending time on what mattered most.”

Joe hired a chief of staff—someone who'd held that role at a larger company in the same industry. Within three months Joe



The principal duties of a chief of staff are all focused on making time, information, and decision processes more effective.

was better prepared for meetings and more confident delegating (because he knew that his CoS would follow up). Within six months his communications to the organization were more frequent and clearer. He'd built a better relationship with corporate headquarters. Perhaps most satisfying, he had more time to think through big decisions, with the CoS serving as his most reliable sounding board. "He's the best listener of anyone who's ever worked for me," Joe says. "It's not that he gives me the answer but that our discussions make the answer clearer."

At some large companies, executives reporting to the CEO also choose to have a CoS. One CHRO has employed five over the past 10 years (the fifth is still with him) while working at two *Fortune* 100 companies. "The most visible benefit for me has been time," he says. "I've picked up a third more time, and I've been able to get more done. Just as important is that my chiefs of staff created a system so that I can stay focused on my CEO and board and still make sure that the day-to-day things don't fall by the wayside." This executive treats the CoS role as a rotational one lasting two to four years. It's a coveted assignment because it's typically a springboard to a bigger job: Three of his prior chiefs of staff went on to become the chief learning officer, the head of talent acquisition/planning and leadership development, and a senior manager in the compensation department.

IS A CHIEF OF STAFF RIGHT FOR YOU?

The CoS role originated in the military and government, and it dates back centuries. Cicero, the Roman politician and orator, used a slave named Tiro, who, according to Cicero's biographer Zach Bankston, served as a secretary, a financial

overseer, and a political strategist. Andrew Roberts's *Napoleon: A Life* describes the vital role that Louis-Alexandre Berthier played in assisting Napoleon at the height of his powers. The historians Ron Chernow and Joseph Ellis have described the CoS-like role that Alexander Hamilton played for George Washington. These people aren't to be confused with the personal secretaries or aides-de-camp that each leader also had. Rather, they were close advisers who handled the most-delicate strategic matters and became trusted confidants.

Lately the CoS position has become more common in corporations. According to Tyler Parris, the author of *Chief of Staff: The Strategic Partner Who Will Revolutionize Your Organization*, 68,000 people held the CoS title in 2015 in non-military, nongovernment organizations in the United States—mostly large companies. Parris found that half the companies use a rotational model in which high potentials are tapped to spend a set period (typically two years) in the role and then move to a line job. At companies that don't use a rotational model, people often remain CoS for five years or more.

Not every executive needs a CoS, and the role is not right for every corporate culture. Liza Wright, who served as the director of presidential personnel in the White House for George W. Bush and later cofounded a search firm specializing in hard-to-fill jobs (including CoS), looks for three signs that a CEO would benefit from adding the role: concern about productivity, poor information flow that results in slow decision-making, and too much time spent on back-and-forth and follow-up. She says, "If the leader is experiencing these areas of dissatisfaction, the right kind of chief of staff may well be the best solution."

IDEA IN BRIEF

THE PROBLEM

CEOs face a daunting workload. To make the most of precious time, they need the right information to speed decision-making and the right follow-up on projects they delegate. A good executive assistant can help with scheduling and administration, but many CEOs need additional support.

THE SOLUTION

The chief of staff role originated in politics and the military, and now CEOs are increasingly embracing it. A top-level CoS serves as an air traffic controller, an integrator, a communicator, an honest broker and truth teller, and a confidant.

THE IMPLEMENTATION

Which level of CoS a leader needs depends on the challenges facing the organization and the magnitude of change the CEO is trying to drive.



If you're an executive looking to increase your effectiveness, these seven questions will help you decide whether a CoS might help you:

- Are you spending enough time on the vital A items on your agenda, or are you frustrated by time spent on B and C items?
- Do you have enough "white space" in your calendar to consider future opportunities, or is most of your time spent reacting to what has already happened?
- As you deliberate on the decisions that only you can make, are you getting the best available information? After you've made a call, do you get surprised by new information that you should have known?
- Is it common for you to feel unprepared for important meetings or when making important decisions? Do you get information soon enough for you to think through the consequences before having to act?
- Are problems identified early enough that action can be taken before they create damage, or is it common for large problems to occur unexpectedly? When that happens, do you find that some of your senior people were also unprepared?
- Do political or cultural factors—such as relationship problems between powerful subordinates or destructive

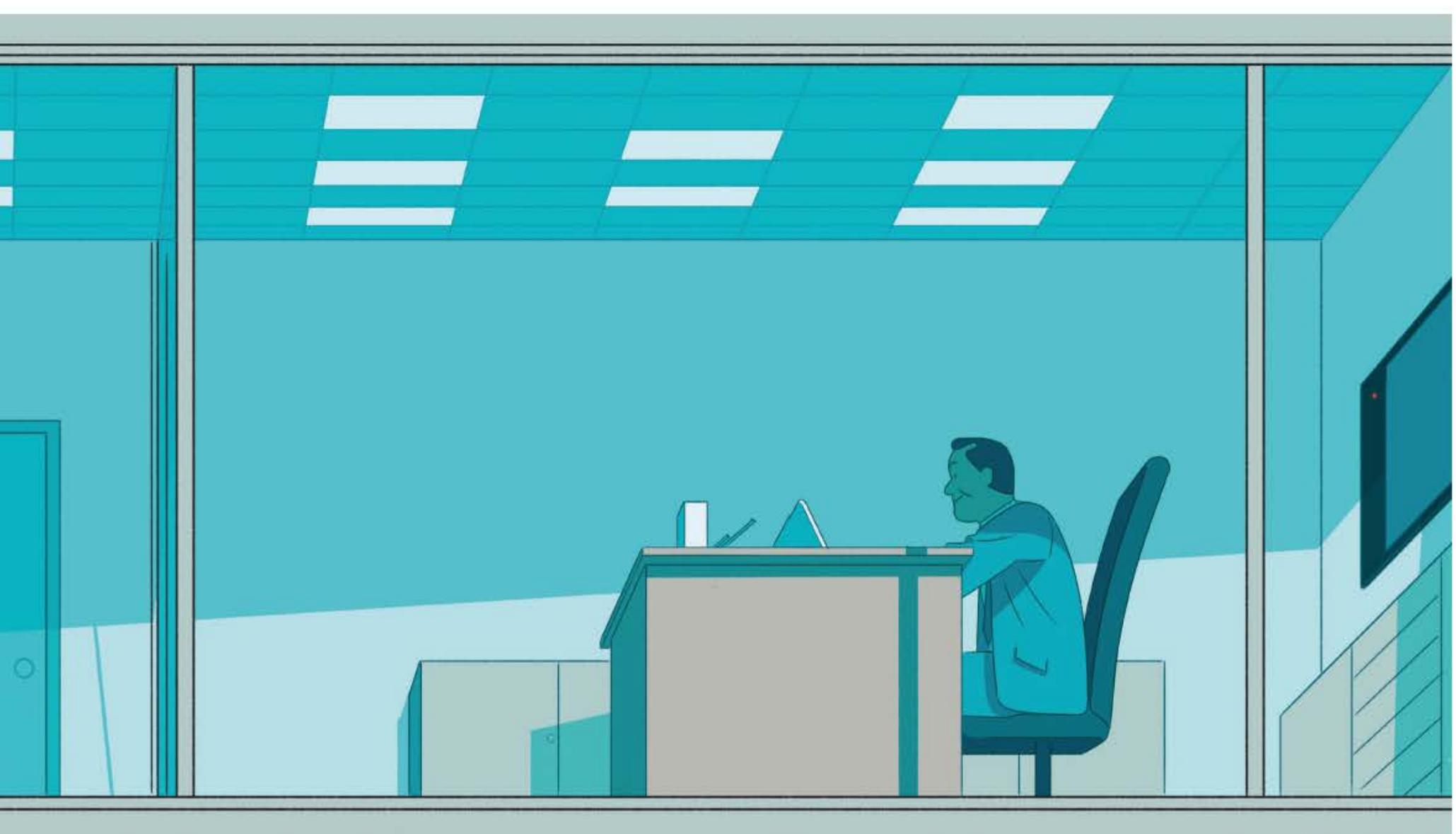
gamesmanship between competing departments—block progress? Does the culture encourage resistance to change or insulated silos rather than embracing new ways to improve?

- When you direct that some action be taken or ask for data on a particular issue, do you often not hear back until you remind people? When managers say they will follow up, do you have confidence that they will?

Even in these circumstances, some chief executives are reluctant to add the CoS role. That may stem from unfamiliarity: Without ever having seen a skilled CoS in action, it can be difficult to envision the value one can add. Sometimes reluctance is more about optics and concern that a CoS will make the leader seem imperious or desirous of an "entourage." Those considerations are understandable. But when set up in the right way, a CoS position can make it much easier to solve the problems facing a leader with a change agenda.

SHAPING THE JOB TO FIT THE NEED

My observations of how this position has evolved in business organizations suggest that it entails three levels of responsibility.

**LEVEL
1**

A CoS at level one has typically been promoted from an executive assistant role. An example is Susan, who was the more senior of two EAs to the CEO of a large energy-related corporation before she became his CoS. Her replacement as senior EA and the other assistant now report to her. In addition to overseeing use of the CEO's time and ensuring his focus on the most important issues, she manages special projects for the CFO and the head of human resources. She also prepares prework, handles follow-up, and sits in on most board meetings. Susan has worked at this company for almost 20 years, under three chief executives, and she understands the culture. She has good project-management skills, is well regarded by each of the CEO's direct reports, and was underutilized in her executive assistant job.

**LEVEL
2**

Greg is typical of a level two CoS. He joined a large life sciences company as chief of staff after earning a PhD and an MBA from top programs and then working for a strategy consulting company, where his current boss was a client. Greg works closely with the heads of business development and R&D on alliances and acquisition projects, and with the chief human resources officer on finding scientific talent. Much of Greg's time is spent helping

manage relationships with the company's scientific partners and studying the forces that have an effect on the company's strategy, such as academic research, medical advances, and the activity of competitors. He also interacts with regulatory agencies regarding approval of the company's emerging products. Greg has no direct reports, but he does have important responsibilities and a constantly changing portfolio of projects that require sophisticated skills.

**LEVEL
3**

Chiefs of staff at level three are typically found in large, complex organizations facing the need for dramatic strategic, operational, and cultural change, especially when the leader is new to the top post. This role is closest to the influential CoS jobs common in government and the military. It is exemplified by someone I'll call Carol.

After earning degrees in economics, psychology, and management, Carol spent 12 years in a multinational technology and operations-improvement consulting firm specializing in the integration of acquisitions and the management of alliances. That was followed by several years at a global corporation as a division president's CoS and the head of its planning and analysis departments. She was then hired as a CoS for the new CEO of a large and growing technology provider.

Which Level of Chief of Staff Is Right for You?

	LEVEL 1	LEVEL 2	LEVEL 3
Leader's challenge	Maximize efficiency with minimal change	Implement the existing strategy with only moderate change	Execute significant strategic, operational, and cultural agendas calling for considerable changes
CoS role	Help the leader become better organized, with more time for A items	Manage important projects well	Help CEO and senior executives navigate through uncertainty and risk
CoS capabilities	<ul style="list-style-type: none"> Understands the business Can do project management Can manage relationships Communicates well Organizes the CEO's office 	In addition to level 1 capabilities... <ul style="list-style-type: none"> Can simplify complexity Does strategic thinking and problem analysis Can manage the process of idea to execution 	In addition to level 2 capabilities... <ul style="list-style-type: none"> Can anticipate and avert problems Can grasp and add value to the leader's vision Has organizational and political intelligence
Reporting relationship	Part of the administrative staff	Reports to a direct report of the leader	Reports directly to the leader
Status	Administration	High-potential, future senior manager	Managerial or senior staff member
Managerial duties	Usually has no direct reports	Manages a small group or an individual contributor	Manages a department, such as strategy implementation or communications
Time with the leader	Regular, transactional, brief	Episodic, project oriented	Frequent, on a range of issues, whenever necessary
Advice to the CEO	Not expected	Expected within project parameters	Expected on a full range of topics

In that role Carol manages the office of the CEO and is responsible for ensuring the execution of her agenda—a job that includes time management, flow of information to and from the CEO, and seeing that the CEO is always prepared and rarely surprised. Carol also coordinates special projects and drafts presentations and other materials for board meetings, investor conferences, and employee town halls. She runs an analysis/program management unit and is involved in alliances and acquisitions, often working closely with the heads of strategy, M&A, HR, and the company's innovation center. She is a member of the executive committee, which offers her an opportunity to build relationships and credibility with other direct reports to the CEO. Carol has earned the CEO's trust, becoming an important internal adviser and "honest broker" who presents both sides of complex issues while maintaining objectivity.

The tasks done at levels one and two are not new; what is new is that the people doing them are increasingly being given the title chief of staff. The level three role is a relatively recent development in business. Carol's work is distinguished from Susan's and Greg's by its depth and because she works on the company's top priorities, at its strategic core. Another difference: Carol spends two or three hours a week one-on-one with the CEO and often travels with her. (Greg and Susan, in contrast, may meet with their CEOs for just two or three hours a month and don't travel with them.)

Another distinguishing factor is where each job is likely to lead. Susan's next step could be a managerial position in either financial planning or the benefits department. Greg will probably move to a district manager's job for field experience and then go on to head up strategy or business development. Carol's career path could move through senior



A good chief of staff can recognize which relationships are most important to the leader's agenda and assist in strengthening them.



LEADERSHIP

marketing or operations positions and might eventually lead to chief operating officer.

Whether a CEO requires a level one, two, or three CoS depends on a number of things. If the leader enjoys a stable environment, needs help mostly with time management and information flows, and perhaps has an experienced EA who is ready to handle more responsibility, level one may be the right choice. A new-to-the-organization CEO who is facing more-complex challenges—such as implementing a new strategy or a cultural transformation while simultaneously driving short-term operational results in a volatile industry—will most likely benefit from a level three CoS. CEOs whose situation falls somewhere in between and who need research, analysis, and program management might consider level two.

There are considerations beyond context, however. Which level of responsibility a CoS should have depends as well on the skills and ambition of the person hired for the role and the chemistry and trust that develop between the CoS and the CEO. In some cases a level two CoS may evolve to level three duties over time as trust and abilities develop and the relationship deepens.

Each level requires the same handful of foundational abilities. One is well-developed project-management skills: being organized and disciplined, showing attention to detail, and following up doggedly to ensure the right results. Another is business savvy, including an understanding of the marketplace, competitors, and technology and what is required for sustained operating results. A third is the ability to see what pressures the leader faces in pushing the company to change and to find ways to lessen them. A fourth is the ability to recognize which relationships are most important to the success of the leader's agenda so as to assist in strengthening them. Finally, communication skills are crucial, because the CoS must help refine the leader's message and ensure that it is understood by the right audiences. (This is why many governmental chiefs of staff are former speechwriters.)

Leaders who are new to an organization—with or without a mandate to create significant change—will require even more from a CoS: the ability to envision the culture that the CEO wants to create and a sophisticated mix of emotional intelligence, judgment, discretion, diplomacy, and political acumen, which enables the CoS to interact with powerful direct reports to the CEO and board members

with confidence and poise. Because of the added responsibilities required of a level three CoS, it is crucial that onboarding include a careful review of the culture, including who has influence and why, the leader's style and personality, and the board's expectations for change.

When first establishing the CoS position, it is also important to prepare the organization. The CEO's executive assistant should understand the CoS role, because she or he sits upstream in the flow of information and will continue to handle routine duties that support the chief of staff's activities. More critical is ensuring that the leader's other direct reports understand why the role was created, how they and the company will benefit from it, and what the CEO expects from them in terms of support. If these issues are ignored, adding a CoS can upset the balance of working relationships at the most senior level of the company—a place where status, power, and access are always delicate matters and are carefully calibrated.

Two final factors will determine whether incorporating a CoS into the chief executive's office will improve things. First, is the leader willing to make some changes to his or her routine once the chief of staff is aboard? If the CEO is used to being his or her own chief of staff and continues to act in that way after hiring one, not even the best aide will succeed. Second, will the two of them have a relationship that allows the effective giving and receiving of feedback? From the very outset, the CEO should make a deal with the new CoS: If she hones her ability to give feedback, the CEO will be open to it and listen carefully. The relationship that results will improve performance and satisfaction for both leader and subordinate.

Everyone requires help to achieve his or her highest potential and to sustain the effort it takes to lead a complex organization. The right chief of staff can be an important source of assistance to leaders who are pushing their organizations and themselves to ever better performance. ☰

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MANAGING
PEOPLE



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BEGIN

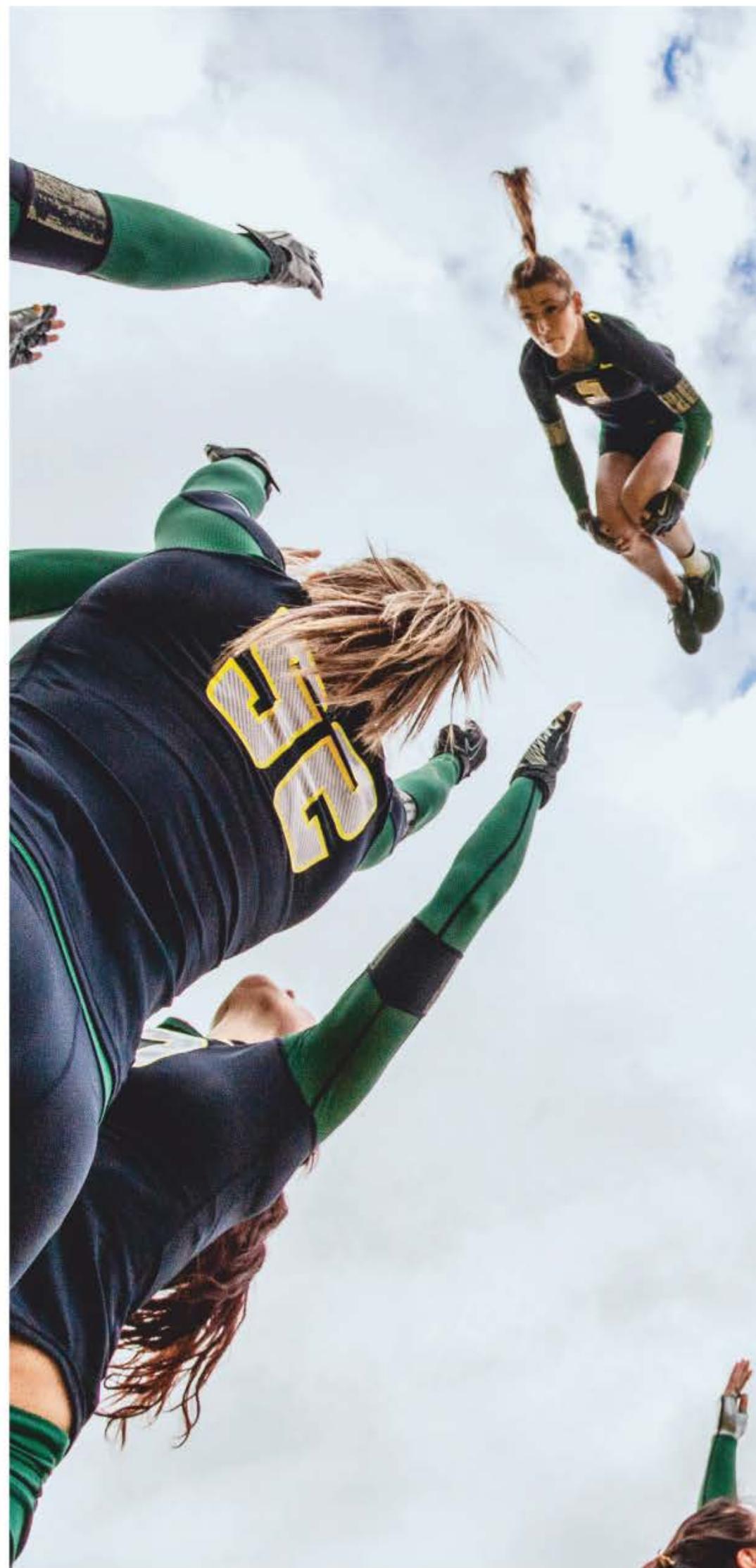
WITH

TRUST

The first step to
becoming a genuinely
empowering leader



PHOTOGRAPHER HOLLY ANDRES





IDEA IN BRIEF

THE STARTING POINT

The traditional leadership narrative is all about you: your talents, charisma, and moments of courage and instinct. But real leadership is about your people and creating the conditions for them to fully realize their own capacity and power. To do this, you have to develop stores of trust.

THE CHALLENGE

How do leaders build trust? By focusing on its core drivers: authenticity, logic, and empathy. People tend to trust you when they think they're interacting with the real you, when they have faith in your judgment and competence, and when they believe you care about them.

THE WAY FORWARD

When leaders have trouble with trust, it's usually because they're weak on one of those three drivers. To develop or restore trust, identify which driver you're "wobbly" on, and then work on strengthening it.



On a spring afternoon in 2017, Travis Kalanick, then the CEO of Uber, walked into a conference room at the company's Bay Area headquarters. One of us, Frances, was waiting for him. Meghan Joyce, the company's general manager for the United States and Canada, had reached out to us, hoping that we could guide the company as it sought to heal from a series of deep, self-inflicted wounds. We had a track record of helping organizations, many of them founder-led, tackle messy leadership and culture challenges.



MANAGING
PEOPLE

We were skeptical about Uber. Everything we'd read about the company suggested it had little hope of redemption. At the time, the company was an astonishingly disruptive and successful start-up, but its success seemed to have come at the price of basic decency. In early 2017, for example, when taxi drivers went on strike in New York City to protest President Trump's travel ban, Uber appeared to have used tactics to profit from the situation—a move that prompted widespread outrage and a #deleteUber campaign. A month later, not long before the meeting, an Uber engineer named Susan Fowler had blogged courageously about her experiences of harassment and discrimination at the company, which caused more outrage. Footage of Kalanick had then emerged, in a video that went viral, of his interaction with an Uber driver, where he appeared dismissive of the pain of earning a living in a post-Uber world. Additional charges leveled at the company in this period reinforced Uber's reputation as a cold-blooded operator that would do almost anything to win.

Despite our skepticism, Frances had gone to California to hear Kalanick out. (Anne was building her own company at the time, so she took a back seat on the project.) As Frances waited for him to make his entrance, she braced herself for the smug CEO she'd read about. But that wasn't who walked in. Kalanick arrived humbled and introspective. He had thought a lot about how the cultural values he'd instilled in the company—the very values that had fueled Uber's success—had also been misused and distorted on his watch. He expressed deep respect for what his team had achieved but also acknowledged that he'd put some people in leadership roles without giving them the training or mentorship to be effective. Whatever mistakes Kalanick had made up to that point, he revealed a sincere desire to do the right thing as a leader.

We regrouped back in Cambridge, Massachusetts, and debated whether to take on the project. There were lots of reasons to stay far away from it. The work would be hard and its outcome uncertain, to say nothing of the brutal commute. Uber's workforce was frustrated, and the brand was becoming toxic. But we realized that if we could help get Uber back on the right path, then we could offer a road map to countless others trying to restore humanity to organizations that had lost their way. So we signed on.

After making that decision, we knew exactly where to start. With trust.

EMPOWERMENT LEADERSHIP

We think of trust as precious, and yet it's the basis for almost everything we do as civilized people. Trust is the reason we're willing to exchange our hard-earned paychecks for goods and services, pledge our lives to another person in marriage, cast a ballot for someone who will represent our interests. We rely on laws and contracts as safety nets, but even they are ultimately built on trust in the institutions that enforce them. We don't know that justice will be served if something goes wrong, but we have enough faith in the system that we're willing to make high-stakes deals with relative strangers.

Trust is also one of the most essential forms of capital a leader has. Building trust, however, often requires thinking about leadership from a new perspective. The traditional leadership narrative is all about you: your vision and strategy; your ability to make the tough calls and rally the troops; your talents, your charisma, your heroic moments of courage and instinct. But leadership really isn't about you. It's about empowering other people as a result of your presence, and about making sure that the impact of your leadership continues into your absence.

That's the fundamental principle we've learned in the course of dedicating our careers to making leaders and organizations better. Your job as a leader is to create the conditions for your people to fully realize their own capacity and power. And that's true not only when you're in the trenches with them but also when you're not around and even—this is the cleanest test—when you've permanently moved on from the team. We call it empowerment leadership. The more trust you build, the more possible it is to practice this kind of leadership.

THE CORE DRIVERS OF TRUST

So how do you build up stores of this foundational leadership capital? In our experience, trust has three core drivers: authenticity, logic, and empathy. People tend to trust you



when they believe they are interacting with the real you (authenticity), when they have faith in your judgment and competence (logic), and when they feel that you care about them (empathy). When trust is lost, it can almost always be traced back to a breakdown in one of these three drivers.

People don't always realize how the information (or more often, the misinformation) that they're broadcasting may undermine their own trustworthiness. What's worse, stress tends to amplify the problem, causing people to double down on behaviors that make others skeptical. For example, they might unconsciously mask their true selves in a job interview, even though that's precisely the type of less-than-fully-authentic behavior that reduces their chance of being hired.

The good news is that most of us generate a stable pattern of trust signals, which means a small change in behavior can go a long way. In moments when trust is broken, or fails to get any real traction, it's usually the same driver that has gone wobbly on us—authenticity, empathy, or logic. We call this driver your "trust wobble." In simple terms, it's the driver that's most likely to fail you.

Everybody, it turns out, has a trust wobble. To build trust as a leader, you first need to figure out what yours is.

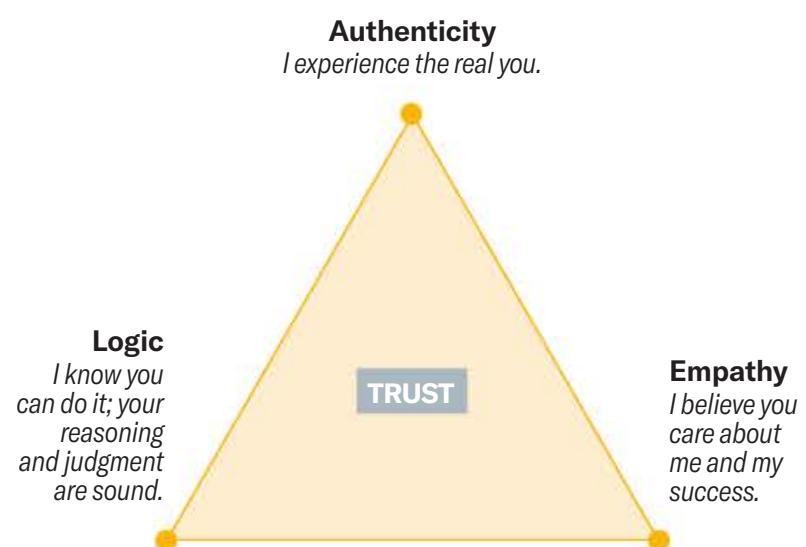
BUILD IT, AND THEY WILL COME

To identify your wobble, think of a recent moment when you were not trusted as much as you wanted to be. Maybe you lost an important sale or didn't get a stretch assignment. Maybe someone simply doubted your ability to execute. With that moment in mind, do something hard: Give the other person in your story the benefit of the doubt. Let's call that person your "skeptic." Assume that your skeptic's reservations were valid and that you were the one responsible for the breakdown in trust. This exercise only works if you own it.

If you had to choose from our three trust drivers, which would you say went wobbly on you in this situation? Did your skeptic feel you were misrepresenting some part of yourself or your story? If so, that's an authenticity problem. Did your skeptic feel you might be putting your own interests first?

The Trust Triangle

Trust has three drivers: authenticity, logic, and empathy. When trust is lost, it can almost always be traced back to a breakdown in one of them. To build trust as a leader, you first need to figure out which driver you "wobble" on.



If so, that's an empathy problem. Did your skeptic question the rigor of your analysis or your ability to execute on an ambitious plan? If so, that's a logic problem.

Now stand back and try to look at your pattern of wobbles across multiple incidents. Pick three or four interactions that stand out to you, for whatever reason, and do a quick trust diagnostic for each one. What does your typical wobble seem to be? Does the pattern change under stress or with different kinds of stakeholders? For example, do you wobble on one trait with your direct reports but on a different one with people who have authority over you? That's not uncommon.

This exercise works best if you bring at least one person along for your diagnostic ride, ideally someone who knows you well. Sharing your analysis can be clarifying—even liberating—and will help you test and refine your hypothesis. In our experience, about 20% of self-assessments need a round of revision, so choose a partner who can keep you honest. Consider going back and testing your analysis directly by speaking openly about it with your skeptic. This conversation alone can be a powerful way to rebuild trust. When you



Your job as a leader is to help your people fully realize their own capacity and power. The more trust you build, the more possible it is to practice this kind of leadership.

take responsibility for a wobble, you reveal your humanity (authenticity) and analytic chops (logic) while communicating your commitment to the relationship (empathy).

OVERCOMING YOUR WOBBLE

Over the past decade we've helped all kinds of leaders—from seasoned politicians to Millennial entrepreneurs to the heads of multibillion-dollar companies—wrestle with trust issues. In doing so, we've learned a lot about strategies you can deploy to overcome your own trust wobbles. Let's explore what's most effective for each of the drivers in our trust triangle.

Empathy. Most high-achieving leaders struggle with this one. Signaling a lack of empathy is a major barrier to empowerment leadership. If people think you care more about yourself than about others, they won't trust you enough to lead them.

Empathy wobbles are common among people who are analytical and driven to learn. They often get impatient with those who aren't similarly motivated or who take longer than they do to understand something. Additionally, the tools and experience of the modern workplace continually distract or prevent us from demonstrating empathy, by imposing 24-hour demands on our time and putting at our disposal all sorts of technologies that compete for our attention at any given moment. Our beeping and buzzing devices constantly assert our self-importance, sometimes smack in the middle of interactions with the very people we're working to empower and lead.

We advise empathy wobblers to pay close attention to their behavior in group settings, particularly when other people have the floor. Consider what often happens in a meeting: When it kicks off, most people feel very engaged. But as soon as empathy wobblers understand the concepts under discussion and have contributed their ideas, they lose interest. Their engagement plummets and remains low until the gathering (mercifully) comes to an end. Instead of paying attention, they often multitask, check their phones, engage in flamboyant displays of boredom—anything to make clear that this meeting is beneath them.

Unfortunately, the cost of these indulgences is trust. If you signal that you matter more than everyone else, why should anyone trust the direction you're going in? What's in it for the rest of us to come along?

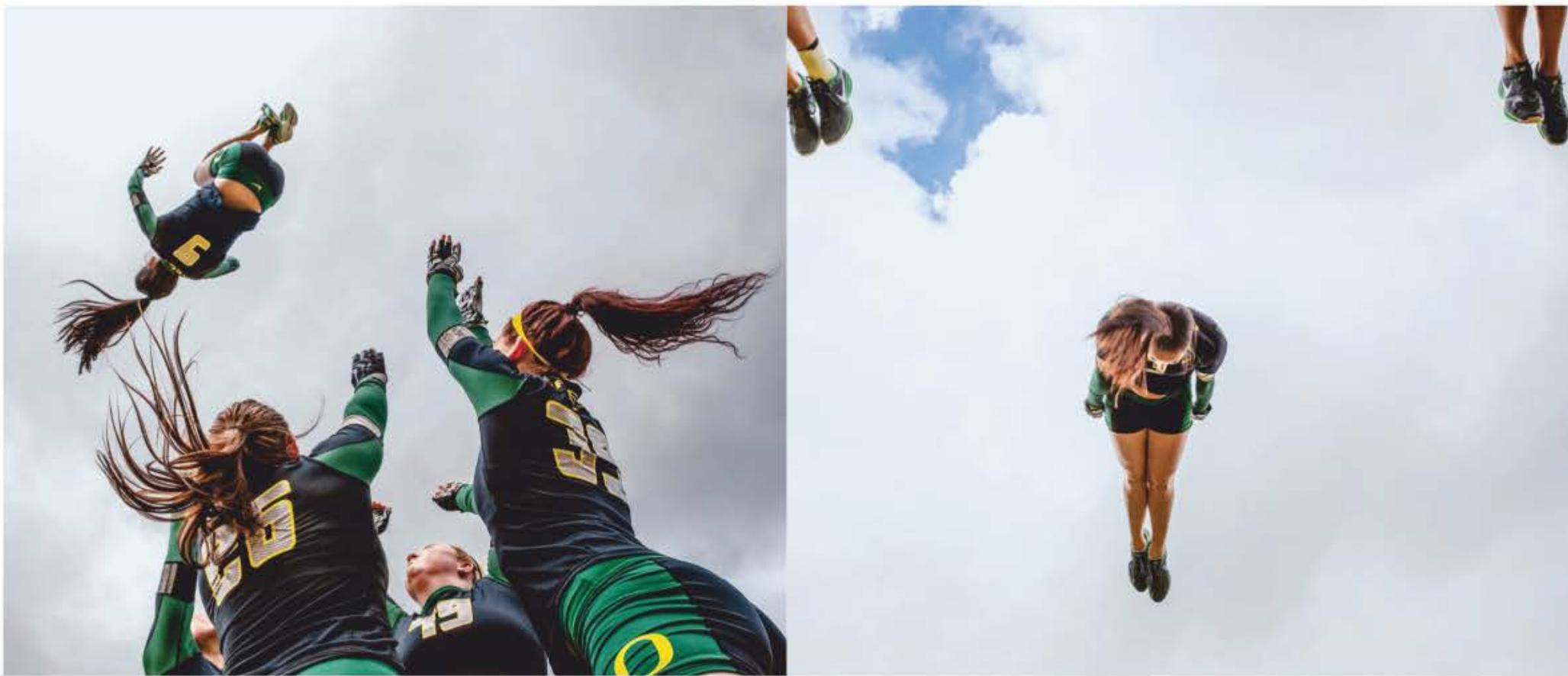
There's a basic solution to this problem. Instead of focusing on what you need in that meeting, work to ensure that everyone else gets what they need. Take radical responsibility for the others in the room. Share the burden of moving the dialogue forward, even if it's not your meeting. Search for the resonant examples that will bring the concepts to life, and don't disengage until everyone else in the room understands. This is almost impossible to do if texting or checking email is an option, so put away your devices. Everyone knows you're not taking notes on their good ideas.

Indeed, the last thing we'll say on empathy is this: If you do nothing else to change your behavior, put away your phone more frequently. Put it truly away, out of sight and out of reach, not just flipped over for a few minutes at a time. You'll be amazed at the change in the quality of your interactions and your ability to build trust.

Logic. If people don't always have confidence in the rigor of your ideas, or if they don't have full faith in your ability to deliver on them, then logic is probably your wobble. If they don't trust your judgment, why would they want you at the wheel?

When logic is the problem, we advise going back to the data. Root the case you're making in sound evidence, speak about the things you know to be true beyond a reasonable doubt, and then—this is the hard part—stop there. One reason Larry Bird was such an extraordinary basketball player was that he only took shots he knew he could reliably make. That choice made him different from other great players who let ego and adrenaline cloud their shooting judgment. Bird studied and practiced so relentlessly that by the time the ball left his hands in the heat of competition, he knew exactly where it was going. If logic is your wobble, take Bird's example and learn to "play within yourself."

Once you get comfortable with how that feels, start expanding what you know. Along the way, make an effort to learn from other people. Their insight is among your most valuable resources, but to access it, you must be willing to reveal that you don't have all the answers—something leaders often resist. Engaging people about their experience



has the additional benefit of communicating who you are and what energizes you professionally—an authenticity boost.

For most logic wobblers, however, rigor isn't the issue. Much of the time, the problem is the perception of wobbly logic rather than the reality of it. Why does this happen? Because they're not communicating their ideas effectively.

There are generally two ways to communicate complex thoughts. The first takes your audience on a journey, with twists and turns and context and dramatic tension, until they eventually get to the payoff. Many of the world's best storytellers use this technique. You can visualize this approach by imagining an inverted triangle. The journeying storyteller starts at the top, at the inverted base of the triangle, and traces an enchantingly meandering route down to its point.

If logic is your wobble, however, that's a risky path to take. With all that circuitous journeying, you're likely to lose your audience along the way rather than build trust in your judgment. Listeners may even abandon you at one of your narrative turns.

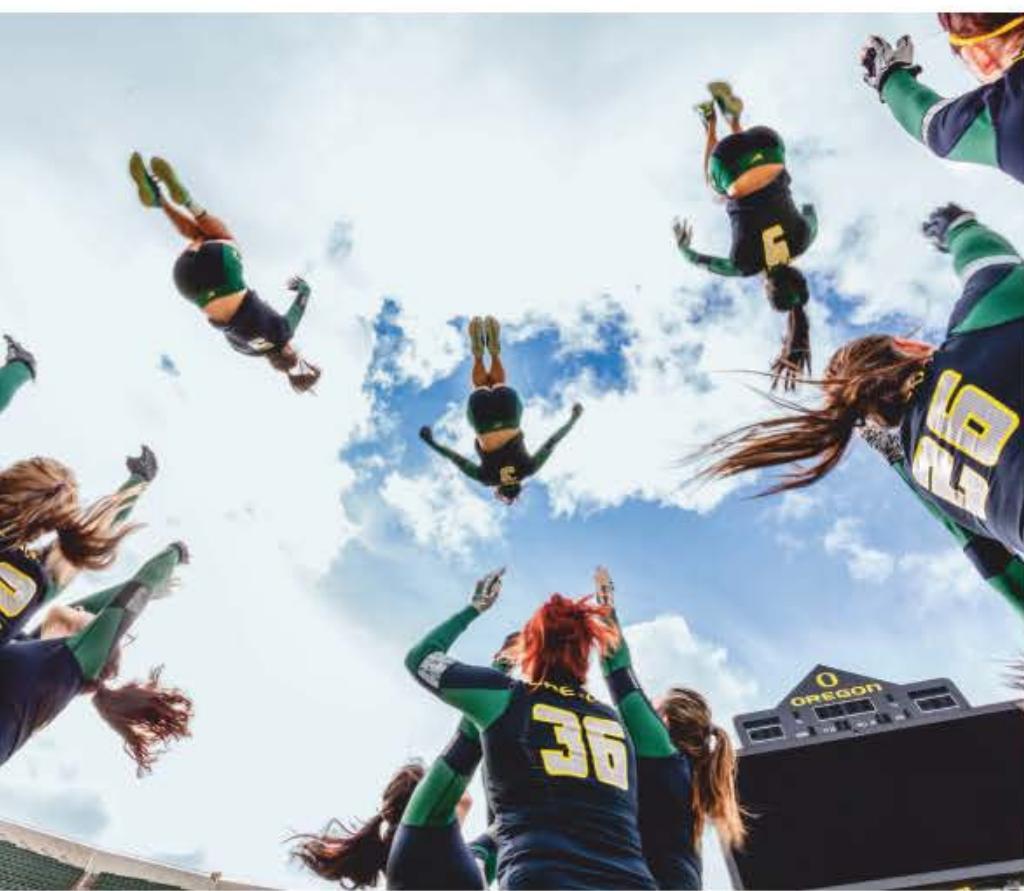
To avoid that, try flipping the imaginary triangle upright. Start with your main point, or headline, at the top of the triangle, and then work your way down, building a base of reinforcing evidence. This approach signals a clarity of vision and a full command of the facts. Everyone has a much better chance of following your logic. Even if you get interrupted along the way, you'll at least have had a chance to communicate your key idea.

Authenticity. If people feel they're not getting access to the "real" you—to a full and complete accounting of what you know, think, and feel—then you probably have an authenticity wobble.

A quick test: How different is your professional persona from the one that shows up around family and friends? If there's a sharp difference, what are you getting in return for masking or minimizing certain parts of yourself? What's the payoff?

Being your "real self" sounds nice in theory, but there can be powerful reasons for holding back certain truths. The calculation can be highly practical at times, if wrenching—as in deciding to stay closeted in a workplace that's hostile to queer identities. There may also be times when expressing your authentic feelings may risk harmful consequences: Women, for example, are disproportionately penalized for displaying negative emotions in the workplace, and black men are burdened by the false stereotype that they are predisposed to anger. We're not talking here about moments of prudent self-censorship, which sometimes can't be divorced from a larger context of bias or low psychological safety. Instead, we're talking about inauthenticity as a strategy, a way of navigating the workplace. If this is how you operate, you're dealing with an authenticity wobble.

In our experience, although withholding your true self may sometimes help you solve problems in the short term, it puts an artificial cap on trust and, by extension, on your ability to lead. When people sense that you're concealing the



truth or being less than authentic, they're far less willing to make themselves vulnerable to you in the ways that leadership demands.

We've observed the cost of inauthenticity up close in the performance of diverse teams. Diversity can be a tremendous asset in today's marketplace, and the companies that get it right often enjoy powerful competitive tailwinds. But this advantage isn't automatic. Simply populating your team with diverse perspectives and experiences doesn't always translate into better performance. In fact, the uncomfortable truth is that diverse teams can underperform homogenous teams if they're not managed actively for differences among members. That is due in part to a phenomenon called the *common information effect*, which works like this: As human beings, we tend to focus on the things we have in common with other people. We tend to seek out and affirm our shared knowledge, because it confirms our value and kinship with the group. Diverse teams, by definition, have less common information readily available to them to use in collective decision-making.

Consider two teams of three people, one in which the three members are different from one another, and the other in which they're similar. If both teams are managed in exactly the same way—if they simply follow the same best practices in group facilitation, for example—the homogenous team is likely to perform better. No amount of feedback or number of trust falls can overcome the strength of the common information effect.

But the effect only holds if people wobble on authenticity. When they choose to bring their unique selves to the table—that is, the parts of themselves that are different from other people—they can create an unbeatable advantage by expanding the amount of information the team can access. The result is an inclusive team that's likely to outperform (by a long shot) both homogenous teams and diverse teams that aren't actively managed for inclusion. (See the sidebar "Trust, Diversity, and Team Performance.")

This expansion of knowledge and its obvious benefits rely on the courage of authenticity wobblers. We know how difficult sharing who we really are can be, and we also know that it's sometimes too much to ask. But if we regularly give in to the pressure to hold back our unique selves, then we suppress the most valuable parts of ourselves. Not only do we end up concealing the very thing the world needs most from us—our differences—but we also make it harder for people to trust us as leaders.

Here's the reason to care, even if you don't see yourself as different: All of us pay the price of inauthentic interactions, and all of us have a better chance of thriving in inclusive environments where authenticity can flourish. Gender bias, in other words, is not just a woman's problem. Systemic racism is not just an African-American or Latinx problem. It's our shared moral and organizational imperative to create workplaces where the burdens of being different are shouldered by all of us. After all, we will all benefit wildly from eliminating them.



MANAGING
PEOPLE

One of the lessons we've learned in our work with organizations is that creating spaces where authenticity can thrive is not as hard as it may seem. It is an urgent, achievable goal that requires far less audacity than disrupting industries or growing complex organizations—things leaders do every day with deep conviction in the outcomes. If all of us take responsibility for creating companies where difference can thrive, and all of us take responsibility for showing up in them authentically, then our chances of achieving true inclusion—and building high levels of trust—start to look pretty good.

So pay less attention to what you think people want to hear and more attention to what you need to say to them. Reveal your full humanity to the world, regardless of what your critics say. And while you're at it, take exquisite care of people who are different from you, confident in the knowledge that their difference is the very thing that could unleash your potential and your organization's.

IN MYSELF I TRUST

We've argued that the foundation of empowerment leadership is getting other people to trust you. That's certainly true, but there's one last thing you need to know. The path to empowerment leadership doesn't begin when other people start to trust you. It begins when you start to trust yourself.

To be a truly empowering leader, you need to take stock of where you wobble not only in your relationships with others but also in your relationship with yourself. Are you being honest with yourself about your ambitions, or are you ignoring what really excites and inspires you? If you're hiding something from yourself, you've got an authenticity problem you need to address. Do you acknowledge your own needs and attend properly to them? If not, you've got to adopt a more empathetic posture toward yourself. Do you lack conviction in your own ideas and ability to perform? If so, you've got some logic issues to work out.

Doing this work is important as a leader, for an arguably obvious reason. If you don't trust yourself, why should anybody else trust you?

A CAMPAIGN TO REBUILD TRUST

Let's now return to Uber. When we began working with the company, it was certainly wobbling—so much so that we diagnosed it as “a hot mess.”

What was going on?

Consider the basic trust-related facts. There's no question that Uber had empathy problems. The company's focus on growth at all costs meant that relationships with stakeholders, particularly drivers and employees, needed real attention. Riders also needed to be assured that their safety wouldn't come second to the company's financial performance. Additionally, despite its disruptive success, Uber hadn't answered questions about the long-term viability of its business model or about whether its managers had the skills to lead an organization of its expansive scale and scope. These were unaddressed logic problems. Finally, the company's war-room mentality was undermining its authenticity. In the “us versus them” culture at Uber, people were skeptical that they were getting the full story.

By the time Frances began working with Kalanick, he had already begun making changes to steady the company's trust wobbles. He had hired Eric Holder, for example, who had served as U.S. attorney general under President Obama, to lead a rigorous internal investigation into harassment and discrimination—and when Holder made a sweeping set of recommendations, Kalanick took action to implement them. The company was also on the verge of rolling out new driver-tipping functionality, which would go on to generate \$600 million in additional driver compensation in the first year of its launch. New safety features were in development, too, designed to give both drivers and riders additional tools to protect themselves.

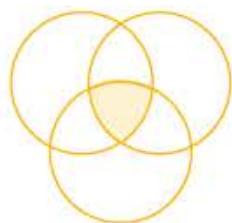
Kalanick didn't get the chance to see most of these initiatives to completion, at least not from the CEO chair. In June 2017, he was forced out as CEO, although he retained his board seat and an equity stake in the company until December 2019, when he gave both up. He was ultimately replaced by Dara Khosrowshahi, the former Expedia CEO, who had a track record of effective leadership at the helm of young companies.



The path to empowerment leadership doesn't begin when other people trust you. It begins when you trust yourself.

Trust, Diversity, and Team Performance

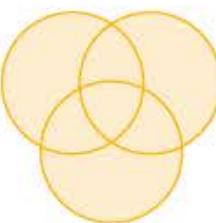
Diversity doesn't automatically confer advantages in decision-making. In fact, if diverse teams aren't managed actively for inclusion, they can underperform homogenous ones. That's because shared knowledge is key in decision-making, and diverse teams, by definition, start out with less of it. But if you create conditions of trust that allow diverse team members to bring their unique perspectives and experiences to the table, you can expand the amount of knowledge your team can access—and create an unbeatable advantage.



Diverse teams
A diverse store of knowledge is partly shared.



Homogenous teams
A common store of knowledge is fully shared.



Inclusive teams
A diverse store of knowledge is fully shared.

complexity of their jobs. We addressed this logic wobble with a massive infusion of executive education, using a virtual classroom to engage employees in live case discussions—our pedagogy of choice—whether they were in San Francisco, London, or Hyderabad. Although our pilot program was voluntary and classes were sometimes scheduled at absurdly inconvenient times, 6,000 Uber employees based in more than 50 countries each participated in 24 hours of instruction over the course of 60 days. It was an extraordinary pace, scale, and absorption of management education.

The curriculum gave people tools and concepts to develop quickly as leaders while flipping a whole lot of upside-down communication triangles. Employees gained the skills not only to listen better but also to talk in ways that made it easier to collaborate across business units and geographies. Frances went out in the field, visiting key global offices in her first 30 days on the job, carving out protected spaces to listen to employees and communicate leadership's commitment to building a company worthy of its people. At a time when many employees were conflicted about their Uber affiliations, Frances made it a point to wear an Uber T-shirt every day until the entire company was proud to be on the payroll.

Within a year, Uber was less wobbly. There were still problems to be solved, but indicators such as employee sentiment, brand health, and driver compensation were all heading in the right direction, and the march toward an IPO began in earnest. Good people were deciding to stay with the company, more good people were joining, and, in what had become our favorite indicator of progress, an increasing number of Uber T-shirts could now be spotted on city streets. It was all a testament to the talent, creativity, and commitment to learning at every level of the organization—and to the new foundation of trust that Kalanick and Khosrowshahi had been able to build. ☺

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Frances soon began working with Khosrowshahi to continue the campaign to rebuild trust internally. Together they led an effort to rewrite the company's cultural values, one that invited input from all 15,000 employees on the principles that they wanted Uber to live by. The new motto they settled on was "We do the right thing. Period." Other early trust wins for Khosrowshahi included strengthening relationships with regulators and executing a logic-driven focus on the services and markets that were most defensible.

Most of the work we did during this period was aimed at rebuilding trust at the employee level. Some things were easy to identify and fix, like ratcheting down the widespread, empathy-pulverizing practice of texting during meetings about the other people in the meeting, a tech-company norm that shocked us when we first experienced it. We introduced a new norm of turning off all personal technology and putting it away during meetings, which forced people to start making eye contact with their colleagues again.

Other challenges were harder to tackle, like the need to upskill thousands of managers. Our take was that Uber had underinvested in its people during its period of hypergrowth, leaving many managers unprepared for the increasing

 **FRANCES FREI** is the UPS Foundation Professor of Service Management at Harvard Business School. She received shares in Uber as compensation for her work with the company, which she continues to hold. **ANNE MORRISS** is an entrepreneur and the executive founder of the Leadership Consortium. They are the authors of *Unleashed: The Unapologetic Leader's Guide to Empowering Everyone Around You* (Harvard Business Review Press, 2020), from which this article was adapted.

Realigning incentives along the value chain to reform health care



The idea that health care can be reformed by realigning the value chain to create better patient experiences, improve population health and lower costs has gained traction across the country.

In a recent survey by Harvard Business Review Analytic Services, 80% of the 1,185 health care executives surveyed had high or moderate confidence that the health care industry will make significant progress in improving the consumer experience over the next five years.

But that optimism faded when they were questioned about the health care industry's ability to cut costs or significantly improve population health. Seventy-three percent of the executives believe progress in reducing costs will be weak, while barely half expect population health to improve in the next five years.

What is standing in the way of progress — and what do these executives believe could remove the barriers?

More progress demands more collaboration, respondents said, between payers, providers and consumers. An eye-opening 86% of respondents endorsed strategic alliances driven by data sharing and agreed-to decision-making processes and outcomes. And 75% said their organizations could be sharing more data — to better diagnose, improve cost and create new performance measurements.

But that kind of shared analysis, which is vital for innovation and reform, is blocked, respondents said, because the current payment and reimbursement system does not reward collaboration. Even though organizations may agree on the goals of reform, competing and misaligned incentives

in the health care ecosystem create a major barrier: Incentives are a bigger challenge (63%) than overcoming resistance (51%) and dealing with incompatible IT systems.

These contradictions underscore the complexities of today's health system, where many stakeholders — hospitals, physicians, health plans and benefit-providing employers — each are working to serve consumers in their own way. When not well coordinated, this may create impersonal, disconnected and confusing experiences for the people we're all trying to help. But by better aligning efforts across the health system to consumer needs, there's a significant opportunity to reshape their experience and achieve better health outcomes. Hospitals and other health care providers do this, too, but they often have a very different set of incentives than payers do.

By better aligning efforts across the health system to consumer needs, there's a significant opportunity to reshape their experience and achieve better health outcomes.

In the middle are patients who want as much health care choice as possible, but historically aren't very engaged in the type of "smart shopping" needed for them to apply pressure to the system. Indeed, 86% of respondents either strongly or somewhat agree that consumers face significant challenges when trying to manage their own health.

The survey suggests that employers have a strong financial incentive to take on a much greater role in driving change and collaboration, and they can create a new equilibrium throughout the health care value chain.

Corporations that offer health care plans to their employees control the lion's share of health care spending, currently providing over half of the health care coverage in the U.S. They have a strong vested interest in containing health care costs: "They want the healthiest employees at the lowest cost," as one respondent said.

So these organizations are in a position to demand that their health care supply chain work together to deliver high quality and patient satisfaction, while controlling their costs.

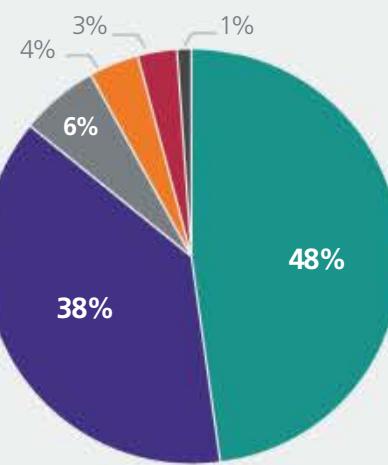
These organizations also may be best equipped to engage a large group of consumers and encourage greater involvement in their health care planning and choices. Indeed, corporations and their employees could be the glue that could support reform.

Market equilibrium occurs when all players know the strategies of the others and are confident about what actions each will take. As new models of health care emerge, value-based reimbursement, especially when based on total cost of care, can bring equilibrium into the health care system.

No single health care stakeholder — whether consumer, care provider, health plan or employer — can do it alone. We have the opportunity to modernize and transform the health system from fractured to simple, smart and seamless. Together we can create a system that works better for everyone — one person at a time.

Learn more at optum.com/partnersinvalue.

Strategic alliances, shared data and common outcomes will drive health care reform



Significant reform can be achieved through strategic and operational alliances using shared data and agreed-on outcomes and decision-making criteria.

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree
- Don't know

Misaligned incentives, resistance to change and incompatible IT systems are the key barriers to collaboration

Competing/misaligned incentives among organizations

63%

Organizational cultures in health care organizations being highly resistant to change

51%

Incompatible IT systems

50%

Privacy concerns preventing information sharing between organizations

33%

Uncertainty over future reimbursement strategies

24%

Regulatory uncertainty

24%

Data analytics capabilities not strong enough to support interorganizational decisions

22%

Meeting value-based care requirements

12%

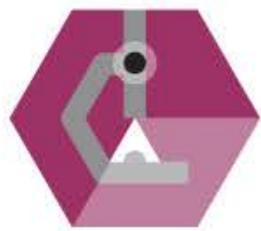
Other

4%

Source: Harvard Business Review Analytic Services Survey, October 2019.

About Optum

Optum is a leading health services innovation company dedicated to helping people live healthier lives and helping make the health system work better for everyone. Optum creates simple, effective and comprehensive health solutions for organizations and consumers across the whole health care system. Optum is one of two distinct businesses within UnitedHealth Group (NYSE:UNH).



INNOVATION

Discovery-Driven



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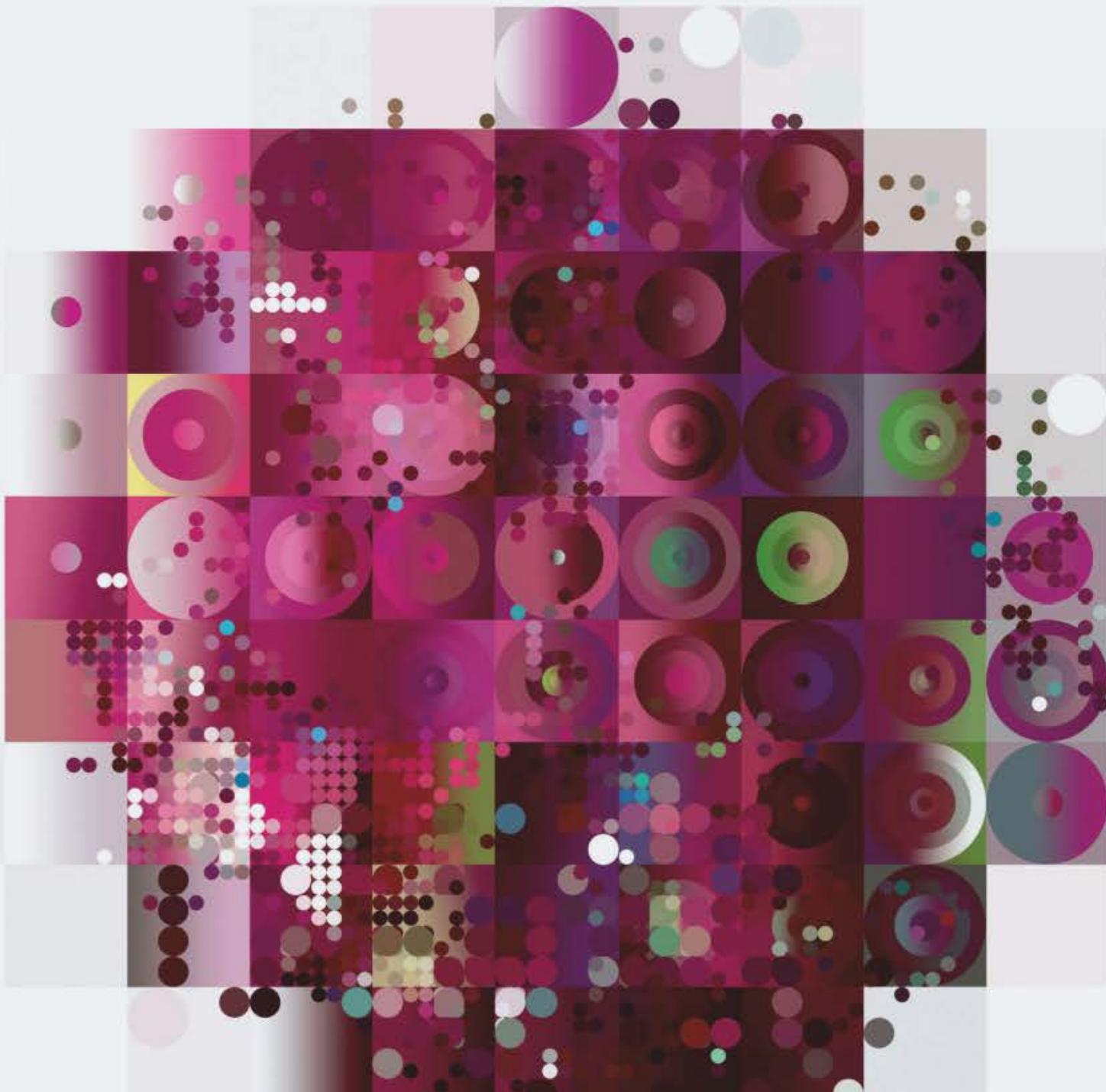
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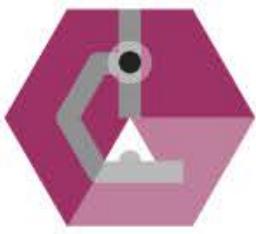


PHOTOGRAPHER GILES REVELL

Digital Transformation



LEARNING YOUR WAY TO A NEW BUSINESS MODEL



INNOVATION

IDEA IN BRIEF

THE PROBLEM

Established companies spend billions trying to turn themselves into digitized orchestrators of some new ecosystem, only to fall flat on their faces.

WHY IT HAPPENS

The CEOs believe that the existential threat posed by digital disruptors requires a gigantic, model-busting response.

THE SOLUTION

Adopt an incremental experimental approach: discovery-driven digital transformation. Look for problems to fix with digital technology, but exploit your rich knowledge of customers, broad operational scope, and deep talent pools while learning your way to a new business model.



What's your digital strategy?

That simple question often throws the CEOs of traditional companies into a panic. They believe that digital technologies and business models pose an existential threat to their way of doing business—and of course they're right. But the pressure they feel often leads them to make big bet-the-farm moves—and that's usually wrong.

Veon, a large multinational provider of telecommunications services, is a case in point. Its new digital platform, introduced in 2017, was a huge project, involving 100 staff members in Amsterdam and another hundred or so in its London office. The idea was to create a mobile app that would offer users rich localized experiences and serve as a sales channel for Veon's commercial partners (such as Mastercard). Management considered the project its top priority. But after being launched with much fanfare, the app got a lukewarm response from customers, and the effort to build a new ecosystem around it was scrapped. The failure led to a management exodus, layoffs, and a back-to-basics strategy with digital efforts sidelined to pilot-project stage.



ABOUT THE ART

In his series “Cartographic Colour,” photographer Giles Revell abstracts the forms of flowers, combining science, graphics, and photography to investigate the role that color plays in our perception of the world.

Veon still needs a new business model, though, and clearly can’t afford to make many more large investments in searching for one.

It doesn’t have to. Just because a threat is huge doesn’t mean that a response has to be. To the contrary, companies like Veon would actually be much better off taking a more incremental approach to transformation over time. While they should always have a vision of where they want to go, they should work their way toward it by continually finding opportunities to digitize problematic processes in their core operations. When they tackle those projects, they’ll learn what metrics to use, which assumptions to revise, where they can introduce new business models, and who their new competitors might be. And as they absorb those lessons, their understanding of their competitive landscape—and the long-term goals they set for themselves—will inevitably change.

There’s already a process for this kind of ongoing learning approach to strategy: discovery-driven planning (DDP). One of us, Rita, and Ian MacMillan developed it in the 1990s as a product innovation methodology, and it was later incorporated into the popular “lean start-up” tool kit for launching businesses in an environment of high uncertainty. At its center is a low-cost process for quickly testing assumptions about what works, obtaining new information, and minimizing risks.

In the following pages we’ll describe how an adapted form of DDP can help incumbent firms confront digital challenges and learn their way toward a new business model. Let’s begin by looking in more detail at why a step-by-step transformation works better for traditional firms than the all-or-nothing approach that characterizes a start-up’s pivot.

The Incremental Advantage of Incumbent Firms

Economists have long puzzled over why firms exist at all and, at a more granular level, which tasks belong within the boundaries of a given firm. One line of thought, begun by Ronald Coase in the 1930s, suggests that under certain conditions, market transactions often are not satisfactory for

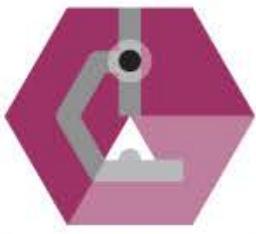
individuals: when it is difficult or expensive to get information about what you want to buy, when bargains are hard to strike because information is asymmetrical, and when it’s costly or challenging to enforce agreements. If any of those conditions apply, it makes sense to keep the activities involved within a firm.

Until fairly recently, the boundaries between firms and markets were well understood and relatively fixed. But digital technologies have changed all that by making it possible to use markets for a lot of work that once was done more efficiently within firms. Platforms such as Alibaba and Amazon have made it easy to outsource functions like selecting suppliers, negotiating prices, enforcing contracts, managing payments, and more.

As a result, executives in companies that were born digital have assumptions about how transactions should be structured that are completely different from those of executives in legacy companies. What’s more, because digital firms’ structures are evolving all the time, their managers revisit those assumptions frequently. Direct-to-consumer businesses (think Casper in mattresses, Harry’s in shaving, and Warby Parker in eyeglasses) are constantly experimenting with and adjusting features like free shipping, product bundles, bonuses for adding items, and so on. Those tactics simply aren’t available to an incumbent selling through distributors. And because the digital businesses cut out intermediaries, they can be profitable at a much lower scale.

A key consequence of all this is that digital start-ups can change direction, or pivot, without destroying much value. They usually aren’t that capital-intensive and don’t have big payrolls. The founders of Rooted, for instance, initially sold plants out of their apartment directly to consumers, only later moving to a separate space and hiring employees. For such companies, failure is relatively cheap—unless it happens late in the day (or investors succumb to the growth-at-all-costs mantra that is unraveling the fortunes of many so-called unicorns).

The employees, managers, and shareholders of traditional companies, however, cannot pivot without destroying value. If their digital gambles fail, workers lose their jobs, and physical assets have to be unloaded at fire-sale prices. And unlike the venture capitalists who back start-ups, the investors in what was once a safe company may



INNOVATION

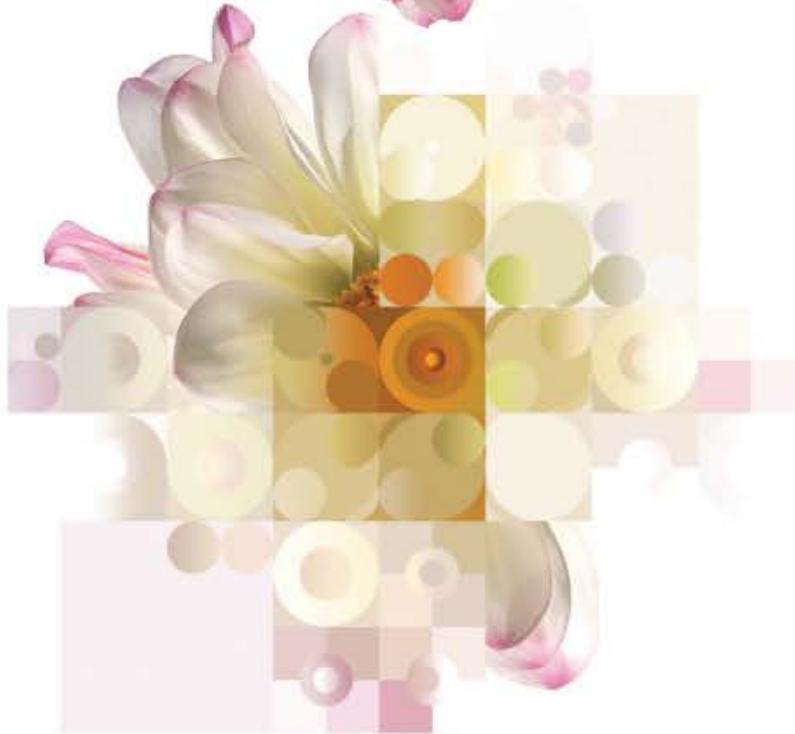
not have the buffer of high-return investments to offset their losses.

But although incumbent firms can't pivot easily, the good news is that they don't need to. Think about what big companies can do that start-ups can't. Entrepreneurial ventures nearly always exploit a single idea. They usually can't try out multiple versions of the same idea at the same time, let alone multiple ideas. A big firm, in contrast, has the resources to explore a variety of ideas and can more easily experiment with different processes and operations, which makes it more likely to discover a dominant model than a start-up is. This also gives a large firm a better chance of responding effectively to a digital challenge.

Take the case of the German metals distributor Klöckner. Its CEO, Gisbert Rühl, wanted to build a digital platform for the entire industry—but he didn't sponsor a big-bang effort to create one. Instead, his goal was to build digital competencies gradually, while benefiting from the knowledge and insight of people working in the firm's core steel business. For the first two years Rühl focused on digitizing inefficient manual processes; the firm created an online shop, a contract portal, order transparency tools, and a parts-manager app. Through these efforts it learned enough to create a platform on which the company and customers could seamlessly interact.

Klöckner's story reveals another advantage that incumbent firms have, at least in the early stages of an industry's adoption of digital models. They're led by people who already know their customers and can mine rich databases of prior transactions for insights. Start-ups are often led by technical experts and tend to be driven by new technical functionality rather than by the full portfolio of what customers are looking for. If you put a team of people who know the customers on the job, you'll stand a better chance of making your digital investment pay off. That's why Klöckner insisted that every project focus on how to help customers communicate more easily and efficiently with the company. That isn't the only goal to set, of course. Another company might start with a priority on shortening the time it takes to respond to a customer request. But whatever the goal is, it should frame the technology as an opportunity for the business rather than frame the business as an opportunity for the technology.

Once you accept the idea that firms should aim to disrupt in a nondisruptive manner, the challenge is subtly





Whatever the goal is, it should frame the technology as an opportunity for the business rather than frame the business as an opportunity for the technology.

transformed from “What new business model should we back?” to the more nuanced question, “How can we learn our way toward a model that’s right for our business?” That is where DDP comes in.

The Digital Context

DDP is somewhat like reverse engineering. When you use it in product development, you begin by imagining the offering you want to create and then figure out what you would need to change in order to get there. When you apply it to digital transformations, however, the focus is on reinventing the way you sell and deliver the products you already make as well as on identifying how to create and deliver new value through new digital capabilities.

Take power generation. Digital technologies are disrupting this once-stable industry, just as they are many other industries. Traditionally, power was generated from a central source and sent to its destination over a centrally managed grid. But new advances have made it possible to dynamically distribute power generated from dispersed small-scale producers tapping multiple energy sources. People with solar panels on their roofs or windmills in their gardens can sell surplus energy back to the grid, making households’ cost of investing in power generation hardware more affordable and reducing the public’s reliance on huge fossil-fuel power plants. If incumbents assume that the old business model will predict future success, they’re likely to make big mistakes. General Electric’s failed bet on the continued dominance of fossil-fuel-based electric plants provides a dramatic example.

Let’s explore what’s involved in applying a DDP approach to digital transformations. There are five key steps:

1 DEFINE THE OPERATING EXPERIENCE: IT’S NOT JUST ABOUT DIGITAL

Before investing in a line of code, look for what isn’t quite working in your operation. Where do you regularly need workarounds or have to stop a process unexpectedly to fetch more information or involve another person? These are likely to be areas that digitization can

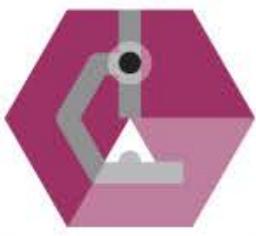
improve. Then think about how to redesign your operations there so that technology adds value, by making offerings and processes better, faster, cheaper, or more convenient.

The retailer Best Buy is one incumbent that was able to reconfigure its business operation in a way that created competitive advantages the digital-only players couldn’t replicate. Back in 2010, Amazon released its price-comparison app, one of many tools that allowed shoppers to check out products in a physical store but order the same items at a discount online. Called “showrooming,” the practice threatened to squeeze the lifeblood out of retail chains, which struggled to offer competitive prices while paying for real estate, staff, and inventory. It was one of the reasons Best Buy lost \$1.7 billion in a single quarter in 2012.

Hubert Joly, the CEO hired to turn the company around, centered his strategy (and his business model) on solving two problems: negative comparable sales and declining operating margins. To do this, he envisioned a company that blended the human, the physical, and the digital in ways that an online-only player would find hard to match. He began by imagining what kind of customer experience Best Buy could deliver and, more important, identifying where it hadn’t leveraged digital technologies to create that experience.

From this was born Best Buy’s Renew Blue project, which had five components: a reinvigorated customer experience; a change in vendor partnerships; investments in ecological and social initiatives; the employee experience; and a return for investors. Financial targets and experiments were set up for each component.

To improve the employee experience, Best Buy launched initiatives focused on workforce morale, such as bringing back a popular employee discount that had been discontinued and investing in more-intensive training. To appeal to customers, the company began to match the prices of Amazon and other e-commerce players, which required a massive effort to overhaul Best Buy’s warehousing, software, and supply chain activities. But because customers could walk out of the stores with the products, they could avoid the wait and the hassles (such as porch piracy) of having expensive products delivered, and that gave Best Buy an important edge. The company also created a system through which customers could order goods online for delivery or for pickup at the store. With 70% of Americans living within 15 miles



INNOVATION



ROI doesn't help you understand what value a project adds for customers. You need metrics that are closely linked to the improvements you hope for.

of a Best Buy outlet, that approach proved to be extremely cost-effective.

Best Buy's new model turned the disadvantage of costly real estate into an advantage. At its more than 1,000 big-box locations, brands such as Apple, Samsung, and Microsoft created stores-within-stores, essentially paying rent to feature their offerings where real live shoppers could discover them in person. Best Buy is a neutral party to warring tech giants; archrivals Amazon and Google both sell their goods there. Finally, Best Buy invested in an in-home adviser capability, in which salaried, highly trained consultants go to customers' homes and provide tech help without selling anything. The goal is just to build stronger relationships with consumers. Throughout it all, Best Buy steadily transformed its digital footprint to support the strategy.

The Best Buy story illustrates the importance of being willing to rethink assumptions about how to use assets and engage with partners. Previous leaders in the firm had failed to see any way that it could price-match online retailers. But because Joly challenged traditional thinking, he spurred the company to reimagine relationships with vendors (which now pay to be in Best Buy stores) and redesign its supply chain so that the company's physical assets could support a new business model for competing with e-commerce giants.

2 FOCUS ON SPECIFIC PROBLEMS: IDENTIFY OUTCOMES AND PROGRESS METRICS

The key question in any digital-transformation strategy is, How can we use data and digital capabilities to create new value for our customers? The DDP process translates that challenge into clear project goals.

A traditional success metric for new projects, even today, is return on investment. But ROI doesn't help you understand what value a project adds for customers, at least not directly. Further, to calculate it you need to estimate both investments and returns, which is precisely what you haven't figured out yet. What you need to do instead is identify metrics that are more closely linked to the specific improvements you hope digital initiatives will bring about.

We typically collect all this information in a "from-to" table, which identifies a problem, describes what a solution would achieve, and proposes a way to measure progress on

that solution. (For an example, see the exhibit "Tackling Big Change Step-by-Step.") As you work through solving these problems, you'll test and refine your assumptions—a key DDP discipline. You can also capture what you've spent to gain new insights and what they've saved you. Eventually, you can back into something similar to an ROI calculation.

At Klöckner, the ultimate goal was to change the business model in steel from marking up inventory to a services revenue model. At first, the digital initiatives were simple and were focused on improving the order process—by, for instance, replacing the faxing of orders with an online portal for ordering. With each one, performance on metrics such as turnaround time and the number of steps required to complete an order improved. As the company gained more knowledge and capabilities, its projects became more ambitious.

Of course, you still need a way to measure progress on digital transformation overall, and to do that we suggest a metric we call *return on time invested* (ROTI). To calculate it, you simply divide your total revenue by the number of employees. The idea is that successful technology investments should let you accomplish more with fewer people. For example, we used annual report data from 2018 to compare Amazon (a digital-first company) with Walmart (a more-traditional legacy business). We found that Amazon had \$232.9 billion in net sales and 647,500 full- and part-time workers. Its sales per employee were \$359,671. In contrast, Walmart had \$495.8 billion in net sales and 2.3 million associates. Its sales per employee were \$217,852. Amazon enjoyed 67% higher performance per employee.

3 IDENTIFY YOUR COMPETITION: CAST A WIDE NET

Industry boundaries have blurred so much that standard industrial classification (SIC) codes are more or less useless. This by itself is one reason why conventional strategy-making approaches predicated on boundary assumptions are failing incumbents.

We suggest that leaders instead think about the field of competition not as a marketplace where similar players offer rival products and services but as what strategists call an arena. An arena is defined by a customer need—what Clay

Tackling Big Change Step-by-Step

A key part of discovery-driven transformation is identifying organizational problems that can be addressed with digital technology, the desired improvement for each, and a metric for assessing progress toward it. All this information is captured in a tool called the from-to table. Below is how one financial services organization we've worked with filled its table out.

FROM	TO	PROGRESS METRIC
No consistent information about investments in a portfolio of projects; manual process	Clear and easily obtained information about investment flows; automated process	Reduction in time needed to update portfolio review information from 10 days to seconds
Significant effort needed to onboard new team members and bring them up to speed	Automated onboarding assistance that helps new team members learn the background of a project	Reduction in time it takes new team members to reach productivity from 30 days to five; high engagement scores among 85% of team members and top quadrant scores for psychological safety
No capture of learning created in one part of the organization for reuse elsewhere	Routine recording of project insights in a database that's searchable by keywords, geographies, and contexts	Information is shared by an average of 10 units in the organization; 50% decrease in duplicative experiments
Slow and inflexible financial and talent resource allocation across new opportunities	Dynamic prioritization and resource allocation driven by real-time data and discovery	Resource reallocation cycles go from quarterly or annual to weekly. Annual 50% to 100% increase in number of experiments with strategic options

Christensen dubbed the “job to be done.” It’s a notion that goes back to Ted Levitt, who recommended that railway companies see themselves as competing in the transportation business against airlines, buses, trucking, and even cars. If railway passengers are a market, transportation users constitute an arena.

Smart born-digital firms already think this way. For example, Netflix has been very clear that it doesn’t intend to compete just against television or the movies for viewers’ time. It intends to compete against every possible leisure activity that a person might do instead of watching streaming content. The company sees traditional media companies as its rivals, of course, but its leadership looks at magazines, books, podcasts, and sporting events as competition as well.

At this point in the process, you should go back and determine whether the outcomes and metrics of success you spelled out in steps one and two are reasonable, given the arena you’re competing in. Is your category losing share of wallet to others in the arena, for instance, or holding its own? Netflix has plenty of room to meet its growth goals, because

total hours of video viewing are increasing and a lot of that growth is from streaming video.

4 LOOK FOR PLATFORMS: DON'T FORGET THE ECOSYSTEM IMPLICATIONS

In the digital economy, striving to become an intermediary through which others buy and sell goods is an extremely popular strategy. It’s a tempting business model, because once the two sides of a market have joined a platform they have little incentive to jump to another. This is partly due to network effects, whereby a platform’s value to any user increases as the number of other users on that platform rises. Airbnb, for instance, benefits when more hosts and more guests use it and has historically gone to great lengths to ensure the loyalty of both.

A platform is also attractive because it needs less capital. To run a conventional hotel, you have to have real estate, rooms that need to be looked after, reservation systems, staff, and so on. Airbnb, in contrast, taps an ecosystem of hosts to provide all those things, and its directly controlled



activities are simply to match hosts and guests and guarantee transactions, both of which occur entirely in the cloud and thus are infinitely scalable.

To understand whether a platform opportunity exists, we use a tool we call a *customer consumption chain* (introduced in HBR in 1997). The idea is simple: that as customers try to get jobs done in their lives, they go through a series of experiences, beginning with awareness of a need, then working through how to get that need met, and going all the way to the conclusion of a service or the end of a product's life. Digital technologies make open-market transactions for many links in that chain possible, allowing firms to build platforms.

That sounds like bad news for established organizations. But they have an ace in the hole: They employ many people who have deep technical expertise or understand customer problems. Those capabilities can give them an edge in identifying platformlike opportunities and building ecosystems. At Klöckner, Rühl realized that once there was price transparency—and far less friction—in the trading of basic metal commodities, competitive advantage would shift to suppliers that could offer superior solutions and service. The company blended the new ways of operating on platforms (co-creating designs with customers, for instance) of its digital arm with its workforce's deep expertise (in, say, manufacturing with 3-D lasers) to develop customized, higher-value offerings.

Becoming a popular platform isn't easy for corporations. The business landscape is littered with would-be platforms that failed even though they seemed to have all the right components. General Electric's Predix initiative, which was intended to be the platform for the industrial internet of things, is an example. Rather than driving the

digitization of services that customers would value, Predix was sucked into serving primarily internal GE units—and a lot of them. Further, as part of GE Digital, the initiative was given P&L responsibility, which oriented it toward short-term contracts with customers that could pay some bills in the interim. It also took on way too much too soon, rather than proceeding by finding a good fit for its capabilities and building from there.

5 TEST YOUR ASSUMPTIONS: FAILURES ARE LESSONS TOO

One of the more popular tools to come out of DDP is the assumption checkpoint table. To create one, just write down the next few milestones that your digital project will go through, which assumptions need to be tested at each, and if possible, how much that test will cost. The beauty of this approach is that it moves the conversation from “Oh, you were wrong, that was a failure” to “Was it worth that price to learn what we needed to learn?”

Consider how Buffer, a service that allows people to space out social media promotions without having to predetermine the timing, tested assumptions in its launch phase. Joel Gascoigne, Buffer’s cofounder, got the idea for the business from his own frustration with how clunky it was to try to tweet more consistently.

The first assumption he wanted to test was whether anybody else perceived this to be a problem. So he built a very simple two-page website. The first page’s pitch was “Tweet More Consistently with Buffer.” If users clicked on it, they were taken to a second page, with the heading “Hello, You Caught Us Before We’re Ready,” which had a place for



people to enter their email addresses if they were interested in Buffer's solution. Most people weren't, but some were. So Gascoigne added a third page between the other two to test pricing hypotheses. And again, most people weren't interested in paying, but enough were to persuade Gascoigne to build the product.

Next he had to decide how complex to make it and how many social platforms to apply it to. He ended up keeping it very simple and supporting only Twitter at first. As of 2018, Buffer had more than 1.4 million social accounts connected to its apps.

Many large corporations have adopted a similar test-and-learn mindset. Several new services make experimentation easier—for example, Alpha, whose subscribers use it to obtain fast feedback about products from potential customers before making expensive or irreversible decisions. At WellMatch, an Aetna business unit, experimentation helped resolve disagreements about design decisions. According to Etugo Nwokah, the former chief product officer, one area of disagreement involved its website: Every group in the unit wanted to have its content appear on the landing page. The trial entry page ended up being so busy that it confused consumers. The company had to go back to the drawing board and do a redesign—but was able to do so at a much lower cost and risk than if the webpage had been launched for real.

The Payoff

Digital transformation is complex and requires new ways of approaching strategy. Starting big, spending a lot, and assuming you have all the information is likely to produce a full-on

attack from corporate antibodies—everything from risk aversion and resentment of your project to simple resistance to change.

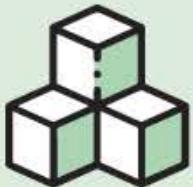
A discovery-driven approach gets leaders past the common barriers to digital transformation. By starting small, spending a little on an ongoing portfolio of experiments, and learning a lot, you can win early supporters and early adopters. By then moving quickly and demonstrating clear impact on financial performance indicators, you can build a case for and learn your way into a digital strategy. You can also use your digitization projects to begin an organizational transformation. As people become more comfortable with the horizontal communications and activities that digital technologies enable, they will also embrace new ways of working.

Incumbent companies have some great advantages over new competitors: paying customers, financial resources, customer and market data, and larger talent pools. But CEOs will have to integrate agility and innovation into their broader organizations and communicate the new ways of digital thinking while minimizing disruption to their existing businesses. A discovery-driven approach provides a way to address those challenges. ☰

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HOW
KNORR
FIGHTS
ANEMIA



Iron-deficiency anemia is a serious health threat in the developing world. Focusing first on Nigeria, Knorr launched an iron-fortified bouillon product and a campaign encouraging women to add it and iron-rich leafy greens to foods.

In a controlled study, a town that got the messaging saw an increase of

41%

in people using greens in stews and of

28%

in people adding bouillon to soups while those numbers rose only marginally in a town that didn't get the messaging.





MARKETING

Marketing Meets Mission

Learning from brands
that have taken on
global health challenges



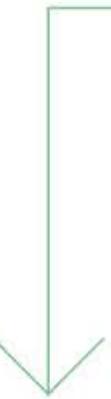
AUTHOR

Myriam Sidibe

Former global social mission director, Unilever



MARKETING



A beer brand might seem an unlikely ally in the campaign to end violence against women. But the clear connection between alcohol and abusive behavior made Carling Black Label, the largest beer brand in South Africa, realize it had to take up the challenge.

The brand has long targeted men, and its messaging has been all about defining masculinity. In the 1980s its television ads featured cowboys who deserved a cold Carling Black Label as a reward for a long day's work. In the 1990s, when South Africa abolished apartheid, Carling's ads depicted a nation of builders: Ordinary men were now the heroes—strong, honest, and hardworking. In the 2000s the brand connected the beer with entrepreneurs and the rising generation of "self-made" men, the new role models.

That's where things stood when AB InBev bought Carling's owner, SABMiller, in 2016. Andrea Quaye, then AB InBev's new vice president of marketing for Africa, understood how valuable the brand was, but she also knew it couldn't continue with business as usual. As the acquisition was going through, local researchers were raising alarms about the country's drinking problem. South Africans are among the heaviest drinkers on the continent, and men are by far the major consumers. This excess has many consequences, but among the most troubling are rates of murder and violence targeting women that far exceed the global average.

Rather than trying to distance itself from the problem, Carling decided to confront it and use its clout to drive social change. That required taking some responsibility—and risk. It wanted to keep South African women safe and maintain the brand's leadership position, but at the same time, it had to stay true to its heritage as an emblem of masculinity.

The question was: How to do it?

PURSUING PURPOSE

How do you get people to thoroughly wash their hands? Or to stay six feet away from others as part of a precautionary "social distancing" protocol? Or to refrain from visiting loved ones in nursing homes? These questions have taken on a life-or-death relevance during the ongoing coronavirus pandemic.

But long before they were in the headlines, I'd spent my career studying and trying to solve challenges like this. I'm convinced that brands can and must play a critical role in tackling global health issues, from violence to infectious disease to poor fitness and diet. Most of these problems can



The impact on talent can't be overstated: Brands and companies with a social purpose energize employees.

be prevented—often through the adoption of new behaviors and positive norms.

Some of my interest in how businesses in general—and marketers in particular—can address public health problems comes from the years I spent living in regions where they're acute. As the daughter of a United Nations economist and health official, I grew up in Mali and more than 20 other countries. As a professional adult I worked in dozens more, mostly emerging nations.

While earning a doctorate in public health at the London School of Hygiene & Tropical Medicine, I began to examine the ways that businesses could help improve global health. One is through marketing, which, when infused with the right mission, can have a powerful impact. After all, influencing behavior is what marketers do best.

I officially joined Unilever in 2006 and soon became the company's first social mission manager. I stayed there for more than a dozen years, and in that role I worked to embed public health goals into the business model of the company's 125-year-old Lifebuoy soap brand. I engaged partners—including NGOs, UN organizations, and even competitors Procter & Gamble and Colgate-Palmolive—to help us launch a vast initiative to promote handwashing throughout Asia, Africa, and Latin America, where it could prevent disease and save hundreds of thousands of lives. In 2019 the brand hit its goal of reaching one billion people with handwashing messages, which have had a clear effect on behavior and health.

It's hard to measure the impact of these messages precisely, in part because our effort is one of many public health initiatives that governments and others have set up. But a

randomized, controlled trial involving 2,000 families in India showed that handwashing with Lifebuoy soap led to a 25% reduction in diarrhea, a 15% reduction in acute respiratory infections, and a 46% reduction in eye infections. Since the launch of the Lifebuoy programs we have also seen a sizable drop in child mortality due to diarrhea and pneumonia in countries where we established them. At the same time, Lifebuoy has become one of Unilever's fastest-growing brands and is now the world's best-selling antibacterial soap. In fact, at Unilever, brands with a social mission, including Lifebuoy, grew 46% faster than the rest of the business and delivered 70% of revenues from 2017 to 2018.

The handwashing program and others like it build on the concept of *shared value*, the idea—advanced by Michael Porter and Mark Kramer of Harvard Business School—that companies should generate economic value in ways that promote social good. As they wrote nearly a decade ago, “Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success.” But while they described the social benefits that companies could provide through their products and value chains and through economic development, I’m focusing on those produced by brand activities and purpose-led marketing, such as communications and educational programs that promote more-healthful habits and positive norms.

A FRAMEWORK FOR BRANDS

That a soap brand would promote handwashing makes perfect sense. But, as AB InBev's Quaye understood, the connection

IDEA IN BRIEF

THE CHALLENGE

Brands can play a critical role in global health by combating violence, reducing infectious disease, improving fitness and diet, and more. The key is for marketers to leverage what they do best: influencing behavior.

THE APPROACH

A framework with five elements—behavioral change, internal support, performance measurement, external partnerships, and systemic change—can help any brand effectively connect a purpose to its business and increase its social impact.

THE RESULT

At Unilever, brands with a social mission promoted new behaviors that enhanced public health in Asian and African markets. At the same time, they grew 46% faster than the rest of the business and delivered 70% of the company's revenue.

HOW
LIFEBUOY
FIGHTS
DISEASE



The soap brand developed programs in Africa, Indonesia, and India to reduce disease through handwashing.

Programs for children in Kenya and Ghana resulted in a

22%

increase in handwashing with soap and

40%

more time spent washing hands.

Handwashing programs in India led to a

25%

reduction in the incidence of diarrhea.



vintagerobot/Getty Images

between a brand and its public health goals needn't be obvious at first, though it does need to be rational. In selling social programs to stakeholders, from management to partners to customers, a brand must make a solid case that it can positively affect behavior and that it has some license to try.

In my book *Brands on a Mission* I describe how a toothpaste brand helped address school absenteeism (oral health issues are a major cause); a building materials and equipment company improved poor sanitation in India, Bangladesh, and Tanzania; and, yes, a beer brand is tackling domestic violence. The connections between those brands and their health goals are legitimate if indirect. More often, brands leverage more-overt expertise and connections, as Lifebuoy did. However, even when the rationale is clear, it doesn't mean that buy-in from stakeholders will be easy to get or that executing such initiatives will be straightforward.

In my work leading Unilever's social mission programs and my research during my current sabbatical at Harvard, I developed a framework that can help any brand connect a purpose to its business and enhance its social impact. I describe it as a *purpose tree*, in which civic initiatives are simultaneously sustained by five deep roots: behavioral change, internal support, measurement, partnerships, and systemic change.

1 INSPIRING BEHAVIORAL CHANGE

Typically the tools of marketers—market research, product innovation, communications, incentive schemes, and more—are used to increase profits, but they can just as readily be employed to change habits and social norms for the public good.

Consider Knorr, a €3 billion Unilever brand that includes bouillon cubes, a century-old product line with a large global market. As part of a broad push to address malnutrition, Knorr identified iron-deficiency anemia as a serious health threat in developing countries, particularly for young women. Focusing first on Nigeria, where nearly half of reproductive-age women suffer from anemia, Knorr developed a new iron-fortified bouillon product and launched a campaign encouraging women and teenage girls to add it and iron-rich leafy green vegetables to stews.

Public health organizations had long been urging Nigerians to include leafy greens in their recipes but had been stymied by a belief that adding the greens would ruin foods' flavor. So, rather than leading with the health benefits of iron, Knorr's ads focused on mother-daughter bonding around cooking and on how simple and delicious it could be to add greens to stews. The campaign included celebrity testimonials and a school program featuring the Nigerian pop singer Yemi Alade, whose catchy "Toss, Stir, Crumble" song and dance moves helped drive home the point.



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Once people started trying greens in stews, they became more likely to try greens in other dishes. A controlled study comparing leafy green and bouillon use in two towns—one exposed to the messaging and one not—showed that the program was decisively changing behavior. In the first town the number of people who added greens to stews increased 41% and people who added bouillon to soups rose 28%, while in the second those numbers rose only marginally. In addition, the program helped position the brand as a champion of African mothers and daughters, driving its growth.

Since then the program has expanded into Kenya, where it focuses on adding spinach and sister-brand Royco cubes to the national dish *sukuma wiki*, and has been replicated in Myanmar and the Philippines. Knorr now promotes nutritious-cooking initiatives around the globe in collaboration with retailers and other partners, emphasizing 50 healthful ingredients (the Future 50) and encouraging consumers to use less salt and oil.

Basic marketing principles apply in any brand program, but there are some special considerations for marketers of brands with public health aspirations. Among the questions they should ask are these:

- What behavioral changes can we promote that will most effectively support both the brand and its social goals, and will we be able to measure them?
- What is the best way for the brand to encourage these behaviors?
- Are we confident this effort will enhance existing public sector programs (in other words, are our efforts in this arena needed)?
- Do we have the social license to mount an effective initiative (that is, will consumers and potential partners trust and embrace the brand in its purpose-based role)?
- Do we have the leadership support, resources, and expertise needed to pilot a successful initiative and scale it up?

2 WINNING INTERNAL SUPPORT

No matter how dedicated its leaders are, a social initiative will struggle if it doesn't have support throughout the organization, from the CEO to the front lines. At Unilever, I spent a lot of time gaining and maintaining internal backing. It helped, of course, that our CEO at the



MARKETING

time, Paul Polman, was visionary and threw his full support behind our social initiatives (a legacy embraced and extended by our current CEO, Alan Jope). But there certainly were individuals and functions that had to be brought along.

One of the biggest challenges of the Lifebuoy initiative, for example, was working with corporate communications, a function that is risk-averse in any company. Social-purpose initiatives are risky in a variety of ways, including their potential to damage the company's reputation if they go sideways. But communications and many other functions, including legal affairs, finance, and HR, are essential to the success of these programs, so program leaders must get them on board. In part this is a matter of simple evangelism—persistently sharing a program's goals, expected benefits to the company and society, and actual impact. Recruiting like-minded colleagues from across the organization early on can be invaluable in helping sway people and functions that may be on the fence or may present obstacles.

Because social programs take years to get results and are demanding, they need corporate-level support, too. Ultimately, most functions will probably play a role in a program. Some companies, including Unilever, even establish separate divisions for sustainable business, global advocacy and partnerships, or shared value, which support brands' initiatives.

When attracting allies, expertise, and financing, be up-front about the challenges you face. Whether you're pitching the program to a department, a unit, the CEO, or the board, be clear about the companywide commitment needed and the time and resources it will take to achieve large-scale impact. At the same time, be convincing about the benefits. Frame the initiative as an investment, not a cost, one that can help the company differentiate itself, attract customers, stake positions in future markets, gain valuable new capabilities (such as in product innovation and partnerships), and recruit and retain talent—all while demonstrating the company's best qualities to the world and creating public good.

The impact on talent can't be overstated: Brands and companies with a social purpose energize employees. And passionate employees will knock down walls to solve problems and find creative ways to succeed. HR can become a crucial ally here, helping create career paths and incentive systems that reward employee engagement in the social mission and are appealing to potential hires.

3

MEASURING PERFORMANCE

Tracking the impact of marketing is difficult, but measuring the effects on public health is particularly hard. The tools are still being developed, and the science is constantly evolving. One thing I've learned at Unilever is not to let the perfect be the enemy of the good.

Consider the challenge we faced with metrics for the Lifebuoy handwashing program. First we thought we'd simply track soap sales. But because people in our target countries regularly used soap for bathing, we weren't confident that sales volume was a good proxy for handwashing. We thought about just asking people about their handwashing, but that would be subject to large reporting biases. We even piloted tracking handwashing by putting smart chips in soap bars, but we found they were prohibitively expensive and raised privacy concerns. Eventually, we decided to distribute diaries in which people could record their handwashing with stickers. While this approach probably didn't eliminate reporting bias, after testing it in partnership with the London School of Hygiene & Tropical Medicine we concluded that the results were accurate enough, and indeed this approach has now been validated by other organizations.

Despite the obstacles, measurement is essential. By tracking the resources devoted to different projects and the progress toward social goals, brands can identify the most cost-effective strategies. Project teams need to gather performance data on three levels:

Brand level. Are the efforts boosting sales, margins, and market penetration? Are they increasing purchase intent? Are they helping differentiate the brand and building brand equity?

Not only has Lifebuoy become one of Unilever's fastest-growing brands, but it had a compound annual growth rate

Brand Say, Brand Do

It's important to distinguish between what Unilever refers to as "brand say" communications about purpose and "brand do" programs, which directly address the targeted social challenge. Lifebuoy's brand say, for example, is the message that washing with soap can prevent disease and help save children's lives. Its brand do's are the many behavioral-change initiatives it has rolled out across Africa, Asia, and Latin America. Brands that trumpet their purpose through brand say but fail to translate it into brand do's are purpose-washing—deceiving stakeholders about their commitment to a social mission.

Choosing Your Social Goal

To gauge the soundness of a proposed brand purpose, review this checklist. The more conditions you meet, the better your goal fits with your brand.

The social goal we've identified:

- Will benefit from our involvement.
- Could open up future markets for the brand.

- Will be considered worthwhile by our stakeholders.
- Will yield results that can be measured and made visible to them.

- Will be able to attract needed resources, budgets, and partners.
- Is aligned with the company's wider strategic interests.

of 9.6% from 2008 to 2018. The brand is now widely associated with handwashing programs in the public mind, and its social programs have helped it expand in African and Asian markets.

Organizational level. Are the program's purpose and performance sustaining project teams' motivation? Are they attracting ongoing organizational support, including funding and other resources? Are they engaging employees and helping recruit and retain talent?

Inspired and supported by the Lifebuoy program, for instance, tens of thousands of Unilever employees have gone on to teach handwashing in their schools and communities, a good indicator of the program's effect on engagement.

Public level. Is the brand effort receiving continued support from business and public sector partners? Is it building trust and attracting favorable recognition, such as awards or praise from NGOs and the media? Is it providing access to partners and networks that the brand wouldn't have otherwise?

For example, because we could show that the Lifebuoy program increased handwashing, health clinics have allowed us to talk to new mothers about hygiene. And as the program demonstrated its value, we were able to add millions of euros from governments, NGOs, and philanthropies to our own resources for piloting new programs and expanding existing ones. In addition, the brand has received hundreds of awards for its social mission work.

Implicit in these questions is the need for any brand claiming a social purpose to be accountable for its performance. Stakeholders, including nonprofits, governments, investors, and consumers themselves, are reflexively skeptical when commercial brands say they care about social welfare. Reliable measurements can reassure all parties that the brand's efforts are actually doing good and aren't just window dressing.

4

SECURING PARTNERSHIPS

Most brands on a social mission aim to drive transformational change at scale. But they can't do it alone. They need partners to supply complementary skills, expertise, resources, and networks, and must select them carefully to ensure a good fit on goals, process, budgets, and activities.

Partnering with governments and NGOs is mutually beneficial: A company's resources and capabilities help the public sector achieve its goals, and the company gets legitimacy, support when entering markets and expanding, and fresh perspectives that galvanize innovation and learning. Social-purpose partnerships among companies, and even competitors, may be less common, but they can deliver some of those same benefits and sometimes help firms get a lock on a desirable space in the market.

Partnerships played a critical role in Lifebuoy's expansion of its public health mission. One of the most interesting launched in 2014, when Sightsavers, the world's largest organization fighting preventable blindness, connected with Lifebuoy for help in eliminating trachoma, a leading cause of infectious blindness globally. Simple hand and face washing can reduce children's risk by 60%.

Working with Sightsavers, Lifebuoy adapted its successful Super School of Five handwashing program, which features colorful superheroes designed by Craig Yoe, the Muppets' creative director, to teach children good face hygiene and handwashing. The 21-day program includes a pledge, activities, games, songs and dances, competitions, and a certificate of completion and is supported by washing stations installed throughout participating schools. The initiative began in Kenya in 2015 and soon expanded to Ethiopia and Zambia, where hundreds of teachers were trained to deliver it. It has now reached 600,000 children in more than 300 schools. In concert with efforts by governments and other NGOs, the program helped reduce the prevalence of trachoma by 30% in two years.

Following these successes, we secured another partnership, this one with Big Win Philanthropy, to support Ethiopia's Ministry of Health programs to reduce childhood stunting, which is caused in part by poor hygiene. And a promising partnership with the vaccine alliance Gavi promotes handwashing and immunization together in Uttar Pradesh in India. The program expects to reach 2.5 million people by the end of 2020, and discussions are under way to scale it up beyond India.

Through these and other alliances, Lifebuoy is gaining real-world knowledge about improving public health and expanding the brand in new markets. Most of Lifebuoy's partnerships have used coinvestment or other models that



MARKETING



Effective brand advocacy promotes a vision for the future and speaks to people's sense of justice and shared humanity.

pool its resources with partners'. Commenting on these arrangements, global partnerships director Anila Gopal says, "What was previously simply a good thing to have, because it helped build some credibility and add rigor to the programs, has now become the only way to do business."

5 DRIVING SYSTEMIC CHANGE

The higher-level goal for social-purpose efforts should be to achieve long-term shifts in social norms and behaviors—by inspiring a groundswell of public support and collaborations that endure far beyond individual campaigns. The engine for this is something I call “brand advocacy.”

Effective brand advocacy has several key characteristics. It promotes a positive vision for the future; it speaks to people's sense of justice and shared humanity; it uses symbols, language, and cultural references that resonate; it calls for specific, repeatable actions; it gives people agency, making them actors rather than just beneficiaries; and it brings people and communities together on shared platforms and through organizational partnerships.

Certainly handwashing as a key to better health has taken root in countries and communities where it wasn't the norm a decade ago. Parents, teachers, and children themselves are now spontaneously spreading the word about it. Unilever played a part in that, but it's truly the result of extensive collaborations over many years.

Let's look at a new case, this one involving the insurance business—not everyone's idea of a purpose-driven industry. Discovery Limited is a diversified financial group. In only a decade it has become South Africa's leading health insurer, in part by improving customer health through its Vitality program.

Vitality rewards customers with lower premiums if they adopt healthful behaviors, and it screens their progress through a program called Vitality Healthcheck, which tracks body mass index, blood pressure, and cholesterol levels. It also encourages and tracks exercise and good nutrition. From 2015 to 2018 the percentage of program members who regularly exercised increased by 34%, members' vegetable purchases increased by 29%, and their sugar and salt purchases fell by 33% and 31%, respectively.

Members also can get up to 25% cash back on fresh fruit, vegetables, and 6,000 other selected products. South African retailers have embraced the concept, with some stores devoting an entire section to Vitality-qualified foods. While the program may seem invasive (and indeed it uses tracking devices from Apple, Garmin, and Suunto to gauge activity), customers are flocking to it for the rewards; the number of Vitality Healthchecks performed increased by 55,000 (21%) during that three-year period.

Other leading insurers—AIA, Generali, John Hancock, Manulife, Ping An, and Sumitomo Life—have launched their own Vitality programs, and in 2018 they and Discovery signed a pledge committing to a goal of helping 100 million people become 20% more active by 2025. The pledge aligned the Vitality programs with the World Health Organization's Global Action Plan on Physical Activity and requires competing insurance companies to cooperate in achieving that goal.

What's the upshot? Customers are clearly becoming healthier, and Discovery is saving a boatload of money. Vitality estimates that its healthier insurance pool saved Discovery the equivalent of \$1.2 billion from 2008 to 2018. Vitality is benefiting all involved—the insurers, retailers, technology partners, and consumers. It's a textbook case of creating shared value.

THE FRAMEWORK IN ACTION

Let's return now to Carling and its efforts to prevent violence against women. I've chosen to highlight this initiative because the stakes are so high and the obstacles for the brand so formidable. Unlike a soap brand pursuing hygiene goals, an alcoholic beverage that claims it wants to reduce violence against women must confront the fact that it contributes to the very problem it's seeking to solve.

As the World Health Organization notes, “The research supporting the relation between all forms of aggression and alcohol use is enormous [and] unequivocal.” This connection is not lost on the public; during radio interviews about Carling's antiviolence programs, Quaye says, she was “lambasted by listeners” who accused Carling's initiative of being nothing but a marketing ploy.

Nonetheless, Carling is showing sustained commitment to an issue it surely has an obligation—and the resources—to



**HOW
CARLING
BLACK LABEL
FIGHTS
VIOLENCE**



To reduce violence against women (which is often tied to alcohol), Carling launched a series of programs in South Africa. A multimedia campaign against domestic abuse, targeting soccer fans, reached 45 million people.

Training, camps, and workshops on positive male behavior and "smart" drinking reached 30,000.

Parent AB InBev aims to grow no- or low-alcohol beers from 8% of its global beer volume to 20% by the end of 2025.

Jack Andersen/Getty Images



MARKETING

address. Let's look at some of its current programs and the considerable work that remains if the brand is to effect broad change and lay a legitimate claim to its purpose.

In 2017, Carling launched a TV and social media campaign against gender-based violence under the hashtag #NoExcuse. It sponsored a men's march that drew 8,000 people, released five million #NoExcuse cans of beer, and called on South African men to take a pledge to combat violence against women. Building on this, Carling worked with Ogilvy, the global media communications firm, and indaHash, an influencer marketing firm, to take its message to the Soweto Derby, a biannual soccer match that transfixes much of the country.

Just before the March 2018 match began, a group of women formed a circle in the center of the field and launched into "Asambe Nono," the South African soccer anthem, but with new lyrics. The song now described a man returning home after his team had lost and threatening his partner in frustration, and it repeated the refrain "No excuse for women's abuse." The two soccer teams, the Orlando Pirates and the Kaizer Chiefs, joined in as well. The players wore #NoExcuse armbands during the series of games and posed with a banner at the end. Analysts reported that the Soccer Song for Change campaign reached 45 million people.

That year an AB InBev corporate program also launched pilots that sent "smart-drinking squads" into taverns in two poorer communities to work with owners and patrons. The squads trained men to become models of responsible alcohol consumption. Building on that work, the Carling brand then engaged with a local social entrepreneur, Craig Wilkinson, founder of the not-for-profit Father a Nation, to take the squad concept to local soccer associations and colleges and to train "champion men"—influencers who could return to their communities to lead workshops on a range of topics related to men's roles in society, including violence prevention. Wilkinson explains, "We work with local structures in each community. The whole idea is to ignite a fire, to create a movement that doesn't need a big infrastructure or constant involvement from us." By the end of the first year, Carling's training, workshops, and camps had reached 30,000 people.

The brand now intends to engage other companies in a collaboration to reach one million men by 2025, and AB InBev has committed \$1 billion to social marketing and related activities aimed at reducing the abuse of alcohol. In addition,

the company plans to ensure that no- or low-alcohol beer products represent at least 20% of its global beer volume by the end of 2025, up from 8% in 2019. (To date it has launched no-alcohol beers in key markets and low-alcohol beers in Canada, South Africa, Australia, and Europe.) "#NoExcuse is the practical embodiment of the dream of helping men become the greatest version of themselves and giving them the tools to fundamentally change society," says Carling's brand director, Arné Rust. "Change this deep won't happen quickly, but we are committed to continuing for however long it takes."

These are good efforts, but are they achieving the brand's social goals? The answer is yes, and not yet. Certainly awareness of the problem is growing: Surveys of representative samples of South Africans find that 69% of 18-to-24-year-olds believe the campaigns "break through the silence on domestic abuse." And the proportion of men now taking a public stand against gender-based violence has risen from 30% to 42%.

But Carling has yet to show that these campaigns have reduced alcohol abuse or violence against women. To be sure, the programs are still young—the champion men effort launched just a year ago. As I found with Lifebuoy, it can take a decade to have a substantial social impact, and measuring it is exceedingly complicated. Nonetheless, all eyes are now on Carling and AB InBev. To succeed they will need to pursue all the strategies laid out in this article.

ALMOST ANY BRAND can embrace a social mission that supports the business and makes a real contribution, even a brand whose relationship to that mission is subtle or fraught. But all effective programs will be long-term and challenging and will involve many stakeholders, including governments and NGOs, employees, customers, and communities—and perhaps even competitors.

I've focused here on public health goals, but any of the United Nations' 17 Sustainable Development Goals can serve as a starting point for a brand in search of a mission. They address poverty, hunger, education, climate action, gender equality, economic opportunity, and other global challenges. (To gauge the fit of a given brand and a goal, see the sidebar "Choosing Your Social Goal.") The framework described here, which has been tested and refined over more than a decade, can help any business or brand start on a purpose-driven journey or accelerate it, build momentum, and produce real change. ☰

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MANAGING YOURSELF

THE STRATEGIC SIDE GIG

The right kind of outside work can boost your career.

by Ken Banta and Orlan Boston

AMIT PALEY SPENT the first seven years of his career as a reporter for the *Washington Post*. While he put in long hours and did stints in war zones in the Middle East, he also made time to serve on the board of his alma mater's newspaper, where he could help aspiring journalists and learn how nonprofits worked. After leaving the *Post* and attending business school, Paley joined McKinsey as a consultant—another demanding job. But again, he made it a priority to volunteer, this time staffing nighttime and weekend phone lines for the Trevor Project, an organization that works to prevent suicides among LGBTQ youth. Eventually he joined its board (full disclosure: one of us also serves on it), which gave him

Experience

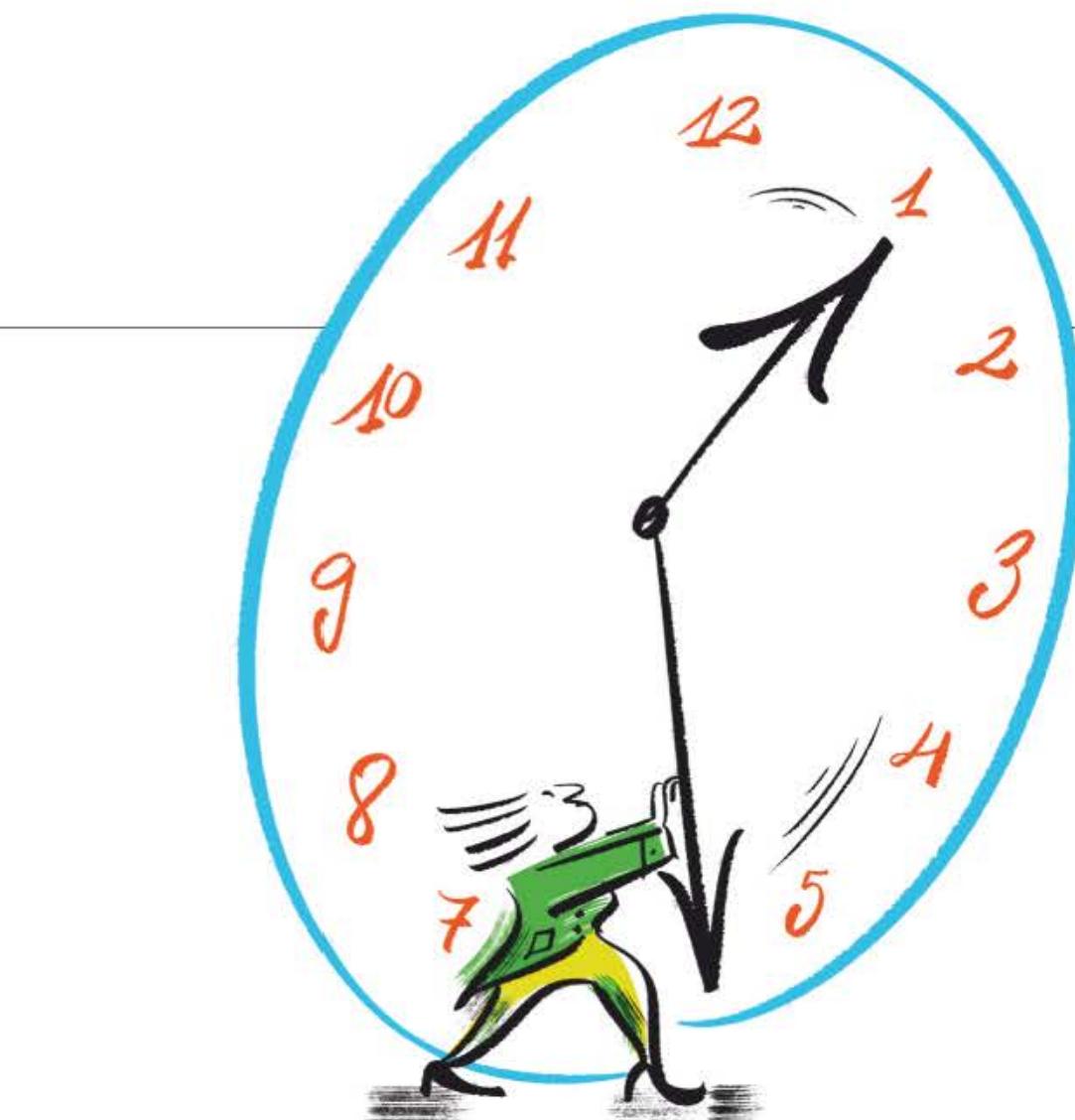
exposure to the operational and financial challenges of such groups and inspired him to get more involved in McKinsey's nonprofit work. This virtuous cycle eventually culminated in his being named CEO of the Trevor Project in 2017. "By investing my time outside work in things I was passionate about, I learned things that made me better at my job," Paley explains. "Those experiences also prepared me for future leadership roles that I didn't know I would have."

That's the power of strategically taking on *extra* jobs *outside* your organization.

WHAT IS EXTERNAL ENGAGEMENT?

A lot of managers and leaders focus obsessively on their current jobs and companies. Many believe they simply can't be successful without that kind of single-mindedness. Of course, most people now realize that to advance in your career, especially to the C-suite, you need diverse experiences and should explore opportunities in a variety of functions, industries, and geographies. But the general thinking is that when you get a challenging stretch role, you should give it all your attention to make sure you excel and position yourself for the next step. That approach can pay off in the short term. However, in our combined work with thousands of executives as well as in our own experience, we've found that it can stymie your long-term development—and even your career.

Why? Now more than ever, engagement in strategic side gigs is a requirement for executives. The pace of change and disruption is also making it difficult for corporate learning



departments, management schools, and executive education programs to keep their curricula relevant. As a result, leaders who want to rise—and help their organizations thrive—need to find ways to expand their field of vision and build their knowledge, skills, and connections even as they carry on their daily work.

This goes well beyond attending industry conferences and networking events or taking classes at night. We're talking about meaningful engagement in outside activities that expose you to different people, information, and cultures but are also in some way synergistic with both your personal interests and your current or future primary work. That can include membership on public, private, or nonprofit boards; teaching, fellowships, publishing, or film production; public or civic service at the federal, state, or municipal level; advising or investing in start-ups; leadership roles in professional associations and clubs; and speaking at or organizing

idea forums, festivals, and conferences. Think of yourself as having a portfolio where your job is squarely in the middle, various outside activities surround and complement it, and you deploy what you've learned in each realm to the others.

When we surveyed 122 senior executives from a spectrum of industries, all agreed that outside engagements were critical to leadership success today and going forward. All but one said that organizations also benefit when employees have such experiences. More than 100 told us that they have even considered people's external activities when assessing their fit in succession planning.

To learn how leaders find the right opportunities and what they gain from them, we conducted in-depth interviews with private- and public-sector leaders of varying ages and career stages who exemplified that philosophy. In this article we've distilled their lessons.



More than 100 senior executives told us that they considered people's external activities when assessing their fit in succession planning.

HOW CAN YOU MAKE IT HAPPEN?

Finding the time. One of the biggest constraints executives face is an already packed schedule. Given all your professional and personal demands, it might seem impossible to add anything to your plate. But it's been our shared experience that you can find the time if you make it a priority (though it may mean giving up some nights and weekends). You can, for instance, block off one or more hours a week on your calendar for these activities. Inviting your friends, spouse, or family members—people you want to spend time with anyway—to join you in them can be an enriching win-win. If you can also involve a small group of like-minded professionals or perhaps younger staff who share your interests, it will help keep you committed and give you people with whom to compare notes. And if you get buy-in from your boss, he or she might allow you to devote office hours to your outside passion.

How much time should you spend on these “extracurricular” activities? Our survey respondents said 10% to 20%, but the amount needn’t be consistent every day, week, or month. Often you can space out your commitments to external projects. The balance can and should shift to as low as 2% when your work and home lives are extremely busy, or as high as 30% when they’re not. In other words, you need to deliver in your job and for your family before you can take on additional responsibilities. But if things lighten up, seize the opportunity.

Kara Medoff Barnett is the executive director of the American Ballet Theatre and the mother of three girls, ages 10, eight, and four. But she’s also involved

in the American Theater Wing, which keeps her connected to a different kind of performance art, and she just completed a five-year stint as a term member on the Council on Foreign Relations, which helps her better understand the issues facing her organization’s dancers, who come from some 15 countries. “I put a lot of thought into what I can and can’t handle outside my full-time day job and active family life,” she explains. That includes saying not just “no” but also “not now” to many groups and being very deliberate about her schedule by, for example, always reserving Friday nights for time with her husband and kids. “The key is being present in the room you are in,” she says. “When you’re in work mode, be all-in. When you’re home with your kids, put your phone away so that you can read bedtime stories without checking email. And as for the other activities, participate in the ones that spark your intellectual curiosity. Meet people you wouldn’t encounter in your current industry or workplace. Open your aperture.”

The late David Stern, a lawyer who became the commissioner of the National Basketball Association, served on various boards throughout his career and agreed that it was important to fit those meaningful outside commitments into an already hectic schedule. He noted that his own early exposure to different people and problem-solving approaches equipped him to negotiate a groundbreaking collective bargaining agreement between the NBA’s players and owners in 2011. “No matter how busy you are, you should be learning,” he explained to us. “That was something I always pushed myself on by asking:

‘What did I do to stretch myself today?’ I think there is a lot to be learned outside the office.”

Identifying roles. How can you find the right opportunities—ones that create the kind of virtuous cycle we described earlier? First, spread the word within your organization and to your trusted contacts that you’re looking for outside activities relevant to your job or the skills needed in it. Explore your passions and see if groups connected to them have any open positions that would give you a chance to learn and develop. Seek out friends and colleagues who already have meaningful volunteer jobs and offer to help them. Get your name, interests, and expertise out there through public speaking, social media, and publishing so that people start presenting possibilities to you.

“Take baby steps,” advises Mehmood Khan, the former chief scientific officer of global research and development at PepsiCo and now the CEO of Life Biosciences. Khan has served on multiple advisory boards, including one that allowed him, when in his thirties, to help craft public health policy. “You can do a lot on your own time, such as helping nonprofits in the community where you live,” he says. “Look for these opportunities. Every experience can be a value-add.”

After this period of exploration and experimentation, you’ll want to be highly selective about the roles you commit to seriously. “It’s incredibly important when you engage in activities outside work that you do it for sincere reasons and not just as a way to self-promote or to rub shoulders with potential professional connections,” says Kathryn Wylde,

the president and CEO of the Partnership for New York City, which runs the David Rockefeller Fellows Program (in which Orlan participated).

Paley agrees: “If you’re spending your free time on something that you’re not passionate about or that doesn’t give you energy, it’s a missed opportunity both for you and for anyone who might otherwise benefit from your insights.”

Ensure, too, that you’re picking a role in which you can really make a worthwhile contribution. Ken Mehlman, who was formerly in politics but is now the global head of public affairs and cohead of global impact at the investment firm KKR, currently holds board positions at Mount Sinai Hospital of New York, Franklin & Marshall College, Teach for America, and Sponsors for Educational Opportunity. He notes, “I have always tried to find institutions to get involved in where I can make a measurable difference.”

Justifying your commitment. When you take on a strategic side gig, it’s often wise to ask for permission (or sometimes forgiveness) from your employer and family. The key is to show the relevance, including both personal benefits, such as increased engagement and energy, and organizational ones, such as a broader network. (More on this below.) “Challenge your organization in an appropriate manner,” advises Khan. “Have a clear story about how the activity benefits your company and your development, and its alignment with company values. Make a case for why it’s synergistic.”

You can even talk to your boss about making external engagements one of your annual objectives or aligning your outside passion with the interests of your

employer. For example, in Orlan’s roles as an EY executive and a board member for the Trevor Project, he helped create a formal strategic relationship between the two, which allowed the nonprofit to tap into EY resources and staff.

Earlier in Medoff Barnett’s career, when she was the managing director of Lincoln Center International and her girls were even younger than they are now, she was selected for an Aspen Institute fellowship that required her to spend four weeks away from home over a two-year period. Despite being a young mother with a huge job, she knew it would be “a transformational personal and professional growth experience,” so she negotiated with her bosses, employees, and husband—what she describes as “an incredible team back at home”—to make it happen.

If your employer balks at letting you devote time to an outside cause even after you’ve made the case that it will add value to you and the company, that’s a red flag. As Khan says, “If the organization you work for doesn’t understand the value in engaging on the outside, it’s at risk of becoming obsolete. Why would you want to be part of that?”

WHAT ARE THE LONG-TERM BENEFITS?

Recharging your energy. Keith Krach, a serial entrepreneur, a cofounder of Ariba, and the former CEO and chairman of DocuSign, who was recently appointed U.S. undersecretary of state for economic growth, energy, and the environment, says that when you squeeze in time for outside activities, it can actually help you avoid burnout. “I’ve found that the

How Organizations Can Inspire Outside Engagement

Increasingly, opportunities to engage in meaningful work outside the office are becoming an employee recruitment and retention tool. Millennials and members of Generation Z in particular want to know that their employers value their personal development and the contributions they make not just to their companies but also to their communities.

Case in point: KKR’s head of public affairs, Ken Mehlman, says that his firm has implemented a program called 40 for 40, which gives employees 40 hours of paid time each year to serve at nonprofits they feel passionate about. In the four years since it was launched, some 1,000 KKR employees have spent nearly 11,000 hours working for 220 charitable organizations. “There are so many opportunities for an organization to benefit when you build relationships with people outside work,” says Mehlman. “You learn to think about problems in one context and apply them in another.”

busier you are, the more you can take on, and you definitely get better at your job,” he says. During his career, which began in General Motors’ engineering group, he has served on various nonprofit and corporate boards (including those of Angie’s List and Opportunity International) and helped create a leadership-training program for Purdue University’s Sigma Chi fraternity, for which he still serves as a mentor. “Every time I take a week to go facilitate the program for these kids, my batteries are recharged,” he says. “I get inspired. It makes me think thoughts I never would have had otherwise. It broadens my scope of empathy and understanding. As my mom always told me, the best way to learn is through OPE: other people’s experiences.”



Building knowledge, skills, and confidence. The best external engagement gives you something to bring back to your own organization. A great example comes from Rosanne Haggerty, the president and CEO of Community Solutions, an organization dedicated to ending homelessness and its causes. At age 30 she started her first nonprofit and, about that same time, applied to be on the board of trustees of her alma mater, Amherst College. Although it was daunting to take on the two commitments at once, she says, “the timing was perfect in that I received a remarkable education about what it meant to work with a board and what to pay attention to as I grew my own nonprofit. Serving on that board was like taking a master class in nonprofit leadership and long-term stewardship. Wherever you are on your career journey, anytime you can learn new skills, manage a complex project, and even make some mistakes you can bounce back from, it will be extremely valuable.”

Developing a broader perspective. When you do important work in other

fields and join other networks, you uncover areas of untapped opportunity for yourself and your organization. You can make connections that help you become a better innovator and manager. Ten years into her first nonprofit CEO role, Haggerty took time off to go to Tokyo on a fellowship and study the Japanese prefabricated housing industry and how a different society was responding to homelessness. “It redirected my thinking in ways that still reverberate,” she says.

David Pyott, the former chairman and CEO of Allergan, served on multiple boards outside the pharmaceutical industry during his career and encouraged his subordinates to do the same. “You realize how different the world looks from the other side,” he explains. He says the extra roles he took on helped him meet more potential commercial partners, better identify trends, and understand prospective markets for products such as Botox.

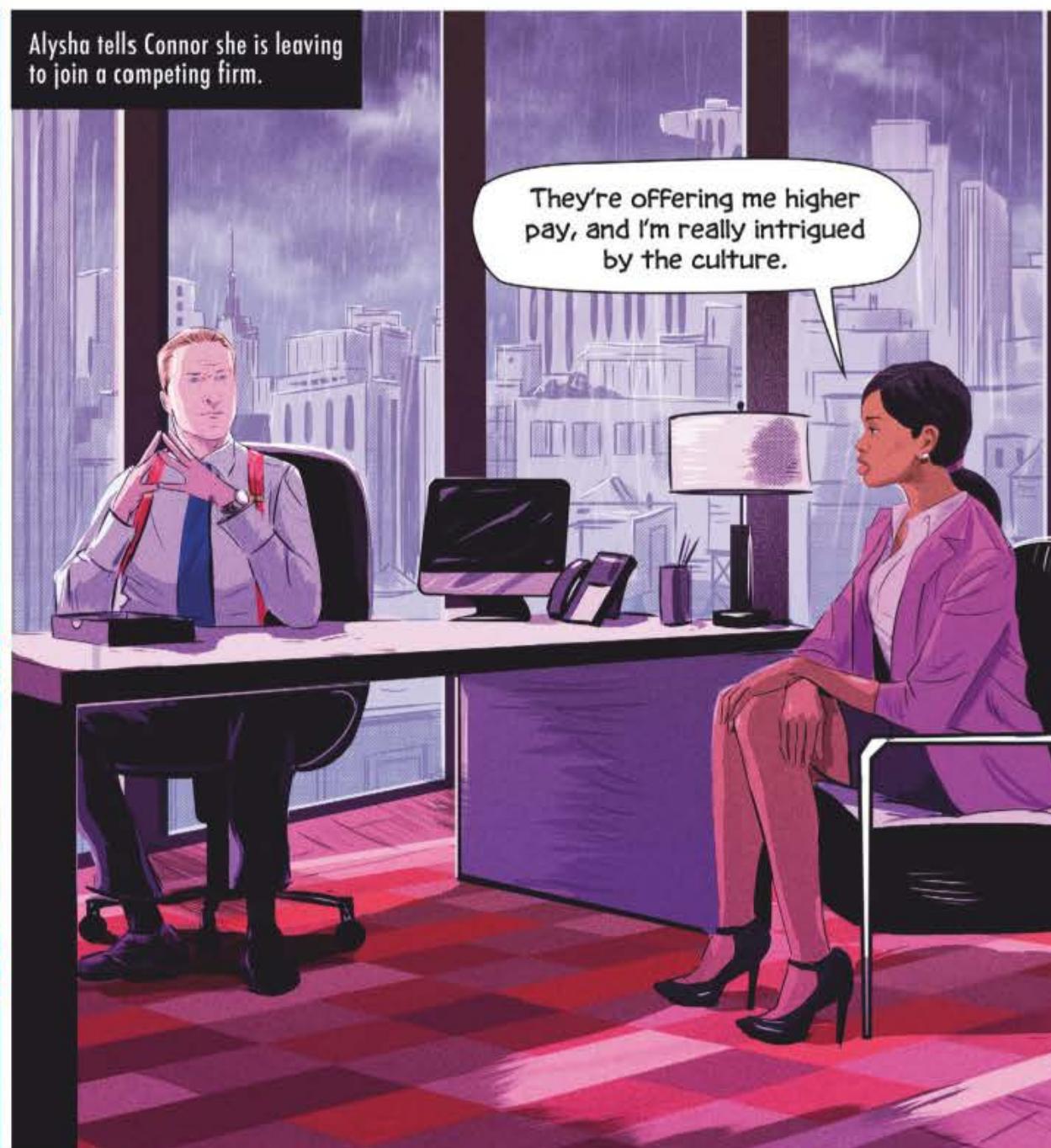
All this adds up to a more well-rounded leadership mindset. As Mehlman notes, “Lateral thinking

beats linear thinking every day of the week. What’s critical these days is to bring a different perspective and apply it to whatever you’re doing. And you can’t do that if all your attention and focus is limited to the four walls of your organization.”

FINDING THE RIGHT engagement outside your day job isn’t always easy. But once you do it, it usually opens the door to many other opportunities. And it’s those experiences that will become your personal competitive advantage. “As the business world becomes more complex, it’s increasingly difficult to find solutions in a single field or discipline,” Khan concludes. “To develop as a leader, you need to leave your comfort zone. That’s how personal growth occurs.” ☐

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CASE STUDY

Should You Fight to Keep a Star?

by Boris Groysberg

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS case study "Roller Coaster Ride: The Resignation of a Star" (case no. 405031-PDF-ENG), by Boris Groysberg, Steve Balog, and Jennifer Haimson, which is available at HBR.org.

DO YOU HAVE a few minutes to talk?

The Slack message from Alysha Stark made Connor Stephenson uneasy. He was the managing director of equity capital markets at Paulson & Harper, a Chicago-based boutique investment bank, and Alysha was one of the directors on his team. She'd been leading the upcoming deal with MicroBase, and things had been going well. But Connor knew that urgent meeting requests were often bad news.

Sure, he typed. I'm free now.

When Alysha stepped into his office, she closed the door and sat down across from him.

"I might as well come right out with it," she said. "I'm resigning."

Connor's heart sank. He didn't know how the firm could handle MicroBase without Alysha; she was the only person at P&H who knew the intricacies of the semiconductor industry.

"Where are you going?" he asked. He tried to keep his voice calm, though he felt something between panic and anger.

"I'm taking a job at Randall," she replied. Connor visibly winced. Randall was one of P&H's competitors.

"They're offering me 20% more base pay, plus a higher bonus range," she explained.



Just two months earlier, Connor had asked Alysha about the rumors that she was thinking of leaving. She had reassured him: “We all get calls, of course, but nothing I would consider.” Connor had believed her. After all, her recent bonus had been generous, and she was on track for a promotion to managing director.

“Who else knows?” he asked.

“Right now, just my family. And Trent, of course.”

Trent Tucker was an up-and-coming associate who worked closely with Alysha, and they made a powerhouse team. Connor instantly realized that Trent might follow her—such moves were

common in their industry. But it was good that Alysha had been discreet so far. If others knew that one of the firm’s best bankers was about to leave for Randall, it could hurt morale, not to mention the MicroBase deal. At least now he—and HR—would have more leeway to negotiate. At a previous firm, he’d made the mistake of extending a counteroffer to a VP being wooed by a rival, and then he’d spent the next six months fielding raise requests from the rest of his team.

Connor knew that many firms had a no-counteroffer policy; their attitude was “If you want to quit, quit.” But P&H took it case by case. Leaders would discuss deals with people they truly wanted to retain, while letting less valuable employees go.¹ Alysha most certainly fell into the first category.

“I know the timing isn’t ideal,” she said now.

“It’s not,” he replied. They were set to start raising a new round of funding for the semiconductor company in the coming quarter. “But I’m not only worried about MicroBase; I’m concerned about you and your future. We’re one of the top boutique firms in the country. Why do you want to leave? Is it really about the money?”

“That’s only part of it. I’m just ready for a change—or I will be, after the mandatory few months off. ² I’m getting stale here, and I’m really intrigued by the culture at Randall.”

Connor tried to read between the lines. Did Alysha feel uncomfortable at P&H? Was she implying that as a black woman, she’d be treated better at Randall?³

“Alysha,” he said, “you know how much you’re valued here. We

all see you as a future leader of this firm. Can you give us a shot at keeping you?”

Alysha started to shake her head, but Connor kept going: “Just give me the rest of the day to see what we can come up with. I don’t want you to make this decision lightly. And I can’t tell you how sad I’d be to lose you as a colleague.” With that, Alysha’s expression softened. She promised to wait the day out in the conference room and consider a counteroffer.

NOT THAT MANY ALYSHAS

As soon as Alysha left his office, Connor texted Malik Turner and arranged to meet him in the downstairs café. Malik, a fellow managing director who focused on M&A, was his closest friend at the firm. While filling him in, Connor felt his resentment rising.

“Maybe I shouldn’t fight to keep her. I mean, maybe it’s more like ‘good riddance,’” he said.

“Good riddance to Alysha? We’re still talking about your favorite team member, right?” Malik asked, confused.

“Yes, I know. But two months ago she said she wasn’t looking to make a switch. Then clearly she interviewed behind my back.”

“OK, so you feel betrayed. But did you really expect her to tell you that Randall was trying to poach her? No one does that.”⁴

“And think about it,” Malik continued. “She’s an incredibly



Case Study Classroom Notes

1. A 2018 survey of 5,500 hiring managers found that 58% had extended counteroffers to retain employees being recruited by other companies.

2. In the finance world, it’s common for firms to require departing employees to take “gardening leave”—a period of paid time off before they start work for a competitor.

3. In a 2017 Gallup poll, black employees reported fewer opportunities to learn and grow at work than their white colleagues did.

4. Do employees have a responsibility to tell their managers they’re job hunting?

Connor consults with his friend and colleague for advice.



5. Many companies recruit minority candidates, but black managers tend to be promoted more slowly and experience less support at work than their white peers.

6. CEB data shows that 50% of employees who accept a counteroffer end up leaving within 12 months.

7. Some experts argue that counteroffers are more cost-effective than internal promotions or outside hires.

talented black female investment banker focused on tech. Of course she's going to get offers.⁵

Connor had to admit that he knew how much in demand talent like Alysha was. But he'd let his conversation with her too easily assuage his concerns.

"Have you talked to Joshua yet?" Malik asked. Joshua Schafer was the president and cofounder of the firm.

"We had a quick text conversation. He said that he trusts me to figure out what's best and that he'll have my back."

"Good. Now what about Trent? Does he know enough about MicroBase to jump in?"

"He's smart, and he knows a lot. But he's more junior than Alysha is, and the client is not going to see him the same way they see her. I'll have to step in myself, and I'm already spread thin. Plus, I'm sure he's got an offer from Randall as well."

"OK, here's your game plan. Talk to Trent and find out what he's thinking. Then have HR get on the phone with some recruiters to see who else might be out there."

Connor rolled his eyes. Of course he needed to consider external candidates, but given P&H's hiring protocols, there was no way he'd have someone in the role soon enough to get moving on MicroBase.

"If I were you, Con, I'd put together a counteroffer.⁶ There aren't that many Alyshas in this business. Losing her—and perhaps Trent—would be bad for you and the whole firm."

WE NEED CONTINUITY

Connor asked Trent to meet him in his office. "I hear Alysha's already told you about her offer."

"She has. It seems like a great opportunity."

"For her?" Connor probed.

"Of course," Trent replied, "and for me too."

"You're thinking about going with her?"

"Well, Randall's made me an offer, and it's more money. But I haven't accepted yet."

Connor knew that pay was often the primary motivator for bankers, but other things also mattered: firm culture, reputation, opportunities, a good team leader. He believed that Trent had to care about P&H's cachet, management's support, and the possibility of an early promotion.

Ordinarily, such rapid advancement for an associate would have been out of the question. But if Alysha were really walking today, elevating Trent was probably Connor's most time- and cost-efficient option.⁷

"I can't promise anything yet, Trent, but I'm wondering if a promotion could entice you to stay."



"That would definitely make me think twice," Trent said, looking pleased.⁸

"I'll be straight with you. If Alysha leaves—and I'm still hoping she'll reconsider—I'd prefer to bring in an established banker with the same level of experience that she has. But I might not be able to do that for a variety of reasons."

Trent nodded.

"So this could be a great opportunity for you. I'd like to do whatever it takes to keep you. We need continuity on MicroBase. You helped construct all the models, and you're well-acquainted with the players there."

"I'm certainly interested," Trent replied. "Of course, I'd need specifics."

Connor stood up and shook his hand. "OK. Let me get back to you." Inside, he felt queasy. Now he was looking at preparing two counteroffers.

CONSIDER THE RISKS

Early that afternoon, Connor sat down with Liana, an HR manager.

"I'm kicking myself for ignoring all the signs," he said. "This shouldn't be a crisis. I should have had a pipeline, been more proactive about succession planning, retention—all of it."⁹

Liana didn't respond immediately, and he suspected she agreed with him but didn't want to rub salt in his wounds.

"Let's go over your options," she said, jotting down "Counter," "Promote," and "External" on a notepad.

"I guess 'Go back in time' isn't really one of my choices, is it?"

"Afraid not," Liana said. "Now, I talked to two of our recruiters earlier, and they didn't sound hopeful about finding someone with Alysha's expertise in semiconductors. There are people out there, as you know, but most of them have

made moves recently, and none of them have her profile."

"She's one of the few women in this field—I realize that."

"And one of fewer women of color, which may be why she's considering Randall. They're known for their inclusion initiatives, and they've got great diversity on their executive committee."¹⁰

"And we don't," Connor acknowledged.

"No, not yet. But we're working on it, and we should be sure to communicate that to Alysha."

"Are those recruiters looking only at the big firms?" Connor asked. "We should check the smaller, regional firms too. That's where Alysha came from."

"I'll follow up with them," Liana said, "but I think there's a pretty limited pool to choose from right now, given how hot the semiconductor industry is. Besides, even if we found



8. In a 2017 survey, close to 40% of senior executives and HR leaders agreed that accepting a counteroffer from a current employer will adversely affect one's career.

9. What exactly should Connor have done to prevent this situation?

10. Fewer than 5% of Fortune 500 board seats are held by women of color.

Experience

someone, the hiring, relocation, and onboarding process usually takes two or three months—and longer if we have noncompetes to deal with. Who's going to cover MicroBase in the meantime?"

"Trent would," Connor said. "He's Alysha's number two."

"Then I'd lean toward promoting him," Liana said. "We talk a lot about internal advancement here, and this is a chance to put our money where our mouth is."

"I'm worried that Trent's not ready. I'd have to get heavily involved. Can't we just match Randall's offer to Alysha?"

Liana sighed. "Money may not be what matters to her."

"It's the first thing she mentioned this morning," Connor said.

"We can certainly try that approach, but we need to consider the risks carefully. If we bump up Alysha's base salary by 20% and give her a higher bonus range, it's likely that word will get out, and then everyone else will start to feel underpaid. And I don't have to tell you how corrosive that can be to a culture."

Connor sighed heavily. *What am I going to do?* he thought. *I need to have a plan by the end of the day.*

 **BORIS GROYSBERG** is the Richard P. Chapman Professor of Business Administration at Harvard Business School, a faculty affiliate at the HBS Gender Initiative, and a coauthor of *Talk, Inc.* (Harvard Business Review Press, 2012). Twitter: @bgroysberg.



Should Connor match Alysha's offer, promote Trent, or try to find an external hire? THE EXPERTS RESPOND



MEHTAB BHOGAL is the cofounder of Karta Ventures, a Vancouver-based private equity firm.

Connor should extend a counteroffer to Alysha, with her future opportunities at P&H as the centerpiece.

That's the approach we use at our company. Rather than offering an immediate pay jump, we lay out a road map that explains what it would take for the employee to reach his or her goals.

When people tell us they're weighing an outside offer, there's often a deeper issue going on. They may not understand their long-term prospects at the firm, or their manager may not be developing them to their fullest potential.

Connor has made mistakes leading up to Alysha's resignation—and assumptions following it. For example, he presumes that she might be leaving

because of cultural issues at P&H, but he hasn't tried to confirm this. His first step should be to find out more from Alysha. Why is she really resigning? Is it because of salary? Does she not see a future for herself at the firm?

If it's true that Alysha is leaving because she perceives the firm's culture to be discriminatory or unwelcoming, then Connor should give her an opportunity to help fix the issue for herself and others, perhaps by offering her a role in addressing representation at the firm. However, if money is the core issue, then Connor might need to let Alysha go. In the past, when I offered pay increases to keep people, I found that it encouraged bad behavior; employees courted outside offers just to get a salary boost.

If Connor takes the road map approach with Alysha but she leaves anyway, he should focus on Trent. But I wouldn't promote him right away. Instead, allow him to lead the MicroBase deal and reward him with a better title and salary after he earns them.

Early in our firm's history, an executive threatened to leave because he felt his cash salary was too low. We tried to help him appreciate his total compensation package and future prospects, but he was still unhappy, so we let him go. As a high-growth firm, we need people who truly believe in the value of equity.

By contrast, another employee wanted to leave not for another job but to pursue an MBA. After I described a few different career paths he could have with us, he decided to stay—without an immediate pay increase.

But you can't get mad at people who receive other offers. When you have talented employees, that's to be expected. So my partner and I encourage people to talk openly with us about any job opportunities and their future. Then we do our best to persuade them to stay.

Ideally, Connor can show Alysha a promising future for herself at P&H. It may be an offer she can't refuse.



KRISTA MATHEWS is the chief customer officer at Overstock.com.

Connor has put himself in a tricky situation, and he doesn't have great options.

His best bet may be to handle the MicroBase deal himself.

I don't think he should present Alysha with a counteroffer. Money may be the first thing she mentioned, but departing employees often use pay as an excuse. It's the easiest explanation and saves them from talking about other concerns that are more difficult to express. Connor might be able to keep Alysha by delving into—and solving—those problems. But he doesn't have a lot of time, and her mind may already be made up.

I also don't like the other options that he and Liana have laid out. Trent's not going to know the nuances of the MicroBase relationship, and an external hire will take too long to ramp up. Instead, Connor has to step in himself.

I was in a similar situation recently when one of my direct reports left for another job. His work was critical to meeting our strategic goals, so I got deeply involved in the program he was running and cleared my calendar for his duties. That's what Connor needs to do here. Perhaps Trent will want to stay on at P&H with a view to an early promotion and a pay raise. But I don't think it's wise to make him a counteroffer now either.

Once this crisis is over, Connor should think about how he can better manage people like Alysha and Trent in the future. Step one is to ensure that everyone on his team feels valued. I learned that lesson early in my career. I was about to give one of my best employees a promotion, but when I asked her to go

for a walk so I could share the news, she started crying, thinking she was getting fired. I'd somehow failed to let her know how much I appreciated her. Now I ask myself all the time: Am I reminding my people—in language they understand—how much they bring to the organization? Connor should do the same.

Connor could also get better at noticing—even proactively looking for—signs of discontent. I have quarterly development conversations with all my direct reports and “skip-level meetings” with the rock stars on their teams—the Trents of my world. I check in with them about where they are in their careers, what they're enjoying about their current roles, and what's draining them. I get a good sense of which folks are flight risks and then take steps to retain them, whether it's giving them bigger challenges, removing obstacles, or even finding them a more suitable role on another team.

I expect every one of my employees to be able to answer what I call “the lottery question”: If you won a huge sum of money and left the company, who would replace you? Then we discuss whether the likely successor is ready and, if not, how we can fix that.

There are also organization-level improvements that P&H could make. For starters, it should consider beefing up its noncompete clause. When I worked at Target.com, half of the 50 or so employees on the merchandising team went to Amazon within a year because we didn't then have a noncompete. The company does now!

Obviously, P&H also needs to make sure that its all-star employees feel supported. Every organization should be focused on creating a culture where people can bring their authentic selves to work. If that's not happening, invaluable employees such as Alysha are likely to walk out the door. ☰

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Reprint Case only R2003X

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SYNTHESIS

HARNESSING ARTIFICIAL INTELLIGENCE

We need new rules to avert serious risks.

by Gardiner Morse

I'VE ALWAYS LOVED movie robots, even the bad ones. But as the machines around us become unnervingly smarter, it's hard not to worry that artificial intelligence with malign intent—some version of the Terminator or HAL—will eventually be unleashed on the real world.

I'm not alone in this bleak thought, of course. Stephen Hawking warned that "the development of full artificial intelligence could spell the end of the human race." And when the Oxford philosopher Toby Ord examined a host of existential threats—asteroids, nuclear war, climate change—for his bracing book *The Precipice*, he ranked

"unaligned artificial intelligence" the most probable of all.

Plunging into the latest crop of AI books, I was somewhat comforted by experts' consensus that "the singularity"—the point at which AI surpasses human intelligence—is not imminent; guesses about the timing range from a few decades to centuries from now. But we shouldn't relax just yet. These authors contend that anxiety about a future of robot overlords is distracting us from the immediate danger of "narrow" AI, which powers everything from smart speakers to self-driving cars.

To some, this AI seems clever but benign—a digital idiot savant that tackles tasks such as getting from point A to point B without hitting anything. But as Michael Kanaan writes in *T-Minus AI*, it can be coldly efficient at bad stuff too. As the U.S. Air Force's cochair of artificial intelligence, Kanaan is keenly aware that some nations aggressively deploy AI to advance antidemocratic agendas.

The Chinese government, for example, is building an AI-powered "social credit system" that tracks online and real-world activity to calculate individuals' "social trustworthiness" and reward or punish people accordingly. Loitering, littering, and spreading "unacceptable" information can lower one's score—and make it harder to buy a plane ticket, get a loan, or qualify for a job. Darker still, China now uses facial recognition to identify members of the mostly Muslim

Uighur minority and round them up for detention and “reeducation.” (Of course, Western companies and governments aren’t beneath bending democratic ideals to monitor consumers and citizens either.) Kanaan is therefore calling for an urgent conversation about the implications of unconstrained AI and how we can put up guardrails to preserve our liberty and security.

William Davidow and Michael Malone’s *The Autonomous Revolution* and Daniel Susskind’s *A World Without Work* are similarly direct about the risks posed by existing AI. They argue that its rise is not just another technological transformation that, like the Industrial Revolution, will create a wealth of new jobs even as it eliminates others. Rather, they suggest, we’re at a historic inflection point, confronted with a unique, intelligent technology that is outperforming us on an expanding array of tasks and could eventually replace much of human work.

Davidow and Malone, a tech industry executive and a journalist-entrepreneur, say that instead of generating productivity improvements that increase GDP and prosperity (as previous advances have), AI may boost productivity while driving down GDP. Among the potential results: an abundance of cheaper stuff, yes, but also declining wages, growing economic inequality, less work all around, and the emergence of “millions of ‘ZEVs’—people of Zero Economic Value—individuals you would not hire even if they worked for free.”

Susskind, an economist and a former policy adviser to the British government, likewise sees us humans retreating to an ever-shrinking set of activities as AI encroaches. Truck drivers plus

GPS are a powerful combination; but when AI becomes both pilot and navigator, 3.5 million U.S. truck drivers will need to find new work. Even jobs that depend on our most human traits—empathy, judgment, and creativity—are probably not immune. Machines may never have a doctor’s “gut feeling” about a diagnosis, or follow their muse as a composer might, but they will surely learn to mimic those human acts so well that we can’t tell their imitation from the real thing.

These authors do see a way forward in a world with less work and growing inequality, though. They envision new regulatory bodies (Susskind proposes a Political Power Oversight Authority, for instance, to rein in companies with too much clout) and a heavier hand from government. Among Davidow and Malone’s proposals, should free-market solutions fall short, are (brace yourself) “systems for redistributing wealth, such as higher taxes, free universal health care, and universal basic income.”

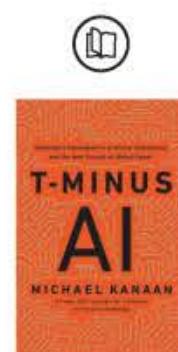
Having become convinced that no job is safe, I was eager to dig into Kevin Scott’s upbeat *Reprogramming the American Dream*. Scott, Microsoft’s chief technology officer, expects an explosion of new jobs for rural workers, particularly in manufacturing. “AI will ultimately be about human empowerment, not displacement,” he assures us. Indeed, he describes the many types of blue-collar jobs that AI, robotics, and automation are creating. One entrepreneur, for instance, launched a computer-driven precision plastics fabrication business in which someone with “a machinist diploma...and a little on-the-job training can land a well-paying job in a small town

that was once counted out.” Scott also points, without apparent irony, to a whole new class of jobs supporting AI itself: data labeling to train AI, human-run temp agencies for robots, and construction jobs building giant data centers like Microsoft’s 500-acre facility in Virginia. Scott’s is a hopeful view that largely avoids the elephant in the room—whether these new jobs can fully replace the ones that are lost.

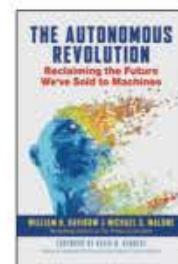
These authors may diverge on the particulars, but they share a qualified optimism about what’s to come. The key, they largely agree, is to establish rules and systems now to avert the worst outcomes in the future. As Kanaan puts it, we need to implement AI “only in ways consistent with fundamental human dignities... and only for purposes consistent with democratic ideals, liberties, and laws.”

What do you suppose an artificial intelligence would think of this plan? When Kanaan asked a version of the machine-learning application GPT-2 to riff on the idea, it instantly delivered a pitch-perfect response: “Our job is now to convince the public in particular that using AI to achieve these aims is a necessary and desirable part of our society.... But in the end, the future demands we make moral decisions as we begin to build a world that is truly safe and sustainable, one where humans and AI can truly coexist together.”

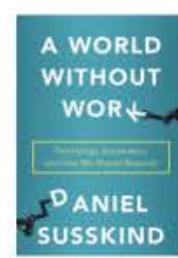
Although the machine doesn’t know in the human sense what it has written, one can’t help perceiving at least a facsimile of self-interest—and a clue about what the future holds. ☐



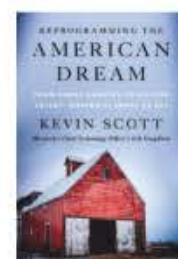
T-Minus AI
Michael Kanaan
BenBella Books,
August 2020



The Autonomous Revolution
William H.
Davidow and
Michael S.
Malone
Berrett-Koehler,
2020



A World Without Work
Daniel Susskind
Metropolitan
Books, 2020



**Reprogramming
the American
Dream**
Kevin Scott
Harper Business,
2020

 **GARDINER MORSE** is a senior editor at HBR.

Executive Summaries May–June 2020

SPOTLIGHT

Confronting Sexual Harassment

In 1977 Catharine MacKinnon argued that workplace harassment constitutes sex discrimination. In 1991 Anita Hill's testimony before Congress rocketed the issue into public awareness. But the problem is still with us, as the #MeToo movement has made clear. Here are some ways to combat it. | page 43



Why Sexual Harassment Programs Backfire

Frank Dobbin and Alexandra Kalev | page 44

Since the 1970s most U.S. organizations have sought to address sexual harassment (or to protect themselves from being sued because of it) with mandatory training programs and formal grievance procedures. Nevertheless, some 40% of women still say that they've been sexually harassed at work—a number unchanged since the 1980s. On the basis of their study of more than 800 U.S. companies, the authors recommend bystander awareness and manager training, which enlist all trainees in the effort to address harassment. And they argue that formal grievance procedures should be supplemented with voluntary dispute resolution and an ombuds office that can handle harassment claims on victims' terms.



Empower Managers to Stop Harassment

Adrienne Lawrence | page 53

The author, a legal analyst and the author of *Staying in the Game: The Playbook for Beating Workplace Sexual Harassment*, describes how two former employers responded to her complaints about sexual harassment. At one workplace, several HR people took reports and conducted an investigation that was inconclusive and led to no punishment for her harasser. (She left the company.) At the other, a manager immediately called a meeting with the harasser and told him to stop, which he did. Lawrence uses these examples to argue that the "old school" investigatory approach often fails to protect women and stop harassment, which is typically victims' primary goal. She argues for a "new school" approach whereby managers handle the issues themselves, focusing less on punishment and more on solving the problem.



"If Something Feels Off, You Need to Speak Up"

Asha Santos | page 57

Corporations have been hiring Santos, an employment attorney, to run bystander-intervention workshops since the #MeToo movement created a heightened need for solutions-focused training. In this Q&A she describes what the workshops cover, how bystanders might intervene, which scenarios should make them most attentive, and more.



What Happens When an Employee Calls the Ombudsman?

Charles L. Howard | page 59

The author, executive director of the International Ombudsman Association, writes, "An ombuds serves as a knowledgeable sounding board for people experiencing difficulties at work, a supplement to formal channels for reaching those who have the authority to act, and a unique resource for expanding management's insights into the company's work life and culture." The ombuds process is completely confidential; action is taken only with the employee's permission; and the process may begin and end with a discussion of options and potential consequences.

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HOW I DID IT

MANAGING YOURSELF



HOW I DID IT

THE CEO OF CABOT CREAMERY ON BEATING SUSTAINABILITY BENCHMARKS

by Ed Townley | page 35

A BIG-CAKE ACCIDENT, when I first heard the term “B Corp”—a designation for companies that commit to pursuing social and environmental goals—was the moment I was skeptical. At the time, I was CEO of Cabot Creamery, one of the largest dairy cooperatives in the United States. Our members were small-scale farmers through my head. Who did they care about? And the Real Vermont said that their products really care about this now?

Ed Townley | page 35



Experience
Advice and Inspiration

MANAGING YOURSELF THE STRATEGIC SIDE GIG
The right kind of outside work can boost your career.

by Ken Banta and Orlan Boston | page 147

ART VALLEY, KEN BANTA AND ORLAN BOSTON have been involved in the arts for several years. They started a theater company, while he put in his long hours and did stints in war zones in the Middle East. He also made a name for himself as a consultant, where he could help aspiring journalists and entrepreneurs learn how to succeed. But when he got a job at a business school, Banta joined McKinsey as a consultant—another demanding job. But again, he made it a priority to volunteer, this time with a nonprofit organization called the Trove Project, an organization that works to prevent homelessness. Both Banta and Boston are still involved (full disclosure: one of us also serves on it), which gave him

The CEO of Cabot Creamery on Beating Sustainability Benchmarks

Ed Townley | page 35

As a 100-year-old cooperative of dairy farms with shared production and distribution resources, Cabot has long championed a different kind of capitalism: one that values good governance, the environment, the community, employers, and customers as much as it does profits. But a marketing chief suggested that the company do more than track and report on ESG measures—that it commit to those five pillars of sustainability by applying for B Corp status, a designation given by the nonprofit B Lab to mission-driven companies that meet or exceed all its criteria.

Although the process lasted two years, Cabot passed on its first try and continues to push its scores higher. This article offers lessons for companies trying to do the same or simply to improve their ESG performance: Listen to your in-house futurists; don't shy away from being first in your industry, sector, or geography; and trust that success will come when you work together for the common good.

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If you have a big job, the thinking goes, you should focus on it obsessively so that you excel and position yourself for the next role. But, in fact, such single-mindedness can stymie your career. Leaders need to find ways to expand their range of knowledge, skills, and connections outside their daily work. This goes beyond attending conferences or even taking classes; it requires meaningful engagement in outside activities, such as work on boards, in teaching or public service, in mentoring start-ups, and in leadership roles for associations and clubs. This article explains how to find time in your hectic schedule, identify the side gigs that will be synergistic with your personal interests and current job, and get your employer's buy-in. Taking on extracurricular activities isn't always easy, but in the end it can open opportunities up for you and become your personal competitive advantage.

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The Strategic Side Gig

Ken Banta and Orlan Boston | page 147

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Features

LEADERSHIP



The Agile C-Suite

Darrell Rigby, Sarah Elk, and Steve Berez | page 64

If a company wants to be fast on its feet, transform end-to-end customer experiences, and continuously outpace competitors, it needs more than lots of agile teams. A truly agile enterprise requires that the company's top officers—most, if not all, of the C-suite—embrace agile principles, too.

In this article the authors describe how such an agile leadership team functions, how it differs from the conventional corporate-style executive committee and from other agile teams, and what agile means for senior executives' day-to-day work lives.

The job of a conventional agile team is to create innovative solutions to a problem—be it the need for a new product or service, a better business process, or an advanced technology to support new offerings. The job of an agile leadership team is to strike the right balance between standardizing operations and pursuing innovation.

Most agile team members dedicate virtually all of their time to their agile roles, but that's not possible for executives. They have to simultaneously build and run the agile enterprise operating system, oversee business units and functions, serve as mentors and decision makers, and handle the crises of the moment.

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ENTREPRENEURSHIP



The New-Market Conundrum

Rory McDonald and Kathleen Eisenhardt | page 74

Brand-new markets are like the wormholes of science fiction, where the usual rules of time and space do not apply. When a market has just been born, the forces of competition there are constantly in flux, it's unclear who your customers really are, and conventional strategies just don't make sense. How then can you navigate this constantly shifting terrain?

Over the past few years, two business school professors have interviewed entrepreneurs and corporate innovators in new fields such as genomics, augmented reality, and fintech. They discovered that the most successful ones practice something called "parallel play," exploring and testing the world the way preschoolers do. Instead of trying to differentiate their businesses, they observe what others in the market are doing and borrow ideas. After relentless experimentation, they commit to a single template for creating value. But rather than quickly optimizing that template, they leave it partially undetermined and pause, watch, and wait. As they gather serendipitous insights and the market begins to settle, they refine their models bit by bit.

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FINANCE & ACCOUNTING



What Managers Get Wrong About Capital

Roger L. Martin | page 84

Why do large corporations sell off business units to PE firms that make a fortune by selling them a few years later? The author, a former Rotman School dean, argues that the answer is rooted in the way many corporations value their businesses and projects. Their basic mistake is to compare estimates of future cash flow with the amount of cash put into a business as a capital investment. Although this sounds perfectly reasonable (and largely follows conventional practices for measuring economic value added, or EVA, and its equivalents), it can anchor performance measurement in a historical number that very quickly loses its relevance.

As Martin explains, once an investment has been made in an asset, the company's expectations about the value that investment will create are, in effect, publicized. Thus a company assessing the performance of its investment should base its measures not on the cash put in but on the current value of the asset or capability in question, which—and this is the critical point—*includes the value that the market already believes the company will create or destroy with that asset or capability*. Martin describes an approach that is grounded in market expectations about future value.

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OPERATIONS



Building a Transparent Supply Chain

Vishal Gaur and Abhinav Gaiha | page 94

One of the most promising applications of emerging blockchain technology is supply chain management. Blockchain—the digital record-keeping system developed for cryptocurrency networks—can help supply chain partners with some of their challenges by creating a complete, transparent, tamperproof history of the information flows, inventory flows, and financial flows in transactions.

The authors studied seven large U.S. corporations that are exploring how blockchain might improve their supply chain operations. Their early initiatives show that the technology can enable faster and more cost-efficient product delivery, make products more traceable, streamline the financing process, and enhance coordination among buyers, suppliers, and banks.

There are special requirements for using blockchain in supply chain management: restricting participation to known, trusted partners; adopting a new consensus protocol; and taking steps to keep errors and counterfeits out of the supply chain. But if implemented thoughtfully, the authors suggest, blockchain could pay big dividends for companies in a host of industries.

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LEADERSHIP

The Case for a Chief of Staff

Dan Ciampa | page 104

New CEOs are typically focused on creating and implementing a strategy, building a top team, and driving culture change. Optimizing administrative workflow may not seem to be a priority. But a former CEO who now advises boards argues that many chief executives need a chief of staff (CoS)—someone who goes beyond the executive assistant role to help the office function smoothly. According to one CoS, the role encompasses being an *air traffic controller* for the leader and the senior team, an *integrator* connecting work streams that would otherwise remain siloed, a *communicator* linking the leadership team and the broader organization, an *honest broker* when the leader needs a wide-ranging view without turf considerations, and a *confidant*. In this article Ciampa outlines what a CoS does, the qualities one needs to succeed, and the ways companies typically design the role (with varying levels of responsibility) to help make a CEO more focused and productive.

HBR Reprint R2003G**MANAGING PEOPLE**

Begin with Trust

Frances Frei and Anne Morriss | page 112

Trust is the basis for almost everything we do. It's the foundation on which our laws and contracts are built. It's the reason we're willing to exchange our hard-earned paychecks for goods and services, to pledge our lives to another person in marriage, and to cast a ballot for someone who will represent our interests. It's also the input that makes it possible for leaders to create the conditions for employees to fully realize their own capacity and power.

So how do you build up stores of this essential leadership capital? By focusing, the authors argue, on the three core drivers of trust: authenticity, logic, and empathy. People tend to trust you when they think they are interacting with the real you (authenticity), when they have faith in your judgment and competence (logic), and when they believe that you care about them (empathy). When trust is lost, it can almost always be traced back to a breakdown in one of these three drivers.

This article explains how leaders can identify their weaknesses and strengths on these three dimensions and offers advice on how all three can be developed in the service of a truly empowering leadership style.

HBR Reprint R2003H**INNOVATION**

Discovery-Driven Digital Transformation

Rita McGrath and Ryan McManus | page 124

The huge threat posed by digital technologies and models throws many established companies into a panic. In response, they often make big, bet-the-farm moves that fail badly. It's much wiser to take an incremental approach to digital transformation, say McGrath and McManus. Building on a technique McGrath helped develop in the 1990s—discovery-driven planning—the two advise executives at traditional firms to take things step-by-step. Rather than attempting an all-or-nothing pivot, incumbents should exploit their greater resources and knowledge and explore a variety of ideas at once. By continually finding ways to fix problems with digital technology, testing and refining assumptions about what works, getting new information, and minimizing risks, they can learn their way gradually toward an effective digital response.

Consider Best Buy's strategy for striking back at Amazon. Best Buy overhauled its processes so that it could cut costs and match prices; turned its stores into an asset by allowing online orders to be picked up there (avoiding delivery headaches); charged brands fees to be in ministores within its outlets; and built a staff of tech consultants who strengthened customer relationships.

HBR Reprint R2003J**MARKETING**

Marketing Meets Mission

Myriam Sidibe | page 134

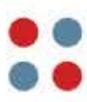
A lot of global health problems can be prevented by persuading people to alter their behavior—something marketers excel at. That's why brands have a critical role to play in tackling these challenges, says Sidibe, Unilever's first social mission director. In this article she offers any brand that wants to achieve a social purpose a five-part framework for success: inspiring individuals to change behavior; winning internal backing; measuring performance at multiple levels; partnering with governments, NGOs, and other firms; and sparking a broader movement. This approach has allowed Unilever's Lifebuoy and Knorr brands to make great strides in reducing disease and poor nutrition in the developing world, while enhancing their profiles and their growth, and it could help other brands, like Carling Black Label beer, which has taken on the task of combating domestic violence.

HBR Reprint R2003K**POSTMASTER**

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"The way I see it, what's famous is not me—the individual or personality—but the idea."



MARIE KONDO

As a student in Japan, Kondo tidied her friends' apartments. When she started work as a staffing agency sales associate, she organized her clients' desks. She developed a motto—"Keep only what sparks joy"—and turned it into a successful business, KonMari (which has since certified more than 400 consultants in 43 countries), along with best-selling books. Her latest, *Joy at Work*, tackles organization at the office.

Interviewed by Alison Beard

HBR: How do you differ from other professional organizers?

KONDO: My process is to look at what sparks joy in your life, say goodbye to the objects that don't, and keep and be grateful for the ones that do. That, to me, is different from simply organizing.

What prompted you to expand from one-on-one client work to writing books and training and employing other consultants?

Eventually I had a six-month waiting list for my services, and future customers were asking if I would share my lessons. I had no experience or skill in writing books, so I enrolled in a six-month course on how to do it and then gave a proposal to some publishers. The book was released, and I was surprised to see so many people respond to it outside Japan. We now have two offices, 24 employees, and hundreds of consultants.

How do you ensure that all your consultants are as good as you?

To become one is not an easy task: It involves testing and monitoring and many steps. Consultants also exchange information about what is working and what isn't. That tight-knit community keeps the standards where they need to be.

How can you tell when you'll work well with a client?

We should see that our goals are aligned. I also want that individual to know which items spark joy and to be able to cherish them. When challenging moments occur, the most important thing is to discuss again "What is the goal?" and "Can we realign?" It's

important to always come back to why the work is worth it.

You've been criticized for launching a product line—more things to clutter homes. How do you respond?

I've realized through my practice that many functional items tend not to spark joy. I hope what's available on my website will fix that. You can buy a product if it satisfies the rule, you need only one, and you fully appreciate it. But don't buy too much. And finish tidying up before you buy, because that gives you clarity on what you need.

Tell me about tidying at work.

This is something you should make time for. When your workspaces are organized, there is room for joy to come in. You still start by figuring out what your goals are; from there you can decide on the environment you want or the emails you read. Ask: "What contributes to that ideal career path?"

This sometimes leads people to switch jobs or careers. Why?

When you repeatedly ask yourself "Does this spark joy?" you begin to see what's meaningful to you. If that becomes a natural behavior, you apply it to everything and can see to the bottom of your heart what you want to do with your life.

Is it ever hard to keep the calm, joyful, organized persona up?

This is who I am. But when I'm overworked, stressed, and my daughters are running around making a mess, of course I'm not as calm as I should be! ☺

HBR Reprint R2003N

In uncertain times,
no matter what tomorrow
holds, we remain invested

In Investors
In Optimism
In Guidance
In Security
In Kindness
In Service
In Clarity
In Your Needs
In Your Satisfaction
In Your Tomorrow

We remain invested in you.



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